
AUDIT REPORT



UNION FEDERAL BANK OF INDIANAPOLIS
SUPERVISED DIRECT ENDORSEMENT LENDER

FORT WAYNE, INDIANA

2005-CH-1009

APRIL 7, 2005

OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS



Issue Date April 7, 2005

Audit Report Number 2005-CH-1009

TO: John C. Weicher, Assistant Secretary for Housing-Federal Housing
Commissioner and Chairman of Mortgage Review Board, H

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

SUBJECT: Union Federal Bank of Indianapolis, Supervised Direct Endorsement Lender;
Fort Wayne, IN; Procedures and Controls Over Late Requests for
Endorsement and Upfront Mortgage Insurance Premium Payments Were
Improved

HIGHLIGHTS

What We Audited and Why

We reviewed Union Federal Bank of Indianapolis (Union Federal) (also known as Union Federal Savings Bank of Indianapolis), a supervised lender approved to originate Federal Housing Administration mortgage loans under the U.S. Department of Housing and Urban Development's (HUD) Single Family Direct Endorsement program. The review was part of the activities in our fiscal year 2004 Annual Audit Plan. We selected Union Federal for audit because of its high late endorsement rate. Our review objectives were to determine whether Union Federal complied with HUD's regulations, procedures, and instructions in the submission of late insurance endorsement requests and payment of upfront mortgage insurance premiums to HUD.

What We Found

Union Federal implemented improvements to its procedures and controls for late requests for endorsement and payment of upfront mortgage insurance premiums. Our audit tests of 662 loans identified only 12 (1.8%) that were improperly submitted for endorsement. Of the 12 loans, 10 remain Federal Housing

Administration-insured. These 10 loans increased the risk to the Federal Housing Administration insurance fund by \$1,175,305 because the borrowers had not made six consecutive timely monthly payments at the time their loans were submitted to HUD and/or were behind on their mortgage payments. Union Federal also paid penalties for not paying upfront mortgage insurance premiums in a timely manner for 272 loans of the 5,415 total loans subject to HUD's upfront mortgage insurance premium requirements. The staff of Union Federal's authorized agent was not adequately trained or was not aware of HUD's requirements regarding late requests for endorsement. In addition, Union Federal's authorized agent did not always pay upfront mortgage insurance premiums due to an automation problem and its lack of adequate monitoring of the wholesale and retail areas involved in processing Federal Housing Administration loans.

What We Recommend

We recommend that HUD's Assistant Secretary for Housing-Federal Housing Commissioner and Chairman of the Mortgage Review Board

- Require Union Federal to indemnify HUD for any future losses on nine loans with a total mortgage value of \$965,777.
- Require Union Federal to reimburse HUD for any future loss for a claim on one insured loan (with a total mortgage value of \$197,402) once the associated property is sold.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the results of our late endorsement and loan file reviews to Union Federal's authorized agent, Waterfield Financial Corporation, during the review. We also provided our discussion draft audit report to Waterfield's Senior Vice President of Credit Risk and HUD's staff on March 18, 2005. We conducted an exit conference with Waterfield's Senior Vice President on March 28, 2005.

Waterfield Financial Corporation's Senior Vice President of Credit Risk provided written comments to the discussion draft audit report on April 1, 2005, that agreed with our findings. The complete text of Waterfield's written response including a five-page attachment, and our evaluation of that response, can be found in appendix B of this report.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding: Union Federal Improved Procedures and Controls Over Late Requests for Endorsement and Upfront Mortgage Insurance Premium Payments	5
Scope and Methodology	8
Internal Controls	9
Follow up on Prior Audits	11
Appendixes	
A. Schedule of Unsupported Costs and Funds To Be Put to Better Use	12
B. Auditee Comments and OIG's Evaluation	13
C. Federal Requirements	21
D. Schedule of Late Endorsements	23
E. Late Payments of Upfront Mortgage Insurance Premiums Between May 1, 2002, and April 30, 2004	24

BACKGROUND AND OBJECTIVES

The U.S. Department of Housing and Urban Development (HUD) insures single-family mortgages under various sections of the National Housing Act. HUD's mortgage programs provide mortgage insurance on loans for new or existing homes, condominiums, manufactured housing, and housing rehabilitation and for reverse mortgages to elderly homeowners.

