Issue Date
March 25, 2005
Audit Case Number
2005-AT-1008

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

FROM:

Sonya D. Lucas
Acting Regional Inspector General for Audit, 4AGA

SUBJECT: Trust America Mortgage, Inc.
Non-Supervised Direct Endorsement Lender
Cape Coral, FL

HIGHLIGHTS

What We Audited and Why

We audited Trust America Mortgage, Inc. (Trust America) in Cape Coral, FL. Trust America is a non-supervised direct endorsement lender approved by the U.S. Department of Housing and Urban Development (HUD) to originate and approve Federal Housing Administration-insured single-family mortgages. We selected Trust America for review because of risk factors associated with defaulted loans.

The audit objectives were to determine whether Trust America: (1) complied with HUD regulations, procedures, and instructions in the origination and underwriting of Federal Housing Administration-insured single-family mortgages; and (2) implemented its quality control plan as required. We reviewed a sample of 17 Federal Housing Administration-insured loans to accomplish our objectives.

What We Found

Trust America did not follow HUD requirements when originating and approving 16 Federal Housing Administration-insured loans totaling $1,949,079. Sixteen of the seventeen loans we reviewed had problems. All 16 loans contained underwriting deficiencies that, taken as a whole, should have led a prudent lender to not approve the loan. Trust America approved the loans based on inadequate asset and debt verification and other deficiencies. The deficiencies occurred because Trust America failed to exercise due care in originating and underwriting loans, primarily by not clarifying inconsistencies in the loan files. These deficiencies increased HUD's risk to the Federal Housing Administration insurance fund.

Trust America did not fully implement its quality control plan. Trust America did not conduct the required number of quality control reviews, including reviews of early defaulted loans and rejected loan applications. Trust America's quality control plan was also incomplete, as it did not include all required elements as prescribed by HUD. We attribute these deficiencies to Trust America's disregard of HUD requirements and instructions and reliance on an independent contractor to fulfill its responsibilities. As a result, HUD has limited assurance of the accuracy, validity, and completeness of Trust America's loan origination and underwriting operations.

What We Recommend

We recommend that the Assistant Secretary for Housing-Federal Housing Commissioner require Trust America to: (1) indemnify HUD against future losses on eight loans totaling $977,709; (2) reimburse HUD for a loss already incurred of $17,502 on one property; and (3) reimburse HUD for a loss, if applicable, on another property for which HUD paid a claim of $113,002. We further recommend that HUD take appropriate measures to ensure Trust America conducts required quality control reviews and the written quality control plan complies with HUD requirements. Finally, we recommend that HUD take administrative action, as appropriate, up to and including civil monetary penalties.

Auditee's Response

We discussed our review results with Trust America and HUD officials during the audit. We provided a copy of the draft report to Trust America officials on February 2, 2005, for their comments and discussed the report with them at the exit conference on February 8, 2005. Trust America provided written comments on February 11, 2005.

Trust America expressed concerns regarding finding 1 that it did not act negligent in any way in the processing and underwriting of the loans. Trust America generally agreed with finding 2.

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

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BACKGROUND AND OBJECTIVES

The U.S. Department of Housing and Urban Development (HUD) approved Trust America Mortgage, Inc. (Trust America) as a nonsupervised direct endorsement lender on January 6, 1988, to originate, purchase, or sell loans or insured mortgages. As a direct endorsement lender, HUD approved Trust America to underwrite and close Federal Housing Administration loans without prior HUD review or approval.

Trust America originated and underwrote 491 Federal Housing Administration-insured loans with mortgages totaling $60.5 million, which had beginning amortization dates (defined as 1 month before the first principal and interest payments are due) between April 1, 2002, and March 31, 2004. According to HUD's Neighborhood Watch system, 37 of the loans defaulted within the first 2 years of origination.

The audit objectives were to determine whether Trust America: (1) complied with HUD regulations, procedures, and instructions in the origination and underwriting of Federal Housing Administration-insured single-family mortgages; and (2) implemented its quality control plan as required.

RESULTS OF AUDIT

Finding 1: Trust America Did Not Follow HUD Requirements When Originating and Approving Loans

Trust America did not follow HUD requirements when originating and approving 16 Federal Housing Administration-insured loans totaling $1,949,079. Sixteen of the 17 loans we reviewed had problems. All 16 loans contained underwriting deficiencies that, taken as a whole, should have led a prudent lender to not approve the loan. Trust America approved the loans based on inadequate asset and debt verification and other deficiencies. The deficiencies occurred because Trust America failed to exercise due care in originating and underwriting loans, primarily by not clarifying inconsistencies in the loan files. These deficiencies increased HUD's risk to the Federal Housing Administration insurance fund.

Trust America Did Not Comply With HUD Requirements

Trust America did not comply with HUD requirements when originating and approving 16 loans. We identified processing and underwriting deficiencies in all 16 loans as shown below:

Deficiencies	Number of Loans
Inadequate asset verification	16 of 17
Inadequate debt verification	9 of 17

The deficiencies noted above are not independent of one another as many of the loan files contained more than one deficiency. Appendix D provides a chart summarizing the loan processing deficiencies. Details of the deficiencies identified on each loan reviewed, including specific HUD requirements not met, are included in appendix E.

Specific examples of Trust America's poor processing and underwriting include:

Case File Number 092-9016031. Trust America approved the loan without properly computing qualifying ratios. Trust America improperly included overtime in computing the monthly income. The verification of employment indicated that overtime income was not likely to continue, and the borrower had been employed for less than 2 years. Contrary to HUD Handbook 4155.1, Trust America did not justify and document the reason for using the overtime income to qualify the borrower. We calculated the mortgage payment to income ratio at 36.04 percent and the total fixed payment to income ratio at 50.62 percent. Trust America should have provided compensating factors to justify the excess ratios.

Trust America approved the loan without properly verifying the borrower’s assets. Trust America did not obtain supporting documentation from a down-payment assistance program on how the gift funds were transferred to the borrower. The gift funds represented more than 97 percent of the minimum down payment. Trust America informed us that it was not aware of this requirement. Trust America did not properly verify and document the source of the earnest deposit, which was the borrower’s only contribution toward the acquisition of the property. Trust America did not resolve conflicting loan documentation regarding the earnest deposit. The residential construction contract and the final loan application showed an earnest deposit, but the HUD-1 Settlement Statement did not. Trust America did not verify three large deposits of between $1,144 and $3,200 into the borrower’s bank accounts. Trust America did not provide evidence of the source of funds used to repay more than $1,280 in collections, as required. Without proper documentation, Trust America cannot ensure funds from prohibited parties were not used to repay the debt.

Contrary to HUD requirements, Trust America approved the buydown interest rate loan without properly documenting the borrower’s ability to make higher mortgage payments in the future. The qualifying ratios for the buydown interest rate loan were 30.61 percent and 42.99 percent. We calculated the qualifying ratios without the buydown interest rate loan as 43.09 percent and 57.67 percent.

Case File Number 092-9291317. Trust America approved the loan without properly computing a qualifying ratio. Trust America excluded child support payments of $174 from the debt analysis. We calculated the total fixed payment to income ratio at 45.55 percent. Trust America should have provided compensating factors to justify the excess ratio.

Trust America approved the loan without properly verifying the borrower’s assets. Trust America did not properly verify and document the source of the earnest deposit, which was the borrower’s only contribution toward the acquisition of the property. Trust America did not resolve conflicting loan documentation regarding the earnest deposit. The agreement to build the home and the final loan application showed an earnest deposit, but the HUD-1 Settlement Statement did not. In addition, Trust America did not verify the source of funds for three large deposits of between $655 and $1,500 into the borrower’s bank account.

Contrary to HUD requirements, Trust America approved the buydown interest rate loan without properly documenting the borrower’s ability to make higher mortgage payments in the future. The qualifying ratios for the buydown interest rate loan were 18.25 percent and 42.02 percent. We calculated the qualifying ratios without the buydown interest rate loan as 21.75 percent and 49.05 percent.

Case File Number 092-9308470. Trust America approved the loan without properly computing a qualifying ratio. Trust America excluded monthly payments totaling $160 to one creditor from the debt analysis. We calculated the total fixed payment to income ratio at 54.57 percent. Trust America should have provided compensating factors to justify the excess ratio.

Trust America approved the loan without properly verifying the borrower's assets. Trust America did not obtain supporting documentation from a down-payment assistance program on how the gift funds were transferred to the borrower. The gift funds represented more than 90 percent of the minimum down payment. Trust America informed us that it was not aware of this requirement. Trust America did not properly verify the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. While loan file documentation showed an earnest deposit, Trust America failed to provide evidence showing how it was paid.

Case File Number 092-9319257. Trust America calculated the mortgage payment to income ratio at 35.67 percent and the total fixed payment to income ratio at 51.51 percent, which exceeds HUD's permissible rates of 31 percent and 43 percent, respectively, as prescribed in HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-19.

Trust America approved the loan without properly verifying the borrower's assets. Trust America did not properly verify and document the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. Trust America did not resolve conflicting loan documentation regarding the earnest deposit. The agreement to build home and the final loan application showed an earnest deposit, but the HUD-1 Settlement Statement did not.

Trust America approved the loan without properly verifying the borrower's earnings. According to our Internet searches, the one-way commuting distance between the property and the borrower's employer was more than 140 miles. According to Florida Department of State records, the employer has been inactive since September 2000. The property closed in December 2002. Given the availability of access to State records, we believe Trust America should have found the discrepancy and resolved it before loan approval. In addition, our attempts to locate the employer were unsuccessful.

Contrary to HUD requirements, Trust America approved the buydown interest rate loan without properly documenting the borrower's ability to make higher mortgage payments in the future. The qualifying ratios for the buydown interest rate loan were 35.67 percent and 51.51 percent. We calculated the qualifying ratios without the buydown interest rate loan as 42.44 percent and 58.28 percent.

Conclusion

Trust America disregarded HUD requirements and did not exercise sound judgment and due diligence in the processing and underwriting of loans to be insured by the Federal Housing Administration. In 16 loans, Trust America did not exercise the care expected of a prudent lender in the analysis of the borrowers' assets and debts. Trust America failed to properly document the borrowers' source of funds to close, improperly computed qualifying ratios, did not provide valid or supported compensating factors for excessive qualifying ratios, did not establish the borrowers' ability to make higher mortgage payments in the future when approving buydown interest rate loans, and did not clarify important file discrepancies. These deficiencies increased HUD's risk to the Federal Housing Administration insurance fund.

Recommendations

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

1A. Require Trust America to indemnify HUD against future losses for the eight active insured loans totaling $977,709, in which Trust America did not follow HUD requirements.[1] Appendix C lists case numbers for the loans included in this recommendation.

1B. Require Trust America to reimburse HUD/Federal Housing Administration $17,502 for losses already incurred. See appendix E (Case Number 092-9287653) for the loan included in this recommendation.

1C. Require Trust America to reimburse HUD $113,002 for claims already incurred. See appendix E (Case Number 092-9308470) for the loan included in this recommendation.

[1] According to Neighborhood Watch, as of December 2004, 6 of the 16 loans have terminated Federal Housing Administration insurance without a claim. (Case Numbers 092-9031856, 092-9184889, 092-9221657, 092-9251108, 092-9295695, and 092-9312350). Because these loans no longer represent a risk to the Federal Housing Administration insurance fund, we have removed them from our recommendation.

Finding 2: Trust America Did Not Fully Comply With Federal Housing Administration Quality Control Requirements

Trust America did not fully implement its quality control plan. Trust America did not conduct the required number of quality control reviews, including reviews of early defaulted loans and rejected loan applications. Trust America's quality control plan was also incomplete, as it did not include all required elements as prescribed by HUD. We attribute these deficiencies to Trust America's disregard of HUD requirements and instructions and reliance on an independent contractor to fulfill its responsibilities. As a result, HUD has limited assurance of the accuracy, validity, and completeness of Trust America's loan origination and underwriting operations.

Ten Percent of Federal Housing Administration-Insured Loans Not Reviewed

Trust America uses an independent contractor to perform quality control reviews. It provides the contractor with a monthly list of closed loans. From this list, the contractor selects loans for quality control review and requests the loan files from Trust America.

Trust America did not conduct quality control reviews on 10 percent of closed loans for the 5 months we tested. Between February and June 2004, Trust America closed 141 Federal Housing Administration-insured loans, but only 7 loans (approximately 5 percent) have been reviewed because Trust America submitted inaccurate monthly lists of closed loans to the contractor. In addition, the contractor performed quality control reviews on 10 percent of all closed loans rather than Federal Housing Administration loans, as required. Since Trust America has not ensured that 10 percent of closed Federal Housing Administration loans have a quality control review performed, HUD cannot be assured that a representative sample of loans are reviewed against HUD requirements.

Early Default and Rejected Loans Not Reviewed

Trust America did not ensure that quality control reviews were performed on all loans defaulting within 6 months of closing, as required. HUD's Neighborhood Watch system reported two early defaulted loans between January and August 2004. Trust America did not submit the loan files to the contractor. In March 2003, HUD conducted a review and reported the same issue. Trust America did not provide a list of rejected loans for the contractor to use in performing quality control reviews. Trust America informed us that it was not aware of this requirement.

Quality control reviews of early defaulted and rejected loans are important since such reviews provide valuable information to management regarding the causes of defaults and rejections and may disclose underwriting deficiencies associated with the loan. In addition, such reviews may disclose indicators of fraudulent activities or other significant discrepancies that lenders are required to report to HUD.

Written Quality Control Plan Did Not Contain Required Elements

HUD Handbook 4060.1, Revision 1, Change 1, paragraph 6-1, provides that as a condition of HUD-Federal Housing Administration approval, lenders must have and maintain a quality control plan for the origination and servicing of insured mortgages. The quality control plan must be a prescribed function of the lender's operations and assure that the lender maintains compliance with HUD-Federal Housing Administration requirements and its own policies and procedures.

