Issue Date September 25, 2008	
Audit Report Number 2008-FW-1013	

TO: Brian D. Montgomery
Assistant Secretary for Housing–Federal Housing Commissioner, H

FROM: Gerald R. Kirkland
Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: Wells Fargo Mortgage, San Antonio, Texas, Loans Generally Complied with Reverse Mortgage Requirements

HIGHLIGHTS

What We Audited and Why

We audited Wells Fargo Mortgage (Wells Fargo) as part of our annual audit plan objective of improving the integrity of single family insurance programs. Our objective was to determine whether Wells Fargo complied with U. S. Department of Housing and Urban Development (HUD) origination requirements for the Home Equity Conversion Mortgage program, commonly known as a reverse mortgage.

What We Found

Wells Fargo generally complied with HUD's reverse mortgage requirements. However, 3 (6.3 percent) of the 47 loans reviewed did not meet HUD's requirements. Wells Fargo originated

- One ineligible loan totaling $86,250 for a home that was not the borrower's primary residence,

- One loan for $148,500 for a home that the borrower no longer occupied, and
- One loan for which the list of required repairs was not detailed enough to determine requirements.

In addition, for the loan to the borrower who no longer occupied the home, the borrower did not complete repairs in an acceptable manner.

What We Recommend

We recommend that the Assistant Secretary for Housing–Federal Housing Commissioner cancel the mortgage insurance on one loan, require Wells Fargo to complete foreclosure proceedings for one loan, and ensure that inspectors list repairs in sufficient detail to determine what repairs were required and ensure that the repairs are satisfactorily completed.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided a draft copy of the report to Wells Fargo on September 3, 2008, and asked it to respond by September 19, 2008. We held an exit conference with Wells Fargo on September 18, 2008. Wells Fargo provided its written response electronically on September 19, 2008, which agreed with the report's recommendations. The complete text of Wells Fargo's response along with our evaluation of the response is included in appendix B.

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BACKGROUND AND OBJECTIVES

Wells Fargo Mortgage (Wells Fargo) is a nonsupervised direct endorsement lender approved to originate Federal Housing Administration (FHA) loans. It is located at 2650 Wells Fargo Way, Minneapolis, Minnesota. Wells Fargo has 2,400 branch offices including five in San Antonio, Texas. Between January 1, 2006, and December 31, 2007, the selected Wells Fargo branch closed 106 reverse mortgages in the San Antonio area.

The Home Equity Conversion Mortgage program, commonly known as a reverse mortgage, is a non-recourse loan and enables homeowners that are at least 62 years of age to convert the equity in their principal residence to monthly streams of income and/or lines of credit. The homeowner is required to receive reverse mortgage counseling before the loan application is processed. Unlike traditional residential mortgages, which are repaid in periodic payments, a reverse mortgage is repaid in one payment, after the death of the homeowner or when he or she no longer occupies the property as a principal residence.

Our objective was to determine whether Wells Fargo complied with HUD origination requirements for reverse mortgages.

RESULTS OF AUDIT

Finding: Wells Fargo Generally Complied With the Reverse Mortgage Requirements

Although Wells Fargo generally complied with HUD's reverse mortgage requirements, it originated one ineligible loan, because it did not resolve conflicting information during underwriting. Another loan was ineligible as the home was no longer occupied by the borrower. Wells Fargo was not aware because the required annual home inspection was not due for several months. Also for this loan, repairs of $3,500 were not completed in an acceptable manner. In another instance repairs of $5,000 were not described in sufficient detail to determine what repairs the borrower was required to complete. Wells Fargo was not aware because the inspector did not report the conditions. HUD should require Wells Fargo to cancel or seek recovery on two mortgages totaling $234,750. In addition, HUD should require Wells Fargo to ensure that the repairs for one mortgage totaling $5,000 are completed in accordance with program requirements.

Forty-Four Loans Generally Complied with HUD's Requirements

Wells Fargo originated 44 of the 47 loans reviewed in compliance with reverse mortgage requirements. It ensured that the borrowers were at least 62 years of age and completed a reverse mortgage counseling program; and that the property was the borrower's primary residence. In addition, the settlement charges and fees appeared reasonable. Further, five of seven site visits (71 percent) confirmed that the repairs had been completed or the property was in foreclosure.