In May 1990, HUD approved Union Federal Bank of Indianapolis (Union Federal) under its previous name, Union Federal Savings Bank of Indianapolis, as a supervised direct endorsement lender. In February 2000, "Savings" was dropped from the Bank's name, and it officially became Union Federal Bank of Indianapolis. Union Federal's corporate office is located in Indianapolis, IN. As a direct endorsement lender, Union Federal determines that the proposed mortgage is eligible for insurance under the applicable program regulations and submits the required documents to HUD without its prior review of the origination and closing of the mortgage loan. Union Federal is responsible for complying with all applicable HUD regulations and handbook instructions.

On July 16, 1990, HUD approved Waterfield Financial Corporation as an authorized agent for Union Federal. As an authorized agent, Waterfield Financial Corporation processes, underwrites, or submits insurance endorsement requests on behalf of Union Federal under a principal-agent relationship. Union Federal's mortgage payment servicing is performed by its parent company, Waterfield Mortgage Company. Both Union Federal's authorized and servicing agents operate their businesses in Fort Wayne, IN. Union Federal is the sponsor of 406 loan correspondents and acting agent for six principals originating or processing Federal Housing Administration loans.

We reviewed Union Federal as part of the activities in our fiscal year 2004 Annual Audit Plan. We selected Union Federal for review because of its high late endorsement rate of 32 percent during the period from May 1, 2002, through April 30, 2004. During this same period, Union Federal sponsored 5,760 Federal Housing Administration loans totaling more than \$700 million.

Our review objectives were to determine whether Union Federal complied with HUD's regulations, procedures, and instructions in the submission of late insurance endorsement requests and payment of upfront mortgage insurance premiums to HUD.

RESULTS OF AUDIT

Finding: Union Federal Improved Procedures and Controls Over Late Requests for Endorsement and Upfront Mortgage Insurance Premium Payments

Union Federal implemented improvements to its procedures and controls for late requests for endorsement and payment of upfront mortgage insurance premiums to fully comply with HUD's requirements. However, before the procedures and controls were strengthened, Union Federal improperly submitted 12 loans for late endorsement. Of the 12 loans, 10 remain Federal Housing Administration-insured. These 10 loans increased the risk to the Federal Housing Administration insurance fund by \$1,175,305 because the borrowers had not made six consecutive timely monthly payments at the time their loans were submitted to HUD and/or were behind on their mortgage payments. Union Federal also paid penalties for not paying upfront mortgage insurance premiums in a timely manner for 272 loans. The staff of Union Federal's authorized agent was not adequately trained or was not aware of HUD's late endorsement requirements. In addition, Union Federal's authorized agent did not pay upfront mortgage insurance premiums in a timely manner due to an automation problem and its lack of adequate monitoring of the wholesale and retail areas involved in processing Federal Housing Administration loans.

Union Federal's Authorized Agent Took Corrective Actions

In January 2005, Union Federal's authorized agent, Waterfield Financial Corporation, improved its procedures and controls over the submission of loans for late requests for endorsement.

Waterfield Financial Corporation restructured its Government Insuring Department by adding an experienced direct endorsement underwriter to manage the Department, and train and supervise staff involved in the processing of Federal Housing Administration loans for late requests for endorsement. In February 2005, the newly hired underwriter started providing on-the-job training to Government Insuring Department staff on HUD's loan endorsement requirements. Currently, Waterfield Financial Corporation is developing a formal training course that emphasizes how to properly read borrowers' payment histories and what HUD requires regarding late requests for endorsement. The on-the-job training, adequate supervision, and formal training should provide reasonable assurance that Waterfield Financial Corporation's staff follows HUD's late endorsement requirements when submitting loans on Union Federal's behalf.

