AUDIT REPORT

RBC MORTGAGE COMPANY
NON-SUPERVISED MORTGAGEE

HOUSTON, TEXAS

2005-CH-1007

MARCH 29, 2005

OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS

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audit report

Issue Date	March 29, 2005
Audit Report Number:	2005-CH-1007

TO: John Weicher, Assistant Secretary for Housing-Federal Housing Commissioner and Chairman of Mortgagee Review Board, H
Margarita Maisonet, Director of Departmental Enforcement Center, CV
John W. Herold, Associate General Counsel for Program Enforcement, CE

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

SUBJECT: RBC Mortgage Company, Non-supervised Mortgagee; Houston, TX; Improper Submission of Late Requests for Endorsement Increased the Risk to Insurance Fund

HIGHLIGHTS

What We Audited and Why

We audited RBC Mortgage Company (also known as Prism Mortgage), a non-supervised mortgagee approved to originate, underwrite, and submit insurance endorsement requests under the U.S. Department of Housing and Urban Development's (HUD) Single Family Direct Endorsement program. The audit was part of the activities in our fiscal year 2004 Annual Audit Plan. We selected RBC Mortgage Company for audit because of its high late endorsement rate. Our audit objective was to determine whether RBC Mortgage Company complied with HUD's regulations, procedures, and instructions in the submission of insurance endorsement requests.

What We Found

RBC Mortgage Company did not always comply with HUD's requirements on late requests for insurance endorsement. RBC Mortgage Company and its contractor submitted 170 late requests for insurance endorsement out of 5,123 loans tested. The loans were either delinquent or otherwise did not meet HUD's timely payment requirements. RBC Mortgage Company and/or its contractor also incorrectly

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certified that mortgage and/or escrow accounts were current. RBC Mortgage Company lacked adequate procedures and controls to ensure that it and the contractor's employees followed HUD's requirements regarding late requests for insurance endorsement. These improperly submitted loans increased the risk to the Federal Housing Administration insurance fund.

What We Recommend

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

- Require RBC Mortgage Company to indemnify HUD for any future losses on 138 loans with a total mortgage value of $16,282,212 and take other appropriate administrative actions up to and including civil money penalties.

- Require RBC Mortgage Company to reimburse HUD $26,066 for the actual loss on FHA Case 137-1967877 since the associated property was already sold.

- Require RBC Mortgage Company to reimburse HUD for any future losses from a $24,510 claim paid on one insured loan (FHA Case 137-1850047) with a total mortgage value of $227,930 once the associated property is sold.

- Require RBC Mortgage Company to establish and implement an adequate quality control plan.

We recommend that HUD's Director of Departmental Enforcement Center, in consultation with the Assistant Secretary for Housing-Federal Housing Commissioner and Chairman of the Mortgagee Review Board,

- Take appropriate administrative action against the principals of RBC Mortgage Company based on the information in this report.

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 RBC Mortgage Company's employees and/or its contractor (Financial Dimensions, Incorporated), and/or their principals for incorrectly certifying that the mortgage accounts for 2 loans were current and no late charges were assessed, and the escrow accounts for taxes, hazard insurance premiums, and mortgage insurance premiums were current for 37 loans submitted for Federal Housing Administration insurance endorsement when, in fact, the mortgage and escrow accounts were not current at submission.

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 testing and loan file reviews to RBC Mortgage Company during the audit. We also provided our revised discussion draft audit report to RBC Mortgage Company's President and Chief Executive Officer, and Chief Operating Officer, an attorney representing RBC Mortgage Company, and HUD's staff on February 20, 2005. We conducted an exit conference with RBC Mortgage Company's management and its attorney on February 28, 2005.

We requested RBC Mortgage Company to provide written comments on our revised discussion draft audit report by March 7, 2005. RBC Mortgage Company's President and Chief Executive Officer provided written comments to the revised discussion draft audit report on March 8, 2005 that partially agreed with our finding. With the exception of three exhibits and four binders, the complete text of RBC Mortgage Company's written response, along with our evaluation of that response, can be found in appendix B of this report. We provided HUD's Directors of Lender Activities and Program Compliance, and Quality Assurance Division with a complete copy of RBC Mortgage Company's comments with the three exhibits and four binders.

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BACKGROUND AND OBJECTIVES

RBC Mortgage Company is a wholly owned subsidiary of RBC USA Holdco Corporation. RBC Mortgage Company's headquarters offices are located in Chicago, IL, and Houston, TX. In November 1996, the U.S. Department of Housing and Urban Development (HUD) approved RBC Mortgage Company under its previous name (Prism Mortgage) to convert from a loan correspondent to a non-supervised mortgagee. In December 1996, RBC Mortgage Company received national approval to participate in HUD's Direct Endorsement program as a direct endorsement mortgagee. As a direct endorsement mortgagee, RBC Mortgage Company determines that the proposed mortgage is eligible for insurance under the applicable program regulations, and submits the required documents to HUD without its prior review of the origination and closing of the mortgage loan. RBC Mortgage Company is responsible for complying with all applicable HUD regulations and handbook instructions.

RBC Mortgage Company's employees and its contractor processed Federal Housing Administration mortgage loans for submission to HUD for endorsement during our audit period from May 1, 2002, through April 30, 2004. Its mortgage payment servicing has been performed by RBC Centura Banks, Inc., located in Rocky Mount, NC. RBC Mortgage Company has operations in both retail (originations direct to consumers) and wholesale (originations through third-party brokers). In addition, it operates as both a mortgage banker (underwriting, closing, and funding loans) and as a mortgage broker (offering loan products from its lenders).

RBC Mortgage Company is the sponsor for 194 loan correspondents and the acting agent for 21 principals originating or processing Federal Housing Administration loans. Toward the end of our audit, we were informed that RBC Mortgage Company is in the process of closing its Chicago, IL, headquarters office and transferring its loan processing to its Houston, TX, headquarters office.

