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| Issue Date<br>November 18, 2004 | |
| Audit Case Number<br>2005-AT-1003 | |

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

FROM: James D. McKay

James D. McKay
Regional Inspector General for Audit, 4AGA

SUBJECT: American Mortgage Express Corporation
d.b.a. American Residential Mortgage Corporation
Mt. Laurel, New Jersey

# HIGHLIGHTS

## What We Audited and Why

We audited American Mortgage Express Corporation's, d.b.a. American Residential Mortgage Corporation (American Mortgage Express) underwriting of seven Federal Housing Administration (FHA) loans. The loans were originated by its loan correspondent, Cotton State Mortgage, Inc. (Cotton State), Atlanta, GA. We conducted the audit based on the results of a prior Office of Inspector General audit that identified FHA loan origination deficiencies at Cotton State.

Our objective was to determine if the underwriting of these loans complied with FHA requirements.

## What We Found

We found significant underwriting deficiencies in four of seven loans. American Mortgage Express underwriters did not properly evaluate the borrower liabilities, income, and credit worthiness. The underwriting deficiencies occurred because American Mortgage Express's prior management did not provide adequate control and supervision over the staff, nor did they have adequate internal procedures in place to prevent the deficient underwriting from occurring. As a result, American Mortgage Express approved loans for borrowers who were not qualified for FHA insured mortgages. By approving these loans, American Mortgage Express increased HUD's insurance risk, as three loans with a total unpaid balance of $307,544 defaulted and the fourth loan foreclosed with a $103,794 insurance claim.

## What We Recommend

We recommend that the Assistant Secretary for Housing-Federal Housing Commissioner require American Mortgage Express to indemnify three loans totaling $307,544 and reimburse HUD $103,794 in claims paid for another loan.

We further recommend HUD require American Mortgage Express to monitor all loan underwriting functions for compliance with HUD/FHA requirements.

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 discussed our review results with American Mortgage Express and HUD officials during the audit. We provided a copy of the draft report to American Mortgage Express officials on October 5, 2004 for their comments and discussed the report with the officials at the exit conference on October 19, 2004. American Mortgage Express provided written comments on November 3, 2004.

The complete text of the auditee's response along with our evaluation of that response can be found in Appendix B of this report.

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# BACKGROUND AND OBJECTIVES

American Mortgage Express was incorporated in the Commonwealth of Pennsylvania on March 2, 1994. HUD approved American Mortgage Express as a Title II non-supervised mortgagee on November 29, 1994. American Mortgage Express originates FHA, Department of Veteran Affairs (VA), and conventional loans. The company also purchases and sells residential mortgage loans. American Mortgage Express is licensed to operate in a number of states, with a concentration of business in the East Coast region. The company headquarters is located in Mt. Laurel, New Jersey. Cotton State is a loan correspondent for American Mortgage Express.

On September 18, 2002, HUD notified American Mortgage Express of its intent to terminate the HUD-FHA approval agreement of its Cherry Hill, New Jersey, office to originate HUD-FHA insured single-family mortgage in HUD's Camden, New Jersey jurisdiction. HUD cited American Mortgage's high default and claim rate as the basis for the proposed termination. HUD withdrew the proposed termination on January 7, 2003, based on responses received from American Mortgage Express. American Mortgage Express made major changes in its senior management, underwriting and loan origination staff, and internal procedures. Other changes made by American Mortgage Express included terminating its branch offices in Dunedin, Florida, and Atlanta, Georgia, in 2002.

Our audit objective was to determine if the underwriting of the seven loans complied with FHA requirements for the underwriting of FHA insured single-family mortgages originated between April 1, 2001 and April 30, 2003.

# RESULTS OF AUDIT

## Finding 1: American Mortgage Express Did Not Follow HUD Requirements When Underwriting Loans

American Mortgage Express did not adhere to HUD requirements and prudent lending practices when underwriting seven FHA-insured loans we reviewed for compliance. Four of the seven loans had significant underwriting deficiencies that included inadequate credit analyses and inadequate qualifying ratios. The conditions existed because of lack of control and supervision by prior management over the staff and inadequate internal procedures. As a result of the deficiencies, American Mortgage Express needs to indemnify HUD for three FHA-insured loans with a total unpaid balance of $307,544 and reimburse HUD $103,794 in claims paid for another loan.

