Issue Date	
September 30, 2009	
Audit Report Number:	
2009-CH-0003	

TO: Phillip A. Murray, Deputy Assistant Secretary for Single Family Housing, HU

FROM: Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT HUD's Oversight of FHA Lenders Underwriting of Home Equity Conversion Mortgages Was Generally Adequate

HIGHLIGHTS

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) oversight of the Federal Housing Administration (FHA)-insured home equity conversion mortgages (HECM) program. We initiated the audit as part of the activities in our 2008 annual audit plan. Our audit objective was to determine whether HUD had adequate oversight of the underwriting of HECM loans. This is the second of two audit reports regarding HUD's oversight of the program.

What We Found

HUD's Processing and Underwriting and Quality Assurance Divisions generally performed adequate reviews of loans insured under the program with the exception of four loans reviewed. For the four loans, HUD did not identify errors fully address underwriting deficiencies. Further, HUD did not maintain documentation to fully determine whether the appropriate parties were checked against the General Service Administration's excluded parties' list system.[1] As a result, HUD could benefit from improvements to its review processes to increase

[1] General Service Administration's excluded parties list is a system that identifies those parties excluded from receiving federal contracts, certain subcontracts, and certain types of federal financial and nonfinancial assistance and benefits.

its assurance that lenders complied with the underwriting requirements for program loans.

What We Recommend

We recommend that the Deputy Assistant Secretary for Single Family Housing require the Office of Single Family Housing to require the lender to reduce payments to the borrower or seek reimbursement for case number 431-4214046 for the $11,742 in excess of the borrower’s initial principal limit and provide documentation for case number 105-2935187 with maximum claim amounts totaling $70,000, showing that the borrower’s unacceptable rating has been resolved. If it is determined that the rating has not been resolved, the Office of Single Family Housing should seek indemnification for the life of the loan. The estimated risk to HUD for case number 105-2935187 is $37,294.

We also recommend that the Deputy Assistant Secretary for Single Family Housing require the Office of Single Family Housing to improve its existing procedures and controls for performing postendorsement technical and quality assurance reviews of program loans, to provide reasonable assurance that underwriting deficiencies will be detected, and require the lenders to reimburse the borrowers the $650 in fees charged for case numbers 412-5484306 and 412-5431355 that were deemed not customary and reasonable.

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 our discussion draft audit report to HUD’s staff during the audit. We conducted an exit conference with HUD’s Office of Single Family Housing on September 17, 2009.

We asked HUD’s Deputy Assistant Secretary for Single Family Housing to provide written comments on our discussion draft audit report by noon on September 29, 2009. As of 10:00 a.m. eastern time on September 30, 2009, HUD’s Office of Single Family Housing had not provided any written comments to our discussion draft audit report.

TABLE OF CONTENTS

BACKGROUND AND OBJECTIVE

The Housing and Community Development Act of 1987 (1987 Act) established a federal mortgage insurance program (Section 255 of the National Housing Act) to insure home equity conversion mortgages (HECM) or reverse mortgages. Pursuant to the 1987 Act, the U.S. Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) was authorized to insure 2,500 HECM loans and allocate them among the 10 regional offices in proportion to each region's share of the nation's elderly homeowners. In 1990, the Omnibus Budget Reconciliation Act increased HUD's insurance authority to 25,000 mortgages and terminated the reservation system, allowing all FHA-approved lenders to participate in the HECM program.

The purpose of the program is to enable elderly homeowners to stay in their homes while using some of their accumulated equity. The program allows borrowers that are 62 years of age or older to obtain an insured reverse mortgage (a mortgage that converts equity into income). Because elderly homeowners can be vulnerable to fraudulent practices, the program requires that participants receive counseling from a HUD-approved mortgage counseling agency before applying for a HECM loan. FHA insures the HECM loans to protect lenders against a loss if amounts withdrawn under the loan exceed the value of the property when the property is sold.

HUD's Office of Single Family Housing provides guidance for and oversight of the lenders and loan correspondents that participate in its mortgage insurance programs. The two main oversight authorities are HUD's Office of Lender Activities and Program Compliance's Quality Assurance and Homeownership Center's Processing and Underwriting Divisions.