HUD's prior review found that Trust America had a quality control plan that did not comply with HUD requirements. Trust America updated its written quality control plan in February 2004. However, the plan does not contain all elements required by HUD.

For example, the quality control plan does not contain the following required elements:

- A quality control review of 10 percent of all Federal Housing Administration loans closed on an annual basis was performed.
- Procedures exist for expanding the scope of the quality control review when fraud or patterns of deficiencies exist.
- The compensating factors are sufficient and documented if the debt to income ratios exceeded Federal Housing Administration benchmarking limits.
- The lender and HUD are protected from unacceptable risk and guarded against errors, omissions, and fraud.
- The preliminary and final loan applications and all credit documents are consistent or reconciled.

Conclusion

Trust America's written quality control plan does not meet HUD requirements. We attribute this to Trust America disregarding its responsibilities to ensure that quality control reviews were conducted. In addition, Trust America relied on its independent contractor to assure that its plan met HUD requirements and quality control reviews were performed. As a result, Trust America is unable to fully ensure the accuracy, validity, and completeness of its loan origination and underwriting operations.

Recommendations

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

2A. Take appropriate measures to ensure Trust America conducts required quality control reviews and the written quality control plan complies with HUD requirements.

2B. Take administrative action, as appropriate, up to and including civil monetary penalties.

SCOPE AND METHODOLOGY

To achieve our audit objectives, we reviewed:

- Applicable laws, regulations, and other HUD program requirements; and
- Files and documents from HUD, Trust America, and closing agents.

We chose a non-representative method to select the loans for review. This method allowed us to select Federal Housing Administration-insured loans that met certain characteristics. This approach enabled us to focus our review efforts on Federal Housing Administration-insured loans in which there is a greater inherent risk and/or risk of noncompliance or abuse to the Federal Housing Administration insurance fund.

We reviewed 17 Federal Housing Administration-insured loans that had defaulted within the first 2 years from origination. In addition, we interviewed appropriate officials and staff from Trust America, HUD's Atlanta Single Family Homeownership Center, and borrowers' employers.

We performed our review between July and December 2004. Though the audit covered the period from April 1, 2002 to March 31, 2004, we extended the period as necessary to achieve the audit objectives.

We performed our review in accordance with generally accepted government auditing standards.

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 Operations. Policies and procedures that management has in place to reasonably ensure that the loan origination process complies with HUD/Federal Housing Administration program requirements, and that the objectives of the program are met.

- Validity and Reliability of Data. Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and used during the mortgage loan origination process.

- Compliance with Regulations. Policies and procedures that management has implemented to reasonably ensure that its loan origination process is carried out in accordance with applicable regulations.

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 Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- Trust America did not follow HUD requirements when originating and approving 16 Federal Housing Administration-insured loans (see finding 1).

- Trust America did not fully comply with Federal Housing Administration quality control requirements (see finding 2).

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation Number	Ineligible [1]	Funds To Be Put to Better Use [2]
1A		$ 977,709
1B	$ 17,502	
1C	$ 113,002	
Total	$ 130,504	$ 977,709

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/ "Funds to be put to better use" are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

Trust America Mortgage, Inc
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Cape Coral, FL 33904
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February 11, 2005

Ms. Sonya D. Lucas
Acting Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Region 4, Office of the Inspector General
Office of Audit, Box 42
Richard B. Russell Federal Building
75 Spring Street, S.W. Room 330

Re: Audit Response

Dear Ms. Lucas:

Comment 1

This letter is in response to the letter received dated February 2, 2005. I would like to address several of the deficiencies noted. First I will address the individual loan deficiencies, and then I will address the Quality Control issues.

092-9308470 -

Inadequate Debt Verification:

Comment 2

As stated previously the $160 debt was overlooked. This loan was underwritten using an approved FHA Automated Underwriting System (Loan Prospector). The full factual credit report we pulled was used in lieu of the merged credit report pulled by the AUS. The full factual credit report did not show this debt. Since we believed the ratios to be in-line there was not reason to indicate compensating factors. Since so much time has passed, there is no way to add that debt into the AUS system to determine if I would still be granted an accept.

Inadequate Asset Verification:

Comment 3

Please find attached the gift funds wire confirmation evidencing the transfer of the gift funds.

Comment 4

Regarding the $350 earnest money deposit listed on the sales contract: Per FHA guidelines, of which I have attached, If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must then verify with documentation the deposit amount and the source of funds. Since the escrow deposit of $350 was not in excess of 2% of the sales price nor was it excessive we were not required to provide evidence on how it was paid.

Also, in this transaction the borrower was given an earnest money deposit credit for the $350 on the HUD-1 settlement statement. Trust America did not bill the seller/builder for this money to be applied to the credit and appraisal.

Comment 5

Comment 6

Comment 7

Comment 8

Comment 9

Other Deficiencies:

The underwriter correctly marked the Direct Endorsement Approval. The certification asks whether the mortgagee does/does not have a financial interest in or a relationship, by affiliation or ownership, with the builder or seller involved in this transaction. At the time of application, processing, underwriting and closing, Trust America Mortgage, Inc., had no financial interest, was not affiliated in any way and had no ownership in the building company involved in this transaction. This can be verified with the Florida Division of Corporations.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan, aside from an unintentional error in calculating the debts this file was documented properly.

092-9287653 -

Inadequate Asset Verification:

Please find attached the gift funds wire confirmation evidencing the transfer of the gift funds.

Regarding the $500 earnest money deposit listed on the sales contract: Per FHA guidelines, of which I have attached, If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must then verify with documentation the deposit amount and the source of funds. Since the escrow deposit of $500 was not in excess of 2% of the sales price nor was it excessive we were not required to provide evidence on how it was paid.

To rectify the discrepancy between the sales contract and the HUD-1 settlement statement, please find attached a copy of the billing to the builder/seller evidencing that we billed them for the credit and appraisal in the amount of $360 and it was paid. As stated previously, the earnest money deposit was reduced by this amount and the balance of $140 was then given as credit for the earnest money deposit on the HUD-1 settlement statement. Furthermore, on page 2 of the HUD-1 settlement statement the $360 was shown as a "P.O.C." by the buyer for the credit report and the appraisal fees.

Regarding the payment of collections in the amount of $228. As stated previously, we believe that this amount was not considered excessive due to the fact that they had no other debt and we believe it to be reasonable that the borrower could have paid this amount from their employment earnings. The borrowers did certify in a letter that they would take care of the debts by issuing money orders.

Other Deficiencies:

The loan was approved on a 2/1 buydown. The compensating factor used in this case was the fact that if qualifying at the note rate the ratios would be 39%/39%. Although the payment ratio exceeds the guideline of 31% (for stretch ratios), the debt ratio is well with the guideline of 43%. The borrowers were debt free, which means that a greater portion of their earnings would be available to make their mortgage payment.

We would like to point out that the reason(s) for the default was not due to the loan payment increase as a result of the 2/1 buydown. As demonstrated by the number of payments made prior to the default.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan and believe that the deficiencies noted have been explained and/or documented to support that they did not increase HUD's risk to the Federal Housing Administration fund.

Comment 10

Comment 11

Comment 12

Comment 13

092-8937759-

Inadequate Debt Verification:

Per FHA guidelines regarding the use of ovetime income. It states that periods of less than two years may be acceptable provided the lender justifies the reason for using the income for qualifying purposes. As stated previously, the borrower was a nurse working for a large hospital. It is reasonable and customary that a nurse earns a significant amount of income in overtime and shift differential. The borrower's verification of employment stated she was on third shift. In calculating her income an average was taken over the course of her employment. Trust America believes that the underwriter correctly calculated the borrower's income.

Inadequate Assert Verification:

Regarding the $350 earnest money deposit listed on the sales contract: Per FHA guidelines, of which I have attached, If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must then verify with documentation the deposit amount and the source of funds. Since the escrow deposit of $350 was not in excess of 2% of the sales price nor was it excessive we were not required to provide evidence on how it was paid.

In regards to the additional earnest money paid to the builder during construction, I am enclosing an escrow letter itemizing the deposits made by the borrower to the builder and when. As stated previously, the builder had the borrower on a payment plan to make deposits to them as a way of saving during the construction the down payment requirement. The borrower's deposited a total of $4855, of which Trust America billed the builder for the $350 to be applied to the credit and appraisal. I have attached a copy of the billing statement to evidence Trust America collected these funds. The borrower was then given an earnest money deposit credit for $4505 and on page 2 of the HUD-1 settlement statement the $350 is shown as "P.O.C.'s" to the buyer for the credit and appraisal fees.

Other Deficiencies:

This loan was approved on a 2/1 buydown. We correctly indicated a compensating factor to justify approving the loan in that the borrower received child support of which was not used as effective income in qualifying. As a side note, this loan did not default due to the increase in payment. The payment had not yet changed as a result of the 2/1 buydown.

We would like to point out that the reason(s) for the default was not due to the loan payment increase as a result of the 2/1 buydown. As demonstrated by the number of payments made prior to the default.

Also, this loan was approved using an FHA approved Automated Underwriting System, Loan Prospector. Since an underwriter is not required to sign the MCAW, no compensating factors are required to compensate exceeding ratios.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan and believe that the deficiencies noted have been explained and/or documented to support that they did not increase HUD's risk to the Federal Housing Administration fund.

092-8944460 -

Inadequate Asset Verification:

Please find attached the gift funds wire confirmation evidencing the transfer of the gift funds.

Comment 14

Regarding the $500 earnest money deposit listed on the sales contract: Per FHA guidelines, of which I have attached, If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must then verify with documentation the deposit amount and the source of funds. Since the escrow deposit of $500 was not in excess of 2% of the sales price nor was it excessive we were not required to provide evidence on how it was paid.

To rectify the discrepancy between the sales contract and the HUD-1 settlement statement, please find attached a copy of the billing to the builder/seller evidencing that we billed them for the credit and appraisal in the amount of $350 and it was paid. As stated previously, the earnest money deposit was reduced by this amount and the balance of $150 was then given as credit for the earnest money deposit on the HUD-1 settlement statement. Furthermore, on page 2 of the HUD-1 settlement statement the $360 was shown as a "P.O.C." by the buyer for the credit report and the appraisal fees

Regarding the additional funds needed for closing in the amount of $136. We verified the borrower had sufficient assets in his bank account of $518 prior to closing to satisfy the requirement of documenting source of funds to close to pay the $136.

Inadequate Debt Verification:

Comment 15

The debt to Sears was deleted from the borrowers credit, as the borrower was an "authorized user" on the account only and not financially responsible to make the payment. This was determined during the processing of the loan application.

Regarding the payment of the collection in the amount of $260. Again, we had verified the borrower had sufficient assets to pay them in his bank account. We verified the borrower had $518, which was sufficient to cover the closing costs of $136 and pay the collection of $260.

The credit explanation letters were typed for the borrower, however the borrower signed the letters acknowledging their validity.

Other deficiencies:

Comment 16

The auditor obtained information that the borrower was no longer employed with his current employer at the time of closing. We had no reason to believe he was no longer employed as we had obtained a current paystub dated 8/19/02 and our VOE was dated 8/6/02. The loan closed 9/4/02. The borrower did not disclose to Trust America that they were no longer employed at the employer we showed on the final loan application. Negligence in this case was on the part of the borrower, not the lender.

The loan was approved on a 2/1 buydown. The compensating factor used in this case was the fact that if qualifying at the note rate the ratios would be 34%/34%. Although the payment ratio exceeds the guideline of 31% (for stretch ratios), the debt ratio is well with the guideline of 43%. The borrowers were basically debt free, only had a $15 per month payment, which means that a greater portion of their earnings would be available to make their mortgage payment.

We would like to point out that the reason(s) for the default was not due to the loan payment increase as a result of the 2/1 buydown. As demonstrated by the number of payments made prior to the default.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan and believe that the deficiencies noted have been explained and/or documented to support that they did not increase HUD's risk to the Federal Housing Administration fund.

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092-9016031 -

Inadequate Debt Verification:

Comment 17

Per FHA guidelines regarding the use of ovetime income. It states that periods of less than two years may be acceptable provided the lender justifies the reason for using the income for qualifying purposes. The paystubs provided, of which there were 3, indicated quite clearly a significant amount of overtime earnings had been earned year to date as well as all three indicating the borrower had earned overtime for the pay periods they represented. Also, the borrower prior years earnings as reported on his W-2 supported his receipt of overtime. The underwriter felt justified in using the overtime earnings. It is noted that the VOE did show the employer had checked "no" for the overtime/bonus question. The processor and/or underwriter should have called the employer to clarify that all that was meant was that the overtime was not guaranteed.

Inadequate Asset Verification:

Comment 18

Please find attached the gift funds wire confirmation evidencing the transfer of the gift funds.

Comment 19

Although the contract indicated the borrower paid $360 as earnest money deposit, the MCAW did not give the borrower credit for these funds nor was there a credit given to the buyer on the HUD-1 settlement statement. The lender cannot determine if the borrower should have received a credit from the builder at the time of closing.

Comment 20

The borrower had 3 large deposits made to his bank account; $3200 dated 1/2/02, $2000 3/13/02 and $1144 3/15/02. This loan did not close until 7/30/02 which means the first deposit was more than 6 months prior to closing and the other two were more than 4 months prior to closing. The credit report we pulled dated 7/2002 did not indicate any new accounts were opened so we knew that the funds were not from a new loan. I would like to point out that the borrowers did not need any funds to close on the purchase of this property as they were using 100% gift funds from a non-profit.

The credit report that is in our file does not indicate the collections were paid so we cannot comment on what the source of those funds were to pay them.

092-9031856-

Comment 21

Please find attached the gift funds wire confirmation evidencing the transfer of the gift funds.

Comment 22

Regarding the $350 earnest money deposit listed on the sales contract: Per FHA guidelines, of which I have attached, If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must then verify with documentation the deposit amount and the source of funds. Since the escrow deposit of $350 was not in excess of 2% of the sales price nor was it excessive we were not required to provide evidence on how it was paid.

