



Issue Date	January 12, 2006
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Audit Case Number	2006-AT-1003
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TO: Brian D. Montgomery, Assistant Secretary for Housing-Federal Housing
Commissioner, H

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

SUBJECT: Certified Home Loans of Florida, Miami, Florida
Did Not Always Comply with Federal Housing Administration Requirements

HIGHLIGHTS

What We Audited and Why

We audited Certified Home Loans of Florida (Certified) in Miami, Florida. Certified is a nonsupervised direct endorsement lender approved by the U.S. Department of Housing and Urban Development (HUD) to originate and underwrite Federal Housing Administration-insured single-family mortgages. We selected Certified for review because of risk factors associated with defaulted loans.

Our audit objectives were to determine whether Certified (1) complied with HUD regulations, procedures, and instructions in the origination and underwriting of Federal Housing Administration-insured single-family mortgages and (2) implemented its quality control plan as required. We reviewed a sample of 17 Federal Housing Administration-insured loans to accomplish our objectives.

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What We Found

Certified did not follow HUD requirements when underwriting Federal Housing Administration-insured loans. It improperly underwrote 14 of the 17 loans reviewed. These loans contained deficiencies that affected the insurability of the loans. Certified approved the loans based on inaccurate employment, income, and gift information and other deficiencies. The loans were improperly approved because Certified did not exercise due care in originating and underwriting loans, primarily by not clarifying inconsistencies in the loan files or adequately following up to verify borrower income and employment histories. As a result, HUD insured 14 loans that placed the Federal Housing Administration insurance fund at risk. Certified therefore unnecessarily increased HUD's risk of insurance loss. That increased risk reflects actual and potential insurance claims for nine mortgage loans with unpaid balances of \$1,389,178. Five of the 14 loans that we examined were subsequently paid off, and no longer carry an insurance risk.

Certified did not fully implement its quality control plan. It did not conduct quality control reviews of early defaulted loans and rejected loan applications and did not ensure that quality control reviews were performed within 90 days of closing. In addition, its quality control plan did not include all required elements as prescribed by HUD. We attribute these deficiencies to Certified's disregard of HUD requirements and instructions and reliance on an independent contractor to fulfill its responsibilities. As a result, HUD has no assurance of the accuracy, validity, and completeness of Certified's loan origination and underwriting operations.

What We Recommend

We recommend that the assistant secretary for housing-federal housing commissioner take appropriate administrative action against Certified based on the information contained in this report. This action should, at a minimum, include requiring indemnification of \$660,699 for four loans and reimbursement of \$728,479 for claims paid for five loans. We further recommend that HUD take appropriate measures to ensure that Certified conducts required quality control reviews and that the written quality control plan complies with HUD requirements. Finally, we recommend that HUD take administrative action, as appropriate, up to and including civil monetary penalties.

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 Certified and HUD officials during the audit. We provided the draft report to Certified on October 6, 2005, for their comments and discussed the report with them at the exit conference on November 22, 2005. Certified provided written comments on November 22, 2005.

Certified disagreed that it did not exercise due care in originating and underwriting loans we questioned and therefore did not believe it needed to indemnify those loans. While Certified generally disagreed with our recommendations for finding 2, they did begin to take corrective action.

The auditee's response and their appendix A along with our evaluation of that response, can be found in appendix B of this report. Certified also provided attachments with its response that are available for review upon request.

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BACKGROUND AND OBJECTIVES

The U.S. Department of Housing and Urban Development (HUD) approved Certified Home Loans of Florida (Certified) as a Title II nonsupervised lender on April 11, 2000, to originate and underwrite Federal Housing Administration-insured single-family mortgages.

Certified originated and underwrote 590 Federal Housing Administration-insured loans with mortgages totaling \$75,913,686, which had beginning amortization dates (defined as one month before the first principal and interest payments are due) between January 1, 2003, and December 31, 2004. According to HUD's Neighborhood Watch system, 43 of the loans defaulted within the first two years of origination.

The audit objectives were to determine whether Certified (1) complied with HUD regulations, procedures, and instructions in the origination and underwriting of Federal Housing Administration-insured single-family mortgages and (2) implemented its quality control plan as required.

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RESULTS OF AUDIT

Finding 1: Certified Did Not Follow HUD Requirements When Originating and Approving Loans

Certified did not follow HUD requirements when underwriting Federal Housing Administration-insured loans. It improperly underwrote 14 of the 17 loans reviewed. These loans contained deficiencies that affected the insurability of the loans. All 14 loans contained underwriting deficiencies that, taken as a whole, should have led a prudent person to not approve the loan. Certified approved the loans based on inaccurate employment, income, and gift information and other deficiencies. The loans were improperly approved because Certified did not exercise due care in originating and underwriting loans, primarily by not clarifying inconsistencies in the loan files or adequately following up to verify borrower income and employment histories. These deficiencies increased HUD's risk to the Federal Housing Administration insurance fund.

Inaccurate Employment, Income, and Gift Information

HUD Handbook 4000.4, REV-1, paragraphs 2-1 and 2-5, states that the authority to participate in the direct endorsement program is a privilege; therefore, a direct endorsement lender must conduct its business operations in accordance with accepted sound mortgage lending practices, ethics, and standards. Lenders are to obtain and verify information with at least the same care that would be exercised if the lender were originating a mortgage entirely dependent on the property as security to protect its investment.

Certified approved eight loans based on inaccurate employment, income, and gift information. Loan correspondents originated four of the eight loans. We confirmed with employers that Internal Revenue Service Form W-2 (W-2 form), pay stubs, and employment verification forms were inaccurate. Certified approved loans in which the borrower never worked for the employer. Had Certified properly verified borrower employment and income with the employer or other sources, the underwriter would have discovered the inaccuracies, and the loans would not have been approved. In addition, we confirmed with two donors that two gifts were actually loans to the borrowers. These donors never completed or signed the gift letter. In two other instances, the donors admitted that they did not know the borrower; and never completed or signed the gift letter.

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Loan Origination and Underwriting Deficiencies

HUD Handbook 4155.1, REV-4, CHG-1, chapters 2 and 3, require lenders to determine a borrower's ability and willingness to repay the mortgage debt and, thus, limit the probability of default or collection difficulties. Lenders should evaluate the stability and adequacy of income, funds to close, credit history, qualifying ratios, and compensating factors. Lenders must ensure the application package contains sufficient documentation to support their decision to approve the mortgage loan.

Certified underwrote 14 loans with mortgages totaling \$1,885,734 that contained significant loan origination and underwriting deficiencies.

The following table presents the deficiencies noted for the 14 loans:

Deficiency	Number of loans
Other deficiencies and inconsistencies	14
Questionable source of funds	13
Credit issues	9
Inaccurate employment, income, and gift information	8
Excess ratios w/o adequate justification	4

The deficiencies noted above are not independent of one another, as many of the case binders contained more than one deficiency. Appendix C provides a chart summarizing the loan processing deficiencies. Details of the deficiencies identified on each loan reviewed, including specific HUD requirements not met, are included in appendix D.

Specific examples of Certified's poor processing and underwriting include:

Case number 092-9359262. Certified approved the loan based on inaccurate employment and income information. The verification of employment form indicated that the borrower was a teacher. We verified with the employer that the borrower worked in maintenance. The employer informed us that he signed a blank verification of employment form and indicated that the pay stubs and W-2 forms did not belong to the employer. The verification of employment form also showed that the borrower was employed for four years, while the loan application indicated only two years. We found no explanation in the case binder for this discrepancy. Certified did not maintain original employment and income documentation in its files.

Certified also approved the loan based on inaccurate gift information. We verified with the gift donor that she never completed or signed the gift letter found in the case binder. In addition, the donor indicated that she did not know the borrower and never provided a gift to the borrower. Certified failed to properly verify employment, income, and gift information and, therefore, generated and submitted to HUD inaccurate employment, income, and gift data for the borrower.

Certified failed to properly verify the borrower's source of funds to close. The borrower maintained two joint bank accounts with unrelated parties. We are unable to determine how much of these funds belong to the borrower including a deposit of \$2,562 for a tax refund. Therefore, we are concerned that the borrower may not have the financial capability to pay the mortgage or related expenses. In addition, Certified failed to ensure that the borrower met the minimum downpayment in the purchase of the property. We calculated the minimum downpayment to be \$5,758. The borrower only invested \$4,225. We did not find supporting documentation in the case binder that the borrower complied with the minimum downpayment.

Certified did not resolve conflicting or inconsistent information in the case binder. The final loan application showed the borrower's debt and income, while the initial loan application did not list any debt. The sales contract reported an earnest deposit of \$900, while the loan application and HUD-1 settlement statement reported \$0. There was no explanation provided for these inconsistencies. In addition, Certified did not provide an explanation for the delay in endorsing the loan in a timely manner and what actions it plans to take to prevent future delayed submissions.

Case Number 092-9644668. Certified approved the loan based on inaccurate employment and income information. We verified with the borrower's employer that the borrower never worked for the company. The employer told us that the company never received, completed, or signed the verification of employment form, and the pay stubs and W-2 forms did not belong to the company. Certified did not maintain original employment and income documentation in its files. Further, the credit report and verification of employment form show different employers. Certified failed to properly verify employment and income information and, therefore, generated and submitted to HUD inaccurate employment and income data for the borrower.

Certified failed to properly verify the borrower's source of funds to close. It failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. The borrower did not provide the minimum downpayment and minimum required investment calculated to be \$7,359 and \$3,690, respectively. We did not find supporting documentation in the case binder that the borrower complied with these funding requirements.

Certified did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. The credit report showed an account that had been in collection status since 2002 without an explanation from the borrower in the case binder. We also noted that a creditor wrote off \$4,239 after not receiving payment from the borrower. We did not find an explanation in the case binder regarding this account.

We conducted Internet searches and learned that the interviewer and the selling real estate agent appear to be related and are co-owners of a business. We found no documentation in the case binder explaining this discrepancy. In addition, we believe that the borrower's income as a welder was high. The verification of employment form reported income of \$909 weekly or \$47,258 per year. We conducted Internet searches and learned that a welder in Miami earns an average income of \$29,982 per year.

Case number 092-9574386. Certified approved the loan based on inaccurate gift information. We verified with the two gift donors that they never completed or signed the gift letters found in the case binder. In one instance, it appeared that an interested third party (selling broker) informed the donor that the funds were necessary to approve the loan for the borrower. However, the donor attested that the funds provided were a loan and not a gift to the borrower. In addition, the donor confirmed that he is not the borrower's relative as indicated in the gift letter. Further, the borrower did not sign the gift letter. The borrower did repay this loan. In the second instance, the donor told us he did not know the borrower and did not provide a gift to the borrower. It appears that the loan correspondent (donor relative) provided the gift funds to the borrower. Although a loan correspondent originated this loan, we believe that Certified failed to properly verify gift information and, therefore, generated and submitted to HUD inaccurate gift data for the borrower.

Certified failed to properly verify the borrower's source of funds to close. According to the mortgage agreement, the borrower and employer are married. However, the case binder showed that the loan correspondent certified in a letter that two of the borrower's boyfriend's payroll checks were deposited into the borrower's bank account. The husband and boyfriend had different names. We also noted that the borrower's bank statements had recurring overdraft and insufficient fund charges. During a nearly three-month period, the borrower had nine overdraft charges. Although the borrower provided an explanation in the case binder, we question whether the borrower had the financial capability to repay the mortgage. We also noted that a \$287 debt was repaid according to a credit report without supporting documentation in the case binder indicating the source of funds used to repay this debt.

Certified failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. We calculated the minimum downpayment and minimum required investment to be \$8,073 and

\$5,340, respectively. The borrower only invested \$3,390. We did not find supporting documentation in the case binder that the borrower complied with these funding requirements.

Certified did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. Based on the credit report, the borrower did not have a sufficient credit history. Certified should have used a nontraditional credit history method and considered this when determining approval for the loan. In addition, the borrower had one account in collection status without an explanation provided in the case binder. It did not appear that Certified considered this collection account in its analyses of the borrower's credit worthiness. We consider this important since the borrower did not have an established credit history and it could have been an indicator of future financial difficulties.

