AUDIT REPORT

US BANK NA
SUPERVISED LENDER

MINNEAPOLIS, MINNESOTA

US Bank Did Not Always Comply with HUD's Requirements Regarding Late Requests for Endorsement and Underwriting of Loans

2006-CH-1008

MARCH 31, 2006

OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS

Issue Date
March 31, 2006
Audit Report Number:
2006-CH-1008

TO: Brian D. Montgomery, Assistant Secretary for Housing-Federal Housing Commissioner, H
John W. Herold, Associate General Counsel for Program Enforcement, CE

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

SUBJECT: US Bank NA, Supervised Lender; Minneapolis, Minnesota; Did Not Always Comply with HUD's Requirements Regarding Late Requests for Endorsement and Underwriting of Loans

HIGHLIGHTS

What We Audited and Why

We audited US Bank NA (US Bank), a supervised lender 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 2005 annual audit plan. We selected US Bank for audit because of its high late endorsement rate. Our objectives were to determine whether US Bank complied with HUD's regulations, procedures, and instructions in the submission of insurance endorsement requests and underwriting of Federal Housing Administration loans.

What We Found

US Bank did not always comply with HUD's requirements regarding late requests for insurance endorsement. It improperly submitted 67 (1.52 percent) late requests for endorsement out of 4,406 loans tested. The loans were either delinquent or otherwise did not meet HUD's requirements of six monthly consecutive timely payments after delinquency but before submission to HUD.

US Bank also incorrectly certified that both the mortgage and escrow accounts for six loans and the escrow accounts for taxes, hazard insurance, and mortgage insurance premiums for 14 loans were current when they were not.

Further, US Bank inappropriately underwrote 13 Federal Housing Administration loans out of 28 loans reviewed and which went to claim. It included unallowable amounts (overdue principal, interest, and late charges) when determining the debt for six streamline refinanced loans and therefore these loans exceeded HUD's maximum insurable limits by $6,910; approved seven purchase loans when required documentation was missing, out of date, or not adequate to support the income of the borrowers; and understated the borrowers' expenses for three loans. For the 13 loans' certifications reviewed, US Bank incorrectly certified the integrity of the data supplied by other lenders used to determine the quality and insurance eligibility of one loan, and that due diligence was used in underwriting the remaining 12 loans even though it was not.

These improperly submitted and inappropriately underwritten loans increased the risk to HUD's Federal Housing Administration insurance fund.

What We Recommend

We recommend that HUD's assistant secretary for housing-federal housing commissioner require US Bank to indemnify HUD for any future losses on 14 loans (12 active loans with certifications which violated the Program Fraud Civil Remedies Act and 2 active loans which violated HUD's Mortgagee Letter 2005-23) with a total mortgage value of more than $1.5 million, reimburse HUD nearly $455,000 for the actual losses it incurred on 14 loans (three improperly submitted and 11 inappropriately underwritten) and for any future losses from more than $129,000 in claims paid on three loans (two improperly submitted and one inappropriately underwritten) once the properties are sold, and implement adequate procedures and controls to address the deficiencies cited in this report. We also recommend that HUD's assistant secretary for housing-federal housing commissioner take appropriate action against US Bank for violating the requirements in effect at the time when it submitted 18 loans with a mortgage value of more than $2 million without the proper six month payment histories.

In addition, 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 US Bank and/or its principals for the incorrect certifications cited in this audit report.

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 underwriting reviews to US Bank's management during the audit. We also provided our discussion draft audit report to US Bank's president of home mortgage, executive vice president, first vice president, and executive vice president and manager of loan administration, and HUD's staff during the audit. We conducted an exit conference with US Bank's management on February 13, 2006.

US Bank's president of home mortgage provided written comments to our discussion draft audit report dated March 8, 2006, that generally agreed with our findings but disagreed with the number of loans improperly submitted for late endorsement, underwritten, and certified. With the exception of two exhibits, the complete text of US Bank's written response, and our evaluation of that response, can be found in appendix B of this report. We provided HUD's director of lender activities and program compliance with a complete copy of US Bank's written comments plus the two exhibits.

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BACKGROUND AND OBJECTIVES

US Bank NA (US Bank) is a wholly owned mortgage banking subsidiary of US Bancorp Corporation, which has more than $209 billion in total assets as of September 2005. US Bancorp Corporation is the eighth largest financial holding company in the United States and serves more than 13 million customers.

US Bank is headquartered in Minneapolis, Minnesota. The U.S. Department of Housing and Urban Development's (HUD) approved US Bank to originate, purchase, and sell Federal Housing Administration loans. US Bank also participates in HUD's direct endorsement program. As a direct endorsement lender, US Bank determines that a proposed mortgage loan is eligible for insurance under applicable programs' regulations and submits the required documents to HUD without its prior review of the origination and closing of the loan. US Bank is responsible for complying with all applicable HUD regulations and handbook instructions regarding late endorsement and underwriting of Federal Housing Administration loans.

As of December 2, 2005, US Bank is the authorized agent for 33 principals as well as the acting principal for 896 loan correspondents involved in Federal Housing Administration loans. US Bank originated and/or sponsored 18,913 Federal Housing Administration loans totaling more than $2 billion between January 1, 2003, and December 31, 2004.

We audited US Bank as part of the activities in our fiscal year 2005 annual audit plan. We selected US Bank for audit because of its high late endorsement rate of 32 percent during the period January 1, 2003, through December 31, 2004.

Our objectives were to determine whether US Bank complied with HUD's regulations, procedures, and instructions in the submission of insurance endorsement requests and underwriting of Federal Housing Administration loans.

RESULTS OF AUDIT

Finding 1: US Bank Substantially Complied with HUD's Late Endorsement Requirements

US Bank did not fully comply with HUD's late endorsement requirements. Of the 4,406 loans tested, US Bank improperly submitted 67 loans with mortgages totaling more than $8 million for insurance endorsement when the borrowers did not make six monthly consecutive timely payments after delinquency but before submission to HUD. It also incorrectly certified that both the mortgage and escrow accounts for six loans and the escrow accounts for taxes, hazard insurance, and mortgage insurance premiums for 14 loans were current when they were not. The deficiencies occurred because US Bank needs to improve its existing procedures and controls over its late endorsement process. These improperly submitted loans provided unnecessary risk to the Federal Housing Administration fund.

