



U.S. Department of Housing and Urban Development
Office of Inspector General, Region VI
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<http://www.hud.gov/offices/oig/>

June 4, 2004

2004-FW-1802

MEMORANDUM FOR: John C. Weicher
Assistant Secretary for Housing-Federal Housing Commissioner, H

FROM: D. Michael Beard
Regional Inspector General for Audit, 6AGA

SUBJECT: Austin Loan Corporation
Non-Supervised Loan Correspondent
Austin, Texas

INTRODUCTION

We have completed an audit of Austin Loan Corporation, a non-supervised loan correspondent. The objective of our audit was to ensure Austin Loan's compliance with HUD/FHA Single Family Insurance regulations.

SCOPE/METHODOLOGY

Our audit included defaulted loans originated by Austin Loan during the period May 1, 2001, through May 31, 2003. We selected our sample from the list of Austin Loan's defaulted loans contained in HUD's Neighborhood Watch System.¹

In order to achieve our objective, we:

- Reviewed loan files provided by Austin Loan, HUD, and various title companies;
- Interviewed HUD staff and the staff of Austin Loan;
- Reviewed relevant HUD regulations;
- Reviewed Austin Loan's policies and procedures;
- Reviewed Austin Loan's Quality Control Review Reports;
- Interviewed third parties to the FHA loans;
- Contracted for and reviewed field reviews of appraisals;²
- Analyzed FHA loan and default data from HUD's automated systems.

¹ We did not perform procedures to assess the data contained in HUD's Neighborhood Watch System. Our audit testing did not include any other computer-generated data.

² The field reviews were performed by an outside appraiser.

We performed our fieldwork from September 15, 2003, through March 24, 2004. We performed our fieldwork at Austin Loan's office in Austin, Texas, and HUD's office in San Antonio, Texas. The audit was conducted in accordance with generally accepted government audit standards.

BACKGROUND

Austin Loan³ is a loan correspondent with multiple direct endorsement sponsors. It began originating FHA mortgages as well as conventional mortgages in 1999. HUD terminated Austin Loan's ability to originate FHA mortgages in the San Antonio district in September 2002 due to its high default rate. Austin Loan voluntarily discontinued originating FHA mortgages in July 2003.

According to Mr. Ollendorff, Austin Loan's President, he decided to discontinue originating mortgages as Austin Loan after losing the ability to originate mortgages in the San Antonio district since most of its business was generated in that area. Therefore, he approached Premier Mortgage Funding, Inc. (Premier) regarding becoming a branch of Premier. Mr. Ollendorff stated that his company began originating loans for Premier in May 2003.⁴

RESULTS OF REVIEW

Austin Loan did not implement its Quality Control Plan in compliance with HUD regulations. Austin Loan was either unfamiliar with or ignored HUD's requirements regarding the implementation of Quality Control Plans. As a result, HUD has no assurance that Austin Loan's quality control process ensured compliance with HUD/FHA regulations.

Our audit work also disclosed possible conflict of interest situations and faulty and deficient appraisals. We have referred these issues for possible further review.

Criteria

HUD Handbook 4060.1, Mortgagee Approval Handbook contains specific guidance for the development and implementation of Quality Control Plans. The Handbook requires analysis of all loans going into default within the first 6 months. These reviews are imperative in order to determine the reasons for the early defaults.

Austin Loan did not implement its Quality Control Plan in accordance with HUD regulations.

Contrary to HUD regulations, and their own Quality Control Plan, Austin Loan did not review 100 percent of its loans going into default within the first 6 months. In fact, only 2 of the 17 files included in our audit sample were included in the Quality Control Reviews provided by Austin

³ Austin Loan dba Austinloan.com

⁴ The dba of Austinloan.com was assigned to Premier Mortgage Funding, Inc. At the same time Austin Loan Corp. abandoned the dba of Austinloan.com.

Loan. Since each of the loans included in our audit sample defaulted within the first 6 months; they each should have been subjected to a Quality Control Review.

One of the primary objectives of a Quality Control Plan is to assure compliance with HUD/FHA requirements and to assure prompt and effective corrective measures are taken when deficiencies in loan origination are identified. HUD should take steps to ensure that the current operation of Premier Mortgage Funding, Inc. (dba, Austinloan.com) is in compliance with HUD regulations concerning Quality Control Plans.

We held an exit conference with the auditee on May 18, 2004. In addition, written comments were provided on May 27, 2004. Mr. Ollendorff generally agreed with the finding in the memorandum.