In addition, after May 2004, Waterfield Financial Corporation began providing adequate monitoring of loan deficiencies shown in its internally generated reports and acted on these deficiencies quickly. It also became more aware of issues regarding loans with upfront mortgage insurance premiums and addressing such issues in a timely manner. Further, Waterfield Financial Corporation's automation problem relating to payment of upfront mortgage insurance premiums was resolved when the programming of its computer systems used for electronically paying upfront mortgage insurance premiums was corrected. Because of the corrected programming and the improved procedures and controls over the payment of upfront mortgage insurance premiums, Waterfield Financial Corporation's late payments of upfront insurance premiums decreased from an average of 5 percent in 2003 to 2 percent from May to December 2004. For the month of January 2005, Waterfield Financial Corporation had only one late payment out of the 175 loans with upfront insurance premiums.

Union Federal Improperly Submitted 12 Late Requests for Endorsement

Our analysis of the mortgage payment histories provided by Union Federal, HUD's case binders, and the endorsement data from HUD's systems showed that Union Federal improperly submitted 12 late requests for insurance endorsement (see appendix D in this report).

After endorsement, 2 of the 12 loans were paid in full and no longer represent a risk to the Federal Housing Administration insurance fund. Because these loans are no longer insured, we did not conduct further research or compliance testing. The remaining 10 loans are still insured and pose a risk to the insurance fund as follows:

- For one loan (case number 261-8337062) having an original mortgage amount totaling \$197,402, HUD paid a claim of \$209,528 with an indeterminate loss as of March 18, 2005. HUD cannot identify the loss until the property is sold. This loan represents a risk to the insurance fund.
- The insurance was terminated without a claim on another loan (case number 261-8513340) with an original mortgage amount totaling \$110,224, which was streamline-refinanced to another Federal Housing Administration loan. Because Union Federal improperly submitted the loan for insurance endorsement, the improper endorsement also applies to the refinanced loan. Therefore, we included the loan as an improperly endorsed loan.
- Eight loans hold active Federal Housing Administration insurance with \$855,553 in total original mortgage amounts.

Appendix C of this report provides details of Federal requirements regarding late requests for insurance endorsement.

Union Federal Failed to Pay Insurance Premiums in a Timely Manner

Between May 1, 2002, and April 30, 2004, Union Federal sponsored 5,760 loans. Of the 5,760 loans, 5,415 were subject to HUD's requirements regarding payment of upfront mortgage insurance premiums. Of the 5,415 loans, Union Federal did not pay the upfront mortgage insurance premiums on time for 272 loans. Union Federal paid HUD the insurance premiums 16 to 824 days after closing. We did not question these loans because Union Federal has already paid the upfront mortgage insurance premiums, late charges, and interests on the 272 loans (see appendix E of this report). HUD requires lenders to pay the upfront mortgage insurance premiums 15 days after closing a loan. It also requires lenders to pay a 4-percent late charge if the payment of upfront mortgage insurance premiums is made later than 15 days after closing plus interest if the payment is made later than 30 days after closing.

Recommendations

We recommend that HUD's Assistant Secretary for Housing-Federal Housing Commissioner and Chairman of the Mortgagee Review Board require Union Federal to

- 1A. Indemnify HUD for any future losses on nine loans with a total mortgage value of \$965,777 (\$855,553 plus \$110,224).
- 1B. Reimburse HUD for any future losses from a \$209,528 claim paid on one insured loan (with a total mortgage value of \$197,402) once the associated property is sold.

SCOPE AND METHODOLOGY

We conducted the review at HUD's Columbus Field Office and Union Federal's servicing and authorized agents' offices in Fort Wayne, IN. We performed our review work between October 26, 2004, and February 28, 2005. To accomplish our review objectives, we interviewed HUD's staff and Union Federal's servicing and authorized agents' staff. We analyzed loan data in HUD's Single-Family Data Warehouse system. We reviewed and tested Union Federal's authorized agent's policies, procedures, and controls regarding submission of loans for late endorsement and payment of upfront mortgage insurance premiums. We also reviewed HUD's case binders for 49 Federal Housing Administration-insured loans statistically selected at random out of a universe of 662 loans Union Federal closed between May 2002 and April 2004, and submitted to HUD more than 66 days after closing.

We chose the 662 loans using computer-assisted audit techniques, including the ACL computer program. In addition, we relied in part on data maintained in HUD's Single Family Data Warehouse and Neighborhood Watch systems. We did not perform a detailed analysis of the reliability of HUD's Single Family Data Warehouse or Neighborhood Watch data.

