



U.S. Department of Housing and Urban Development
Office of Inspector General
Office of Audit - Civil Fraud Division
451 7th Street, SW
Washington, DC 20410

MEMORANDUM NO:
2011-CF-1801

March 2, 2011

MEMORANDUM FOR: Vicki Bott, Deputy Assistant Secretary for Single Family Housing, HU

//signed//

FROM: Kim Randall, Director, Civil Fraud Division, GA

SUBJECT: An Underwriting Review of 15 FHA Lenders Demonstrated That HUD Missed Critical Opportunities To Recover Losses to the FHA Insurance Fund

INTRODUCTION

In January 2010, the U.S. Department of Housing and Urban Development's (HUD) Office of Inspector General (OIG) began Operation Watchdog, an initiative to review the underwriting of 15 Federal Housing Administration (FHA) direct endorsement lenders having default and claim rates indicating lender performance problems. The FHA Commissioner had expressed concern regarding the increasing default and claim rates against the FHA insurance fund for failed loans, prompting this initiative.

Our review objective was to determine whether each lender underwrote its respective loans in accordance with FHA requirements. To accomplish the objective, we reviewed between 12 and 20 FHA loans underwritten by each of the 15 lenders that resulted in claims against the FHA insurance fund. We reported our results in individual memorandums to HUD. Appendix A identifies the memorandums issued between July and September 2010.

This memorandum summarizes the results of the Operation Watchdog initiative and expresses OIG's concerns about systemic problems with the underwriting of FHA insured loans and the resulting costs to the FHA insurance fund for loans that should not have been insured. We provided the draft memorandum to HUD on December 21, 2010, and HUD replied with written comments on the date requested, February 4, 2011. HUD responded with a description of its multi-faceted approach to minimizing losses to the FHA insurance fund, which it maintains will achieve the intent of our recommendation.

The complete text of HUD's response, along with our evaluation of that response, can be found in appendix B of this memorandum.

METHODOLOGY AND SCOPE

We selected 15 direct endorsement lenders from HUD's publicly available Neighborhood Watch¹ system (system) for a review of underwriting quality. The selected lenders each had a compare ratio² in excess of 200 percent of the national average as listed in the system for loans endorsed between November 1, 2007, and October 31, 2009. We selected loans that had gone into claim status, had defaulted within the first 30 months, and were (1) not streamline refinanced, (2) not electronically underwritten by Fannie Mae or Freddie Mac, or (3) associated with an underwriter (usually an individual) with a high number of claims.

We selected up to 20 loans in claim status from each of the 15 lenders. These 15 lenders had endorsed 183,278 loans valued at \$31.3 billion from January 2005 to December 2009. These same lenders also submitted 6,560 FHA insurance claims with an estimated value of \$794.3 million from November 2007 through December 2009.

Our review objective was to determine whether the selected loans were properly underwritten and if not, whether the underwriting reflected systemic problems. We performed our work from January through July 2010. We conducted our work in accordance with generally accepted government auditing standards, except that we did not consider the internal controls or information systems controls of each lender, consider the results of previous audits, or communicate with each lender's management in advance. We did not follow standards in these areas because our objective was to aid HUD in identifying FHA single-family insurance program risks and patterns of underwriting problems or potential wrongdoing in poorly performing lenders that led to a high rate of defaults and claims against the FHA insurance fund. To meet our objective, it was not necessary to fully comply with the standards, nor did our approach negatively affect our review results.

BACKGROUND

FHA's 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 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 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.

¹ Neighborhood Watch is a system that aids HUD/FHA staff in monitoring lenders and FHA programs. This system allows staff to oversee lender origination activities for FHA-insured loans and tracks mortgage defaults and claims.

² HUD defines "compare ratio" as a value that reveals the largest discrepancies between the direct endorser's default and claim percentage and the default and claim percentage to which it is being compared. FHA policy establishes a compare ratio of more than 200 percent as a warning sign of a lender's performance.

RESULTS OF REVIEW

The 15 direct endorsement lenders did not properly underwrite 140 of 284 loans reviewed, or 49 percent, because its underwriters did not follow FHA's requirements. As a result, FHA's insurance fund suffered or can be expected to suffer losses of more than \$11 million. Appendix C provides basic data on the 140 questioned loans, including the loan closing date, number of payments made before the first default, original mortgage amount, and actual and expected losses to HUD.

The material deficiencies in the 140 loans fell into 9 categories, demonstrated in the following table. Appendix D summarizes the material deficiencies of the 140 questioned loans on a per loan basis.

| Areas of noncompliance/ material deficiencies | Number of loans |
|--|------------------------|
| Income/employment history | 57 |
| Assets | 20 |
| Liabilities | 24 |
| Qualifying ratios | 36 |
| Gift funds | 49 |
| Credit history | 76 |
| Rent verification | 13 |
| Borrower investment | 26 |
| Skipped mortgage payments | 3 |

Income/Employment History

Lenders did not properly calculate or verify borrowers' income, determine income stability, or verify employment history for 57 loans. HUD does not allow income to be used in calculating a borrower's income ratios if it cannot be verified, is not stable, or will not continue. Lenders are required to analyze whether income is reasonably expected to continue through at least the first 3 years of the mortgage loan.

Assets

Lenders did not properly document the source of borrowers' funds to close the loan for 20 loans. HUD requires the lender to verify and document the borrowers' investment in the property.

Liabilities

Lenders did not properly assess the borrowers' financial obligations for 24 loans. HUD requires lenders to consider debts if the amount of the debts affect the borrowers' ability to make the mortgage payment during the months immediately after closing.

Qualifying Ratios

Lenders improperly approved 36 loans when the borrowers' ratios exceeded FHA's requirements. Effective April 13, 2005, the mortgage payment-to-income and total fixed

payment-to-income ratios were increased from 29 and 41 percent to 31 and 43 percent, respectively. If either or both ratios are exceeded on a manually underwritten mortgage, the lender is required to describe the compensating factors used to justify the mortgage approval.

Gift Funds

For 49 loans, lenders did not properly document gift funds received by borrowers. HUD requires that the lender be able to determine that gift funds ultimately were not provided by an unacceptable source.

Credit History

Lenders did not properly evaluate the borrowers' credit histories for 76 loans. HUD requires the lender to consider collection accounts in analyzing a borrower's creditworthiness. The lender must explain all collections in writing.

Rent Verification

Lenders did not properly verify borrowers' rental histories for 13 loans. HUD notes that the payment history of the borrower's housing obligations holds significant importance in evaluating credit. The lender must determine the borrower's housing payment history through acceptable means, including verification of rent directly from the landlord or through cancelled checks covering the most recent 12-month period.