Certified did not resolve conflicting or inconsistent information in the case binder. The final loan application did not list a \$266 debt as it appeared in the initial loan application. The initial loan application showed funds available of \$1,400, and the final loan application showed \$6,058. The earnest deposit was \$2,000 on the initial loan application but \$3,000 on the final loan application, HUD-1 settlement statement, and mortgage credit analysis worksheet and \$1,000 on the sales contract. We did not find an explanation in the case binder for these inconsistencies.

By reviewing the case binder and Certified's loan files and conducting Internet searches, we learned that the employer was the husband of the borrower. In addition, the borrower's income as an account representative was high. A copy of the verification of employment form from the case binder reported income of \$1,200 weekly or \$62,400 per year. We conducted Internet searches and learned that an account representative in Miami earns an average income of \$25,192 per year. Therefore, we question the authenticity of the employment and income information generated and submitted to HUD.

Conclusion

Certified disregarded HUD requirements and did not exercise sound judgment and due diligence in the processing and underwriting of loans to be insured by the Federal Housing Administration. In 14 loans, Certified did not exercise the care expected of a prudent lender by using inaccurate employment, income, and gift information. Certified failed to properly verify employment and gift information or the borrower's source of funds to close, did not provide valid or supported compensating factors for excessive debt-to-income ratios, did not provide adequate justification for borrowers' credit issues, and did not clarify important file discrepancies. These deficiencies occurred because Certified did not exercise

due care in originating and underwriting loans, primarily by not clarifying inconsistencies in the loan files or adequately following up to verify borrower income and employment histories. Certified admitted that these deficiencies resulted from underwriter oversight. As a result, HUD insured 14 loans that placed the Federal Housing Administration insurance fund at risk. Certified therefore unnecessarily increased HUD's risk of insurance loss. That increased risk reflects actual and potential insurance claims for nine mortgage loans with unpaid balances of \$1,389,178. Five of the 14 loans that we examined were subsequently paid off, and no longer carry an insurance risk.

Recommendation

We recommend that the assistant secretary for housing-federal housing commissioner:

- 1A. Take appropriate administrative action against Certified for not complying with HUD requirements, including requiring Certified to indemnify \$660,699¹ for four active insured loans and reimburse \$728,479 for claims paid on five loans. Appendix C lists the case numbers for the loans included in this recommendation.

¹ According to Neighborhood Watch, as of October 31, 2005, 5 of the 14 loans terminated Federal Housing Administration insurance without a claim (Case numbers 092-9291283, 092-9331983, 092-9359262, 092-9367167, and 092-9560516). Because these loans no longer represent a risk to the Federal Housing Administration insurance fund, we have removed these five loans from our recommendation.

Finding 2: Certified Did Not Fully Comply with Federal Housing Administration Quality Control Requirements

Certified did not fully implement its quality control plan. It did not conduct quality control reviews of early defaulted loans and rejected loan applications and did not ensure that quality control reviews were performed within 90 days of closing. In addition, its quality control plan did not include all required elements as prescribed by HUD. We attribute these deficiencies to Certified's disregard of HUD requirements and instructions and reliance on an independent contractor to fulfill its responsibilities. As a result, HUD has no assurance of the accuracy, validity, and completeness of Certified's loan origination and underwriting operations.

Early Defaulted and Rejected Loans Not Reviewed and Quality Control Reviews Not Performed within 90 Days of Closing

HUD Handbook 4060.1 requires quality control reviews of all loans that default within six months of closing. The handbook requires lenders to perform quality control reviews on a minimum of 10 percent of rejected loans. The handbook also requires lenders to perform quality control reviews within 90 days of closing.

Certified used an independent contractor to perform quality control reviews. Its quality control plan required that it provide the contractor with a monthly list of closed, early defaulted, and rejected loans. From these lists, the contractor selects loans for quality control review.

Certified officials informed us that they do not provide a list of early defaulted and rejected loans to the contractor for performing quality control reviews. Although the HUD requirement to conduct quality control reviews of early defaulted and rejected loans is included in Certified's quality control plan, Certified officials said that they were unaware of the requirement. In addition, Certified has not ensured that quality control reviews are conducted within 90 days of closing, as HUD requires.

Quality control reviews of early defaulted and rejected loans are important since such reviews provide valuable information to management regarding the causes of defaults and rejections and may disclose underwriting deficiencies associated with the loan. Such reviews may disclose indicators of fraudulent activities or other significant discrepancies that lenders are required to report to HUD. In addition, conducting quality control reviews within 90 days of closing is intended to ensure that problems left undetected before closing are identified as soon after closing as possible.

Written Quality Control Plan Did Not Contain Required Elements

HUD Handbook 4060.1 provides that as a condition of HUD approval, lenders must have and maintain a quality control plan for the origination and servicing of insured mortgages. The quality control plan must be a prescribed function of the lender's operations and assure that the lender maintains compliance with HUD requirements and its own policies and procedures.

Certified's quality control plan did not include all the required elements prescribed by HUD. For example, some of the more significant elements missing from the plan include:

- The lender reports findings of fraud or serious violations to the appropriate HUD Homeownership Center or to the Office of Inspector General (OIG) for Audit within 60 days of initial discovery.
- Telephone reverification is attempted if written reverification is not returned.
- Determine whether verifications of employment and deposit or credit reports are suspect due to handling by any interested third party or the borrower.
- Determine whether all conditions were cleared before closing.
- Determine whether there are sufficient and documented compensating factors if the debt exceeded Federal Housing Administration limits.
- Determine whether information in the preliminary and final loan applications and all credit documents is consistent or reconciled.

Conclusion

Certified's written quality control plan does not meet HUD requirements. We attribute this to Certified disregarding its responsibilities to ensure that quality control reviews were conducted and deficiencies were corrected. In addition, Certified relied on its independent contractor to assure that its plan met HUD requirements and quality control reviews were performed. As a result, Certified is unable to ensure the accuracy, validity, and completeness of its loan origination and underwriting operations.

Recommendations

We recommend that the assistant secretary for housing-federal housing commissioner:

- 2A. Take appropriate measures to ensure Certified conducts required quality control reviews and the written quality control plan complies with HUD requirements.
- 2B. Take administrative action, as appropriate, up to and including civil monetary penalties.

SCOPE AND METHODOLOGY

To achieve our audit objectives we reviewed:

- Applicable laws, regulations, and other HUD program requirements and files and documents from HUD and Certified;
- Procedures established by Certified in originating FHA insured loans; and
- Certified's Quality control plan

We chose a nonrepresentative method to select the loans for review. This method allowed us to select Federal Housing Administration-insured loans with certain characteristics. This approach enabled us to focus our review efforts on loans in which there is a greater inherent risk and/or risk of noncompliance or abuse to the Federal Housing Administration insurance fund.

We reviewed 17 Federal Housing Administration-insured loans that had defaulted within the first two years from. In addition, we interviewed appropriate officials and staff from Certified and HUD's Atlanta Single Family Homeownership Center. We also interviewed employers and gift donors to verify the information in the files.

We performed our review between March and August 2005. The audit covered the period January 1, 2003, through December 31, 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:

- Program operations. Policies and procedures that management has in place to reasonably ensure that the loan origination process complies with HUD program requirements and that the objectives of the program are met.
- Validity and reliability of data. Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and used during the mortgage loan origination process.
- Compliance with laws and regulations. Policies and procedures that management has implemented to reasonably ensure that its loan origination process is administered in accordance with applicable laws and regulations.

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.

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Significant Weaknesses

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

- Certified did not follow HUD requirements when underwriting 14 Federal Housing Administration-insured loans.
- Certified had not implemented its quality control plan in accordance with HUD requirements.

APPENDIXES

Appendix A

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

<u>Recommendation</u>	<u>Ineligible 1/</u>	<u>Funds to be put to better use 2/</u>
1A	\$ 728,479	\$ 660,699
Total	<u>\$ 728,479</u>	<u>\$ 660,699</u>

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 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.

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Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



7333 Coral Way, Miami, Florida 33155
PH:(305) 461-0000 ● FAX:(305) 264-1119
Toll Free: 1-800-626-6019 ● www.certifiedhomeloans.com

November 22, 2005

James D. McKay
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of the Inspector General for Audit, Region 4
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, Georgia 30303-3388

Dear Mr. McKay:

We are pleased to provide you with Certified Home Loans' (CHL) response to the draft audit report of the Office of Inspector General (OIG) dated October 6, 2005. We appreciate the time your colleagues spent with us in Miami on November 22, 2005, where you presented your findings and we responded in broad terms to the draft findings. We also appreciate the opportunity the OIG has provided for us to address the draft findings in more detail.

This letter sets forth in detail our response to each of the concerns raised by the OIG and the two Findings in the draft report and describes the corrective actions that CHL has taken and is taking to help assure that these issues do not surface in the future.

CHL is committed to achieving full compliance in the origination of FHA-insured mortgage loans, and we believe that we have the business model, management team, and drive necessary to achieve this result. While we are confident that our overall quality record as an FHA originator is among the best, we take the draft findings in the OIG's review very seriously and have proactively initiated processes, and personnel changes, to address the issues related to both of the draft findings. We would like to resolve this matter with HUD in a spirit of full cooperation.

Background – CHL and the Populations We Serve

Certified Home Loans, of Florida (CHL) is a full service mortgage lender providing residential real estate financing and information services throughout the state of Florida. We are located in the Miami business district. Since its inception in January 2000, under the direction of Anthony Davide, its President, CHL has closed over one billion dollars in mortgage loans and helped more than 5,000 families realize their dream of home ownership.

OIG/ James D. McKay
November 22, 2005

CHL was approved as a Title II nonsupervised FHA lender on April 11, 2000. To date, CHL has originated approximately 1,000 FHA-insured loans. The OIG audit report notes that, during the two year period that was subject to the OIG's audit, where beginning amortization dates were between January 1, 2003 and December 31, 2004, CHL originated 590 FHA insured loans. The OIG reviewed 17 of the loans and determined that 14 of the 17 loans reviewed had been improperly underwritten. Respectfully, for reasons noted below and in the Appendix and Exhibits to this response, we disagree with the OIG's conclusions. Nevertheless, we have tightened our procedures, replaced certain personnel, and commit ourselves to more diligent efforts in the future.

Summary of the OIG Draft Audit Report and CHL's Response

- **Finding 1 – CHL Did Not Follow HUD Requirements When Originating and Approving Loans**

The report alleges that CHL did not follow HUD requirements when underwriting FHA insured loans. The OIG bases this conclusion upon its finding that CHL "improperly underwrote" 14 of the 17 loans that the OIG reviewed. The report further states that these loans contained deficiencies that, taken as a whole, should have led a prudent person not to approve the loan. Specifically, the report states that CHL approved the loans based on inaccurate employment, income, gift information and other deficiencies. The OIG apparently believes that these loans were improperly approved because CHL did not exercise due care in originating and underwriting loans, primarily by not clarifying inconsistencies in the loan files or adequately following up to verify borrower income and employment histories.

Comment 1

As discussed in the attached loan by loan responses, in some instances we believe that the OIG reviewer did not correctly interpret various loan documents or understand certain loan procedures. Where that is the case, we have attempted to clarify our procedures and our understanding of the facts in specific cases. In others, we are confident that proper and required procedures were followed, and appropriate, seasoned and responsible Direct Endorsement Underwriter judgments were made, even if full documentation of those judgments may not currently be available to CHL.

Comment 2

Moreover, we believe that it is important to recognize that FHA-approved Loan Correspondents originated more than half of the loans cited by the OIG for alleged deficiencies in loan documentation. Employment, income and gift documentation was gathered and generated by the Loan Correspondents, not by CHL. The documentation in almost all respects was regular on its face and consistent and complete. CHL underwriters had no reason to suspect that the documentation might be false, and therefore, had no reason to further investigate the otherwise consistent and complete documentation prior to the loan closing.