The review covered the period between May 2002 and April 2004. We conducted the 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 review objectives:

- Program Operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data – Policies and procedures that management implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations – Policies and procedures that management implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

Significant Weaknesses

Based on our review results, we believe the following items are significant weaknesses:

- Program Operations – Although Union Federal did not always submit loans for late endorsement and pay upfront mortgage insurance premiums in accordance with HUD’s requirements, it has modified its procedures and controls to ensure its program operations comply with HUD’s requirements (see finding).
- Validity and Reliability of Data – Union Federal has changed its policy to provide adequate monitoring of loan deficiencies shown in its internally generated reports and acted on these deficiencies quickly to ensure the validity, reliability, and completeness of loan documents (see finding).
- Compliance with Laws and Regulations – Although Union Federal did not always submit loans for late endorsement and pay upfront mortgage insurance premiums in accordance with HUD’s requirements, it has modified its procedures and controls to ensure it complies with laws and HUD’s regulations (see finding).
- Safeguarding Resources – Union Federal improperly submitted 12 loans with mortgages totaling more than \$1 million for insurance endorsement. The improper submissions increased the risk to the Federal Housing Administration insurance fund (see finding).

FOLLOWUP ON PRIOR AUDITS

This was the first audit of Union Federal by HUD's Office of Inspector General (OIG).

The last two independent auditor's reports for Union Federal covered the years ending December 31, 2002, and December 31, 2003. Both reports resulted in no findings.

Between June and July 2003, HUD's Philadelphia Homeownership Center, Quality Assurance Division, conducted a desk review of loans that Union Federal originated within the jurisdiction of HUD's field offices in Grand Rapids, MI, and Columbus, OH. The review resulted in two findings relating to the loan origination process. Union Federal resolved the two findings, and HUD closed the review in December 2003.

APPENDIXES

Appendix A

SCHEDULE OF UNSUPPORTED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation Number	Unsupported 1/	Funds To Be Put to Better Use 2/
1A		<u>\$965,777</u>
1B	<u>\$209,528</u>	
Totals	<u>\$209,528</u>	<u>\$965,777</u>

- 1/ Unsupported costs are costs charged to a HUD-financed or insured program activity and eligibility cannot be determined at the time of the audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation of Departmental policies and procedures.
- 2/ “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

Comment 1

Comment 2


WATERFIELD
Financial Corporation

March 31, 2005

HUD - OIG
OFFICE OF AUDIT
CHICAGO, ILLINOIS
2005 APR -1 AM 10: 05
RECEIVED

Rose Capalungan
Assistant Regional Inspector General for Audit
US Department Of Housing and Urban Development
Office of Inspector General
77 W. Jackson Blvd., Suite 2646
Ralph H. Metcalfe Federal Bldg.
Chicago, IL 60604

RE: Audit Discussion Draft of March 18, 2005

Dear Ms. Capalungan:

In response to the draft audit report recently completed by your office and discussed in our exit conference of March 28, 2005, Union Federal Bank/Waterfield Financial Corporation offers the following responses to HUD's Recommendations:

Recommendation 1: Require Union Federal to indemnify HUD for any future losses on nine loans with a total mortgage value of \$965,777.

Response: Agree with recommendation. Union Federal/Waterfield Financial will indemnify HUD for any future losses. Current department reorganization, ongoing staff training, and an intensified Quality Control Plan (copies enclosed) will be or have been implemented.

Recommendation 2: Require Union Federal to reimburse HUD for any future losses for a claim on one insured loan (with a total mortgage value of \$197,402) once the associated property is sold.

Response: Agree with recommendation. Union Federal/Waterfield Financial will indemnify HUD for any future losses. Current department reorganization, ongoing staff training, and an intensified Quality Control Plan (copies enclosed) will be or have been implemented.

As noted in the above responses, Union Federal/Waterfield Financial has re-organized the Government Insuring Department. The initial re-design of this department was undertaken early 4th quarter, prior to the OIG's audit notification to Union Federal/Waterfield Financial. The transition of the department as well as the staff alignment has been in process since late 4th quarter and is now finalized.