Borrower Investment

For 26 loans, lenders did not verify the borrowers' investment in the property. At the time of these loans, HUD required borrowers to make a 3 percent minimum cash investment to close the loan.

Skipped Mortgage Payments

Contrary to requirements, one lender allowed skipped mortgage payments on three loans. HUD rules state that lenders are not permitted to allow borrowers to "skip" payments. Borrowers are either to make the payment when it is due or bring the monthly mortgage payment to settlement because FHA does not permit the inclusion of mortgage payments "skipped" by the homeowner in the new mortgage amount. HUD also requires that for no-cash-out refinances, the mortgage being refinanced must be current for the month due.

Incorrect Underwriter's Certifications Submitted to HUD

The 15 lenders incorrectly certified to HUD that they had conducted due diligence and reviewed all associated documents when underwriting the 140 questioned loans. Under the Program Fraud Civil Remedies Act of 1986 (231 U.S.C. (United States Code) 3801), HUD may pursue civil remedies against a lender that certifies to such due diligence when the due diligence did not occur. Therefore, we recommended that HUD pursue the 15 lenders for more than \$23 million in remedies for the 140 loans. Appendix A details the \$23 million potential civil enforcement remedies on a per loan basis.

The Program Fraud Civil Remedies Act provides Federal agencies, which are the victims of false, fictitious, and fraudulent claims and statements, with an administrative remedy (1) to recompense such agencies for losses resulting from such claims and statements; (2) to permit

administrative proceedings to be brought against persons who make, present, or submit such claims and statements; and (3) to deter the making, presenting, and submitting of such claims and statements in the future.

Missing Critical Opportunities To Recover Losses and Pursue Civil Remedies

HUD missed critical opportunities to recover losses on loans not meeting FHA requirements, and did not pursue civil remedies when lenders improperly certified to using due diligence in approving FHA loans when due diligence was not practiced. The consistency of noncompliance identified during Operation Watchdog indicated systemic problems in how lenders certified to compliance on underwritten loans ultimately insured by FHA. Further, HUD did not have a formal process established to review all claims paid on defaulted mortgages or at least all such claims paid that met high-risk criteria, resulting in unrecovered losses to the insurance fund for loans that never should have been insured.

In recent years, HUD has experienced exponential growth in the dollar amount of single-family claims paid from the FHA insurance fund. From fiscal years 2007 through 2010, HUD experienced a nearly 174 percent increase in the dollar value of claims paid that resulted in FHA’s paying off the mortgage, from about \$5.3 billion in 2007 to about \$14.5 billion in 2010. HUD expected the trend to continue and estimated that it would pay out more than \$20 billion in fiscal year 2011 for all forms of payments from the insurance fund, a nearly 31 percent increase from 2010, as demonstrated by the following chart.

| Fiscal year (FY) | Number of full claims paid* | Value of full claims paid (in billions)* | Increase in value of full claims paid vs. prior year | Increase in value of full claims paid vs. FY 2007 | Value of total claims paid (in billions)** | Increase in value of total claims paid vs. prior year | Increase in value of total claims paid vs. FY 2007 |
|----------------------|-----------------------------|--|--|---|--|---|--|
| Actual FY 2007 | 55,928 | \$5.3 B | - | - | \$5.8 B | - | - |
| Actual FY 2008 | 63,191 | \$6.5 B | 22.6% | 22.6% | \$7.2 B | 24.1% | 24.1% |
| Actual FY 2009 | 80,823 | \$9.1 B | 40.0% | 71.7% | \$9.9 B | 37.5% | 70.7% |
| Actual FY 2010 | 120,434 | \$14.5 B | 59.3% | 173.6% | \$15.6 B | 57.6% | 169.0% |
| Projected FY 2011*** | 151,752 | - | - | - | \$20.4 B | 30.8% | 251.7% |

* Number and value of full claims paid represents only claims paid that resulted in the FHA insurance fund’s paying off a loan and HUD’s terminating the FHA insurance. They exclude other forms of FHA insurance payments such as subsequent claims paid after insurance is terminated or payments made that allowed the borrower to retain the home and the FHA insurance to stay in force (partial claims).

**Amount of total claims paid represents all full and partial claims paid from the FHA insurance fund.

***HUD estimate as of December 3, 2010.

As previously stated, the FHA Commissioner had expressed concern about the increasing default and claim rates against the FHA insurance fund. Therefore, we completed Operation Watchdog, a risk-based initiative targeting lenders with indicated performance problems. Our results

showed that the sooner a borrower defaulted and the loan reached claim status, the higher the likelihood that the loan did not meet FHA requirements. For the 140 loans that did not meet FHA requirements, the borrowers made an average of only five payments before defaulting. Further, borrowers of 100 of the 140 loans (71 percent) made 6 payments or fewer before defaulting, as shown in the following chart.

| Number of payments made before first default | Number of loans |
|---|------------------------|
| 0 | 19 |
| 1 | 19 |
| 2 | 18 |
| 3 | 13 |
| 4 | 15 |
| 5 | 7 |
| 6 | 9 |
| 7 to 24 | 40 |
| | 140 loans |

HUD recognizes the importance and high risk of loans defaulting quickly. HUD requires lenders to have an FHA-compliant quality control plan in place, including a requirement to review all loans going into default within the first six payments. Goals of the required quality control program include protecting the lender and FHA from unacceptable risk and guarding against errors, omissions, and fraud. Therefore, HUD places great emphasis on loans defaulting quickly and should place similar emphasis on its own targeting and review efforts.

We recognize that not all defaults and resulting claims are caused by poor underwriting. However, poor underwriting played a major role in the 140 ineligible loans identified through Operation Watchdog. Reviewing loans that have had claims paid by using risk-based targeting or a statistically valid sample of quickly defaulting loans could provide HUD with an opportunity to recover unnecessary losses caused by these loans. Protecting the financial stability of the FHA insurance fund, which should be self-sustaining, is paramount to the FHA program and its ability to serve those that were meant to benefit from it without needing taxpayer assistance.

OIG has noted in past audits HUD's unnecessary exposure when paying claims on loans that did not qualify for insurance. For example, we reported in July 2006 that HUD did not independently validate that mortgage loans insured under the FHA program met requirements after paying billions in insurance claims. Of 175 randomly selected claims, HUD paid 44 claims on mortgages that did not meet program requirements, based on the documents in the FHA loan file submitted to HUD. HUD paid the claims, as required by law, but did not subsequently review the loan files for compliance with program requirements, fraud, and/or misrepresentations. HUD relied on lender certifications that the loans were eligible for insurance (OIG Audit Report: Single Family Mortgage Insurance Claims, 2006-SE-0001, July 11, 2006).