We audited RBC Mortgage Company as part of the activities in our fiscal year 2004 Annual Audit Plan. We selected RBC Mortgage Company for audit because of its high late endorsement rate of 45 percent during the period from May 1, 2002, through April 30, 2004. RBC Mortgage Company sponsored 15,154 Federal Housing Administration loans totaling more than $1 billion.

Our audit objective was to determine whether RBC Mortgage Company complied with HUD's regulations, procedures, and instructions in the submission of insurance endorsement requests.

RESULTS OF AUDIT

Finding: RBC Mortgage Company Improperly Submitted Late Requests for Endorsement

RBC Mortgage Company and its contractor improperly submitted 170 loans with mortgages totaling more than $20.7 million for insurance endorsement when the borrowers did not make six monthly consecutive timely payments subsequent to delinquency, but before submission to the U.S. Department of Housing and Urban Development (HUD). Additionally, RBC Mortgage Company and/or its contractor incorrectly certified that the mortgage accounts were current and no late charges were assessed for 2 loans, and the escrow accounts for taxes, hazard insurance premiums, and mortgage insurance premiums were current for 37 loans when, in fact, the mortgage and/or escrow accounts were not current. The problems occurred because RBC Mortgage Company lacked adequate procedures and controls to ensure its employees and contractor followed HUD's requirements regarding late requests for insurance endorsement. These improperly submitted loans increased the risk to the Federal Housing Administration insurance fund.

Improperly Submitted Late Requests for Endorsement

Our analysis of the mortgage payment histories provided by RBC Mortgage Company's servicer and endorsement data from HUD's systems showed that for the 5,123 loans tested, RBC Mortgage Company and its contractor submitted 170 loans for endorsement even though the borrowers did not make six monthly consecutive timely payments subsequent to the delinquency, but before submission to HUD.

After endorsement, 29 of the 170 loans were paid in full and no longer represent a risk to the Federal Housing Administration insurance fund. Because these loans are no longer insured, we did not conduct further research or compliance testing of these loans. Of the remaining 141 loans, 140 are still insured and pose a risk to the insurance fund, as follows:

- For two loans having original mortgage amounts totaling $319,886, HUD incurred a loss of $26,066 on one and paid a claim of $24,510 on the other with an indeterminate loss as of March 24, 2005. HUD cannot identify the loss until the associated property is sold. These loans had increased the risk to the insurance fund.

- The insurance was terminated without a claim on 14 of the loans, 13 of which totaling $2,072,390 in original mortgages were streamline-refinanced to other Federal Housing Administration loans. Because these 13 loans were improperly submitted for insurance endorsement, the improper endorsement

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also applies to the refinanced loans. Therefore, we included these 13 loans as improperly endorsed loans. The remaining one loan was terminated for reasons other than refinancing; therefore, this loan no longer represents a risk to the insurance fund.

- One hundred twenty-five loans hold active Federal Housing Administration insurance with $14,209,822 in total original mortgage amounts.

Appendix C of this report provides details of Federal requirements regarding late requests for insurance endorsement. Appendix D of this report provides the categories of the improperly submitted late requests for endorsement.

Further, RBC Mortgage Company and/or its contractor (Financial Dimensions, Incorporated,) signed certification letters for 39 loans they submitted for late requests for endorsement and certified that the mortgage accounts for 2 loans were current and no late charges were assessed, and the escrow accounts for 37 loans were current. However, the loans RBC Mortgage Company and/or its contractor submitted to HUD for late endorsement had mortgage and/or escrow accounts that were not current at the time of submission.

Lack of Procedures and Controls

RBC Mortgage Company did not have adequate procedures and controls to ensure its employees and contractor followed HUD's mortgage payment requirements when submitting late requests for endorsement. During our audit period, RBC Mortgage Company's employees and its contractor submitted loans for late requests for endorsement.

During 2002 and 2003, RBC Mortgage Company contracted with Financial Dimensions, Incorporated. Financial Dimensions, Incorporated agreed to follow Federal requirements when submitting Federal Housing Administration loans for insurance endorsement. In addition, Financial Dimensions, Incorporated, agreed to prepare case binders and review loans for adequacy of supporting documentation before submission for endorsement. Upon review and securing of all missing/incomplete documentation of the case binders, Financial Dimensions, Incorporated, would complete the submission for endorsement, including

- Requesting and checking mortgage payment histories,
- Completing submission input to Federal Housing Administration Connection,
- Delivering case binders to applicable Federal Housing Administration Regional Offices, and
- Providing weekly status reporting to RBC Mortgage Company.

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Although Financial Dimensions, Incorporated, provided RBC Mortgage Company written reports as to the status of the loans processed and not processed for insurance endorsement, RBC Mortgage Company did not verify whether the loans submitted for endorsement by Financial Dimensions, Incorporated, met HUD's mortgage payment requirements. RBC Mortgage Company relied instead on its contractor to follow such HUD requirements. Likewise, RBC Mortgage Company did not verify whether the loans submitted for late endorsement by its own employees met HUD's mortgage payment requirements. The independent auditor's report on RBC Mortgage Company for the year ending December 31, 2003, disclosed that RBC Mortgage Company had a control environment deficiency. This was due to a lack of management oversight of employees and a failure to implement and follow policies and procedures that resulted in deficiencies in the operating control environment of RBC Mortgage Company's mortgage processing operations. RBC Mortgage Company's contractor and its own employees improperly submitted late requests during 2002, 2003, and 2004.