The Office of Lender Activities and Program Compliance's Quality Assurance Division is responsible for monitoring FHA-approved lenders. In performing its monitoring duties, the Quality Assurance Division is to assess lenders' performance, internal controls, and compliance with HUD's origination and servicing requirements through on-site reviews and off-site evaluations and analyses. The internal quality control function is intended to ensure that reviews are conducted and deficiencies are identified consistently and an accurate tracking database of reviews is maintained.

HUD's Homeownership Centers located in Philadelphia, Pennsylvania; Denver, Colorado; Santa Ana, California; and Atlanta, Georgia, originate FHA single-family mortgage insurance and oversee the selling of HUD homes in their respective jurisdictions. Within the Homeownership Centers is the Processing and Underwriting Division. The Processing and Underwriting Division performs postendorsement technical reviews to ensure that lenders understand and comply with HUD's requirements. Reviews of selected mortgages after endorsement are performed to execute this function. The process includes a review of the appraisal report, mortgage credit analysis, underwriting decisions, and the closing documents from the mortgage case endorsement file.

Our audit objective was to determine whether HUD had adequate oversight of the underwriting of HECM loans. This is the second of two internal audit reports regarding the HECM program (see report number 2008-CH-0001, issued on September 29, 2008) and focuses on HUD's quality assurance and postendorsement technical reviews of HECM loans.

RESULTS OF AUDIT

Finding: HUD Generally Performed Adequate Reviews of HECM Loans

HUD's Processing and Underwriting and Quality Assurance Divisions generally performed adequate reviews of HECM loans with the exception of four loans. For the four loans, HUD did not identify errors or fully address deficiencies in FHA lenders' underwriting of HECM loans. Further, HUD did not maintain documentation to determine whether the appropriate parties were checked against the General Services Administration's excluded parties list system. The problems occurred because of the inconsistent and/or vague review processes and procedures used in performing reviews of HECM loans. As a result, HUD could benefit from improvements to its existing review processes to increase its assurance that lenders complied with the underwriting requirements for HECM loans.

HUD's Post Endorsement Technical Review Process Could Benefit from Improvement

We selected 38 of 10,682 HECM loans in which HUD's Processing and Underwriting Division conducted a postendorsement technical review from October 1, 2006, through September 30, 2008. Of the 38 loans, we identified an underwriting deficiency in one loan that was not identified during the postendorsement technical review and another loan in which a deficiency as identified during the review but the loan's file did not contain sufficient documentation to determine whether the deficiency was resolved.

For case number 431-4214046, the lender used the incorrect interest rate in determining the initial principal limit for the HECM loan. The lender used the interest rate in an expired lock-in agreement instead of determining whether there were any adjustments to the rate. This error resulted in the lender's misapplying the interest rate of 6.09 percent rather than the 6.61 percent interest rate that was in effect at the time the loan closed. The misapplication of the interest rate added $11,742 to the borrower's net principal limit amount.

According to HUD Handbook 4235.1, Rev-1, the 10 year treasury rate is the index which must be used to establish the expected rated and the lender must use the indices in effect on the date of closing (see Appendix C). Additionally, according to Mortgagee Letter 2003-16, FHA allows lenders to set the expected interest rate for HECMs at the time the loan application is signed by the borrower rather than on the date of closing. However, the interest rates lock-in provision may be offered on each HECM application for 60 days (see appendix C).

For case number 105-2935187, HUD's postendorsement technical review identified that the borrower received an unacceptable rating because of a Credit Alert Interactive Voice Response System[2] claim in the amount of $8,079 that remained outstanding at closing. According to HUD Handbook 4235.1, Rev-1, if the system indicates that the borrower is presently delinquent or has had a claim paid within the previous three years on a loan made or insured by HUD on the borrower's behalf, the borrower is not eligible (see appendix B). Although there are exceptions to this requirement, there was no additional documentation in the loan's file to determine whether HUD granted the borrower an exception. According to HUD's quality assurance division's monitoring guide, the reviewer should look for unusual credits, disbursements/delinquent loans being paid off, undisclosed liens or related parties (see appendix B). Further, we contacted HUD's Financial Operations Center[3] and determined that the borrower's debt was outstanding as of June 30, 2009.

In performing postendorsement technical reviews, the Santa Ana and Denver homeownership centers used two different review sheets, while the Philadelphia and Atlanta homeownership centers only used one. However, all of the six sheets varied and only contained 15 items in common. Five of the six review sheets were checklists, and the remaining sheet outlined applicable criteria, and procedures.