US Bank Improperly Submitted Late Requests for Endorsement

Our analysis of the mortgage payment histories provided by US Bank and endorsement data from HUD's systems showed that for the 4,406 loans tested, US Bank generally complied with HUD's requirements regarding late requests for endorsement. However, US Bank submitted 67 loans for endorsement even though the borrowers did not make six monthly consecutive timely payments after delinquency but before submission to HUD.

As of March 10, 2006, 26 of the 67 loans were paid in full and no longer represent a risk to HUD's Federal Housing Administration insurance fund. Because these loans were no longer insured, we did not conduct further research or compliance testing. The Mortgage Connection, a loan correspondent for US Bank, executed an indemnification agreement with HUD effective August 13, 2004, for one loan; therefore, we did not include this loan in our recommendations. The remaining 40 loans still hold active Federal Housing Administration insurance with $4,561,263 in total original mortgage and pose a risk to the insurance fund as follows:

- For five loans having original mortgage amounts totaling $559,763, HUD incurred a total loss of $48,428 on three loans and paid $58,132 in claims on another two loans with an indeterminate loss as of March 10, 2006. HUD cannot identify the loss from the two loans until the associated properties are sold.

- Five loans with $610,691 in total original mortgage value were streamline refinanced to other Federal Housing Administration loans. Because these five loans were improperly submitted for insurance endorsement, the improper endorsement also applies to the refinanced loans.

- Thirty loans hold active Federal Housing Administration insurance with $3,390,809 in total original mortgage amounts.

According to HUD's Neighborhood Watch system, US Bank submitted 131 out of 2,486 loans for late endorsement from January 1 through September 30, 2005, which represents a 5 percent late endorsement rate. During this same period in 2004, US Bank submitted 258 of 2,809 loans late for endorsement for a 9 percent late endorsement rate. We did not determine whether the 131 loans met HUD's late endorsement requirements; we only used the information to determine whether US Bank's late endorsement rate increased or decreased.

Further, we also reviewed the accuracy of US Bank's late endorsement certifications of 104 loans that we initially determined as improperly submitted, but we needed additional documentation to determine whether they met HUD's late endorsement requirements. Of the 104 late endorsement certifications, US Bank incorrectly certified that the mortgage and/or escrow accounts for 20 loans were current even though they were not. For the remaining 84 late endorsement certifications, US Bank correctly certified with the proper certification format as required by HUD.

Appendix C of this report provides details of federal requirements regarding late requests for insurance endorsement as well as a citation under the Program Fraud Civil Remedies Act.

US Bank's executive vice president of Audit and Compliance provided us a letter dated September 19, 2005, regarding our late endorsement review results. The executive vice president generally agreed with our late endorsement finding.

US Bank Took Corrective Action, but Additional Action Is Needed

The Federal Housing Administration loans which US Bank processes consist of wholesale and retail loans. US Bank sponsors wholesale loans originated by its loan correspondents and brokers. Wholesale loans are processed and submitted for endorsement by US Bank's Wholesale Operations/Post Closing Department. US Bank originates and sponsors retail loans which are processed and submitted for late endorsement by its Retail Post Closing Department.

US Bank lacked adequate procedures and controls when it improperly submitted the 67 loans (54 wholesale loans and 13 retail loans) for late endorsement during the period January 1, 2003, through December 31, 2004. However, US Bank made improvements to its procedures and controls over the processing of Federal Housing Administration loans for late insurance endorsement, as follows:

- Between February and June 2004, US Bank took corrective actions when it terminated its contracts with two of its lenders/brokers. The terminations prevented US Bank from increasing the number of loans which were untimely and improperly processed for late endorsement.

- In the summer of 2004, US Bank's Wholesale Operations/Post Closing Department implemented improvements to its procedures and controls for processing wholesale loans. Specifically, it implemented funding procedures and controls for ensuring that its purchase fund reviewers adequately review loan documents for compliance before submitting the loans to HUD for late insurance endorsement. The review results by the purchase fund reviewers are audited by US Bank's quality control auditors using:

    1. a loan tracking sheet for documenting the review results regarding the integrity of the data entered into US Bank's loan system,
    2. a purchase/table funded checklist for documenting their assessment results regarding the adequacy of supporting loan documentation, and
    3. an audit review checklist for documenting the errors made by the purchase fund reviewers; the scores the auditors gave the purchase fund reviewers (which were based upon the purchase fund reviewers' errors when processing the loans for late request for endorsement); and any issues or findings identified. The auditors' findings are then disclosed in a report provided to the supervisors of the purchase fund reviewers who made the errors. The supervisors then discuss the findings with the appropriate purchase fund reviewers and provide them suggestions for not making the same errors in the future. Further, the purchase fund reviewers use the findings disclosed in HUD's Notices of Rejections as reminders to not make the same errors when processing wholesale loans for insurance endorsement.

- In August 2005, US Bank's Retail Post Closing Department added date fields to its OMNI system for maintaining the date loans are resubmitted to HUD for insurance endorsement. US Bank resubmits loans after resolving deficiencies HUD cited in its Notices of Rejections. The date fields are used as tracking tools by US Bank's government loan reviewers to efficiently and effectively resolve the deficiencies cited by HUD. The government loan reviewers also use HUD's Notices of Rejections as reminders to not repeat the same deficiencies when submitting retail loans for endorsement.

- US Bank's Retail Post Closing Department implemented monthly meetings in August 2005 to discuss HUD's new late endorsement requirements and the correct procedures for processing and submitting Federal Housing Administration loans for insurance endorsement.

- In August 2005, US Bank added a new loan servicing function to its post closing review process so that its reviewers (who process loans for insurance endorsement) fully understand the servicing of loans. Such full understanding on how the loans are serviced helps the reviewers to correctly read the borrowers' payment histories maintained in the Fidelity system, which is US Bank's servicing system.

US Bank still needs to improve its existing procedures and controls to ensure its late endorsement certifications include only accurate information. As previously mentioned, US Bank incorrectly certified that the mortgage and/or escrow accounts for 20 loans were current even though they were not. Using the 20 loans with incorrect certifications from the 104 we tested with mortgage amounts totaling more than $13 million, the estimated risk to the Federal Housing Administration is at least $1,251,758 for the next year if US Bank does not improve its late endorsement certification procedures and controls (20 divided by 104 times $13,018,280 in mortgages for two years).

