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# AUDIT REPORT



FLAGSTAR BANK FSB  
SUPERVISED DIRECT ENDORSEMENT LENDER

TROY, MICHIGAN

2005-CH-1006

MARCH 7, 2005

OFFICE OF AUDIT, REGION V  
CHICAGO, ILLINOIS

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Issue Date	March 7, 2005
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Audit Report Number	2005-CH-1006
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TO: John C. Weicher, Assistant Secretary for Housing-Federal Housing  
Commissioner and Chairman of Mortgage Review Board, H  
John W. Herold, Associate General Counsel for Program Enforcement, CE

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

SUBJECT: Flagstar Bank FSB, Supervised Direct Endorsement Lender; Troy, MI;  
Procedures and Controls Over Late Requests for Endorsement and Upfront  
Mortgage Insurance Premium Payments Were Improved

## **HIGHLIGHTS**

### **What We Audited and Why**

We reviewed Flagstar Bank FSB (Flagstar), a supervised lender approved to originate Federal Housing Administration mortgage loans under the U.S. Department of Housing and Urban Development's (HUD) Single Family Direct Endorsement program. The review was part of the activities in our fiscal year 2004 Annual Audit Plan. We selected Flagstar for audit because of its high late endorsement rate in fiscal years 2002 and 2003. Our review objectives were to determine whether Flagstar complied with HUD's regulations, procedures, and instructions in the submission of insurance endorsement requests and payment of upfront mortgage insurance premiums to HUD.

### **What We Found**

Flagstar implemented improvements to its procedures and controls in January 2004 to fully comply with HUD's requirements regarding late requests for endorsement and upfront mortgage insurance premiums. However, before the controls were strengthened, of 50 loans tested, Flagstar improperly submitted 2 for late endorsement. These two loans increased the risk to the Federal Housing Administration insurance fund by \$251,103 because the borrowers had not made

six consecutive timely monthly payments at the time their loans were submitted to HUD and/or were behind on their mortgage payments. Flagstar also paid penalties for not submitting upfront mortgage insurance premiums in a timely manner for 10 of 42 loans in our review sample. Flagstar's employees incorrectly certified that one of the two loans' escrow accounts for taxes, hazard insurance, and mortgage premiums were current when they were not. Flagstar's staff was not adequately trained or was not aware of the late endorsement processing requirements, and procedures and controls were insufficient to ensure timely payment of upfront mortgage insurance premiums.

### **What We Recommend**

We recommend that HUD's Assistant Secretary for Housing-Federal Housing Commissioner and Chairman of the Mortgagee Review Board require Flagstar to indemnify HUD for any future losses on the two loans with a total mortgage value of \$251,103.

We recommend that HUD's Associate General Counsel for Program Enforcement determine legal sufficiency, and, if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act against Flagstar and/or its principals for incorrectly certifying that the escrow accounts for taxes, hazard insurance, and mortgage premiums were current for one loan submitted for Federal Housing Administration insurance endorsement when, in fact, the escrow accounts were not current.

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

### **Auditee's Response**

We provided the results of our late endorsement and loan file reviews to Flagstar during the review. We also provided our discussion draft audit report to Flagstar's President/Chief Executive Officer and HUD's staff on February 8, 2005. We conducted an exit conference with Flagstar Bank's First Vice President of Internal Audit, Executive Vice President of Marketing, and Senior Vice President of Loan Delivery on February 16, 2005.

We requested Flagstar to provide comments on our discussion draft audit report by February 23, 2005. Flagstar's Senior Vice President provided written comments dated February 22, 2005. The Senior Vice President agreed that Flagstar improperly submitted two loans for late endorsement. We included the

complete text of the Senior Vice President's comments, along with our evaluation of that response, in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The U.S. Department of Housing and Urban Development (HUD) insures Single Family mortgages under various sections of the National Housing Act. HUD's mortgage programs provide mortgage insurance on loans for new or existing homes, condominiums, manufactured housing, and housing rehabilitation and for reverse mortgages to elderly homeowners.