To rectify the discrepancy between the sales contract and the HUD-1 settlement statement, please find attached a copy of the billing to the builder/seller evidencing that we billed them for the credit and appraisal in the amount of $360 and it was paid. Furthermore, on page 2 of the HUD-1 settlement statement the $360 was shown as a "P.O.C." by the buyer for the credit report and the appraisal fees.

Other deficiencies:

Comment 23

This loan was approved on a 2/1 buydown. The ratios at the note rate were only 32%/45% which only exceed recommended "stretch" ratios of 31%/43% by a small amount. It is also noted that the borrower had a potential for increased income that would offset the scheduled payment increases as indicated by her profession as a General Manager of a restaurant.

We would like to point out that the reason(s) for the default was not due to the loan payment increase as a result of the 2/1 buydown. As demonstrated by the number of payments made prior to the default.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan and believe that the deficiencies noted have been explained and/or documented to support that they did not increase HUD's risk to the Federal Housing Administration fund.

092-9178802-

Inadequate Asset Verification:

Comment 24

Please find attached the gift funds wire confirmation evidencing the transfer of the gift funds.

Comment 25

The minimum required investment for this loan was 3%, which was provided 100% by the gift funds. The borrower had $360 as earnest money deposit and received a tax proration credit of $89.51 so the borrower did not need any additional funds for closing, In fact the borrower received their earnest money deposit back since this was a 0% down loan due to the gift funds contribution.

Other deficiencies:

Comment 26

The loan was approved on a 2/1 buydown. The compensating factor used in this case was the fact that the borrower actually earned $1,733 per month base salary in lieu of the $1,301 per month income that was used. The underwriter used an average of her year to date earnings, which equaled $1,301, but the VOE and the paystub reflect she earned $10 per hour and works in excess of 40 hours per week. The ratios at the note rate would then be 33%/33%. The payment ratio only exceeds recommended "stretch" ratios of 31% by 2%; however, since the borrower had to debt a greater portion of income can be devoted to the housing expense.

We would like to point out that the reason(s) for the default was not due to the loan payment increase as a result of the 2/1 buydown. As demonstrated by the number of payments made prior to the default.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan and believe that the deficiencies noted have been explained and/or documented to support that they did not increase HUD's risk to the Federal Housing Administration fund.

092-9184889-

Inadequate Asset Verification:

Comment 27

Regarding the $350 earnest money deposit listed on the sales contract: Per FHA guidelines, of which I have attached, If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must then verify with documentation the deposit amount and the source of funds. Since the escrow deposit of $350 was not in excess of 2% of the sales price nor was it excessive we were not required to provide evidence on how it was paid.

Comment 28

Comment 29

Comment 30

Comment 31

Comment 32

To rectify the discrepancy between the sales contract and the HUD-1 settlement statement, please find attached a copy of the billing to the builder/seller evidencing that we billed them for the credit and appraisal in the amount of $350 and it was paid. Furthermore, on page 2 of the HUD-1 settlement statement the $350 was shown as a "P.O.C." by the buyer for the credit report and the appraisal fees.

Please find attached the gift funds wire confirmation evidencing the transfer of the gift funds.

The minimum required investment for this loan was 3%, which was provided 100% by the gift funds. The borrower had $350 as earnest money deposit that was applied to their credit report and appraisal so the borrower did not need any additional funds for closing, In fact the borrower received a refund back at the time of closing of $164.58 which was a portion of that prepaid credit report and appraisal fee. This was a 0% down loan.

The borrower provided copies of all the money orders used to pay off the collection accounts totaling $1048. The borrower had minimal debt of $15 per month so it was reasonable to believe that the borrower could save to pay off these collections during the course of construction on the home. The initial loan application was dated 8/6/02 and the loan did not close until 5/03. That gave the borrower over 9 months to take care of these items. The borrower netted approximately $480 per week or $2080 per month of which they only had to pay rent of $615 that left them with over $1450 per month in disposable income.

Other Deficiencies:

The loan was approved on a 2/1 buydown. The compensating factor used in this case was the fact that if qualifying at the note rate the ratios would be 375/37%%. Although the payment ratio exceeds the guideline of 31% (for stretch ratios), the debt ratio is well with the guideline of 43%. The borrowers were basically debt free, only had a $15 per month payment, which means that a greater portion of their earnings could be devoted to their housing expense.

We would like to point out that the reason(s) for the default was not due to the loan payment increase as a result of the 2/1 buydown. As demonstrated by the number of payments made prior to the default.

Regarding submission of case binder late for endorsement. The reason for late endorsement was due to a delay in receiving the final builder documents for this new construction property. We sometimes have trouble in obtaining final documents so we can submit for endorsement; in those cases we provide a late endorsement letter and a payment history if it is required. In this case a payment history was not required, as the first payment was not considered due and payable since it was not after the 15th of the month it was due. If we submitted the file without a payment history and HUD determined it was required they would have issued a Notice of Rejection and sent the file back, which they did not do in this case.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan and believe that the deficiencies noted have been explained and/or documented to support that they did not increase HUD's risk to the Federal Housing Administration fund.

092-9221657-

Regarding the $350 earnest money deposit listed on the sales contract: Per FHA guidelines, of which I have attached, If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must then verify with documentation the deposit amount and the source of funds. Since the escrow deposit of $350 was not in excess of 2% of the sales price nor was it excessive we were not required to provide evidence on how it was paid.

Comment 33

Comment 34

Comment 35

Comment 36

To rectify the discrepancy between the sales contract and the HUD-1 settlement statement, please find attached a copy of the billing to the builder/seller evidencing that we billed them for the credit and appraisal in the amount of $350 and it was paid. Furthermore, on page 2 of the HUD-1 settlement statement the $350 was shown as a "P.O.C." by the buyer for the credit report and the appraisal fees.

Inadequate Debt Verification:

The borrower provided 2 money orders payable to Trust America Mortgage for payment of 2 collections. Trust America endorsed the money orders to the appropriate collection agencies and sent them in for payment.

As far as source of funds to pay these collections, we verified the borrower had over $400 available in their bank account prior to closing which were sufficient funds to cover the payment of the collections totaling $270.

The collection reported for $3,252 was placed by child support enforcement. The borrower explained why the collection was placed, of which I am providing a copy, and provided a copy of the income deduction order for the repayment of this debt. The MCAW reflected this as a debt for qualifying purposes.

Other deficiencies:

This loan was approved with a 2/1 buydown. The compensating factor in this case is that the borrower has a potential for increased income that would offset the scheduled payment increases, as indicated in the borrower's profession as a restaurant Manager. Also, the VOE verifies that the borrower receives overtime earnings, which were not used as effective in income for qualifying purposes.

We would like to point out that the reason(s) for the default was not due to the loan payment increase as a result of the 2/1 buydown. As demonstrated by the number of payments made prior to the default.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan and believe that the deficiencies noted have been explained and/or documented to support that they did not increase HUD's risk to the Federal Housing Administration fund.

092-9251108-

Inadequate Debt Verification:

This loan was underwritten using an approved FHA automated underwriting system, Loan Prospector. As indicated in the guidelines it provides that if the credit portion of those loan applications receiving an "accept" risk classification from LP the credit/income need not be reviewed by the DE underwriter, and the MCAW will reflect the LP underwriting chums number. Since an underwriter is not required to sign the MCAW then no compensating factors need be present.

Regarding the $500 earnest money deposit listed on the sales contract: Per FHA guidelines, of which I have attached, If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must then verify with documentation the deposit amount and the source of funds. Since the escrow deposit of $500 was not in excess of 2% of the sales price nor was it excessive we were not required to provide evidence on how it was paid.

To rectify the discrepancy between the sales contract and the HUD-1 settlement statement, please find attached a copy of the billing to the builder/seller evidencing that we billed them for the credit and appraisal in the amount of $420 and it was paid. As stated previously, the earnest money deposit was reduced by this amount and the balance of $80 was then given as credit for the earnest money deposit on the HUD-1 settlement statement. Furthermore, on page 2 of the HUD-1 settlement statement the $420 was shown as a "P.O.C." by the buyer for the credit report and the appraisal fees.

The borrowers paid $3690.33 at time of closing, of which we had verified they had sufficient assets in their bank accounts prior to closing. This is the requirement by FHA in documenting source of funds for closing. It is not required that we obtain documentation that the money was actually withdrawn from the account for closing as no part of the funds were from a gift donor.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan and believe that the deficiencies noted have been explained and/or documented to support that they did not increase HUD's risk to the Federal Housing Administration fund.

092-9291317-

Inadequate Debt Verification:

Comment 37

As stated previously, we acknowledge the miscalculation of child support payment. Since we did not use the correct payment amount the ratios were in line so there was no need to indicate compensating factors for this loan. I would like to point out that the ratios using the correct payment to child support would have only been 18%/45%, which only exceeds FHA "stretch" ratio guideline of 43% by 2%.

Inadequate Asset Verification:

Comment 38

Regarding the deposits of $655; $925 and $1500. The underwriter believed that the deposits were from the co-borrowers earnings. The co-borrower did not earn the same amount every pay period as he earned overtime as well as regular earnings. It was reasonable to believe that the deposits were from his paychecks. It is also noted that the primary borrower's paychecks were automatically deposited but not the co-borrowers.

Other deficiencies:

Comment 39

This loan was approved with a 2/1 buydown. The MCAW did list a compensating factor to support the decision of approval in that the co-borrower was earning overtime income of which was not used as effective income for qualifying purposes.

We would like to point out that the reason(s) for the default was not due to the loan payment increase as a result of the 2/1 buydown. As demonstrated by the number of payments made prior to the default.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan and believe that the deficiencies noted have been explained and/or documented to support that they did not increase HUD's risk to the Federal Housing Administration fund.

092-9295695-

Inadequate Asset Verification:

Comment 40

Regarding the $350 earnest money deposit listed on the sales contract: Per FHA guidelines, of which I have attached, If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must then verify with documentation the deposit amount and the source of funds. Since the escrow deposit of $350 was not in excess of 2% of the sales price nor was it excessive we were not required to provide evidence on how it was paid.

To rectify the discrepancy between the sales contract and the HUD-1 settlement statement, please find attached a copy of the billing to the builder/seller evidencing that we billed them for the credit and appraisal in the amount of $350 and it was paid. Furthermore, on page 2 of the HUD-1 settlement statement the $350 was shown as a "P.O.C." by the buyer for the credit report and the appraisal fees.

Other deficiencies:

Comment 41 As indicated in our previous response to the reason for the late submission for endorsement I would like to re-explain the process for construction/permanent loans. We cannot submit for MIC until after the home is complete and we have received a certificate of occupancy and final inspections. Due to this requirement several months will pass between the closing date and the first payment date. Since the loan is technically late (more than 60 days from closing), we do provide a late letter but we are not required to provide a payment history since the payment was not yet due and payable. Also, we are not required to provide actions taken to prevent further delays since it really wasn't delayed due to a problem, only that the house was not yet completed. To further clarify, construction/permanent loans are one-time closings, which mean the loan closes prior to the start of construction.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan and believe that the deficiencies noted have been explained and/or documented to support that they did not increase HUD's risk to the Federal Housing Administration fund.

092-9312350-

Inadequate Asset Verification:

Comment 42 Please find attached the gift funds wire confirmation evidencing the transfer of the gift funds.

Comment 43 Regarding the $350 earnest money deposit listed on the sales contract: Per FHA guidelines, of which I have attached, If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must then verify with documentation the deposit amount and the source of funds. Since the escrow deposit of $350 was not in excess of 2% of the sales price nor was it excessive we were not required to provide evidence on how it was paid. Also, the HUD-1 settlement statement reflected the borrower was given a credit for $350 for earnest money deposit. Trust America Mortgage, Inc. did not bill the seller/builder for these funds to cover the appraisal and credit report fees.

Comment 44 The borrower's minimum required investment of $3311 was provided entirely by the non-profit gift funds. The $350 earnest money deposit combined with the $3311 gift funds and a $15 real estate tax proration credit totals the required closing amount of $3675. The borrower needed no additional funds for closing so we did provide sufficient documentation that the borrower met this requirement.

Comment 45 The underwriter correctly marked the Direct Endorsement Approval. The certification asks whether the mortgagee does/does not have a financial interest in or a relationship, by affiliation or ownership, with the builder or seller involved in this transaction. At the time of application, processing, underwriting and closing, Trust America Mortgage, Inc., had no financial interest, was not affiliated in any way and had no ownership in the building company involved in this transaction. This can be verified with the Florida Division of Corporations.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan and believe that the deficiencies noted have been explained and/or documented to support that they did not increase HUD's risk to the Federal Housing Administration fund.

092-9319257-

Inadequate Debt Verification:

Comment 46

This loan was underwritten using an approved FHA automated underwriting system, Loan Prospector. As indicated in the guidelines it provides that if the credit portion of those loan applications receiving an "accept" risk classification from LP the credit/income need not be reviewed by the DE underwriter, and the MCAW will reflect the LP underwriting chums number. Since an underwriter is not required to sign the MCAW then no compensating factors need be present.

Inadequate Asset Verification:

Regarding the $350 earnest money deposit listed on the sales contract: Per FHA guidelines, of which I have attached, If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must then verify with documentation the deposit amount and the source of funds. Since the escrow deposit of $350 was not in excess of 2% of the sales price nor was it excessive we were not required to provide evidence on how it was paid.

To rectify the discrepancy between the sales contract and the HUD-1 settlement statement, please find attached a copy of the billing to the builder/seller evidencing that we billed them for the credit and appraisal in the amount of $350 and it was paid. Furthermore, on page 2 of the HUD-1 settlement statement the $350 was shown as a "P.O.C." by the buyer for the credit report and the appraisal fees.

