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February 16, 2005

Audit Report Number
2005-PH-1006

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

Daniel G. Temme
FROM: Daniel G. Temme, Regional Inspector General for Audit, Mid-Atlantic Region,
3AGA

SUBJECT: Mortgagee Review of the Peoples National Bank Branch Office, Towson, MD,
Determined That Peoples National Bank's Loan Origination Process and
Quality Control Plan Did Not Comply With HUD Regulations and
Requirements

HIGHLIGHTS

What We Audited and Why

We audited the Towson branch of Peoples Mortgage Corporation (Peoples), a nonsupervised branch approved to originate Federal Housing Administration single family mortgage loans, because it had a high default rate. Our objectives were to determine whether Peoples complied with the U.S. Department of Housing and Urban Development's (HUD) regulations, procedures, and instructions in the origination of Federal Housing Administration loans and whether Peoples' quality control plan, as implemented, met HUD requirements.

What We Found

Peoples' Towson branch office did not originate all Federal Housing Administration loans in accordance with HUD's loan origination requirements. Of the 26 loans we

selected for review,¹ the branch office did not fully comply with Federal Housing Administration requirements for 14 of the loans valued at \$2,425,471. Peoples did not exercise due diligence in the review of assets and gifts or resolve signature, Social Security number, and employment inconsistencies. These deficiencies were caused by a lack of management oversight and contributed to an increased risk to the Federal Housing Administration Insurance Fund.

Further, Peoples' quality control plan and the corresponding contract for quality control reviews did not contain requirements to identify patterns of early defaults or to perform onsite reviews at branch locations. If Peoples had included these elements in its plan and contract, it would have discovered the deficiencies in the Towson office sooner.

After bringing these matters to its attention, Peoples corrected its loan origination process and its quality assurance plan.

What We Recommend

We recommend that the Assistant Secretary for Housing – Federal Housing Commissioner require Peoples to take immediate action to correct the branch operational deficiencies not in compliance with HUD branch requirements. We also recommend that HUD request indemnification from Peoples on 14 Federal Housing Administration loans valued at \$2,369,959, which it issued contrary to HUD's loan origination procedures.

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 requested Peoples' response on December 21, 2004, and received their written response, including comments on each loan, on January 11, 2005. At our exit conference on January 18, 2005, we agreed to use Peoples' January 11 responses as its final comments. Peoples generally agreed with our finding and recommendations and corrected its loan origination process and quality assurance plan during the audit. We verified implementation of the recommendations, and we will record final action in the departmental audit resolution tracking system upon report issuance. The complete text of the auditee's response, along with our evaluation of that response, can be found in Appendix B of this report.

¹ Originally valued at \$4,281,368

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BACKGROUND AND OBJECTIVES

The U.S. Department of Housing and Urban Development's (HUD) Strategic Plan states that part of its mission is to increase homeownership, support community development, and increase access to affordable housing free from discrimination.

The National Housing Act, as amended, established the Federal Housing Administration, an organizational unit within HUD. The Federal Housing Administration provides insurance for mortgagees against loss on single family home mortgages.

Beginning in 1983, HUD implemented the Direct Endorsement Program, which authorized approved mortgagees to underwrite loans without HUD's prior review and approval. HUD can place them on credit watch status or terminate their approval if their rate of defaults and claims exceeds the normal rate for the area. Many sanctions are available for taking actions against mortgagees or others who abuse the program.

Peoples Mortgage Corporation's (Peoples) corporate offices are located in South Easton, MA. The Lutherville/Towson, MD branch is one of Peoples' seven active branches with direct endorsement approval. The Lutherville branch moved to Towson in August 2003. HUD approved the Towson office as a branch in February 2004. Peoples issued 3,719 Federal Housing Administration loans worth \$526,847,188 between January 1, 2002, and December 31, 2003. The Towson branch issued 521 loans valued at \$71,216,414, of which 172 with a value of \$26,337,594 were for Richmond, VA, properties. Of the 172 loans, we reviewed 26 loans worth \$4,281,368 that were in default status less than 2 years after closing.

During the period under review (January 1, 2002, to December 31, 2003), Peoples sold its loans to 51 investors for servicing.

Our audit objectives were to determine whether Peoples originated Federal Housing Administration-insured loans in accordance with prudent lending practices and HUD requirements and whether Peoples' quality control plan met HUD requirements. We reviewed case files from both the Homeownership Center and the mortgagee and reviewed the oversight of Peoples over its branches.

RESULTS OF AUDIT

Finding 1: Peoples' Towson Branch Office Did Not Fully Comply With HUD/ Federal Housing Administration Requirements

Peoples did not exercise due diligence in the review of assets and gifts or resolve signature, Social Security number, and employment inconsistencies for 14 loans valued at \$2,425,471. Further, Peoples' quality control plan and its implementing contract did not comply with HUD requirements to identify patterns in defaulted loans and to perform onsite reviews. The deficiencies stem from the lack of supervision over its branch office, the lack of due diligence by its branch employees, and the volume of business Peoples conducted in 2002 and 2003. These deficiencies contributed to an increased risk to the Federal Housing Administration Insurance Fund. Therefore, Peoples should indemnify the 14 loans with remaining balances of \$2,369,959.

Peoples noted that it took some action in late 2003 and 2004 to correct problems in the Towson branch. As of November 2003, Peoples began referring all loan applications with credit scores below 570 to the corporate office for review. In addition, in March 2004, Peoples promoted two individuals locally to oversee the Towson and Severna Park, MD branches. Finally, after the audit, Peoples corrected its loan origination and quality control procedures.

A. Peoples' Branch Office Issued Loans That Increased the Risk to HUD

Peoples did not always originate Federal Housing Administration-insured loans in accordance with HUD requirements. Of the 26 loans we reviewed, originally valued at \$4,281,368, Peoples did not exercise due diligence in the review of assets and gifts or resolve signature, Social Security number, and employment inconsistencies for 14 loans valued at \$2,425,471. These deficiencies stem from a lack of supervision over its branch office and a lack of due diligence by its branch employees. As a result, the Federal Housing Administration Insurance Fund was under increased risk.

Peoples Did Not Verify Borrowers' Assets

Peoples did not adequately verify the assets stated on the Uniform Residential Loan Application for 14 of the 26 cases reviewed. It did not identify sources of funds for earnest money (6 cases), gifts (4 cases), and account deposits (10 cases) or obtain required check copies or bank statements (4 cases). HUD requires the lender to verify savings and checking accounts. A verification of deposit, along with the most recent bank statement, may be used to accomplish this. If there is a large increase in an account or the account was opened recently, the lender must obtain a credible explanation of the source of those funds. If the earnest money deposit exceeds two

percent, the lender must verify the deposit amount and source of funds with documentation.

Further, Peoples did not determine the reasons borrowers did not meet scheduled earnest money payments for six new construction loans. The borrowers agreed to make scheduled earnest money payments while the homes were being built. The case files showed that the borrowers did not make their scheduled payments as required, but there was no indication that Peoples determined the reasons for the delinquencies or their impact on the loan. Missing scheduled earnest money payments indicates that borrowers might have trouble making mortgage payments in the future. HUD looks to the underwriter as the focal point of the Direct Endorsement Program. The underwriter must have an awareness of the warning signs that may indicate irregularities, an ability to detect fraud, and the responsibility that underwriting decisions are performed with due diligence in a prudent manner. Prudent business practice would involve researching the reasons for the earnest money delinquencies before issuing the loan.

Peoples Issued a Loan With Improper Gift Fund Activity

Peoples issued a loan where the gift funds were used to pay off the borrower's outstanding debts. HUD does not allow gift funds to be used to pay off outstanding debts.

Peoples Issued Loans When Problems With Signatures Existed

Peoples issued four loans in which required signatures did not match signatures on other documents or were missing. For three loans, the underwriter's signature on the Form HUD-92900-A, Direct Endorsement Approval for a HUD/FHA-Insured Mortgage, did not match the signature on the Mortgage Credit Analysis Worksheet. The underwriter's signature certifies that the underwriter reviewed all pertinent documents, used due diligence in underwriting the loan, and approved the loan as eligible for HUD Mortgage Insurance under the Direct Endorsement Program. HUD requires the Uniform Residential Loan Application and its Addendum be signed and dated by all borrowers and the lender for mortgage credit analysis in all transactions.

In addition, the real estate agent did not sign the real estate certification for three loans as required by HUD.

Peoples Issued a Loan Before Resolving Social Security Number Inconsistencies

Peoples issued a loan with Social Security number inconsistencies. One W-2 form listed a different number than the Uniform Residential Loan Application, other W-2 forms, pay stubs, and employment verifications. HUD requires the lender to resolve any inconsistencies or multiple Social Security numbers.

Peoples Issued a Loan With Unresolved Conflicting Employment Information

Peoples issued a loan with conflicting employment information. The credit report and the Uniform Residential Loan Application provided conflicting employer and former employer entities. HUD requires that the lender must verify the borrower's employment for the most recent full two years.

The above cases illustrate that HUD assumed unnecessarily high risk when insuring the loans originated by Peoples. The deficiencies associated with Peoples' loan origination activities stem from its lack of supervision over its branch office and the lack of due diligence by the branch employees. Therefore, Peoples should indemnify the 14 loans with remaining balances of \$2,369,959.