One of HUD's mortgage programs is the Direct Endorsement program. The program is designed to simplify and expedite the process by which lenders can obtain mortgage insurance endorsements from HUD and to give the lender sufficient certainty of HUD's endorsement requirements to justify the assumption of the responsibilities involved in originating and closing mortgage loans without prior HUD review. However, lenders are responsible for complying with all applicable HUD regulations and handbook instructions. If the mortgage loan meets the pre-endorsement review criteria, HUD will endorse the mortgage for insurance.

HUD's regulations at 24 Code of Federal Regulations, part 203.255, and HUD Handbook 4165.1, section 2-1, require lenders to submit processing and closing documents in a uniform case binder to HUD within 60 days after closing for mortgage insurance endorsement. Section 3-1 of the Handbook requires that for any binders submitted to HUD after the 60-day period, the loans may not be in default when submitted for insurance. For late submissions to HUD, the lender must provide a payment ledger covering the period from the first payment due date to the date of submission to HUD. If any payment was made after the month due, the lender may not submit the loan to HUD until six consecutive payments have been made in the month in which they were due.

Parts 203.280 and 206.111 of 24 Code of Federal Regulations and HUD Handbook 4000.2, REV-2, section 1-12, require lenders to pay the initial (upfront) mortgage insurance premiums to HUD in a lump sum within 15 days of the mortgage closing. Part 203.282 of 24 Code of Federal Regulations requires lenders to pay HUD a 4-percent late charge if the payment is made after the 15-day period. If the payment is made later than 30 days after closing, lenders are also required to pay interest at U.S. Department of Treasury rates in addition to the late fee.

In August 1987, HUD approved Flagstar under its previous name (First Security Savings Bank, FSB) as a supervised direct endorsement lender. Flagstar is a federally chartered savings bank with its home office located at 5151 Corporate Drive in Troy, MI. As of December 28, 2004, Flagstar had 114 active branch offices and sponsored 1,024 loan correspondents.

From September 1, 2002, through August 31, 2004, Flagstar sponsored 12,573 Federal Housing Administration-insured mortgages totaling more than \$1.3 billion.

We selected Flagstar for review because of its high late endorsement rate and late payments of upfront mortgage insurance premiums during fiscal years 2002 and 2003. Our review objectives were to determine whether Flagstar complied with HUD's regulations, procedures, and instructions in the submission of insurance endorsement requests and payment of upfront mortgage insurance premiums to HUD.

## RESULTS OF AUDIT

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### Finding: Flagstar Improved Procedures and Controls Over Late Requests for Endorsement and Upfront Mortgage Insurance Premium Payments

Flagstar implemented improvements to its procedures and controls in January 2004 to fully comply with HUD's requirements regarding late requests for endorsement and upfront mortgage insurance premiums. However, before the procedures and controls were strengthened, of 50 loans tested, Flagstar improperly submitted 2 for late endorsement. These two loans increased the risk to the Federal Housing Administration insurance fund by \$251,103 because the borrowers had not made six consecutive timely monthly payments at the time their loans were submitted to HUD and/or were behind on their mortgage payments. Flagstar also paid penalties for not submitting upfront mortgage insurance premiums in a timely manner for 10 of 42 loans in our review sample. Flagstar's employees incorrectly certified that one of the two loans' escrow accounts for taxes, hazard insurance, and mortgage premiums were current when they were not. Flagstar staff was not adequately trained or was not aware of the late endorsement processing requirements and procedures, and controls were insufficient to ensure timely payment of upfront mortgage insurance premiums.

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#### Flagstar Took Corrective Action

In January 2004, Flagstar improved its procedures and controls over late requests for endorsement and upfront mortgage insurance premiums. As a result, Flagstar decreased the rates of its submission of loans for late endorsement and late payment of upfront mortgage insurance premiums (see appendixes D and E in this report).

