



**NTFN, Inc.,  
Plano, TX**

**Single-Family Loan Origination Review**



**To:** Kathleen Zadareky, Deputy Assistant Secretary for Single Family Housing, HU  
  
//signed//  
**From:** Gerald Kirkland, Regional Inspector General for Audit, 6AGA  
**Subject:** NTFN, Inc., Did Not Always Follow HUD and FHA Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of NTFN, Inc., a Federal Housing Administration (FHA) direct endorsement lender located in Plano, TX.

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 8M, 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 817-978-9309.



**Audit Report Number: 2015-FW-1001**

**Date: May 26, 2015**

**NTFN, Inc., Did Not Always Follow HUD and FHA Requirements**

## Highlights

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### What We Audited and Why

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We reviewed NTFN, Inc., based on the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General's (OIG) goal to protect the integrity of the Federal Housing Administration's (FHA) housing insurance and guarantee programs. We selected NTFN because its loan default rate was the second highest in the Dallas-Fort Worth metropolitan area from July 2012 through June 2014. NTFN originated 3,046 FHA loans in the metropolitan area during this period, 23 of which became seriously delinquent during the first year. The unpaid principal balance of the 23 loans totaled more than \$3.1 million as of June 2014. Our objective was to determine whether NTFN complied with HUD and FHA requirements when originating and underwriting single-family FHA loans.

### What We Found

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NTFN did not (1) comply with all HUD and FHA requirements when underwriting 5 of 10 loans or (2) perform adequate early payment default and quality control reviews. We identified other deficiencies that should be corrected, but they did not affect the insurability of the loans. The noncompliance noted above occurred because NTFN did not always exercise due diligence when underwriting loans and did not have an adequate internal control system. As a result, HUD insured an ineligible loan and NTFN did not properly fulfill its requirement to review early payment defaults or properly perform quality control reviews. Thus, NTFN did not ensure the accuracy, validity, and completeness of its loan origination operations, resulting in an increased risk to the FHA insurance fund.

### What We Recommend

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We recommend that HUD take actions up to requiring NTFN to indemnify HUD for the loan for which HUD sold the property and incurred a loss totaling \$84,811. We also recommend that HUD require NTFN to (1) support the eligibility of \$61,419 in claims paid or execute an indemnification agreement requiring any unsupported amounts to be repaid, for claims paid on two loans for which HUD had paid claims, but had not sold the properties; (2) implement policies and procedures to ensure that its underwriters adequately review appraisals; (3) implement internal controls to ensure that it follows HUD regulations regarding early payment default reviews and quality control reviews; and (4) place signs designating its office in a space shared with another entity.

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# Background and Objective

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NTFN, Inc., began operations in 1996. It maintains 55 offices in 9 States including its related companies: Premier Nationwide Lending, Park Cities Mortgage, and North American Lending. The Federal Housing Administration (FHA) approved NTFN to originate FHA mortgages as a nonsupervised direct endorsement lender on July 22, 2002. From June 2012 through April 2014, NTFN originated nationwide 7,797 FHA loans totaling more than \$1.1 billion.

FHA mortgage insurance programs help low- and moderate-income families become homeowners by lowering some of the costs of their mortgage loans. FHA mortgage insurance also encourages lenders to approve mortgages for otherwise creditworthy borrowers and projects that might not be able to meet conventional underwriting requirements by protecting the lender against default. The direct endorsement program simplifies the process for obtaining FHA mortgage insurance by allowing lenders to underwrite and close the mortgage loan without prior U.S. Department of Housing and Urban Development (HUD) review or approval. Lenders are responsible for complying with all applicable HUD regulations and are required to evaluate the borrower's ability and willingness to repay the mortgage debt. Lenders are protected against default by FHA's Mutual Mortgage Insurance Fund, which is sustained by borrower premiums. All of FHA's single-family programs are authorized by Title II of the National Housing Act.

Our objective was to determine whether NTFN complied with HUD and FHA requirements when originating and underwriting single-family FHA-insured loans.