With the exception of one loan, which in fact is still performing, the loans were all underwritten by either two highly experienced FHA-approved Direct Endorsement underwriters who are no longer employed by CHL. Further, the CHL loan officers who originated the

**OIG/ James D. McKay
November 22, 2005**

loans also are no longer employed by CHL. Under the direction of our Chief Underwriter and our new Director of Compliance, we have implemented new and enhanced procedures for the continued origination of high-quality FHA loans for qualified borrowers

CHL is committed to assuring that our underwriting staff understands and performs according to our current policies and procedures. Underwriters are responsible for reviewing and analyzing retail and third party originated loans. Underwriters assure that each loan meets underwriting principles consistent with the guidelines, rules and regulations set forth by HUD and the secondary market.

Our Underwriters review loan files for proper income documentation, sufficient asset information and acceptable appraisals. Underwriters also prepare required state and government disclosures and check OFAC and other listings prior to approving CHL loans for closing.

As CHL continues our pursuit of excellence, we are now making it a requirement that each staff member receive continuous training and development, by offering our staff the opportunity to attend various anti-fraud seminars and advance mortgage loan origination and underwriting and quality control training.

A summary of our current policies and procedures for loan origination, processing and underwriting are attached as Exhibit O. (Exhibits A-N support the loan by loan responses of CHL that are detailed in Appendix A to this letter.) Detailed policies and procedures are provided by our investors and by HUD/FHA.

The OIG report alleges that, if CHL properly had verified borrower employment and income, gift funds and other sources of funds available to borrowers, the underwriters would have discovered the inaccuracies and the loans would not have been approved. We respectfully believe that the OIG has misinterpreted HUD/FHA requirements with respect to loan origination and verifications from FHA-approved Loan Correspondents. Eight of the loans cited by the OIG were originated by FHA-approved Loan Correspondents. HUD permits Loan Correspondents to process the loans they originate, including obtaining the verifications of employment and deposit, gift fund records, and similar documentation. In cases where the Loan Correspondent has done so, and the documentation provided to CHL to underwrite the loan is regular on its face and consistent and complete, CHL underwriters would have had no reason to further investigate or "verify" the documentation. Nor would the underwriters have been required by HUD to do so. Therefore, many of the alleged documentation falsifications would not have been uncovered until after the loan had closed and a quality control review had been performed. Therefore, we strongly believe that many of the deficiencies alleged by the OIG could not have been prevented under HUD's current guidelines and requirements, and that is it neither appropriate nor fair to attempt to hold CHL accountable for them.

Further, we note that the OIG has complained in each case that, "Certified did not maintain original employment and income documentation in its files." CHL has always submitted the original documentation to HUD in the case binder. That is why the original documentation is not in our files. As the OIG ought to be aware, HUD does not require that the lender maintain all of

Comment 2

Comment 3

OIG/ James D. McKay
November 22, 2005

Comment 3

the original documentation. While HUD requires that the lender maintain the case file pertaining to the loan origination, HUD rules and handbook requirements make clear that the lender may retain these documents in “either hard copy or electric format” for two years from the date of insurance endorsement. Upon request, HUD states, “the lender must make legible hard copies of the material available to HUD staff.” See HUD Handbook 4000.2 REV-3, Chapter 5, Para. 5-8. Furthermore, HUD rules state that, upon sale or transfer of the mortgage servicing, the origination file must accompany the transfer.

We respectfully direct your attention to the loan by loan responses of CHL found in Appendix A attached to this letter and to the multiple documents attached hereto as Exhibits A-N in support thereof.

For the reasons described in our meeting, in this response, in Appendix A to this letter, and in all of the Exhibits attached to it, we respectfully request that the OIG withdraw Finding 1. We think it clear that the 14 loans questioned by the OIG in Finding 1 in fact were each underwritten by experienced FHA-approved CHL Direct Endorsement Underwriters in accordance with all applicable FHA requirements, because that is what they were trained to do and did, even if full documentation of all of the underwriting judgments they made may not be available to CHL in all instances. The questioned loans largely were originated by FHA-approved Loan Correspondents with documentation provided by them to CHL that was regular on its face, consistent and complete. Almost without exception the questioned loans are or have performed, notwithstanding the questions raised by the OIG as to certain loan origination documentation issues. Even then, the 14 loans questioned by the OIG are not representative of the 590 FHA-insured loans originated by CHL during the audit period or the 2,000 FHA-insured loans originated by CHL since CHL was first approved by the FHA as a mortgagee.

Comment 4

In addition, as discussed immediately below in connection with Finding 2, the quality control and other processes and controls put into place by CHL, particularly since the OIG staff performed its CHL field audit work last Spring and before the draft OIG report was issued, have even further improved and strengthened its FHA loan origination work.

- **Finding 2 – CHL Did Not Fully Comply with Federal Housing Administration Quality Control Requirements**

The OIG found, during its review, that CHL did not fully implement its quality control plan and that CHL did not conduct quality control reviews of early defaulted loans or rejected loan applications and did not ensure that quality control reviews were performed within 90 days of closing. The OIG further states that CHL’s quality control plan did not include all required elements as prescribed by HUD. The OIG attributed these alleged deficiencies to CHL’s “disregard” of HUD requirements and reliance on an independent contractor to fulfill its responsibilities. As a result, the OIG believes, HUD has no assurance of the accuracy, validity, and completeness of CHL’s loan origination and underwriting operations.

Comment 5

Respectfully, we disagree with the OIG’s conclusions. CHL may have been deficient in some areas of its quality control operations when the OIG began its field review last Spring, but even this was not due in any measure to a deliberate disregard by CHL of HUD requirements. As a

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non-servicing loan originator, it has been difficult for CHL to track each payment default in the loans it has sold to its investors. However, as noted below, in reliance upon Neighborhood Watch, CHL now does that and has incorporated additional QC reviews based in that data into its quality control processes.

Comment 5

Based on the OIG's findings and recommendations made following its field review, and before the OIG issued its current draft report, CHL undertook a full review and revision of its quality control program, and revised its quality control plan and procedures. As a part of that effort, following a nationwide search, in June, 2005 CHL engaged _____, an experienced quality control and compliance director, to lead our renewed efforts in this area. _____ has over seven years experience in the mortgage banking and real estate industries, and is a strong and effective leader and addition to our senior management team.

Our revised quality control plan and procedures include a section devoted specifically to the processing and underwriting guidelines of HUD/FHA. Additionally, CHL has made the APPINTELLIGENCE software part of our quality control program. This software is an Anti Fraud system, currently being used by numerous nationally recognized institutional investors. This Anti-fraud software is utilized on all CHL loan applications.

As part of its revised quality control program, CHL requires its quality control analysis to complete a separate pre-funding quality control review for each loan being submitted to the Underwriting Department. As part of this pre-funding QC process, the analyst also secures verbal re-verifications of employment, income, rental, gift and deposits. All loan applications, then, must pass the APPINTELLIGENCE Anti- Fraud inquiry and pre-funding QC review before they will be closed.

The final step taken by the QC analyst at the pre-funding stage is completion of CHL's pre-funding quality control checklist, which also encompasses a 411 reverse search, online corporate search and a SS# search. Upon completion of the pre-funding quality control audit, the underwriter is responsible for ensuring that all underwriting conditions are cleared, prior to closing.

Exhibit P attached hereto is a copy of our current Quality Control procedures, including a copy of the pre-funding quality control checklist that is completed by our Quality Control Analyst for 100% of all loan applications submitted to Underwriting.

Comment 6

In addition, and as part of its enhanced quality control program, CHL carefully monitors the performance of loans we originate, and assures that all early defaulted and rejected loans are timely submitted to our independent quality control provider, Qualimae, for review.

CHL chose Qualimae because the company has been in business for over 11 years, under the leadership of _____ has over 25 years experience in the industry, and has gained national recognition among Mortgage Companies and Financial Institutions.

Once a month, it is the responsibility of our Quality Control Analyst to retrieve our internal system report and the HUD Neighborhood Watch report, listing our rejected and defaulted loans

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for the previous month. These reports are submitted to our Compliance Director for review, who assures that all quality control reviews of those loans and others selected for review are conducted within 90 days of the loan closing. The Analyst also retrieves a final report listing all loans still requiring an endorsement. Upon review by the appropriate underwriter, all loans still requiring an endorsement are completed immediately

At a minimum, a monthly meeting is now held with myself, as President, our Compliance Director and our Chief Underwriter. This meeting is for the sole purpose of addressing issues of loan file discrepancies, credit misrepresentations and overall loan deficiencies, reported to us by our Quality Control Analyst and by Qualimae. As a result of these meetings, CHL's goal is to prevent future occurrences by implementing new policies and procedures, or making changes to current ones as needed.

A recent example of this process in action is provided in Exhibits Q and R. Exhibit Q is Qualimae's detailed Report to CHL for April, 2005. You will note on Page 1 of the Report the determination by Qualimae that one of the loans it reviewed received its grade of "poor" (the Pappas loan—a conventional not FHA loan) with the others having received a Qualimae grade of either "excellent" or "good."

Based on this Qualimae Report, CHL's President, Quality Control Director and Chief Underwriter then convened to consider the Pappas loan findings, and the specific re-underwriting of that loan that had been completed by its Chief Underwriter. The result of that meeting was a written reprimand to the mortgage broker who brokered this loan to CHL. Full documentation of CHL's response to the April Qualimae Report may be found in Exhibit R attached hereto.

Under these circumstances, we respectfully suggest that Finding 2 also should be withdrawn. CHL made on its own initiative substantial Quality Control process and personnel improvements before the OIG Report was issued in draft form, in response to its ongoing review in this area and the informal report it received from the OIG staff last spring. Respectfully, it is inappropriate and unfair for any final OIG Report not to reflect these changes and for this Finding to be included in the first place—as a formal Finding--under these circumstances.

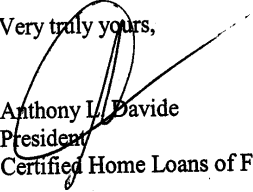
Conclusion

As noted above, we appreciate the opportunity to review and comment on the draft audit report prepared by the Office of the Inspector General. While we have outlined in this response, and its attached Appendix and Exhibits, the reasons that we respectfully believe that the OIG's conclusions are incorrect, we also recognize that there is always room for improvement in our performance. We understand our responsibility and accept the obligation to improve our operations. We appreciate the OIG's assistance in pointing out areas where we could improve.

We trust that, after you review this letter and its attachments, and after considering the presentation we made during our November 22, 2005 meeting, you will be convinced of CHL's commitment to our partnership with HUD and to strict compliance with all FHA loan origination requirements.

OIG/ James D. McKay
November 22, 2005

Very truly yours,


Anthony I. Davide
President
Certified Home Loans of Florida

Attachments:

Appendix A
Exhibits A-P

Cc (with enclosures):

James A. Brodsky, Esq.
Weiner Brodsky Sidman Kider, PC

Comment 7

APPENDIX A

Narrative Alleged Loan Deficiencies & CHL Response

1) FHA Case# 092-9291283

OIG Findings: Inaccurate Employment and Income Information

The OIG alleges that CHL approved this loan based on inaccurate employment and income information for the co-borrower. The OIG apparently determined through their investigation that the coborrower never worked for the company, and that the company had not completed or signed the verification of employment form provided to CHL. Further, the OIG determined that the paystubs and W2 forms provided to CHL were false. The OIG states that, although this loan was originated by a Loan Correspondent, CHL failed to properly verify employment and income information and, therefore, CHL generated and submitted to HUD inaccurate employment and income data for the coborrower. The OIG also complains that CHL did not maintain original employment or income documentation in its files.

CHL Response: Respectfully, we disagree with the OIG's conclusions. Although the VOE, W2 and paycheck stubs for the coborrower ultimately may prove to be false documents, they were regular on their face, consistent and complete. During the origination of this loan, we had no indication that the documents might not be accurate. As noted by the OIG, this loan was originated by a Loan Correspondent. The Loan Correspondent processed the loan and provided CHL with the VOE, W2's and paycheck stubs. If this information was false, then we respectfully submit that the coborrower and/or the Loan Correspondent provided false information to CHL and CHL was a victim as much as HUD was. The employment information was "generated" by the Loan Correspondent, and not by CHL. As the sponsor, CHL's responsibility in this case was simply to underwrite the loan. We did so, and did not suspect any fraud at that time. We note, however, that the coborrower re-confirmed the accuracy of the employment and income information when he signed the final loan application (form 1003) at closing. Therefore, respectfully, we believe that CHL properly complied with HUD requirements and appropriately underwrote and approved this loan.