The Government Insuring team is supervised by Daisy Vorndran, a DE Underwriter. Daisy reports to Julie Sweet, also a DE Underwriter. The department was transitioned from Secondary Marketing to our Credit Risk area, which is under my management.

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Comment 3



These decisions were made at a corporate level to re-align the area to ensure greater focus on quality and compliance with HUD guidelines.

Union Federal/Waterfield Financial has also re-evaluated our current Quality Control Plan to determine increased measures that could be employed to ensure ongoing internal monitoring and controls, independent of the Government Insuring Department. As noted above, enclosed are revised copies of Union Federal/Waterfield Financial's QC Plan for Loan Servicing Procedures. Measures have been added to monitor late submissions.

Should you have any questions concerning this response, please feel free to contact me at 260-434-5700.

Sincerely,

A handwritten signature in black ink, appearing to read 'Gregory J. McCurdy'.

Gregory J. McCurdy
Senior Vice President
Credit Risk

Enclosures

CC: File

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WFC – UNION FEDERAL
HUD-FHA
QUALITY CONTROL PLAN
(LOAN SERVICING PROCEDURES)
3/31/05

WATERFIELD FINANCIAL CORP
HUD-FHA QUALITY CONTROL PLAN
LOAN SERVICING PROCEDURES

Primary Objectives

The primary objectives of Waterfield's Quality Assurance Plan are as follows:

- * To assure compliance with HUD-FHA requirements
- * To assist corporate management in determining the accuracy, validity and completeness of the mortgage loan servicing operations and function.
- * To assure personnel are following Waterfield's policies and procedures.
- * To assure that procedures are revised in a timely manner to accurately reflect changes in HUD-FHA and investor requirements and state regulations.
- * To assure that prompt and effective corrective measures are taken and documented when deficiencies are identified.
- * To assure that servicing personnel are informed of deficiencies in order that a recurrence is avoided.
- * To allow that procedures exist for expanding the scope of quality control reviews when patterns of deficiencies or fraudulent activities are identified.

General Requirements

- A) The Quality Assurance plan provides for a selection of FHA loans to be audited on a random basis. The total number of units reviewed is sufficient in number to represent the total FHA-insured mortgage loans serviced.
- B) The Quality Assurance review consists of loans that have been reviewed by loan servicing staff and their managers.
- C) The loans reviewed are randomly selected from the Delinquent/Foreclosure Monthly Reports, SFDMS Reports and other general Servicing Reports.
- D) The Quality Assurance Services department performs reviews in order to determine general compliance in the following areas of servicing:

- | | |
|---|---------------------------|
| Servicing of Delinquent Loans | Forbearance |
| Foreclosures/Property Preservation | Deficiency Judgments |
| Claims Submission | Adjustable Rate Mortgages |
| Acquisitions/ Transfers | Assumptions |
| Bankruptcy/ REO's | Paid in Full Mortgages |
| Claims Without Conveyance (CWOT) | Escrow Analysis |
| Loss Mitigation | MIP Billing |
| Single Family Default Monitoring System | Customer Assistance |
| (SFDMS) Reporting | |

Specific Requirements

- A) Loan servicing files and transaction histories are reviewed for each case selected in order to determine if the servicing records are maintained to properly service the loan. This analysis also includes a review of mortgage payments, escrow bills, disbursements from escrows, late charges and claim submissions.

- B) As part of the quality assurance review for servicing, it is determined that the following fees and charges imposed on the mortgagor are permitted by HUD-FHA and the mortgage provisions:
 - * Late Charges
 - * Annual analyses of escrows that include appropriate adjustments and disbursements.
 - * Fees or penalties *not* charged for prepayment or reinstatement
 - * Inspection Fees
 - * Attorney's fee collected only for initiation of foreclosure proceedings.

