OFFICE OF AUDIT
REGION 7
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U.S. Department of Housing and Urban Development

Single Family Housing Reporting of Defaults

2013-KC-0003 SEPTEMBER 10, 2013

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

Issue Date: September 10, 2013

Audit Report Number: 2013-KC-0003

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

//**signed**//
FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: HUD Did Not Have Effective Controls To Ensure That Lenders Reported Defaults Accurately and in a Timely Manner

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 controls to ensure that lenders reported defaults accurately and in a timely manner.

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 913-551-5870.

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September 10, 2013

HUD Did Not Have Effective Controls To Ensure That Lenders Reported Defaults Accurately and in a Timely Manner

Highlights

Audit Report 2013-KC-0003

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) Office of Single Family Housing to determine whether it had effective controls in place to ensure that lenders reported default information on Federal Housing Administration (FHA)-insured loans accurately and in a timely manner. We initiated this audit after observing delayed reporting of default information on loan histories.

What We Recommend

We recommend that HUD develop and implement a data management policy, outlining detailed procedures for review of the Single Family Default Monitoring System data. The policy should identify a central responsible party to be knowledgeable of all data uses and to evaluate changes needed over time. We also recommend that HUD resume reviews of Default Monitoring System reporting, implement additional system error checks, and implement a progressive penalty process for pursuing administrative action against lenders that fail to report, underreport, and submit inaccurate or unsupported data.

What We Found

HUD did not have effective controls to ensure that lenders reported default information accurately and in a timely manner. HUD's controls included only minimal system error codes; basic monitoring of error code rates, nonreporting, and underreporting; and lender servicing reviews examining a sample of default information at selected lenders. HUD also did not have an adequate penalty process in place to deter future issues. As a result, the default data were not always accurate and timely. HUD relied on default data to stay up to date on the status and trends of insured mortgages and to identify potential risk to the insurance funds.

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BACKGROUND AND OBJECTIVE

The Federal Housing Administration (FHA) provides guarantees on mortgage loans issued by private lenders, enabling those lenders to provide credit to borrowers who might otherwise be unable to access the capital markets to purchase or refinance a property. It is the largest insurer of mortgages in the world. Since its inception in 1934, FHA has insured more than 40 million single-family mortgages.

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.

Lenders are required to report monthly all accounts that are 30 days delinquent as of the last day of the month. As explained in U.S. Department of Housing and Urban Development (HUD) Handbook 4330.1, REV-5, prompt and accurate reporting by lenders is extremely important in providing HUD with an up-to-date account of the status and trends of HUD-insured mortgages. This reporting serves as an indicator of the effectiveness of origination and servicing activities and the potential risk to the insurance funds.

Lenders report default information to HUD's Single Family Default Monitoring System. This system collects and tracks the key significant events that occur between the beginning of a default episode and its resolution—whether reinstatement, claim, or prepayment, with or without loss mitigation. The data collected by the system include the default status, reason for default, occupancy status, and oldest unpaid installment date. Additional details on relevant requirements can be found in appendix B.

HUD's Office of Single Family Housing is responsible for the overall management and administration of the FHA Single Family mortgage insurance programs. The National Servicing Center works with FHA homeowners and their lenders to find creative solutions to avoid foreclosure. Its staff provides direction and training to mortgage lenders. The Quality Assurance Division works to ensure the highest possible degree of compliance by lenders with origination and servicing requirements. Its staff prepares lender targeting plans and performs reviews of approved lenders.

Our audit objective was to determine whether HUD had effective controls in place to ensure that lenders reported default information on FHA-insured loans accurately and in a timely manner.

RESULTS OF AUDIT

Finding: HUD Did Not Have Effective Controls To Ensure That Lenders Reported Defaults Accurately and in a Timely Manner

HUD did not have effective controls to ensure that lenders reported default information on FHA-insured loans accurately and in a timely manner. This condition occurred because HUD did not have an overall data management policy identifying a central responsible party and outlining procedures for review of the data submitted. As a result, the default data were not always accurate and timely. HUD relied on default data to stay up to date on the status and trends of insured mortgages and to identify potential risk to the insurance funds.