All original documents were submitted to HUD office in the FHA case binder. That is why the originals are not retained in CHL's files. CHL's files do contain copies of these documents.

Finally, we note that the underwriter of this loan is no longer employed with CHL.

See Exhibit A.

OIG Findings: Questionable Source of Funds.

The OIG further alleges, with respect to the loan, that CHL failed to properly verify the borrower's source of funds to close the loan. Specifically, the OIG states that there were two separate deposits, one in the amount of \$1,500 and the other in the amount of \$1,000, into the borrower's bank account without an explanation of the source of these funds. Additionally, the OIG states, the verification of deposit form indicated an "opening bank balance" of \$7,728, without information regarding the source of these funds. The OIG further alleges that CHL failed to ensure that the borrower met the minimum downpayment of \$3,731, and the minimum required investment of \$2,817, in this property. The OIG believes that the borrower invested only \$1,000, and the OIG found no supporting documentation in the case binder that the borrower had met the funding requirements.

CHL's Response: We respectfully disagree with the draft OIG finding. FHA loan underwriting policies and procedures require full, complete and consistent documentation of the applicant's source of funds, and CHL's underwriters follow these policies and procedures. The Direct Endorsement Underwriter who reviewed and approved this loan was an experienced and qualified, and fully knowledgeable about CHL's and FHA's requirements in this area, and was expressly licensed and approved by FHA to perform these duties. CHL is confident that this loan would not have been approved by CHL's D.E. Underwriter had these applicable source of funds requirements not been met.

It is also true that CHL is not able to produce full written documentation as to the source of all required funds. As noted in our general response, however, original documentation was provided to HUD in the insuring file and to the servicer to which the loan was assigned and transferred. In addition, we note that the loan was originated several years ago and is shown on Neighborhood Watch to have performed.

It is well understood that the main purposes of FHA's source of funds and downpayment requirements are to help assure that the applicant and mortgagor has the financial wherewithal responsibly to enter into the mortgage loan transaction and to meet loan payment obligations. This borrower clearly had both the requisite financial wherewithal and the financial incentives to obtain and pay his mortgage loan, which is what he did.

Accordingly, even if the available documentation surrounding the loan's origination is less than fully complete, the Direct Endorsement Underwriter, we submit, completed the required analysis and determined in her considerable

professional judgment that the loan met CHL's and FHA's requirements, and that it would perform--which it did. Under these circumstances, it is neither appropriate nor fair or permitted for the OIG to second-guess the Direct Endorsement Underwriter approved by HUD to make these judgments simply because full documentation of the underwriter's careful consideration of this issue is not currently available to CHL.

OIG Findings: Other Deficiencies and Inconsistencies.

The OIG alleges that CHL did not resolve conflicting or inconsistent information in the case binder. Specifically, the OIG states that the final loan application showed the borrower had liabilities of \$9,573, whereas the initial loan application and the credit report did not show this total. Additionally, the OIG states that the borrower's monthly income was reported as \$2,158 on the VOE form, \$2,043 on the loan application, and \$2,179 on the mortgage credit analysis worksheet. The OIG implies that CHL did not resolve this conflicting and inconsistent information. Further, the OIG states that the sales contract showed a selling broker but no listing broker, and the HUD-1 settlement statement reflects that the seller paid \$2,676 in commissions to a broker that was not shown on the sales contract or any other documents in the case file.

CHL's Response: Respectfully, we disagree with the OIG's findings. A review of the loan applications (form 1003) in our file shows no borrower debts. This is consistent with credit report. The initial loan application was signed and dated 11/18/02 and the final loan application was signed and dated 12/30/02. See Exhibit A.

Although the borrower's monthly income figures, as shown on the initial and final loan applications, VOE, and MCAW were slightly different, the \$2,179 figure used for qualifying this borrower was an average amount based on 33.5 month average (less) business expense. This was adequately explained and documented by the underwriter on the Mortgage Credit Analysis Worksheet. (See Exhibit A.)

Although the sales contract does not identify either a listing or a selling broker, the HUD-1 Settlement Statement shows that the seller paid a sales commission of \$2,676 to Transworld Realty. CHL's closing instructions do not instruct the settlement agent with respect to any seller paid sales commissions. Therefore, we cannot explain why the seller paid these commissions. We can only assume that the seller did have such an obligation and privately instructed the settlement agent regarding this aspect of the closing. Respectfully, we fail to see how this has or had any relevance to the borrower's ability to pay the mortgage.

OIG Findings: Credit Issues.

The OIG alleges that CHL did not properly analyze the borrowers' credit performance to ensure that the borrowers demonstrated financial responsibility. The OIG states that the coborrower's credit report indicated four accounts with a zero balance and, therefore, the OIG believes that CHL should have used a nontraditional credit history method when underwriting this loan.

Further, the OIG states that, although the credit reports did not show any recent payoffs, the HUD-1 settlement statement indicated that the borrower paid \$5,567 towards payoff of five debts. The OIG also states that there was no supporting documentation in the file for these payments. The OIG also states that the borrower did not provide an explanation in the case binder for two debts that were in collection status. While the borrower did provide an explanation for the three additional debts, the OIG has determined that these explanations were not acceptable. Finally, the OIG questions the financial stability of this borrower since some of the debts in collection status had been outstanding for more than a year.

CHL's Response: Respectfully, we disagree with the OIG's conclusion that CHL did not properly analyze the borrowers' credit performance to ensure that the borrowers demonstrated financial responsibility. We also disagree with the OIG determination that, because the four accounts shown on the coborrower's credit report had zero balances that CHL should have used a nontraditional credit history method when underwriting this loan. The coborrower's credit report did show a credit history, even if the accounts currently had zero balances. Further, HUD Handbook 4155.1 Rev-4, CHG.1, Page 2-4, Para. 2-3, states that, "neither the lack of credit history nor the borrower's decision not to use credit may be used as a basis for rejection."

With respect to the OIG's statements regarding the payoffs, we note that, since these debts were paid off at the loan closing, the credit reports that were run before closing would not show a payoff of the debts. The HUD-1 settlement statement, however, does show that the borrower paid \$5,567 towards payoff of five debts at the closing table. Respectfully, we believe that the supporting documentation for the payoffs, sought by the OIG, is in the HUD-1 settlement statement and the closing agent's file.

See Exhibit A.

Comment 8

2) FHA Case# 092-9359262

OIG Findings: Inaccurate Employment, Income and Gift Information

The OIG alleges that CHL approved the loan based on inaccurate employment and income information. The verification of employment form indicated that the borrower was a teacher. The OIG states, however, that the employer advised the auditor that the borrower actually worked in maintenance. Apparently, the employer also informed the OIG that he signed a blank verification of employment form and that the pay stubs and W-2 forms did not belong to the employer. Further, the OIG states, the verification of employment form showed that the borrower was employed for four years, while the loan application indicated only two years employment. The OIG states that there was no explanation in the case binder for this discrepancy. The OIG also states that CHL did not maintain original employment and income documentation in its files.

The OIG also alleges that CHL approved the loan based on inaccurate gift information. Apparently, the OIG spoke to the gift donor who told the OIG that she never completed or signed the gift letter found in the case binder and that she did not know the borrower and never provided a gift to the borrower. Thus, the OIG states, CHL failed to properly verify employment, income, and gift information and, therefore, generated and submitted to HUD inaccurate employment, income, and gift data for this borrower.

CHL Response: Respectfully, we disagree with the OIG's conclusions. Although the VOE, W2 and paycheck stubs for the borrower ultimately may prove to be false documents, they were regular on their face and consistent and complete. During the origination of this loan, CHL's underwriter had no indication that the documents might not be accurate. CHL's practice and procedure with respect to obtaining the verifications of employment, deposit, etc., is always to mail the VOD and VOE requests to the appropriate party. We had no indication that these policies and procedures were not followed in this case. In fact, the borrower re-confirmed the accuracy of the employment and income information when she signed the final loan application (form 1003) at closing. The Loan Officer who originated this loan is no longer employed with CHL.

We concur with the OIG's finding that the file contains no explanation for the discrepancy between the VOE and the loan application regarding the length of time the borrower was employed. We believe, however, that the loan application was completed to show two years employment because two years employment history is what is required. The verification of employment would be the final word on the length of employment history. Since the VOE indicated four years employment, we believe that this strengthened the application, rather than weakened it. See Exhibit B.

All original documents were sent to HUD in the Case Binder. Unfortunately, we did not maintain copies of all of the gift documentation. Therefore, we are unable to respond to the allegations that the gift information was inaccurate.

We note, however, that the underwriter of this loan is no longer employed with CHL. Additionally, the loan officer is no longer employed by CHL either.

OIG Findings: Questionable Source of Funds

The OIG alleges that CHL failed to properly verify the borrower's source of funds to close. The OIG states that the borrower maintained two joint bank accounts with unrelated parties, but the OIG was unable to determine how much of these funds actually belong to the borrower, including a deposit of \$2,562 for a tax refund. Therefore, the OIG is concerned that the borrower may not have the financial capability to pay the mortgage or related expenses. In addition, the OIG alleges that CHL failed to ensure that the borrower met the minimum downpayment in the purchase of the property. The OIG calculated the minimum downpayment to be \$5,758, but states that the borrower invested only \$4,225. The OIG found no supporting documentation in the case binder that the borrower complied with the minimum downpayment requirement.

CHL's Response: We respectfully disagree with the OIG's finding with respect to the borrower's source of funds. The absence of full documentation of the experienced Direct Endorsement Underwriter's judgment on this issue is not the same as the failure of the underwriter to make that judgment. We assert that that judgment was made in this loan, and that the underwriter determined that the source of funds had been documented to the extent reasonably required under applicable FHA and CHL requirements, and that a contrary conclusion by the OIG would represent unjustified and improper hindsight second-guessing of the underwriting decision FHA itself properly has delegated to the underwriter it approved and licensed to make such decisions.

In addition, we respectfully disagree with the OIG's conclusions with respect to the borrower's minimum downpayment and investment in the property. The purchase price was \$120,000. Three percent of \$120,000 is \$4,000. The loan application shows that the borrower made a \$900 earnest money deposit, and the HUD-1 shows a _____ in the amount of \$4,000 was credited to the borrower's investment at the closing. The borrower was required to bring an additional \$743.43 to the closing (cash to close), which together with the \$4,000 gift funds totals a \$4,743.43 downpayment and investment in the property. This is more than sufficient to cover the minimum downpayment requirement.

See Exhibit B.

OIG Findings: Other Deficiencies and Inconsistencies

The OIG alleges that CHL did not resolve conflicting or inconsistent information in the case binder. The OIG states that the final loan application showed the borrower's debt and income, while the initial loan application did not list any debt and income. Additionally, the OIG notes that the sales contract reported an earnest deposit of \$900, while the loan application and HUD-1 settlement statement each reported no downpayment. The OIG states that there was no explanation provided for these inconsistencies. In addition, the OIG states, CHL did not provide an explanation for the delay in endorsing the loan in a timely manner and what actions it plans to take to prevent future delayed submissions.

CHL's Response: The OIG cites as an inconsistency that the initial loan application did not list any debt or income, but the final loan application did. Respectfully, we believe that this is not an inconsistency that reasonably requires further explanation. It is well understood that the initial loan application (Form 1003) generally is an estimate of the "numbers," as liabilities especially will change during the course of the loan processing. The information on the final loan application, however, is a firm picture in time, taken from the employment and income information obtaining during the loan processing, and from the debt information obtained in the credit report. Many initial loan applications differ with respect to the actual dollars of employment income and liabilities from that shown on the final loan applications. And that is all that occurred here. It provides no reasonable basis for questioning the accuracy of the final loan application. After all, if "processing" of the initial application was not required, loans would close on the basis of the initial application only and it never would need to be changed.