# Results of Audit

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## **Finding: NTFN Did Not Always Follow HUD and FHA Requirements**

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NTFN did not (1) comply with all HUD and FHA requirements when underwriting 5 of 10 loans reviewed,<sup>1</sup> or (2) perform adequate early payment default and quality control reviews. Specifically, 5 of 10 loans reviewed contained an underwriting deficiency or a technically deficient appraisal,<sup>2</sup> the early payment default and quality control reviews were inadequate, and NTFN did not have a sign posted to designate between it and its related entity offices in a shared space. This noncompliance occurred because NTFN did not always exercise due diligence when underwriting loans and did not create an adequate internal control environment. As a result, HUD insured an un-insurable loan and two loans with technically deficient appraisals. Further, NTFN did not ensure the eligibility of all parties to the transactions or adequately conduct early payment default and quality control reviews. Thus, it did not ensure the accuracy, validity, and completeness of its loan origination operations, resulting in an increased risk to the FHA insurance funds.

### **NTFN Did Not Comply With HUD and FHA Requirements for 5 of 10 Loans Reviewed**

NTFN did not always comply with HUD and FHA requirements when underwriting 5 of 10 loans reviewed. Specifically, it originated an over-insured loan, and did not determine the eligibility of all parties involved in the transaction for two loans. Further, although it did not affect the insurability of the loans, the appraisals for two other loans did not contain required explanations. This noncompliance occurred because NTFN did not always exercise due diligence when underwriting loans. As a result, HUD insured an un-insurable loan, did not ensure the eligibility of all parties to loan transactions, and did not create an adequate internal control environment.

### **NTFN Originated an Overinsured Loan**

NTFN originated a loan, FHA case number 511-0694246, with an \$800 air conditioner repair that the appraisal did not require. HUD requirements<sup>3</sup> stated that repair costs “may be added to the sales price before calculating the mortgage amount if the repairs were required by the appraiser as essential for property eligibility. Only repairs and improvements *required* by the appraiser may be include[d]” in the sales price. Because the appraisal did not contain the repairs, the inclusion of the repair amount in the loan rendered the loan ineligible for FHA insurance. HUD should take actions up to requiring NTFN to indemnify HUD \$84,811 for losses it incurred on this loan.

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<sup>1</sup> Only three of the five loans reviewed had deficiencies that may have affected loan insurability.

<sup>2</sup> The technically deficiency appraisal did not rise to a level that affected the loan’s insurability.

<sup>3</sup> HUD Handbook 4155.1, paragraph 2(A)(5)(a)

### **NTFN Did Not Ensure the Eligibility of All Parties to the Loan Transaction**

For two loans, NTFN did not determine the eligibility of all parties involved in the transaction. Regulations required that NTFN check HUD's limited denial of participation list and the General Services Administration's excluded parties list system to ensure that all parties to the transaction were eligible before loan origination.<sup>4</sup> NTFN agreed that it did not verify all of the parties on the two loans and that it was an oversight. By not complying with HUD requirements, NTFN did not know whether ineligible parties were involved in these transactions. HUD should require NTFN to support the eligibility of \$61,419 in claims paid or execute an indemnification agreement requiring any unsupported amounts to be repaid, for claims paid on FHA case numbers 492-9643824 and 492-9578618.

### **NTFN Did Not Properly Review Appraisals**

Although it did not affect the insurability of the loans, NTFN did not properly review two appraisals. Thus, it did not know that the two appraisals did not contain required explanations. One appraisal did not contain an explanation for an adjustment in both square footage and room count<sup>5</sup> and the other appraisal did not explain why it exceeded a parameter.<sup>6</sup> NTFN should strengthen its controls over its review of appraisals to ensure compliance with requirements.

### **NTFN Did Not Adequately Perform Early Payment Default Reviews**

NTFN did not adequately perform early payment default reviews. Specifically, it did not develop a review that met HUD's requirements, notify HUD of potential fraud or serious deficiencies, and perform reviews in a timely manner. HUD requirements<sup>7</sup> state that all loans going into default within the first six payments must be reviewed and all information on the loan must be confirmed.