HUD Did Not Have Effective Controls

HUD did not have effective controls to ensure that lenders reported default information on FHA-insured loans accurately and in a timely manner. HUD's controls included only minimal system error codes; basic monitoring of error code rates, nonreporting, and underreporting; and lender servicing reviews examining a sample of default information at selected lenders. HUD also did not have an adequate penalty process in place to deter future issues.

HUD's Default Monitoring System had minimal system error codes to detect potential issues within the data submitted. The system had six fatal error codes, which caused records to be rejected; however, these codes were narrowly defined to catch only a handful of possible reporting issues. The system also had several nonfatal errors. These codes generally indicated that data fields were not provided but did not prevent the records from being submitted to the system. Nonfatal errors are made known only to lenders who seek out the digital feedback report.

HUD's National Servicing Center provided only basic monitoring of error code rates, nonreporting, and underreporting. It issued monthly internal reports highlighting these items, along with trends and issues identified for the reporting cycle. It also offered optional webinars for lenders and issued occasional newsletters, providing tips for reporting default data, reminders of common servicing issues, guidelines for reconciling default data, and updates on lender scoring and incentive policies.

HUD's Quality Assurance Division previously reviewed lender reporting of defaults as a small part of its Title II servicing reviews. The Division would review a sample of loans at selected lenders for a wide range of servicing activities. While confirming timely and accurate reporting to the Default Monitoring System was a single bullet item in the Division's 85-page desk guide book, it was a common finding area during its reviews. The Quality Assurance Division suspended these reviews in fiscal year 2013.

HUD also did not have an adequate penalty process in place to deter future issues. The Mortgagee Review Board is empowered to take administrative action against lenders that do not comply with FHA requirements, including civil money penalties, probation, and suspension. While the Quality Assurance Division would routinely work with lenders to resolve issues identified during its reviews, it rarely referred reporting issues to the Board for administrative action. The National Servicing Center also did not have a regular practice in place to refer issues. Our review of Board actions published in the Federal Register identified only two instances of actions taken against lenders, the offenses of which included reporting issues. In contrast, it regularly obtained settlements for civil money penalties for origination noncompliance or after citing lenders for timeliness issues with annual certifications and mortgage insurance payments.

HUD Did Not Clearly Assign Responsibility

HUD had not clearly assigned responsibilities to ensure that lenders reported default information accurately and in a timely manner. HUD did not have an overall data management policy identifying a central responsible party and outlining procedures for review of the data submitted. Default Monitoring System data were used by divisions under multiple deputy assistant secretaries, and monitoring of the data had traditionally fallen under the Quality Assurance Division and National Servicing Center. However, without a data management policy and central responsible party, key management positions minimized their roles and deflected responsibility to other divisions or to the system itself.

Default Data Were Not Accurate

As a result of the conditions discussed above, the default data were not always accurate and timely, as demonstrated by data analysis and HUD's own findings. HUD relied on default data to stay up to date on the status and trends of insured mortgages and to identify potential risk to the insurance funds.

Our analysis of 18 months of default data identified multiple issues, including failure to report in a timely manner, failure to report on loans when required, failure to report loans when they were 30 days delinquent, illogical sequences in the oldest unpaid installment date, and failure to determine the reason for default. We also identified loans with conflicting status and termination codes, an excessive number of monthly records, and conflicting oldest unpaid installment dates. We identified