After we discussed these issues, Peoples terminated the two employees responsible for loan origination and underwriting for these cases. Further, Peoples developed new procedures for reviewing loan defaults to ensure employees follow HUD procedures and underwriting standards. We verified implementation of the recommendations and will record final action in the departmental audit resolution tracking system upon report issuance.

B. Peoples' Quality Control Plan and Its Implementation Did Not Comply With HUD Requirements

Peoples' quality control plan and its corresponding contract with an independent auditing firm did not require Peoples or the contractor to identify early default patterns and commonalities or require the contractor to visit the branch offices when performing onsite reviews. Peoples did not update the contract due to extremely high volumes of business in 2002 and 2003 and only recently updated its plan. As a result, we have limited assurance that Peoples adequately protected HUD from unacceptable risk. If the plan and its implementing contract had contained the required elements, Peoples might have discovered the Towson branch office deficiencies sooner.

**Peoples' Quality Control Plan
Did Not Contain a Required
Process to Identify Early
Default Patterns**

Peoples' quality control plan and its corresponding contract with an independent auditing firm did not contain a requirement to identify patterns of early default and commonalities among loan origination participants.² Peoples noted that it had just updated the plan in June 2004 but was not aware of the requirement to identify patterns. Further, it had not updated the contract since 2001 due to the overwhelming volume of loans issued in 2002 and 2003. Recently, Peoples discovered Neighborhood Watch and stated it would use this tool in the future to identify patterns in the loan process.

**Peoples' Contractor Did Not
Perform Required Onsite
Quality Control Reviews of the
Towson Branch Office**

Peoples did not require the quality control contractor to perform onsite branch reviews because it believed review of the case files, maintained at the corporate office, satisfied the onsite review requirement. Although branch reviews can be done electronically, annual visits are mandatory for offices meeting certain higher risk criteria such as high early default rates.³ The Towson branch had a default rate of more than six times the national average. Therefore, onsite quality control reviews should have been performed.

Because Peoples' quality control process did not comply with HUD requirements, we have limited assurance that HUD was protected from unacceptable risk; guarded against errors, omissions, and fraud; and assured that swift and appropriate corrective action would be taken when necessary in the origination and servicing of Federal Housing Administration loans.

After bringing this to management's attention, Peoples corrected their quality control plan and its implementation to include the missing elements and provided documentation with their comments. We verified implementation of the recommendations and will record final action in the departmental audit resolution tracking system upon report issuance.

² HUD Handbook 4060.1, Mortgagee Approval Handbook, Paragraph 6-5C

³ HUD Handbook 4060.1, Mortgagee Approval Handbook, Paragraph 6-3G.2

Recommendations

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

- 1A. Take appropriate administrative action up to and including indemnification for the 14 loans, with unpaid balances of \$2,369,959, that did not comply with HUD requirements.
- 1B. Require Peoples to develop and implement enhanced control procedures that provide assurance that its employees follow proper procedures to satisfy HUD's requirements for loan origination.
- 1C. Require Peoples to revise and implement its quality control plan to comply with HUD requirements.

SCOPE AND METHODOLOGY

To accomplish our objectives we:

- Reviewed 100 percent of the Federal Housing Administration-insured loans (26 cases) originated by Peoples' Towson branch between January 1, 2002, and December 31, 2003, that had gone into default at least once. The 26 loans were part of a universe of loans originated by the Towson branch during that time. The results of the detailed testing apply only to the 26 loans reviewed and cannot be projected to the universe of Federal Housing Administration-insured loans.
- Examined records and related documents of Peoples.
- Reviewed applicable HUD handbooks and mortgagee letters.
- Conducted interviews with officials and employees of Peoples and the HUD Quality Assurance Division.

In addition, we relied, in part, on data maintained by HUD in the Single Family Data Warehouse and Neighborhood Watch. We did not perform a detailed analysis of the reliability of these programs.

The audit generally covered the period from January 1, 2002, to December 31, 2003. We expanded this period to include the most current data while performing our audit. Therefore, when applicable, the audit period was expanded to include current data through November 30, 2004. We conducted our audit from April through December 2004.

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

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Loan Origination Process – Policies and procedures that management has in place to reasonably ensure that the loan origination process complies with HUD program requirements.
- Quality Control Plan – Policies and procedures that management has in place to reasonably ensure implementation of HUD quality control requirements.

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

Significant Weaknesses

Based on our review, we believe Peoples did not operate in accordance with HUD requirements as they relate to loan issuance and quality control.

The deficiencies are discussed in detail in the Results of Audit section of this report.

APPENDIXES

Appendix A

FUNDS TO BE PUT TO BETTER USE

Recommendation Number	Funds To Be Put to Better Use 1/
1A	\$2,369,959

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

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



January 11, 2005

Daniel G. Temme
Regional Inspector General for Audit
U.S. Dept. of Housing & Urban Development
Wanamaker Bldg. Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Re: People's Mortgage Corporation

Dear Mr. Temme:

People's Mortgage Corporation is in receipt of your letter dated 12/21/04 regarding the recent audit by Richard McPherson from the Office of Inspector General.

At this time, People's Mortgage Corporation would like to address the concerns and issues of our Towson Branch.

As stated in the review, People's Mortgage Corporation originated 3,719 FHA loans between January 1, 2002 and December 31, 2003. The years of 2002 and 2003 were record-breaking years for the mortgage industry.

In late 2002, People's Mortgage Corporation made some changes in Management personnel in the Mid-Atlantic Region. [REDACTED] was the Senior Vice President in charge of this region and left in November of 2002.

There are 15 loans in question out of 521, which originated from that Branch.

Finding 1 – Peoples Did Not Administer Its Towson Branch Office in Compliance with HUD Requirements. As noted in your letter, People's had taken corrective action in 2003 and 2004 to correct problems. People's Mortgage Corporation had started implementing many checks and balances for this branch. We promoted [REDACTED] to Regional Manager and [REDACTED] to Operations Manager. Since their promotions they have actively been involved in overseeing the management of the Towson Branch. They have visited the branch on many occasions supervising and reviewing files. They

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Comment 1

**Comments
2 through 16**

Comment 17

have had numerous conversations with the previous employees, [REDACTED] Loan Originator, and [REDACTED] Loan Underwriter. Since the audit both employees have been terminated. Both had been verbally counseled and were being closely monitored by management before the audit. People's Mortgage had been aware of the problem and had implemented second reviews on files under 570 credit scores. People's was using Neighborhood Watch to monitor new loan files.

A. People's Branch Office Issued Loans that Increased the Risk to HUD – Please see attached loan analysis.

Peoples Issued a Loan for Late Endorsement When the Payment History was not Current - One loan is being cited because it was already late when it was submitted to FHA for insurance. This was absolutely an oversight due to the exceptionally high volume of loans being pushed through the system. Normally FHA will ask for a payment history if the loan is over 30 days old and somehow it was insured without a payment history. People's Mortgage Corporation did not submit the loan with a payment history and FHA did not ask for one. As stated, FHA reviewed 103 endorsements from January 1, 2002 through December 31, 2003. Of those 103 endorsements, only one loan was submitted that was late.

B. People's Quality Control Plan and Its Implementation Were Not Compliant with HUD Requirements

Comment 18

People's Quality Control Process was Missing a Key Element - People's Quality Control Plan was updated to include previously overlooked elements such as tracking of trends in default rates using Neighborhood Watch, and on-site reviews for Loan Production offices. This plan was updated while the auditor from the I.G.'s office was still on-site. A process for review and data analysis of "Neighborhood Watch" to track trends in default rates by Loan Production Office, Loan Underwriter, and Loan Originator has been developed and implemented. These reports and accompanying data analysis are being reviewed with People's Senior Management on a monthly basis. People's had been using Neighborhood Watch in the operations areas to review current defaults, but we were not tracking the historical data as we are now. Attached is a copy of our updated Quality Control Plan and a new separate procedure for the review and analysis of loan defaults.

Comment 18

We are currently in the process of interviewing new vendors for our Quality Control function so we may not be renewing our contract for quality control services with [REDACTED]. [REDACTED] cannot accommodate us by performing the mandatory site visits. All prospective vendors are being given a copy of our updated Quality Control Plan and will base their proposals on, and we will base our vendor choice on, whether or not they can perform all of the required quality control review elements.

Comment 18

People's Contractor Did Not Perform Onsite Quality Control Reviews of the Towson Branch Office - As was noted, People's did not require our quality control vendor to perform on-site reviews because all of the case files are maintained at the

Comment 18

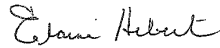
centralized corporate office and our belief was that the review of these files at the corporate office satisfied this requirement. As stated above, People's is currently interviewing quality control vendors and is including annual on-site reviews of loan production offices as a requirement of the contract.

In conclusion, we believe that we now have included all required elements in our updated Quality Control plan and have already implemented a procedure for identifying trends or patterns for early defaults using data obtained from Neighborhood Watch. Our management team fully recognizes the importance vigilant monitoring of our on-going quality control process to avoid any future issues.

We thank the office of the Inspector General for their comments and their input and appreciate the professional manner in which the audit was conducted.

