



Issue Date

September 25, 2003

Audit Case Number

2003-SE-1004

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

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FROM: Frank E. Baca, Regional Inspector General for Audit, OAGA

SUBJECT: CWCapital, LLC
Multifamily Accelerated Processing Lender
Needham, Massachusetts

INTRODUCTION

In accordance with the OIG's Audit Plan, we completed an audit of CWCapital LLC, a Multifamily Accelerated Processing (MAP) lender. Our audit objectives were to determine if CWCapital's: (1) MAP application met HUD requirements; (2) procedures provide reasonable assurance that HUD requirements were being met during the construction phase of the MAP loan; (3) underwriter estimates are accurate as a measurement of the quality of its loan underwriting; and (4) management control procedures were adequate to ensure compliance with Departmental and MAP processing requirements. The audit found that CWCapital's MAP application and procedures during the construction phase met HUD requirements, and its loan underwriting estimates were reasonable. Although CWCapital complied with its Quality Control Plan, changes can be made to enhance its MAP loan process. This report includes a recommendation to improve CWCapital's MAP loan process.

To achieve our audit objectives we:

- Reviewed HUD criteria, including 24 CFR 200-202, HUD Handbook 4060.1 REV-1, the MAP Guide, and Mortgage Letters 00-42 and 01-03.

- Reviewed CWCapital’s MAP application, Quality Control Plan, and Management Control Procedures for the construction phase of the MAP loans.
- Interviewed HUD Headquarters officials, namely the Director of Multifamily Housing Development, and the Director of Lender Quality and Monitoring Division.
- Interviewed selected MAP Hub staff at the Seattle, Washington Regional Office, and at the Portland, Oregon Field Office.
- Interviewed selected CWCapital staff at the Corporate Office in Needham, Massachusetts, and at the Regional Offices in Vancouver, Washington, and Atlanta, Georgia.
- Compared the underwriter estimates for a non-representative sample of seven of 28 CWCapital MAP loans with actual data (for six of the loans) to determine the accuracy of the underwriter’s estimates, and also made comparable data comparisons with the underwriter estimates for one new construction project that had not yet been completed.
- Made site visits to all seven sample projects, and to comparable projects for five of the seven projects reviewed.
- Reviewed the underwriting accuracy of five of the seven sampled MAP loans to determine if HUD had identified any deficiencies during the pre-application and firm application phases.

The review covered the period from July 2000 through April 2003. We performed the fieldwork at HUD Headquarters, CWCapital’s Corporate Office in Needham, Massachusetts, and Regional Offices in Vancouver, Washington, and Atlanta, Georgia, the HUD MAP Hub in Seattle, Washington, and the HUD field office in Portland, Oregon, from April through July 2003. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

We appreciate the courtesies and assistance extended by the personnel of CWCapital LLC during our review.

Should you or your staff have any questions, please contact me at (206) 220-5360.

SUMMARY

The audit results showed that CWCapital’s MAP application and MAP loan processes during the construction phase met HUD requirements. Our review found that the underwriter loan estimates, as a measure of the quality of CWCapital’s MAP loan underwriting, were reasonable and that no deficiencies were identified that would have had

a detrimental effect on the valuation of the MAP loans reviewed. Also, CWCapital properly followed the requirements of their Quality Control Plan; however, changes could be made to the Quality Control Plan to enhance CWCapital's MAP loan process. This report includes a recommendation to improve CWCapital's MAP loan process.

BACKGROUND

Multifamily Accelerated Processing - MAP

Federal Housing Administration (FHA) multifamily mortgage insurance began in 1937 and has been a major source of financing for affordable housing since that date. The most recent figures of loans committed show that the FHA insured an average of nearly \$4 billion in multifamily and health care facility mortgage loans each fiscal year from 1996 through 1999.

HUD processes multifamily loan insurance applications through 51 Multifamily Hubs and Program Centers throughout the nation. In some of these Hubs and Program Centers, the volume of work in recent years created increasing delays in processing. Furthermore, lenders complained that they were unable to get a tentative decision on a multifamily loan application early in the HUD review process.

To achieve faster processing and more timely decisions, the Seattle and Portland field offices (now part of the Northwest/Alaska Hub), followed by other Hubs and Program Centers, developed "fast-track" processing. Under "fast-track," qualified lenders had the option of preparing FHA forms and doing preliminary underwriting for certain multifamily loan applications.

Approximately 30 of the 51 Hubs and Program Centers were using some form of this "fast-track" processing for some of their multifamily loan applications. There were local variations, some of which assign part of the responsibility to the lender, such as the appraisal, but retain at the HUD office certain other responsibilities, such as the preparation of mortgage credit exhibits. Fast-track processing was not consistent from one Hub to the next, and was not available in many of the multifamily processing offices.