- 133,610 records that were submitted after the fifth business day of the month and 222,065 records that were submitted before the end of the reporting cycle month.
- 55,189 loans that lenders failed to report when there was an open default episode.
- 9,310 loans that were more than 30 days delinquent when a default episode was first opened, including 1,666 loans that were more than 120 days delinquent.
- 34,156 loans in which the oldest unpaid installment date moved backward during our review period, including 14,719 loans in which the date moved 2 or more months backward.
- 179,788 loans in which lenders failed to determine the reason for default when they were 90 days or more delinquent.
- 127,091 loans that were reported with a generic reason for default when they were 90 days or more delinquent.
- 888 loans that had termination of insurance codes of paid in full, preforeclosure sale, or deed in lieu of foreclosure when previously reported as having a foreclosure completed.
- 697 loans that had multiple termination of insurance codes reported.
- 931,000 loans that had 2 or more records submitted for 1 cycle month, including 240,656 that had at least 3 default records submitted, 12,380 with at least 5 records submitted, and 230 with at least 10 records submitted for 1 month.
- 300,413 loans that had multiple oldest unpaid installment dates reported within 1 month.

See appendix C for additional details.

HUD's Quality Assurance Division also routinely identified issues such as incorrect data submitted for the default status, reason for default, or occupancy status, with two of the three reports provided identifying reporting issues in at least 25 percent of the loans reviewed.

HUD relied on default data to stay up to date on the status and trends of insured mortgages and to identify potential risk to the insurance funds. For example, the data is used by the Office of Evaluation to produce a variety of reports used by Congress, the Secretary, the FHA Commissioner, and managers within the Office of Single Family Housing. The data is also used by the National Servicing Center, to score lender servicing activity and determine incentive payments, and by the Quality Assurance Division, to select lenders and individual loans for review.

Conclusion

Based on the issues discussed above, HUD would benefit from adding additional error checks to the system so that it could identify more instances of lender noncompliance with reporting requirements. HUD should also implement a data management policy, resume reviews of Default Monitoring System reporting, and implement a stronger penalty process to deter lenders from poor reporting and ensure the timeliness and accuracy of its default data.

Recommendations

We recommend that the Deputy Assistant Secretary for Single Family Housing

1A. Develop and implement a data management policy, outlining detailed procedures for review of the Single Family Default Monitoring System data. The policy should also identify a central responsible party to be knowledgeable of all data uses and to evaluate changes needed over time.

1B. Resume the Quality Assurance Division’s Title II servicing reviews or implement an interim Single Family Default Monitoring System reporting review process until recommendation 1A can be implemented.

1C. Develop and implement additional system error checks to identify potential reporting issues.

1D. Develop and implement a progressive penalty process for pursuing escalating administrative actions against lenders that fail to report, underreport, and submit inaccurate or unsupported data to the Default Monitoring System.

SCOPE AND METHODOLOGY

To accomplish our audit objective, we

- Interviewed relevant HUD management and staff.
- Reviewed relevant Code of Federal Regulations sources, HUD handbooks, mortgagee letters, and guidance.
- Reviewed relevant background pages on HUD's internal and external Web sites.
- Reviewed prior U.S Government Accountability Office and HUD Office of Inspector General (OIG) reviews.
- Reviewed annual reports to Congress.
- Reviewed the Quality Assurance Division 2009 Guidebook, along with Title II servicing review summary lists and letters.
- Reviewed various National Servicing Center policies, reports, and newsletters.
- Reviewed Tier Ranking System and delinquent servicing scoring model guidance.
- Reviewed Federal registers showing Mortgagee Review Board actions.
- Reviewed Office of Evaluation reports.

We also analyzed Default Monitoring System data covering the October 2011 through March 2013 reporting cycles to demonstrate the need for additional control efforts and identify potential issues that should be considered by HUD while implementing our recommendations. We assessed the reliability of the data by performing electronic testing of data elements and interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

We performed our audit between November 2012 and July 2013. We conducted fieldwork at HUD headquarters and offices in Washington, DC, and at the HUD National Servicing Center in Oklahoma City, OK.

Our audit initially covered the period October 1, 2011, through September 30, 2012. We expanded our period through March 2013 to include additional default history data and review more recent efforts of HUD to monitor the timeliness and accuracy of default data.