Recommendations

We recommend that HUD's assistant secretary for housing-federal housing commissioner require US Bank to

1A. Indemnify HUD for any future losses on 14 loans (12 active loans with certifications that violated the Program Fraud Civil Remedies Act and 2 active loans that violated HUD's Mortgagee Letter 2005-23) with a total mortgage value of $1,592,040 and take other appropriate action.

1B. Reimburse HUD $48,428 for the actual losses it incurred on three loans (case numbers 121-2119152, 052-2742596, and 121-2083369) improperly submitted since the properties associated with these loans were sold.

1C. Reimburse HUD for any future losses from $58,132 in claims paid on two loans (case numbers 105-1233618 and 521-5690364) improperly submitted with a total mortgage value of $233,675 once the associated properties are sold.

1D. Improve its existing procedures and controls over its late endorsement certifications. Such procedures and controls must include but are not limited to providing adequate training to its staff regarding HUD's late endorsement certifications and adequately monitoring its late endorsement certifications to ensure they are correct before submission to HUD. These procedures and controls should help reduce risks to the Federal Housing Administration fund by $1,251,758.

We also recommend that HUD's assistant secretary for housing-federal housing commissioner

1E. Take appropriate action against US Bank for violating the requirements in effect at the time when it submitted 18 loans with a total mortgage value of $2,030,550 without the proper six month payment histories.

We recommend that HUD's associate general counsel for program enforcement

1F. Determine legal sufficiency and if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act against US Bank and/or its principals for incorrectly certifying that the mortgage and/or the escrow accounts for taxes, hazard insurance, and mortgage insurance premiums were current for 20 loans submitted for Federal Housing Administration insurance endorsement when the mortgage and/or escrow accounts were not current.

Finding 2: US Bank Inappropriately Underwrote 13 Federal Housing Administration Loans

US Bank inappropriately underwrote 13 Federal Housing Administration loans totaling more than $1.4 million out of 28 loans reviewed which defaulted and went to claim between January 1, 2003, and December 31, 2004. US Bank included unallowable amounts (overdue principal, interest, and late charges) when determining the debt for six streamline refinanced loans and therefore these loans exceeded HUD's maximum insurable limits by $6,910; approved seven purchase loans when required documentation was missing, out of date, or inadequate to support the income of the borrowers; and understated the borrowers' expenses for three loans. Of the 13 loans' certifications reviewed, US Bank also incorrectly certified the integrity of the data supplied by other lenders used to determine the quality and insurance eligibility of one loan, and that due diligence was used in underwriting another 12 loans even though it was not. The problems occurred because US Bank needs to improve its existing procedures and controls to ensure that its underwriters followed HUD's underwriting requirements. As a result, HUD incurred a total loss of $416,473 on 12 loans and paid $71,554 in claims on one loan.

Improper Underwriting of Federal Housing Administration Loans

US Bank sponsored 18,913 Federal Housing Administration loans between January 1, 2003, and December 2004. Of the 18,913 loans, 28 loans defaulted and HUD paid nearly $3 million in claims on the loans (14 home purchases and 14 streamline refinanced). We reviewed all 28 loans for compliance with HUD's underwriting requirements.

US Bank improperly underwrote six streamline refinanced loans with a total mortgage value of $672,717 and seven home purchase loans with a total mortgage value of $773,763. For the six streamline refinanced loans, HUD incurred a total loss of $138,187 on five and paid $71,554 in claims on the remaining one loan as of March 10, 2006. The following table shows the actual loss and claims paid for the six streamline refinanced loans.

Case number	Mortgage amount	HUD's actual loss	Claims paid by HUD
121-2119152 *	$84,308	$10,335	
521-5537765	142,507	34,047	
581-2457784	144,571	32,551	
137-2415145	62,329		$71,554
201-3227501	113,202	37,463	
521-5562435	125,800	23,791	
Totals	**$672,717**	**$138,187**	**$71,554**

* - This loan was also cited in finding #1 of this audit report; therefore, HUD's loss will not be reflected in this finding's recommendations.

US Bank included unallowable amounts (overdue principal, interest, and late charges) when it funded the six streamline refinanced loans in excess of HUD's maximum insurable limits as required by Mortgagee Letter 2001-12 and HUD Handbook 4155.1, REV-4. It funded the six loans for a total of $672,717. HUD's maximum insurable limit for the six loans totaled $665,807. Therefore, the six loans exceeded HUD's limit by $6,910.

For the seven home purchase loans which US Bank improperly underwrote, HUD incurred a total loss of $278,286 as of March 10, 2006. The following table shows the actual loss HUD incurred on the eight loans after their associated properties were sold.

Case number	Mortgage amount	HUD's actual losses
201-3157213	$ 64,490	$76,570
491-7920423	133,441	44,355
105-1094457	140,956	23,593
105-1171434	145,153	41,561
161-2019530	59,219	26,467
201-3197655	62,420	35,859
483-3412941	168,084	29,881
Totals	**$773,763**	**$278,286**

US Bank improperly underwrote three home purchase loans when supporting documentation was missing, out of date, or inadequate to support the borrowers' income as required by HUD Handbook 4155.1, REV-4. The three loans are case numbers 201-3157213, 105-1094457, and 105-1171434.

In violation of Mortgagee Letter 1998-1 and/or HUD Handbook 4155.1, REV-4, US Bank also understated the borrowers' expenses for three additional home purchase loans by improperly using the first year buy-down period principal and interest; did not adequately determine whether a borrower's debt was paid off; or failed to properly compute negative rent when it excluded the property taxes in its computation. The three loans are case numbers 491-7920423, 201-3197655, and 483-3412941.

Further, US Bank overstated borrowers' income and/or failed to verify income or establish income stability for seven purchase home loans as required by HUD Handbook 4155.1, REV-4. The seven loans are case numbers 201-3157213, 491-7920423, 195-1094457, 105-1171434, 161-2019530, 201-3197655, and 483-3412941.

Appendix C of this report provides details of federal requirements regarding underwriting of Federal Housing Administration loans as well as a citation under the Program Fraud Civil Remedies Act. Appendix D provides a summary of unallowable amounts included in streamline refinanced loans and Appendix E provides a detailed description of additional loans with underwriting deficiencies noted in this finding for which we are recommending reimbursement.

Incorrect Underwriters' Certifications Submitted

Of the 13 improperly underwritten loans, one was underwritten using an automated system and 12 were manually underwritten by US Bank. We reviewed the certifications for all 13 loans for accuracy. US Bank's direct endorsement underwriters incorrectly certified the integrity of the data supplied by another lender used to determine the quality and insurance eligibility for one loan, and that due diligence was used in underwriting another 12 loans even though it was not.