This loan was underwritten using an approved FHA automated underwriting system, Loan Prospector. As indicated in the guidelines it provides that if the credit portion of those loan applications receiving an "accept" risk classification from LP the credit/income need not be reviewed by the DE underwriter, and the MCAW will reflect the LP underwriting chums number. Since an underwriter is not required to sign the MCAW then no compensating factors need be present.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan, aside from an unintentional error in assessing the distance between the property and borrowers employment this file was documented properly.

092-9319546-

Inadequate Asset Verification:

Comment 47

Please find attached the gift funds wire confirmation evidencing the transfer of the gift funds.

Comment 48

Regarding the $500 earnest money deposit listed on the sales contract: Per FHA guidelines, of which I have attached, If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must then verify with documentation the deposit amount and the source of funds. Since the escrow deposit of $500 was not in excess of 2% of the sales price nor was it excessive we were not required to provide evidence on how it was paid.

● Page 12 February 11, 2005

To rectify the discrepancy between the sales contract and the HUD-1 settlement statement, please find attached a copy of the billing to the builder/seller evidencing that we billed them for the credit and appraisal in the amount of $360 and it was paid. As stated previously, the earnest money deposit was reduced by this amount and the balance of $140 was then given as credit for the earnest money deposit on the HUD-1 settlement statement. Furthermore, on page 2 of the HUD-1 settlement statement the $360 was shown as a "P.O.C." by the buyer for the credit report and the appraisal fees

Other deficiencies:

Comment 49

This loan was approved on a 2/1 buydown. The compensating factor would be that the borrowers had demonstrated the ability to manage financial obligations in such a way that a greater portion of income could be devoted to housing expenses. Both borrowers had excellent credit histories.

We would like to point out that the reason(s) for the default was not due to the loan payment increase as a result of the 2/1 buydown. As demonstrated by the number of payments made prior to the default.

Trust America Mortgage, Inc. does not believe it acted negligent in any way in the processing and/or underwriting of this loan and believe that the deficiencies noted have been explained and/or documented to support that they did not increase HUD's risk to the Federal Housing Administration fund.

092-9348985-

Inadequate Asset Verification:

Comment 50

Regarding the $350 earnest money deposit listed on the sales contract: Per FHA guidelines, of which I have attached, If the amount of the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's history of accumulating savings, the lender must then verify with documentation the deposit amount and the source of funds. Since the escrow deposit of $350 was not in excess of 2% of the sales price nor was it excessive we were not required to provide evidence on how it was paid. Also, the HUD-1 settlement statement reflected the borrower was given a credit for $350 for earnest money deposit. Trust America Mortgage, Inc. did not bill the seller/builder for these funds to cover the appraisal and credit report fees. What was not verified by an escrow letter was the additional $500 paid to the builder after the signing of the contract.

Inadequate Debt Verification:

Comment 51

Ratios on the copy of the MCAW in the copy file reflect 29.91%/42.75%. Auditor indicated that the debt ratio was 44.14%. I'm not sure where this figure came from. I am enclosing a copy of the MCAW for your review.

Comment 52

The underwriter correctly marked the Direct Endorsement Approval. The certification asks whether the mortgagee does/does not have a financial interest in or a relationship, by affiliation or ownership, with the builder or seller involved in this transaction. At the time of application, processing, underwriting and closing, Trust America Mortgage, Inc., had no financial interest, was not affiliated in any way and had no ownership in the building company involved in this transaction. This can be verified with the Florida Division of Corporations.

Comment 53

Comment 54

Comment 55

QUALITY CONTROL RESPONSE:

Ten Percent of FHA insured loans not reviewed:

Part of the reason for why a full 10% was not reviewed by our quality control contractor was due to a computer error in that a list of closed loans for our February production was inadvertently sent again for our April production. This error was not caught until the review by your office. We immediately sent the QC contractor the correct list for our April production to request a sampling for QC purposes.

In addition, our staff has been advised and has immediately implemented new procedures for ensuring that our QC contractor is reviewing a full 10% of FHA loans. We will be sending 3 lists of loans to the contractor; 1 for FHA, 1 for VA and one for Conventional. We will be requesting that they pick 10% of each type of loan. We have also gone back through the entire 2004 fiscal year and have determined how many additional loans need to be reviewed by the contractor. We have re-sent them the lists of FHA closed loan on a per month basis, crossed off the loans already reviewed and requested that they choose how every many more that it is determined to satisfy the 10% requirement. As stated in the report it appears we are short about 7 loans for the time period 2/04 through 6/04.

Early Default and Rejected Loans Not reviewed:

2 of our defaulted loans were not sent to the QC contractor in a timely manner. This was due to unforeseen circumstances in that during the summer months of 2004 we experienced 4 named hurricanes that directly affected our office. During the first Hurricane, Charley, our office and office building sustained significant damage and we were unable to use our office for approximately 30 days. Once back in our office we had to prepare for an impending hurricane another 3 times, this meant packing files, computers, items in and around our desks, etc. Each time it took time to reorganize and try to catch up on our day-to-day functions of a busy mortgage company. We admit some things got lost in the shuffle and I believe this to be one of them. We have had the policy of having our defaulted loans reviewed by the QC contractor and continue to do so.

As far as having our rejected loans reviewed. Our office has a policy that when a credit application comes in we request credit reports, income and asset documentation to determine if we will be able to process and subsequently approve a loan. At this point this loan is not an FHA loan in that we do not pull an FHA case number. If it is determined that we will not be able to approve the loan we believe it is in the borrowers best interest to let them know right away so they have not invested any time or money and may contact another lender. I would say approximately 99% of our "dead" loans are withdrawals and not actually rejected loans. However, we will be generating a list of any FHA loans from our 2004 production that were rejected and will be immediately sending this list to the QC contractor so they can choose 10% for review.

Written Quality Control Plan did not contain required elements:

In reviewing the QC plan it was noted that it was not specific as to the percentage of FHA loans that would be audited. It has been amended to include this specific verbiage.

Regarding procedures existing for expanding the scope of the quality control review when fraud or patterns of deficiencies exist. As stated in my previous response, the QC contractor addressed this issue in a supplement to the QC plan in response to the update of HUD's handbook 4060.1 Rev-1. They noted what their policy/procedures are if they discover fraud or patterns of deficiencies exist. However, more specific verbiage has been added to the main QC plan for clarification purposes.

Regarding compensating factors are sufficient and documented if the debt to income ratios exceeds FHA recommended limits. In reviewing our current QC plan it was noted that it was not specific enough in this respect. The QC plan has been amended to include the appropriate verbiage.

The lender and HUD are protected from unacceptable risk and guarded against errors, omissions and fraud. These statements are referred to in 6-2 as the overriding goals of Quality Control. The plan does not have to specifically mention these exact words but be designed to meet these basic goals. We believe that our QC plan has been designed to achieve these goals. We do not believe that the absence of specific verbiage in a few areas takes away from this ultimate goal as stated above.

Regarding the preliminary and final loan applications and all credit documents are consistent and reconciled. Under section VII paragraph W in our QC plan it states "All conflicting information in the loan files will be resolved prior to submission to HUD". Also, under section VII paragraph O it states, "Initial loan applications will list each outstanding debt and asset that was used to qualify the mortgagor. We believe these statements cover this requirement. However, we have revised the statements to be more specific to include the verbiage of preliminary loan application, final loan application and all credit documents.

All in all we only had to add a few items to our existing plan and only for clarification purposes. We believe, as a lender, that we take the appropriate measures to insure that our loans are processed, underwritten and closed accurately and with the utmost efficiency and integrity.

We believe we have addressed all the areas of concern and hope that you take our explanations and follow-up documentation into consideration when preparing your final report.

Thank you for your time and consideration.

Sincerely,

Claire Walker Pope

Claire Walker Pope
President

OIG's Evaluation of Auditee Comments

Comment 1

Trust America's response did not state whether they concur or not with our audit recommendations.

Comment 2

Case Number 092-9308470
Inadequate Debt Verification

Trust America acknowledges it miscalculated the total fixed payment to income ratio.

Comment 3

Case Number 092-9308470
Inadequate Asset Verification

Trust America provided us with the gift funds wire transfer confirmation. This document was not in the HUD case binder or the lender's loan file. During the exit conference, Trust America informed us that they would obtain the wire transfer confirmations from the nonprofit gift donor. The wire transfer date was December 23, 2002. This loan closed on December 20, 2002. The wire transfer confirmation shows a revision date of August 4, 2004. This gives the appearance that the document was prepared over a year after the transaction occurred.

According to HUD Handbook 4155.1 Revision 4, Change 1, paragraph 3-1, the application package should contain sufficient documentation to support the lender's decision to approve the mortgage loan.

Comment 4

Case Number 092-9308470
Inadequate Asset Verification

HUD requires the lender to verify all funds for the borrower's investment in the property. Without the earnest deposit of $350, the borrower would have not met the minimum down-payment.

Comment 5

Case Number 092-9308470
Other Deficiencies

Trust America states it had no financial interest nor was affiliated in any way with the builder/seller. However, no documentation was provided to support this statement. Documentation we reviewed and an interview with a loan officer disclosed the affiliated business relationship between Trust America and the builder/seller. The HUD case binder and the lender's loan file had no evidence the borrower was aware of the relationship.

Comment 6

Case Number 092-9287653
Inadequate Asset Verification

Trust America provided us with the gift funds wire transfer confirmation. This document was not in the HUD case binder or the lender's loan file. During the exit conference, Trust America informed us that it would obtain the wire transfer confirmations from the nonprofit gift donor.

According to HUD Handbook 4155.1 Revision 4, Change 1, paragraph 3-1, the application package should contain sufficient documentation to support the lender's decision to approve the mortgage loan.

Comment 7

Case Number 092-9287653
Inadequate Asset Verification

HUD requires all funds for the borrower's investment to be verified. HUD also requires the earnest deposit amount and source of funds to be verified if it appears excessive based on the borrower's history of accumulating savings. This borrower did not have a bank account and Trust America did not provide satisfactory evidence of the borrower's ability of accumulating savings.

Trust America provided us with an invoice showing it billed $360 to the builder/seller for the appraisal and credit report. The invoice does not properly support that the borrower paid the earnest deposit and raises the concern whether the builder/seller provided the earnest deposit. The invoice was not provided to us during our review and was not included in the HUD case binder or in the lender's loan file. Without proper documentation, Trust America cannot ensure the funds did not come from prohibited parties.

Comment 8	**Case Number 092-9287653** **Inadequate Asset Verification** Trust America did not provide any additional information on the source of funds for recent debt payoff issues.
Comment 9	**Case Number 092-9287653** **Other Deficiencies** Trust America states the borrower was debt free and a greater portion of her earnings would be available to make the mortgage payment. However, this explanation was not in the HUD case binder or the lender's loan file. Lenders must establish the borrower's ability to make higher mortgage payments in the future and it must be supported by sufficient documentation.
Comment 10	**Case Number 092-8937759** **Inadequate Debt Verification** Trust America states the reason for using the overtime income. However, this justification was not documented in the HUD case binder or the lender's loan file. According to HUD Handbook 4155.1 Revision 4, Change 1, paragraph 3-1, the application package should contain sufficient documentation to support the lender's decision to approve the mortgage loan.
Comment 11	**Case Number 092-8937759** **Inadequate Asset Verification** Trust America did not verify assets in accordance with HUD requirements. Trust America states the borrower's investment toward the purchase of the property was $4,855. Trust America provided us with an escrow letter that includes a schedule of the amount and date the borrower paid to the builder/seller. The escrow letter is not sufficient to meet HUD requirements or ensure funds did not originate from an unallowable source. The escrow letter was not in the HUD case binder or in the lender's loan file. Trust America did not comment on the issues that the borrower did not meet the minimum down-payment.

Comment 12

Case Number 092-8937759
Other Deficiencies

We acknowledged the borrower received child support income and it was not used as effective income in qualifying the borrower. However, Florida State records located in the HUD case binder show the child support payments made to the borrower were not steady and amounts in arrears existed. We considered the child support income not to have met any of the four criteria established in HUD requirements.

Comment 13

Case Number 092-8944460
Inadequate Asset Verification

Trust America provided us with the gift funds wire transfer confirmation. This document was not in the HUD case binder and the lender's loan file. During the exit conference, Trust America informed us that it would obtain the wire transfer confirmations from the nonprofit gift donor. The wire transfer date was September 5, 2002. This loan closed on September 4, 2002.

According to HUD Handbook 4155.1 Revision 4, Change 1, paragraph 3-1, the application package should contain sufficient documentation to support the lender's decision to approve the mortgage loan.

Comment 14

Case Number 092-8944460
Inadequate Asset Verification

HUD requires all funds for the borrower's investment to be verified. HUD also requires the earnest deposit amount and source of funds to be verified if it appears excessive based on the borrower's history of accumulating savings. Documentation in the HUD case binder demonstrates that the earnest deposit of $500 was excessive based on the borrower's history of accumulating savings.

Trust America provided us invoices it billed to the builder/seller for the appraisal and credit report. The invoices do not properly support that the borrower paid the earnest deposit and raises the concern whether the builder/seller provided the earnest deposit. These invoices were not provided to us during our review and were not included in the HUD case binder or the lender's loan file. Without proper documentation, Trust America cannot ensure that the funds did not come from prohibited parties.

Trust America did not properly verify assets in accordance with HUD requirements. Trust America states the borrower had sufficient assets of $518 in his bank account to satisfy the source of funds to close. However, the bank statement included in the HUD case binder supporting the $518 was for the period ending July 12, 2002. This loan closed on September 4, 2002.

Comment 15

Case Number 092-8944460
Inadequate Debt Verification

Trust America states the borrower had sufficient assets of $518 in his bank account to satisfy the payment of the $260 collection. However, the bank statement included in the HUD case binder supporting the $518 was for the period ending July 12, 2002. The collection was paid on August 27, 2002.

The credit explanation letters were faxed by the builder/seller (interested third party), which violates HUD regulations.