NTFN's early payment default review consisted of six objectives with a questionnaire. Of the 6 objectives, 4 of the objectives, and 9 of the 13 questions on the questionnaire related to servicing issues. NTFN answered the servicing questions with "not applicable" because it did not service the loans or have access to servicing information. NTFN did not comply with HUD's early payment default review requirements,<sup>8</sup> which included determining whether the loans with early default payments contained processing or underwriting deficiencies, and identifying any systemic problems.

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<sup>4</sup> HUD Handbook 4155.1, paragraph 4(A)(2)(c)

<sup>5</sup> HUD Handbook 4150.2, CHG-1 appendix D-1

<sup>6</sup> HUD Handbook 4150.2, paragraph 4-6 (B)

<sup>7</sup> HUD Handbook 4060.1, REV-2, paragraph 7-6 (E)

<sup>8</sup> HUD Handbook 4060.1, REV-2 paragraph 7-7

While performing the early payment default reviews, NTFN found potential fraud or serious deficiencies that it did not report to HUD. During the early payment default review in one instance,<sup>9</sup> NTFN suspected that the borrower purchased the property as an investment property because the borrower maintained ownership of his previous house. At the time of the loan origination, the borrower marked on the occupancy affidavit that the new property would be his primary residence. Records showed that the borrower owned both properties and during a site visit to the previous address, the borrower's name was on a placard at the house. The borrower made only one payment before defaulting on his FHA-insured mortgage.

In another early payment default review,<sup>10</sup> NTFN noted that it could have anticipated the default because the underwriter used overtime, bonus, and marked-up child support to qualify income requirements and the borrower had no reserves. The borrower made six payments before defaulting on the mortgage.

Lastly, NTFN provided a hand written early default payment review that it prepared in an untimely manner. According to the former senior manager of corporate compliance and quality control, she prepared the review when she received a deficiency letter from HUD on the loan. She stated that she was behind on the early payment default reviews. NTFN's internal guidance required that early default payments be reviewed within 45 days from the end of the month in which the loan is reported 60 days past due. This review contained no date. According to HUD's Neighborhood Watch Early Warning System,<sup>11</sup> the loan went into early payment default on November 2013. HUD's underwriting deficiencies letter was dated March 6, 2014, well after the required 45-day review of December 26, 2013.

NTFN believed that it made improvements to its early payment default reviews that will resolve these issues. HUD should ensure that NTFN has implemented adequate procedures over its early payment default reviews.

### **NTFN's Quality Control Review Processes Needed Improvement**

NTFN's on-site quality control review processes needed improvement. Specifically, when NTFN conducted an on-site review of a loan officer and found deficiencies, it did not have an adequate process to document actions taken, timetables for completing corrective actions, and planned follow-up activities. Rather, NTFN relied on emails. HUD required<sup>12</sup> that NTFN prepare a final report identifying actions taken, timetable for their completion, and any plan follow-up activities to be reported to senior management. HUD should require NTFN to comply with the requirements.

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<sup>9</sup> FHA case number 513-0063840

<sup>10</sup> FHA case number 495-9731363

<sup>11</sup> Neighborhood Watch refers to a Web-based software application that displays loan performance data for lenders and appraisers using FHA-insured single-family loan information. The system is designed to highlight exceptions so that potential problems are readily identifiable.

<sup>12</sup> HUD Handbook 4060.1, REV 2, paragraph 7-2 (I)

### **NTFN's Shared Space Did Not Contain Required Signage**

NTFN and one of its subsidiaries shared a common reception area and conference room. NTFN did not place a sign at either the hall entrance or the connecting doorway identifying its office space. Its management did not believe that it needed a sign on the hallway door as it was for employees only and was unaware that it needed the interior sign. HUD requires that a lender's office facilities be clearly identified to the public so that loan applicants and borrower's will know, at all times, with whom they are doing business. This requirement includes a permanently affixed business sign and other common means of identification.<sup>13</sup> HUD should require NTFN to post signs clearly identifying its business.