After underwriting a loan using an automated underwriting system, HUD requires direct endorsement underwriters to certify the integrity of the data supplied by a lender used to determine the quality of the loans and that the loans were eligible for insurance. After underwriting a loan manually, HUD requires direct endorsement underwriters to certify that they used due diligence and reviewed all associated documents during the underwriting of a loan.

Appendix E of this report provides a summary of loans that US Bank submitted to HUD with incorrect underwriting certifications.

US Bank Needs to Improve Existing Underwriting Procedures and Controls

Although US Bank kept current with HUD's underwriting requirements by updating its Underwriting Manual, it needs to improve existing procedures and controls over its underwriting of Federal Housing Administration-insured loans.

The procedures and controls include but not limited to providing the necessary training to its underwriters to ensure that they follow HUD's underwriting requirements, and effective oversight or monitoring of the underwriters. Such procedures and controls should also ensure the accuracy of US Bank's underwriting certifications submitted to HUD.

Using the total actual losses and claims paid by HUD for 13 loans improperly underwritten and incorrectly certified, the estimated total risk to the Federal Housing Administration is $113,292 (13 divided by 28, times $488,027 in actual losses and claims HUD incurred each year for two years) over the next year.

Recommendations

We recommend that HUD's assistant secretary for housing-federal housing commissioner require US Bank to

2A. Reimburse HUD $406,138 for the actual losses it incurred on 11 loans (seven home purchases and four streamline refinanced) improperly underwritten since the associated properties were sold.

2B. Reimburse HUD for any future loss from $71,554 in claims paid on one loan improperly underwritten with a total mortgage value of $62,329 once the associated property is sold.

2C. Improve its existing procedures and controls to ensure its underwriters follow HUD's underwriting requirements. These procedures and controls included but are not limited to: providing adequate training to its underwriters regarding HUD's underwriting requirements of Federal Housing Administration loans to ensure that the underwriters adequately resolve any discrepancies shown among the documentation associated with the loans; adequately verify borrowers' income; obtain and review the documents that adequately support the borrowers' income stability and expenses; and include only the proper amounts when calculating the loan amounts to be funded; providing effective oversight or monitoring over its underwriting of loans; and verifying the accuracy of its underwriting certifications before submission to HUD. These procedures and controls should help reduce risks to the Federal Housing Administration fund by $113,292 next year.

We recommend that HUD's associate general counsel for program enforcement

2D. Determine legal sufficiency and if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act against US Bank and/or its principals for incorrectly certifying the integrity of the data supplied by another lender used to determine the quality and insurance eligibility of one loan, and due diligence was used in underwriting another 12 loans even though it was not.

SCOPE AND METHODOLOGY

We performed our audit work between July and December 2005. We conducted our audit at US Bank's Office in Owensboro, Kentucky and HUD's Detroit Field Office.

To achieve our objectives, we relied on computer-processed and hard copy data from US Bank, and data contained in HUD's Single Family Data Warehouse. We relied on the loan payment histories provided by US Bank, the certifications and loan payment histories in the case binders which US Bank submitted to HUD, and the various dates in US Bank's and HUD's data systems, including loan-closing dates, notice of rejection dates, submission dates, resubmission dates, and endorsement dates. We assessed the reliability of computerized data, including relevant general and application controls. We used mortgage amount and claim status from HUD's systems for information purposes only.

In addition, we interviewed HUD's and US Bank's management and staff involved in processing late requests for endorsement, mortgage payments, and underwriting of Federal Housing Administration loans. Further, we reviewed HUD's rules, regulations, and guidance for proper submission and underwriting of Federal Housing Administration loans and US Bank's policies and procedures.

Using HUD's data system, we identified that US Bank sponsored 18,913 Federal Housing Administration loans with closing dates between January 1, 2003, and December 31, 2004. The total mortgage value of these loans was more than $2.2 billion. The following table depicts the adjustments made to the initial universe of 18,913 loans identified for late endorsement testing. A narrative explanation follows the chart.

Description of loans	Number of loans	Original mortgage amounts
Originated and/or sponsored by US Bank from January 1, 2003, through December 31, 2004	18,913	$2,274,294,931
Submitted within 66 days after closing *(before April 12, 2004)*	12,598	1,504,787,450
New construction	81	11,410,677
Submitted before the first payment was due	614	71,517,006
Transferred before submission	997	107,476,987
Home equity conversion	5	545,665
Closed after April 12, 2004, with Notice of Rejections and not subject to the 90-day requirement	212	25,827,759
Loans tested	**4,406**	**$552,729,387**

For our late endorsement testing of the 18,913 loans in the initial universe, we removed 81 new construction loans, 614 loans which were submitted before the first payment due date because these loans were not subjected to the 60-day pre-April 2004 submission requirements, five home equity conversion loans, and 212 loans closed after April 12, 2004, which were not subject to the

90-day requirement. We further limited our universe to only those loans received by HUD more than 66 days after the loans had closed (before April 12, 2004).

While HUD requires lenders 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 six additional days to ensure that we conservatively selected loans for further testing. We allowed six extra days because HUD's mailroom and endorsement contractor have three business days to process each loan and because any submission may be delayed in the mail for up to three days over a weekend.

As a result, after removing the 12,598 loans which were submitted within 66 days after closing, there were 5,403 loans remaining as late requests for endorsement. In evaluating the 5,403 loans, we identified 997 which US Bank transferred the loan servicing to other lenders/servicers before submission for endorsement; therefore, we also removed these loans from our testing universe. After removing the loans which were not subject to HUD's late endorsement requirements, we only tested 4,406 loans for compliance with HUD's late endorsement requirements.

Of the 18,913 loans sponsored by US Bank between January 1, 2003, and December 31, 2004, 28 loans defaulted and went to claim. We reviewed all 28 loans with a total mortgage value $2,938,561 for compliance with HUD's underwriting requirements. We also reviewed the accuracy of US Bank's underwriting certifications for the 13 loans inappropriately underwritten.

The audit covered the period of January 1, 2003, through December 31, 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 has implemented to reasonably ensure that a program meets its objectives.

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

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

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

We assessed the relevant controls identified above.

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

Significant Weakness

Based on our audit, we noted no significant weakness.