Please contact me with any questions or comments at (508) 513-1214.

Sincerely,



Elaine Hebert
Vice President

Comment 19

**People's Mortgage Corporation
Review of FHA Loan Defaults**

Background

In order to maintain its standards of originating high quality mortgage loans PMC is adopting this policy to ensure that our loan originators and underwriting staff are, on a continuing basis, following the procedures and underwriting standards set forth by HUD for the origination of FHA loans.

HUD's "Neighborhood Watch" on-line reporting system provides monthly reports by Loan Production Office to facilitate the monitoring of loan default rates by Loan Production Office (LPO). To ensure that all PMC staff is adhering to all HUD regulations, it is PMC's Policy to download these reports, review the results and report to PMC senior management on a monthly basis, any trends, including increasing or high default rates by particular Loan Production Office and also by Loan Originator.

Process

Comment 19

On a monthly basis, following the end of the month Neighborhood Watch update by HUD, the PMC Compliance Officer will download data from Neighborhood Watch on the HUD web site to an Excel spreadsheet and sort the data by LPO and by Loan Originator. The Compliance Officer will analyze this data for any trends, specifically by region and by originator. The results of this analysis will be reported and reviewed with PMC senior management.

In the event that any trends are spotted during the analysis and review, the individual loan files will be reviewed for prudent underwriting and documentation quality by the PMC senior underwriter or by the Corporate Operations Manager.

If it is found that there is a pattern of poor quality origination or underwriting, the originator and the underwriter will be interviewed and counseled by PMC management regarding the findings. Future FHA loan originations by that LPO or originator will be reviewed by senior management and the loan approved only if HUD underwriting and documentation standards have been followed.

Any incidence of fraudulent documentation or underwriting may, after investigation, result in termination of the loan originator and/or the loan underwriter providing the findings warrant such action.

Policy FHA defaults.com
12/31/04

**People's Mortgage Corporation
Quality Control Plan**

People's Mortgage Corporation is an operating subsidiary of Webster Bank, National Association. It is People's Mortgage Corporation policy to comply with all state, federal and government agencies' rules and regulations. In order to achieve this objective, People's Mortgage Corporation's quality control plan is designed to evaluate the accuracy, validity, and completeness of its loan origination and underwriting process and to ensure compliance with HUD-FHA requirements and regulations, as well as any other government entities' requirements and investor's guidelines in order to protect HUD-FHA or any other investor/mortgagee from unacceptable risk.

People's Mortgage Corporation's quality control reviews are to be performed by personnel who have no direct loan processing or underwriting responsibilities and will operate independently of the mortgage origination and underwriting departments. An external auditing firm will provide quality control loan reviews for loan origination, processing, and underwriting process. Currently, People's Mortgage Corporation uses [REDACTED] an external auditing firm to provide quality control review services. People's Mortgage Corporation also employs [REDACTED] an independent auditing firm which conducts compliance reviews to evaluate compliance with all state and federal regulations, government agencies, as well as People's internal operational procedures and policies.

It is the policy of People's Mortgage Corporation to perform quality control reviews for loans within 90 days of the loan closing. A written report of the audit is to be provided to senior management for their review, within 30 days of the completion of the audit. These reports will include, if applicable, any areas of deficiency, unacceptable patterns or trends, errors or omissions, as well as fraud and intentional violations of regulations. Senior management must initiate prompt and effective corrective action to eliminate any deficiencies noted. Employees shall be provided with the corrective action procedures and further training when applicable to eliminate any patterns or practice of deficiencies identified.

All employees involved in loan origination must be familiar with and understand People's Mortgage Corporation's quality control policies and procedures.

People's Mortgage Corporation quality control plan primary objectives:

- Assure compliance with applicable government entities regulations and investor's requirements.
- Assure that People's Mortgage Corporation procedures are revised in a timely manner to accurately reflect changes in HUD-FHA requirements as well as other government entities.
- Assure that People's Mortgage Corporation's employees understand and adhere to all policies and procedures, kept informed of any changes and be held accountable for performance failures or errors.
- Assure that prompt corrective actions are to be taken and documented when deficiencies in loan origination or underwriting are identified and applicable personnel are informed of the deficiencies.
- Monitor and evaluate the performance of third party quality control services on a regular basis.
- Assure that the Quality Control Plan will be revised in a timely manner when there are significant changes in the loan origination or underwriting process.
- Senior management shall have the ability to expand the scope of the quality control review should fraudulent activity or patterns of deficiencies are identified.
- People's Mortgage will report any violation of law or regulation, false statement or program abuses by the mortgagee, its employees or any other party to the transaction to the HUD Regional Office, the HUD Area Office or to the HUD Regional Office of Inspector General.

- People's Mortgage Corporation shall report to their primary regulator, the Officer of the Controller of the Currency, and HUD-FHA, under the Home Mortgage Disclosure Act; all required information and that it is accurate and reported promptly.
- Assure that People's Mortgage Corporation is in compliance with the provisions of the Real Estate Settlement Act (RESPA), including, distribution to mortgagors of the Special Information Booklet and good faith estimates which bear a reasonable relationship to actual cost, and disclosures of business relationships with a particular provider of services.
- All loans submitted by People's Mortgage Corporation to HUD-FHA for mortgage insurance endorsement are processed by its employees.
- Where it is applicable, People's Mortgage Corporation shall review loans that go into default within the first six months.
- HUD-FHA Mortgage Insurance Premiums (MIPs) are remitted within 15 days from the date of closing and that late charges and interest penalties are promptly submitted.
- Assure that each branch office maintains copies of all HUD issuances, including regulations, Handbooks, Mortgage Letters, and Circular Letters that are relevant to People's Mortgage Corporation's HUD-FHA origination activities. These documents are to be accessible to all employees, periodically reviewed with appropriate staff and kept current.
- People's Mortgage Corporation does not employ for HUD origination, underwriting, or servicing any individual who is debarred, suspended, or subject to a Limited Denial of Participation (LDP) or otherwise restricted from participation in HUD-FHA programs.

Scope:

- Quality control reviews must be performed within 90 days of the closing of the loan.
- Ten percent (10%) of all loans closed on a monthly basis. The selection of loans is to include loans from all branch offices, all loan officers, underwriters, and appraisers. The selections are based on ten percent of each investor and portfolio loans and will include high-risk loans based on loan to value, property type, owner occupancy, loan type, etc.
- Field review appraisals are obtained for ten percent of the loans selected for quality control and desk review of the property appraisal will be performed on all loans chosen for the quality control review.
- Ten percent of denied/rejected loans on a monthly basis will be reviewed to determine if reason for denial was valid, and that senior management concurred with the denial.
- On site branch office reviews are performed by external auditing firms for each branch that originates HUD-FHA insured mortgages. [REDACTED] provides monthly onsite office reviews.

Quality Control Review of Loans

The quality control review must provide for the following on loans selected for data integrity review:

Origination Document Review Process:

The following documents must be included in the quality control review for comparison with verification to ensure that the information is accurate, complete and consistent with other documents in the mortgage file and to determine that each file contains all required loan processing, underwriting and legal documents:

Uniform Residential Loan Application

Credit documentation

Employment and income documents

Sources of funds documentation

Appraisal and inspection documentation

Sales contract and

Uniform underwriting transmittal summary

As part of the quality control review assure the following:

- That the identity of the borrower(s) has been verified as required by the People's Mortgage Customer Identification Program (CIP).
- Written re-verification of employment and income, deposits, source of funds, and original application of borrower(s) is required as part of the quality control review.
- Assure that the preliminary loan application lists each outstanding liability and each asset of the mortgagor that was used to qualify for the mortgage.
- Assure that the loan file contains pertinent documentation if the mortgagor's source of funds for the required minimum investment was other than deposits in a savings institution and whether the source of funds was verified.
- A desk review of the property appraisal is to be performed on all loans chosen for the quality control review.
- Reordering of a new credit report from another source. A full RMCR must be obtained from a different credit source on at least 10% of all loans subject to quality control, on cases in which the in-file credit report reveals discrepancies.
- Assure that any outstanding judgements shown on the credit report were shown on the Form HUD – 92900 with an accompanying explanation and documentation.
- If more than one credit report was ordered, determine whether all credit reports were submitted with the loan package to HUD-FHA.

- Determine whether all relevant loan documents were signed by the mortgagor or employee(s) of the mortgagee; and that all corrections were initialed by the mortgagor or employee(s) of the mortgagee.
- Assure that gift letters state the relationship of donor to mortgagor, are free of any obligation to repay the gift, and that gift funds were deposited into the mortgagor's account.

Closing Documents to Review:

The following must be included in the quality control review to ensure that the information is accurate, complete and consistent with other documents in the mortgage file and to determine that each file contains all required loan processing, underwriting, and legal documents:

Notes and Riders,

Security Instruments and Assignments,

Mortgage insurance certificate, or policy or mortgage guaranty certificate,

Title binder or final title policy (both if available) or other evidence of title,

Plat or survey,

Settlement Statements (HUD-1 or other form),

Hazard insurance policy or certificate,

Flood insurance policy or certificate or flood zone determination documents,

Underwriter's approval and any conditions of closing and,

Closing instructions.