Comment 16

Case Number 092-8944460
Other Deficiencies

We acknowledge that the lender might not have been aware of the borrower's employment issue.

Trust America states the borrower had minimal debt and a greater portion of his earnings would be available to make the mortgage payment. However, this explanation was not in the HUD case binder or the lender's loan file. Lenders must establish the borrower's ability to make higher mortgage payments in the future and it must be supported by sufficient documentation.

Comment 17

Case Number 092-9016031
Inadequate Debt Verification

HUD allows overtime income to be used to qualify if the verification of employment does not state categorically that such income is not likely to continue.

Trust America did not comment on the compensating factors issue.

Comment 18

Case Number 092-9016031
Inadequate Asset Verification

Trust America provided us with the gift funds wire transfer confirmation report. The report was generated on February 9, 2005. This document was not in the HUD case binder or the lender loan file. During the exit conference, Trust America informed us that it would obtain wire transfer confirmations from the nonprofit gift donor. The wire transfer date was August 1, 2002. This loan closed on July 30, 2002.

According to HUD Handbook 4155.1 Revision 4, Change 1, paragraph 3-1, the application package should contain sufficient documentation to support the lender's decision to approve the mortgage loan.

Comment 19

Case Number 092-9016031
Inadequate Asset Verification

Trust America did not comment on the source of the earnest deposit, but indicated it cannot determine whether the borrower should have received a credit from the builder/seller at the time of closing. Without a credit for the earnest deposit, the borrower would have not met the minimum down-payment of $3,061. The borrower only invested $2,985, which represented a gift from a down-payment assistance program.

Comment 20

Case Number 092-9016031
Inadequate Asset Verification

Trust America did not comment on the source of funds for the three large deposits and the collection payments.

In addition, Trust America did not comment on the buydown interest rate loan, and the conflicting relationship between its owner and the builder/seller.

Comment 21

Case Number 092-9031856

Trust America provided us with the gift funds wire transfer confirmation report. This document was not in the HUD case binder or the lender loan file. During the exit conference, Trust America informed us that it would obtain wire transfer confirmations from the nonprofit gift donor.

According to HUD Handbook 4155.1 Revision 4, Change 1, paragraph 3-1, the application package should contain sufficient documentation to support the lender's decision to approve the mortgage loan.

Comment 22

Case Number 092-9031856

HUD requires all funds for the borrower's investment to be verified. HUD also requires the earnest deposit amount and source of funds to be verified if it appears excessive based on the borrower's history of accumulating savings. Documentation in the HUD case binder demonstrates that the earnest deposit of $350 was excessive based on the borrower's history of accumulating savings.

Trust America provided us with an invoice showing it billed $360 to the builder/seller for the appraisal and credit report. The invoice does not properly support that the borrower paid the earnest deposit and raises the concern whether the builder/seller provided the earnest deposit. This invoice was not provided to us during our review and was not included in the HUD case binder or the lender's loan file. Without proper documentation, Trust America cannot ensure the funds did not come from prohibited parties.

Comment 23

Case Number 092-9031856
Other Deficiencies

Trust America states the borrower had potential for increased income as indicated by her position as general manager of a restaurant. However, this explanation was not in the HUD case binder or the lender's loan file. In addition, the verification of employment shows no indication of recent or future pay increases. Lenders must establish the borrower's ability to make higher mortgage payments in the future using one of four criteria prescribed by HUD and it must be supported by sufficient documentation.

Comment 24

Case Number 092-9178802
Inadequate Asset Verification

Trust America provided us with the gift funds wire transfer confirmation report. This document was not in the HUD case binder or the lender loan file. During the exit conference, Trust America informed us that it would obtain the wire transfer confirmations from the nonprofit gift donor. The report was generated on February 9, 2005.

Comment 25

Case Number 092-9178802
Inadequate Asset Verification

Trust America commented that the minimum required investment ($3,120) was three percent, which was provided 100 percent by the gift funds. The borrower received his earnest deposit back since this was a zero percent loan due to the gift fund contribution.

The borrower's minimum required investment (down-payment) to acquire this property was $3,209. The minimum down-payment is the difference between the acquisition cost (sales price plus borrower-paid closing costs) and the maximum mortgage amount. The $3,120 represents the statutory investment requirement, which is three percent of the sales price.

Comment 26

Case Number 092-9178802
Other Deficiencies

The explanation provided by Trust America was not documented in the HUD case binder and lender's loan file. Lenders must establish the borrower's ability to make higher mortgage payments in the future using one of four criteria prescribed by HUD and it must be supported by sufficient documentation.

Trust America did not comment on the issue regarding the relationship between the owner of Trust America and the builder/seller entity.

Comment 27

Case Number 092-9184889
Inadequate Asset Verification

HUD requires all funds for the borrower's investment to be verified. HUD also requires the earnest deposit amount and source of funds to be verified if it appears excessive based on the borrower's history of accumulating savings. This borrower did not have a bank account and Trust America did not provide satisfactory evidence of the borrower's ability of accumulating savings.

Comment 28

Case Number 092-9184889
Inadequate Asset Verification

The borrower's minimum required investment (down-payment) to acquire this property was $3,501. The minimum down-payment is the difference between the acquisition cost (sales price plus borrower-paid closing costs) and the maximum mortgage amount. The $3,306 (gift funds) represents the statutory investment requirement, which is three percent of the sales price.

Comment 29

Case Number 092-9184889
Inadequate Asset Verification

Trust America provided no additional documentation regarding the recent debts payoff issue. Trust America states the borrower's monthly disposable income was over $1,450. However, the borrower did not maintain a bank account and Trust America did not provide satisfactory evidence of the borrower's ability of accumulating savings.

Comment 30

Case Number 092-9184889
Other Deficiencies

Trust America states the compensating factor was that both ratios at the note rate were 37 percent. Trust America added that the borrowers were basically debt free and only had a $15 per month payment, which means that a greater portion of their earnings could be devoted to their housing expense. This explanation was not in the HUD case binder and lender's loan file. In addition, the borrower has not demonstrated an ability to manage financial obligations as indicated by the collection accounts. Lenders must establish the borrower's ability to make higher mortgage payments in the future using one of the four criteria prescribed by HUD and it must be supported by sufficient documentation.

Comment 31

Case Number 092-9184889
Other Deficiencies

We acknowledge that since the file was submitted to HUD prior to the 15th of the month, a payment ledger was not required. We revised our narrative accordingly.

Comment 32

Case Number 092-9221657

HUD requires all funds for the borrower's investment to be verified. HUD also requires the earnest deposit amount and source of funds to be verified if it appears excessive based on the borrower's history of accumulating savings. Documentation in the HUD case binder demonstrates that the earnest deposit of $350 was excessive based on the borrower's history of accumulating savings.

Trust America provided us with an invoice showing it billed $350 to the builder/seller for the appraisal and credit report. The invoice does not properly support that the borrower paid the earnest deposit and raises the concern whether the builder/seller provided the earnest deposit. In addition, the document was not provided to us during our review and was not included in the HUD case binder and lender's loan file. Without proper documentation, Trust America cannot ensure the funds did not come from prohibited parties.

Comment 33

Case Number 092-9221657
Inadequate Debt Verification

Trust America did not properly verify assets in accordance with HUD requirements. Trust America states the borrower had assets in excess of $400 in his bank account to repay the collections. However, the borrower did not have a bank account. The co-borrower had a bank account, but the bank statement included in the loan file supporting the $400 was for the period ending August 14, 2002. The collections were paid on September 27, 2002. The collections were not paid with personal checks.

Comment 34

Case Number 092-9221657
Inadequate Debt Verification

Documentation in the file indicated the borrower was retroactively paying child support of $1,434. This debt was considered in the qualification process. The collection for child support shown in the credit report was $3,252.

Comment 35

Case Number 092-9221657
Other Deficiencies

Trust America states the borrower had potential for increased income as indicated by his position as general manager of a restaurant. This explanation was not documented in the HUD case binder or the lender's loan file. Lenders must establish the borrower's ability to make higher mortgage payments in the future using one of the four criteria prescribed by HUD and it must be supported by sufficient documentation.

Trust America did not comment on the issue that the HUD-1 Settlement Statement was altered after settlement.

Comment 36

Case Number 092-9251108
Inadequate Debt Verification

HUD requires the lender to verify all funds for the borrower's investment in the property. Without the earnest deposit of $500, the borrower would have not met the minimum down-payment.

Trust America provided us with an invoice showing it billed $420 to the builder/seller for the appraisal and credit report. The invoice does not properly support that the borrower paid the earnest deposit and raises the concern whether the builder/seller provided the earnest deposit. In addition, the document was not provided to us during our review and was not included in the HUD case binder and lender's loan file. Without proper documentation, Trust America cannot ensure the funds did not come from prohibited parties.

Trust America claims the borrowers had sufficient assets in their bank accounts to satisfy the source of funds to close of $3,690. However, this is inconsistent with the information in the HUD case binder. The bank statements were faxed by the builder/seller (interested third party), which violates HUD regulations. There were no verifications of deposit to ensure the funds did not come from prohibited parties. The property closed October 25, 2002. As we indicated above, HUD requires the lender to verify all funds for the borrower's investment in the property.

	Amount	Date
Bank Account # 1	$2,803.17	10/24/02
Bank Account # 2	2,704.28	10/07/02
Bank Account # 3	54.87	10/07/02

Comment 37

Case Number 092-9291317
Inadequate Debt Verification

Trust America acknowledges it miscalculated the total fixed payment to income ratio.

Comment 38

Case Number 092-9291317
Inadequate Asset Verification

Trust America did not provide any other information regarding the source of funds for the three large deposits.

Trust America did not comment on the earnest deposit issue.

Comment 39

Case Number 092-9291317
Other Deficiencies

Trust America did not submit documentation to support the compensating factor listed on the mortgage credit analysis worksheet. The verification of the co-borrower's employment was faxed by the borrower's employment location (interested third party), which violates HUD requirements.

Comment 40

Case Number 092-9295695
Inadequate Asset Verification

HUD requires all funds for the borrower's investment to be verified. Without the earnest deposit of $350, the borrower would have not met the minimum down-payment.

Trust America provided us with an invoice showing it billed $350 to the builder/seller for the appraisal and credit report. The invoice does not properly support that the borrower paid the earnest deposit and raises the concern whether the builder/seller provided the earnest deposit. This invoice was not provided to us during our review and was not included in the HUD case binder and lender's loan file. Without proper documentation, Trust America cannot ensure the funds did not come from prohibited parties.

Comment 41

Case Number 092-9295695
Other Deficiencies

HUD's Neighborhood Watch system shows the first payment for this loan was due on July 1, 2003. HUD received this loan for endorsement on August 8, 2003. Trust America should have provided a payment ledger showing the loan was current and an explanation for the delay and actions taken to prevent future delayed submissions.

Comment 42

Case Number 092-9312350
Inadequate Asset Verification

Trust America provided us with the gift funds wire transfer confirmation. This document was not in the HUD case binder or the lender's loan file. During the exit conference, Trust America informed us that it would obtain the wire transfer confirmations from the nonprofit gift donor. This loan closed on February 21, 2003. However, the wire transfer confirmation showed a revision date of August 4, 2004. This gives the appearance the document was prepared over a year after the transaction occurred.

Comment 43

Case Number 092-9312350
Inadequate Asset Verification

HUD requires all funds for the borrower's investment to be verified. HUD also requires the earnest deposit amount and source of funds to be verified if it appears excessive based on the borrower's history of accumulating savings. The borrower did not have a bank account and Trust America did not provide satisfactory evidence of the borrower's ability of accumulating savings.

Comment 44

Case Number 092-9312350
Inadequate Asset Verification

The borrower's minimum required investment (down-payment) to acquire this property was $3,675. The minimum down-payment is the difference between the acquisition cost (sales price plus borrower-paid closing costs) and the maximum mortgage amount. The real estate tax proration of $15 was a credit (not cash) on page 1 of the HUD-1 Settlement Statement under "items unpaid by seller." The builder/seller was responsible for paying the taxes while it owned the property. Seller's contribution is not an acceptable source for the cash investment as prescribed in HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-10.

Trust America did not comment on the source of funds for recent debt payoffs issue.

Comment 45

Case Number 092-9312350
Inadequate Asset Verification

Trust America states it had no financial interest nor was affiliated in any way with the builder/seller. However, no documentation was provided to support this statement. Documentation we reviewed and an interview with a loan officer disclosed the affiliated business relationship between Trust America and the builder/seller. The HUD case binder showed no evidence the borrower was aware of the relationship.

Comment 46

Case Number 092-9319257
Inadequate Asset Verification

HUD requires all funds for the borrower's investment to be verified. Without the earnest deposit of $350, the borrower would have not met the minimum down-payment. Some of the bank statements located in the HUD case binder were faxed by the builder/seller (interested third party), which is prohibited by HUD regulations.

Trust America provided us with an invoice showing it billed $350 to the builder/seller for the appraisal and credit report. The invoice does not properly support that the borrower paid the earnest deposit and raises the concern whether the builder/seller provided the earnest deposit. This invoice was not provided to us during our review and was not included in the HUD case binder and lender's loan file. Without proper documentation, Trust America cannot ensure the funds did not come from prohibited parties.

Trust America did not comment on the verification of the borrower's earnings, buydown interest rate loan, and alteration of the HUD-1 Settlement Statement.

Case Number 092-9319546

Comment 47 **Inadequate Asset Verification**

Trust America provided us with the gift funds wire transfer confirmation. This document was not in the HUD case binder or the lender's loan file. During the exit conference, Trust America informed us that it would obtain the wire transfer confirmations from the nonprofit gift donor. This loan closed February 14, 2003. However, the wire transfer date was February 18, 2003.