As a condition of receiving and maintaining Federal Housing Administration approval, RBC Mortgage Company agreed with HUD to implement and continuously have in place a quality control plan that meets HUD's requirements. RBC Mortgage Company's quality control plan did not meet HUD's requirements because the plan did not include the requirements for determining or verifying that six monthly consecutive payments were made timely when submitted and met HUD's payment requirements if mortgages have been submitted for late requests for endorsement. RBC Mortgage Company is responsible for the proper submission of late requests for endorsement processed by either its contractor or its own employees.

According to RBC Mortgage Company's President and Chief Executive Officer, since November 2003, RBC Mortgage Company has undergone a total management shift and is in the process of improving its operations. Also, the Company's Senior Vice President of Post Production Operations added that to improve efficiency and conserve costs, RBC Mortgage Company has transitioned to processing all Federal Housing Administration loans for insurance endorsement in-house (instead of using Financial Dimensions, Incorporated) at its Houston, TX, headquarters office. Although it is still under contract with RBC Mortgage Company, Financial Dimensions, Incorporated, no longer receives loans from RBC Mortgage Company to prepare for submission to HUD for late requests for endorsement.

Recommendations

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

1A. Require RBC Mortgage Company to indemnify HUD for any future losses on 138 loans with a total mortgage value of $16,282,212 and take other appropriate administrative actions up to and including civil money penalties.

1B. Require RBC Mortgage Company to reimburse HUD $26,066 for the actual loss on FHA Case 137-1967877 since the associated property was already sold.

1C. Require RBC Mortgage Company to reimburse HUD for any future losses from a $24,510 claim paid on one insured loan (FHA Case 137-1850047) with a total mortgage value of $227,930 once the associated property is sold.

We recommend that HUD's Director of Departmental Enforcement Center, in consultation with the Assistant Secretary for Housing-Federal Housing Commissioner and Chairman of the Mortgagee Review Board,

1D. Take appropriate administrative action against the principals of RBC Mortgage Company based on the information in this finding.

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

1E. Determine legal sufficiency, and, if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act against RBC Mortgage Company's contractor (Financial Dimensions, Incorporated), and/or their principals for incorrectly certifying that the mortgage accounts for 2 loans were current and no late charges were assessed, and the escrow accounts for taxes, hazard insurance premiums, and mortgage insurance premiums were current for 37 loans that were submitted for Federal Housing Administration insurance endorsement when, in fact, the mortgage and/or escrow accounts were not current.

SCOPE AND METHODOLOGY

We performed our audit work between July 2004 and January 2005. We conducted the fieldwork at RBC Mortgage Company's Chicago, IL, and Houston, TX, offices and a servicing company office located in Rocky Mount, NC. The audit covered the period May 1, 2002, through April 30, 2004. We extended this period as necessary.

To achieve our audit objective, we relied on computer-processed and hard copy data from RBC Mortgage Company and its contractor and servicing company, and the data contained in HUD's Single Family Data Warehouse. We relied on the loan payment histories provided by RBC Mortgage Company's servicing company, the certifications and loan payment histories in the case binders that RBC submitted to HUD, and the various dates in HUD's systems data, including loan-closing dates, notice of rejection dates, and endorsement dates. We assessed the reliability of computerized data, including relevant general and application controls, and found them to be adequate. We used mortgage amount and claim status from HUD's systems for information purposes only. In addition, we interviewed HUD's management and staff and RBC Mortgage Company's management, staff, contractor, and servicing company. Further, we reviewed HUD's rules, regulations, and guidance for proper submission of Federal Housing Administration loans, and RBC Mortgage Company's policies, procedures, and quality control plan.

Using HUD's data systems, we identified that RBC Mortgage Company sponsored 15,154 Federal Housing Administration loans with closing dates from May 1, 2002, to April 30, 2004. The mortgage value of these loans is more than $1.9 billion. The following table depicts the adjustments made to the initial universe of 15,154 loans identified for testing. A narrative explanation follows the chart.

Description of Loans	Number of Loans	Original Mortgage Amounts
Sponsored by RBC Mortgage Company from 5/1/2002, through 4/30/2004	15,154	$1,907,290,851
New construction loans	149	$21,225,012
Submitted before first payment due date	511	$62,954,704
Submitted within 66 days after closing	9,064	$1,139,086,789
Transferred before submission	259	$34,397,164
Loans closed after 4/12/2004, with a Notice of Return but were not subject to the 90-day requirement	25	$3,373,618
Loans subject to late endorsement requirements	**5,146**	**$646,253,564**
Payment histories not provided	23	$2,734,952
Loans tested	**5,123**	**$643,518,612**

Of the 15,154 loans in the initial universe, we removed 149 new construction loans and 511 submitted for endorsement before the first payment due date because these loans were not subject to the 60-day pre-April 2004 submission requirement.

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We further limited our universe to only those loans received by HUD more than 66 days after the loan closed. Further, for the loans closed after April 12, 2004, and were returned to the lender with a Notice of Return, we only included the loans that were submitted to HUD more than 96 days after the loan closed. While HUD requires mortgagees to submit loans for endorsement within 60 days of the loan closing and after April 12, 2004, an additional 30 days after closing, we allowed 6 additional days to ensure that we conservatively selected loans for further testing. We allowed 6 extra days because HUD's mailroom and endorsement contractor have 3 business days to process each loan and because any submission may be delayed in the mail for up to 3 days over a weekend.

As a result, for our testing purposes, we considered only those loans submitted more than 66 days after closing or more than 96 days if the loan closed after April 12, 2004, and was returned to the lender with a Notice of Return. After removing the 9,064 loans submitted within 66 days after closing, we removed the 25 loans submitted after April 12, 2004, which were returned to the lender but were endorsed within 96 days after closing. There were 5,405 loans remaining as late requests for endorsement.

In evaluating the 5,405 loans, we identified 259 in which RBC Mortgage Company transferred the loan servicing to another lender/servicer before submission for endorsement; therefore, we also removed these loans from our sample.