- Loan files that are selected in the sample include full underwriting documentation as well as alternative underwriting documentation.
- The reviewer on each loan must determine whether underwriting conclusions and lender documentation are overall complete and accurate.
- Assure that the HUD-1 Settlement statement was accurately prepared and certified properly.
- Assure that the loan was current at the time it was submitted to HUD-FHA for mortgage insurance endorsement.
- Assess whether the mortgage was properly underwritten based on prudent underwriting practices and sound underwriting.
- Determine the accuracy and completeness of underwriting conclusions and mortgagee documentation.
- Assure that all conflicting information or discrepancies were resolved and properly documented in writing prior to submission of the loan to HUD-FHA for mortgage insurance endorsement.

Early Default Review

People's Mortgage Corporation will review early default information using data from HUD's "Neighborhood Watch" on no less than a quarterly basis. Data on early defaults will be downloaded and spreadsheets containing details of early defaults will be produced for senior management review. These reports will contain the Loan Production Office, Originator, Appraiser, and Underwriter at a minimum and will be used to spot early default trends so that appropriate action can be taken. The PMC Operations Manager will review loans going into default within the first six payments. If a trend is evident, the Operations Manager will conduct an in-depth review to determine if this is an isolated event or a systemic problem and take appropriate action.

Limited Denial of Participation (LDP)

The PMC Compliance Officer, two times per year, checks the Limited Denial of Participation list against a list of all People's Mortgage Corporation employees.

Record Keeping and File Retention:

People's Mortgage Corporation shall retain the results of the quality control reviews and corrective actions taken for a period of two years. The following will be retained and made available to HUD for review:

- Quality control log
- Quality control audit report
- Documentation of senior management's corrective action in response to any deficiencies noted.

Comment 2

*Files reviewed 12/29/04

-Case #541-6734854

Borrower: [REDACTED]

LTV: 97.74%

Ratios 17.70%/32.50%

of payment to 1st default 2

First payment due 6/1/03

Delinquent 10/01/03

Reinstated 11/01/03

Delinquent 12/01/03

Special forbearance 1/20/04

Repayment 5/01/04

Borrower filed b/k 7/02/04. **Loan in still in repayment.**

Reason for default excessive obligations.

AUDIT RESULTS

Peoples did not verify or support funds to close. All funds were verified except for a \$1200 bank check to the Seller. Borrower made a \$1208 check(\$8 is the cost of a bank check) out to cash and converted the cash into a bank check. We could not find a copy of bank check or source of funds.

Multiple social security #'s were not addressed in file Social Security numbers were verified on paystubs, W-2s and credit report. The processor transposed the numbers on one borrower and corrected it in the system. Loan was conditioned for correct social security numbers on approval, and everything was correct before closing.

Comment 3

***Case # 541-6523730**

Borrower: [REDACTED]

LTV: 97.74%

Ratios 34.50%/42.30%

of payments to 1st default 8

First payment due 1/1/03

Delinquent 9/1/03

Modification 1/1/04 (cost \$750)

Reinstated by mortgagor 8/1/04

Reason for default excessive obligations

AUDIT RESULTS

-Compensating factor for high mortgage ratio was not adequate. Underwriter stated potential for increased earnings, auditor disagreed stating that borrower's income from 2001-2002 decreased. This is not true. Per VOE in file 2001 income was \$39716 or \$3309/month. 2002 income through 9/30/02 was \$31379 or \$3486 per month. Income used to qualify was only \$3157/month plus child support. Underwriters income approach was actually conservative.

-Funds to close were not properly verified. Auditor noted seven deposits TOTALING \$695 were not documented (that is an average of \$99.28 per deposit) These deposits are not considered "large"

2 bank statements in file used to support funds to close were not consecutive. Sept & Nov were used instead of Oct & Nov. The statement in question was only \$300 of verified funds to close. The missing statement had no effect on final funds to close.

Borrower missed 3 of 5 scheduled EMD It is not standard underwriting principle to investigate why seller renegotiates terms of sales contract.

Comment 4

***Case #541-6487423**

Borrower: [REDACTED]

LTV: 97.74%

Ratios 32.00%/42.00%

of payments to 1st default 9

First payment due 11/01/02

Delinquent 11/1/03

Reinstated 1/1/04

F/C started 2/1/04

Commenced to F/C 3/1/04

Bankruptcy filed 3/12/04

Reason for default – Excessive obligations

AUDIT RESULTS

Funds to close were not properly documented. Peoples did not document gift fund from non profit was wired to the closing office. Receipt of gift funds from non-profit was notated on the HUD settlement statement. This was accepted practice in 2002. The FHA requirement for settlement agent to keep copies of wire transfers was added 10/2003. Peoples did not document \$400 deposit and 2 deposits totaling \$901. FHA requires that large deposits must be documented, standard practice defines large deposit as \$1000. Borrower's paychecks are not direct deposited. These deposits appear normal. Borrower missed 5 of 7 scheduled EMD. It is not standard underwriting principle to investigate why seller renegotiates terms of sales contract.

Comment 5

***Case #541-6429857**

Borrower: [REDACTED]

LTV: 97.75%

Ratios 31.60%/41.50%

of payments to 1st default 11

First payment due 9/01/02

Delinquent 10/1/03

Repayment 12/01/03

Modification 7/1/04

Reinstated 8/1/04

Reason for default Curtailment of borrower income

AUDIT RESULTS

Funds to close were not properly verified. Peoples did not obtain explanation for 5 deposits TOTALING \$1485. All deposits were between \$100 and \$540 and were made over a 2 month period. Borrower earns \$2500/month from her primary job. She also has a second job that is direct deposited. Primary job does not use direct deposit. Deposits are reasonable based on take-home pay. Underwriter used reasonable judgment in accepting deposits.

Reason for default was due to reduction in borrower's income, which lender could not predict.

Comment 6

***Case #541-6259312**

Borrower: [REDACTED]

LTV: 89.84%

Ratios 27.40%/30.80%

of payments to 1st default 3

First payment due 06/01/02

Delinquent 11/01/02

Repayment 12/01/02

Delinquent 01/01/03

F/C started 2/1/03

Commence to F/C 3/1/03

F/C started 11/1/03

Commence to F/C 12/01/03

Modification 6/1/04 (currently in default)

Reason for default curtailment of income

AUDIT RESULTS

Funds to close were not properly verified. \$1600 EMD bank check was not documented coming out of borrower's account. There is a copy of Bank check for \$1600 in file. We do not have source of check in file.

\$2000 Gift checks were not properly documented as deposited in borrower's account. Only \$1000 was documented. We can not find supporting documentation, due age of file and number of audits on file, many documents are missing.

11 deposits totaling \$4567 were not documented. (average deposit \$415) Borrower's earn \$4900/month. These deposits are not considered large and Underwriter used reasonable judgment in accepting deposits.

Underwriter did not sign HUD 92900A

Underwriter's signature was on MCAW worksheet and conditional commitment which does verify that she reviewed all pertinent documents and approved the loan.

Real estate agent did not sign the real estate certification as required. Document is not in file, however this has no impact on overall credit worthiness of file.

Conflicting employment info. Credit report states different employment than application. Credit bureau does not verify employment information. Employment information used to qualify was documented with paystubs, W-2s, letters from employer and written and verbal verifications. Lender did due diligence in verifying income and employment.

Reason for default was due to loss of income by borrowers, lender could not have predicted.

Comment 7

***Case #541-6493940**

Borrower: [REDACTED]

LTV: 97.74%

Ratios 20.30%/31.90%

of payments to 1st default 17

First payment due: 1/1/03

PRE-FORCLOSURE SALE COMPETED 12/1/03 ???

1/5/04 Loan modification (same borrower???)

8/1/04 Delinquent

10/01/04 Foreclosure started

Bankruptcy date 11/20/04

Reason for default excessive obligations.

AUDIT RESULTS

Funds to close were not properly verified. 21 deposits totaling \$5239 were not documented (average deposit \$250). These deposits occurred over a 3 month period. Borrowers' average income is \$6172/month and co borrower is a self-employed beautician. These deposits are typical and not considered "large" under these circumstances.

Borrower missed 1 scheduled EMD payment. It is not standard underwriting principle to investigate why seller renegotiates terms of sales contract.

Underwriter did not sign HUD 92900A

Underwriter's signature was on MCAW worksheet and conditional commitment which does verified that she reviewed all pertinent documents and approved the loan.

Comment 8

***Case #541-6205002**

Borrower: [REDACTED]

LTV: 97.73%

Ratios 27.10%/28.40%

of payments to 1st default 3

First payment due 03/01/02

Delinquent 8/1/02

F/C started 9/1/02

Commence to F/C 11/01/02

F/C started 12/01/02

Bankruptcy date: 12/2/02

Reason for default – Illness of principal mortgagor

AUDIT RESULTS

Funds to close were not properly verified. 14 deposits totaling \$7676 were not documented. (average deposit \$548)

*Paystubs in file indicated that borrower earns between \$700-1200/week takehome pay. All deposits except for one were reasonably assumed to be deposits of borrower's pay. One deposit for \$2000 was not documented. But since borrower had over \$6500 in reserves after closing these funds were not needed as part of transaction.