### **Conclusion**

NTFN did not always follow HUD and FHA requirements. Specifically, 5 of 10 loans contained an underwriting deficiency or technically deficient appraisal, the early payment default and quality control reviews were inadequate, and NTFN needed a sign identifying its office space. This noncompliance occurred because NTFN did not always exercise due diligence in underwriting loans; created an inadequate internal control system, and was not aware that it needed a sign. As a result, NTFN improperly originated a loan resulting in a loss of \$84,811 to the FHA insurance fund, and paid claims of more than \$61,000 on two ineligible loans. Also, although it did not affect the insurability of the loans, NTFN did not properly review two appraisals. Further, it did not properly fulfill its requirement to review early payment defaults, properly perform quality controls reviews, or have required signage clearly identifying its space.

### **Recommendations**

We recommend that the Deputy Assistant Secretary for Single Family Housing

- 1A. Take actions up to requiring NTFN to indemnify HUD \$84,811 for losses incurred on FHA case number 511-0694246.
- 1B. Require NTFN to support the eligibility of \$61,419 in claims paid or execute an indemnification agreement requiring any unsupported amounts to be repaid, for claims paid on FHA case numbers 492-9643824 and 492-9578618 for which HUD paid claims, but had not sold the properties.
- 1C. Require NTFN to strengthen its controls over its review of appraisals to ensure compliance with requirements.
- 1D. Require NTFN to develop and implement controls to ensure that it addresses other deficiencies noted in this report, including its early payment default review and on-site quality control review procedures.
- 1E. Require NTFN to place signs designating its office space located at 2901 Dallas Parkway, Suite 120, Plano, TX 75093.

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<sup>13</sup> HUD Handbook 4060.1, REV-2, paragraph 2-11 (A)(4)

# Scope and Methodology

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We performed our field work from September 2014 through April 2015 on loans originated from June 2012 through June 2014. We performed the work at NTFN's main office located at 2901 Dallas Parkway, Suite 120, Plano, TX, and at our office in Fort Worth, TX. We selected all 10 loans totaling more than \$1.3 million that went into default within the first 9 months after NTFN originated them.

To accomplish our review objective, we

- Reviewed applicable regulations, requirements, mortgagee letters, and HUD Quality Assurance Division reports;
- Reviewed reports and information in HUD's Neighborhood Watch and Single Family Data Warehouse systems;<sup>14</sup>
- Reviewed NTFN's policies, procedures, and independent audit for the year ending December 31, 2013;
- Conducted interviews with NTFN staff and borrowers; and
- Performed on-site visits to six properties still occupied by the borrowers.

We obtained data from Neighborhood Watch for loans amortized from July 1, 2012, to June 30, 2014. The data showed that NTFN originated 3,046 FHA-insured loans valued at more than \$446 million. The data also showed that 23 loans were in default, of which NTFN indemnified 1 loan, and 3 loans were in claim status as of June 30, 2014. We used the data to select a sample of loans for review.

We selected a sample of 10 loans from the 23 defaulted loans. We did not review all 23 defaulted loans because we did not plan to project the results to the population of loans. The 10 sample loans reviewed were in default, were not refinanced, and had nine or fewer payments before the first reported default. The results of our detailed testing apply to only the 10 loans reviewed.

We performed detailed testing and reviewed the underwriting procedures for the 10 loans. We reviewed documentation from the HUD Homeownership Center<sup>15</sup> and loan files provided by NTFN. Our testing and review included (1) analysis of borrowers' income, assets, and liabilities; (2) review of borrowers' savings ability and credit history; (3) verification of selected data on the underwriting worksheet and settlement statements; and (4) confirmation of employment and gifts. In addition,

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<sup>14</sup> Single Family Data Warehouse is a large and extensive collection of database tables organized and dedicated to support the analysis, verification, and publication of single-family housing data. It consists of database tables structured to provide HUD users easy and efficient access to Office of Single Family Housing case-level data on properties and associated loans, insurance, claims, defaults, and demographics.

<sup>15</sup> Homeownership Centers are offices where HUD has set up mortgage insurance operations to serve and monitor lenders, and home buyers. They are located in Philadelphia, PA, Atlanta, GA, Denver, CO, and Santa Ana, CA.

we conducted site visits to six of the borrower occupied properties to ensure they existed and to interview the borrowers.