- C) Monthly loan servicing reviews are performed by the Quality Assurance Services department in conjunction with the Home-owner's Assistance department, as well as the Foreclosure and Loss Mitigation departments with regards to particular loan servicing requirements in order to determine the following:
 - * To determine whether all appropriate Loss Mitigation tools have been considered and documented, and that mortgagors are provided every reasonable opportunity to remedy a delinquency or default prior to the decision to foreclose;
 - * To determine whether additional assistance to remedy the delinquency is reasonable given the financial data submitted by the mortgagor. Also if reasonable partial payments are accepted in accordance with the requirements;
 - * That deficiency judgments are taken where required;
 - * That adequate collection activities are pursued in a timely fashion and to determine whether contact is attempted with all co-mortgagor's, co-signors and former mortgagors, as appropriate;
 - * That accurate documentation of collection efforts, including documentation of the referral of the mortgagor to a HUD-approved counseling agency, is maintained;
 - * That HUD pamphlet HUD-426 is mailed to all mortgagors no later than the second month of delinquency;
 - * That a face-to-face interview with the mortgagor is attempted before three full mortgage installments become delinquent. If the face-to-face interview was not conducted, documentation must be provided of the permissible exception allowed by HUD;
 - * That property inspections, used to protect and preserve the property, are performed when the mortgagor fails to make a mortgage payment and no contact is possible within 45 days of the due date, or if the mortgage is in foreclosure and the property is vacant;
 - * That HUD-FHA reporting requirements under the Single Family Default Monitoring System (SFDMS) are complied with. This includes the accurate and timely submission of monthly reports;
 - * Mortgagors are notified of the availability of mortgage foreclosure relief under the home mortgage assignment program and that HUD-FHA requirements for processing assignment applications are complied with;
 - * Foreclosure proceedings are initiated and completed on a timely basis and in accordance with HUD-FHA requirements;
 - * That a claim for insurance benefits, using Form HUD-27011, was submitted to HUD for payment in a timely manner, was properly calculated, and the claim amount was fully supported. Each loan is reviewed to determine compliance with HUD-FHA fiscal requirements regarding extension requests, property preservation and inspections;
 - * That there are sufficient controls to assure that all aspects of the claims for insurance benefits are accurately prepared, properly calculated, fully supported and submitted in a timely manner to minimize the loss to HUD;
 - * That mortgagor information is reported regularly to credit reporting bureaus.

Comment 3

- D) Quarterly The Quality Assurance Services department in conjunction with Adjustable Rate Mortgages, Escrow Administration, Assumptions, Payoff & Release, and Customer Assistance departments performs quarterly loan servicing reviews. These departments are reviewed with regards to particular loan servicing requirements in order to determine the following:
- * That calculations and adjustments on Adjustable Rate Mortgages are accurate, timely and that the documentation used to arrive at the adjusted payment is retained;
 - * That disaster moratorium requirements are met;
 - * To assure that escrow analysis was performed annually on each loan. To determine the accuracy of the calculation of escrow overages or shortages and that overages or shortages were adjusted in accordance with HUD-FHA requirements;
 - * To determine that escrow funds collected on HUD-FHA insured loans are only used for the payment of taxes and insurance and other escrow purposes, and are not commingled with funds used for operating purposes;
 - * To assure compliance with the provisions of RESPA, as it pertains to escrow account administration;
 - * To determine that the correct Mortgage Insurance Premium (MIP) amounts have been paid in a timely fashion and whether a monthly or risk-based premium is due;
 - * To determine that Mortgage Insurance Premiums (MIP's) due upfront are remitted within fifteen (15) days from the date of closing and if late, the remittance includes late charges and interest penalties;
 - * To determine that mortgage loan files are submitted to HUD for insurance whenever the binder is received by HUD more than 60 days after the mortgage loan settlement or funds disbursement, whichever is later. If beyond the sixty (60) days it should be verified that the mortgage loan was current when submitted and meets the payment requirements as outlined in the HUD Mortgagee Letter 2004-14. Any patterns of late submissions for both MIP and mortgages are addressed by QA and Credit Risk management in order that corrective action is taken immediately;
 - * That the processing of monthly payments, additional principal payments, additional escrow payments and a variety of other fees are posted to the mortgagor's accounts accurately;
 - * That various adjustments on accounts due to returned checks and ACH drafts, as well as misapplied payments and bank corrections, are completed accurately;
 - * That correct fees have been charged on all Formal Assumptions;
 - * That the Mortgage Record Change, Form HUD-92080, is completed when there is a change in mortgagors (Credit Assumptions);
 - * That Creditworthiness processing was completed within 45 days from the date all necessary documentation was received, and that a credit report was obtained for all borrowers obligated on the mortgage note;
 - * That none of the participants in an assumption (excluding the seller) have been debarred or suspended, or is under an LDP for the program and jurisdiction;
 - * That the assumptor is not ineligible due to a delinquent federal debt;
 - * That all requirements of the Fair Lending laws, including the Fair Housing Act and the Equal Credit Opportunity Act, to include Assumption processing;
 - * That mortgagors are sent an annual disclosure statement describing Waterfield's prepayment policy;
 - * That Form HUD-27050-A was used to report Mortgage Insurance termination upon payoff, and that the mortgagor was notified of the possibility of eligibility for a premium refund via Form HUD-27050-C;