HUD generally disagreed with our recommendation to establish procedures to review paid claims associated with early defaulted loans and related costs (projected to be about \$214 million annually at the time of the report) and independently verify that loans met FHA requirements and were, therefore, eligible for insurance. HUD ultimately agreed to review loans that had gone to claim through its Quality Assurance Division targeting process when it performed lender reviews. It further agreed that if claim file reviews showed inadequate documentation by the lender, HUD would take appropriate corrective actions regarding the responsible lender. Because HUD did not agree with our original recommendation, it is unlikely that HUD would have selected the 140 loans that we reviewed and found noncompliant during the Operation Watchdog initiative. Therefore, HUD would not have detected these loans as having caused more than \$11 million in unnecessary losses to the FHA insurance fund.

HUD selects lenders to review based on an annual risk-based targeting plan, which includes claims, defaults, and compare ratios, among other factors. Further, HUD uses a case-level tool to select loans for review. HUD asserts that the tool prepares a statistically valid sample of loans based upon various risk factors. These include claims, early payment defaults (0-6 months), and defaults in the first year (7 to 12 months). HUD reviews all loans generated by the case targeting tool. However, this method does not ensure that all claims are reviewed and may not target sufficient loans with claims paid to reasonably protect the fund.

HUD has recently tightened FHA lending requirements, but those improvements affect future loans and not the rapidly growing influx of claims from lenders that originated loans in the past few years. HUD should continue to strengthen its requirements and hold lenders accountable. However, it also needs to quickly confront the problem of billions being paid for defaulted loans and not being recovered when many loans were not eligible for FHA insurance.

In summary, Operation Watchdog demonstrated that for the 15 lenders reviewed, the FHA insurance fund suffered an unacceptable percentage of loans defaulting and resulting in claims that never should have caused losses to FHA. HUD should do more to target and review claims and recover losses incurred on loans that did not meet FHA requirements and were, therefore, never qualified for FHA insurance. Further, such actions should serve as a strong deterrent against faulty underwriting and cause lenders to take the certifications made to HUD more seriously.

RECOMMENDATIONS

We recommended in each of the 15 issued memorandums that HUD pursue appropriate remedies under the Program Fraud Civil Remedies Act against each lender and/or its principals for incorrectly certifying to the integrity of the data or that due diligence was exercised during the underwriting of the 140 questioned loans. These loans resulted in actual losses or were expected to result in losses to the FHA insurance fund of more than \$11 million. Further, the lenders' improper certifications could result in affirmative civil enforcement actions of more than \$23 million. We also recommended that HUD take appropriate administrative action against each lender and/or its principals.

Based on the overall results of the Operation Watchdog initiative and the systemic problems identified, we are making the following additional recommendation to HUD.

We recommend that HUD's Deputy Assistant Secretary for Single Family Housing

- 1A. Develop and implement procedures to review a statistical or risk-based selection of loans for which FHA paid a claim on the mortgage insurance within the first two years of endorsement, to verify that the loans met FHA requirements and were qualified for insurance. These procedures should include a requirement for HUD to seek appropriate civil and administrative remedies to recover losses incurred on loans not qualified for FHA insurance.

For each recommendation without a management decision, please respond and provide status reports in accordance with the U.S. Department of Housing and Urban Development's (HUD) Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the review.

Appendix A

AUDIT MEMORANDUMS ISSUED

| Lender | Location | OIG memorandum number | Issued date | Actual or potential loss to HUD | Potential affirmative civil enforcement action* |
|--|----------------------|-----------------------|--------------|---------------------------------|---|
| 1 st Advantage Mortgage, LLC | Lombard, IL | 2010-CH-1806 | 7/15/10 | \$325,452 | \$710,904 |
| Birmingham Bancorp Mortgage Corporation | West Bloomfield, MI | 2010-CH-1807 | 7/21/10 | \$643,340 | \$1,354,180 |
| Mac-Clair Mortgage Corporation | Flint, MI | 2010-CH-1808 | 7/22/10 | \$562,551 | \$1,177,602 |
| Alacrity Lending Company | Southlake, TX | 2010-LA-1803 | 7/26/10 | \$1,599,529 | \$3,341,558 |
| Dell Franklin Financial, LLC | Millersville, MD | 2010-CH-1810 | 7/30/10 | \$542,330 | \$1,107,160 |
| D & R Mortgage Corporation | Farmington Hills, MI | 2010-CH-1811 | 8/4/10 | \$936,572 | \$1,940,644 |
| Assurity Financial Services, LLC | Englewood, CO | 2010-LA-1804 | 8/5/10 | \$1,180,997 | \$2,421,992 |
| Americare Investment Group | Arlington, TX | 2010-LA-1805 | 8/6/10 | \$741,498 | \$1,572,996 |
| American Sterling Bank | Sugar Creek, MO | 2010-LA-1806 | 8/24/10 | \$492,239 | \$1,051,978 |
| Webster Bank | Cheshire, CT | 2010-NY-1805 | 9/1/10 | \$516,990 | \$1,078,980 |
| Alethes, LLC | Lakeway, TX | 2010-LA-1807 | 9/8/10 | \$1,056,447 | \$2,255,394 |
| Security Atlantic Mortgage Company, Inc. | Edison, NJ | 2010-NY-1806 | 9/22/10 | \$553,730 | \$1,152,460 |
| First Tennessee Bank, N.A. | Memphis, TN | 2010-NY-1807 | 9/27/10 | \$435,574 | \$908,648 |
| Pine State Mortgage Corporation | Atlanta, GA | 2010-NY-1808 | 9/29/10 | \$1,095,202 | \$2,295,404 |
| Sterling National Mortgage Company, Inc. | Great Neck, NY | 2010-NY-1809 | 9/30/10 | \$508,823 | \$1,062,646 |
| | | | Total | \$11,191,274 | \$23,432,546 |

* Amounts based upon the Program Fraud Civil Remedies Act of 1986 which allows Federal agencies, which are the victims of false, fictitious, and fraudulent claims and statements, to recover double damages plus up to \$7,500 for each violation (recovery limited to claims of \$150,000 or less). Other remedies are available to the Federal government, including the False Claim Act, which could result in additional potential for civil enforcement.

Appendix B

HUD COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

HUD Comments



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

OFFICE OF HOUSING

FEB 4 2011

MEMORANDUM FOR: Kimberly R. Randall, Director, Civil Fraud Division, GA

FROM: Vicki B. Bott, Deputy Assistant Secretary for Single Family Housing, HU

SUBJECT: Discussion Draft -- An Underwriting Review of 15 FHA Lenders Demonstrated That HUD Missed Critical Opportunities To Recover Losses to the FHA Insurance Fund

This is in response to your memorandum dated December 21, 2010, transmitting the subject draft audit report. We are providing formal comments to the draft for your consideration.