Although our audit only identified two underwriting deficiencies in the 38 loan files reviewed, consistency with its review process would increase HUD's assurance that lenders complied with its underwriting requirements for HECM loans. For example, the review sheet that was used by the Santa Ana Homeownership Center for reviewing the one loan with the interest rate deficiency, as previously mentioned, did not indicate that the reviewer should review and/or determine the loan's expected interest rate. Therefore, if the reviewer was only following the review sheet checklist items, this deficiency would not have been captured to enable HUD to properly identify and implement corrective actions. However, if the reviewer had used the other version of the review sheet, also used by the Santa Ana Homeownership Center, it would have guided the reviewer to determine whether the expected interest rate had been correctly identified.

According to HUD's Single Family Housing Director of Home Mortgage Insurance, HUD was aware that there were differences among the review sheets, and it expected to issue guidance regarding the postendorsement technical reviews and implement a consolidated review sheet during the first quarter of fiscal year 2010.

---

[2] The Credit Alert Interactive Voice Response System was developed by HUD in 1987 as a shared database of defaulted federal debtors, and it enables processers of applications for federal credit benefit to identify individuals who are in default or have claims paid on direct or guaranteed federal loans or are delinquent or have other debts owed to federal agencies.

[3] The Financial Operations Center is responsible for the following Title I activities: (1) new loan manifest and loan transfer; (2) processing, billing, and collecting insurance premiums; (3) examination and payment of Title I claims for loss; and (4) nationwide asset recovery of Title I debts.

HUD Could Benefit from Improvements to the Quality Assurance Review Process

We selected 37 of 5,924 HECM loans in which HUD's Quality Assurance Division conducted a quality assurance review from October 1, 2006, through September 30, 2008. Of the 37 loans reviewed, two loan files contained underwriting deficiencies that were not identified during the quality assurance reviews. The files for case numbers 412-5484306 and 412-5431355 identified that the lenders included fees in the borrowers' closing costs that were not reasonable and/or customary. Both borrowers were charged $75 for negative amortization endorsement and $250 for reverse mortgage endorsement fees. According to 24 Code of Federal Regulations 203.27(a)(3), fees or discounts should be reasonable and customary amounts but not more than the amount actually paid by the mortgagee. Additionally, HUD's Mortgagee Letter 1993-22, states that the HUD field office manager may authorize or reject any other charge, or amount of any charge, based on what is reasonable and customary in the area.

We requested a determination from HUD's Office of Single Family Housing whether the fees were reasonable and customary. HUD informed us on September 24, 2009, that the fees were not reasonable and customary.

HUD's quality assurance reviews did not always contain documentation to fully determine whether the reviewers determined that appropriate parties were checked against the excluded parties list system. HUD's quality assurance review checklists used during the review only allowed for checkmarks indicating whether the borrowers were checked in the system. However, they did not include all parties involved in the origination and/or sponsoring of the loans as necessary review items. Therefore, it did not provide confirmation that all related parties were also reviewed against the system. According to HUD Handbook 4235.1, Revision 1, a borrower suspended or debarred, or otherwise excluded from participation in HUD's programs is not eligible for a HECM. Further, if the name of any party to the transaction appears on the list, the application is not eligible for mortgage insurance (see appendix B).

According to HUD's Office of Single Family Housing, the quality assurance reviewer evaluated all parties involved in the originating and underwriting process against the system; however, documentation was not required to be maintained to support the evaluation. Although HUD's assertion may be true, the review sheet only specifically indicated that the borrower(s) was verified in the system; it did not provide assurance that the reviewers performed checks of all parties involved in the loan process since this requirement was not included on the review checklist. Additionally, according to HUD's quality assurance division desk guide, clear and accurate data must be kept in the lender review file for referral, appeal, audit, and staff evaluation purposes. The accuracy and timeliness of the data is critical for reporting, analyses, and highlighting trends (see appendix B).

Of HUD's four Homeownership Centers, we determined that the quality assurance reviewers from the Atlanta Homeownership Center checked the excluded parties' list system for all parties involved in the HECM loan process when performing its quality assurance reviews. The results of its excluded parties list searches were maintained in the loans' review files although according to HUD, it was not required.