Ref to OIG Evaluation

Auditee Comments

- * That interest is computed correctly for loans being paid off and whether interest charges in prepayments are accurate;
- * Determine whether the note and security instrument are promptly satisfied and the security instruments are promptly released;
- * That all written requests/ inquiries (to include customer complaints) from borrowers, relating to the servicing of his/her loan, were provided with timely written acknowledgement, and that appropriate action was taken with respect to the borrower's request / inquiry.

Revision 3/31/05
WMC HUD QA Plan Servicing Procedures.doc

Ref to OIG Evaluation

Auditee Comments

Comment 1

Union Federal's authorized agent, Waterfield Financial Corporation, agreed to indemnify HUD for any future losses on nine loans with a total mortgage value of \$965,777, and reimburse HUD for any future losses from a \$209,528 claim paid on one insured loan once the associated property is sold.

Comment 2

We recognized that Waterfield Financial Corporation's reorganized its Government Insuring Department by adding an experienced direct endorsement underwriter to manage its Department, and is training and supervising its staff involved in the processing of Federal Housing Administration loans for late requests for endorsement

Comment 3

We reviewed Waterfield Financial Corporation's procedures and controls in its revised quality control plan. The procedures and controls appear adequate, and if fully implemented, should provide reasonable assurance that Waterfield Financial Corporation's staff follows HUD's late endorsement requirements when submitting loans on Union Federal's behalf.

Appendix C

FEDERAL REQUIREMENTS

According to 24 CFR [Code of Federal Regulations] 203.255(b), for applications for insurance involving mortgages originated under the Direct Endorsement program, the lender shall submit to the Secretary of Housing and Urban Development, within 60 days after the date of closing of the loan or such additional time as permitted by the Secretary, properly completed documentation and certifications.

HUD Handbook 4165.1, REV-1, "Endorsement for Insurance for Home Mortgage Programs (Single Family)," dated November 30, 1995, chapter 3, section 3-1(A), states that late requests for endorsement procedures apply if

1. The loan is closed after the firm commitment,
2. The direct endorsement underwriter's approval expires, and/or
3. The mortgage is submitted to HUD for endorsement more than 60 days after closing.

Section 3-1(B) states that a loan request for endorsement from the lender must include

- (1) An explanation for the delay in submitting for endorsement and actions taken to prevent future delayed submissions.
- (2) A certification that the escrow accounts for taxes, hazard insurance, and mortgage insurance premiums are current and intact except for disbursements which may have been made from the escrow accounts to cover payments for which the accounts were specifically established.
- (3) A payment ledger that reflects the payments received, including the payment due for the month in which the case is submitted if the case is submitted after the 15th of the month. For example, if the case closed February 3 and the case is submitted April 16, the payment ledger must reflect receipt of the April payment even though the payment is not considered delinquent until May 1. Payments under the mortgage must not be delinquent when submitted for endorsement.
 - (a) The lender must submit a payment ledger for the entire period from the first payment due date to the date of the submission for endorsement. Each payment must be made in the calendar month due.
 - (b) If a payment is made outside the calendar month due, the lender cannot submit the case for endorsement until six consecutive payments have been made within the calendar month due.
- (4) A certification that the lender did not provide the funds to bring the loan up-to-date or to affect the appearance of an acceptable payment history.