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 to ensure that lenders report defaults on FHA-insured loans accurately and in a timely manner.

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:

- HUD did not have effective controls to ensure that lenders reported defaults accurately and in a timely manner (see finding).

APPENDIXES

Appendix A

AUDITEE COMMENTS

The Director of the Office of Single Family Asset Management informed us that HUD did not wish to provide written comments to include in the final report.

Appendix B

RELEVANT CRITERIA

HUD Handbook 4330.1, REV-5
Paragraph 7.8 states, "Prompt and accurate reporting by mortgagees is extremely important in providing HUD with an up-to-date account of the status and trends of HUD-insured mortgages. This reporting serves an indicator of the effectiveness of origination and servicing activities, and the potential risk to the insurance funds." Paragraph 7.8.D continues to stress the importance of submitting accurate information and indicates that monthly reports may be rejected if there are critical errors or omissions. The handbook also requires lenders' quality control system to ensure that the reporting staff is properly trained; servicing and foreclosure staff is aware of reporting requirements and cases reported; and report format and content are checked for errors by trained staff, whether prepared manually or by an automated system.

HUD Handbook 4060.1, REV-2
Paragraph 7.10.a requires lenders to review reporting under the Single Family Default Monitoring System. Paragraph 7.12.o also requires lenders to determine whether accurate and timely submission of required reports is being made to the Default Monitoring System. Paragraph 7.6.d requires lenders to review all early payment default loans, which would require use of default data. Paragraph 8.5.a indicates that HUD compares the proportion of loans that become 90 days delinquent early in their term to the proportion of early defaults and claims on all insured loans as part of its Credit Watch Termination Initiative.

Mortgagee Letter 2006-15
This mortgagee letter provides an extensive update to delinquency reporting requirements, which are required to be used beginning with the October 2006 reporting cycle. The mortgagee letter includes requirements to

- Report delinquent loans no later than the fifth business day of the following month;
- Report delinquent accounts when one full installment is due and unpaid (30 days delinquent);
- Correctly report the oldest unpaid installment date;
- Use the "unable to contact borrower" default reason code only when mortgages are less than 90 days delinquent under normal circumstances;
- Use multiple status codes when multiple actions take place during the same month; and
- Report a cancel status code if the last status code reported was in error.

Mortgagee Letter 2006-18
This mortgagee letter encourages lenders not to report delinquencies on loans in presidentially declared disaster areas to credit reporting agencies until and unless a mortgage is referred to foreclosure. However, lenders must report all 90-day delinquencies to the Default Monitoring System.

Mortgagee Letter 2008-43
This mortgagee letter clarifies reporting requirements for the Preforeclosure Sale Program.

Mortgagee Letter 2009-39
This mortgagee letter provides updated reporting requirements for the FHA Home Affordable Modification Program. Lenders are required to use the updated status codes beginning with the January 2010 reporting cycle.

Mortgagee Letter 2011-28
This mortgagee letter lays out the reporting requirements for Type II special forbearance and trial payment plans, in which lenders are required to begin reporting the updated status codes commencing with the November 2011 reporting cycle.

Mortgagee Letter 2011-37
This mortgagee letter revises the implementation and reporting dates associated with Mortgagee Letter 2011-28 to the January 2012 reporting cycle.

Appendix C
DEFAULT HISTORY DATA ANALYSIS

Failure To Report Data in a Timely Manner

What we found: We identified 133,610 records that were submitted after the fifth business day of the month. We also identified 222,065 records that were submitted before the end of the reporting cycle month, with the first reporting occurring as early as the ninth calendar day of the month when activity occurred. While these two categories represent just over 1 percent of the default records reviewed, they could result in the records' being incorrectly identified as representing the wrong reporting cycle.