Additionally, RBC Mortgage Company could not provide automated payment histories for 372 loans totaling $45,633,093 in original mortgage amounts that it sponsored during our audit period. However, RBC Mortgage Company's servicing company provided the hard-copy payment histories for 349 of the 372 loans, but was unable to provide any type of documentation for the remaining 23 payment histories totaling $2,734,952 in original mortgage amounts. Therefore, we only tested 5,123 loans (automated and hard-copy payment histories) for compliance with HUD's late endorsement requirements.

The audit covered the period from May 1, 2002, through April 30, 2004. This period was adjusted as necessary. We conducted the audit 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,
- 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.

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 process complies 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 audit, we believe the following items are significant weaknesses:

- Program Operations – RBC Mortgage Company did not operate its late requests for endorsement according to program requirements. RBC Mortgage Company lacked adequate procedures and controls or a quality control plan that met HUD's requirements to ensure its employees and contractor properly submitted late requests for endorsement (see finding).

- Compliance with Laws and Regulations - RBC Mortgage Company and its contractor did not follow HUD's regulation when it improperly submitted loans for insurance endorsement when the borrowers did not make six monthly consecutive timely payments subsequent to delinquency, but before submission to HUD (see finding).

- Safeguarding Resources - RBC Mortgage Company and its contractor improperly submitted 170 loans with mortgages totaling more than $20.7 million for insurance endorsement when the borrowers did not make six monthly consecutive timely payments subsequent to delinquency, but before submission to HUD. The improper submission increased the risk to the Federal Housing Administration insurance fund (see finding).

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FOLLOW UP ON PRIOR AUDITS

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

The last two independent auditor's reports for RBC Mortgage Company covered the years ending December 31, 2002, and December 31, 2003. Both reports resulted in no findings.

Between November 2002 and March 2004, HUD's Homeownership Centers in Santa Ana, CA, Atlanta, GA, and Denver, CO, performed multiple quality assurance reviews. The reviews resulted in findings related to loan origination, underwriting, and loss mitigation. The Denver Homeownership Center's findings were resolved or closed as of April 28, 2004. As of March 24, 2005, we have not received information from the Atlanta and Santa Ana Homeownership Centers showing whether the findings cited in their reviews were closed or still outstanding.

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APPENDIXES

Appendix A

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

Recommendation Number	Ineligible 1/	Unsupported 2/	Funds To Be Put To Better Use 3/
1A			$16,282,212
1B	$26,066		
1C		$24,510	
Totals	$26,066	$24,510	$16,282,212

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or insured program activity and eligibility cannot be determined at the time of the audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation of Departmental policies and procedures.

3/ "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

Ref to OIG Evaluation **Auditee Comments**

RBC Mortgage

HUD - OIG
OFFICE OF AUDIT
CHICAGO, ILLINOIS

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RECEIVED

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March 7, 2005

BY FEDERAL EXPRESS

Rose Capalungan
Assistant Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604

re: February 20, 2005 Draft Audit Report

Dear Ms. Capalungan:

This letter provides the formal comments of RBC Mortgage Company (RBCM or the Company) on the February 20, 2005 revised draft RBCM Audit Report prepared by your Office (the Draft Audit Report). The Draft Audit Report reviewed the practices of the Company in the submission of loans for FHA insurance endorsement during the period from May 1, 2002 through April 30, 2004 (the Audit Period).

We appreciate this opportunity to comment on the Draft Audit Report. We also appreciate the time and consideration given by you and your colleagues, Regional Inspector General Wolfe and Senior Auditors Anderson and Smith, to the informal comments about the Draft Audit Report that we presented to you at our offices in Houston on February 28, 2005 at the Exit Conference.

Comment 3 As we emphasized at the Exit Conference, and as we discuss below, in important ways we respectfully differ with certain key findings and recommendations in the Draft Audit Report, because we respectfully differ with you as to what happened at the Company during the Audit Period and what should happen as a result. However, we do not differ with the recommendation of the Draft Audit Report that it is appropriate that RBCM indemnify HUD for losses for which it is responsible, and RBCM will agree to do so.

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Ref to OIG Evaluation **Auditee Comments**

Comment 4

Background. The Draft Audit Report describes the Company as a wholly-owned subsidiary of RBC Centura Banks, Inc. Please correct that statement. As of November 30, 2004, RBC Mortgage Company is a wholly-owned subsidiary of RBC USA Holdco Corporation. It is, as of that date, an affiliate of RBC Centura Banks, Inc., but it is not its subsidiary.

More significantly, as the Draft Audit Report itself acknowledged:

"Since November, 2003, RBC Mortgage Company has undergone a total management shift and is in the process of improving its operations. To improve efficiency and conserve costs, RBC Mortgage Company has transitioned to processing all Federal Housing Administration loans for insurance endorsement in –house (instead of using Financial Dimensions, Inc.) at its Houston, TX, headquarters office. Although it is still under contract with RBC Mortgage Company, Financial Dimensions, Incorporated, no longer receives loans from RBC Mortgage Company to prepare for submission to HUD for late requests for insurance."

This finding by your Office is significant for two reasons, as emphasized during the Exit Conference.

First, virtually all of the relatively few problems the Company had in the area of the timely and correct submission of loans for FHA insurance endorsement during the Audit Period were caused by this contractor, Financial Dimensions, Incorporated (FDI), and not by the Company or its employees.

Second, the company that your Office audited is not the RBC Mortgage Company that is before you today. As additional confirmation of that fact, compare the late endorsement rate of RBCM during the Audit Period that ended April 30, 2004 (45 percent as described in the Draft Audit Report) with the 2.71 percent late endorsement rate of RBCM for all of 2004.

As a result, we respectfully suggest that certain of the recommendations made in the Draft Audit Report, particularly those relating to potential personal disbarments and civil money penalties under the Program Fraud Civil Remedies Act or other statutory provisions, are wholly inappropriate and should be removed. Those recommendations are discussed in more detail, below.