Mortgagee Letter 2004-14, "Late Request for Endorsement Procedures," clarifies procedures for mortgage lenders when submitting mortgage insurance case binders to the Federal Housing Administration for endorsement beyond the 60-day limit following closing. It replaces the

instructions found in the section “Late Request for Endorsement,” contained in chapter 3 of HUD Handbook 4165.1, REV-3.

A request for insurance is considered “late” and triggers additional documentation whenever the binder is received by HUD more than 60 days after the mortgage loan settlement or funds disbursement, whichever is later.

If HUD returns the case binder to the lender by issuing a notice of rejection (or a later notice of rejection), HUD’s Homeownership Center must receive the reconsideration request for insurance endorsement within the original 60-day window or 30 days from the issue date of the original notice of rejection, whichever is greater.

When submitting a late request for endorsement, in addition to including a payment history or ledger, the mortgage lender is required to include a certification, signed by the representative of that lender on company letterhead, which includes the lender’s complete address and telephone number. This certification must be specific to the case being submitted (i.e., identify the Federal Housing Administration case number and the name(s) of the borrower(s)) and state that

- 1) All mortgage payments due have been made by the mortgagor before or within the month due. If any payments have been made after the month due, the loan is not eligible for endorsement until six consecutive payments have been made before or within the calendar month due.
- 2) All escrow accounts for taxes, hazard insurance, and mortgage insurance premiums are current and intact, except for disbursements that may have been made to cover payments for which the accounts were specifically established.
- 3) The mortgage lender did not provide the funds to bring the loan up-to-date or keep the loan current or to bring about the appearance of an acceptable payment history.

Appendix D

SCHEDULE OF LATE ENDORSEMENTS

<i>Case Number</i>	<i>Original Mortgage Amount</i>	<i>Unpaid Principal Balance</i>	<i>Closing Date</i>	<i>Endorsement Date</i>	<i>Insurance Status</i>
262-1405189	\$104,975	\$107,632	5/10/2002	7/16/2002	A
197-2838362	159,165	157,268	7/1/2002	3/14/2003	T
431-3727603	43,293	42,777	7/30/2002	12/4/2002	T
441-6957849	45,304	44,326	9/6/2002	2/27/2003	A
031-3012422	85,821	84,205	1/2/2003	11/28/2003	A
261-8337062	197,402	196,499	1/20/2003	4/28/2003	C
151-6988478	112,146	96,200	2/5/2003	4/23/2003	A
093-5516725	81,717	80,001	4/30/2003	1/26/2004	A
261-8513340	110,224	108,226	6/20/2003	11/26/2003	R
045-6175724	122,743	120,082	7/2/2003	10/8/2003	A
111-1145117	177,620	174,023	7/7/2003	12/23/2003	A
151-7345294	<u>125,227</u>	<u>123,219</u>	9/25/2003	2/4/2004	A
Totals	<u>\$1,365,637</u>	<u>\$1,334,458</u>			

Legend

A = Active

C = Terminated with a claim

T = Terminated without claims

R = Streamline-refinanced

Appendix E

LATE PAYMENTS OF UPFRONT MORTGAGE INSURANCE PREMIUMS BETWEEN MAY 1, 2002, AND APRIL 30, 2004

Month	Number of Late Upfront Mortgage Insurance Premium Payments	Number of Loans With Upfront Mortgage Insurance Premiums	Percentage of Late Upfront Mortgage Insurance Premium Payments
May 2002	10	258	3.88%
June 2002	11	221	4.98%
July 2002	7	202	3.47%
August 2002	10	266	3.76%
September 2002	9	212	4.25%
October 2002	9	212	4.25%
November 2002	7	195	3.59%
December 2002	21	172	12.21%
January 2003	7	170	4.12%
February 2003	3	148	2.03%
March 2003	10	257	3.89%
April 2003	14	322	4.35%
May 2003	19	293	6.48%
June 2003	44	275	16.00%
July 2003	26	248	10.48%
August 2003	12	191	6.28%
September 2003	3	225	1.33%
October 2003	4	215	1.86%
November 2003	6	171	3.51%
December 2003	7	192	3.65%
January 2004	5	133	3.76%
February 2004	9	214	4.21%
March 2004	6	317	1.89%
April 2004	13	306	4.25%
Totals	272	5,415	5.02%