The Office of Inspector General's (OIG) stated objective in reviewing the 15 Direct Endorsement lenders that were part of the Operation Watchdog initiative was to determine whether each lender underwrote its respective loans in accordance with FHA requirements, and if not, whether the underwriting reflected systemic problems. OIG determined that the 15 lenders evaluated did not properly underwrite 140 of the 284 loans reviewed. As a result, FHA's insurance fund suffered or is expected to suffer losses of more than \$11 million. Therefore, OIG recommended that HUD develop and implement procedures to review a statistical or risk-based selection of loans for which FHA paid a claim within the first two years of endorsement to verify that the loans were eligible for FHA insurance.

While the Office of Housing (Housing) appreciates the OIG's concern about targeting and reviewing all loans on which insurance claims have been paid to reasonably protect the fund, Housing has continuously maintained a proactive approach of identifying high risk lenders and initiating counterparty risk activities to minimize the losses to the FHA insurance fund. While OIG's suggestion to review all claims (OIG Audit Report: Single Family Mortgage Insurance Claims, 2006-SE-0001, July 11, 2006) may be a possible solution to minimize losses to the FHA insurance fund, Housing has engaged in a multi-faceted approach to achieve the same objective.

Comment 1

As stated in the Management Decision issued on August 4, 2008, HUD agreed to review loans that had gone to claim through its Quality Assurance Division lender monitoring process. Notably, Housing developed a risk-based Lender Case Targeting Tool to identify those loans posing the highest risk to the insurance fund. In addition, Housing has undertaken two major endeavors as part of its overall counterparty risk management strategy. As confirmed by the efforts described below, which were started prior to the announcement of the Operation Watchdog initiative, the FHA team is continually evaluating all aspects of the single family insurance operations and tightening risk controls to mitigate exposure to the Mutual Mortgage Insurance (MMI) fund.

Lender Case Targeting Tool

Comment 2

In September 2007, Housing implemented a Lender Monitoring Case Targeting Tool in its Neighborhood Watch Early Warning System which allows the Quality Assurance Division staff to select loans for its targeted lender monitoring reviews. The Case Targeting Tool, via a statistical and risk-based algorithm, selects loans based on a number of criteria including claims, early

Comment 3

payment defaults, program and operations, and specific targeted loan level risk criteria. In August 2009, Housing expanded the Lender Monitoring Case Targeting Tool to provide for the analysis and selection of cases within a one year period from amortization date. Through its utilization of the tool, the Quality Assurance Division staff can select loans for review for either a one or two year period from amortization date for which FHA paid a conveyance claim. The selected loans are reviewed to verify their eligibility for FHA insurance and if deemed ineligible, appropriate actions and/or sanctions are imposed against the lenders. As a result of Housing's lender monitoring activities, it should be noted that as of the date of the Audit Reports, the Mortgage Review Board had already imposed sanctions against four of the lenders.

Further enhancements to the Case Targeting Tool are under development. Features to be added will allow staff to select loans based on loss mitigation actions, foreclosures and other servicing criteria.

Single Family Loan Review Initiative

During Fiscal Year 2010, Housing launched the Single Family Loan Review Initiative with the purpose of creating a comprehensive plan to improve underwriting and servicing mortgagee oversight, identifying policy gaps, increasing enforcement actions to promote overall lender accountability, and supporting the long term viability of the MMI fund. The initiative focuses on developing enhancements to improve loan review data integrity, consistency across review types, program and process efficiency, underwriting and servicing quality, and FHA's ability to identify and measure risk before conveyance claims are filed. As of October 4, 2010, the Single Family Loan Review Initiative accomplished several major milestones, most notably:

- redirection of post endorsement technical review (PETR) case selection from volume-based criteria to a risk algorithm and early payment defaults;
- establishment of consistent deficiency codes and unacceptable ratings for PETRs, lender monitoring and servicing reviews;
- standardization of loan level review methods for the Processing and Underwriting Division;
- standardization of an Underwriting Reporting System (URS) Data Entry Guide and PETR Process Guide and;
- strengthening of servicing indemnification policy.

While case-level reviews can be performed at any point in the loan life cycle, the primary focus is improving early detection for unacceptable loans. The revised process described above will change our approach to ensure it is precise, consistent and clearly focused on loan risk; thus, allowing for a greater percentage of early payment delinquencies to be reviewed earlier in their life cycle and indemnify HUD for any losses. In essence, this new approach will provide Housing the opportunity to change the lender's behavior, change or implement new policy, and take action against the lenders.

Risk and Fraud Initiative

Comment 4

During Fiscal Year 2010, the Department launched the FHA Risk and Fraud Initiative. Through this effort FHA is working to evaluate the impact of the recent PETR process improvements and implementing additional enhancements to its file selection and review procedures to mitigate potential risk and fraud. The enhancements being made to both the automated and manual file

Ref to OIG Evaluation

HUD Comments

selection procedures will be consistent with industry best practices and current market conditions. These enhancements will provide FHA's Processing and Underwriting and the Quality Assurance Division staff with the detail necessary to swiftly and efficiently identify loans with the potential for delinquency, default and/or foreclosure; thus proactively identifying and addressing high risk loans at the earliest possible point in their life cycle.

The FHA Risk and Fraud initiative will provide for targeted secondary file reviews including appraisal and pre-claim reviews. By leveraging technology, these targeted reviews will focus on loans with particularly high risk factors or potential fraud. The results will be used to inform management of decisions on the specific loans reviewed, and to identify patterns for lender monitoring or program/policy analysis. Issues identified during these reviews will also inform the various loan review processes currently done by HUD employees, resulting in ongoing enhancements for risk and fraud identification.

Conclusion

Housing has taken great steps to significantly strengthen its ability to thoroughly review underwriting and servicing mortgagees' operations for compliance with HUD regulations by actively engaging and developing robust tools to enhance its ability to target and review high risk loans.

OIG Evaluation of Auditee Comments

Comment 1

We recognize that HUD has taken important steps in recent years to implement risk-based techniques to identify lenders and loans that pose significant risk to the FHA insurance fund, and to tighten underwriting requirements. We commend HUD for its efforts and encourage it to continue to evaluate and improve its methods to ensure that the FHA insurance fund does not incur unnecessary costs for unacceptable loans.