We attempted to verify and/or reverify that all parties involved in the origination or sponsoring of the 37 loans were not excluded from participating in federal programs. However, when we attempted to review the names of the lenders, borrowers, loan processors, etc., against the excluded parties list system, some of the names identified on the loan documents were not recognizable. Therefore, we attempted to contact the 30 lenders and/or loan correspondents that sponsored the 37 loans to identify the names of its employees and other related parties. However, of the 30 lenders and/or loan correspondents, we were unable to contact two. The 28 lenders and/or loan correspondents that were contacted originated and/or sponsored 35 of the 37 loans. We verified that the parties involved were not excluded from participating in federal programs. However, we had been unable to resolve the remaining two loans as of July 23, 2009.

Conclusion

HUD could benefit from improvements to its postendorsement technical and quality assurance reviews of HECM loans. The inconsistencies in the review sheets used in the postendorsement technical review process hindered HUD's monitoring of lenders' compliance with the underwriting requirements for HECM loans.

Further, HUD's quality assurance division desk and/or monitoring guide[4] did not provide clear guidance regarding the eligibility of fees in reviewing HECM loans; therefore, the reviewers may have overlooked certain fees due to the uncertainty of the closing costs charged to borrowers. The desk guide also stated that clear and accurate data must be kept in the lender review file for referral, appeal, audit, and staff evaluation purposes. However, HUD's four Homeownership Centers were not consistent regarding the documentation maintained in their files to fully support the quality assurance reviews.

As a result, HUD could benefit from improvements to its review processes to increase its assurance that lenders complied with the underwriting requirements for HECM loans. It could also benefit from improvements to the monitoring and

[4] The Quality Assurance Division's desk and monitoring guides are procedural manuals used in the performance of a quality assurance review.

oversight of lenders' compliance with the underwriting requirements for HECM loans.

Recommendations

We recommend that the Deputy Assistant Secretary for Single Family Housing require the Office of Single Family Housing to

1A. Require the lender to reduce payments to the borrower or seek reimbursement for case number 431-4214046 for the $11,742 that was in excess to the borrower's initial principal limit.

1B. Provide documentation for case number 105-2935187 with maximum claim amounts totaling $70,000 showing that the borrower's unacceptable rating was resolved. If it is determined that the rating had not been resolved, the Office of Single Family Housing should seek indemnification for the life of the loan. The estimated risk to HUD is $37,294 based on the borrower's line of credit drawdown and the loan's settlement costs.

1C. Implement adequate procedures and controls for performing post endorsement technical reviews of HECM loans to provide reasonable assurance that underwriting deficiencies would be detected. Such procedures should include but are not limited to developing a consistent post endorsement technical review sheet that addresses the relevant requirements for the HECM program and ensuring that identified deficiencies are adequately resolved.

1D. Require the lenders to reimburse the borrowers the applicable amount(s) for the fees deemed not reasonable or customary totaling $650 charged for case numbers 412-5484306 and 412-5431355.

1E. Improve its existing procedures and controls for performing quality assurance reviews. These procedures and controls should include but are not limited to providing adequate supervisory monitoring and oversight of the quality assurance reviews and guidance and training to the staff in detecting improper fees charged to borrowers.

SCOPE AND METHODOLOGY

Our audit work was performed at HUD's headquarters in Washington, DC, the Chicago regional office, and the Detroit and Columbus field offices. The audit covered the period October 1, 2006, through September 30, 2008. We expanded the audit as necessary.

To accomplish our audit objectives, we researched and reviewed applicable HUD handbooks, regulations, mortgagee letters, and other reports and policies related to the program. We also conducted interviews with HUD's staff, loan correspondents, and sponsors.

<u>Post Endorsement Technical Review:</u>
The sample for the postendorsement technical review was an unrestricted attribute sample to determine whether the sampled mortgages met HUD's requirements for the program. We used a 50 percent expected error rate with a precision of 10 percent desired with a 90 percent confidence in the sample. The universe size was 10,182, of which 68 was the number of FHA casebinders initially selected for review.