Flagstar implemented the following improvements to its procedures and controls over the submission of loans for late endorsement and payment of upfront mortgage insurance premiums:

- Color-coding of insurable loans for priority and control,
- Using scanning machines for paperless filing as opposed to manual filing (the scanned documents provide easier and quicker access by staff involved in the loan endorsement and insurance premium payment processes),
- Implementing a loan tracking system for management to carry out immediate actions to correct deficient loan files so they can be submitted in a timely manner for loan endorsements,

- Charging its loan correspondents and brokers late fees for loan packages not provided to Flagstar within 15 days of closing, and
- Implementing a new procedure for payment of upfront mortgage insurance premiums. To avoid late payments, Flagstar pays the upfront mortgage insurance premiums to HUD when it receives the loan packages from its loan originators or brokers instead of paying the premiums when it transfers the loan funds.

In addition to the procedures and controls previously mentioned, Flagstar added an element to its quality control policy in June 2004 that requires testing of loan endorsement submissions and payment of upfront mortgage insurance premiums. The testing will be a part of Flagstar's internal quarterly reviews that its internal audit staff will perform. Flagstar's management will use the testing as well as the insurance endorsement rejection notices it receives from HUD to identify any problems in the loan files. If problems exist, Flagstar can take immediate corrective actions to ensure the completeness of loan documents.

### **Flagstar Improperly Submitted Two Late Requests for Endorsement**

Our analysis of the mortgage payment histories provided by Flagstar, HUD's case binders, and the endorsement data from HUD's systems showed that for the 50 loans tested, Flagstar submitted 2 loans (case numbers 261-8469089 and 201-3316472) for endorsement in January and February 2004, even though the borrowers had not made 6 consecutive timely monthly payments and/or were behind on their mortgage payments. The two loans with a total mortgage value of \$251,103 are still insured. As of January 27, 2005, the mortgage for one of the two loans was in a delinquent status.

Appendix C of this report provides details of Federal requirements regarding late requests for insurance endorsement.

### **Flagstar Failed to Pay Insurance Premiums in a Timely Manner**

Of the 50 loans reviewed, 42 were subject to HUD's requirements regarding payment of upfront mortgage insurance premiums. Of the 42 loans, Flagstar did not pay the upfront mortgage insurance premiums on time for 10 loans. Flagstar paid HUD the insurance premiums 20 to 63 days after closing. We did not



question these loans because Flagstar has already paid the upfront mortgage insurance premiums, late charges, and interests on six of the loans and the upfront mortgage insurance premiums plus late charges on the remaining four loans. HUD requires lenders to pay the upfront mortgage insurance premiums 15 days after closing a loan. It also requires lenders to pay a 4-percent late charge if the payment of upfront mortgage insurance premiums is made later than 15 days after closing plus interest if the payment is made later than 30 days after closing.

In May 2002, HUD's Quality Assurance Division performed a review of Flagstar and cited among other deficiencies the late submission of loans for endorsement and late payment of upfront mortgage insurance premiums. Flagstar entered into a settlement agreement with HUD on March 26, 2004, for indemnification and penalties because of the 2002 review.

We determined that Flagstar did improve its processing of closed loans for endorsement and payment of upfront mortgage insurance premiums as of January 2004; however, in our testing, we determined that the two loans cited in this report were submitted late for endorsement when they were not eligible for endorsement based on the payment histories at the time they were submitted. The loans we cited in this report occurred subsequently to HUD's May 2002 review.

### **Flagstar's Incorrect Certifications**

Flagstar's employee incorrectly signed a certification letter for one loan (case number 261-8469089) and submitted it to HUD as a late request for endorsement. The certification stated that the loan's escrow accounts for taxes, hazard insurance, and mortgage insurance premiums were current. However, the loan Flagstar's employee submitted to HUD for late endorsement had delinquent escrow accounts.

### **Recommendations**

We recommend that HUD's Assistant Secretary for Housing-Federal Housing Commissioner and Chairman of the Mortgage Review Board

- 1A. Require Flagstar to indemnify HUD for any future losses on two loans with a total mortgage value of \$251,103.