### American Mortgage Express Did Not Comply with HUD Requirements

American Mortgage Express did not comply with HUD requirements when underwriting seven loans we reviewed. Four of seven loans had significant underwriting deficiencies, as shown below.

| FHA CASE NUMBER | INADEQUATE ANALYSIS OF LIABILITIES AND CREDIT | INADEQUATE ANALYSIS OF INCOME | INADEQUATE QUALIFYING RATIOS |
|---|---|---|---|
| 101-9934811 | X | X | X |
| 101-9824807 | X | | X |
| 105-0011109 | X | | X |
| 101-9742188 | X | | X |

An individual description of the underwriting deficiencies for each of the seven loans is shown in Appendix D. American Mortgage Express prior management's lack of control and supervision over the staff and inadequate internal procedures contributed to the underwriting deficiencies.

## Inadequate Analysis of Liabilities and Credit

American Mortgage Express did not adequately analyze the borrowers' liabilities and credit. The loan files documented a history of borrower credit problems and excessive obligations. We found four loans with underwriting deficiencies. We cite two examples.

For FHA Case Number 101-9824807, American Mortgage Express did not properly evaluate the borrower's credit worthiness and ensure that the borrower demonstrated financial responsibility. The borrower's credit history included multiple delinquent credit and collection accounts. Six of the derogatory accounts had been delinquent 90 days or more 12 times. The borrower's history of poor credit should have resulted in the rejection of the loan. American Mortgage Express did not adequately consider the borrower's disregard for meeting credit obligations. According to HUD Neighborhood Watch, the borrower defaulted on the loan due to excessive obligations.

For FHA Case Number 105-0011109, American Mortgage Express did not properly analyze the borrower's credit performance. The borrower's credit history revealed several derogatory accounts that included charge offs, collection accounts, and a civil judgment. American Mortgage Express approved the loan even though the borrower had not demonstrated the ability to meet her financial obligations and there were no compensating factors to support the loan approval.

## Inadequate Analysis of Income

American Mortgage Express did not adequately analyze the co-borrowers' income for one loan. The loan involved a co-borrower whose income had been unstable.

For FHA Case Number 101-9934811, American Mortgage Express approved the loan using the co-borrower's income. The co-borrower's job history showed she had worked for several different employers from 1 to 9 months. The co-borrower's employment history showed gaps in her employment and an involuntary job termination after 1 month's employment. Also, the application did not show that the co-borrower's numerous job changes resulted in an increase in income and benefits. American Mortgage Express should not have included the co-borrower's income in calculating the borrower's income ratios because of the co-borrower's unstable employment income.

## Inadequate Qualifying Ratios

Our review of the loan files identified loans with housing and debt qualifying ratios that exceeded HUD's limits without adequate compensating factors. Thus, American Mortgage Express had no justification for accepting the loans at the higher ratios. For example:

For FHA Case Number 101-9934811, American Mortgage Express did not properly calculate the borrower's housing ratio and debt ratio. American Mortgage Express included the co-borrower's unstable income and excluded the borrower's debt and VA benefits income. Therefore, the mortgage payment to effective income ratio should have been 47 percent and the total fixed payment to effective income was 72 percent. There were no compensating factors for allowing the borrower to exceed HUD's limits.

For FHA Case Number 101-9824807, American Mortgage Express approved the loan even though the borrower's housing ratio of 31 percent and debt ratio of 43 percent were over HUD's limits. American Mortgage Express did not document the basis for its approval of the loan at the higher ratios.

## Conclusion

Because of prior management's inadequate oversight and internal procedures, American Mortgage Express was ineffective in preventing significant underwriting deficiencies. As a result, American Mortgage Express approved mortgage loans for FHA insurance that did not meet HUD requirements and represented high risks of default and foreclosure. American Mortgage Express has started taking steps to improve their loan underwriting processes. They have made major changes in the senior management, underwriting and loan origination staff, and internal procedures.

## Recommendations

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

1A. Require American Mortgage Express to indemnify four loans totaling $307,544 and reimburse HUD $103,794 for the loss on another loan.

1B. Require American Mortgage Express to monitor all loan underwriting functions for compliance with HUD/FHA requirements.

# SCOPE AND METHODOLOGY

To achieve our audit objectives we reviewed:

- Applicable laws, regulations, and other HUD Program requirements;
- Procedures established by American Mortgage Express in underwriting FHA-insured loans; and
- Files and documents from HUD, American Mortgage Express, Cotton State, and closing attorneys.