FOLLOWUP ON PRIOR AUDITS

This was the first audit of US Bank's late requests for endorsement and underwriting of Federal Housing Administration-insured loans by HUD's Office of Inspector General (OIG).

The last two independent auditor's reports for US Bank covered the years ending December 31, 2003, and December 31, 2004. Both reports resulted in no findings.

In January 2005, HUD's Quality Assurance Division performed a quality assurance review of US Bank. The review resulted in two findings related to a deficiency in US Bank's quality control plan and its underwriting of Federal Housing Administration loans. Both findings were resolved and closed as of April 2005.

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			$1,592,040
1B	$48,428		
1C		$58,132	
1D			1,251,758
2A	406,138		
2B		71,554	
2C			113,292
Totals	$454,566	$129,686	$2,957,090

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

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

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**

usbank.
Five Star Service Guaranteed

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March 8, 2006

Ms. Rose Capalungan
Assistant Regional Inspector General for Audit
United States Department of HUD-Office of Inspector General
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604

Re: U. S. Bank Audit

Dear Ms. Capalungan:

We are writing to provide comments on the draft audit report concerning U.S. Bank's late endorsement policies and the processing of 28 FHA insured mortgages. The Inspector General reviewed U.S. Bank's FHA mortgages originated between January 1, 2003 and December 31, 2004.

U.S. Bank takes very seriously its obligations and responsibilities as an FHA approved mortgagee and Direct Endorsement lender. U.S. Bank prides itself on the risk management and quality control measures that we have established to protect the Federal Housing Administration, our customers, business partners and shareholders from undue risk in the mortgage origination process. U.S. Bank regularly monitors its origination activities to ensure compliance with FHA requirements.

U.S. Bank believes that its commitment to prudent lending in the FHA program is demonstrated by the following two points.

1. *U.S. Bank's FHA's originations perform much better than FHA's book of business as a whole.*

Comment 1

The best indicator of a mortgage lender's commitment to quality is the performance of its originated mortgages. HUD's own statistical information demonstrates the quality of U.S. Bank's efforts. In FHA's Neighborhood Watch data system that monitors FHA loan performance, U.S. Bank has an early default and claim rate of 2.95 percent and a "compare ratio" of 82 percent for the most recent two year period ending January 31, 2006. Stated another way, U.S. Bank's FHA originations are performing 18 percent better than FHA's book of business as a whole.

2. *U.S. Bank properly processed over 99.5 percent of its mortgage insurance submissions.*

Ref to OIG Evaluation	Auditee Comments
Comment 2	The I.G. audit report itself also documents the quality of U.S. Bank's operations. U.S. Bank originated 18,913 loans during the audited period. The I.G. found deficiencies with 76 loans (which should be lowered to 63 loans based on documentation provided in this response). U.S. Bank's error rate is less than one-half of one percent (.004 percent). The I.G.'s report also notes U.S. Bank's late endorsement rate has declined by almost 50 percent (to 5 percent) in the first nine months of 2005 as compared to the comparable period in 2004.
Comment 1	U.S. Bank devotes considerable corporate resources to managing all aspects of the risk associated with the FHA program and all of its other loans. We are vigilant in monitoring all programs and processes to ensure that serious problems do not occur and have instituted ongoing training to make certain that staff is fully aware of the latest changes. U.S. Bank also takes corrective actions immediately to address any problems as soon as they are uncovered. Your office's recognition of the numerous steps that have been undertaken prior to and during your audit to improve U.S. Bank's operations is appreciated.
	At the same time, U.S. Bank also recognizes that when mistakes are made, we must accept responsibility for those errors and provide appropriate remedies. However, as our early default performance indicates and your audit validates, the errors uncovered in your report are isolated exceptions and are not part of any pattern and practice to intentionally ignore HUD requirements.
	During the audit period, U.S. Bank, like the mortgage industry in general, experienced unprecedented high volumes of mortgage origination activity. Low interest rates fueled record levels of both purchase and refinance transactions. While automation has helped the industry to manage this record volume, there are still steps that remain manual It is inevitable that some mistakes will be made in these processes no matter how many safeguards are implemented.
Comment 3 Comment 4	While U.S. Bank accepts responsibility when mistakes are made, we must disagree strongly with the notion in each I.G. finding that implies improper certifications may have been knowingly made when the statement is based on mistakes involving 15 loans out of a universe of 18,913 mortgages. U.S. Bank believes the inclusion of these two unsubstantiated statements is unjustified, particularly when the bank's over-all performance is considered.
	The audit has two principal findings. We will discuss each of them below and then provide detailed information in the attachments.
	Finding 1: U.S. Bank Substantially Complied With HUD's Late Endorsement Requirements
Comment 2	With this statement, it appears that the Inspector General is acknowledging the

Ref to OIG Evaluation	Auditee Comments
	characterization of the finding in this manner is appropriate since over 99.5 percent of the loans originated in 2003 and 2004 were processed in accordance with HUD insurance endorsement requirements.
Comment 2	While the finding mentions 76 loans, detailed documentation has been sent under separate cover and labeled as Exhibit A that indicates 13 cases with loan amounts totaling over $1,732,046 were submitted properly and were eligible for insurance. We believe that these cases should be removed from the finding. This reduction lowers the total number of cases to 63 mortgages totaling $6,783,745. In addition, 28 of the remaining 63 mortgages have already been paid in full and, therefore, the Department faces no risk of loss on these mortgages. The Department's risk exposure is limited to 34 loans (one loan has been indemnified by a loan correspondent) totaling $3,881,336.
	Finally, U.S. Bank made every effort to comply with HUD's insurance endorsement policies. As the Inspector General's data documents, the mistakes are isolated and there is no pattern and practice of disregarding FHA's guidance.
	Finding 2: U.S. Bank Inappropriately Underwrote 14 FHA Loans
	The following comments are offered and more detailed information is provided in Exhibit B. The audit targets the underwriting of eight purchase transactions and six streamline refinance cases.
Comment 5	A principal finding of the audit was the incorrect certification of the integrity of the data used in the underwriting process. U.S. Bank strongly disagrees with this finding. U.S. Bank believes that the variances are primarily based on differences of interpretations of judgment factors involved with the underwriting process and minor errors in calculation of ratios and loan amounts. In Exhibit B attached hereto, we provide specific information to demonstrate the differences that involve judgment, rather than an attempt to fraudulently manipulate the loan application data.
Comment 6	On the six streamline refinance transactions, mistakes were made in the calculation of the maximum mortgage amount totaling $6,910. While U.S. Bank strives to have a zero tolerance for errors, they are inevitably going to occur particularly in times of unprecedented volume as took place in 2003-2004. With the volatility of the marketplace at that time, mistakes may have been made calculating the maximum loan amount because of confusion about the closing date rather than any attempt to commit fraud or misrepresentation. It is hard to imagine what would be the motivation of U.S. Bank employees to commit fraud for the purpose of willfully increasing a loan amount by less than an average of $1,200 on six loans.
	It should be noted that HUD has revised its cash out refinance policy to permit the inclusion of late and escrow charges in Mortgagee Letter 2005-43. While we do not question that mistakes may have been made inadvertently, FHA's policy change last year indicates that the impact of these mistakes is not significant.