Contractors. As explained during the Exit Conference, the Company relied upon highly regarded and experienced contractors during the Audit Period timely to submit on its behalf loans for insurance endorsement, fully in accordance with all applicable HUD/FHA requirements. Reliance upon such contractors was a permitted and rational response by the Company to the surge in loan volumes accompanying the refinance boom during the Audit Period and its need to secure the expert staffing resources necessary to meet HUD's requirements in a fully professional manner.

Comment 6

The initial contractor retained by the Company for this purpose was Stewart Mortgage Information (SMI). SMI promised the Company, in writing, that it would "adhere to the

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Ref to OIG Evaluation	**Auditee Comments**

policies, procedures and time frames set forth in the FHA and VA guidelines for endorsement." RBMC had every reason to believe that that was what it would do and had done.

Nevertheless, by mid-2003, RBCM also had concluded that it could and should do better than SMI. That was when it retained FDI as its insurance endorsement submission contractor.

FDI promised the Company, in writing, that it would:

"review the submission package to insure that required documentation is present and has been completed in accordance with standard FHA/VA guidelines;"

"provide weekly and monthly status reporting;"

"use its best efforts to perform the Services [the submission for insurance endorsement by the FHA] in an accurate, professional and timely manner; and"

"employ quality control procedures . . . to reduce the chance for errors relating to the Services."

RBMC also had every reason to believe that that was what it would do and had done.

Based on the results reported in the Draft Audit Report, RBCM's confidence in and reliance upon the contractors it had retained to perform and report on these tasks turned out to be well-founded, for the overwhelming majority of the loans submitted to FHA for insurance endorsement during the Audit Period. Over 15,000 loans were submitted by or on behalf of the Company for insurance endorsement during this period.

Comment 1

After testing 5,123 of these loans for compliance with HUD's late endorsement requirements, your Office ultimately sought indemnification with respect to only 157 of them. Significantly, however, of the 157 loans as to which it is recommended by your Office that the Company indemnify HUD for losses, only 3 were submitted for endorsement by two RBCM junior employees early in the Audit Period. The remaining 154 loans were submitted by contractors, 2 by SMI and 152 by FDI. It also should be noted that neither of these RBCM employees responsible for the 3 RBCM submissions is currently an employee of the Company.

Finally, as noted above and confirmed in the Draft Audit Report, neither SMI, nor FDI, nor any other contractor, presently submits loans on RBCM's behalf for insurance endorsement. The very experienced Houston-based staff of the Company itself performs these tasks, and does so fully in compliance with all applicable requirements and, as noted above, in a timely manner.

The "Indemnification" Loans. As noted above, the Draft Audit Report recommends that the Company indemnify HUD with respect to 157 loans (the "Indemnification Loans").

We attach to this letter, as Exhibit A, a chart that displays the loan numbers of all 157 Indemnification Loans in its left-most column, and then describes, in columns moving to the right, the 82 loans as to which the Company agrees that it is appropriate that HUD be indemnified; the 25 loans that were not in fact delinquent at the time of their submission for endorsement or for the six month period prior thereto, and that thus incorrectly were classified as Indemnification Loans and as to which indemnification is not appropriate (the "Incorrectly Classified Loans"); and the remaining 50 loans that also should not be classified as Indemnification Loans because each re-established a six month current payment history following their submission for insurance endorsement (the "Re-Established Loans").

We appreciate the time you and your colleagues expended during the Exit Conference in reviewing the chart attached as Exhibit A and the explanation of and rationale for the classifications it displays. Should you have further questions about any aspect of it, the other charts attached to this letter, or the documentation submitted with it, please do not hesitate to let us know and we immediately shall respond.

We have delivered to your Office, concurrently with the submission of this letter, full evidence in the form of detailed payment histories and copies of checks and ledgers among other documentation supporting our position with respect to each of the Improperly Classified Loans. Neither indemnification nor any other remedy or sanction should be recommended by your Office with respect to any Improperly Classified Loans.

Nor, we respectfully suggest, should indemnification or any other remedy or sanction be recommended by your Office with respect to any of the Re-Established Loans.

Because the mortgagors for each such loan re-established a current payment history for each of the six months following the "pre-mature" submission of such loan for insurance endorsement, and thus the risk to HUD of loss was not increased by the endorsement for insurance of these loans; because each such loan could have been submitted for insurance following that six month re-establishment period and would have been accepted by HUD and properly endorsed for insurance at that time; and, most importantly, because the failure to hold those loans for the six month re-establishment period before submitting them for insurance was a failure by the contractors that was not reasonably anticipated or discoverable by RBCM, it is neither fair nor appropriate that RBCM be required to indemnify HUD with respect to them.

Comment 2

The "Incorrectly Certified" Loans. The Draft Audit Report states that:

> "RBC Mortgage Company and/or its contractor's employees incorrectly certified that the mortgage accounts were current and no late charges were assessed for 2 loans, and the escrow accounts for taxes, hazard insurance premiums and mortgage insurance premiums were current for 47 loans, when, in fact, the mortgage and/or escrow accounts were not current (emphasis added)."

In this letter, we refer to these 49 loans, as to which the Draft Audit Report alleges there were incorrect certifications, as the "Incorrectly Certified Loans;" to the 2 of such loans as to which the monthly principal and interest payments allegedly incorrectly were certified as current, as the "Payment Certification Loans;" to the 47 of such loans as to which the monthly tax and

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Ref to OIG Evaluation

Auditee Comments

insurance payments allegedly incorrectly were certified as current, as the "Escrow Certification Loans;" and to the 14 of such 47 loans as to which the current monthly payment of both principal and interest and taxes and insurance was current at the time of submission, as the "Fully Current Certification Loans."