The OIG also states that the sales contract reported an earnest money deposit of \$900, while the loan application and HUD-1 Settlement Statement did not. Respectfully, the final loan application, dated 4/30/03, does show the \$900 earnest money deposit. We do not know why the HUD-1 Settlement Statement does not reflect this amount. It should have. But, CHL did not prepare the HUD-1, nor was it required to do so. HUD-1 inaccuracies in this area, we respectfully suggest, more properly are addressed by the OIG to those responsible for its accurate preparation.

The OIG also notes that this loan was submitted late for insurance endorsement. We concur, but this was an aberration. CHL's policy and practice is always to make a diligent effort timely to submit loans for insurance endorsement. CHL has created a monthly report as a tool to help assure timely endorsements in the future.

Comment 9

3) FHA Case# 092-9367167

OIG Findings: Inaccurate Gift Information

The OIG alleges that CHL approved the loan based on inaccurate gift information. The OIG states that the auditor verified with the gift donor that the donor had not completed or signed the gift letter found in the case binder, and that he did not provide a gift to the borrower. Apparently, the donor told that OIG that he did, however, provide a \$2,500 loan to help his brother purchase the property. Thus, the OIG states, if CHL had contacted the gift donor, the information in our file would not have been validated.

Although a Loan Correspondent originated this loan, the OIG states that CHL failed to properly verify gift information and, therefore, generated and submitted to HUD inaccurate gift data for the borrower.

CHL's Response: Respectfully, we disagree with the draft OIG findings. The gift information was verbally re-verified on 4/8/ 2003, during a Pre-Close Quality Control audit. (Please see Exhibit C.) Furthermore, as noted by the OIG, this loan was originated by a Loan Correspondent. Therefore, the gift information was generated by the Loan Correspondent, and not by CHL. CHL simply underwrote and closed the loan.

Additionally, we note that the underwriter of this loan is no longer employed by CHL.

OIG Findings: Questionable Source of Funds

The OIG further alleges that CHL failed to properly verify the borrower's source of funds to close the loan. The case binder indicated two personal money orders were used in providing the gift funds of \$2,000 to the borrower. However, the OIG states that the purchaser for both money orders was the borrower, not the gift donor. The OIG notes that the case binder also contained the gift donor's bank account showing a withdrawal of \$2,008. However, the OIG states, there was no supporting documentation to ensure the \$2,008 was used to purchase the personal money orders.

The OIG also alleges that CHL failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. The OIG calculated the minimum downpayment and minimum required investment to be \$4,175 and \$3,450, respectively. But, the OIG states, the borrower only invested \$3,400. The OIG did not find supporting documentation in the case binder that the borrower complied with the funding requirements.

CHL's Response: For the reasons previously, we respectfully disagree with this draft OIG finding based on the lack of the availability of full documentation of a judgment that CHL's D.E. Underwriter clearly was required to and did make. Respectfully, such hindsight second-guessing by the OIG of such sound underwriting judgments should not form the basis of OIG Findings and required indemnification demands.

The OIG also alleges that CHL failed to ensure that the borrower met the minimum required downpayment and cash investment in the property. Respectfully, we disagree with this finding. The purchase price of this property was \$115,000. Three percent of the sale price is \$3,450, which was the minimum required down payment. The HUD-1 Settlement Statement shows there was an earnest money deposit of \$3400 and that the borrower was to come to closing with an additional \$414.93. Together, these total \$3,864.93, which is more than the required investment amount. Further, the MCAW makes clear that between the gift and the money in the borrower's account, there were sufficient funds verified for the closing.

See Exhibit C.

OIG Findings: Excess Ratios without Adequate Justification

The OIG alleges that CHL did not provide valid compensating factors for exceeding the ratios when underwriting this loan. The OIG states that CHL justified the excess front and back end ratios by stating that the borrower had (1) minimal outstanding consumer debt, allowing more to be used for housing and (2) a small family whose living needs are less than larger expanding families. According to the OIG, however, it appears that the borrower used his savings for daily purchases to live and remain free of outstanding debt, as reflected in the minimal average bank balance of \$251 for two months. In addition, the OIG states, the borrower claimed to have reserves not placed in his bank account but there was no evidence that supported this.

CHL's Response: Respectfully, we disagree with the OIG's conclusion that CHL did not provide sufficient compensating factors for exceeding the front and back end ratios. A third compensating factor provided (See a copy of the MCAW in Exhibit C) is that "as of January, only six car payments left." The loan closed in May 2003, when the car loan would have been nearly paid off. We believe that is a huge compensating factor that should have been considered. The borrower may have claimed that he had additional reserves, but since this was not documented, it was not given any consideration by the underwriter.

OIG Findings: Credit Issues

The OIG alleges that CHL did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. While the borrower provided two letters in the case binder explaining all derogatory credit information, the OIG has determined that the explanations were insufficient and inconsistent. For example, the OIG states, the borrower indicated being unaware of medical bills not covered by insurance in collection status. The OIG found this explanation unusual because if a medical provider does not get paid from the insurance company, it then bills the insured person. According to the OIG, after several attempts to get paid, the provider reports the unpaid balance to a collection agency. While the credit report shows some of the accounts were paid, the OIG is uncertain whether other accounts were paid since the credit report only indicates that they were updated.

CHL's Response: Respectfully, we disagree with the OIG's findings with respect to the borrower's credit explanations. The underwriter who reviewed this file found the explanations credible. Further, the borrower also had good credit records, and the loan was still performing a year after its closing. Over two years after the loan closing, we submit that the borrower has shown financial stability and a conscious regard for his debts and, therefore, the underwriting was appropriate.

OIG Findings: Other Deficiencies and Inconsistencies

The OIG alleges that CHL did not resolve conflicting or inconsistent information in the case binder. Specifically, the OIG states that they found several inconsistencies between the initial and final loan applications, including (1) the initial loan application stated that the borrower had two dependents, but the final loan application and credit report indicated zero dependents; (2) the initial loan application did not list any debts, but the final loan application listed a debt of \$1,624; (3) the initial loan application showed \$1,000 held by the settlement agent, while the final loan application showed \$2,900 held in escrow; and (4) the initial loan application indicated the borrower had a bank account with no amount disclosed, but the final loan application disclosed a balance of \$506 in the same bank account.

In addition, the OIG states, page 2 of the final loan application showed the escrow agent holding \$2,900 as an escrow deposit, while page 3 stated \$3,400. The OIG alleges that no explanations were provided in the case binder regarding these inconsistencies.

While the OIG verified with the employer that the borrower worked for the company, the OIG's review of the case binder found that the borrower was not employed at the time the loan closed. The OIG apparently came to this conclusion because, the auditor stated, the loan closing occurred in May 2003, and the borrower's bank statements for April and May 2003 showed that the employer electronically deposited no funds during those months.

CHL's Response: The OIG cites several discrepancies between the initial loan application and the final loan application, and alleges that CHL failed to resolve the inconsistent information. Whether individuals should or should not formally be listed as "dependents" on a HUD Form loan application can, in some circumstances, be a less than straightforward determination for applicants to make. By the time of the final application, after it has been "processed," that determination had been made. Inconsistencies between the initial and final applications simply reflect the normal processing and clarification of such and other circumstances.

We also respectfully disagree with the OIG's conclusions regarding the differences between the initial and final applications with respect to the borrower's debts, bank account balance, and earnest money deposit. As noted above, the initial loan application (Form 1003) is generally just an estimate of the "numbers," as liabilities especially will change during the course of the loan processing. The information on the final loan application, however, is a firm picture in time, taken from the employment and income information obtained during the loan processing, and from the debt information obtained in the credit report. Many initial loan applications differ with respect to the actual dollars of employment income and liabilities from that shown on the final loan applications. That is all that occurred here, and that does not support the adverse finding by the OIG with respect to this loan.

The OIG also apparently draws the conclusion that the borrower's employment had terminated because the employer had not electronically deposited funds into the borrower's bank statements for April and May 2003. Respectfully, this is not dispositive. It is possible that the borrower cancelled the electronic deposit of his income or changed the bank account into which his funds were to be deposited. We note, however, that the borrower signed the final loan application at the closing thereby certifying that the information included in that application, regarding his income, employment, liabilities, dependents, etc. was true and

correct as of the date he signed the form. Respectfully, OIG speculation to the contrary is not a reasonable basis for requiring CHL indemnification or the imposition upon CHL of civil money penalties, as recommended in the draft OIG report.

4) FHA Case# 092-9404542

OIG Findings: Inaccurate Employment and Income Information

The OIG alleges that CHL approved the loan based on inaccurate employment and income information. The OIG states that they verified with the borrower's employer that the borrower never worked for the company, that the employer never received, completed, or signed the verification of employment form, and the pay stubs and W-2 forms did not belong to the company. The OIG states that they found a letter from the loan officer in the case binder, indicating that the employer refused to provide the borrower's employment information. The letter, however, according to the OIG, provided inaccurate information about the ownership of the company. Therefore, the OIG concludes that there was no indication that these documents had been mailed to the employer. In addition, the OIG states, CHL did not maintain original employment and income documentation in its files.

Although a Loan Correspondent originated this loan, the OIG alleges that CHL failed to properly verify employment and income information and, therefore, generated and submitted to HUD inaccurate employment and income data for the borrower.

CHL's Response: Respectfully, we disagree with the OIG's conclusions regarding the employment and income information. Although the VOE, W2 and paycheck stubs for the borrower ultimately may prove to be false documents, they were regular on their face, consistent and complete. During the origination of this loan, we had no indication that the documents might not be accurate. As noted by the OIG, this loan was originated by a Loan Correspondent. The Loan Correspondent processed the loan and provided CHL with the VOE, W2's and paycheck stubs. Therefore, it was the Loan Correspondent who generated this information, not CHL. As the sponsor, CHL underwrote the loan based upon the documentation provided to us. Additionally, we note that the borrower re-confirmed the accuracy of the employment and income information when he signed the final loan application (form 1003) at closing.

Comment 10

Comment 10

The original documents are sent with the HUD case binder. Our copy of the loan file does not contain the letter from the loan officer cited by the OIG, so we cannot comment upon it. We note, however, that the loan file contains the following documents to verify the borrower's income and employment: verification of employment form, paycheck stubs, 2002 and 2001 W2 forms, confirmation from the yellow pages as to company's existence, and verification of the employers corporate information from the Florida Department of State, Division of Corporations' Online Public Inquiry (www.sunbiz.org). Additionally, the credit report verifies the borrower's employment. There was no reason to believe that these documents were not legitimate.

We note, also, that the underwriter of this loan is no longer employed by CHL.

See Exhibit D.

OIG Findings: Other Deficiencies and Inconsistencies

The OIG alleges that CHL did not resolve conflicting or inconsistent information in the case binder. The OIG notes that the initial loan application showed total funds available of \$500, while the final loan application showed total funds available of \$7,196. The OIG also notes that both the initial loan application and the sales contract showed a \$500 earnest deposit, while the HUD-1 Settlement Statement and final loan application showed an earnest deposit of \$0. Further, the OIG notes, the mortgage credit analysis worksheet showed \$4,200 as the earnest money deposit, while the final loan application showed this amount as a gift. The mortgage credit analysis worksheet showed \$1,000 as a gift, notes the OIG, however the case binder did not have supporting documentation for this gift. The OIG concludes that they did not find an explanation in the case binder for these inconsistencies.

Comment 11

CHL's Response: Respectfully, we disagree with the OIG's conclusions regarding the apparently inconsistent information. Although the initial application shows that Dade County Title held a \$500 earnest money deposit, this amount was changed on the final loan application to reflect the full amount of \$4,200 that Dade County Title advised us it held as of 5/29/03. The initial loan application showed no funds available (other than the \$500 deposit) because no balance had been provided for the bank account. The final loan application, however, reflects only the gift funds of \$4,200 which were held by Dade County Title as earnest money deposit. Although the final loan application had been printed to show a balance of \$2,985 in the Washington Mutual Bank account, this was crossed off.