After completing 10 file reviews, we identified only 3 deficiencies and 2 technical deficiencies. However, we found early payment default and internal control deficiencies. As a result, we determined that additional loan reviews were not warranted.

We obtained NTFN's quality control plan and all of the quality control review reports from June 2012 through April 2014. We reviewed the quality control plan, the review reports, and supporting documentation to determine the sufficiency and timeliness of the quality control reviews.

We did not evaluate the reliability of HUD's Single Family Data Warehouse or Neighborhood Watch systems because we were not auditing the systems and used them only to select the auditee and determine the loan status.

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

# Internal Controls

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

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

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

## **Relevant Internal Controls**

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

- Policies and procedures intended to ensure that FHA insured loans are properly originated, underwritten, and closed.
- Safeguarding FHA insured mortgages from high-risk exposure.
- Policies and procedures intended to ensure that the quality control program is an effective tool in reducing underwriting errors and noncompliance.

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:

- NTFN did not have effective controls in place to ensure that its underwriting, early payment default review, and quality control reviews, complied with HUD requirements (finding).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

| <b>Recommendation number</b> | <b>Ineligible 1/</b> | <b>Unsupported 2/</b> |
|------------------------------|----------------------|-----------------------|
| 1A                           | \$84,811             |                       |
| 1B                           |                      | \$61,419              |
| <b>Totals</b>                | <b>\$84,811</b>      | <b>\$61,419</b>       |

- 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



May 4, 2015

*Via E-mail*

U.S. Department of Housing and Urban Development  
Office of Inspector General  
Attn: Gerald R. Kirkland  
819 Taylor Street, Suite 13A09  
Fort Worth, TX 76102

Re: Audit of NTFN, Inc.

Dear Mr. Kirkland:

I am writing in response to the audit report from your office dated April 23, 2015. NTFN, Inc. ("NTFN") has had an opportunity to review the audit findings internally and we had an exit conference with the auditors who performed the review on April 29, 2015. As such, NTFN provides the following responses.

Comment 1

**NTFN Did Not Always Follow HUD and FHA Requirements**

We would first like to address the overall exam rating of "Did not always follow HUD and FHA requirements". While we concur that we did not [always] meet HUD and FHA requirements, the auditors did indicate that our audit results revealed no systemic or material deficiencies. They further stated that the issues they noted in their report were one-off, isolated occurrences. Thus, NTFN is concerned, since the audit report is made public, that the rating may provide the public with an inaccurate, adverse perception of NTFN. As such, we respectfully request that HUD consider changing the exam rating, or further clarify in the written exam report, that the rating did not reveal systemic or material deficiencies in NTFN's operation.

Comment 2

**NTFN Did Not Adequately Perform Early Payment Default Reviews:**

The written exam report indicated that NTFN did not adequately address early payment defaults in its quality control reviews. NTFN's management agrees with the finding and is in the process of hiring additional staff and reorganizing its quality control processes. Within the next ninety days, NTFN will implement a risk based quality control function that will be conducted pre-closing and post-closing. Early payment defaults has been rated a high risk and as such, 100% of the EPD's identified will be evaluated under NTFN's post-closing quality control review process. Additionally, management is developing monthly reporting to provide NTFN's Board of Directors and senior management staff with the visibility necessary to develop and implement an appropriate and effective accountability and corrective action plan.

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 3

**NTFN Originated an Overinsured Loan:**

FHA case number 511-0694246 was over-insured by \$800.00 due to an air conditioner repair that wasn't reflected on the appraisal and therefore, should not have been included in the mortgage loan amount. NTFN is voluntarily making a principal balance curtailment in the amount of \$800.00. NTFN will provide your office with evidence that the curtailment was made. As such, we respectfully request that HUD recognize this curtailment as full satisfaction of the over-insured amount and not require NTFN to indemnify the loan.