Wells Fargo Originated One Loan on a Property That Was Not a Principal Residence

Wells Fargo originated one loan totaling $86,250[1] for a property that was not the borrower's primary residence. HUD requires that properties eligible for the reverse mortgage program be the borrower's primary residence. The address on the borrower's driver's license along with other documents in the loan file indicated that the property to be mortgaged was not the borrower's primary residence. A site visit confirmed that the mortgaged property was not currently occupied by the borrower. If Wells Fargo had resolved the conflicting

[1] FHA case # 495-7586044, Wells Fargo loan # 0072372774.

information in the loan file during the underwriting process, it would have discovered that the property was ineligible. Since this loan was ineligible for the program, the Assistant Secretary for Housing–Federal Housing Commissioner should cancel the mortgage insurance.

The Mortgaged Property Was No Longer Occupied as the Principal Residence

One mortgaged property with a loan in the amount of $148,500[2] was no longer occupied by the borrower. When the mortgaged property is no longer the primary residence, HUD’s requirement states that the mortgage becomes due and payable. The borrower or his/her estate must sell the property. HUD also requires the lender to annually verify that the property is the borrower`s principal residence. Wells Fargo was not aware that the property was no longer occupied by the borrower because the annual verification was not due until August 2008. However, Wells Fargo should declare the mortgage due and payable and seek repayment in keeping with HUD’s requirements.

Repairs Were Not Detailed

For another [3] property to which a site visit was made, the statement of work was not detailed enough to determine what repairs were necessary. We could not determine which of the $5,000 of repairs had or had not been completed. The borrower's nephew stated that some of the repairs had not been completed. According to HUD requirements, the lender is only responsible for having the property inspected and ensuring that the compliance inspection report is completed and that all mechanics' and material men's liens are released of record. Wells Fargo should ensure the required repairs are completed.

Repairs Were Not Completed Adequately

For one of the ineligible properties[2], Wells Fargo did not ensure that the borrowers completed $3,500 of repairs in an acceptable manner. The final inspection was inadequate and did not report easily identifiable problems such as repairs that had not been performed or were poorly performed. For example, quick release locks had not been replaced on some of the windows, the soffit paint

2 FHA # 495-7677264, Wells Fargo # 0077156669.
3 FHA # 495-7586038, Wells Fargo # 72371859.

was dripped onto the siding, and the window frame was not painted. However, according to HUD requirements, the lender is only responsible for having the property inspected and ensuring that the compliance inspection report is completed. Wells Fargo was not aware of the repair problems, because the inspector did not report them. Since this loan is ineligible, Wells Fargo does not need to take further action, if HUD implements our recommendation to cancel the mortgage.

Conclusion

Although Wells Fargo generally complied with program requirements, it did not resolve conflicting information during underwriting and originated an ineligible loan in the amount of $86,250. For another loan in the amount of $148,500, the site visit confirmed the mortgaged property was no longer occupied by the borrower. For one other property, Wells Fargo did not ensure that the statement of work was detailed enough to determine what repairs were necessary.

Recommendations

We recommend that the Assistant Secretary for Housing-Federal Housing Commissioner

1A. Cancel the mortgage insurance totaling $86,250 on the ineligible loan.

1B. Require Wells Fargo to seek repayment of the ineligible mortgage totaling $148,500 on the home that is no longer occupied by the borrower.

1C. Require Wells Fargo to ensure that the repairs are completed in an acceptable manner for one unsupported loan totaling $5,000.

SCOPE AND METHODOLOGY

Using a nonstatistical method, we selected this Wells Fargo branch for review as it originated the most reverse mortgages in San Antonio, Texas. We selected a representative nonstatistical sample of 47 of 106 reverse mortgage loans originated by the Wells Fargo branch for testing. We also nonstatistically selected seven of the 47 loans reviewed for site visits.

To accomplish our objective, we

- Reviewed reverse mortgage program requirements;
- Interviewed HUD officials, Wells Fargo staff, and other individuals connected to the loan files;
- Assessed internal controls;
- Reviewed settlement charges and fees for reasonableness;
- Made site visits to seven properties to assess whether repairs had been completed; and
- Examined loan files for documentation supporting program requirements that
  - The borrowers were at least 62 years of age,
  - The borrowers had completed a reverse mortgage counseling program, and
  - The subject property was the borrower's primary residence.