We agree that HUD's targeting tools and other recent initiatives generally meet the intent of our recommendation, which was aimed at protecting the FHA insurance fund from unnecessary costs. In the coming months, through the management decision process, we will work with HUD to gain more insight into the risk-based factors used to select lenders and loans for review, the targeting enhancements that are under development, and the two new initiatives launched in fiscal year 2010.

Comment 2

We maintain our belief that claims paid on loans that should not have been insured continue to have a significant, negative impact on the FHA insurance fund and HUD should continue to evaluate the best way to identify high-risk claims paid and expand its pursuit of appropriate actions against the lender and other responsible parties.

Comment 3

We agree with HUD that working toward identifying unacceptable loans before conveyance claims are filed is a better method than trying to recoup the FHA insurance claim funds after payment of a claim. As mentioned in the memorandum, once a lender files a claim, by law HUD must pay the claim and then try to recover its losses at a later date if the loan is found to be unqualified for FHA insurance. Recovering the losses can be an arduous process, and in some instances it can be a futile effort if the lender has ceased doing business, generally leaving the FHA insurance fund with unnecessary losses that weaken its financial stability. Putting indemnification agreements in place on unacceptable loans before the lender files a claim would be a very efficient and cost-effective means of protecting the FHA insurance fund from improper claims.

Comment 4

We agree that leveraging technology and using risk-based loan selection methods in the post-endorsement technical review process to identify high-risk loans and/or fraudulent loans as early in the loan cycle as possible should help HUD take appropriate actions on the identified loans. It should also help HUD reduce unnecessary claim payouts and resulting losses to the FHA insurance fund. As previously stated, we encourage HUD to continue to evaluate and improve its methods of review to ensure that the FHA insurance fund does not incur unnecessary costs for unacceptable loans.

Appendix C

LOANS NOT MEETING FHA UNDERWRITING REQUIREMENTS

| Lender | FHA/loan number | Closing date | Number of payments before first default | Original mortgage amount | Actual and expected losses to HUD* |
|---------------------------|-----------------|--------------|---|--------------------------|------------------------------------|
| 1 st Advantage | 261-9102016 | 08/28/06 | 6 | \$ 83,341 | \$ 96,276 |
| 1 st Advantage | 361-3030073 | 06/28/06 | 22 | 89,203 | 27,035 |
| 1 st Advantage | 421-4233347 | 08/14/06 | 2 | 61,514 | 39,455 |
| 1 st Advantage | 421-4238265 | 10/13/06 | 9 | 46,631 | 28,600 |
| 1 st Advantage | 492-7646642 | 07/07/06 | 14 | 127,991 | 38,810 |
| 1 st Advantage | 492-7676492 | 07/28/06 | 17 | 83,686 | 48,008 |
| 1 st Advantage | 492-7844383 | 07/13/07 | 18 | 98,124 | 36,843 |
| 1 st Advantage | 495-7563145 | 11/20/06 | 11 | 49,508 | 10,425 |
| Birmingham | 105-3017718 | 05/29/07 | 1 | 89,248 | 57,256 |
| Birmingham | 151-8410864 | 10/24/07 | 1 | 82,209 | 54,461 |
| Birmingham | 201-3487218 | 11/03/05 | 9 | 41,800 | 44,773 |
| Birmingham | 261-9009876 | 03/31/06 | 4 | 96,019 | 114,361 |
| Birmingham | 261-9071686 | 05/25/06 | 19 | 59,073 | 63,185 |
| Birmingham | 262-1681931 | 09/14/07 | 7 | 56,000 | 57,931 |
| Birmingham | 263-3870605 | 03/30/06 | 3 | 90,578 | 86,252 |
| Birmingham | 263-3922022 | 10/27/06 | 0** | 74,825 | 79,696 |
| Birmingham | 263-3938261 | 11/20/06 | 0 | 101,408 | 85,425 |
| Mac-Clair | 261-9230184 | 07/31/07 | 2 | 56,535 | 47,525 |
| Mac-Clair | 262-1625921 | 07/14/06 | 4 | 129,959 | 119,746 |
| Mac-Clair | 262-1628044 | 08/14/06 | 3 | 92,449 | 82,764 |
| Mac-Clair | 262-1636498 | 10/20/06 | 3 | 66,431 | 75,225 |
| Mac-Clair | 262-1652638 | 04/06/07 | 4 | 125,352 | 96,364 |
| Mac-Clair | 262-1653481 | 03/23/07 | 4 | 44,457 | 46,849 |
| Mac-Clair | 262-1673933 | 07/13/07 | 0 | 106,160 | 94,078 |
| Alacrity | 491-8963664 | 07/02/07 | 0 | 108,534 | 76,532 |
| Alacrity | 491-9013281 | 09/07/07 | 0 | 87,378 | 78,529 |
| Alacrity | 491-9057781 | 11/01/07 | 2 | 115,324 | 104,659 |
| Alacrity | 491-9147581 | 03/28/08 | 7 | 120,115 | 71,081 |
| Alacrity | 491-9198939 | 05/29/08 | 4 | 73,348 | 43,406 |
| Alacrity | 491-9224552 | 07/08/08 | 2 | 112,610 | 90,811 |
| Alacrity | 492-7781697 | 04/11/07 | 4 | 156,774 | 92,744 |
| Alacrity | 492-7783521 | 05/17/07 | 3 | 128,737 | 78,142 |
| Alacrity | 492-7788223 | 05/31/07 | 1 | 115,192 | 70,102 |
| Alacrity | 492-7801327 | 04/27/07 | 4 | 72,905 | 62,057 |
| Alacrity | 492-7803859 | 11/21/07 | 5 | 116,510 | 93,477 |
| Alacrity | 492-7814448 | 06/14/07 | 13 | 113,567 | 97,310 |
| Alacrity | 492-7815245 | 06/08/07 | 3 | 123,068 | 98,063 |
| Alacrity | 492-7852604 | 07/20/07 | 0 | 113,223 | 87,532 |
| Alacrity | 492-7854686 | 07/31/07 | 1 | 125,127 | 110,398 |
| Alacrity | 492-7866921 | 11/30/07 | 0 | 125,728 | 90,326 |
| Alacrity | 492-7907982 | 01/24/08 | 1 | 191,002 | 112,534 |
| Alacrity | 492-7933323 | 02/15/08 | 0 | 105,641 | 87,420 |