Comment 5

We also note that the "and/or" formulation of this finding does not accurately describe the important distinction between the respective acts of RBCM and its contractors, and we ask that it be changed so that it does.

Comment 2

We attach to this letter, as Exhibit B, a chart that displays the loan numbers of all 49 of the Incorrectly Certified Loans, and then confirms or describes, in columns moving to the right, that all of the Incorrectly Certified Loans had, at the time of their submission for insurance endorsement, an escrow account that was "current" taking into consideration the collection, at the time of the closing of each, of a two month escrow account "cushion" as permitted under applicable FHA and RESPA regulations; the 2 Payment Certification Loans of the 49 loans, submitted by SMI and not RBCM, leaving 47 Escrow Certification Loans submitted by FDI and not RBCM; and the 14 Fully Current Certification Loans of the 47 loans for which a current monthly payment of both principal and interest and taxes and insurance had been made at the time of submission for endorsement.

As emphasized during the Exit Conference, the chart attached as Exhibit B, which also was reviewed at that time with you and your colleagues, makes plain that none of the 49 Incorrectly Certified Loans was submitted by RBCM or any of its employees.

As the 2 Payment Certification Loans included both an incorrect form of certification prepared and submitted by contractor SMI, and an incorrect payment certification by SMI, RBCM agrees that it is appropriate that it indemnify HUD with respect to them.

Respectfully, however, neither indemnification nor any other remedy or sanction should be recommended by your Office with respect to any of the 47 Escrow Certification Loans.

The allegedly incorrect certification for the Escrow Certification Loans was the following:

> "We certify that the escrow accounts 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."

The meaning of this certification, the language of which is dictated by HUD, is unclear and ambiguous.

Whether or not a payment made to a mortgagee by a mortgagor is current is readily ascertainable and understandable. A payment due from mortgagor on or before July 1 either is or is not received by the mortgagee on or before July 1.

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But, of course, and contrary to the discussion in the Draft Audit Report, this escrow account certification does not have anything to do with the separate certification, not required until after the conclusion of the Audit Period by Mortgagee Letter 2004-14 (April 12, 2004), that "all monthly payments due have been made by the mortgagor prior to or within the month due."

In contrast, whether or not a payment is made by a mortgagee from an escrow account that is "current and intact for disbursements" is not readily ascertainable or understandable. To our knowledge, HUD has never defined what it means for an escrow account to be "intact," and that is not a term useful, understood or meaningful in this context.

As to the whether or not the escrow accounts for the 47 Escrow Certifications Loans were "current for disbursements," as certified, they indisputably were, taking into consideration the collection, at the time of the closing of each, of a two month escrow account "cushion" as permitted under applicable FHA and RESPA regulations.

RESPA Regulation X, published by HUD, expressly permits the borrower to be charged at closing "a cushion that shall be no greater than one-sixth (1/6) of the estimated total annual payments from the escrow account." Regulation X, 24 C.F.R. 3500.17c(1)(i). That is what RBCM did in connection with each of the Escrow Certification Loans.

We have delivered to your Office, concurrently with the submission of this letter, full evidence in the form of payment histories and loan account set-ups and other documentation demonstrating that in fact such a cushion was collected at closing in connection with each Escrow Certification Loan. At the time of its submission for insurance endorsement accompanied by the escrow certification submitted by RBCM's contractor, each such Escrow Certification Loan was "current" taking into account this cushion—whether or not full monthly payments of both principal and interest and taxes and insurance had been collected from mortgagors by such dates.

In no instance did any escrow account for any of the Escrow Certification Loans have an amount that was less than the amount that it needed to have for disbursements to be made from such accounts for taxes, insurance and mortgage insurance premiums, at the time the loan was submitted for insurance endorsement.

Whatever else the HUD-required certification with respect to "current" escrow accounts may mean, it surely meant that. And that is what each of the 47 Escrow Certification Loans had at the time the contractor submitted its escrow certifications with respect to them.

Finally, and in any event, each of the 14 Fully Current Certification Loans of the 47 Escrow Certification Loans had had the full current monthly payment made by its mortgagor prior to the date of its submission for insurance endorsement. Accordingly, the certifications made with respect to these Fully Current Certification Loans were correct, not incorrect.

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Under these circumstances, we respectfully request that all findings with respect to incorrect certifications and all related recommendations with respect thereto (except with respect to the 2 Payment Certification Loans as to which the Company has agreed to provide indemnification) be removed from the Draft Audit Report.

The HUD-required escrow certification is not and was never intended to be a certification that the current monthly mortgagor payment had been received (such a required monthly payment certification having been added by Mortgagee Letter only after this Audit Period had closed). The escrow accounts of the 47 Escrow Certification Loans were "current," and appropriately certified by the contractor to be so, as that term is used within the HUD-required escrow certification language, taking into account the permitted cushion that was collected and available for disbursement in connection with each such loan. The escrow accounts of the 14 Fully Current Certification Loans similarly were "current," and appropriately certified by the contractor to be so, as that term is used within the HUD-required escrow certification language, taking into account the fact the full current monthly payment of principal and interest and taxes and insurance had been made by its mortgagor prior to the date of its submission for insurance endorsement.

Comment 3

Personal Debarment, Civil Money Penalty and Civil Remedies Act Recommendations. We have attached to this letter, as Exhibit C, a "Summary of Findings" that contrasts those included in the Draft Audit Report with those that we respectfully suggest should be included in the final audit report upon due consideration of the points made at the Exit Conference, in this letter and its attachments, and in the concurrent documentation submissions.

Comment 1

That chart makes plain that indemnification by RBCM is appropriate with respect to 82 and not 157 loans as recommended in the Draft Audit Report, and for the 2 additional Payment Certification Loans.

Comment 2

It emphasizes that the contractors, not the Company or its employees, submitted 100% of the 49 Incorrect Certification Loans.