Required signatures by underwriter does not match MCAW worksheet. Underwriter's signature certifies that underwriter reviewed all pertinent documents and used due diligence. Underwriter's signature was on MCAW worksheet and conditional commitment which does verified that she reviewed all pertinent documents and approved the loan.

Real estate agent did not sign the real estate certification as required. Document is not in file, however this has no impact on overall credit worthiness of file.

Borrower had very good savings, stable employment and low ratios. Default was due to illness of borrower which could not be anticipated by lender.

Comment 9

Case #541-6792767

Borrower: [REDACTED]

LTV: 97.74%

Ratios 30.80%/41.71%

of payments to 1st default n/a

First payment due 8/1/03

MILITARY INDULGENCE 1/1/04

Repayment 4/1/04

Reason for default Curtailment of income

AUDIT RESULTS

Funds to close were not property verified. \$1500 gift check was not verified out of donors account. There is a copy of check from borrower's father in file but actual withdrawal from donors account was not documented.

2 deposits TOTALING \$479 were not documented. (\$239.50 per deposit). Borrowers had part time jobs that were documented but not used to qualify. These deposits are not considered large by standard underwriting practice.

The reason for default is Curtailment of income (with Military Indulgence).

Comment 10

*Case #541-6570799

Borrower: [REDACTED]

LTV: 97.74%

Ratios 31.80%/40.60%

of payments to 1st default 1

First payment due: 10/1/03

Delinquent 1/1/04

Partial reinstatement 2/1/04

Repayment 4/1/04

Reason for default: Illness of Mortgagors Family Member

AUDIT RESULTS

Funds to close were not properly verified. Peoples did not verify source of 2 deposits
TOTALING \$830.

→ Funds from 3rd party were used to pay off outstanding debt. Student loans were paid off
at closing and gift was credited to HUD

Gift funds from nonprofit were not documented properly at closing. HUD settlement
statement notates gift funds from NLFHG. The requirement to keep copies of wire
transfer was not added to guidelines until 10/2003. This loan closed 8/23/03
Required documentation not obtained.

Social security # on one W-2 form is inconsistent with the rest of documentation in file.

Social security # on one 2002 is off by one number 4885 instead of 4485. This is
obviously a typographical error and all other documents including computer printout
from IRS verify correct Social security #

Required signatures were not obtained. Real estate agent did not sign real estate
certification form.

Late Endorsement. Loan was submitted for endorsement after 1st payment had been
missed. Loan is currently in repayment.

**Reason for late payment is illness of mortgagor's family. This circumstance could
not be predicted by lender.**

Comment 11

***Case #541- 6487554**

Borrower: [REDACTED]

LTV: 97.74%

Ratios 28.00%/41.70%

of payments to 1st default 1

First payment due: 11/1/02

Delinquent 2/1/03

Repayment 3/1/03

Reinstated 1/1/04

Delinquent 9/1/04

Reason for default: Curtailment of income

AUDIT RESULTS

Funds to close were not properly verified. Peoples did not document 2 deposits totaling \$557, or obtain most recent bank statements. \$557 is not considered a large deposit.

Bank statements for June and July are in file but auditor states we are missing August statement. Loan closed 9/27/02 therefore June and July bank statements are well with in the 4 month requirement.

Borrower missed 3/9 scheduled EMD deposits. Sales agreement states Deposit of \$15,585 Borrower's only paid \$10,050. Borrower's renegotiated deposit with seller at closing borrower's deposit to broker exceeded total downpayment by over \$4000. It is not standard underwriting principle to investigate why seller renegotiates terms of sales contract.

Comment 12

***Case #541-6258431**

Borrower: [REDACTED]

LTV: 97.74%

Ratios 30.30%/41.60%

of payments to 1st default 2

First payment due: 4/1/02

Delinquent 8/1/02

Foreclosure started 9/1/02

Commence F/C 10/1/02

Delinquent 11/1/02

Bankruptcy date: 11/04/02

Cause of default not given

AUDIT RESULTS

Funds to close were not properly verified.

One large deposit of \$1908 was not documented. Bank statement shows a deposit on 1/28/02 for \$1907.66. Bank statements show deposit "from Checks received" Borrower receives \$207.66/week as child support. This amount would be approximately 2 months worth of child support checks. There are no other deposits in file that correspond to the child support. Child support was documented as a compensating factor but not used for income to qualify.

Borrower missed 5/9 scheduled EMD deposits. It is not standard underwriting principle to investigate why seller renegotiates terms of sales contract.

Comment 13

***Case # 541-6582462**

Borrower: [REDACTED]

LTV: 97.74%

Ratios 20.50%/40.50%

of payments to 1st default 3

First payment due: 1/1/03

Delinquent 6/1/03

Partial reinstatement 7/1/03

Reinstated by mortgagor 11/1/03

Reason for default: Excessive obligations

*Insurance status = terminated

type "netting refinance" 4/23/04

AUDIT RESULTS

Funds to close were not properly verified. 2 months banks statements were missing from file. One page of Sept 16th bank statement was in file for borrower and coborrowers statement for October 23 only October statement only shows \$144 dollars in total savings. This is not a critical amount in overall stability of loan. Sept 16th statement is not in the current file. Since these files are 2 years old many documents have been misplaced through the review process. So there is no way to tell if the documents were in the original file.

Borrower missed 1 scheduled EMD deposit. It is not standard underwriting principle to investigate why seller renegotiates terms of sales contract.

Loan was made to bankrupt borrower outside of guidelines. Coborrower was in chapter 13 bankruptcy. The required 12 months had not elapsed before closing loan. Per the printout in file the borrower began paying on B/k in January 2002. This loan closed 11/29/01. Borrower was short a little over 1 month of the required 1 year period. But extenuating circumstances for b/k were documented and a letter from Chapter 13 trustee is in file approving purchase. The Chapter 13 bankruptcy was filed 12/01/01 and loan closed 11/29/02. 2 days short of required year.

Per the FHA status report. The insurance on this loan has been cancelled through refinance on 4/23/04. So credit issues for these borrowers should be a mute point.

Comment 14

***Case #541-6352049**

Borrower: [REDACTED]

LTV: 97.03%

Ratios 33.50%/43.00%

of payments to 1st default 5

First payment due: 6/1/02

Delinquent 1/1/03

Reinstated 2/1/03

Delinquent 3/1/03

F/C stated 4/1/03

F/C commenced 5/1/03

Delinquent 6/1/03

F/C commenced 8/1/04

F/C COMPLETED 9/1/04

Reason for Default not given

AUDIT RESULTS

Fund to close were not properly verified. Source of Brokers deposit was not verified. Copy of check was in file. Actual withdrawal was not documented. Underwriter states that since 2 deposits for \$1750 were traced it is possible that the documentation from the early deposits has been misplaced due to age of file.
Borrower missed 4/9 of scheduled EMD deposits. It is not standard underwriting principle to investigate why seller renegotiates terms of sales contract.

Comment 15

***Case #541-6649088**

Borrower: [REDACTED]

LTV: 97.74%

Ratios 21.60%/40.20%

of payments to 1st default 6

First payment due: 4/1/03

Delinquent 12/1/03

Bankruptcy date 6/28/04

Reason for default: excessive obligations

AUDIT RESULTS

Funds to close were not properly verified. Earnest money deposit of \$10,000 was not documented properly because source of funds was from Thrift savings account. Auditor states that since loan papers requesting \$18,511 was not signed by Thrift official this is not enough documentation to assume that deposit of \$18511 came from Thrift account. The document signed by the borrower is the Promissory note that was prepared by the thrift plan in the amount of \$18510.86. The thrift plan agreement states that the check will be sent to the borrower's at the beginning of the month following the signed note. A deposit for \$18510.86 was deposited in to borrowers account at the beginning of the next month.

There is a wire transfer confirmation in file stating that \$10,000 was transferred out of the same account the Thrift funds were deposited into, directly to Ryan Homes (the seller)

Comment 16

***Case #541-6487980**

Borrower: [REDACTED]

LTV: 97.74%

Ratios 44.50%/47.00%

of payments to 1st default 10

First payment due: 11/1/02

Delinquent 11/1/03

Reinstated 3/1/04

Modification 9/1/04

Reason for default-excessive obligations

AUDIT RESULTS

Qualifying ratios were not properly documented. No compensating factors were given for high ratios. Underwriter in system is listed as ZLPR. Which means this loan was approved by loan prospector. FHA guidelines state that lender can accept automated findings without compensating factors.

Ratios were calculated based on a written offer for employments. A Signed offer is a valid contract for employment. Since borrower had a history of being in school, if the employment was in her line of study this would be an acceptable employment stream.

Brokers check was not adequately documents since cashiers check was not documented as being withdrawn from borrowers account. Bank statements in file show withdrawals equivalent to amount of cashiers checks.

There was no HUD settlement statement in file. Missing HUD settlement statement can only be explained by age of file and number of times it has been handled. A HUD settlement statement was sent in original case binder.

OIG Evaluation of Auditee Comments

Comment 1 We found problems with 14 of the 26 loans that we reviewed. Note that Peoples' comments pages are numbered 1 through 16, but page 15 is missing. We removed one case from the report prior to receiving Peoples' comments. Apparently, Peoples removed the applicable page without renumbering their comments.