Comment 11

Since we had no evidence of the source of funds for the initial \$500, the underwriter did not consider this \$500 as available funds. The MCAW reflects the \$4200 as earnest money deposit because this gift was given directly to the title company, as evidenced by their letter dated 5/29/03. The underwriter corrected the MCAW to show that the \$4,200 earnest money deposit was a gift from a relative, and to delete the \$1,000 noted on the MCAW. The \$4200 gift is also disclosed on the HUD 1. Our loan file contains the gift letter, evidence of \$4200 gift withdrawal from the donor's account, a copy of the cashier's check made payable to the title company in the amount of \$4200 and an escrow letter from Dade County Title evidencing that they had received and were holding the \$4,200 deposit.

5) FHA Case# 092-9574386

OIG Findings: Inaccurate Gift Information

The OIG alleges that CHL approved the loan based on inaccurate gift information. The OIG states that they verified with the two gift donors that they never completed or signed the gift letters found in the case binder. In one instance, the OIG alleges, it appears that an interested third party (selling broker) informed the donor that the funds were necessary to approve the loan for the borrower. However, the OIG states, the donor attested to the OIG auditor that the funds provided were a loan and not a gift to the borrower, and that he is not the borrower's relative as indicated in the gift letter. Further, the OIG states, the borrower did not sign the gift letter, and, according to the OIG, the borrower did repay this loan. In the second instance, the donor apparently told the OIG that he did not know the borrower and did not provide a gift to the borrower. The OIG states that it appears to them that the loan correspondent (donor relative) provided the gift funds to the borrower.

Although a Loan Correspondent originated this loan, the OIG states that CHL failed to properly verify gift information and, therefore, generated and submitted to HUD inaccurate gift data for the borrower.

Comment 12

CHL's Response: Respectfully, we disagree with the OIG's conclusions regarding the gift information. As noted by the OIG, this loan was originated by a Loan Correspondent. The loan also was processed by the Loan Correspondent and, therefore, the gift documentation and other information was generated by the Loan Correspondent and not by CHL. Although the gift documentation ultimately may prove to be false documents, it was regular on its face, consistent and complete, and CHL's underwriter had no reason to suspect misrepresentation.

Comment 13

Further, we note that it appears that the OIG verified the information with two gift donors. However, we were aware of only one. Both the final loan application and the HUD-1 reflect a total of \$3,000 in earnest money deposit. These funds are further verified by a copy of a check written by the borrower to the settlement agent in the amount of \$1,000 and the gift letter from _____ in the amount of \$2,000. The gift letter from _____ is further supported by a copy of the cashier's check from Continental National Bank of Miami in the amount of \$2,000. Although the OIG alleges that the borrower did not sign the gift letter, we do find her signature on the right side of the gift letter, about halfway down the page.

We note also that the underwriter of this loan is no longer employed by CHL

See Exhibit E.

OIG Findings: Questionable Source of Funds

The OIG alleges that (1) CHL failed to properly verify the borrower's source of funds to close. According to the mortgage agreement, the OIG states, the borrower and employer are married. However, the OIG alleges, the case binder shows that the loan correspondent CHL in a letter that two of the borrower's boyfriend's payroll checks were deposited into the borrower's bank account. The OIG notes that the husband and boyfriend had different names. (2) The OIG also noted that the borrower's bank statements had recurring overdraft and insufficient fund charges. During a nearly three-month period, the borrower had nine overdraft charges. Although the borrower provided an explanation in the case binder, the OIG questions whether the borrower had the financial capability to repay the mortgage. (3) The OIG alleges that a \$287 debt was repaid, according to a credit report, without supporting documentation in the case binder indicating the source of funds used to repay this debt. (4) The OIG also alleges that CHL failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. The OIG calculated the minimum downpayment and minimum required investment to be \$8,073 and \$5,340, respectively. But, the OIG notes, the borrower only invested \$3,390, and the OIG did not find documentation in the case binder to support that the borrower had complied with the funding requirements.

Comment 14

CHL's Response: Respectfully, we disagree with the OIG's conclusion that CHL did not properly verify the borrower's source of funds to close. Both the initial and the final loan applications, provided by the Loan Correspondent, show the borrower as a single woman. We saw no documentation indicating that she was married to _____.

Comment 15

We concur with the OIG's statement that there were a number of overdraft charges listed on the borrower's bank statements. However, the borrower provided an explanation of these overdrafts, which we think it clear that the experienced underwriter fully considered and accepted. Additionally, we note that the total cash to close was approximately \$11, 973 (\$8973 bank balance + \$3000 earnest money deposit), which exceeds the minimum required investment.

Comment 16

With respect to the OIG's allegation that a \$287 debt was repaid, according to a credit report, without supporting documentation in the case binder indicating the source of funds used to repay this debt, we note a \$287 debt does not appear high. This payoff to Target was not addressed by the underwriter because borrower had sufficient assets to pay this amount.

Comment 17

The OIG also alleges that CHL failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. Respectfully, we disagree with the OIG's conclusion in this regard. The OIG calculated the minimum downpayment and minimum required investment to be \$8,073 and \$5,340, respectively. The HUD-1 Settlement Statement shows that the borrower made a \$3,000 earnest money deposit (\$2,000 in gift funds and \$1,000 in a check from her personal account). The HUD-1 also shows that the borrower was required to bring \$5,786 to closing. Together, these amounts total \$8,786, which exceeds the minimum downpayment and minimum required investments to close.

OIG Findings: Credit Issues

The OIG alleges that CHL did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. Based on the credit report, the OIG states, the borrower did not have a sufficient credit history. Therefore, the OIG concludes, CHL should have used a nontraditional credit history method and considered this when determining approval for the loan. In addition, the OIG states, the borrower had one account in collection status without an explanation provided in the case binder. The OIG determined that it did not appear that CHL had considered this collection account in its analyses of the borrower's creditworthiness. The OIG considers this important since the borrower did not have an established credit history and it could have been an indicator of future financial difficulties.

Comment 18

CHL's Response: Respectfully, we disagree with the OIG's conclusions regarding the analysis of the borrower's credit history. The collection account was for a very small amount, just \$58.00. We agree underwriter did not request an explanation. However, given that this was such a small amount, it seemed unnecessary. The Credit Report indicates that the borrower had alternate credit for a car loan, that had been established in 02/01 and was reviewed for 29 months. The loan application indicated that the borrower lived with her family and therefore alternate credit such as utilities and landlord history were not available.

OIG Findings: Other Deficiencies and Inconsistencies

The OIG alleges that CHL did not resolve conflicting or inconsistent information in the case binder. In particular, the OIG states, the final loan application did not list a \$266 debt that had appeared in the initial loan application. Additionally, the initial loan application showed funds available of \$1,400, and the final loan application showed \$6,058 in available funds. And the earnest deposit was shown as \$2,000 on the initial loan application but \$3,000 on the final loan application, HUD-1 Settlement Statement, and mortgage credit analysis worksheet, and \$1,000 on the sales contract. The OIG did not find an explanation in the case binder for these inconsistencies.

The OIG states that, by reviewing the case binder and CHL's loan files and conducting Internet searches, they learned that the employer was the borrower's husband. Additionally, the OIG determined that the borrower's income as an account representative was high and inconsistent with the average income of an account representative in Miami. A copy of the verification of employment form in the case binder reported the borrower's income as \$1,200 weekly or \$62,400 per year. However, the OIG indicates that they conducted Internet searches and "learned" that an account representative in Miami earns an average income of \$25,192 per year. Therefore, OIG questions the authenticity of the employment and income information generated and submitted to HUD.

Comment 19

CHL's Response: Respectfully we disagree with the OIG's conclusion.

Although the \$266 debt (account with Home Depot) was not included on the final loan application, this application was provided by the Loan Correspondent in its name. This debt, however, was minimal, as it added only \$11 a month to the borrower's monthly payments. The inconsistent data regarding assets available was due to the gift monies not deposited at time of initial loan application. There was a total of \$3000 deposited with title company as earnest money deposit. Check #110 from Bank of America for \$1000 from borrower's account and gift of \$2000 documented with cashier's check from Continental National Bank #601643. The correct amount of \$3000 was reflected on the final loan application. (See Exhibit E.)

Comment 20

Finally, CHL had no reason to question the validity of the borrower's employment. The Loan Correspondent provided supporting documentation that was consistent and regular on its face and complete. (See Exhibit E.) As to the OIG's allegation that the borrower's income appeared higher than the average account representative earns in Miami, respectfully, we believe that an average of other people's earnings are irrelevant. It is possible that there were other reasons not known to CHL or the OIG why this borrower's income would be substantially higher than city's average. Respectfully, for the OIG to conclude otherwise is to substitute the OIG's hindsight underwriting judgment for that of the experienced D.E. Underwriter who fully considered all of these issues, and then approved this loan as she was authorized by the FHA and CHL to do.

6) FHA Case # 0921-9594135

OIG Findings: Inaccurate Employment and Income Information

The OIG alleges that CHL approved the loan based on inaccurate employment and income information. The OIG apparently verified with the borrower's employer that the borrower never worked for the company, the company never received, completed, or signed the verification of employment form, and the pay stubs did not belong to the company. Further, the OIG states, CHL did not maintain original employment and income documentation in its files. The OIG also noted that the credit report showed the borrower had worked for the employer since August 1999, while the verification of employment form indicated the borrower began working for the employer in 2000. The OIG states that there was no supporting documentation in the case binder that explains this inconsistency. In addition, the OIG states that they verified that the employer identification on the W-2 form was different from that reported by the Florida Department of State, Division of Corporations. Therefore, the OIG concludes that CHL failed to properly verify employment and income information and thereby generated and submitted to HUD inaccurate employment and income data for the borrower.

Comment 21

CHL'S Response: CHL respectfully disagrees with the OIG's findings. The credit report, dated 9/30/03 indicates that employment had been verified by [redacted] for the employer, who indicated that the borrower had been employed as office manager for three years. This is consistent with the verification of employment form, signed also by [redacted], which shows the borrower had been employed since 2000 (which would be three years). Therefore, no explanation was deemed necessary. Further, contrary to the OIG's findings, we confirmed with the Florida Department of State, Division of Corporations (See print-out from the Public Inquiry website at Exhibit F.) that the FEI NUMBER shown on the borrower's W-2s from [redacted] is correct and is identified in the Florida Department of State records as belonging to [redacted].

Comment 22

As stated above, CHL sends all original documents to HUD in the case binder. That is why originals are not retained in our files.

Finally, we note that both the loan officer and the processor who were involved with this loan have terminated their employment with CHL.

See Exhibit F.

OIG Findings: Questionable Source of Funds

The OIG alleges that CHL failed to properly verify the borrower's source of funds to close and that CHL failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. The OIG calculated the minimum downpayment and minimum required investment to be \$5,250 and \$4,710, respectively. The OIG states that they found no evidence in the case binder that the borrower met the minimum downpayment or minimum investment requirements.

Comment 23

CHL'S Response: For reasons previously noted in connection with other loans as to which this same OIG allegation is made, the lack of full documentation available to CHL does not equate to the absence of a fully considered judgment by CHL's underwriter with respect to this issues. In addition, we note that the minimum required investment of \$4,710 clearly was met and that documentation of that judgment has been provided. The HUD-1 Settlement Statement indicates that the borrower was required to bring \$4719.64 to close the loan. This figure complies with the minimum required investment of \$4710.

See Exhibit F.

OIG Findings: Credit Issues

The OIG also alleges that CHL did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. The OIG notes that the borrower provided a letter in the case binder explaining all derogatory credit information. However, the OIG has determined that the borrower's explanations were insufficient and inconsistent. In addition, the OIG notes that the credit report shows several instances in which the borrower was late in repayment of a credit card. Since some of the overdue accounts were in collection status for more than a year, the OIG questions the financial stability of the borrower.

Comment 24

CHL'S Response: As previously noted in connection with other CHL loans criticized by the OIG for these same or similar reasons, CHL's Direct Endorsement Underwriter reached the opposite conclusion and approved this loan. Respectfully, it is neither fair nor appropriate nor permissible for the OIG to second-guess that judgment simply because the full documentation of that judgment is not now available to CHL.