Case Number 092-9319546

Comment 48 **Inadequate Asset Verification**

HUD requires all funds for the borrower's investment to be verified. HUD also requires the earnest deposit amount and source of funds to be verified if it appears excessive based on the borrower's history of accumulating savings. Documentation in the HUD case binder demonstrates that the earnest deposit of $500 was excessive based on the borrower's ability of accumulating savings. In addition, the bank statements included in the HUD case binder were faxed by the builder/seller (interested third party), which violates HUD requirements.

Trust America provided us with an invoice showing it billed $360 to the builder/seller for the appraisal and credit report. The invoice does not properly support that the borrower paid the earnest deposit and raises the concern whether the builder/seller provided the earnest deposit. The invoice was not provided to us during our review and was not included in the HUD case binder and lender's loan file. Without proper documentation, Trust America cannot ensure the funds did not come from prohibited parties.

Comment 49	**Case Number 092-9319546** **Other Deficiencies** Trust America states the borrowers had demonstrated the ability to manage financial obligations in such a way that a greater portion of the income may be devoted to housing expenses. This explanation was not documented in the HUD case binder or the lender's loan file. Lenders must establish the borrower's ability to make higher mortgage payments in the future using one of the four criteria prescribed by HUD and it must be supported by sufficient documentation. Trust America did not comment on the HUD employee issue.
Comment 50	**Case Number 092-9348985** **Inadequate Asset Verification** HUD requires all funds for the borrower's investment to be verified. HUD also requires the earnest deposit amount and source of funds to be verified if it appears excessive based on the borrower's history of accumulating savings. Documentation in the HUD case binder demonstrates that the earnest deposit was excessive based on the borrower's ability of accumulating savings. Trust America did not comment on the minimum down-payment and source of funds for recent debt payoffs issues.
Comment 51	**Case Number 092-9348985** **Inadequate Debt Verification** The mortgage credit analysis worksheet submitted to HUD shows a total fixed payment to income ratio of 44.14. Trust America did not provide a valid compensating factor for exceeding the ratio.

Comment 52

Case Number 092-9348985
Inadequate Debt Verification

Trust America states it had no financial interest nor was affiliated in any way with the builder/seller. However, no documentation was provided to support this statement. Documentation we reviewed and an interview with a loan officer disclosed the affiliated business relationship between Trust America and the builder/seller. The HUD case binder showed no evidence the borrower was aware of the relationship.

Comment 53

Quality Control Response:
Ten Percent of FHA insured loans not reviewed

Trust America agrees that ten percent of Federal Housing Administration-insured loans were not reviewed and has implemented procedures to ensure that the required quality control reviews are completed.

Comment 54

Quality Control Response:
Early Default and Rejected Loans Not reviewed

Trust America agrees that two early defaulted loans were not sent to the contractor for a quality control review due to recent hurricanes in the area. Trust America states that it has a policy of sending defaulted loans for review and will continue to do so.

Trust America states it will send a list of rejected Federal Housing Administration loans from 2004 to the contractor for review.

Comment 55

Quality Control Response:
Written Quality Control Plan did not contain required elements

Trust America states that it modified its written quality control plan to comply with HUD requirements. However, Trust America did not provide us with its revised plan.

Appendix C

ACTIVE LOANS TRUST AMERICA SHOULD INDEMNIFY

Case Number	Loan Amount	Settlement Date	Status
092-8937759	$133,980	06/12/02	In default, repayment
092-8944460	133,792	09/04/02	In default, repayment
092-9016031	98,719	07/30/02	In default, delinquent
092-9178802	103,184	09/03/02	In default, repayment
092-9291317	135,925	06/27/03	In default, repayment
092-9319257	117,868	12/30/02	Reinstated by mortgagor who retains ownership
092-9319546	125,806	02/14/03	In default, modification
092-9348985	128,435	04/11/03	Reinstated by mortgagor who retains ownership
Total	**$977,709**		

Appendix D

SUMMARY OF LOAN DEFICIENCIES

Case Number	Loan Amount	Inadequate Asset Verification	Other Deficiencies	Inadequate Debt Verification
092-8937759	$133,980	X	X	X
092-8944460	133,792	X	X	X
092-9016031	98,719	X	X	X
092-9031856	116,281	X	X	
092-9178802	103,184	X	X	
092-9184889	109,335	X	X	
092-9221657	120,646	X	X	X
092-9251108	134,437	X		X
092-9287653	125,904	X	X	
092-9291317	135,925	X	X	X
092-9295695	146,244	X	X	
092-9308470	109,038	X	X	X
092-9312350	109,485	X	X	
092-9319257	117,868	X	X	X
092-9319546	125,806	X	X	
092-9348985	128,435	X	X	X
Total	$1,949,079	16	15	9

Appendix E

NARRATIVE LOAN DEFICIENCIES

Case number:	092-8937759
Mortgage amount:	$133,980
Date of loan closing:	06/12/02
Current status:	In default as of 12/30/04, repayment
Cause of default:	Other
Number of payments before first default was reported:	Cannot be accurately calculated.

Summary:

Inadequate Debt Verification

Trust America approved the loan without properly computing the qualifying ratios. It calculated the front and back qualifying ratios as 25.24 and 44.52 percent, respectively, on the mortgage credit analysis worksheet. Trust America improperly included overtime in computing the monthly income. The verification of employment in the loan file indicated the borrower had been employed for less than 2 years. Trust America failed to document the probability of the continuance of the borrower's overtime income as required by HUD. Contrary to HUD Handbook 4155.1, Trust America did not justify and document the reason for using the overtime income to qualify the borrower. We calculated the front and back qualifying ratios as 31.29 and 55.17 percent, respectively.

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not properly verify and document the source of the earnest deposit. It did not clarify important file discrepancies. The agreement to build the home and the final loan application showed an earnest deposit of $350. According to the HUD-1 Settlement Statement, the earnest deposit was $4,505. The loan file included a letter from the builder/seller acknowledging it was holding $4,505 as an earnest deposit. Trust America told us that the builder/seller arranged a monthly payment plan for the borrower to pay the earnest deposit during construction of the property. However, there is no documentation in the loan file showing how and when the amounts were paid. In addition, Trust America failed to ensure the borrower met the minimum down payment in the purchase of the property. The minimum down payment to acquire the property was $4,001. Trust America did not provide sufficient documentation in the loan file to support that the borrower met the requirement.

Other Deficiencies

Contrary to requirements outlined in HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-14, Trust America approved the buydown interest rate loan without properly documenting the borrower's ability to make higher mortgage payments in the future. The qualifying ratios for the buydown interest rate loan were 25.24 percent and 44.52 percent. We calculated the qualifying ratios without the buydown interest rate loan as 37.18 percent and 61.06 percent.

Case number:	092-8944460
Mortgage amount:	$133,792
Date of loan closing:	09/04/02
Current status:	In default as of 12/30/04, repayment
Cause of default:	Curtailment of borrower income
Number of payments before first default was reported:	4

Summary:

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. Contrary to requirements in HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-10C, Trust America did not obtain supporting documentation from a down-payment assistance program on how the gift funds were transferred to the borrower. The gift funds of $4,045 represented 100 percent of the borrower's minimum down payment.

Trust America did not properly verify and document the source of the earnest deposit and cash paid at closing, which were the borrower's only contributions toward the acquisition of the property. Trust America did not clarify important file discrepancies. The agreement to build the home showed a $500 earnest deposit. Both the initial and final loan applications showed a $350 earnest deposit. According to the HUD-1 Settlement Statement, the earnest deposit was $150. The HUD-1 Settlement Statement also showed the borrower paid $136 at closing. Trust America told us that the seller/builder collected $500 from the borrower when the agreement to build the home was signed. Trust America then billed the seller/builder $350 to cover the cost of the credit report and appraisal with the $150 balance credited as earnest money on the HUD-1 Settlement Statement. The loan file contains no evidence showing how the earnest deposit and closing amount were paid.

Inadequate Debt Verification

Trust America approved the loan without properly analyzing the borrower's credit to ensure that the borrower demonstrated financial responsibility. It failed to provide supporting documentation in the loan file regarding the borrower's credit history. A mortgage advisor data package and the initial loan application showed a debt with monthly payments of $36 and an unpaid balance of $4,026. The credit report showed a note stating, "Deleted Sears Auth User 8/22/02." The debt was not listed in the final loan application. Trust America told us that the debt was removed from the credit report and not used in the qualification process because the borrower was an authorized user and not responsible for the account. In another instance, a $260 medical collection was paid without documentation of the source of funds used.

The loan file contained justification letters faxed from the builder/seller for the collection accounts. Trust America told us that builders/sellers often assist borrowers during the loan process by preparing letters explaining derogatory credit information. It claimed that the builders/sellers prepare the letters with information provided by the borrowers, and the borrowers sign the letters. We question the authenticity of these letters since the builders/sellers have a financial interest in the transaction.

Other Deficiencies

We verified with the employer that the borrower was employed through August 19, 2002. On the final loan application dated September 4, 2002 (also closing date), the borrower certified that he still worked for this employer. The borrower refused to discuss this matter with us.

Contrary to the requirements of HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-14, Trust America approved the buydown interest rate loan without properly documenting the borrower’s ability to make higher mortgage payments in the future.

Case number:	092-9016031
Mortgage amount:	$98,719
Date of loan closing:	07/30/02
Current status:	In default as of 12/30/04, delinquent
Cause of default:	Illness of principal mortgagor
Number of payments before first default was reported:	15

Summary:

Inadequate Debt Verification

Trust America approved the loan without properly computing qualifying ratios. It calculated the mortgage payment to income ratio at 30.61 percent and the total fixed payment ratio at 42.99 percent on the mortgage credit analysis worksheet. Trust America improperly included overtime in computing the monthly income. The verification of employment indicated that overtime income was not likely to continue and the borrower had been employed for less than 2 years. Contrary to HUD Handbook 4155.1, Trust America did not justify and document the reason for using the overtime income to qualify the borrower. We calculated the mortgage payment to income ratio at 36.04 percent and the total fixed payment to income ratio at 50.62 percent, which exceeds HUD's permissible rates of 31 percent and 43 percent as prescribed in HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-19. Since the qualifying ratios exceeded the limit, Trust America should have provided compensating factors to justify the excess ratios.

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not obtain supporting documentation from a down-payment assistance program on how the gift funds were transferred to the borrower. The gift funds totaled $2,985 and represented more than 97 percent of the minimum down payment. Trust America informed us that it was not aware of this requirement.

Trust America did not properly verify and document the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. Trust America did not resolve conflicting loan documentation regarding the earnest deposit. The residential construction contract and the final loan application showed an earnest deposit of $360, but the HUD-1 Settlement Statement showed $0. Trust America told us that the borrower should have received a $360 credit at closing for the earnest deposit, adding that the borrower was due a refund from the builder/seller. The loan file contains no evidence showing how the earnest deposit was paid.

Trust America did not verify three large deposits of between $1,144 and $3,200 into the borrower's bank accounts. It also did not provide evidence of the source of funds used to repay more than $1,280 in collections. Without proper documentation, Trust America cannot ensure funds from prohibited parties were not used to repay the debt.

Other Deficiencies

Contrary to the requirements of HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-14, Trust America approved the buydown interest rate loan without properly documenting the borrower's ability to make higher mortgage payments in the future. The mortgage payment to income ratio and total fixed payment to income ratio for the buydown interest rate loan were 30.61 percent and 42.99 percent, respectively. We calculated the mortgage payment to income ratio and total fixed payment to income ratio without the buydown interest rate loan as 43.09 percent and 57.67 percent, respectively.

The owner of Trust America was also the owner of the builder/seller entity. The underwriter certified in the Direct Endorsement Approval for a HUD/ Federal Housing Administration-Insured Mortgage form that the lender did not have a financial interest in or a relationship with the builder or seller involved in this transaction. The loan file contained no evidence that the borrower was aware of this relationship. HUD's prior review also reported this issue.

Case number:	092-9031856
Mortgage amount:	$116,281
Date of loan closing:	10/01/02
Current status:	Terminated (paid in full) as of 08/31/04
Cause of default:	Curtailment of borrower income
Number of payments before first default was reported:	6

Summary:

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not obtain supporting documentation from a down-payment assistance program on how the gift funds were transferred to the borrower. The gift funds totaled $3,516 and represented more than 91 percent of the minimum down payment. Trust America informed us that it was not aware of this requirement, adding that the gift funds were wired from the nonprofit to the settlement company.

Trust America did not properly verify and document the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. Trust America did not resolve conflicting loan documentation regarding the earnest deposit. The agreement to build the home and the final loan application showed an earnest deposit of $350, but the HUD-1 Settlement Statement showed $0. Trust America told us that the seller/builder collected a $350 deposit at the time of the contract. Trust America then billed the seller/builder $350 to cover the appraisal and credit report and gave a credit to the borrower in the HUD-1 Settlement Statement. The loan file contains no evidence showing how the earnest deposit was paid.

Other Deficiencies

Contrary to the requirements of HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-14, Trust America approved the buydown interest rate loan without properly documenting the borrower's ability to make higher mortgage payments in the future. The mortgage payment to income ratio and total fixed payment to income ratio for the buydown interest rate loan were 27.10 percent and 39.83 percent, respectively. We calculated the mortgage payment to income ratio and total fixed payment to income ratio without the buydown interest rate loan as 32.60 percent and 45.30 percent, respectively.

Case number:	092-9178802
Mortgage amount:	$103,184
Date of loan closing:	09/03/02
Current status:	In default as of 12/30/04, repayment
Cause of default:	Curtailment of borrower income
Number of payments before first default was reported:	12

Summary:

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not obtain supporting documentation from a down-payment assistance program on how the gift funds were transferred to the borrower. The gift funds totaled $3,120 and represented more than 97 percent of the minimum down payment. Trust America informed us that it was not aware of this requirement. In addition, it failed to ensure the borrower met the minimum down payment in the purchase of the property. The minimum down payment to acquire the property was $3,209. The borrower only invested $3,120, which was received from the down-payment assistance program.