We also reviewed 7 FHA-insured loans that: (1) had defaulted after 12 or fewer payments made, or (2) were originated by a loan officer and approved by an underwriter/sponsor who had high occurrences of defaults.

In addition, we interviewed appropriate officials and staff from American Mortgage Express and HUD's Atlanta Single Family Homeownership Center. We also interviewed the closing attorneys to verify the information in the files.

We performed our review between April and July 2004. The audit covered the period April 1, 2001, through April 30, 2003, but we extended the period as necessary to achieve the audit objective.

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:

- Underwriting process.

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 the following item is a significant weakness:

- American Mortgage Express prior management did not have adequate oversight and controls to ensure that loans were underwritten in accordance with HUD's requirements (see finding 1).

# APPENDIX

## Appendix A

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

| Recommendation Number | Ineligible 1/ | Funds To Be Put to Better Use 2/ |
|---|---|---|
| 1A | $103,794 | $307,544 |

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

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

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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**Auditee Comments**

American
MORTGAGE EXPRESS CORP

November 1, 2004

U.S. Department of Housing and Urban Development
Region 4, Office of the Inspector General
Office of Audit, Box 42
Richard B. Russell Federal Building
75 Spring Street, S.W., Room 330
Atlanta, GA 30303-3388
Attn: Joyce Harris

Subject: Draft of Final Audit Report dated 10/05/2004
Dear Ms. Harris:

Pursuant to your letter of 10/05/04 please accept the following rebuttal to the deficiencies identified in your review of the remaining 4 loans:

**Comment 1**

**FHA Case #101-9934811:**
Note 7 & 8: Excessive debt to income ratio. AMEC incorrectly computed the borrower's dti by not including a $267.00 monthly payment in the back ratio. There are only 6 payments remaining on this debt and as such it need not be recurred in the debt ratio. Please also note that if the debt had been recurred in the **back** ratio there is no way that it would also have increased the front ratio as mentioned in hud's e mail as the front ratio only involves PITI not recurring debts. The underwriter definitely should have considered the impact that this additional debt added to the borrower's other recurring debts for the first several months of the mortgage would have had on the borrower's ability to pay.
**Please also note that the borrower was receiving VA Benefits of $279.00/month which were not used to qualify the borrower. (The borrower's ratios would have been 28/33) There is an award letter for same in the file but this source of income was never fully developed. This could definitely have been used as a compensating factor to "offset" the $267.00/month debt which only had six (6) payments remaining.

**Comment 2**

Note 9: It is acknowledged that the co-borrower; however, did have a multitude of jobs in the same 2 year period. However it is also noted that the co-borrower continually located suitable employment in approximately the same salary range as the previous postion(s).

**Comment 3**

HUD's Neighborhood Watch indicates that the cause of default was "illness of the *principal mortgagor.*"
The Principal Mortgagor, Mr. Herman, was employed for two years with one employer followed by 6 mos. with a new employer at the time of application and there is no way the underwriter could have foreseen his unfortunate future illness after 5 months into the repayment of said loan. In addition these borrowers have been in and out of delinquent status since 04/02 and they always seem to manage to bring the loan current before foreclosure.
It seems that these borrowers have the willingness to pay regardless of the financial hardship caused by the loss of a primary wage earners' income.

**Comment 4**

**FHA Case #101-9742188:**
Note 10: Excessive Debt to Income Ratio-AMEC did not adhere to requirements for approving the loan At higher ratios. The borrower's ratios were 31.41 and 39.68 which are not excessive. Only the front ratio was in excess of Hud standards. The borrower did work an additional job (at the same place of employment) which was not used to qualify the borrower as it was not of sufficient duration. This would serve as a satisfactory compensating factor for the slightly high front ratio. Please also note that the borrowers attended a Homebuyer's Educational Course and completed same satisfactorily.

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136 Gaither Drive Mt Laurel NJ 08054

American
MORTGAGE EXPRESS CORP

**Comment 5**

**FHA Case#101-9824807:**

Note 12: Excessive debt to income ratio and not adhering to Hud's requirements in documenting the basis for approving the loan at higher ratios. Although the ratios are definitely over the "guidelines" the ratios are far from excessive at 31/43. However, as evidenced by both the borrowers paystub and W2's she was actively contributing 6% of her gross earnings to a 401K account that was also had a matching contribution provided by the employer. The underwriter could have verified the balance in said account as reserve assets which would further support approval of this loan at a back ratio of 43. The fact that the underwriter did not properly document the comp. factors for exceeding the ratios is a valid point; however, this borrower did not default until 7 payments were made on the loan and it is not readily apparent how this *extremely minor ratio issue* could cause the borrower to default on her mortgage obligation.