Comment 4

**NTFN Did Not Ensure the Eligibility of All Parties to the Loan Transaction:**

The report noted two case numbers (492-9643824 and 492-9578618) whereby all parties involved in the transaction weren't checked against HUD's limited denial of participation list and the General Services Administration's excluded parties list ("LDP/GSA"). NTFN agrees with the assessment. However, it has now checked the previously excluded parties against the LDP/GSA lists and has confirmed that the parties are eligible to participate. These two occurrences were isolated and are not representative of NTFN's standard operating procedure. NTFN has recently transitioned to a new loan origination system, Encompass, and has placed an automatic underwriting condition on FHA loans, that must be cleared prior to clearing the loan for closing and will require that the underwriter validate eligibility to participate against the LDP/GSA lists. Further, on May 1, 2015, NTFN distributed a communication to its operations staff as a reminder that eligibility must be verified through the LDP/GSA for all parties involved in the transaction. In consideration of the above actions, NTFN requests that HUD not require indemnification of the noted loans.

Comment 2

**NTFN Did Not Properly Review Appraisals:**

The OIG noted that NTFN did not properly review two appraisals to explain the adjustment to square footage and room count on one appraisal and on another, why the appraisal exceeded a parameter. In response to the increasing risks related to appraisals, NTFN is in the process of implementing a new procedure requiring a Real View appraisal report on every loan. The RealView report (a Platinum Data product) will provide an appraisal score and identify potential deficiencies and/or risks associated with the appraisal. NTFN has been beta testing the use of the RealView report in its corporate based branch, which has resulted in greater appraisal quality. NTFN will be rolling out the RealView process to all its branches within the next sixty days.

Comment 2

**NTFN's Quality Control Review Process Needed Improvement:**

The OIG recommended that NTFN improve its on-site quality control review process. NTFN has contracted with an IT organization to develop a branch audit database that will allow NTFN to conduct its on-site reviews electronically and retain all records related to the on-site review. This new process will provide NTFN's Quality Control Department with greater control over due dates, scheduling, exceptions and corrective action plans, along with the ability to extract data for reporting purposes. On-site branch audit data will be included in the monthly QC reporting package that will be distributed to NTFN's Board of Directors and senior management team. NTFN anticipates having this database functional within the next ninety days.

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

#### Comment 5

**NTFN's Shared Space Did Not Contain Required Signage:**

Lastly, the report calls out a recommendation that NTFN have separate signage for NTFN's shared space with a subsidiary. NTFN contends that there isn't shared space among subsidiaries. Rather, NTFN operates under several "DBA's". Thus, all employees located at NTFN's corporate office are NTFN employees. And, all loan documentation that is generated and distributed to consumers note the DBA relationship with NTFN. Therefore, NTFN believes that it satisfies the expectation that consumers know who they are doing business with. For example, the signage in NTFN's corporate reception area is for North American Mortgage Company. However, when consumers receive loan documents, they read "NTFN, Inc. dba North American Mortgage Company". Although NTFN doesn't agree with the finding, NTFN will add "An NTFN Company" to the bottom of the signage in its corporate reception area and has also placed NTFN signage at the other exterior entrance in the same hallway.

NTFN appreciates the OIG's feedback and the opportunity to respond to the draft report. NTFN is committed to conducting business in a compliant manner and maintaining a collaborative relationship with the agencies, its investors, and examiners. It is our hope that HUD recognizes the efforts NTFN has taken to use the OIG's feedback to improve its business processes.

Sincerely,

Cindy Wortham

Cindy Wortham  
Chief Compliance Officer  
NTFN, Inc.

cc: Charles Priest, NTFN, Inc.  
Blake Priest, NTFN, Inc.  
Gary McKiddy, NTFN, Inc.  
Will Nixon, HUD OIG  
Gerald Kirkland, HUD OIG

## OIG Evaluation of Auditee Comments

- Comment 1 We commend NTNF for its actions taken regarding the loan deficiencies and efforts to resolve matters reported. While NTNF did not have systemic deficiencies, its control environment did not meet HUD requirements and placed the insurance fund at risk.
- Comment 2 We appreciate the actions taken by NTFN to address the identified problems. Since NTFN was in the process of taking actions, we did not evaluate whether the actions will be sufficient to correct the deficiencies. HUD will need to determine the appropriate corrective action.
- Comment 3 As stated in the finding, the property was not eligible for FHA insurance. NTNF should provide HUD with all evidence to address and correct the deficiencies as HUD will make the decision of the sufficiency of NTNF's actions.
- Comment 4 We recognize that NTFN took actions in this matter. We did not evaluate the actions to determine if the actions will be effective in ensuring the eligibility of all parties to the transaction.
- Comment 5 While we understand NTNF's disagreement with the finding, HUD requirements are clear as stated in the finding. We commend NTFN for adding "an NTFN Company" to the sign in the shared office.