It notes that only one-half of one percent of the 15,194 loans submitted for insurance endorsement by or on behalf of the Company during the Audit Period (82 loans) appropriately have been identified by your Office as requiring indemnification.

It makes clear that under one-tenth of one percent of the 15,194 loans submitted for insurance endorsement by or on behalf of the Company during the Audit Period (or the 2 Payment Certification Loans unnecessarily and inappropriately "over-certified" by the contractor) had incorrect payment certifications.

And it concludes that zero percent of the 15,194 loans submitted for insurance endorsement by or on behalf of the Company during the Audit Period had incorrect escrow account certifications.

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Rose Capalungan/HUD OIG - 8 - March 7, 2005

Comment 3

Under all of the circumstances, we respectfully insist that the recommendations included in the Draft Audit Report, that consideration be given by HUD to the suspension or debarment of the "principals" of RBC Mortgage Company, and to the invocation of the civil money penalties of the Program Fraud Civil Remedies Act (the Program Fraud Act), and to the referral of this matter to the Mortgagee Review Board, be deleted from the final audit report.

These recommendations are wholly inappropriate, unfair, unjustified and unprecedented in such circumstances. The principals of RBCM, currently and during the Audit Period, are and were "responsible" and no personal debarment action may or can or should be brought against them in connection with this matter. Similarly, none of the criteria permitting action to be taken against the Company under the Program Fraud Act or other statutory authorities or by the Mortgagee Review Board have been met.

In that connection, we note, in particular, that HUD's personal debarment regulations provide as follows:

"What is the purpose of the non-procurement debarment and suspension system?

(a) To protect the public interest, the Federal Government ensures the integrity of Federal programs by conducting business only with responsible persons.

(b) A Federal agency uses the non-procurement debarment and suspension system to exclude from Federal programs persons who are not presently responsible.

(c) An exclusion is a serious action that a Federal agency may take only to protect the public interest. A Federal agency may not exclude a person or commodity for the purposes of punishment."

24 C.F.R. § 24.110.

There were and are no principals of RBCM "who are not presently responsible." There is no action that HUD need take "to protect the public interest." The Company, itself, already has taken all actions that may have been required to protect the public interest, as the Draft Audit Report effectively recognizes. And HUD expressly is barred from debarring or suspending individuals for "purposes of punishment."

Respectfully, we do not believe that any of these particular recommendations will be followed or sustained by HUD, nor in our view should they be. Yet their mere inclusion in the final audit report from your Office could do irreparable and wholly avoidable and unnecessary punitive damage to the reputation and standing of the principals of the Company, to the Company itself, and to the RBC corporate family.

Instead, the final audit report should recommend that this matter be resolved by the Quality Assurance Division of HUD, through the execution of the indemnifications agreements that the Company, at the Exit Conference and through this letter, has confirmed that it is ready,

Ref to OIG Evaluation **Auditee Comments**

willing and able to execute. That is the way these findings would have been resolved by HUD had it identified these issues in the course of its regularly scheduled monitoring reviews; it is the fair and appropriate resolution of these findings; and it is, respectfully, what your final audit report should recommend.

We very much appreciate your time and consideration in conducting your audit in a fully professional and comprehensive manner, and in considering these comments on the Draft Audit Report. Your audit has sharpened our focus in the area of the timely and accurate submission of insurance endorsements, and our quality control and related procedures have been and will continue to be strengthened in this area so that they, and our Company, remain in full compliance with all applicable HUD requirements.

HUD remains our highly valued business partner in providing affordable home ownership opportunities across our country, particularly to first-time and minority home buyers. Our Company did that, in partnership with HUD, 15,194 times during the two year period of your audit. We continue to do that today, and plan to do so into the future.

Amending your Draft Audit Report to delete the inappropriate recommendations noted above and to suggest, instead, that the remaining findings be closed through the entry with HUD's Quality Assurance Division of indemnification agreements, will permit the Company to put this matter behind it and to focus its attention on what it does best: originating quality FHA-insured mortgage loans for qualified borrowers fully in accordance with all applicable FHA requirements.

Very truly yours,

Jonathan Threadgill
President
Chief Executive Officer

Enclosures

cc:(with enclosures):

James A. Brodsky, Esq.
Weiner Brodsky Sidman Kider PC
Washington, DC

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OIG Evaluation of Auditee Comments

Comment 1

Of the 157 loans previously reported as improperly submitted and which pose a risk to the Federal Housing Administration insurance fund, RBC Mortgage Company agreed on 82 and disagreed on the remaining 75. While 50 of the 75 loans may have been qualified for endorsement at some point in the life of each of these loans after they were submitted for late endorsement, HUD requires that a loan must have six months of payments within the months due before submission for late endorsement. These loans were improperly submitted and thus need to be indemnified. The borrowers of the 50 loans did not make six monthly consecutive timely payments subsequent to delinquency, but before submission to HUD. Although RBC Mortgage Company had contracted with Financial Dimensions, Incorporated, to submit loans for endorsement on its behalf, RBC still has full responsibility for the loans that were improperly submitted by Financial Dimensions, Incorporated.

RBC Mortgage Company provided additional documentation for 25 of the 75 loans. After reviewing the additional documentation, we determined that 1 of the 25 loans was not part of the previously reported 157 improperly submitted loans because the loan was already paid in full. For the remaining 24 loans, we determined that 6 were improperly submitted and 18 were properly submitted. In addition, we increased the total number of refinanced loans from 12 to 13 in this report because one of the two loans previously reported as terminated for reasons other than refinancing is a Federal Housing Administration-insured loan as of March 3, 2005. As a result, we adjusted the total number of improperly submitted loans from 157 to 140 that were recommended for indemnification and reimbursement of any HUD loss.