Number of records submitted after the fifth business day: 133,610
Number of records submitted before the end of the cycle month: 222,065

Default cycle month	Fifth business day of the month	First reporting transaction	Last reporting transaction
10/31/2011	Monday, November 07, 2011	10/12/2011	11/08/2011
11/30/2011	Wednesday, December 07, 2011	11/09/2011	12/08/2011
12/31/2011	Monday, January 09, 2012	12/09/2011	01/10/2012
01/31/2012	Tuesday, February 07, 2012	01/11/2012	02/08/2012
02/29/2012	Wednesday, March 07, 2012	02/09/2012	03/08/2012
03/31/2012	Friday, April 06, 2012	03/09/2012	04/10/2012
04/30/2012	Monday, May 07, 2012	04/10/2012	05/09/2012
05/31/2012	Thursday, June 07, 2012	05/09/2012	06/09/2012
06/30/2012	Monday, July 09, 2012	06/11/2012	07/11/2012
07/31/2012	Tuesday, August 07, 2012	07/11/2012	08/08/2012
08/31/2012	Monday, September 10, 2012	08/09/2012	09/12/2012
09/30/2012	Friday, October 05, 2012	09/12/2012	10/09/2012
10/31/2012	Wednesday, November 07, 2012	10/10/2012	11/08/2012
11/30/2012	Friday, December 07, 2012	11/09/2012	12/11/2012
12/31/2012	Tuesday, January 08, 2013	12/11/2012	01/11/2013
01/31/2013	Thursday, February 07, 2013	01/14/2013	02/11/2013
02/28/2013	Thursday, March 07, 2013	02/11/2013	03/09/2013
03/31/2013	Friday, April 05, 2013	03/11/2013	04/09/2013

Relevant requirement: Mortgagee Letter 2006-15 requires lenders to report all delinquent loans to HUD no later than the fifth business day of the following month. Although the deadline for submission of delinquency data is by the fifth working day of the following month, lenders are not barred from submission of delinquency data throughout the month. However, lenders must be cautioned that early or late submissions may result in the data's being incorrectly identified by HUD as representing the status for a wrong reporting cycle.

What we tested: We tested to determine how many default records were submitted after the fifth business day of the month and how many were submitted before the beginning of the month. We also identified the earliest and latest reporting transaction for each default cycle date.

Records tested: We tested all 27,264,673 records downloaded for our 18-month period.

Failure To Report on Loans Requiring Further Reporting

What we found: We identified 55,189 loans that lenders failed to report at least once when required (more than 2 percent of the loans tested).

Relevant requirement: Mortgagee Letter 2006-15 requires lenders to report on three classes of loans: those with new delinquencies, open delinquencies, and delinquencies resolved during the cycle month. Appendix A indicates that loans with the following five different summary status codes require further reporting: general account delinquency, delinquency workouts, ineligible for loss mitigation, account in foreclosure, and account in bankruptcy.

What we tested: We tested to determine whether loans requiring further reporting in 1 month were reported in the next month. We based our testing on the default status codes listed in the mortgagee letter as requiring further reporting. When the relevant status codes were reported for a cycle month, we tested the following cycle month to determine whether reporting occurred.

Records tested: We identified 27,264,673 records downloaded for our 18-month period, covering 2,402,068 loans. We eliminated loans that were reported by more than one servicing lender during the months reviewed to eliminate possible servicing transfer issues. We tested the remaining 2,270,723 loans.

Failure To Open a Default Episode When Loan Is 30 Days Delinquent

What we found: We identified 9,310 loans that were more than 30 days delinquent when a default episode was first reported. Of these, 1,666 loans were more than 120 days delinquent when a default episode was first reported.

Relevant requirement: Mortgagee Letter 2006-15 requires lenders to report delinquent accounts when one full installment is due and unpaid (30 days delinquent). Any loan that remains unpaid on the last day of the month is considered to be 30 days (or 1 month) delinquent and must be reported to HUD.

What we tested: We tested to determine whether loans were more than 30 days delinquent when a new default episode was reported. If a loan had been reported in the month immediately before the start episode code, we did not test this episode to eliminate the possibility of an episode having been accidentally closed, then reopened.