The review was conducted between March and June 2008 and included loans that were endorsed from January 1, 2006, to December 31, 2007. We performed our fieldwork in San Antonio, Texas, and not at Wells Fargo. We conducted this performance 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Program eligibility,
- Required repairs completed, and
- Ongoing principal residence status.

We assessed the relevant controls identified above and did not find a significant weakness.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	$86,250	
1B	148,500	
1C		$5,000
Total	**$234,750**	**$5,000**

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 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**

WELLS FARGO HOME MORTGAGE

Wells Fargo Home Mortgage
MAC X2401-064
1 Home Campus
Des Moines, IA 50328

September 19, 2008

Gerald R. Kirkland
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General, Region VI
819 Taylor Street, Suite 13A09
Fort Worth, TX 76102

Dear Mr. Kirkland,

Wells Fargo Home Mortgage (WFHM) is committed to originating Federal Housing Administration (FHA) loans that conform to the Department of Housing and Urban Development's (HUD) origination, underwriting and servicing requirements. As the leading originator of Government National Mortgage Association (GNMA) loans, WFHM values its relationship with HUD and is committed to continuing to improve its origination, underwriting and servicing operations and processes.

This letter is in response to the draft report of the Office of the Inspector General (OIG) received September 3, 2008 which details the findings from the review of WHFM FHA-insured reverse (HECM) loans originated from five of our San Antonio, TX branches between January 1, 2006 and December 31, 2007. While we are confident that our overall quality record as an FHA originator and servicer is among the best in the industry, we take the draft findings outlined in the OIG's review very seriously and appreciate the opportunity to respond.

<u>**Summary of the OIG Draft Audit Report and WFHM's Response**</u>

The OIG draft audit report received September 3, 2008 was for review and comment. The audit period covered by the report was from January 1, 2006 through December 31, 2007.

The background and objectives section of the report states that the audit was focused on the San Antonio, TX area originations of the Home Equity Conversion Mortgage program, commonly known as reverse mortgage. The objective of this audit was to determine whether Wells Fargo complied with HUD origination requirements for this program. The review was conducted between March and June 2008 and included a non statistical sample of 47 of the 106 reverse mortgage loans originated by Wells Fargo of which seven were also reviewed for site visits.

Wells Fargo Home Mortgage
is a division of Wells Fargo Bank, N.A.

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

Comment 1

Finding 1: Wells Fargo Generally Complied With The Reverse Mortgage Requirements

Overall, 44 of the 47 (94%) loans reviewed were in compliance and with the reverse mortgage requirements. The issues noted within the three non compliant loans were due to:

1. **The origination of a loan for property that was not the borrower's primary residence**. WFHM agrees with this finding and appropriate feedback will be provided to the individual team member for training purposes and serve as an additional reminder to everyone.
2. **The borrower no longer occupied the property.** As further noted with the OIG report, WFHM would not have knowledge of this because the annual verification of residency was not due until August 2008. WFHM has completed the occupancy validation as outlined within our process and will work with HUD National to satisfactorily resolve this issue.
3. **Insufficient certification to ensure property repairs had been identified and satisfactorily completed as the program requires**. WFHM agrees with this finding and this information will be brought both to the attention of the appropriate WFHM team member for training purposes and serve as an additional reminder for everyone.

Conclusion

As previously noted, these audit findings will be integrated within our ongoing quality assurance performance feedback, providing a meaningful gauge to our origination and production offices.

We appreciate the opportunity to review and comment on the draft report prepared by the Office of the Inspector General. While we are confident that WFHM's overall performance as an FHA originator is among the best in the industry, we also understand that there are always opportunities for improvement

Wells Fargo Home Mortgage is proud of its role as the nation's premiere FHA lender and servicer. We are committed to a strong, long-term partnership with the Department of Housing and Urban Development. Please contact either of us if you have any additional questions or need clarifications on anything that is included in this response.

Sincerely,

Cara K. Heiden
Co-President

Michael J. Heid
Co-President

OIG Evaluation of Auditee Comments

Comment 1 Wells Fargo agreed with the report and the recommendations. We acknowledge its response and prompt action to correct the issues identified in this report.