**Comment 6**

Note 13: Inadequate analysis of the Borrower's credit performance. The borrower's credit history definitely showed a disregard for timely payments. No reasons evident from evaluation of the file for approving this loan over ratios.

**Comment 7**

**FHA Case#105-0011109:**

Note 14: Excessive debt to income ratios and approval of the loan without valid compensating factors. Ratios were 32.84/41.65 and should not have cited the borrower's SSI income as a comp. factor as it was already included in the ratios that were represented on the MCAW. Although this is true that the SSI income was "not" a comp. factor the underwriter did not mention it as a comp. factor, the only comment in the remarks section was an explanation of the percentage that this non-taxable income was grossed up. The borrower's overall disregard for timely payment was evident upon review of the credit and approval of this loan was not warranted in the absence of comp. factors.

If you have any further questions, please do not hesitate to contact the undersigned.

Sincerely,

Patricia A. Colacicco
Chief Underwriter

cc: Kevin Crichton

Phone (856) 489-1122 Toll Free: (800) 204-2639

## OIG Evaluation of Auditee Comments

**Comment 1**

FHA Case Number 101-9934811

The underwriter did not properly calculate the borrower's ratios on the Mortgage Credit Analysis Worksheet, which resulted in the loan having underreported liabilities, unstable income, and inadequate qualifying ratios. American Mortgage Express should have included a $267 payment in the evaluation of the borrower's liabilities. Although there were less than 10 months remaining on the debt, the debt was significant and should have been included. The borrower defaulted on the loan after five payments and had no cash reserves after loan closing. If American Mortgage Express had included the borrower's debt of $267 and VA benefits income of $282 and excluded the co-borrower's unstable income, then the borrower's debt to income ratios would have been 47/72. There were no compensating factors for accepting the excessive ratios.

**Comment 2**

FHA Case Number 101-9934811

We agree with American Mortgage Express officials that the co-borrower did have multiple jobs in the same two-year period. We also noted the co-borrower's employment records showed gaps in her employment. The co-borrower changed jobs frequently within the same line of work with no advancement in her income. Thus, the co-borrower did not demonstrate income stability and job stability. The co-borrower's broken employment history is not acceptable and her income should not be included in the debt to income calculation.

**Comment 3**

FHA Case Number 101-9934811

The borrower's excessive debt to income ratio, underreported liabilities and the co-borrower's lack of income stability were contributing factors to the defaulted loan. The borrower defaulted on the loan after five payments and had no cash reserves after loan closing. American Mortgage Express approved the loan even though the borrower's debt to income ratios was excessive and there were no compensating factors to justify the loan approval.

**Comment 4**

FHA Case Number 101-9742188

We agree with American Mortgage Express officials that the front ratio is over the "guidelines”. American Mortgage Express did not adhere to HUD's requirements in documenting the basis for accepting the higher ratios. The borrower’s attendance at a Homebuyer’s Education Class is not a valid compensating factor. There were no compensating factors provided for the higher front ratio.

**Comment 5**

FHA Case Number 101-9824807

We agree with American Mortgage Express officials that the ratios are over the "guidelines” and that the underwriter did not properly document the compensating factors for exceeding the ratios. Thus, American Mortgage Express did not adhere to HUD’s requirements in documenting the basis for approving the loan at the higher ratios. According to HUD Neighborhood Watch, the borrower defaulted on the loan due to excessive obligations. The higher ratios were contributing factors to the loan default.

**Comment 6**

FHA Case Number 101-9824807

We agree with American Mortgage Express officials comments.

**Comment 7**

FHA Case Number 105-0011109

We agree with American Mortgage Express officials comments.

# Appendix C

## CRITERIA

HUD Handbook 4000.4, REV-1, Single Family Direct Endorsement Program, Paragraph 2-1, requires mortgagees to develop HUD/FHA-insured loans in accordance with accepted sound lending practices, ethics, and standards.