Comment 2 Peoples agreed that they did not identify the source of funds for the \$1,200 bank check.

Peoples provided a copy of the closing instructions and documentation (neither available at the time of our review) showing that the multiple Social Security numbers were resolved prior to closing. This element was removed from the report.

The case remains in the report.

Comment 3 Peoples noted that the income for 2002 was only for 9 months. Calculating the monthly income from 2001 to 2002 shows the income did increase. This element was removed from the report.

Peoples stated that they did not document funds to close totaling \$695 because they did not consider the deposits "large". In its response to case 541-6487423, Peoples stated that standard practice defines large deposits as \$1,000. HUD Handbook 4155.1 does not define "large" deposits. However, discussion with the Philadelphia Quality Assurance Division disclosed that \$1,000 was a high threshold and large aggregate amounts should be verified as well as large individual deposits.

Peoples agreed that the bank statements used to support funds to close were not consecutive, but stated the missing October 2002 statement accounted for only \$300 of the funds to close and therefore had no effect. However, the ending account balance as of October 4, 2002, was \$4.13 and the beginning account balance as of November 5, 2002, was \$993.20, a difference of \$989.07. There was no documentation available to account for the increase to the account balance.

Peoples stated that it is not standard underwriting practice to determine why the seller renegotiates terms of the sales contract. However, as noted in the report, the borrower failed to meet scheduled earnest money payments, which could indicate that borrowers might have trouble making mortgage payments. HUD Handbook 4000.4, REV-1, CHG-2, states that HUD looks to the underwriter as the focal point of the Direct Endorsement Program. One of the responsibilities the underwriter must assume is an awareness of the warning signs that may

indicate irregularities, and an ability to detect fraud, as well as the responsibility that underwriting decisions are performed with due diligence in a prudent manner. We believe that prudent business practice would involve researching the reasons for these missed payments.

The case remains in the report.

Comment 4 While the specific requirement for wire transfer documentation was added in October 2003, the HUD Handbook 4155.1 requirement that lenders properly document the transfer of gifts from charitable organizations was in effect at the time of the loan.

HUD Handbook 4155.1 does not define “large” deposits. However, discussion with the Philadelphia Homeownership Center Quality Assurance Division disclosed that \$1,000 was a high threshold and large aggregate amounts should be verified as well as large individual deposits. Further, the lender did not document that the deposits were actually paychecks.

See Comment 3 concerning scheduled earnest money payments.

The case remains in the report.

Comment 5 See Comment 4 concerning large deposits.

The case remains in the report.

Comment 6 Peoples agreed they did not have the source of the \$1,600 bank check in the file, nor did they have support for the \$1,000 gift check.

See Comment 4 concerning large deposits.

Peoples stated that the underwriter’s signature was on the MCAW worksheet and conditional commitment, which verified she reviewed pertinent documents and approved the loan. However, the underwriter’s signature on the Direct Endorsement Approval form certifies that she reviewed the documents and approved the loan.

Peoples stated the real estate agent’s missing signature had no impact on the overall credit worthiness of the file. However, HUD requires the real estate agent’s signature on the real estate certification.

Peoples stated that the credit bureau does not verify employment information. However, there was no indication in the file that Peoples attempted to determine the reason for this disparity compared to the W-2s, pay stubs, and employment verifications.

The case remains in the report.

Comment 7 See Comment 4 concerning large deposits. Further, the lender did not document that the deposits were actually self-employed income.

See Comment 3 concerning scheduled earnest money payments.

See Comment 6 concerning the underwriter's signature.

The case remains in the report.

Comment 8 See Comment 4 concerning large deposits. Further, the fact that the borrower had over \$6,500 in reserves after closing does not affect the fact that Peoples did not properly verify deposits totaling \$7,676, including one for \$2,000.

See Comment 6 concerning the underwriter's signature.

See Comment 6 concerning the real estate agent's signature.

The case remains in the report.

Comment 9 Peoples agreed that the \$1,500 gift check was not properly documented.

See Comment 4 concerning large deposits.

The case remains in the report.

Comment 10 See Comment 4 concerning large deposits.

Peoples agreed that third party gift funds were used to pay off student loans and the gift was credited to HUD.

See Comment 4 concerning gift funds and wire transfers.

Peoples stated that the Social Security Number was off by one digit, which it attributed to a typographical error. The file did not contain any documentation that indicated Peoples investigated this discrepancy.

See Comment 6 concerning the real estate agent's signature.

The case remains in the report.

Comment 11 See Comment 4 concerning large deposits.

Peoples noted that the loan closed on September 27, 2002, and bank statements for June and July were in the file, well within required time frames. This element was removed from the report.

See Comment 3 concerning scheduled earnest money payments.

The case remains in the report.

Comment 12 Peoples stated that the unverified deposit of \$1,907.66 amounted to approximately 2 months of child support payments. Peoples provided documentation that the borrower received child support payments of \$207.66 per week. However, there was no documentation that Peoples determined child support payments were the source of this deposit during the underwriting process.

See Comment 3 concerning scheduled earnest money payments.

The case remains in the report.

Comment 13 Peoples noted that the insurance on this loan was cancelled through refinance on April 23, 2004.

The case was removed from the report.

Comment 14 Peoples acknowledged that the source of the broker's deposit was not verified.

See Comment 3 concerning scheduled earnest money payments.

The case remains in the report.

Comment 15 Peoples noted that the Promissory note, signed by the borrower, was prepared by the Thrift Savings Plan for \$18,510.86. It also noted that the agreement stated the check would be sent to the borrower at the beginning of the following month. Peoples stated there was a deposit for this amount in the Thrift Savings account and a wire transfer confirmation for \$10,000 deposited into the seller's account. However, as noted in the report, the Promissory note was not signed by a Thrift Savings Plan official. Further, there is no documentation to show where the funds deposited into the Thrift Savings account actually came from.

The case remains in the report.

Comment 16 Peoples noted that the loan was approved by Loan Prospector, an automated underwriting system. It also noted that the lender could accept automated findings without compensating factors. Further, Peoples stated that it calculated the ratios based on a signed offer of employment, which is a valid contract for employment. The Philadelphia Quality Assurance Division concurred with Peoples' assessments. These elements were removed from the report.

Peoples stated that bank statements in the file showed withdrawals equivalent to the amount of the cashier's checks and provided copies of the statements. We noted that the bank statements supported three cashier's checks for deposits in

February, May, and July, 2002. However, the four unsupported deposits mentioned in the report were made in January, April, June, and August, 2002.

Peoples acknowledged that there was no HUD settlement statement in the file, but contended that it was sent in the original case binder. However, we noted in the report that the statement was missing from the HUD files.

The case remains in the report.

Comment 17 Peoples agreed that it submitted the loan to HUD when it was already late. Peoples noted that this was an oversight due to the exceptionally high volume of loans in the system at that time.

Comment 18 Peoples noted that it took corrective action while the auditor was on-site to develop a new procedure for review and analysis of loan defaults and provided a copy of the revised Plan. Peoples' action to require on-site reviews at loan production offices satisfies the intent of the recommendation. Based on the action taken and the revision to the plan, which includes a process to identify patterns of early default and commonalities among loan origination participants, we will record final action in the departmental audit resolution tracking system upon report issuance.

Comment 19 Peoples noted that it developed new procedures to ensure loan originators and underwriting staff follow HUD procedures and underwriting standards and provided a summary of the new procedures. In conjunction with the termination of the loan originator and the underwriter for the cases in question, the new procedures should correct the deficiencies noted. Therefore, we will record final action in the departmental audit resolution tracking system upon report issuance.

Appendix C

SCHEDULE OF CASE FILE DISCREPANCIES

Case Number	Mortgage Amount	Unpaid Principal Balance	Claim Paid	Assets	Gift Funds	Signature and Social Security Number	Employment	Earnest Money Schedule
541-6734854	\$160,098	\$159,174	\$0	X				
541-6523730	\$162,058	\$158,311	\$750	X				X
541-6487423	\$148,317	\$144,738	\$0	X				X
541-6429857	\$148,824	\$143,969	\$0	X				
541-6259312	\$160,547	\$156,485	\$0	X		X	X	
541-6493940	\$163,398	\$159,623	\$750	X		X		X
541-6205002	\$158,500	\$153,630	\$0	X		X		
541-6792767	\$272,182	\$267,387	\$0	X				
541-6570799	\$175,875	\$173,779	\$0	X	X	X		
541-6487554	\$172,645	\$168,684	\$0	X				X
541-6258431	\$155,188	\$150,981	\$0	X				X
541-6352049	\$165,490	\$156,485	\$0	X				X
541-6649088	\$271,651	\$266,204	\$0	X				
541-6487980	\$113,641	\$110,508	\$0	X		X		

Total	<u>\$2,425,471</u>	<u>\$2,369,959</u>	<u>\$1,500</u>
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Appendix D

NARRATIVE CASE PRESENTATIONS

Case Number: 541-6734854

Mortgage Amount: \$162,098

Date of Loan Closing: April 25, 2003

Status: Default - Repayment

Payments Before First Default Reported: 2

Unpaid Principal Balance: \$159,174

Summary:

Peoples did not properly verify or support the borrower's funds to close.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not obtain a copy of the \$1,200 bank check to the seller. HUD Handbook 4155.1, Paragraph 2-10A, states that if the earnest money deposit exceeds two percent of the sale price, the lender must verify with documentation the deposit amount and source of funds.