Records tested: We identified 27,264,673 records downloaded for our 18-month period, covering 2,402,068 loans. We eliminated loans that were reported by more than one servicing lender during the months reviewed to eliminate possible servicing transfer issues. We also eliminated loans that had more than one oldest unpaid installment date listed for any month during our review period to eliminate the risk of a lender correcting the oldest unpaid installment date within the same month as the start episode. We eliminated those that did not have a start episode reported during our review period. We tested the remaining 1,302,015 loans.

Illogical Sequence in Oldest Unpaid Installment Date

What we found: We identified 34,156 loans that made an illogical oldest unpaid installment date jump backward at least once during our review period. Of these, 14,719 loans moved 2 or more months backward at least once during our review period.

Relevant requirement: Mortgagee Letter 2006-15 requires lenders to correctly report the oldest unpaid installment date. The letter emphasizes that because HUD uses these dates to track the severity of delinquencies, it is important that lenders report the correct oldest unpaid installment date.

What we tested: We tested to identify loans in which the oldest unpaid installment date made an illogical jump backward. For example, our testing would show if a loan had been reported as having an October 1, 2012, oldest unpaid installment date for the November 2012 cycle and then reported as having a July 1, 2012, oldest unpaid installment date for the December 2012 cycle. In this example, the loan would go from being 2 months delinquent for the November 2012 cycle to 6 months delinquent for the December 2012 cycle. This sequence could indicate that the loan was not properly reported in the earlier month.

Records tested: We identified 27,264,673 records downloaded for our 18-month period, covering 2,402,068 loans. We eliminated loans that were reported by more than one servicing lender during the months reviewed to eliminate possible servicing transfer issues. We also eliminated loans that had more than one oldest unpaid installment date listed for any month during our review period to eliminate the risk of basing our test on the wrong record. We tested the remaining 2,013,279 loans.

Failure To Determine the Reason for Default

What we found: We identified 179,788* loans in which lenders failed to determine the reason for default when 90 days or more delinquent. We also identified 127,091* loans that were reported with a generic reason for default of "other" when 90 days or more delinquent, despite having 23 more specific default reason codes to choose from.

Relevant requirement: Mortgagee Letter 2006-15 requires lenders to determine the reason for default. Lenders will not be considered noncompliant when a specific reason for default is unknown when the loan is less than 90 days delinquent. However, under normal circumstances, lenders should not use the “unable to contact borrower” default reason code when mortgages are at least 90 days delinquent. Further, the default code “other” indicates that the delinquency is not attributable to the standard reasons coded and should rarely be used. There are 23 more specific default reason codes.

What we tested: We tested to determine whether loans were reported without a reason for default listed when 90 days or more delinquent (“unable to contact borrower” default reason code). We also tested for the prevalence of the “other” reason for default when 90 days or more delinquent.

Records tested: We identified 27,264,673 records downloaded for our 18-month period, covering 2,402,068 loans. We eliminated loans that were reported by more than one servicing lender during the months reviewed to eliminate possible servicing transfer issues. We also eliminated loans that had more than one oldest unpaid installment date listed for any month during our review period to eliminate the risk of basing our test on the wrong record. We tested the remaining 2,013,279 loans.

*Note: Of these loans, 21,575 had both “unable to contact borrower” and “other” reported when 90 days or more delinquent.

Conflicting Foreclosure Status Codes and Termination of Insurance Codes

What we found: We identified 888 loans that had foreclosure completed codes that were reported with a termination of insurance code of paid in full, preforeclosure sale, or deed in lieu of foreclosure. Of these, 60 loans had at least one cancel code during our 18 months or were reported by more than one servicing lender during our 18 months, which may explain the discrepancy. The remaining 828 loans did not have cancel codes and were reported by only one servicing lender.