OIG Findings: Other Deficiencies and Inconsistencies

The OIG notes that the credit report and the HUD-1 Settlement Statement identified the employer and the settlement agent with the same name. Thus, the OIG apparently concludes, they could be related or the same person.

Comment 25

CHL'S Response: Respectfully, we disagree with the OIG's conclusions. Although the credit report indicates that one of three repositories reviewed (TransUnion) indicated that the borrower was employed by [redacted] at [redacted], there was no date attached to this reputed employment. The other two credit repositories consulted (Experion and Equifax) did not report [redacted] as the employer. The consolidated tri-merge credit report concluded that the borrower was employed with [redacted] and had been for three years. The verification of employment obtained by CHL supports the employment with [redacted]. Further, it is important to note that the underwriter has no knowledge as to whom the settlement agent will be for a particular loan closing, at the time of underwriting. Therefore, we believe that it is simply coincidence that TransUnion had reported employment with "[redacted]" while the loan was closed by [redacted], Attorney at Law.

See Exhibit F.

7) FHA Case# 092-9644668

OIG Findings: Inaccurate Employment and Income Information

The OIG alleges that CHL approved the loan based on inaccurate employment and income information. The OIG states that the auditor verified with the borrower's employer that the borrower never worked for the company, the company never received, completed, or signed the verification of employment form, and the pay stubs and W-2 forms did not belong to the company. The OIG also states that CHL did not maintain original employment and income documentation in its files. Further, the OIG notes, the credit report and verification of employment form show different employers. Thus, the OIG concludes that CHL failed to properly verify employment and income information and, therefore, generated and submitted to HUD inaccurate employment and income data for the borrower.

Comment 26

CHL's Response: Respectfully, we disagree with the OIG's conclusions regarding the employment and income information. The loan application reports the borrower's employment with "[redacted]". The verification of employment form was addressed to this [redacted] employed at the address shown on the loan application. It was returned from the employer on 11/23/03 confirming the employment. The paycheck stubs further supported this employment information and were consistent in the earnings reported, as were the W-2 forms for 2001 and 2002. We had no reason to suspect that they might not be accurate. CHL's stated policy and procedure is always to mail all verification forms for loans we originate. We had no reason to suspect that that was not done in this case. The [redacted] not contain a copy of the credit report and, therefore, we are unable to respond to your allegation about the credit report. We note also that the borrower confirmed the employment and income information at closing, by signing the final 1003.

Comment 26

processor and the loan officer who originated this file are no longer employed by CHL, so we are unable to question them regarding their compliance with our stated policies. At the time this loan was underwritten, the file was fully documented with a verification of employment form, several paycheck stubs and W2's all consistent and confirming borrower's employment and income. The deposits on the borrower's bank statements also were consistent with the net income reflected on paycheck stubs. As previously stated, all original documents are sent to HUD in the case binder. Unfortunately, our copy of the loan file does

We note also that the underwriter of this loan is no longer employed by CHL.

See Exhibit G.

OIG Findings: Questionable Source of Funds

The OIG alleges that CHL failed to properly verify the borrower's source of funds to close and that CHL failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. The OIG states that the borrower did not provide the minimum downpayment of \$7,359 or the minimum required investment of \$3,690. The OIG also states that they did not find supporting documentation in the case binder that the borrower complied with these funding requirements.

Comment 27

CHL's Response: Respectfully, we disagree with the OIG's findings. The borrower reported, on the loan application, that he had \$11,134 in available funds in a Washington Mutual account. CHL obtained a copy of the borrower's Washington Mutual bank account statement, dated 10/22/03, which confirms that the ending balance on that date was \$11,134.92. (The ending balance on 09/22/03 was \$11,846.27.) Although neither the loan application nor the HUD-1 Settlement Statement reflect that an earnest money deposit had been paid on this property prior to the closing, this does not mean that the borrower did not make a downpayment or minimum required investment. The sale price of this property was \$123,000. Three percent of the sale price was \$3690. The HUD-1 indicates that the borrower was to bring \$9,145 to the closing. We believe that he did so, because if he hadn't, the loan would not have closed. Therefore, it appears to us that the borrower exceeded both the minimum down payment and the minimum investment in the property, as indicated on the HUD-1.

See Exhibit G.

OIG Findings: Credit Issues

The OIG alleges that CHL did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. In particular, the OIG notes that the credit report showed an account that had been in collection status since 2002 without an explanation from the borrower in the case binder. The OIG also noted that another creditor wrote off \$4,239 after not receiving payment from the borrower. The OIG did not find an explanation in the case binder regarding these accounts.

Comment 28

CHL's Response: Our copy of the loan file does not contain copy of the credit report and therefore we are unable to fully respond to your findings. We note, however, that this loan and the borrower's credit were evaluated and approved by Loan Prospector, which is noted on the MCAW as CHUMS ID# ZLPR. Please review the MCAW form and HUD 92900-A attached in Exhibit G.

OIG Findings: Other Deficiencies and Inconsistencies

Finally, the OIG states that they conducted Internet searches and learned that the interviewer and the selling real estate agent appear to be related and are co-owners of a business. The OIG found no documentation in the case binder explaining this discrepancy. In addition, the OIG states that they believe that the borrower's income as a welder was high. The verification of employment form reported income of \$909 weekly or \$47,258 per year. However, the OIG states that they conducted Internet searches and learned that a welder in Miami earns an average income of only \$29,982 per year.

Comment 29

CHL's Response: We cannot respond to the OIG's allegations regarding the interview and the selling agent. We were unaware of any possible relationship between the two. CHL has a strict policy regarding any other employment and any potential conflicts of interest of our employees. We had no reason to suspect that the loan officer who originated this loan was not in compliance with our stated policies. The loan officer is no longer employed by CHL.

Comment 30

Nor can we respond to the OIG's allegation that the borrower's income was too high based on the OIG's research into the average income of a welder in the Miami area. As noted above, we had a verification of income, paycheck stubs and W-2 forms for this borrower, that all were consistent and supported the borrower's stated income. We had no reason to question if he was being paid "more than the average" or why that might be. Neither, respectfully, does the OIG.

8) FHA Case# 092-9689460

OIG Findings: Inaccurate Employment and Income Information

The OIG alleges that CHL approved the loan based on inaccurate employment and income information. The OIG apparently verified with the employer that borrower income was based on commissions and was reported on an Internal Revenue Service 1099 form. According to the OIG, the employer said that the signature on the verification of employment form was not his and the pay stubs and W-2 forms did not belong to the company. The OIG states that CHL did not maintain original employment and income documentation in its files and that CHL failed to properly verify employment and income information and, therefore, generated and submitted to HUD inaccurate employment and income data for the borrower.

Comment 31

CHL's Response: Respectfully, we disagree with the OIG's conclusions. Although the verification of employment, W-2 forms, and paycheck stubs for the borrower ultimately may prove to be false documents, they were regular on their face. Furthermore, since corporate records show the borrower as part-owner of her employer, the loan was conditioned upon receiving an IRS form 4506 and the borrower's tax returns and a financial statement. The borrower's bank statements also support the regular deposits of the borrower's net income. Consequently, we had no indication that any of the documents might be inaccurate. In fact, the borrower re-confirmed the accuracy of the employment and income information when she signed the final loan application (form 1003) at closing.

We note that the underwriter of this loan is no longer employed by CHL.

See exhibit H.

OIG Findings: Questionable Source of Funds

The OIG further alleges that CHL failed to properly verify the borrower's source of funds to close and failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. The OIG calculated the minimum downpayment and minimum required investment to be \$6,950 and \$6,600, respectively, but the OIG found that the borrower invested only \$5,000. The OIG did not find supporting documentation in the case binder to indicate that the borrower complied with the funding requirements.

Comment 32

CHL's Response: Respectfully, we disagree with the OIG's findings. The borrower had made an earnest money deposit of \$5,000, which was supported by a letter from the seller indicating that he was holding the \$5,000 deposit in escrow. The \$5,000 deposit also is shown on the HUD-1 Settlement Statement. The borrower had additional funds available in the bank of \$13,529.00, as supported by a copy of the bank statement dated 12/17/03. The HUD-1 Settlement Statement shows that the borrower was to come to closing with an additional \$1,612.66 and she had already paid \$350.00 outside the closing (for the appraisal), making her total investment \$6,962.66. This amount exceeds both the \$6,950 and the \$6,600 that the OIG calculated as the minimum downpayment and investment requirements.

See Exhibit H.

OIG Findings: Other Deficiencies and Inconsistencies

The OIG alleges that the initial loan application showed \$0 in liabilities, while the final loan application showed \$1,877. Further, the OIG states that, according to the borrower's bank statement, the earnest deposit funds were withdrawn from the account on December 15, 2003. However, a copy of the check in the case binder showed a date of January 14, 2004. The OIG did not find an explanation in the case binder for these inconsistencies.

Comment 33

CHL's Response: Respectfully, we disagree with the OIG's conclusions. It is not unusual for an initial loan application not to show a borrower's actual assets or liabilities, as the amounts change over time (interest on cash assets accrues, debts are paid off or new debts are incurred, etc). Nor is it unusual for the initial loan application and the final loan application to differ in the amounts of cash assets or liabilities. The cash assets and the liabilities shown on the final loan application, however, are supported by the borrower's bank account statements and credit report obtained during the loan processing.

Comment 34

With respect to the date the earnest money deposit actually was made, we agree that the borrower's bank statement shows that check # 4349 was paid by the bank on 12/15/2003, although the copy of the check in HUD's case binder shows the date the check was written as January 14, 2004. We cannot explain this discrepancy. Perhaps the check actually was written on 12/15/03 or earlier, but since the funds were to be held in escrow, the check was post-dated to the anticipated closing date. But, we respectfully suggest, this discrepancy does not make this loan an uninsured one.

Comment 35

9) FHA Case# 092-9331983

OIG Findings: Questionable Source of Funds

The OIG alleges that CHL failed to properly verify the borrower's source of funds to close and failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. The OIG calculated the minimum downpayment and minimum required investment to be \$4,613 and \$3,447, respectively, but states that the borrower invested only \$2,570. The OIG states that they did not find supporting documentation in the case binder that the borrower complied with the funding requirements.

CHL's Response: Respectfully, we disagree with the OIG's findings. The borrower made a total investment of: \$5,267.34 as documented in the case file (\$2000 in earnest money deposit, \$325 paid outside closing for the appraisal, and \$2,942.34 brought to the closing from verified funds). We believe that the funds were correctly documented.

We note that the underwriter of this loan is no longer employed by CHL.

See Exhibit I.

OIG Findings: Credit Issues

The OIG alleges that CHL did not properly analyze credit performance to ensure financial responsibility. In particular, the OIG notes, the credit report showed accounts in collection status that were paid in 2000 and 2001 but no further information was provided in the case binder. While this transaction was completed in 2003, the OIG concludes that CHL should have obtained an explanation from the borrower about these accounts and considered this during the analysis to approve the loan.

Further, the coborrower provided an explanation for all collection accounts, but the OIG determined that these explanations were not acceptable.

CHL's Response: We concur that, even though the collection accounts were paid off more than two years prior to the closing of this loan, the file should have contained an explanation for the borrower's derogatory credit history. We cannot explain why there was no explanation in the file. Perhaps it was included in the original documents sent to HUD in the case binder. We note, however, that since the majority of the co-borrower's collections were medical and the rest of her credit was very good, her explanation was acceptable to this underwriter.

See Exhibit I.

OIG's Findings: Other Deficiencies and Inconsistencies

The OIG states that the coborrower's Social Security number differed slightly among several documents in the case binder. The OIG states, however, that this could be a typing error since the OIG's Internet searches confirmed the copy of the Social Security card in the case binder. Other inconsistencies that apparently bother the OIG include the following: The final loan application showed the borrower having zero dependents and the coborrower having one dependent, but the credit reports showed the borrower having one dependent and the coborrower having zero dependents. This could also be caused by clerical errors.