Paragraph 2-4 C, states that HUD looks to the underwriter as the focal point of the Direct Endorsement Program. The underwriter must assume the following responsibilities:

- Compliance with HUD instructions, the coordination of all phases of underwriting, and the quality of decisions made under the program;

- The review of appraisal reports, compliance inspections and credit analyses performed by fee and staff personnel to ensure reasonable conclusions, sound reports and compliance with HUD requirements, and

- The decisions relating to the acceptability of the appraisal, the inspections, the buyers capacity to repay the mortgage and the overall acceptability of the mortgage loan for HUD insurance.

HUD Handbook 4155.1, REV-4, CHG 1, Mortgage Credit Analysis for Mortgage Insurance on One-to-Four Family Properties, Paragraph 2-1, requires mortgagees to determine the borrower's ability and willingness to repay the mortgage debt, and thus, limit the probability of default or collection difficulties. Four major elements are typically evaluated in assessing a borrower's ability and willingness to repay the mortgage debt:

- Stability and adequacy of income;
- Funds to close;
- Credit history; and
- Qualifying ratios and compensating factors.

Paragraph 2-3, states that past credit performance serves as the most useful guide in determining the attitude toward credit obligations that will govern the borrower's future actions. A borrower who has made payments on previous or current obligations in a timely manner represents reduced risk. Conversely, if the credit history, despite adequate income to support obligations, reflects continuous slow payments, judgments, and delinquent accounts, strong offsetting factors will be necessary to approve the loan. The basic hierarchy of credit evaluation is the manner of payments made on previous housing expenses, including utilities, followed by the payment history of installment debts then revolving accounts.

Paragraph 2-3A states that the payment history of the borrower's housing obligations is of significant importance in evaluating credit.

Section 2 defines effective income as the anticipated amount of income, and likelihood of its continuance, must be established to determine the borrower's capacity to repay the mortgage debt. Income from any source that cannot be verified, is not stable, or will not continue may not be used in calculating the borrower's ratios.

Paragraph 2-6 provides that to analyze the probability of continued employment, lenders must examine the borrower's past employment record, qualifications for the position, previous training and education, and the employer's confirmation of continued employment. A borrower who changes jobs frequently within the same line of work, but continues to advance in income and benefits should be considered favorably.

Paragraph 2-12 states that debt to income ratios are used to determine whether the borrower can reasonably be expected to meet the expenses involved in homeownership, and otherwise provide for the family. The lender must compute two ratios: (1) mortgage payment expense to effective income which is considered acceptable if it does not exceed 29 percent of gross effective income, and (2) total fixed payment to effective income which is considered acceptable if it does not exceed 41 percent of gross effective income. However, these ratios may be exceeded if significant compensating factors are presented.

Paragraph 2-13 states compensating factors may be used in just approval of mortgage loans with ratios exceeding HUD's benchmark guidelines. The underwriters must state in the "remarks" section of the HUD 92900-WS the compensating factors used to support loan approval.

# Appendix D

## NARRATIVE CASE PRESENTATIONS

| | |
|---|---|
| FHA Case Number: | 101-9934811 |
| Settlement Date: | 07/16/01 |
| Status as of 7/30/04: | Default |
| Payments Before First Default Reported: | 5 |

**Summary:**

American Mortgage Express improperly included the co-borrower's unstable income. American Mortgage Express did not properly analyze the borrower's liabilities. American Mortgage Express also did not have compensating factors for accepting the loan at the higher debt to income ratios. As a result, we are requesting indemnification of the $88,756 unpaid loan balance.

**Pertinent Details:**

Unstable Income

American Mortgage Express did not properly analyze whether the co-borrower's income was stable and effective. The employment records for the co-borrower showed that she held five different jobs from 1 to 9 months. The co-borrower held two of the five jobs from 1 to 3 months, and was fired after 1 month from another job. The employment records also showed gaps in the co-borrower's employment. The co-borrower had only worked for her employer 3 months at the time of the loan application. Since the co-borrower's income had not been stable, it should not be included in determining the monthly effective income. American Mortgage Express also did not establish whether the co-borrower's numerous job changes had advanced in income and benefits. The application only contained the period of the jobs, not the prior salary or benefits.

Underreported Liabilities

American Mortgage Express did not include a $267 payment in the evaluation of the borrower's liabilities. The debt was significant and should have been included although there were less than 10 months remaining on the debt. The borrower defaulted on the loan after five payments and had no cash reserves after loan closing. American Mortgage Express officials stated the underwriter should have definitely considered the impact that this additional debt added to the borrower's other recurring debts for the first several months of the mortgage would have had on the borrower's ability to pay but disagreed that the amount should have been included in the debt to income calculation.