However, since our detailed review of the post endorsement technical reviews' universe identified a low number of errors, we concluded the review after evaluating 38 of the 68 sampled cases that were originally selected in accordance with our statistical sampling plan. Based on our revised sample, we are 95 percent confident that the number of problematic loans is at least 97 (less than 1 percent) of the 10,182 postendorsement technical reviews performed during our audit period, based on the lower limit. While we identified some errors, the statistical estimate indicates that HUD's controls were generally in place, regarding the postendorsement technical review process, to detect widespread programmatic abuse in the program.

In performing our review of the postendorsement technical reviews, we

- Reviewed the checklists maintained in FHA casebinders used by HUD's Homeownership Centers and the criteria applicable to the program.
- Compared the review checklists among HUD's Homeownership Centers and noted any variations.
- Performed our own analysis of the documentation maintained in the FHA casebinders to support that the borrowers met eligibility requirements and obtained counseling from FHA-approved counselors, accuracy of the calculations, etc.

Compared our results with the reviewer's notations on the respective checklists and determined whether the items identified were complete if applicable.

<u>Quality Assurance Division Review:</u>
The sample for the quality assurance review was an unrestricted attribute sample to determine whether the sampled mortgages met HUD's requirements for the program. We used a 50 percent expected error rate with a precision of 10 percent desired with a 90 percent confidence in the sample. The universe size was 5,924, of which 67 was the number of files were initially selected for review.

However, since our detailed review of the quality assurance reviews' universe identified a low number of errors; we concluded the review after evaluating 37 of 67 sampled cases that were originally selected in accordance with our statistical sampling plan. Based on our revised sample, we are 95 percent confident that the number of problematic cases was at least 58 (less than 1 percent) of the 5,924 quality assurance reviews performed during our audit period, based on the lower limit. While we identified some errors, the statistical estimate indicates that HUD's controls were generally in place, regarding the quality assurance review process, to detect widespread programmatic abuse in the program.

In performing our review of the quality assurance review process, we

- Performed our own analysis of the documentation maintained in the FHA casebinders and quality assurance review files to support that the borrowers met eligibility requirements and obtained counseling from FHA-approved counselors, the accuracy of the calculations, etc.
- Obtained additional documentation from the originating and/or sponsoring lenders.
- Reviewed the quality assurance review sheets and other documentation maintained in the files used in the quality assurance review process and the criteria applicable to the program.
- Compared our results with the reviewer's notations on the respective review sheets and determined whether the items identified were complete if applicable.

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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective

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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

INTERNAL CONTROLS

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

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

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

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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.

Significant Weakness

Based on our review, no significant weakness noted.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	$11,742	
1B		$37,294
1D	650	
Totals	$12,392	$37,294

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

FEDERAL REQUIREMENTS

HUD's Quality Assurance Division's Monitoring Guide, effective 2001, states that reviewers should look for unusual credits, disbursements/delinquent loans being paid off, undisclosed liens or related parties.

HUD's Quality Assurance Division Desk Guide, effective October 1, 2007, states that the Quality Assurance Division will manage risk by ensuring that HUD-approved lenders originate and service FHA-insured loans in compliance HUD requirements.

Chapter 1 of the guide states that to deter unacceptable behavior by lenders or individuals may result in recommendation for one or more of the following: referral to the Mortgagee Review Board; suspension/debarment; limited denial of participation; loan indemnification; and referrals to the Office of Inspector General (OIG) and other state or federal regulatory agencies. The names of individuals who are debarred or suspended are placed on the General Service Administration's list of parties excluded from federal procurement and non-procurement programs, which is accessible through the Internet.

Additionally, clear and accurate data must be kept in the lender review file for referral, appeal, audit, and staff evaluation purposes. The accuracy and timeliness of the data are critical for reporting, analyses, and highlighting trends. The approval/recertification/review tracking system and quality assurance document library system shall be used by quality assurance staff to maintain file review information and monitored regularly for consistency.

Homeownership Centers of the Quality Assurance Divisions are to report to the Homeownership Center Director. Each is responsible for evaluating and monitoring lenders to ensure that HUD/FHA-approved lenders originate quality loans and service FHA-insured loans in compliance with HUD requirements. The Homeownership Quality Assurance Division

- Performs on-site reviews of lenders' origination and servicing practices to determine compliance with HUD requirements and

- Maintains lender review files and enters data into automated systems such as an approval recertification/review tracking system and quality assurance document library system.