In addition, Peoples obtained only one bank statement. HUD Handbook 4155.1, Paragraph 3-1F, states that as an alternative to obtaining a verification of deposit, the lender can obtain the two most recent, consecutive bank statements if the bank statement shows the previous month's balance.

Case Number: 541-6523730

Mortgage Amount: \$162,058

Date of Loan Closing: December 19, 2002

Status: Reinstated by mortgagor who retains ownership

Payments Before First Default Reported: N/A

Unpaid Principal Balance: \$158,311

Claim Paid: \$750

Summary:

Peoples did not verify or support the borrower's funds to close.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not verify the source of the seven deposits found on the borrower's bank statements totaling \$695. HUD Handbook 4155.1, Paragraph 2-10B, states that a verification of deposit, along with the most recent bank statement, may be used to verify savings and checking accounts. If there is a large increase in the account or the account was opened recently, the lender must obtain a credible explanation of the source of those funds.

In addition, Peoples did not obtain consecutive bank statements. It included statements for September and November but did not obtain the October statement. HUD Handbook 4155.1, Paragraph 3-1F, states that as an alternative to obtaining a verification of deposit, the lender can obtain the two most recent, consecutive bank statements if the bank statement shows the previous month's balance.

Peoples did not investigate the reason that the borrower missed three of the five scheduled earnest money deposits. On the Sales Addendum, the borrower agreed to make payments totaling \$3,500. However, the earnest money deposit on the Settlement Statement (HUD-1) amounted to only \$1,625. This indicated the borrower might have trouble making mortgage payments, since the borrower could not provide the earnest money deposit as agreed.

Other Matters Noted

The loan was in default, and a loan modification claim of \$750 was paid on February 23, 2004. The loan is no longer in default and has been reinstated by the mortgagor who retains ownership.

Case Number: 541-6487423

Mortgage Amount: \$148,317

Date of Loan Closing: October 24, 2002

Status: Default – First legal action to commence foreclosure

Payments Before First Default Reported: 9

Unpaid Principal Balance: \$144,738

Summary:

Peoples did not properly verify or support the borrower's funds to close.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not document that the gift fund from a nonprofit organization in the amount of \$10,656 was wired to the closing office. HUD Handbook 4155.1, Paragraph 2-10C, states that mortgage lenders are responsible for assuring that the transfer of gifts to the homebuyer from the charitable organization is properly documented.

Peoples did not verify the source of \$400 used to open the bank account in September 2002, or a later deposit of \$501. HUD Handbook 4155.1, Paragraph 2-10B, states that a verification of deposit, along with the most recent bank statement, may be used to verify savings and checking accounts. If there is a large increase in the account or the account was opened recently, the lender must obtain a credible explanation of the source of those funds.

Peoples did not investigate the reason that the borrower missed five payments and made only one partial payment of seven scheduled earnest money deposits. On the Sales Addendum, the borrower agreed to make payments totaling \$4,390. However, the earnest money deposit on the Settlement Statement (HUD-1) amounted to only \$1,500. This indicated the borrower might have trouble making mortgage payments, since the borrower could not provide the earnest money deposit as agreed.

Case Number: 541-6429857

Mortgage Amount: \$148,824

Date of Loan Closing: July 30, 2002

Status: Reinstated by mortgagor who retains ownership

Payments Before First Default Reported: 11

Unpaid Principal Balance: \$143,969

Summary:

Peoples did not properly verify or support the borrower's funds to close.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not obtain an explanation of the five deposits found on the borrower's bank statements totaling \$1,485. HUD Handbook 4155.1, Paragraph 2-10B, states that a verification of deposit, along with the most recent bank statement, may be used to verify savings and checking accounts. If there is a large increase in the account or the account was opened recently, the lender must obtain a credible explanation of the source of those funds.

Case Number: 541-6259312

Mortgage Amount: \$160,547

Date of Loan Closing: April 30, 2002

Status: Default – Modification

Payments Before First Default Reported: 3

Unpaid Principal Balance: \$156,485

Summary:

Peoples did not (1) properly verify or support the borrowers' funds to close, (2) obtain required signatures, and (3) resolve conflicting employment information.

Note: HUD's Quality Assurance Division reported this loan in 2003.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not document the source of two gift funds totaling \$2,600. A bank check for the first gift of \$1,600 was made out to the realtor as part of the borrowers' earnest money deposit. There was no evidence in the file to show that the bank check came from the borrowers' account or that it cleared their bank. There was a fax sheet in the file stating that a gift letter of \$1,600 from the donor would be faxed. However, there was no evidence in the file of the gift letter or any documentation showing that \$1,600 was given to the borrowers as a gift and deposited in their account. In addition, only \$1,000 of the second gift of \$2,000 was documented as deposited in the borrowers' account. HUD Handbook 4155.1, Paragraph 2-10A, requires that if the earnest money deposit exceeds two percent of the sale price, the lender must verify with documentation the deposit amount and source of funds.

Peoples did not verify the source of 11 deposits found on the borrower's bank statements totaling \$4,567. HUD Handbook 4155.1, Paragraph 2-10B, states that a verification of deposit, along with the most recent bank statement, may be used to verify savings and checking accounts. If there is a large increase in the account or the account was opened recently, the lender must obtain a credible explanation of the source of those funds.

Required Signatures Were Not Obtained

The underwriter stated that although it was her name on the Form HUD-92900-A, Direct Endorsement Approval for a HUD/FHA-Insured Mortgage, the signature was not hers. The underwriter's signature certifies that the underwriter reviewed all pertinent documents, used due diligence in underwriting the loan, and approved the loan as eligible

for HUD Mortgage Insurance under the Direct Endorsement Program. HUD Handbook 4155.1, Paragraph 3-1, states that the application package must contain all documentation supporting the lender's decision to approve the mortgage loan. The Uniform Residential Loan Application and the Addendum, signed and dated by all borrowers and the lender, are required for mortgage credit analysis in all transactions.

The real estate agent did not sign the real estate certification as required. HUD Handbook 4155.1, Paragraph 3-II, states that the real estate certification signed by the buyer, seller, and selling real estate agent or broker (if not contained within the purchase agreement) is required.

Conflicting Employment Information Was Not Resolved

Peoples did not resolve inconsistencies in employment information. The credit report listed the borrower's employer as a bank and the former employer as a computer service company. However, the Uniform Residential Loan Application showed different entities as the borrower's employer and former employer. HUD Handbook 4155.1, Paragraph 2-6, states that the lender must verify the borrower's employment for the most recent full 2 years.

Case Number: 541-6493940

Mortgage Amount: \$163,398

Date of Loan Closing: November 18, 2002

Status: Default – Foreclosure started

Payments Before First Default Reported: 17 (originally listed as N/A in Neighborhood Watch)

Unpaid Principal Balance: \$159,623

Claim Paid: \$750

Summary:

Peoples did not properly (1) verify or support the borrower's funds to close and (2) approve the loan.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not verify the source of the 21 deposits found on the borrower's bank statements totaling \$5,239. HUD Handbook 4155.1, Paragraph 2-10B, states that a verification of deposit, along with the most recent bank statement, may be used to verify savings and checking accounts. If there is a large increase in the account or the account was opened recently, the lender must obtain a credible explanation of the source of those funds.

Peoples did not investigate the reason that the borrower missed one payment and made a partial payment of six scheduled earnest money deposits. On the Sales Addendum, the borrower agreed to make payments totaling \$5,515. However, the earnest money deposit on the Settlement Statement (HUD-1) amounted to only \$3,915. This indicated the borrower might have trouble making mortgage payments, since the borrower could not provide the earnest money deposit as agreed.

The Loan Was Not Properly Approved

The underwriter stated that although it is her name on the Form HUD-92900-A, Direct Endorsement Approval for a HUD/FHA-Insured Mortgage, the signature is not hers. The underwriter's signature certifies that the underwriter reviewed all pertinent documents, used due diligence in underwriting the loan, and approved the loan as eligible for HUD Mortgage Insurance under the Direct Endorsement Program. HUD Handbook 4155.1, Paragraph 3-1, states that the application package must contain all documentation supporting the lender's decision to approve the mortgage loan. The Uniform Residential

Loan Application and the Addendum, signed and dated by all borrowers and the lender, are required for mortgage credit analysis in all transactions.

Other Matters Noted

A loan modification of \$750 was paid on January 9, 2004. The loan is currently in default, foreclosure-started status.

Case Number: 541-6205002

Mortgage Amount: \$158,500

Date of Loan Closing: January 25, 2002

Status: Default – Foreclosure started

Payments Before First Default Reported: 3

Unpaid Principal Balance: \$153,630

Summary:

Peoples did not (1) properly verify or support the borrower's funds to close and (2) ensure required signatures were obtained.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not verify the source of 14 deposits found on the borrower's bank statements totaling \$7,676. HUD Handbook 4155.1, Paragraph 2-10B, states that a verification of deposit, along with the most recent bank statement, may be used to verify savings and checking accounts. If there is a large increase in the account or the account was opened recently, the lender must obtain a credible explanation of the source of those funds.