Inadequate Qualifying Ratios

American Mortgage Express exceeded HUD's allowable limits without compensating factors. American Mortgage Express' Mortgage Credit Analysis Worksheet (MCAW) showed the borrower's mortgage payment to effective income ratio as 31 percent and total fixed payment to effective income as 36 percent. American Mortgage Express excluded the borrower's debt of $267 and VA benefits income of $282 and included the co-borrower's unstable income. Therefore, the mortgage payment to effective income ratio should have been 47 percent and the total fixed payment to effective income was 72 percent. There were no compensating factors for approving the loan at the higher ratios.

FHA Case Number: 101-9824807
Settlement Date: 05/17/01
Status as of 7/30/04: Default
Payments Before First Default Reported: 7

**Summary:**

American Mortgage Express did not properly analyze the borrower's credit. American Mortgage Express also approved the loan with no compensating factors to justify accepting the higher ratios. As a result, we are requesting indemnification of the $125,112 unpaid loan balance.

**Pertinent Details:**

Inadequate Analysis of Borrower's Credit

American Mortgage Express did not properly analyze the borrower's credit and ensure that the borrower demonstrated financial responsibility. The borrower's credit history included delinquent credit and collections. The credit report showed the borrower had 10 derogatory accounts with balances totaling $3,114. Six of the derogatory accounts had been delinquent 90 days or more 12 times. Thus, the borrower had a history of poor credit that was not fully considered in the analysis to support the approval of the loan. According to HUD Neighborhood Watch, the borrower defaulted on the loan due to excessive obligations. American Mortgage Express officials stated the borrower's credit history definitely showed a disregard for timely payments. American Mortgage Express officials also stated there are no reasons evident from evaluation of the file for approving the loan over ratios.

Inadequate Qualifying Ratios

American Mortgage Express did not adhere to HUD's requirements in documenting the basis for approving the loan at the higher ratios. The mortgage payment to effective income ratio was 31 percent and the total fixed payment to effective income was 43 percent with no compensating factors shown on the MCAW for accepting the higher ratios. American Mortgage Express did not document the file to justify approving the loan at the higher ratios. American Mortgage Express officials agreed the ratios are over the guidelines and the fact that the underwriter did not properly document the compensating factors for exceeding the ratios is a valid point.

FHA Case Number: 105-0011109
Settlement Date: 06/22/01
Status as of 7/30/04: Property conveyed to HUD
Payments Before First
Default Reported: 1

**Summary:**

American Mortgage Express did not properly analyze the borrower's credit. American Mortgage Express also did not document the basis for accepting the higher ratio. As a result, we are requesting reimbursement of the claim amount of $103,794.

**Pertinent Details:**

Inadequate Analysis of Borrower's Credit

American Mortgage Express did not properly analyze the borrower's credit performance to ensure that the borrower had demonstrated financial responsibility. The borrower's credit report showed seven derogatory accounts that included charge offs and collection accounts. There was also a civil judgment totaling $11,373 filed against the borrower for an automobile. The borrower had $113 a month garnished from her wages to pay on the judgment. Thus, American Mortgage Express approved the loan even though the borrower had not demonstrated the ability to meet her financial obligations. American Mortgage Express officials stated the borrower's overall disregard for timely payment was evident upon review of the credit, and approval of this loan was not warranted in the absence of compensating factors.

Inadequate Qualifying Ratio

American Mortgage Express did not document the basis for accepting the higher ratio. The MCAW showed the mortgage payment to income ratio as 32.84 without compensating factors. American Mortgage Express officials stated the approval of the loan was not warranted in the absence of compensating factors.

| | |
|---|---|
| FHA Case Number: | 101-9742188 |
| Settlement Date: | 04/04/01 |
| Status as of 7/30/04: | Foreclosure Completed |
| Payments Before First Default Reported: | 0 |

**Summary:**

American Mortgage Express approved the loan for the borrower who had poor credit performance. American Mortgage Express accepted the higher loan ratio without compensating factors to justify accepting the higher ratio. As a result, we are requesting indemnification of the $93,676 unpaid loan balance.