## Appendix C

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### Case Narratives

#### **FHA case number 511-0694246**

|                               |                              |
|-------------------------------|------------------------------|
| Mortgage amount               | \$199,224                    |
| Date of loan closing          | June 11, 2012                |
| Status as of March 19, 2015   | Property conveyed to insurer |
| Payments before first default | Two                          |
| Total claims paid             | \$220,396                    |
| HUD loss                      | \$84,811                     |

#### **Underwriting Deficiency**

The borrower's loan amount included an \$800 air conditioner repair that was not included on the appraisal. On May 22, 2012, the borrowers and seller amended the sales contract to increase the sales price by \$3,000, which included \$800 in air conditioner repairs and \$2,200 in seller-paid closing costs. HUD requirements<sup>16</sup> stated that repair costs "may be added to the sales price before calculating the mortgage amount if the repairs were required by the appraiser as essential for property eligibility. Only repairs and improvements *required* by the appraiser may be include[d]" in the sales price. Because the appraisal did not require the air conditioning repair, the inclusion of the repair amount in the loan rendered the loan ineligible for FHA insurance purposes. Further, the inclusion of the repair amount in the loan resulted in FHA's over-insuring this loan.

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<sup>16</sup> HUD Handbook 4155.1, paragraph 2(A)(5)(a)

**FHA case number 492-9578618**

Mortgage amount                    \$162,011  
Date of loan closing                December 27, 2012  
Status as of March 19, 2015    Special forbearance  
Payments before first default    Seven  
Total claim paid                    \$49,263

**Underwriting Deficiency**

The loan file did not contain documentation to show that the lender searched General Services Administration's excluded parties list system or HUD's limited denial of participation list for the real estate agent. The real estate agent was listed on the loan's settlement statement. NTFN agreed that it did not search the real estate agent's name as required. HUD<sup>17</sup> stated that a mortgage loan application is not eligible for FHA mortgage insurance if the name of any of the following parties to the mortgage transaction is found on HUD's limited denial of participation list or General Services Administration's excluded parties list system:

- Borrower
- Seller
- Listing or selling real estate agent, or
- Loan officer.

By not complying with HUD requirements, NTFN did not know whether ineligible parties were involved in this transaction. HUD should take administrative actions up to and including indemnification or repayment to the FHA insurance fund.

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<sup>17</sup> HUD Handbook 4155.1, paragraph 4(A)(2)(c)

**FHA case number 492-9643824**

Mortgage amount                    \$110,461  
Date of loan closing                March 20, 2013  
Status as of March 19, 2015    Reinstated after loss mitigation intervention  
Payments before first default    Six  
Total claim paid                    \$12,156

**Underwriting Deficiency**

The loan file did not contain documentation to show that the lender searched the General Services Administration's excluded parties list system or HUD's limited denial of participation list for the real estate agent. The real estate agent was listed on the loan's settlement statement. NTFN agreed that it did not search the real estate agent's name as required. HUD<sup>18</sup> stated that a mortgage loan application is not eligible for FHA mortgage insurance if the name of any of the following parties to the mortgage transaction is found on HUD's limited denial of participation list or General Services Administration's excluded parties list system:

- Borrower
- Seller
- Listing or selling real estate agent, or
- Loan officer.

By not complying with HUD requirements, NTFN did not know whether ineligible parties were involved in this transaction. HUD should take administrative actions up to and including indemnification or repayment to the FHA insurance fund.

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<sup>18</sup> HUD Handbook 4155.1, paragraph 4(A)(2)(c)