Ref to OIG Evaluation **Auditee Comments**

In conclusion, U.S. Bank is proud of its performance in the FHA program and it makes every effort to comply with FHA requirements. We also recognize that mistakes will occur no matter how diligent our efforts and we are prepared to accept responsibility for those mistakes.

Comment 3

U.S. Bank also believes that the mistakes were isolated and inadvertent and show no pattern and practice of ignoring FHA's requirements. U.S. Bank's outstanding record and the paucity of findings justify this conclusion.

Sincerely,

Daniel A. Arrigoni
President and CEO

OIG Evaluation of Auditee Comments

Comment 1 We commend US Bank for making significant control improvements to ensure it complies with HUD's late endorsement requirements. Our late endorsement testing showed US Bank to be in substantial compliance with rules in effect during our audit period.

Comment 2 US Bank disagreed with the number of Federal Housing Administration loans cited in our discussion draft audit report as improperly submitted for late endorsement. US Bank provided additional documentation such as cancelled checks, payment ledgers, and other documentation supporting its disagreement with 13 of the 76 loans that were previously cited as improperly submitted for late request for endorsement. The additional supporting documentation for the 13 loans showed one loan was not submitted late for endorsement and the required mortgage payments were made for eight loans; however, the documentation did not show that the required mortgage payments were made for the remaining four loans. Thus, we decreased the number of Federal Housing Administration loans improperly submitted for late endorsement by nine loans (from 76 to 67 loans).

Comment 3 US Bank strongly disagreed that it incorrectly certified loans for late endorsement because such incorrect certifications were based on mistakes. US Bank believes the inclusion of unsubstantiated statements is unjustified, particularly when its overall performance is considered. We did not change our statements on US Bank's incorrect certifications on late endorsement because such statements were appropriate based on the issues cited in this report. Violations of Federal Housing Administration rules are subject to administrative actions, up to and including remedies under the Program Fraud Civil Remedies Act.

Comment 4 We reduced the total number of incorrect certification from 24 to 20 based upon additional documentation such as cancelled checks, payment ledgers, and other supporting documentation showing that the receipt dates of the mortgage payments for four loans were earlier than the effective dates of the mortgage payments shown on US Bank's computer system. Therefore, this made the certifications correct that mortgage payments and/or escrow accounts were current at submission. US Bank posted the mortgage payment late and therefore the payment data in its computer system did not show the correct payment receipt date.

OIG Evaluation of Auditee Comments

Comment 5

US Bank strongly disagreed that it incorrectly certified loans that were underwritten because it believes that the variances were primarily based upon differences of interpretations of judgment factors involved in the underwriting process and minor errors in calculations. We did not change our statements on US Bank's incorrect certifications on late endorsement because such statements were appropriate based on the issues cited in this report. Violations of Federal Housing Administration rules are subject to administrative actions, up to and including remedies under the Program Fraud Civil Remedies Act.

Comment 6

Bank provided additional documentation such as pay stubs, Wage Earnings and Statement, and other related-documents supporting its disagreement with five of the six streamline refinanced loans that were previously cited as improperly underwritten. US Bank agreed that unallowable amounts (overdue principal, interest, and late charges) were included when it funded the six streamline refinanced loans in excess of HUD's maximum insurable limits as required by Mortgage Letter 2001-12 and HUD Handbook 4155.1, REV-4. US Bank stated that the impact of the mistakes in its calculations of allowable amounts is not significant due to HUD's revised Mortgagee Letter 2005-43. However, we used the appropriate HUD underwriting requirements at the time US Bank underwrote the loans. Based on the results of our review of the additional supporting documentation for five of the six loans, we determined that US Bank properly underwrote one loan and improperly underwrote the remaining four. Thus, we decreased the number of Federal Housing Administration loans improperly underwritten by one loan (from 14 to 13 loans).

Appendix C

FEDERAL REQUIREMENTS

LATE ENDORSEMENT REQUIREMETS

According to 24 CFR [*Code of Federal Regulations*] 203.255(b), for applications for insurance involving mortgages originated under the direct endorsement program, the lender shall submit to the secretary of 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 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 escrows account for taxes, hazard insurance, and mortgage insurance premiums is 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 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.

Mortgagee Letter 2005-23, “Amended Late Request for Endorsement Procedures,” was issued to reduce the administrative burden on lenders that are unable to submit applications for mortgage insurance to Federal Housing Administration within 60 days of closing.

When submitting a late request for endorsement, under the circumstances described below, the lender is required to include a dated certification, signed by a 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) At the time of this certification, no mortgage payment is currently unpaid more than 30 days and;

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, and;
3) The lender or its agents did not provide the funds to bring and/or keep the loan current or to bring about the appearance of an acceptable payment history.

If the payment due for the month *before* the lender submitted the loan for endorsement has not been received, that loan is not eligible for endorsement. Individuals found making false certifications may have administrative sanctions taken against them including, but not limited to, debarment from participation in HUD's and other federal agency programs, civil money penalties, and Program Fraud Civil Remedies Act sanctions.

LOAN UNDERWRITING REQUIREMENTS

Paragraph 1-12 of HUD Handbook 4155.1, REV-4, requires US Bank to fund Federal Housing Administration streamline loans up to HUD's maximum insurable mortgage limits. Further, paragraph 1-12 prohibits delinquent interest, late charges, or escrow shortages from being included in the mortgages of streamline refinances.

Mortgagee Letter 2001-12, "Streamline Refinances – Revised Mortgage Amount Calculations," requires borrowers to make their monthly mortgage payments when due even when refinancing and they are not permitted to roll payments due into the new loan amount. It also requires that lenders must not include in the new mortgage amount the sum of any mortgage payments "skipped" by the borrowers.

