



U.S. Department of Housing and Urban Development  
Office of the Inspector General for Audit, Region 4  
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September 29, 2005

MEMORANDUM NO.  
2005-AT-1804

MEMORANDUM FOR: Brian D. Montgomery, Assistant Secretary for Housing-Federal  
Housing Commissioner, H

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

SUBJECT: American Financial Network  
Direct Endorsement Lender  
2423 North Federal Highway, Suite 400  
Boca Raton, FL 33431

### INTRODUCTION

We completed an audit survey of American Financial Network (American Financial), operating from its home office in Boca Raton, Florida. American Financial is a nonsupervised direct endorsement lender approved by the United States Department of Housing and Urban Development (HUD) to originate and sponsor Federal Housing Administration-insured single-family mortgages. We selected American Financial due to its high default rate.

The objective was to assess American Financial's operations to determine whether a full Office of Inspector General audit was warranted.

### METHODOLOGY AND SCOPE

The review considered American Financial's single-family housing loans located in Georgia that closed from July 1, 2003, through June 30, 2005. We interviewed officials at HUD's Atlanta Homeownership Center and discussed the review with American Financial. We also reviewed records maintained by HUD. We conducted the review during August and September 2005.

## RESULTS OF REVIEW

American Financial functioned primarily as a sponsor for loan correspondents, and it primarily used one underwriter to underwrite its loans. It has one active branch office in Augusta, Georgia, and it has approval to operate in five states. American Financial underwrote 583 loans with mortgages totaling \$54 million from July 1, 2003, through June 30, 2005. Of these loans, 140 went into default within two years, including 92 loans for Georgia properties. We selected American Financial for review based on its high default rate and the high default rate for its primary underwriter and its Georgia loan correspondents.

HUD's Neighborhood Watch system shows nationally that American Financial's primary underwriter had a 314 percent compare ratio and a 15.26 percent default rate for loans with beginning amortization dates between September 1, 2003, and August 31, 2005. We learned that the Quality Assurance Division conducted a review of one of American Financial's primary loan correspondents. It is still performing analysis and verification work on the loans selected for review. Therefore, we decided to suspend further work to avoid duplication.

If you have any questions, please contact me or Narcell Stamps, assistant regional inspector general for audit, at (404) 331-3369.