We recommend that HUD's Associate General Counsel for Program Enforcement

- 1B. Determine legal sufficiency, and, if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act against Flagstar and/or its principals for incorrectly certifying that the escrow accounts for taxes, hazard insurance, and mortgage premiums were current for one loan submitted for Federal Housing Administration insurance endorsement when, in fact, the escrow accounts were not current.

## SCOPE AND METHODOLOGY

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We conducted the review at HUD's Detroit Field Office and Flagstar's Troy, MI, office. We performed our review work between September 28 and December 30, 2004. To accomplish our review objectives, we interviewed HUD's staff and Flagstar's management and employees. We analyzed loan data in HUD's Single-Family Data Warehouse system. We reviewed and tested Flagstar's policies, procedures, and controls regarding submission of loans for late endorsement and payment of upfront mortgage insurance premiums. We also reviewed Flagstar's management reports used to control the processing of closed loans for submission to HUD for late endorsements. We further reviewed HUD's case binders for 50 Federal Housing Administration-insured loans statistically selected at random out of a universe of 6,482 loans Flagstar closed between September 2002 and August 2004 and submitted to HUD more than 65 days after closing.

We chose the 50 loans using computer assisted audit techniques, including the ACL computer program. In addition, we relied in part on data maintained in HUD's Single Family Data Warehouse and Neighborhood Watch systems. We did not perform a detailed analysis of the reliability of HUD's Single Family Data Warehouse or Neighborhood Watch data.

The review covered the period from September 2002, through August 2004. We conducted the review in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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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,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

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.

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## Relevant Internal Controls

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

- Program Operations - Policies and procedures that management implemented to reasonably ensure that the delayed loan endorsement and mortgage insurance premium payment processes comply with HUD's requirements and meet the objectives of the Direct Endorsement program.
- Validity and Reliability of Data - Policies and procedures that management implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

## Significant Weaknesses

Based on our review results, Flagstar corrected the following significant weaknesses:

- **Program Operations** – Although before January 2004, Flagstar did not always submit loans for late endorsement and pay upfront mortgage insurance premiums in accordance with HUD’s requirements, it modified its procedures and controls in January 2004 to ensure its program operations complied with HUD’s requirements (see finding).
- **Validity and Reliability of Data** – In June 2004, Flagstar changed its policy to require testing of loan endorsement submissions and payment of upfront mortgage insurance premiums as part of its internal quarterly reviews by its internal audit staff. Flagstar’s management can use such audit reviews as well as the insurance endorsement rejection notices it receives from HUD to identify any problems in the loan files. If problems exist, Flagstar can take immediate corrective actions to ensure the validity, reliability, and completeness of loan documents before submission for endorsement (see finding).
- **Compliance with Laws and Regulations** – Although before January 2004, Flagstar did not submit loans for late endorsement and pay upfront mortgage insurance premiums in accordance with HUD’s requirements, it modified its procedures and controls in January 2004 to ensure it complied with laws and HUD’s regulations (see finding).
- **Safeguarding Resources** - Flagstar improperly submitted two loans with mortgages totaling more than \$251,000 for insurance endorsement when the borrowers had not made six consecutive timely monthly payments at the time their loans were submitted to HUD and/or were behind on their mortgage payments that increased the risk to the Federal Housing Administration insurance fund (see finding).

## **FOLLOW-UP ON PRIOR AUDITS**

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This was the first audit of Flagstar by HUD's Office of Inspector General (OIG).

The last two independent auditor's reports for Flagstar covered the years ending December 31, 2002, and December 31, 2003. The December 31, 2003, report cited 1 finding pertaining to a \$50 reconciling difference in 1 of 30 Government National Mortgage Association pools reviewed.

HUD's Office of Lender Activities, Quality Assurance Division, conducted a review of Flagstar's Federal Housing Administration loan processing between May 20 and May 24, 2002. HUD issued its notice of violations to Flagstar on August 8, 2003. Among the issues cited in the notice were Flagstar's failure to submit 1,035 loans for endorsement within 60 days of closing and failure to remit the upfront mortgage insurance premiums to HUD within 15 days of closing for 1,310 loans.