Mortgagee Letter 98-1 , "Single Family Loan Production - Underwriting Adjustable Rate Mortgages, Interest, Buy-downs, Homeownership Counseling, And Other Policy Issues," states that under buy-down agreements, borrowers must be qualified using the initial contract rate plus 1 percent (which is the anticipated second year rate under the buy-down agreement).

HUD Handbook 4155.1, REV-4, CHG-1, "Mortgage Credit Analysis for Mortgage Insurance On One-To-Four Family Properties,"

- Requires sufficient documentation to support the lender's decision to approve the loan. Credit documents such as credit reports and verifications of employment may be up to 120 days old at the time of loan closing. When these documents exceed this age limitation, then updated reports and verifications must be obtained. Lenders must obtain a verification of employment from the employer and the most recent pay stub or a verbal verification of employment along with pay stubs covering the most recent 30 day period and W-2 forms covering the most recent two year period (paragraph 3-1).

- States that when delinquent accounts are revealed, the lender must determine whether late payments were due to a disregard for or inability to manage financial obligations or to factors outside of the borrower's control. Major indications of derogatory credit including judgments or collections, or recent credit problems require sufficient written explanation from the borrower. When reviewing the borrower's credit report, the lender must pay particular attention to recent and undisclosed debts. The lender must account for any significant debt shown on the credit report but not listed on the loan application and must obtain an explanation for all credit report inquiries (paragraph 2-3).

- Allows inclusion of rental income for other properties owned by the borrower if a current signed lease is provided. The gross rental income must be reduced by 25 percent (or percentage established by the local HUD office) before subtracting the principal, interest, taxes, insurance, and homeownership association dues. After subtracting these expenses from the reduced gross income and the figure is positive, the figure may be included in income. If the figure is negative, it is used as a recurring monthly obligation (paragraph 2-7(m)).

- Requires the inclusion of all installment loans, revolving accounts, real estate loans, and other continuing obligations as recurring liabilities in the analysis of income (paragraph 2-11).

- States that lenders must verify the source of the borrower's earnest money deposit if the deposit exceeds 2 percent of the sales price or appears to be excessive based on the borrower's savings history. It also states that if there is a large increase in the borrower's savings or checking account, or the account was opened recently, the lender must obtain an explanation with documentation for the source of funds. Section 2-10(m) states that the lender must verify cash assets to close and get a borrower’s explanation as to their ability to accumulate savings for closing (paragraph 2-10(a) and (b)).

- States that the purpose of a mortgage credit analysis is to determine the borrower's ability and willingness to repay the mortgage debt and limit the probability of collection difficulty or default. The stability and adequacy of income, funds to close, credit history, qualifying ratios, and compensating factors are typically evaluated (paragraph 2-1).

- States that anticipated borrower income and the likelihood of continuance must be established to determine the borrower's capacity to repay the loan. Income that cannot be verified, is not stable, or will not continue, may not be used in calculating the borrower's income ratios. The lender must verify employment for the most recent two years and the borrowers must explain any gaps in employment of a month or more. Income may be considered stable if the borrower was employed for six months or more (paragraph 2-6).

- States that income obligated for the loan debt must be analyzed to determine whether it can reasonably be expected to continue through at least the first three years of the loan. Income can be included in effective income if it can be verified. It also states that projected income is not acceptable for qualifying the borrower except for cost of living adjustments, raises, bonuses, etc. that are verified by the employer and will begin within 60 days of the loan closing (paragraph 2-7).

PROGRAM FRAUD CIVIL REMEDIES ACT OF 1986

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

SUMMARY OF UNALLOWABLE AMOUNTS IN STREAMLINE REFINANCED LOANS

Loan number	Overdue principal, interest, and late charges included in refinanced loan	HUD's maximum insurable limit	Loan amount per US Bank (or original mortgage amounts)	Underwriting method used by US Bank
121-2119152	$1,075	$83,233	$84,308	Manual
521-5537765	2,623	139,884	142,507	Manual
581-2457784	1,799	142,772	144,571	Manual
137-2415145	157	62,172	62,329	Manual
201-3227501	806	112,396	113,202	Manual
521-5562435	450	125,350	125,800	Manual
Totals	$6,910	$665,807	$672,717	

Appendix E

SUMMARY OF LOANS WITH INCORRECT UNDERWRITING CERTIFICATIONS

Loan number	Original mortgage amount	Overstated or unstable income	Inadequate or lack of documentation	Understated expenses	Overdue principal, interest, and late charges included in refinanced loan	Underwriting method
201-3157213	$64,490	X	X			Manual
491-7920423	133,441	X		X		Manual
105-1094457	140,956	X	X			Manual
105-1171434	145,153	X	X			Manual
161-2019530	59,219	X				Manual
201-3197655	62,420	X		X		Automated
483-3412941	168,084	X		X		Manual
121-2119152	84,308				X	Manual
521-5537765	142,507				X	Manual
581-2457784	144,571				X	Manual
137-2415145	62,329				X	Manual
201-3227501	113,202				X	Manual
521-5562435	125,800				X	Manual
Totals	**$1,446,480**	**7**	**3**	**3**	**6**	

Appendix F

NARRATIVE CASE PRESENTATIONS

Loan number: 201-3157213

Mortgage amount: $64,490

Section of Housing Act: 203 (b)

Date of loan closing: January 3, 2003

Status as of November 28, 2005: Foreclosed - property sold by HUD on September 20, 2005

Prior status: Not Applicable

Payments before first default reported: Eight

Unpaid principal balance: $63,262

Claims paid by HUD: $70,291

Loss on sale incurred by HUD: $76,570

Summary:

US Bank's underwriter (O831) approved this loan when income stability was not adequately established. Payroll documentation in the loan's file was more than 120 days old at closing. Two verbal verifications of employment for the borrower and co-borrower did not identify when the verifications were done, who did the verifications, and the likelihood of continued employment. At the time of closing, the borrower was employed less than one month and the co-borrower was only employed for six months.

Both verbal verifications of employment were called into the same phone number despite different employers for each borrower. The phone number belonged to a job corps center where both of the borrowers were assigned under fixed term competitive employment contracts with their respective employers. The co-borrower's employment term ended one month after the loan closing and she was not selected to have her job contract renewed by her employer. These employees had to compete with others to retain their positions at the end of each employment contract period.