| Lender | FHA/loan number | Closing date | Number of payments before first default | Original mortgage amount | Actual and expected losses to HUD* |
|-------------------|------------------------|---------------------|--|---------------------------------|---|
| Alacrity | 493-8414070 | 09/07/07 | 0 | 91,563 | 54,406 |
| Dell Franklin | 241-7744658 | 06/16/06 | 24 | 282,170 | 107,214 |
| Dell Franklin | 241-7768099 | 10/17/06 | 4 | 367,100 | 358,049 |
| Dell Franklin | 483-3658679 | 09/27/06 | 2 | 90,823 | 77,067 |
| D & R Mortgage | 483-3712823 | 03/29/07 | 10 | 128,950 | 55,888 |
| D & R Mortgage | 262-1650023 | 02/12/07 | 2 | 156,450 | 84,648 |
| D & R Mortgage | 261-9177201 | 03/28/07 | 13 | 198,400 | 152,655 |
| D & R Mortgage | 483-3758135 | 09/07/07 | 14 | 125,950 | 62,495 |
| D & R Mortgage | 261-9065622 | 04/27/06 | 4 | 168,300 | 130,123 |
| D & R Mortgage | 261-9065826 | 05/15/06 | 5 | 70,400 | 90,914 |
| D & R Mortgage | 261-9205529 | 06/01/07 | 16 | 207,550 | 111,983 |
| D & R Mortgage | 261-8996673 | 12/06/05 | 4 | 92,550 | 102,633 |
| D & R Mortgage | 261-9111473 | 09/21/06 | 6 | 224,700 | 145,233 |
| Assurity | 023-2343260 | 04/14/06 | 18 | 219,037 | 153,517 |
| Assurity | 023-2397348 | 10/16/06 | 20 | 236,495 | 170,120 |
| Assurity | 043-7406274 | 05/31/07 | 2 | 187,267 | 138,524 |
| Assurity | 052-4159366 | 09/28/07 | 0 | 167,475 | 147,831 |
| Assurity | 052-4311569 | 04/11/08 | 1 | 103,377 | 60,829 |
| Assurity | 094-5402355 | 04/09/08 | 1 | 255,526 | 151,214 |
| Assurity | 095-0485724 | 10/31/07 | 11 | 212,135 | 165,306 |
| Assurity | 095-0539086 | 12/28/07 | 3 | 310,000 | 193,656 |
| Americare | 491-8965784 | 06/09/07 | 9 | 107,245 | 80,345 |
| Americare | 491-8985262 | 08/04/07 | 1 | 167,373 | 102,402 |
| Americare | 492-7660621 | 07/28/06 | 3 | 84,454 | 52,068 |
| Americare | 492-7667490 | 07/28/06 | 9 | 93,972 | 47,710 |
| Americare | 492-7697201 | 08/25/06 | 7 | 91,563 | 50,255 |
| Americare | 492-7703727 | 09/27/06 | 17 | 86,138 | 54,157 |
| Americare | 492-7738863 | 01/12/07 | 8 | 104,607 | 74,078 |
| Americare | 492-7739636 | 12/22/06 | 6 | 86,809 | -0- |
| Americare | 492-7790183 | 04/30/07 | 4 | 122,084 | 94,143 |
| Americare | 493-8109055 | 11/28/05 | 6 | 101,279 | 73,459 |
| Americare | 493-8201387 | 06/29/06 | 11 | 36,083 | 13,578 |
| Americare | 493-8357125 | 06/28/06 | 3 | 174,443 | 99,303 |
| American Sterling | 023-2459219 | 05/30/07 | 2 | 206,755 | 122,684 |
| American Sterling | 431-4366963 | 03/03/08 | 4 | 240,230 | 57,598 |
| American Sterling | 461-4204295 | 12/31/07 | 5 | 146,160 | 81,154 |
| American Sterling | 491-8898498 | 11/29/06 | 11 | 85,325 | 48,371 |
| American Sterling | 491-8972325 | 05/22/07 | 10 | 60,627 | 35,367 |
| American Sterling | 492-7731763 | 12/05/06 | 5 | 51,601 | 7,761 |
| American Sterling | 492-7737924 | 12/29/06 | 1 | 115,192 | 47,982 |
| American Sterling | 492-7755169 | 02/16/07 | 1 | 126,514 | 66,925 |
| American Sterling | 492-7807135 | 04/30/07 | 6 | 107,069 | 24,397 |
| Webster | 105-3302961 | 12/04/07 | 2 | 101,900 | 60,136 |
| Webster | 132-1827919 | 07/28/05 | 1 | 72,055 | 34,419 |
| Webster | 197-3647194 | 04/16/07 | 4 | 315,056 | 191,105 |
| Webster | 461-4133646 | 05/31/07 | 2 | 123,068 | 61,257 |
| Webster | 481-2619404 | 07/06/07 | 9 | 143,103 | 93,911 |
| Webster | 562-2061518 | 06/25/07 | 6 | 153,265 | 76,162 |
| Alethes | 491-8729593 | 01/09/06 | 0 | 109,061 | 42,852 |
| Alethes | 491-8747204 | 11/23/05 | 9 | 161,665 | 88,177 |
| Alethes | 491-8766328 | 04/21/06 | 3 | 96,425 | 72,032 |
| Alethes | 491-8817515 | 06/28/06 | 1 | 111,072 | 51,782 |
| Alethes | 491-8842946 | 08/04/06 | 0 | 79,170 | 51,177 |