In its response to HUD in September 2003, Flagstar informed HUD that it revised its procedures and controls to decrease the time elapsing between closing and endorsement application and to pay the upfront mortgage insurance premiums in a timely manner. Consequently, Flagstar agreed to pay HUD \$102,778 for losses incurred on 4 loans and \$197,775 as an administrative penalty and the indemnification for future losses on 10 other loans cited for origination deficiencies. HUD closed the notice of violations after receiving Flagstar's payments and indemnification agreement.

# APPENDIXES

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## Appendix A

### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

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Recommendation Number	Funds To Be Put to Better Use 1/
1A	<u>\$251,103</u>
Total	<u>\$251,103</u>

- 1/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an 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

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#### Ref to OIG Evaluation

#### Auditee Comments



5151 Corporate Drive  
Troy, Michigan 48098-2639  
Phone: (248) 312-2000  
www.flagstar.com

February 22, 2005

Ms. O Capalungen  
Office of Inspector General  
77 W. Jackson Blvd  
Room 2646  
Metcalf Federal Building  
Chicago IL 60604

Dear Ms. Capalungen:

We are hereby providing Flagstar Bank's formal response to your audit documentation dated February 2005. Flagstar Bank, at all times, strives to comply with all of HUD's rules and regulations. That being said, we understand that human errors are made, and accountability must be taken, in the circumstance that a loan does not meet the guidelines for insuring.

Flagstar Bank will hereby individually address the three loans that were brought forth during the audit.

201-331-6472 (999688900)  
GERHARDSTEIN. This loan was sent in for insuring on 2-11-04. At the time of submission the loan was current, however the borrower was late on his payment the month before. The borrower had made all payments prior to the month of January on time, and the insurer overlooked the fact that the January payment was late. This was simply a case of human error. We will need to indemnify this loan for any losses incurred.

261-846-9089 (550101742)  
ROYSTER. An employee who was still in their training period sent in this loan for insuring on 1-20-04. Our training procedures have already been provided to Mr. Taylor. During this time period the employee was having every 5<sup>th</sup> loan double checked by her mentor. This loan was not one that was double-checked, and therefore, did not get caught prior to submission. Unfortunately, this loan was seriously delinquent at the time of submission and overlooked by the employee. Again, this was human error combined with a training issue. We will need to indemnify this loan for any losses incurred.

262-139-9110 (550134818)  
DAVIDSON. This loan never was an error. We believe the auditor misunderstood the pay history. This loan was sent in for insuring on 10-23-03, and the borrower was current at that time. In fact, the borrower had always been current. The auditor noticed while looking at the servicing history that a "stop payment" code was placed on the

**Comment 1**



**Comment 2**

servicing account. This was done because the loan was in the process of transferring to another mortgage servicer. This code is placed on a loan to ensure that no disbursements can be made out of the account by the servicing department during the transition. We will provide a pay history showing that while there was a stop payment code added to the account, it was for servicing purposes only and that there has never been any reversal of mortgage payment on the history. This loan is fine and, upon your approval, we would like it to be removed from the audit.

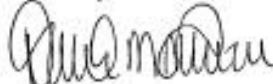
With the issue regarding the citing of fraud on the Royster and Davidson loans. Please note that the insurer clearly made an error by certifying that the Royster loan was current at the time of submission for insurance. While we recognize the importance of certifying the loan at the time of submission, it was never our intent to deceive in order to obtain the insurance on the loan. We do take the certification process and the entire insurance submission process very seriously. With regards to the Davidson loan, again we hope this loan will be dropped from this citation due to the evidence already provided.

We would also like to note that Flagstar Bank was already recently audited by HUD and has already paid, not only the late fees and interest at the time of submission for the late payments, but we were also assessed, and paid, an additional penalty for this similar time period. We would also like to state that once the position regarding the correspondent loans was clarified by HUD in their audit, which is where the late fees were being incurred, Flagstar Bank immediately changed its procedures to comply, and have been successful at reducing late files for submission and late upfront MIP payments to a minimum.