**Pertinent Details:**

Inadequate Analysis of Borrower's Credit

American Mortgage Express did not properly analyze the borrower’s past credit performance to ensure that the borrower had demonstrated financial responsibility. The loan file showed the borrower had a history of credit problems including nonpayment of rent. The borrower’s credit report showed judgments totaling $6,188 for six eviction cases. This is significant because a proper analysis of the borrower’s past rental history is necessary in the decision to approve the loan. However, American Mortgage Express approved the loan even though the borrower had not demonstrated the ability to meet his financial obligations. According to HUD Neighborhood Watch, the borrower defaulted on the loan due to excessive obligations.

Inadequate Qualifying Ratio

American Mortgage Express did not adhere to HUD's requirements in documenting the basis for accepting the ratio in excess of HUD limits. The borrower’s mortgage payment to effective income ratio was 31.4 percent with no compensating factors shown on the MCAW for accepting the higher ratio. American Mortgage Express officials agreed the front ratio was in excess of HUD standards.

FHA Case Number: 101-9691425
Settlement Date: 03/09/01
Status as of 7/30/04: Delinquent
Payments Before First
Default Reported: 12

**Summary:**

American Mortgage Express did not adhere to HUD's requirements in providing significant compensating factors for accepting the higher qualifying ratio. American Mortgage Express also did not properly calculate the borrower's net rental income amount.

**Pertinent Details:**

Inadequate Qualifying Ratio

American Mortgage Express' loan file showed the borrower's qualifying ratio exceeded HUD's allowable limit. The borrower's mortgage payment to effective income ratio was 40 percent and the compensating factors shown on the MCAW were inadequate for accepting the higher ratio**.** The underwriter used job stability and income from rental property as compensating factors for exceeding the ratio; however, job stability and rental income cannot be used as compensating factors because they are included in the borrower's effective income. The borrower stated she was behind on her mortgage payments because her rental property was vacant and she had to pay the maintenance and repair costs on her rental property, as well as her permanent residence. American Mortgage Express should have provided adequate compensating factors for allowing the loan to exceed HUD's ratio limits. However, HUD's Atlanta Quality Assurance Division officials position was the back ratio (i.e., fixed payment to income) did not exceed HUD's allowable limit; therefore, they would not take exception to the ratio.

Overstated Effective Income

American Mortgage Express did not properly calculate the borrower's net rental income amount. The MCAW shows the net rental income as $191 but it should have been $145. Therefore, the effective income amount was overstated. American Mortgage Express officials agreed the underwriter did not properly calculate the net rental income amount.

FHA Case Number: 105-0035213
Settlement Date: 08/03/01
Status as of 7/30/04: Property Conveyed to HUD
Payments Before First Default Reported: 17

**Summary:**

American Mortgage Express did not properly analyze the borrower's credit.

**Pertinent Details:**

Inadequate Analysis of Borrower's Credit

American Mortgage Express did not properly analyze the borrower's credit to ensure that the borrower had demonstrated financial responsibility. The borrower's credit was very poor. The borrower's credit report showed 20 derogatory accounts totaling $16,784. The derogatory accounts included charge-offs and collection accounts. According to Neighborhood Watch, the borrower defaulted on the loan due to excessive obligations. American Mortgage officials stated the borrower had 20 derogatory accounts that included charge-offs and collection accounts and no proof of circumstances beyond the borrower's control as well as an ability to re-establish good credit. They agreed the loan should not have been approved. However, HUD's Atlanta Quality Assurance Division officials did not recommend indemnification of the loan.

FHA Case Number: 101-9777838
Settlement Date: 04/10/01
Status as of 7/30/04: Property Conveyed to HUD
Payments Before First
Default Reported: 4

**Summary:**

American Mortgage Express approved the loan for a borrower who had poor credit worthiness.

**Pertinent Details:**

Inadequate Analysis of Borrower's Credit

American Mortgage Express did not properly analyze the borrower's credit to ensure that the borrower had demonstrated financial responsibility. The borrower's current and prior credit history included delinquent credit, collections, and judgments. The credit report showed the borrower had 10 derogatory accounts of which 2 accounts had balances totaling $19,628. These accounts were shown as 30 to 120 days past due on several occasions. The borrower's other derogatory accounts included a $20,324 charge-off for an automobile. Thus, the borrower had a history of poor credit that was not fully considered by American Mortgage Express in its analysis of the borrower's liabilities. According to HUD Neighborhood Watch, the borrower defaulted on the loan due to excessive obligations. American Mortgage Express officials stated the borrower had a history of poor credit and the loan did not warrant approval. However, HUD's Atlanta Quality Assurance Division officials did not recommend indemnification of the loan.