| Lender | FHA/loan number | Closing date | Number of payments before first default | Original mortgage amount | Actual and expected losses to HUD* |
|-------------------|-----------------|--------------|---|--------------------------|------------------------------------|
| Alethes | 491-8846382 | 09/26/06 | 0 | 148,724 | 70,908 |
| Alethes | 491-8856548 | 08/23/06 | 1 | 135,178 | 95,916 |
| Alethes | 491-8875185 | 10/26/06 | 2 | 52,584 | 39,424 |
| Alethes | 491-8913905 | 01/23/07 | 2 | 95,057 | 72,375 |
| Alethes | 491-8927014 | 03/07/07 | 12 | 143,939 | 59,749 |
| Alethes | 491-8932218 | 03/19/07 | 0 | 126,500 | 61,236 |
| Alethes | 491-9013914 | 08/27/07 | 1 | 137,837 | 35,618 |
| Alethes | 491-9042939 | 10/05/07 | 10 | 125,874 | 43,392 |
| Alethes | 491-9052920 | 11/15/07 | 8 | 158,543 | 26,748 |
| Alethes | 491-9067953 | 01/11/08 | 0 | 185,095 | 66,613 |
| Alethes | 491-9081188 | 01/03/08 | 2 | 114,991 | 50,464 |
| Alethes | 492-7753781 | 01/24/07 | 2 | 141,479 | 70,991 |
| Alethes | 492-7916830 | 11/15/07 | 1 | 137,944 | 26,570 |
| Alethes | 492-7963491 | 03/12/08 | 0 | 107,315 | 30,423 |
| Security Atlantic | 011-5621419 | 06/12/07 | 7 | 89,294 | 80,326 |
| Security Atlantic | 011-5865507 | 04/24/08 | 3 | 78,764 | 68,556 |
| Security Atlantic | 095-0567977 | 02/29/08 | 2 | 172,296 | 101,513 |
| Security Atlantic | 105-3100085 | 11/14/07 | 0 | 198,076 | 130,843 |
| Security Atlantic | 421-4296353 | 11/01/07 | 1 | 166,585 | 60,694 |
| Security Atlantic | 441-8065074 | 12/12/07 | 4 | 156,761 | 111,798 |
| First Tennessee | 151-8161023 | 08/23/06 | 5 | 128,898 | 66,300 |
| First Tennessee | 241-7877788 | 07/25/07 | 6 | 293,680 | 141,906 |
| First Tennessee | 291-3491113 | 12/11/06 | 5 | 156,543 | 47,215 |
| First Tennessee | 332-4542658 | 03/11/08 | 0 | 214,368 | 121,347 |
| First Tennessee | 441-7773869 | 03/31/06 | 10 | 87,310 | 58,806 |
| Pine State | 105-2427729 | 08/09/05 | 1 | 98,658 | 55,774 |
| Pine State | 105-2541058 | 12/21/05 | 2 | 202,340 | 161,736 |
| Pine State | 105-2632402 | 03/17/06 | 13 | 199,295 | 82,525 |
| Pine State | 105-2721400 | 06/16/06 | 3 | 128,245 | 66,849 |
| Pine State | 105-2903785 | 01/29/07 | 2 | 125,308 | 38,625 |
| Pine State | 105-2926206 | 02/12/07 | 4 | 127,853 | 28,103 |
| Pine State | 105-2957702 | 06/11/07 | 6 | 166,561 | 99,662 |
| Pine State | 105-2978097 | 03/27/07 | 16 | 110,132 | 64,416 |
| Pine State | 105-3008866 | 08/31/07 | 7 | 148,240 | 86,179 |
| Pine State | 105-3011817 | 05/02/07 | 1 | 122,965 | 57,306 |
| Pine State | 105-3033155 | 05/24/07 | 3 | 182,174 | 108,421 |
| Pine State | 105-3123930 | 07/26/07 | 5 | 139,410 | 67,619 |
| Pine State | 105-3129145 | 07/30/07 | 6 | 167,509 | 106,003 |
| Pine State | 105-3121214 | 07/30/07 | 11 | 83,905 | 71,984 |
| Sterling National | 022-1885701 | 08/31/07 | 10 | 142,100 | 111,279 |
| Sterling National | 105-3453987 | 02/26/08 | 3 | 142,871 | 61,050 |
| Sterling National | 361-3078756 | 05/09/07 | 2 | 165,648 | 49,280 |
| Sterling National | 381-8219106 | 12/06/07 | 9 | 134,445 | 79,120 |
| Sterling National | 412-5666814 | 12/04/07 | 0 | 198,940 | 90,212 |
| Sterling National | 412-5681688 | 12/27/07 | 1 | 125,098 | 117,882 |
| | | | | \$18,280,197 | \$11,191,274 |

*Actual losses incurred by the FHA insurance fund are losses resulting when HUD sells the property related to the insured FHA loan. For those loans which HUD had not yet sold the related property, we estimated the loss to the FHA insurance fund as 60 percent of the unpaid principal balance of the loan. The 60 percent loss severity rate is published in the Fiscal Year 2009 Actuarial Review of the FHA Mutual Mortgage Fund.

**Loan payment data for loan #263-3922022 was inconclusive but it appears that no payments were made on the loan.

Appendix D

MATERIAL UNDERWRITING DEFICIENCIES PER LOAN

| FHA loan number | Unsupported income or questionable employment history | Unsupported assets | Underreported liabilities | Excessive ratios | Insufficient gift documentation | Significant credit-related deficiencies or no credit | Incomplete verification of rent history | Minimum investment not verified | Skipped mortgage payments |
|-----------------|---|--------------------|---------------------------|------------------|---------------------------------|--|---|---------------------------------|---------------------------|
| 261-9102016 | | X | | | | | | | |
| 361-3030073 | X | | | | | | | | |
| 421-4233347 | X | | | | | | | | |
| 421-4238265 | X | X | | | | X | | | |
| 492-7646642 | X | | | X | | X | | | |
| 492-7676492 | X | | | | | | | | |
| 492-7844383 | X | | | | | | | | |
| 495-7563145 | | X | | | | | | | |
| 105-3017718 | X | | X | X | | X | | | |
| 151-8410864 | X | | | | | | | | |
| 201-3487218 | X | | | | | | X | | |
| 261-9009876 | | | | | | X | X | | |
| 261-9071686 | | | | | X | | | | |
| 262-1681931 | | X | | | | | | | |
| 263-3870605 | | X | | X | | X | X | | |
| 263-3922022 | X | | | | | X | | | |
| 263-3938261 | | | | | | | X | | |
| 261-9230184 | X | | | | X | X | | | |
| 262-1625921 | X | | X | | | | X | | |
| 262-1628044 | | | X | | | | | | |
| 262-1636498 | | | X | | | | | | |
| 262-1652638 | X | | X | | X | X | | | |
| 262-1653481 | | | | X | | X | | | |
| 262-1673933 | X | | | | | | | | |

| FHA loan number | Unsupported income or questionable employment history | Unsupported assets | Underreported liabilities | Excessive ratios | Insufficient gift documentation | Significant credit-related deficiencies or no credit | Incomplete verification of rent history | Minimum investment not verified | Skipped mortgage payments |
|-----------------|---|--------------------|---------------------------|------------------|---------------------------------|--|---|---------------------------------|---------------------------|
| 491-8963664 | | | | | X | X | X | | |
| 491-9013281 | | | | | X | X | | | |
| 491-9057781 | X | | | | | X | | | |
| 491-9147581 | X | | | X | X | X | X | | |
| 491-9198939 | X | | | X | | X | | | |
| 491-9224552 | | | | | | X | | | |
| 492-7781697 | X | | | | X | X | | | |
| 492-7783521 | | | | | X | X | | | |
| 492-7788223 | X | | | | X | X | | | |
| 492-7801327 | X | | | | | | X | | |
| 492-7803859 | | | | | | X | | | |
| 492-7814448 | | | | | X | X | | | |
| 492-7815245 | | | | | | X | | | |
| 492-7852604 | X | X | | X | | X | | | |
| 492-7854686 | | | | | | X | | | |
| 492-7866921 | X | | | | | X | X | | |
| 492-7907982 | X | | | | | X | X | | |
| 492-7933323 | | | | | | X | | | |
| 493-8414070 | | | | | X | X | | | |
| 241-7744658 | X | | | X | | | | | |
| 241-7768099 | | X | X | | | | | | |
| 483-3658679 | | | | X | | | | | |
| 483-3712823 | X | | X | | | | | | |
| 262-1650023 | | | X | | | X | | | |
| 261-9177201 | | X | | | | X | | | |
| 483-3758135 | | | | X | | X | | | |
| 261-9065622 | X | | | | | | | | |
| 261-9065826 | | | | X | | X | | | |
| 261-9205529 | | | | X | | X | | | |
| 261-8996673 | | | X | | | X | | | |
| 261-9111473 | | | | | | X | | | |