Comment 2

RBC Mortgage Company agreed with 2 of the 49 loans identified in the revised discussion draft audit report as incorrectly certified loans. However, it disagreed with the remaining 47 loans. RBC Mortgage Company indicated that the certifications were correct for 14 of the of the 47 loans because the loans had current monthly payments of principal, interest, taxes, and insurance at the time of submission for late endorsement. After reviewing the supporting documentation, we determined that 10 of the 14 loans were correctly certified and thus we adjusted the total number of incorrectly certified loans in this final report from 49 to 39.

RBC Mortgage Company also contends that 43 of the 49 loans were current, whether or not full monthly payments of principal, interest, taxes, and insurance were received within the months due or prior to submission, because of the "two month cushion" collected from the borrowers at closing. We determined that the loans were incorrectly certified because according to HUD, the two-month escrow account "cushion" as permitted under Federal Housing Administration and Real Estate Settlements Procedures Act regulations cannot

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be applied to a delinquent mortgage payment until it is determined that there was a surplus of escrow funds. Then in this case, only the surplus funds can be applied to a missed or delinquent mortgage payment.

Comment 3

RBC Mortgage Company did not provide evidence that there was a surplus of escrow funds and that these funds could cover missed or delinquent mortgage payments. Therefore, we concluded that the loans were incorrectly certified because RBC Mortgage Company's contractor certified that the escrow accounts were current even though the borrowers' mortgage payments were delinquent at submission.

Comment 4

RBC Mortgage Company insisted that the recommendations included in the draft report regarding the suspension or debarment of the "principals" of RBC Mortgage Company, the invocation of the civil money penalties under the Program Fraud Civil Remedies Act, and the referral of the issues identified in the report to the Mortgagee Review Board, be deleted from the final audit report. We removed the words "suspension or debarment" from one of our recommendations. We did not change our recommendations regarding civil money penalties and referral of our issues to the Mortgagee Review Board because such recommendations are appropriate based on the issues cited in this report.

Comment 5

Since November 2003, RBC Mortgage Company has undergone a total management shift. Of the 170 loans improperly submitted loans, 64 (37.6%) were submitted under RBC Mortgage Company's current management.

Comment 6

RBC Mortgage Company requested that we change our statement in the background section of the final report to state that as of November 30, 2004, RBC Mortgage Company is a wholly owned subsidiary of RBC USA Holdco Corporation. Additionally, it is as of that date, an affiliate of RBC Centura Banks Inc. We changed our statement in the background section of this report to reflect the new information.

RBC Mortgage Company contends that the "and/or" formulation in our finding does not accurately describe the important distinction between the respective acts of RBC Mortgage Company and its contractor. Due to the lack of adequate supporting documentation from RBC Mortgage Company, the "and/or" in our finding remains unchanged.

RBC Mortgage Company identified another contractor (Stewart Mortgage Information) involved with submitting loans for late endorsement on its behalf. Due to lack of adequate supporting documentation, we did not make any changes to our statements relating to RBC Mortgage Company's contractor in our report.

Appendix C

Federal Requirements

24 Code of Federal Regulation, part 203.255(b), states for applications for insurance involving mortgages originated under the Direct Endorsement program under this part, the mortgagee shall submit to the Secretary of Housing and Urban Development (HUD), 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 late requests for endorsement procedures apply if

- The loan is closed after the firm commitment,
- Direct Endorsement underwriter's approval expires, and/or
- The mortgage is submitted to HUD for endorsement more than 60 days after closing. Section 3-1 (B) states, 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 of 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 current 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 mortgagee 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 subsequent 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 date of issuance 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 and/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 and/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.

According to 24 Code of Federal Regulations, part 24.110, HUD is permitted to take administrative sanctions against employees or recipients under HUD assistance agreements that violate HUD's requirements. The sanctions include debarment, suspension, or limited denial of participation that are authorized by 24 CFR Parts 24.800, 24.700, or 24.1105, respectively. HUD may impose administrative sanctions based upon the following conditions:

- Failure to honor contractual obligations or to proceed in accordance with contract specifications or HUD regulations (limited denial of participation);

- Deficiencies in ongoing construction projects (limited denial of participation);

- Violation of any law, regulation, or procedure relating to the application for financial assistance, insurance, or guarantee or to the performance of obligations incurred pursuant to a grant of financial assistance or pursuant to a conditional or final commitment to insure or guarantee (limited denial of participation);

- Violation of the terms of a public agreement or transaction so serious as to affect the integrity of an agency program such as a history of failure to perform or unsatisfactory performance of one or more public agreements or transactions (debarment); or

- Any other cause so serious or compelling in nature that it affects the present responsibility of a person (debarment).

Appendix D

Improper Late Requests for Endorsement

We provided HUD staff and RBC Mortgage Company with spreadsheets of the loans improperly submitted to HUD as late requests for endorsement.

The following table illustrates the four categories of late requests for endorsement:

	Late Payments	Missed Payments	Gaps	Other	Total
Number of loans	169	*	*	1	170
Original mortgage amount	$20,644,610	$0	$0	$123,028	$20,767,638

Late Payments
Loans with a transaction recorded after the month due. The spreadsheet lists the due dates of such transactions for each questioned loan.

Missed Payments
Loans with no payment history record (due date) for the month of submission. The spreadsheet provides payment records through the month of submission for each questioned loan.

Gaps
Loans with no payment history record (due date) for the months before the month of submission, but there was a due date for the month of submission. The spreadsheet provides payment records through the month of submission for each questioned loan.

Other
Loans for which RBC Mortgage Company was unable to provide automated payment histories for testing, but provided hard-copy payment histories. These loans are marked on the spreadsheet with an asterisk.

Legend
* Some of the loans that were included in the late payment category could also be included in other categories. We did not want to include these loans twice; therefore, they are identified in the late payment category.