Loan number: 491-7920423

Mortgage amount: $133,441

Section of Housing Act: 203 (b)

Date of loan closing: March 14, 2004

Status as of November 28, 2005: Foreclosed - property sold on March 14, 2005

Prior status: Not Applicable

Payments before first default reported: Ten

Unpaid principal balance: $131,839

Claims paid by HUD: $138,039

Loss on sale incurred by HUD: $44,355

Summary:

US Bank's underwriter (Q553) overstated the borrower's income by $154 per month by using earnings indicated on the verification of employment form rather than the corresponding wages shown on the W-2 and earnings statements in the loan's file. The employer confirmed that the verification of employment figures were established wages and did not reflect actual earnings due to excessive workdays missed that the borrower was not paid each year.

US Bank's underwriter understated by $79 per month the borrower's expenses in the mortgage credit analysis by incorrectly using the principal and interest due in the first year under a buy down agreement.

Loan number: 105-1094457

Mortgage amount: $140,956

Section of Housing Act: 203 (b)

Date of loan closing: February 26, 2003

Status as of November 28, 2005: Foreclosed – property sold on July 30, 2004

Prior status: Not Applicable

Payments before first default reported: Four

Unpaid principal balance: $139,064

Claims paid by HUD: $148,872

Loss on sale incurred by HUD: $23,593

Summary:

US Bank's underwriter (Q794) did not investigate a discrepancy between the verifications of employment and payroll documentation provided by a loan correspondent and employment data shown on the credit report in the loan's file. The credit report showed "not applicable" under the employment section of the report. Had the underwriter investigated the discrepancy and re-verified the borrower's employment with the employer, the underwriter would have discovered that the loan correspondent provided incorrect and invalid verifications and wage documentation. As a result, the borrower's income was overstated by $2,995 per month in the analysis of income based on information obtained directly from the borrower's employer.

Loan number: 105-1171434

Mortgage amount: $145,153

Section of Housing Act: 203 (b)

Date of loan closing: April 11, 2003

Status as of November 28, 2005: Foreclosure – property sold on January 14, 2005

Prior status: Not Applicable

Payments before first default reported: One

Unpaid principal balance: $142,914

Claims paid by HUD: $158,619

Loss on sale incurred by HUD: $41,561

Summary:

US Bank's underwriter (Q553) did not investigate discrepancies with the employer's name and periods of employment between the borrower's credit report and the verbal verification of employment and earnings documentation provided by a loan correspondent. The underwriter also did not investigate discrepancies in reporting and transaction dates shown on the borrower's bank statements provided by the loan correspondent. If the underwriter had verified the documentation, he would have discovered that the verification of employment, W-2 statements, and bank statements were invalid and incorrect.

The borrower's employer provided us with information showing that the borrower was employed as a contract employee, paid cash, and provided 1099 forms at the end of the year. The W-2 statements provided to US Bank's underwriter by the loan correspondent were invalid documents and the information on the verbal verification of employment form was not correct. Therefore, the borrower's income was over stated by $758 per month in the analysis of income.

The borrower's bank provided us with evidence that the bank statements provided by the loan correspondent to US Bank's underwriter were also not valid or correct. The documentation we obtained from the bank also showed that the borrower was paying $300 per month more in rent than reported on the loan applications in the loan's file.

Loan number: 161-2019530

Mortgage amount: $59,219

Section of Housing Act: 203 (b)

Date of loan closing: February 28, 2003

Status as of November 28, 2005: Foreclosure – property sold on January 6, 2005

Prior status: Not Applicable

Payments before first default reported: One

Unpaid principal balance: $58,240

Claims paid by HUD: $26,467

Loss on sale incurred by HUD: $26,467

Summary:

US Bank's underwriter (P043) did not adequately establish the co-borrower's income stability. The co-borrower was only employed for eight months at his current job after a four month gap in employment. The underwriter did not obtain an explanation for the gap in employment. The co-borrower's credit report did not show any employment information and this discrepancy was not investigated by US Bank.

The underwriter also overstated the co-borrower's income by $126 per month by including unverified overtime pay. This loan was also over insured by $144 due to differences between the borrowers' estimated closing costs and those actually paid at closing.

Loan number: 201-3197655

Mortgage amount: $62,420

Section of Housing Act: 203 (b)

Date of loan closing: February 10, 2003

Status as of November 28, 2005: Foreclosure – property sold on August 22, 2005

Prior status: Not Applicable

Payments before first default reported: Nine

Unpaid principal balance: $61,043

Claims paid by HUD: $68,378

Loss on sale incurred by HUD: $35,859

Summary:

US Bank underwrote this loan using the Loan Prospector automated underwriting system, but was reviewed by US Bank's underwriter (X376). The borrower's income entered into the system was not verified with his employer and was not shown on his credit report in the loan's file. The borrower's wages were not supported by the latest full month of pay statements. The only pay statements in the loan's file was for a two week period and they showed the borrower only worked 15 hours per week. US Bank's underwriter did not resolve this discrepancy. Based on the wage documentation, the borrower's income was overstated by $1,179 per month.

The reviewing underwriter did not obtain explanations or confirmations regarding the status of a $315 per month car loan that the borrower claimed was paid off, or explanations for inquiries and judgments shown on the borrower's credit report.

Loan number: 483-3412941

Mortgage amount: $168,084

Section of Housing Act: 203 (b)

Date of loan closing: January 9, 2004

Status as of November 28, 2005: Foreclosure – property sold on June 21, 2005

Prior status: Not Applicable

Payments before first default reported: Four

Unpaid principal balance: $166,020

Claims paid by HUD: $173,767

Loss on sale incurred by HUD: $29,881

Summary:

US Bank's underwriter (O831) overstated the borrower's income by $447 per month by using a projected income on a compensation projection that did not identify the borrower's employer or the borrower rather than income supported by wage documentation. The underwriter did not require or obtain any verification of employment from the borrower's employer.

The underwriter did not obtain an explanation for a gap of approximately 45 days in employment that was indicated by the borrower's loan applications and payroll documentation in the loan's file.

The underwriter understated the negative rent on the borrower's prior residence to be leased by not considering the property taxes. The underwriter also incorrectly understated projected housing expense by using the principal and interest due under the first year of a buy-down agreement. This understated housing expense by $105 per month in the analysis of income sufficiency.

The underwriter did not obtain an explanation for two recent credit inquiries shown on the borrower's credit report.