Relevant requirement: HUD Handbook 4330.1, REV-5, paragraph 7.8, states, “Prompt and accurate reporting by lenders is extremely important in providing HUD with an up-to-date account of the status and trends of HUD-insured mortgages. This reporting serves an indicator of the effectiveness of origination and servicing activities, and the potential risk to the insurance funds.” Paragraph 7.8.D continues to stress the importance of submitting accurate information and indicates that monthly reports may be rejected if there are critical errors or omissions. Appendix 1 of Mortgagee Letter 2009-39 describes the various foreclosure and termination of insurance codes tested.

What we tested: We tested to determine whether loans with clearly nonforeclosure termination of insurance codes (paid in full, preforeclosure sale, or deed in lieu of foreclosure) were previously reported as having had a foreclosure completed (foreclosure sale held, eviction completed, foreclosure deed recorded).

Records tested: We identified 27,264,673 records downloaded for our 18-month period, covering 2,402,068 loans. We eliminated 697 loans that had more than 1 closed code during our period to eliminate the risk of basing our testing on the wrong closed code. We tested the remaining 2,401,371 loans.

Conflicting Termination Codes

What we found: We identified 697 loans that had more than 1 termination of insurance code reported during our 18-month period. Of these, 665 loans had at least 1 cancel code during our 18 months or were reported by more than 1 servicing lender during our 18 months or both, which may explain the discrepancy. The remaining 32 loans did not have cancel codes and were reported by only 1 servicing lender.

Relevant requirement: HUD Handbook 4330.1, REV-5, paragraph 7.8, states, "Prompt and accurate reporting by lenders is extremely important in providing HUD with an up-to-date account of the status and trends of HUD-insured mortgages. This reporting serves an indicator of the effectiveness of origination and servicing activities, and the potential risk to the insurance funds." Paragraph 7.8.D continues to stress the importance of submitting accurate information and indicates that monthly reports can be rejected if there are critical errors or omissions. Appendix 1 of Mortgagee Letter 2009-39 describes the various termination of insurance codes tested.

What we tested: We tested to determine whether loans had more than one termination of insurance code reported during our 18 months.

Records tested: We tested all 27,264,673 records downloaded for our 18-month period, covering 2,402,068 loans.

Multiple Record Reporting

What we found: Loans were reported as many as 24 times in 1 default cycle month. Of the 2,402,068 loans reviewed, more than 931,000 had at least 1 cycle month in which 2 or more records were submitted for the loan. Of these, 240,656 had at least 1 month in which 3 default records were submitted; 12,380 had at least 5 records submitted within 1 cycle month; and 230 had at least 10 records submitted within 1 cycle month.

When multiple records were submitted within 1 month, we found that the records sometimes contained duplicate information. We also found that some loans with multiple reporting had conflicting default status codes or oldest unpaid installment dates within 1 month.

For example, we found that 300,413 loans had at least 1 cycle month in which multiple oldest unpaid installment dates were reported. Of these, 62,583 had at least 1 cancel code during our 18 months or were reported by more than 1 servicing lender during our 18 months or both, which may explain the discrepancy. The remaining 237,830 loans did not have cancel codes and were reported by only 1 servicing lender.

Relevant requirement: Mortgagee Letter 2006-15 indicates that multiple status codes will be accepted in the same month, which means that lenders may submit more than one record per loan, per month. The Mortgagee Letter says that lenders may find the ability to report multiple status codes for the same month most advantageous for those situations in which the first legal action to initiate foreclosure occurs but then a bankruptcy action is filed before the last day of the month. Mortgagee Letter 2006-15 requires lenders to correctly report the oldest unpaid installment date. The letter emphasizes that because HUD uses these dates to track the severity of delinquencies, it is important that lenders report the correct oldest unpaid installment date.

What we tested: We tested to determine the maximum number of records reported per loan in a default cycle month. We then tested to determine whether loans had more than one oldest unpaid installment date reported within at least 1 default cycle month.

Records tested: We tested all 27,264,673 records downloaded for our 18-month period, covering 2,402,068 loans.