Chapter 3 of the guide states HECM reviews shall use the HECM case file review sheet.

Chapter 12 of the guide identifies the following red flags: final lien releases missing from file, invalid HECM counseling certificate (exceeds timeframe from date of application) without submission of waiver by homeowner, all HECM applications and counseling completed by telephone, net principal limit not calculated properly, incomplete HECM payment plan, disallowable fees charged to the borrower, failure to obtain adequate title commitment (amount should be equal to maximum claim amount), failure to pay excess HECM funds to principal, incomplete HECM repair rider, or cash back at closing inappropriately applied.

Mortgagee Letter 1993-22 specifies the third-party fees that can be charged. However, the HUD field office manager may authorize or reject any other charge or the amount of any charge, based on what is reasonable and customary in the area.

HUD Handbook 4060.1 REV-1, chapter 2 states, that an applicant is ineligible for approval if the lender or any officer, partner, director, or principal, under a limited denial of participation or otherwise restricted similar provisions of any federal agency.

HUD Handbook 4235.1 REV-1, chapter 4, section 4-3(a), states that a borrower suspended, debarred, or otherwise excluded from participation in HUD's programs is not eligible for a HECM loan.

Chapter 4, section 4-3, of the handbook states:

> A borrower must be rejected for any of the following reasons:
>
> A. Delinquent Federal Debts. If the borrower is presently delinquent on any Federal debt (e.g., VA [U.S. Department of Veterans Affairs]-guaranteed mortgage, HUD Section 312 Rehabilitation loan or Title I loan, federal student loan, Small Business Administration loan, delinquent Federal taxes, etc.) or has a lien, including taxes, placed against his or her property for a debt owed to the United States, the borrower is not eligible until the delinquent account is brought current, paid or otherwise satisfied, or a satisfactory repayment plan is made between the borrower and the Federal agency owed and is verified in writing.
>
> B. Suspensions and debarments. A borrower suspended, debarred, or otherwise excluded from participation in the Department's programs is not eligible for a HECM. The lender must examine HUD's Limited Denial of Participation (LDP) List and the governmentwide General Services Administration's (GSA) List of parties Excluded from Federal Procurement or Non-procurement Programs. If the name of any party to the transaction appears on either list, the application is not eligible for mortgage insurance.
>
> C. Credit Alert Interactive Voice Response System (CAIVRS). Lenders must screen all borrowers using CAIVRS. If CAIVRS indicates the borrower is presently delinquent or has had a claim paid within the previous three years on a loan made or insured by HUD on his or her behalf, the borrower is not eligible. Exceptions to this policy may be granted under the following situations: If the lender has reason to believe the CAIVRS message is erroneous or must establish the date of claim payment, it must contact the local HUD office for instructions or documentation to support the borrower's eligibility. The local HUD Office can

provide information regarding when the three-year waiting period has passed or that the social security number in CAIVRS is an error

Chapter 6, section 6-9, of the handbook states that on the day of closing, the lender must determine the principal limit, expected rate, mortgage interest (accrual) rate, and the margin (if applicable). The expected rate is needed to calculate the principal limit and payment plan for all borrowers, and is also the accrual rate for fixed-rate HECMs. The mortgage interest rate is needed to calculate the first year accrual rate for adjustable- rate HECMs. The lender must use the indices in effect on the date of closing. Part C, states the ten-year treasury rate is the index which must be used to establish the expected rate, and the one-year treasury rate is the index which must be used to establish the mortgage interest (accrual) rate for adjustable-rate HECMs.

Mortgagee Letter 2006-22 states that consistent with existing policy, the expected interest rate and principal limit are locked when the mortgagee takes the initial application. However, the "lock-in" period for counting the 120 days starts on the day that the FHA case number is assigned. In addition, FHA will continue to permit the "float down" option whereby the principal limit may be recalculated at closing if the expected interest rate has declined and is now lower than at initial application.

Mortgagee Letter 2003-16 states the FHA will now allow for mortgage lenders to set the expected interest rate for HECMs at the time the loan application is signed by the borrower rather than on the date of closing. This interest rate lock-in provision, which mortgage lenders may offer on each HECM application for 60 days, will eliminate confusion and unexpected reductions to a HECM borrower's principal limit when market interest rates increase during the interim between loan application and loan closing.