In summary, Flagstar Bank acknowledges that there were some mistakes made during the insuring process. Because of these errors, we will certainly indemnify against any losses for the Gerhardtstein loan (2013316472) and the Royster loan (2618469089), and trust that after review of the documentation already provided, the Davidson loan (2621399110) will be removed from the audit altogether.

If you have any questions regarding this response, please don't hesitate to contact me at (248) 312-5123.

Sincerely,



Dawn M Mansell  
Flagstar Bank  
Senior Vice President

## OIG Evaluation of Auditee Comments

### Comment 1

Flagstar claimed that one (case number 262-1399110) of the three loans cited in our discussion draft audit report had current payments at all times, including when the loan was submitted for late endorsement and this loan should be removed from the audit report. Flagstar provided additional documentation to support its claim that this one loan was properly submitted. Based upon Flagstar's documentation, we adjusted our audit report to show that two loans totaling \$251,103 were improperly submitted to HUD.

### Comment 2

Flagstar took exception to the use of the word fraud in our audit report and asserted that fraud implied intent to deceive. Flagstar claims it did not intend to deceive, but merely made errors in the submission of the two delinquent loans. In our audit report, we did not cite fraud in our finding on two loans (case numbers 261-8469089 and 262-1399110). We cited, instead, that Flagstar's employees incorrectly certified that the escrow accounts for taxes, hazard insurance, and mortgage premiums were current for the loans even though the escrow accounts were not current. Since Flagstar provided additional documentation to support that one of the two loans had current payments at all times, we adjusted our audit report to show that Flagstar's employee incorrectly signed a certification letter for one loan.

## Appendix C

### Federal Requirements

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Part 203.255(b) of 24 Code of Federal Regulation states that for applications for insurance involving mortgages originated under the Direct Endorsement program, the lender shall submit to the Secretary of Housing and Urban Development, within 60 days after the date of closing of the loan or such additional time as permitted by the Secretary, properly completed documentation and certifications.

HUD Handbook 4165.1, REV-1, "Endorsement for Insurance for Home Mortgage Programs (Single Family)," dated November 30, 1995, chapter 3, section 3-1(A), states that late requests for endorsement procedures apply if

1. The loan is closed after the firm commitment,
2. Direct endorsement underwriter's approval expires, and/or
3. The mortgage is submitted to HUD for endorsement more than 60 days after closing.

Section 3-1(B) states that a loan request for endorsement from the lender must include

- (1) An explanation for the delay in submitting for endorsement and actions taken to prevent future delayed submissions.
- (2) A certification that the escrow account for taxes, hazard insurance, and mortgage insurance premiums are current and intact except for disbursements which may have been made from the escrow accounts to cover payments for which the accounts were specifically established.
- (3) A payment ledger that reflects the payments received, including the payment due for the month in which the case is submitted if the case is submitted after the 15th of the month. For example, if the case closed February 3 and the case is submitted April 16, the payment ledger must reflect receipt of the April payment even though the payment is not considered delinquent until May 1. Payments under the mortgage must not be delinquent when submitted for endorsement.
  - (a) The lender must submit a payment ledger for the entire period from the first payment due date to the date of the submission for endorsement. Each payment must be made in the calendar month due.
  - (b) If a payment is made outside the calendar month due, the lender cannot submit the case for endorsement until six consecutive payments have been made within the calendar month due.
- (4) A certification that the lender did not provide the funds to bring the loan up-to-date or to affect the appearance of an acceptable payment history.

Mortgagee Letter 2004-14, "Late Request for Endorsement Procedures," clarifies procedures for mortgage lenders when submitting mortgage insurance case binders to the Federal Housing Administration for endorsement beyond the 60-day limit following closing. It replaces the

instructions found in the section “Late Request for Endorsement,” contained in chapter 3 of HUD Handbook 4165.1, REV-3.