Required Signatures Were Not Obtained

The underwriter's signature on the Form HUD-92900-A, Direct Endorsement Approval for a HUD/-FHA-Insured Mortgage, does not match her signature on the Mortgage Credit Analysis Worksheet. The underwriter's signature certifies that the underwriter reviewed all pertinent documents, used due diligence in underwriting the loan, and approved the loan as eligible for HUD Mortgage Insurance under the Direct Endorsement Program. HUD Handbook 4155.1, Paragraph 3-1, states that the application package must contain all documentation supporting the lender's decision to approve the mortgage loan. The Uniform Residential Loan Application and the Addendum, signed and dated by all borrowers and the lender, are required for mortgage credit analysis in all transactions.

The real estate agent did not sign the real estate certification as required. HUD Handbook 4155.1, Paragraph 3-1I, states that the real estate certification signed by the buyer, seller, and selling real estate agent or broker (if not contained within the purchase agreement) is required.

Case Number: 541-6792767

Mortgage Amount: \$272,182

Date of Loan Closing: June 30, 2003

Status: Default - Repayment

Payments Before First Default Reported: N/A

Unpaid Principal Balance: \$267,387

Summary:

Peoples did not properly verify or support the borrower's funds to close.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not verify the source of gift funds. The borrower received \$1,500 as a gift from a relative, which was used as part of the earnest money deposit. There is a copy of a check from the donor to the borrower amounting to \$1,500. However, there is no evidence that the gift came from the donor's own funds. HUD Handbook 4155.1, Paragraph 2-10A, requires that if the earnest money deposit exceeds two percent of the sale price, the lender must verify with documentation the deposit amount and source of funds.

Peoples did not verify the source of the two deposits found on the borrower's bank statements totaling \$479. HUD Handbook 4155.1, Paragraph 2-10B, states that a verification of deposit, along with the most recent bank statement, may be used to verify savings and checking accounts. If there is a large increase in the account or the account was opened recently, the lender must obtain a credible explanation of the source of those funds.

Case Number: 541-6570799

Mortgage Amount: \$175,875

Date of Loan Closing: August 28, 2003

Status: Default - Repayment

Payments Before First Default Reported: 1

Unpaid Principal Balance: \$173,779

Summary:

Peoples did not (1) properly verify or support the borrower's funds to close, (2) obtain required documentation to approve the loan, and (3) resolve inconsistencies in Social Security numbers.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not obtain an explanation of the two deposits found on the borrower's bank statements totaling \$830. HUD Handbook 4155.1, Paragraph 2-10B, states that a verification of deposit, along with the most recent bank statement, may be used to verify savings and checking accounts. If there is a large increase in the account or the account was opened recently, the lender must obtain a credible explanation of the source of those funds.

Peoples allowed funds from a third party gift to be used to pay off the borrower's outstanding debt. Mortgagee Letter 2002-22, dated November 14, 2002, and Mortgagee Letter 2002-02, dated January 16, 2002, specifically bar this practice.

Peoples did not document the gift fund wire from a nonprofit organization in the amount of \$5,825. HUD Handbook 4155.1, Paragraph 2-10C, states that mortgage lenders are responsible for assuring that the transfer of funds for the gift to the homebuyer from the charitable organization is properly documented.

Required Documentation Was Not Obtained

Peoples did not resolve inconsistencies in Social Security numbers. The number on a 2002 W-2 form is different from the number on the Uniform Residential Loan Application, other W-2 forms, pay stubs, and employment verification. HUD Handbook 4155.1, Paragraph 3-1C, requires the lender to resolve any inconsistencies or multiple Social Security numbers for individual borrowers.

Required Signature Was Not Obtained

The real estate agent did not sign the real estate certification as required. HUD Handbook 4155.1, Paragraph 3-1I, states that the real estate certification signed by the buyer, seller, and selling real estate agent or broker (if not contained within the purchase agreement) is required.

Case Number: 541-6487554

Mortgage Amount: \$172,645

Date of Loan Closing: September 27, 2002

Status: Delinquent

Payments Before First Default Reported: 1

Unpaid Principal Balance: \$168,684

Summary:

Peoples did not properly verify or support the borrower's funds to close.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not verify the source of funds for two deposits on the Uniform Residential Loan Application totaling \$557. HUD Handbook 4155.1, Paragraph 2-10B, states that a verification of deposit, along with the most recent bank statement, may be used to verify savings and checking accounts. If there is a large increase in the account or the account was opened recently, the lender must obtain a credible explanation of the source of those funds.

Peoples did not investigate the reason that the borrower missed three of nine scheduled earnest money deposits. On the Sales Addendum, the borrower agreed to make payments totaling \$15,585. However, the earnest money deposit on the Settlement Statement (HUD-1) amounted to only \$10,050. This indicated the borrower might have trouble making mortgage payments, since the borrower could not provide the earnest money deposit as agreed.

Case Number: 541-6258431

Mortgage Amount: \$155,188

Date of Loan Closing: February 25, 2002

Status: Delinquent

Payments Before First Default Reported: 2

Unpaid Principal Balance: \$150,981

Summary:

Peoples did not properly verify or support the borrower's funds to close.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not verify the source of a deposit found on the borrower's bank statements totaling \$1,908. HUD Handbook 4155.1, Paragraph 2-10B, states that a verification of deposit, along with the most recent bank statement, may be used to verify savings and checking accounts. If there is a large increase in the account or the account was opened recently, the lender must obtain a credible explanation of the source of those funds.

In addition, Peoples did not investigate the reason that the borrower missed five of nine scheduled earnest money deposits. On the Sales Addendum, the borrower agreed to make payments totaling \$4,500. However, the earnest money deposit on the Settlement Statement (HUD-1) amounted to only \$2,000. This indicated the borrower might have trouble making mortgage payments, since the borrower could not provide the earnest money deposit as agreed.

Case Number: 541-6352049

Mortgage Amount: \$160,547

Date of Loan Closing: April 26, 2002

Status: Foreclosure completed

Payments before First Default Reported: 5

Unpaid Principal Balance: \$156,485

Summary:

Peoples did not properly verify or support the borrower's funds to close.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not determine the source of funds or verify that earnest money funds came from the borrower's account. Peoples did not identify the source of funds for a cashier's check for \$4,000. Peoples documented the front of an additional earnest money check in the amount of \$4,000 but did not include a bank statement to show the check cleared. HUD Handbook 4155.1, Paragraph 2-10A, requires that if the earnest money deposit exceeds two percent of the sale price, the lender must verify with documentation the deposit amount and source of funds.

In addition, Peoples did not investigate the reason that the borrower missed four payments and made a partial payment of nine scheduled earnest money deposits. On the Sales Addendum, the borrower agreed to make payments totaling \$23,250. However, the earnest money deposit on the Settlement Statement (HUD-1) amounted to only \$9,750. This indicated the borrower might have trouble making mortgage payments, since the borrower could not provide the earnest money deposit as agreed.

Case Number: 541-6649088

Mortgage Amount: \$271,651

Date of Loan Closing: February 26, 2003

Status: Delinquent

Payments Before First Default Reported: 6

Unpaid Principal Balance: \$266,205

Summary:

Peoples did not properly verify or support the borrowers' funds to close.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not adequately verify the source of earnest money funds totaling \$10,000. A January 2003 Thrift Savings Plan Loan Agreement in the amount of \$18,511 was signed by the borrowers but not by a Thrift Savings Plan official. An automated teller machine deposit slip, dated February 2003 showing a deposit of \$18,511, did not identify the source of the funds. Further, there was no credit union account statement to verify the funds came from the Thrift Savings Plan. The loan closed on February 26, 2003. HUD Handbook 4155.1, Paragraph 2-10A, requires that if the earnest money deposit exceeds two percent of the sale price, the lender must verify with documentation the deposit amount and source of funds.

Case Number: 541-6487980

Mortgage Amount: \$113,641

Date of Loan Closing: September 27, 2002

Status: Modification

Payments Before First Default Reported: 10

Unpaid Principal Balance: \$110,508

Summary:

Peoples Mortgage did not (1) verify or support the borrower's funds to close, and (2) ensure that a signed Settlement Statement (HUD-1) was in the file.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Peoples did not adequately verify the source of funds for four cashier's checks totaling \$2,120 of the \$3,500 earnest money deposits. There were no bank statements to show the funds came from the borrower's account. HUD Handbook 4155.1, Paragraph 2-10A, requires that if the earnest money deposit exceeds two percent of the sale price, the lender must verify with documentation the deposit amount and source of funds.

A Signed Settlement Statement (HUD-1) Was Not in the File

There was no signed Settlement Statement (HUD-1) in either the HUD file or the lender's file. There was an unsigned copy of the Settlement Statement in the lender file. Without a signed Settlement Statement, there is no reasonable assurance that the borrower met the three percent investment requirement or that the seller did not pay more than six percent of the net closing costs in violation of requirements, nor can it be adequately determined whether there were any unusual payments from the seller to the buyer at settlement. HUD Handbook 4000.2, REV-3, Paragraph 5-8, stipulates that the originating mortgagee must retain the entire case file pertaining to loan origination.