Multifamily Accelerated Processing (MAP) is a new processing procedure that grew out of fast-track. The intent of MAP is to establish national standards for approved lenders to prepare, process, and submit loan applications for FHA multifamily mortgage insurance. It is also intended to establish a process that is consistent at each HUD multifamily processing offices, and to provide lenders an earlier review of the application for insurance on new construction and substantial rehabilitation. The MAP process is also expected to significantly reduce the amount of HUD review time, while striking a careful balance between expedited processing and ensuring an acceptable level of risk for HUD's multifamily mortgage insurance programs.

CWCapital LLC

CWCapital LLC, a Massachusetts limited liability company, is the principal operating subsidiary of CW Financial Services LLC, a Delaware limited liability company. CWCapital began operations on September 10, 2002 with the merging of Continental

Wingate Associates, Inc. and Continental Wingate Capital Corporation into CWCcapital. CWCcapital originates, sells, and services commercial real estate mortgages, and is a HUD-Approved Title II Nonsupervised Mortgagee.

CWCcapital has nine offices located in five states. These offices consist of one Corporate Office, five Regional Offices, and three Branch Offices:

Corporate Office	Needham, Massachusetts
Mid-Atlantic Regional Office	Columbia, Maryland
Southeast Regional Office	Atlanta, Georgia
Northwest Regional Office	Vancouver, Washington
California Region Office	Newport Beach, California
Northeast Regional Office	Needham, Massachusetts
Branch Offices	Burlingame, California
	Los Angeles, California
	Seattle, Washington

CWCcapital has a staff of 112. Twenty-four and a half of these staff work on MAP loans, including 7.5 loan originators, 9.5 analysts or processors, and 7.5 underwriters (a few of the staff have multiple duties).

As of April 2003, CWCcapital had submitted MAP loan Applications to 13 HUD MAP Hubs and 17 HUD Field Offices that process MAP loans. From July 2000 through April 2003, CWCcapital had processed 28 MAP loans through the Final Endorsement phase of the MAP loan process. As of April 2003, the total amount of all CWCcapital MAP loans processed through final endorsement phase was \$209,830,900.

FINDING 1

CHANGES CAN BE MADE TO IMPROVE CWCAPITAL'S QUALITY CONTROL PLAN

CWCcapital Quality Control Plan required staff at the Regional level to review HUD-identified deficiencies for MAP loan applications submitted to HUD for processing, but no reviews were conducted at the Corporate level. A review of HUD-identified deficiencies by the Chief Underwriter at the Corporate level could help CWCcapital to pinpoint unacceptable patterns, trends, or practices.

HUD Handbook 4060.1 REV-1, Chapter 6-1A requires, in part: "The Quality Control Plan must provide for periodic reports which will identify for senior management areas of deficiency including, for example, errors and omissions, unacceptable patterns or trends..." so that actions can be taken to prevent such occurrences.

We interviewed CWCapital's staff to obtain an understanding of the MAP loan process, and reviewed its Quality Control Plan and internal reviews performed by the Chief Underwriter. The results found that CWCapital's Regional Offices reviewed and responded to HUD identified deficiencies during the MAP loan process, but the Corporate Office did not perform reviews of these deficiencies to identify unacceptable patterns or trends. CWCapital confirmed that HUD-identified deficiencies were not reviewed at the corporate level, and agreed that such reviews and changes to their Quality Control Plan need to be made to enhance its quality control process.

We reviewed a sample of five CWCapital MAP loans to determine if HUD had identified any deficiencies during their review of the pre-application and firm application phases of the MAP loan process. Only one of the five loans had a pre-application phase and HUD did not identify any deficiencies for this loan. HUD's review of the firm applications for the five sample loans identified 31 deficiencies. The 31 deficiencies included 5 requiring corrections/revisions, 14 requiring additional information, and 7 needing clarification. Also, a document was missing in four instances, and in one instance there was an unsigned document.

We concluded, and CWCapital agreed, that reviewing HUD-identified deficiencies for opportunities to enhance its Quality Control Plan is necessary and reasonable.

AUDITEE COMMENTS

CWCapital LLC agreed with the recommendation and did not provide written comments.

RECOMMENDATION

We recommend you require CWCapital LLC to:

- 1A. Make changes to its current Quality Control Plan so that HUD identified deficiencies are reviewed at the Corporate level by the Chief Underwriter, and if appropriate, advise senior management of recommended changes to improve the MAP loan process.

CWCapital revised its Quality Control Plan to include a review of HUD identified deficiencies by the Chief Underwriter, as described in recommendation 1A above. We reviewed the revised plan, and confirmed that the revisions fully comply with the intent and purpose of the recommendation. A management decision, completed action, has therefore been entered into the Audit Resolution and Corrective Action Tracking System for recommendation 1A. No further action is required. The audit recommendation is closed.

MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management controls relevant to CWCapital's MAP loan processing. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organization, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following management controls were relevant to our audit objectives.

- Lender's Quality Control Plan.

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

Based on our review, we did not identify any significant weaknesses in the lenders system of management controls.