Other Deficiencies

Contrary to the requirements of HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-14, Trust America approved the buydown interest rate loan without properly documenting the borrower's ability to make higher mortgage payments in the future.

The owner of Trust America was also the owner of the builder/seller entity. The loan file contained no evidence that the borrower was aware of this relationship. HUD's prior review also reported this issue.

Case number:	092-9184889
Mortgage amount:	$109,335
Date of loan closing:	05/02/03
Current status:	Terminated (paid in full) as of 12/30/04
Cause of default:	Excessive obligations
Number of payments before first default was reported:	0

Summary:

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not properly verify and document the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. Trust America did not clarify important file discrepancies. The agreement to build the home showed a $360 earnest deposit, and the initial and final loan applications showed $350. According to the HUD-1 Settlement Statement, the earnest deposit was $0. Trust America told us that the seller/builder collected the $360 deposit at the time of the contract. Trust America then billed the seller/builder for the $360 to cover the appraisal and credit report and gave a credit to the borrower on the HUD-1 Settlement Statement. Trust America also told us that the $350 listed in the loan applications was a typographical error. The loan file contains no evidence showing how the earnest deposit was paid.

Trust America failed to ensure the borrower met the minimum down payment in the purchase of the property. The minimum down payment to acquire the property was $3,646. The borrower only invested $3,501, which included $3,306 from a down-payment assistance program. Trust America did not provide sufficient documentation in the loan file to support that the borrower met the requirement.

Trust America did not properly document the source of funds for recent debt payoffs. The credit reports and other information in the loan file indicated medical bills, credit cards, and other collections were recently repaid. However, the loan file lacked sufficient documentation to assess the amounts paid and the source of funds used. The borrower did not have a bank account. Without proper documentation, Trust America cannot ensure funds from prohibited parties were not used to repay the debts.

Other Deficiencies

Contrary to the requirements of HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-14, Trust America approved the buydown interest rate loan without properly documenting the borrower's ability to make higher mortgage payments in the future.

Trust America did not comply with late endorsement procedures outlined in HUD Handbook 4165.1, REV-1, paragraphs 3-1A and B. The property closed on May 2, 2003. According to HUD's Neighborhood Watch system, HUD received the endorsement package on July 7, 2003, (66 days after closing), and endorsed the loan on July 8, 2003. Trust America told us that it believed HUD would have received the loan file on time. Contrary to the requirements, Trust America failed to provide an explanation for the delay and actions taken to prevent future delayed submissions. It also failed to certify that escrow accounts were current and intact except for normal disbursements.

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Case Number:	092-9221657
Mortgage Amount:	$120,646
Date of Loan Closing:	09/27/02
Current Status:	Terminated (paid in full) as of 8/31/04
Cause for Default:	Other
Number of payments before first default was reported:	3

Summary:

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not properly verify and document the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. Trust America did not clarify important file discrepancies. The agreement to build the home and the final loan applications showed a $350 earnest deposit. According to the HUD-1 Settlement Statement, the earnest deposit was $0. Trust America told us that the seller/builder collected the $350 deposit at the time of the contract. Trust America then billed the seller/builder for the $350 to cover the appraisal and credit report and gave a credit to the borrower on the HUD-1 Settlement Statement. The loan file contains no evidence showing how the earnest deposit was paid.

Inadequate Debt Verification

Trust America approved the loan without properly analyzing the borrower's credit to ensure that the borrower demonstrated financial responsibility. It failed to provide supporting documentation in the loan file regarding the borrower's credit history. The loan file showed two money orders totaling $270 payable to Trust America to settle collection accounts. While this may indicate the borrower and co-borrower repaid these debts, there is no evidence to support the source of funds used to purchase the money orders. In addition, Trust America told us that it advised the borrowers to pay off their collections. On occasion, a borrower would misunderstand and write the check to Trust America, which would send it to the collection agency. However, there is no evidence in the loan file to support that the money orders were sent to the collection agencies. Without proper documentation, Trust America cannot ensure funds from prohibited parties were not used to repay the debts.

Trust America did not ensure derogatory information in the credit report was fully explained or resolved. The credit report showed a pattern of accounts sent to collection agencies. In letters to the lender, the borrower stated that he was not aware of the collections. The credit report showed a $3,252 debt that was sent to a collection agency without Trust America obtaining an explanation from the borrower. There is no evidence in the loan file that this account was repaid before closing or considered in the qualifying ratio calculations.

Other Deficiencies

Contrary to the requirements of HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-14, Trust America approved the buydown interest rate loan without properly documenting the borrower's ability to make higher mortgage payments in the future. The mortgage payment to income ratio and total fixed payment to income ratio for the buydown interest rate loan were 26.23 percent and 44.90 percent, respectively. We calculated the mortgage payment to income ratio and total fixed payment to income ratio without the buydown interest rate loan as 31.67 percent and 50.34 percent, respectively.

The HUD-1 Settlement Statement was altered after settlement. The changes resulted from the correction of the homeowner insurance premium and escrow amounts and affected the seller's side of the HUD-1 Settlement Statement. However, Trust America certified that the document was a true and exact copy of the original.

Case number:	092-9251108
Mortgage amount:	$134,437
Date of loan closing:	10/25/02
Current status:	Terminated (paid in full) as of 08/31/04
Cause of default:	Marital difficulties
Number of payments before first default was reported:	8

Summary:

Inadequate Debt Verification

Trust America calculated the total fixed payment to income ratio at 47.12, which exceeds HUD's permissible rate of 43 percent, as prescribed in HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-19.

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not properly verify and document the source of the earnest deposit and cash paid at closing. Trust America did not clarify important file discrepancies. The agreement to build the home and final loan application showed a $500 earnest deposit. The HUD-1 Settlement Statement showed an earnest deposit of $80. It also indicated the borrower paid $3,690 at closing. Trust America told us that the seller/builder collected $500 at the time of the contract. Trust America then billed the seller/builder $420 to cover the cost of the credit reports and appraisal and gave an $80 credit of the earnest deposit to the borrower on the HUD-1 Settlement Statement. The loan file contains no evidence showing how the earnest deposit and closing amount were paid.

Case number:	092-9287653
Mortgage amount:	$125,904
Date of loan closing:	01/28/03
Current status:	Claim (property sold with a $17,502 loss) as of 11/10/04
Cause of default:	Curtailment of borrower income
Number of payments before first default was reported:	0

Summary:

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not obtain supporting documentation from a down-payment assistance program on how the gift funds were transferred to the borrower. The gift funds totaled $3,807 and represented more than 98 percent of the minimum down payment. Trust America informed us that it was not aware of this requirement.

Trust America did not properly verify and document the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. Trust America did not resolve conflicting loan documentation regarding the earnest deposit. The agreement to build the home and the final loan application showed an earnest deposit of $500, but the HUD-1 Settlement Statement showed $140. The loan file contains no evidence how the earnest deposit was paid.

Trust America did not properly document the source of funds for recent debt payoffs. The credit report indicated the borrower paid off collections of $228 before loan closing. The borrower did not have a bank account. Without proper documentation, Trust America cannot ensure funds from prohibited parties were not used to repay these debts.

Trust America believed that because the borrower was debt free, it was reasonable that the borrower would have the funds for the earnest deposit, and to repay the debts despite not having a bank account.

Other Deficiencies

Contrary to the requirements of HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-14, Trust America approved the buydown interest rate loan without properly documenting the borrower's ability to make higher mortgage payments in the future.

Case number:	092-9291317
Mortgage amount:	$135,925
Date of loan closing:	06/27/03
Current status:	In default as of 12/30/04, repayment
Cause of default:	Illness of mortgagor's family member
Number of payments before first default was reported:	1

Summary:

Inadequate Debt Verification

Trust America approved the loan without properly computing a qualifying ratio. It excluded child support payments of $174 from the debt analysis. The co-borrower's pay stubs and a letter in the file indicated child support of $174 was deducted from the co-borrower's salary twice a month for a total of $348. Trust America agreed that it miscalculated the amount and only considered $174 in the debt determination. We calculated the total fixed payment to income ratio at 45.55 percent, which exceeds HUD's permissible rate of 43 percent, as prescribed in HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-19. Trust America should have provided compensating factors to justify the excess ratio.

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not properly verify and document the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. Trust America did not resolve conflicting loan documentation regarding the earnest deposit. The agreement to build the home and the final loan application showed an earnest deposit of $350, but the HUD-1 Settlement Statement showed $0. Trust America told us that the seller/builder collected the $350 deposit at the time of the contract. Trust America then billed the seller/builder $350 to cover the appraisal and credit report and gave a credit to the borrower on the HUD-1 Settlement Statement. The loan file contains no evidence showing how the earnest deposit was paid.

Trust America did not verify the source of funds for three large deposits of $655, $925, and $1,500 into the borrower's bank account. It believed the first two deposits represented the co-borrower's salary, but there was no supporting documentation in the loan file. In addition, the co-borrower's pay stubs in the loan file indicated uneven amounts. As for the deposit of $1,500, Trust America agreed that it did not verify the source of funds.

Other Deficiencies

Contrary to HUD requirements, Trust America approved the buydown interest rate loan without properly documenting the borrower's ability to make higher mortgage payments in the future. The qualifying ratios for the buydown interest rate loan are 18.25 percent and 42.02 percent, respectively. We calculated the qualifying ratios without the buydown interest rate loan as 21.75 percent and 49.05 percent, respectively.

Trust America did not exercise due care in the verification of the co-borrower's employment. The verification of employment was faxed from the borrower's (interested third party) employment location, which violates HUD requirements. In addition, the co-borrower's employer informed us that the salary rate shown on the verification of employment was inaccurate.

Case number:	092-9295695
Mortgage amount:	$146,244
Date of loan closing:	11/26/02
Current status:	Terminated (paid in full) as of 12/30/04
Cause of default:	Illness of principal mortgagor
Number of payments before first default was reported:	3

Summary:

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not properly verify and document the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. Trust America did not resolve conflicting loan documentation regarding the earnest deposit. The agreement to build the home and the final loan application showed an earnest deposit of $350, but the HUD-1 Settlement Statement showed $0. Trust America told us that the seller/builder collected the $350 deposit at the time of the contract. Trust America then billed the seller/builder $350 to cover the appraisal and credit report and gave a credit to the borrower on the HUD-1 Settlement Statement. The loan file contains no evidence showing how the earnest deposit was paid.

Other Deficiencies

The HUD-1 Settlement Statement was altered after settlement. The changes resulted from the correction of the homeowner insurance premium and escrow amounts and affected the seller's side of the HUD-1 Settlement Statement. However, Trust America certified that the document was a true and exact copy of the original.

Trust America did not comply with late endorsement procedures outlined in HUD Handbook 4165.1, Revision 1, paragraphs 3-1A and B. The property closed on November 26, 2002. According to HUD's Neighborhood Watch system, HUD received the endorsement package on August 8, 2003 (255 days after closing), and endorsed the loan on August 11, 2003. Trust America told us that this loan was not submitted late for endorsement. The loan was a construction/permanent loan, and Trust America was not allowed to submit it for insurance until the home is complete. The loan was modified on June 26, 2003, and was endorsed August 12, 2003, which is less than 60 days from modification. However, in a letter to HUD, dated June 30, 2003, Trust America indicated the loan was submitted late because it was a construction permanent loan. Contrary to the requirements, Trust America failed to provide an explanation for the delay and actions taken to prevent future delayed submissions. Trust America also failed to submit a payment ledger showing the loan was current.

Case number:	092-9308470
Mortgage amount:	$109,038
Date of loan closing:	12/20/02
Current status:	Claim (HUD paid $113,002) as of 12/30/04
Cause of default:	Curtailment of borrower income
Number of payments before first default was reported:	9

Summary:

Inadequate Debt Verification

Trust America approved the loan without properly computing a qualifying ratio. It excluded monthly payments totaling $160 to one creditor from the debt analysis. This debt was shown in a credit report, but Trust America admitted overlooking it. We calculated the total fixed payment to income ratio at 54.57 percent, which exceeds HUD's permissible rate of 43 percent, as prescribed in HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-19. Trust America should have provided compensating factors to justify the excess ratio.

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not obtain supporting documentation from a down-payment assistance program on how the gift funds were transferred to the borrower. The gift funds of $3,297 represented more than 90 percent of the minimum down payment. Trust America informed us that it was not aware of this requirement.

Trust America did not properly verify the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. While loan file documentation showed a $350 earnest deposit, Trust America failed to provide evidence showing how it was paid. Trust America told us that the seller/builder collected the earnest deposit at the time of the contract and Trust America gave a credit to the borrower for the appraisal and credit report on the HUD-1 Settlement Statement.

Other Deficiencies

The son of the owner of Trust America (also an ex-employee of Trust America) was also the owner of the builder/seller entity. The owner of Trust America was also a former director of the builder/seller entity. The underwriter certified in the Direct Endorsement Approval for a HUD/Federal Housing Administration- Insured Mortgage form that the lender did not have a financial interest in or a relationship with the builder or seller involved in this transaction. The loan file contained no evidence that the borrower was aware of this relationship. HUD's prior review also reported this issue.

Case Number:	092-9312350
Mortgage Amount:	$109,485
Date of Closing:	02/21/03
Current Status:	Terminated (paid in full) as of 12/30/04
Cause for Default:	Excessive obligations
Number of payments before first default was reported:	5

Summary:

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not obtain supporting documentation from a down-payment assistance program on how the gift funds were transferred to the borrower. The gift funds of $3,310 represented more than 90 percent of the minimum down payment. Trust America stated that it has the gift letter but neglected to get the wire transfer and that it was not aware of this requirement.

Trust America did not properly verify and document the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. While loan file documentation showed a $350 earnest deposit, Trust America failed to provide evidence showing how it was paid. Trust America told us that the seller/builder collected the $350 deposit at the time of the contract and Trust America gave a credit to the borrower for the appraisal and credit report on the HUD-1 Settlement Statement. Since the borrower did not have a bank account and the seller/builder acknowledged it received the $350, Trust America assumed the deposit was paid in cash.