AUDITEE COMMENTS

Mr. Ollendorff agreed that Austin Loan did not have the required Quality Control procedures in place during the audit timeframe. However, Mr. Ollendorff stated that they have taken drastic steps to correct this deficiency. Numerous consultants provided Mr. Ollendorff and his staff training on Quality Control procedures. As a branch of Premier, Austin Loan is required to submit one of every ten FHA loan files for an outside quality control audit. Mr. Ollendorff also indicated that since operating as a branch of Premier, Austin Loan has no delinquencies or deficiencies in their loan files and have therefore, not had to submit additional files for review. Further, Mr. Ollendorff indicated that Austin Loan would welcome a review by HUD, as they are extremely proud of all the changes they have made.

OIG EVALUATION OF AUDITEE COMMENTS

We appreciate the steps taken by Austin Loan to strengthen the quality control process. However, since effective quality control plays a major role in the loan origination process, we feel a review of the plan by HUD is necessary.

RECOMMENDATION

We recommend that HUD:

- 1A Take steps to ensure that the current operation of Premier Mortgage Funding, Inc. (dba, Austinloan.com) is in compliance with HUD regulations concerning Quality Control Plans.

austinloan.com

Residential Mortgage Financing
2711 west anderson lane, suite 200
austin, texas 78757

May 27, 2004

Laura Cantu,
Senior Auditor
U.S. Department of Housing and Urban Development
819 Taylor Street
Fort Worth, Texas 76102



Re: Draft Audit Report on Austin Loan Corporation in Austin, Texas

Dear Ms. Cantu,

I am writing in response to the draft memorandum of the recently completed audit of Austin Loan Corporation that we received from your office.

This memorandum states that I had indicated that I had decided to “shut down” Austin Loan Corporation. This is incorrect. I decided to close the mortgage aspect of the corporation. Austin Loan Corporation is still an active corporation; it is just no longer in the mortgage business. It does not buy, sell or originate mortgages.

While Austin Loan was unfamiliar with the Quality Control Plan requirements of HUD at the time that the mortgages that were the subject of this audit were originated, drastic steps have been taken to correct this deficiency. As can be seen in the staff interviews as well, as the enclosed Quality Control Manual, my staff and I have since learned and implemented the required Quality Control procedures with the help of numerous consultants.

With regard to concerns of “deficient appraisals”, please note the attached e-mails from various HUD representatives regarding HUD manual 4000.4 section 1-14 that is no longer applicable. For all FHA loans Austin Loan Corporation used FHA approved appraisers in accordance with HUD guidelines. Our guidelines have also been updated to specify that all branch employee FHA loans require review appraisals by a HUD approved appraiser.

Our Quality Control procedures were revised after we were notified of the Neighborhood Watch. Upon being notified of the files being audited and our realization that this was required, it was our intent to send the required files to CULP Quality Control for an outside audit. However, we were instructed that this was not necessary, as your office was planning an audit of these files. Please note that prior to this time we had been sending 10% of all our FHA files to CULP Quality Control for review. As a branch of Premier, one of every ten FHA loan files is sent for an outside quality control audit. Per

■ telephone: 512/342-8535 ■ facsimile: 512/231-9063

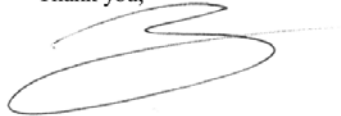
the attached Lender Branch Origination Sheet, we currently have no delinquencies or deficiencies and therefore have not been required to submit any additional files for audit.

As previously mentioned, Austin Loan Corporation ceased operations as a mortgage loan originator within a few months of realizing that current procedures were not in accordance with HUD guidelines. Because of this, we were unable to implement new controls or correct deficiencies. As a branch of Premier, we have taken steps to ensure that all HUD requirements are met. We feel that the Quality Control Manual and other information that were previously provided to you show that adequate changes in procedures have been made. In addition, we have hired numerous consultants and outside experts to assist our branch in learning, understanding and implementing any and all changes necessary to ensure HUD compliance. We would welcome an audit by HUD, as we are extremely proud of all the changes that have made.

To further ensure compliance with all existing and new HUD regulations, we have contracted for Dr. Gary Lacefield, former HUD employee, to perform an audit of our office beginning on July 15th. Upon completion of this audit, we will forward the results to your office.

If you have any questions or would like any additional information, please contact me at 512-342-8535.

Thank you,



Todd J. Ollendorff
President
Austin Loan Corporation