A request for insurance is considered “late” and triggers additional documentation whenever the binder is received by HUD more than 60 days after the mortgage loan settlement or funds disbursement, whichever is later.

If HUD returns the case binder to the lender by issuing a notice of rejection (or a later notice of rejection), HUD’s Homeownership Center must receive the reconsideration request for insurance endorsement within the original 60-day window or 30 days from the issue date of the original notice of rejection, whichever is greater.

When submitting a late request for endorsement, in addition to including a payment history or ledger, the mortgage lender is required to include a certification, signed by the representative of that lender on company letterhead, which includes the lender’s complete address and telephone number. This certification must be specific to the case being submitted (i.e., identify the Federal Housing Administration case number and the name(s) of the borrower(s) and state that

- 1) All mortgage payments due have been made by the mortgagor before or within the month due. If any payments have been made after the month due, the loan is not eligible for endorsement until six consecutive payments have been made before or within the calendar month due.
- 2) All escrow accounts for taxes, hazard insurance, and mortgage insurance premiums are current and intact, except for disbursements that may have been made to cover payments for which the accounts were specifically established.
- 3) The mortgage lender did not provide the funds to bring the loan up-to-date or keep the loan current or to bring about the appearance of an acceptable payment history.

Title 31, United States Code, section 3801, “Program Fraud Civil Remedies Act of 1986,” provides Federal agencies, which are the victims of false, fictitious, and fraudulent claims and statements, with an administrative remedy to recompense such agencies for losses resulting from such claims and statements; to permit administrative proceedings to be brought against persons who make, present, or submit such claims and statements; and to deter the making, presenting, and submitting of such claims and statements in the future.

## Appendix D

### Late Submissions for Endorsement Between September 1, 2002, and August 31, 2004

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Month	Number of Late Submissions	Number of Loans	Percentage of Late Submissions
September 2002	198	353	56.09%
October 2002	328	418	78.47%
November 2002	355	396	89.65%
December 2002	329	385	85.45%
January 2003	272	340	80.00%
February 2003	310	370	83.78%
March 2003	372	443	83.97%
April 2003	457	538	84.94%
May 2003	595	725	82.07%
June 2003	666	792	84.09%
July 2003	559	762	73.36%
August 2003	624	750	83.20%
September 2003	459	761	60.32%
October 2003	360	649	55.47%
November 2003	220	512	42.97%
December 2003	153	604	25.33%
January 2004	64	476	13.45%
February 2004	35	466	7.51%
March 2004	41	557	7.36%
April 2004	42	564	7.45%
May 2004	21	446	4.71%
June 2004	13	462	2.81%
July 2004	9	479	1.88%
August 2004	0	325	0.00%
<b>Totals</b>	<b><u>6,482</u></b>	<b><u>12,573</u></b>	<b>51.55%</b>

## Appendix E

### Late Payments of Upfront Mortgage Insurance Premiums Between September 1, 2002, and August 31, 2004

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Month	Number of Late Upfront Mortgage Insurance Premium Payments	Number of Loans with Upfront Mortgage Insurance Premiums	Percentage of Late Upfront Mortgage Insurance Premium Payments
September 2002	37	325	0.114
October 2002	43	396	0.109
November 2002	69	380	0.182
December 2002	94	370	0.254
January 2003	89	317	0.281
February 2003	68	344	0.198
March 2003	88	412	0.214
April 2003	118	504	0.234
May 2003	196	688	0.285
June 2003	294	742	0.396
July 2003	282	714	0.395
August 2003	182	698	0.261
September 2003	104	717	0.145
October 2003	67	606	0.111
November 2003	91	479	0.190
December 2003	154	555	0.277
January 2004	27	439	0.062
February 2004	14	437	0.032
March 2004	6	521	0.012
April 2004	9	522	0.017
May 2004	6	427	0.014
June 2004	5	443	0.011
July 2004	5	454	0.011
August 2004	6	310	0.019
<b>Totals</b>	<b><u>2,054</u></b>	<b><u>11,800</u></b>	<b>0.174</b>