| FHA loan number | Unsupported income or questionable employment history | Unsupported assets | Underreported liabilities | Excessive ratios | Insufficient gift documentation | Significant credit-related deficiencies or no credit | Incomplete verification of rent history | Minimum investment not verified | Skipped mortgage payments |
|-----------------|---|--------------------|---------------------------|------------------|---------------------------------|--|---|---------------------------------|---------------------------|
| 023-2343260 | X | | | X | | X | | | |
| 023-2397348 | | | | X | | | | | |
| 043-7406274 | X | | | X | | | | | |
| 052-4159366 | | | | X | | | | | |
| 052-4311569 | X | | | X | | | | | |
| 094-5402355 | | | X | X | | | | | |
| 095-0485724 | X | | | X | | | | | |
| 095-0539086 | | | X | X | | X | | | |
| 491-8965784 | | | | | | X | | | |
| 491-8985262 | | | X | | | X | | | |
| 492-7660621 | X | | | | | | | | |
| 492-7667490 | X | | | | | | | | |
| 492-7697201 | X | | | | | X | | | |
| 492-7703727 | | | | | | X | | | |
| 492-7738863 | X | | | X | | X | | | |
| 492-7739636 | X | | | | X | X | | | |
| 492-7790183 | X | | | | X | X | | | |
| 493-8109055 | | | | | | X | | | |
| 493-8201387 | | | | | | X | | | |
| 493-8357125 | X | | | X | | X | | | |
| 023-2459219 | X | X | X | | X | | X | | |
| 431-4366963 | X | | | | | | | | |
| 461-4204295 | | | | | X | | | | |
| 491-8898498 | X | X | | X | | X | | | |
| 491-8972325 | | | | | | X | | | |
| 492-7731763 | | | | | X | | | | |
| 492-7737924 | | | | | X | X | | | |
| 492-7755169 | | | | X | | X | | | |
| 492-7807135 | X | | X | X | | X | | | |
| 105-3302961 | X | | | | | | | | |
| 132-1827919 | X | | | | | | | | |

| FHA loan number | Unsupported income or questionable employment history | Unsupported assets | Underreported liabilities | Excessive ratios | Insufficient gift documentation | Significant credit-related deficiencies or no credit | Incomplete verification of rent history | Minimum investment not verified | Skipped mortgage payments |
|-----------------|---|--------------------|---------------------------|------------------|---------------------------------|--|---|---------------------------------|---------------------------|
| 197-3647194 | | | | | | | | X | |
| 461-4133646 | | | | | X | | | X | |
| 481-2619404 | | | X | | X | | | X | |
| 562-2061518 | | | | X | | | | | |
| 491-8729593 | X | X | | X | | | | | |
| 491-8747204 | | | X | X | X | X | | | |
| 491-8766328 | X | X | | X | | X | X | | |
| 491-8817515 | | | X | X | X | X | | | |
| 491-8842946 | | | | | | X | | | |
| 491-8846382 | | | | | X | X | | | |
| 491-8856548 | X | X | X | X | X | X | | | |
| 491-8875185 | | | | | X | X | | | |
| 491-8913905 | | | | | X | X | | | |
| 491-8927014 | | | | | X | X | | | |
| 491-8932218 | | | | | | X | | | |
| 491-9013914 | | X | | | | X | | | |
| 491-9042939 | X | X | | | X | X | | | |
| 491-9052920 | | | | X | | X | | | |
| 491-9067953 | | X | | | | X | | | |
| 491-9081188 | X | X | X | X | X | X | | | |
| 492-7753781 | | | | | | X | | | |
| 492-7916830 | | | | | | X | | | |
| 492-7963491 | X | X | | X | X | X | | | |
| 011-5621419 | | | | | X | | | X | |
| 011-5865507 | | | X | | | | | | |
| 095-0567977 | | X | X | | | | | X | |
| 105-3100085 | | | X | | | | | | |
| 421-4296353 | | | | | X | X | | X | |
| 441-8065074 | X | | | | X | X | X | X | |
| 151-8161023 | | | | | X | | | X | |
| 241-7877788 | | | | | X | | | X | |

| FHA loan number | Unsupported income or questionable employment history | Unsupported assets | Underreported liabilities | Excessive ratios | Insufficient gift documentation | Significant credit-related deficiencies or no credit | Incomplete verification of rent history | Minimum investment not verified | Skipped mortgage payments |
|------------------------|--|---------------------------|----------------------------------|-------------------------|--|---|--|--|----------------------------------|
| 291-3491113 | | | | X | X | | | X | |
| 332-4542658 | | | | | X | | | X | |
| 441-7773869 | | | | | | | | X | |
| 105-2427729 | | | | | X | | | X | |
| 105-2541058 | | | | | X | X | | X | |
| 105-2632402 | | | | | X | | | X | |
| 105-2721400 | X | | | | X | X | | X | |
| 105-2903785 | | | | | X | | | X | |
| 105-2926206 | | | | | X | | | X | |
| 105-2957702 | | | | | X | X | | X | |
| 105-2978097 | | | | | X | X | | X | |
| 105-3008866 | | | | | X | X | | X | |
| 105-3011817 | X | | | | | | | | |
| 105-3033155 | | | X | X | X | | | X | |
| 105-3123930 | X | | | | X | | | X | |
| 105-3129145 | | | | | X | | | X | |
| 105-3121214 | X | | | | X | | | X | |
| 022-1885701 | | X | | | | | | | X |
| 105-3453987 | | | X | | | | | X | |
| 361-3078756 | X | | | | | | | | |
| 381-8219106 | | | | | | | | | X |
| 412-5666814 | X | | | | | | | | |
| 412-5681688 | X | | | | | | | | X |
| Totals | 57 | 20 | 24 | 36 | 49 | 76 | 13 | 26 | 3 |