Trust America failed to ensure the borrower met the minimum down payment in the purchase of the property. The minimum down payment to acquire the property was $3,675. The borrower only invested $3,661, which included $3,310 from a down-payment assistance program. Trust America did not provide sufficient documentation in the loan file to support that the borrower met the requirement.

Trust America did not properly document the source of funds for recent debt payoffs. The credit report and other documentation in the loan file indicated the borrower and co-borrower paid off collections of $1,221. The borrower did not have a bank account. The loan file contains no evidence to support the source of funds used to pay the collections. Trust America stated that the collections were paid with money orders since the borrower and co-borrower did not have bank accounts. Trust America added that it should have requested an explanation on how the borrower and co-borrower paid the collections. Without proper documentation, Trust America cannot ensure funds from prohibited parties were not used to repay these debts.

Other Deficiencies

The son of the owner of Trust America (also an ex-employee of Trust America) was also the owner of the builder/seller entity. The owner of Trust America was also a former director of the builder/seller entity. The underwriter certified in the Direct Endorsement Approval for a HUD/ Federal Housing Administration-Insured Mortgage form that the lender did not have a financial interest in or a relationship with the builder or seller involved in this transaction. The loan file contained no evidence that the borrower was aware of this relationship. HUD's prior review also reported this issue.

We verified with the employer that the borrower was employed through December 19, 2002. On the final loan application dated February 21, 2003, (also closing date), the borrower certified that he still worked for this employer. While we understand that the lender may not have been aware of this, the borrower misrepresented the facts when he signed the final loan application.

Case number:	092-9319257
Mortgage amount:	$117,868
Date of loan closing:	12/30/02
Current status:	Reinstated by mortgagor who retains ownership as of 12/30/04
Cause of default:	Excessive obligations
Number of payments before first default was reported:	0

Summary:

Inadequate Debt Verification

Trust America calculated the mortgage payment to income ratio at 35.67 percent and the total fixed payment to income ratio at 51.51 percent, which exceeds HUD's permissible rates of 31 percent and 43 percent, as prescribed in HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-19.

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not properly verify and document the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. Trust America did not resolve conflicting loan documentation regarding the earnest deposit. The agreement to build home and the final loan application showed an earnest deposit of $350, but the HUD-1 Settlement Statement showed $0. Trust America told us that the seller/builder collected the earnest money of $350 at the time of the contract. Trust America then billed the seller/builder $350 to cover the appraisal and credit report and gave a credit to the borrower on the HUD-1 Settlement Statement. The loan file contains no evidence showing how the earnest deposit was paid.

Other Deficiencies

Trust America approved the loan without properly verifying the borrower's earnings. According to our Internet searches, the one-way commuting distance between the property and the borrower's employer was more then 140 miles. According to Florida Department of State records, the employer has been inactive since September 2000. The property closed in December 2002. Trust America told us that it was not aware of the commuting distance and if they had known, it would not have qualified the borrower and approved the loan. Given the availability of access to State records, we believe Trust America should have found the discrepancy and resolved it before loan approval. In addition, our attempts to locate the employer were unsuccessful.

Contrary to HUD requirements, Trust America approved the buydown interest rate loan without properly documenting the borrower's ability to make higher mortgage payments in the future. The qualifying ratios for the buydown interest rate loan were 35.67 percent and 51.51 percent, respectively. We calculated the qualifying ratios without the buydown interest rate loan as 42.44 percent and 58.28 percent, respectively.

The HUD-1 Settlement Statement was altered after settlement. The changes resulted from the correction of the homeowner insurance premium and escrow amounts and affected the seller's side of the HUD-1 Settlement Statement. However, Trust America certified that the document was a true and exact copy of the original.

Case number:	092-9319546
Mortgage amount:	$125,806
Date of loan closing:	02/14/03
Current status:	In default as of 12/30/04, modification
Cause of default:	Curtailment of borrower income
Number of payments before first default was reported:	8

Summary:

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not obtain supporting documentation from a down-payment assistance program on how the gift funds were transferred to the borrower. The gift funds of $3,804 represented more than 98 percent of the minimum down payment. Trust America informed us that it was not aware of this requirement.

Trust America did not properly verify and document the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. Trust America did not clarify important file discrepancies. The agreement to build a home and the final loan application showed an earnest deposit of $500. The HUD-1 Settlement Statement showed an earnest deposit of $150. Trust America told us that the seller/builder collected the $500 deposit at the time of the contract. It agreed that it does not have evidence of the source of the earnest deposit. Trust America did believe that the borrower was capable of providing the $500 based on the borrower's earnings history. The loan file contains no evidence showing how the earnest deposit was paid.

Other Deficiencies

Contrary to HUD requirements, Trust America approved the buydown interest rate loan without properly documenting the borrower's ability to make higher mortgage payments in the future. The qualifying back ratio for the buydown interest rate loan is 41.21 percent. We calculated the qualifying back ratio without the buydown interest rate loan as 43.34 percent.

Contrary to HUD Handbook 4000.4, Revision 1, Change 1, paragraph 1-15B(5), Trust America failed to submit the loan to HUD for processing since the co-borrower was a HUD employee. Trust America informed us that it was not aware of this requirement.

Case number:	092-9348985
Mortgage amount:	$128,435
Date of loan closing:	04/11/03
Current status:	Reinstated by mortgagor who retains ownership as of 12/30/04
Cause of default:	Curtailment of borrower income
Number of payments before first default was reported:	2

Summary:

Inadequate Asset Verification

Trust America approved the loan without properly verifying the borrower's assets. It did not properly verify and document the source of the earnest deposit, which was the borrower's only contribution toward the acquisition of the property. Trust America did not clarify important file discrepancies. The residential construction contract and the final loan application showed a $350 earnest deposit while the HUD-1 Settlement Statement showed $850. The loan file contains no evidence showing how the earnest deposit was paid.

Trust America failed to ensure the borrower met the minimum down payment in the purchase of the property. The minimum down payment to acquire the property was $4,762. Assuming an earnest deposit of $350 and a gift of $3,883 from a down-payment assistance program, the borrower only invested $4,233. Trust America did not provide sufficient documentation in the loan file to support that the borrower met the requirement.

Trust America did not properly document the source of funds for recent debt payoffs. The credit report in the loan file reflected that collections of $1,297 were paid off before the loan closed. The loan file contains no evidence to support the source of funds used to pay the collections. Without proper documentation, Trust America cannot ensure funds from prohibited parties were not used to repay these debts.

Inadequate Debt Verification

Trust America did not provide valid compensating factors for exceeding the ratio. According to the mortgage credit analysis worksheet, the total fixed payment to income ratio was 44.14 percent, exceeding the permissible rate of 43 percent, as prescribed in HUD Handbook 4155.1, Revision 4, Change 1, paragraph 2-19.

Other Deficiencies

The son of the owner of Trust America (also an ex-employee of Trust America) was also the owner of the builder/seller entity. The owner of Trust America was also a former director of the builder/seller entity. The underwriter certified in the Direct Endorsement Approval for a HUD/ Federal Housing Administration-Insured Mortgage form that the lender did not have a financial interest in or a relationship with the builder or seller involved in this transaction. The loan file contained no evidence that the borrower was aware of this relationship. HUD's prior review also reported this issue.

Appendix F

CRITERIA

HUD Handbook 4060.1, Revision 1, Change 1, “Mortgagee Approval Handbook,” Chapter 6, “Quality Control Plan,” provides guidelines and procedures to be implemented by all lenders.

Section 6-1 requires all Federal Housing Administration approved lenders, including loan correspondent, to implement and continuously have in place a quality control plan for the origination of insured mortgages as a condition for receiving and maintaining Federal Housing Administration approval. The quality control plan must be a prescribed function of the lender’s operations and assure that the lender maintains compliance with HUD-Federal Housing Administration requirements and its own policies and procedures.

Section 6-6C, “Sample Size and Loan Selection,” states that a lender originating 7,000 or fewer Federal Housing Administration loans per year must review 10 percent of the Federal Housing Administration loans it originates.

Section 6-8A (1), “Rejected Application,” states that a minimum of 10 percent of total loans rejected must be reviewed.

Section 6-6D, “Early Payment Defaults,” provides that in addition to the loans selected for routine quality control reviews, lenders must review all loans going into default within the first six payments. Early payment defaults are loans that become 60 days past due.

Handbook 4000.4, Revision 1, Change 2, paragraph 2-1, states that a lender must conduct its business operations in accordance with accepted sound mortgage lending practices, ethics, and standards.

Paragraph 1-15B(5) requires lenders to submit to HUD for processing all loans in which a HUD employee is an applicant. This includes co-borrowers, nonoccupying co-borrowers, and family members living with HUD employees (i.e., son, daughter, etc., living at home).

Paragraph 2-4C states that lenders are expected to exercise due diligence in the underwriting of loans to be insured by the Federal Housing Administration.

HUD Handbook 4155.1, Revision 4, Change 1, “Mortgage Credit Analysis for Mortgage Insurance on One-to-Four Family Properties,” requires lenders to determine a borrower’s ability and willingness to repay the mortgage debt and, thus, limit the probability of default or collection difficulties. Lenders should evaluate the stability and adequacy of income, funds to close, credit history, qualifying ratios, and compensating factors. Lenders must ensure the application package contains sufficient documentation to support their decision to approve the mortgage loan.

Section 2-3, "Analyzing the Borrower's Credit," states that while minor derogatory information occurring 2 or more years in the past does not require explanation, major indications of derogatory credit, including judgments and collections, and any other recent credit problem require sufficient written explanation from the borrower. The borrower's explanation must make sense and be consistent with other information in the file.

Section 2 and paragraph 2-7 require the lender to establish the anticipated amount of income, and the likelihood of its continuance to determine a borrower's capacity to repay mortgage debt.

Paragraph 2-7A states that overtime may be used to qualify if the borrower has received such income for approximately 2 years and the employment verification must not state categorically that such income is not likely to continue. Periods of less than 2 years may be acceptable provided the underwriter adequately justifies and documents his or her reasons for using the income.

Section 2-10, "Funds to Close," establishes that all funds for the borrower's investment in the property to be verified. Paragraph 2-10B also states that if there is a large increase in the borrower's checking or saving account, the lender must obtain an explanation and evidence of source of funds. In addition, paragraph 2-10C requires the lender to document the transfer of the funds from the donor to the borrower. Acceptable procedures include obtaining a copy of the donor's withdrawal slip or cancelled check, along with the borrower's deposit slip or bank statement showing the deposit. If the funds are not deposited to the borrower's account before closing, the lender must obtain verification that the closing agent received funds from the donor for the amount of the gift.

Section 2-14, 'Temporary Interest Rate Buydowns," permits lenders to provide borrowers with interest rate buydowns. Interest rate buydowns are designed to reduce the borrower's monthly payment during the early years of the mortgage. It also requires the lender to establish that the eventual increase in mortgage payments will not adversely affect the borrower and likely lead to default. The underwriter must document which of four criteria the borrower meets.

1. The borrower has a potential for increased income that would offset the scheduled payment increases, as indicated by job training or education in the borrower's profession or by a history of advancement in the borrower's career with attendant increases in earnings.

2. The borrower has a demonstrated ability to manage financial obligations in such a way that a greater portion of income may be devoted to housing expenses. This criterion also may include borrowers whose long-term debt, if any, will not extend beyond the term of the buydown agreement.

3. The borrower has substantial assets available to cushion the effect of the increased payments.

4. The cash investment made by the borrower substantially exceeds the minimum required.

Section 2-13, “Compensating Factors”, establishes the compensating factors that may be used in justifying approval of the loan with ratios exceeding HUD benchmark guidelines include those listed below. Underwriters must state on the “remarks” section of the HUD-92900WS the compensating factors used to support loan approval.

A. The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage. If the borrower over the past 12-24 months has met his or her housing obligation as well as other debts, there should be little reason to doubt the borrower’s ability to continue to do so despite having ratios in excess of those prescribed.

B. The borrower makes a large down-payment toward the purchase of the property.

C. The borrower has demonstrated a conservative attitude toward the use of credit and an ability to accumulate savings.

D. Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses.

E. The borrower receives compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage, including food stamps and similar public benefits.

F. There is only a minimal increase in the borrower’s housing expense.

G. The borrower has substantial cash reserves after closing.

H. The borrower has substantial nontaxable income (if no adjustment made previously in the ratio computations).

I. The borrower has potential for increased earnings, as indicated by job training or education in the borrower’s profession.

J. The home is being purchased as a result of relocation of the primary wage-earner, and the secondary wage-earner has an established history of employment, is expected to return to work, and there is reasonable prospects for securing employment in a similar occupation in the new area. The underwriter must address the availability of such possible employment.

Section 2-19, Energy-Efficient Property,” allows the benchmark qualifying ratios to exceed the limits by up to 2 percent when the borrower is purchasing an energy efficient home. All new construction begun after April 24, 1994, is considered energy efficient.

Section 3-1, “Documentation requirements”, expects the application package to contain sufficient documentation to support the lender’s decision to approve the mortgage loan. This section also establishes that written verification forms must pass directly between lender and provider without being handled by any third party.

HUD Handbook 4165.1, Revision 1, Change 3, “Endorsement for Insurance for Home Mortgage Program,” provides guidelines and procedures to be implemented by lenders when submitting case binders to HUD for insurance.

Paragraph 3-1A states that a late request for procedures applies if the loan is submitted to HUD for endorsement more than 60 days after closing.

Paragraph 3-1B states that when a lender is submitting a late request for endorsement case, HUD requires an explanation for the delay and actions taken to prevent future delayed submissions. The lender must also submit a payment ledger showing the loan was current and certify that escrow accounts for taxes, hazard insurance, and mortgage insurance premiums are current and intact except for normal disbursements.