Also, the OIG notes that the initial loan application showed the coborrower with a bank balance of \$935, while the final loan application showed a balance of \$2,942. And the earnest money deposit in the sales contract, initial and final loan applications, and HUD-1 settlement statement was \$2,000, while the mortgage credit analysis worksheet showed \$2,335. The OIG states that the case binder had no documentation explaining these discrepancies.

The OIG also states that CHL did not provide an explanation for the delay in endorsing the loan in a timely manner and what actions it plans to take to prevent future delayed submissions.

Finally, the OIG also alleges that CHL approved the loan based on questionable employment information. The OIG states that the auditor attempted to verify employment, but the current employer's business had dissolved and the prior employer was a contractor whom the OIG was unable to contact. Instead, the OIG states that the auditor verified with the subcontractor (not the employer) that the borrower provided the information to them to complete the verification of employment form. In addition, the OIG states, CHL did not maintain original employment and income documentation in its files.

Although a Loan Correspondent originated this loan, the OIG concludes that CHL failed to properly verify employment information and, therefore, generated and submitted to HUD inaccurate employment and income data for the borrower.

CHL's Response: As noted by the OIG, the slight differences in the coborrower's social security number among various documents in the file were due to clerical (typographical) errors, as the actual social security number was verified and accurate. Also the differences in whether it was the borrower or the coborrower who had a dependent, as shown in the credit report and the loan application, also were due to clerical errors. They did not effect the processing, underwriting or qualification of the borrowers for approval of this loan.

The OIG also cites alleged and unexplained discrepancies between the loan application and other documents with respect to the coborrower's available assets and the earnest money deposit on this property. With respect to the available cash assets, the OIG states that the initial loan application showed the coborrower with a bank balance of \$935, while the final loan application showed a balance of \$2,942. We concur, however, we respectfully submit that this alleged discrepancy is not unusual nor is it a major issue. As previously stated, there often are changes between the initial and final loan applications, as the initial application numbers are estimates of what the borrower thinks he has, whereas the final loan application numbers are supported by the actual bank account statements and/or credit reports and other related documentation. As noted by the OIG, the final loan application indicates that the coborrower had \$2,942 in available assets to close. This is supported by the closing balance on 02/20/2003, as shown on the coborrower's bank account statement.

With respect to the earnest money deposit, the OIG questions why the sales contract, initial and final loan applications and the HUD-1 Settlement Statement all show \$2,000 as the earnest money deposit, whereas the MCAW showed that \$2,335 had been paid. The difference is that the borrower had also paid \$335 outside of the closing, for the appraisal and credit report. This number was included in the deposit/funds paid on the MCAW. The initial 1003 shows what borrower had in the bank at the time the initial loan application was taken. Subsequent to the initial application, the borrowers received gift funds that were deposited into the bank account and documented per FHA requirements. The increased funds in the account were documented. The MCAW was incorrect by \$10, and that was an oversight, but the \$325 was documented as coming out of the borrower's account. Since there really were no major discrepancies, this underwriter did not feel an explanation was required.

The OIG also states that CHL did not provide an explanation for the delay in endorsing the loan in a timely manner and what actions it plans to take to prevent future delayed submissions. While CHL always makes a diligent effort to submit loans for insurance endorsement in a timely manner, we concur that we did not do so for this particular loan. Respectfully, this was an aberration. CHL has created a monthly report as a tool to ensure timely submission for endorsement in the future.

We respectfully disagree with the OIG's conclusions regarding the employment information. It appears that the OIG obtained information after the fact that was not available to CHL when we underwrote the loan. It also is important to note that, as the OIG states, the loan was originated by a Loan Correspondent. It was the Loan Correspondent who generated the employment and income documents, not CHL. The loan file contains the required verification of employment, a letter on the employer's letterhead explaining that he issues personal paychecks, a copy of the employer's business card and a breakdown of the borrower's gross pay and withholdings. The file also contains a copy of a paycheck, front and back, and verification of employment from the borrower's previous employer. Finally, we note that the credit report also confirmed the borrower's current and prior employment. The documents were consistent and regular on their face and complete. CHL properly underwrote and approved this loan.

See Exhibit I.

As noted above with respect to other loans, all original documents were sent to HUD in the case binder. That is why there are no original documents in CHL's files.

10) FHA Case# 092-9384317

OIG Findings: Questionable Source of Funds

The OIG alleges that CHL failed to properly verify the borrower's source of funds to close and failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. OIG calculated the minimum downpayment and minimum required investment to be \$45,420 and \$6,000, respectively. However, according to the OIG, the borrower invested only \$2,825, and the OIG did not find supporting documentation in the case binder that the borrower complied with the funding requirements.

Comment 36

CHL's Response: We respectfully disagree with OIG findings. The minimum required investment was \$40,000 as noted on line 10.d. of the MCAW, not \$45,425 and \$6,000, respectively. In any event, the borrower met and exceeded both of the minimum amounts calculated by the OIG. The HUD-1 Settlement Statement shows the borrower's required cash to close of \$45,035.17. This amount was paid to Trust Title Company, the settlement agent, via a Cashier's Check from Intermerican Bank in the amount of \$47,000 dated 04/15/2003 (date of closing). The Cashier's Check shows a remitting account number of 01300008741 in the "description" at the bottom of the check. This account number concurs with the account number of the borrower's savings account, as shown on the information on Verification of Deposit in the file.

We note also that both the loan officer and the underwriter of this loan are no longer employed by CHL.

See Exhibit J.

OIG Findings: Credit Issues

The OIG also alleges that CHL did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. The OIG notes that the borrower's credit report indicated the borrower had three accounts sent to collection agencies, however, the credit report did not indicate when these accounts were paid or how much the borrower owed. The borrower provided an explanation for the overdue accounts in the case binder by claiming she had emotional problems. Despite the explanation by the borrower, the OIG questions why the credit accounts would not be paid in a timely manner since the borrower maintained a bank account balance of approximately \$50,000.

Comment 37

CHL's Response: Respectfully, we disagree with the OIG's conclusions regarding the analysis of the borrower's credit performance. The credit Report indicates that the borrower was an authorized user on these accounts, as she states in her letter. The accounts were at a minimum one year old. The loan file also contains alternative credit documentation to support a satisfactory payment history of other obligations (utilities, car loan and insurance). Finally, we believe that "emotional problems" is a perfectly understandable reason why someone may have not paid full attention to financial obligations during a particular period in their lives.

OIG Findings: Excess Ratios without Adequate Justification

The OIG alleges that CHL failed to document the basis for accepting an excess front-end ratio of 33.07 percent.

Comment 38

CHL's Response: CHL respectfully disagrees. The loan to value ratio was 80%, as shown on the MCAW, and the borrower had no consumer debt. Therefore, the back-end ratio also was 33.07 percent. We believe these are reasonable and acceptable compensating factors for exceeding the front-end ratio.

OIG Findings: Other Deficiencies and Inconsistencies

Finally, the OIG alleges that CHL did not resolve conflicting or inconsistent information in the case binder. In particular, the OIG notes, the HUD-I settlement statement, sales contract, and mortgage credit analysis worksheet showed the earnest deposit was \$2,500, while both the initial and final loan applications showed the earnest deposit as \$500. The OIG did not find an explanation in the case binder for this discrepancy.

Comment 39

CHL's Response: We cannot explain this error, but nor, we respectfully suggest, is it incumbent upon us to do so at pain of indemnifying HUD for losses that may occur. We believe that it was an oversight by the closer or settlement agent. We note, however, that a \$2,500 earnest money deposit was less than 2% of sales price and borrower did have \$50,000 in the bank.

11) FHA Case# 092-9491433

OIG Findings: Questionable Source of Funds

The OIG alleges that CHL failed to properly verify the borrower's source of funds to close and failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. The OIG calculated the minimum downpayment and minimum required investment to be \$7,812 and \$3,840, respectively, but states that the borrower invested only \$3,500. The OIG states that they did not find supporting documentation in the case binder that the borrower complied with the funding requirements.

Comment 40

CHL's Response: Respectfully, we disagree with the OIG's conclusions. The Borrower's source of funds to close were verified as follows: A copy of the borrower's bank account statement from Wachovia Bank, dated 5/24/2003, showed that the borrower had a closing balance of \$4,025.60 and an average balance of \$5,850.30. The borrower made an earnest money deposit of \$3,500 and the bank account statement reflects this withdrawal on 5/23/3003. The HUD-1 Settlement Statement shows that the borrower needed to bring \$2,209.05 to closing. This, in addition to the \$3,500 earnest money deposit paid earlier, equals \$5,709.05. The minimum required investment of 3% was only \$3840.

We note also that the underwriter of this loan is no longer employed by CHL.

See Exhibit K.

OIG Findings: Excess Ratios without Adequate Justification

The OIG also alleges that CHL did not provide valid compensating factors for exceeding the ratio. The mortgage payment-to-income (front-end) ratio was 30.25 percent, which exceeds the 29 percent threshold limit. CHL justified the excess front-end-ratio by stating that the borrower does not currently have outstanding consumer debt. Since this is known, the OIG stated, CHL should have provided other compensating factors to explain why this excess ratio will not impact the borrower's ability to make future mortgage payments.

Comment 41

CHL's Response: We respectfully disagree with the OIG's conclusions. Since the debt-to-income (back-end) ratio at the time was acceptable to 41% and this borrower's ratios were 30/30, we believe that the compensating factors were more than sufficient. One of the best compensating factors is not having any consumer debt, thus allowing more income to be used for housing costs. The loan file did contain other acceptable compensating factors as well, such as not using rental income from the other unit and qualifying for the entire payment is a good compensating factor.

Comment 42

Additional compensating factors were listed on the MCAW, such as "Has savings account, not documented" and "Note: Application signed 5/22/03 prior to effective date of Mortgage Letter 2003-07/Seller purchased as foreclosure fixed-up the property for re-sale." Furthermore, the loan closed at an interest rate that was one percent lower than rate he was approved for, thereby reducing the debt to income ratio to only 28.76%.

See Exhibit K.

OIG Findings: Credit Issues

The OIG alleges that CHL did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. The credit reports did not show recent payoffs, but the HUD-I settlement statement showed the borrower paid \$131 toward an overdue account. The case binder indicated that the borrower claimed he did not know the account existed because his ex-girlfriend used his Social Security number to obtain the account. The OIG questions the validity of this explanation because creditors usually send monthly invoices requesting payment. In addition, the OIG stated that it is unusual that the borrower had no knowledge of this balance for more than two years. The OIG also found no supporting documentation in the case binder that the borrower paid this amount.

Comment 43

CHL's Response: Respectfully, we disagree with the OIG's conclusion that we did not properly analyze the borrower's credit performance. The underwriter required that the borrower payoff the overdue credit card bill of \$131 at the closing. Consequently, it was disclosed on the HUD-1 Settlement Statement. The credit report would not show the account being paid as the credit report was run before the loan closed, and this debt was paid at the closing. The supporting documentation that the borrower actually paid this amount is the HUD-1 Settlement Statement because the title company was to make sure that it was paid. That is why it was required to be shown on the HUD-1.

See Exhibit K.

OIG Findings: Other Deficiencies and Inconsistencies

The OIG claims that CHL did not resolve conflicting or inconsistent information in the case binder. In particular, the OIG notes that (1) the verification of employment form and pay stubs showed the borrower earned \$4,274 monthly income, but the final loan application indicated the monthly income as \$3,835. Also, (2) the final loan application showed monthly payments of \$797, while the mortgage credit analysis worksheet showed \$881. (3) The OIG also notes that the final loan application showed the borrower was unmarried and did not indicate any dependents. However, a letter in the case binder indicated the borrower had a child. The case binder did not contain a tax return or other supporting documentation to confirm whether the child was a dependent or whether the borrower owes child support. The OIG states that they did not find an explanation in the case binder for these inconsistencies.

(4)The OIG notes that the sales contract indicated a broker was involved in the sales transaction, however the HUD-1 settlement statement showed the seller paid commissions to a broker that was not identified in the sales contract or other documents in the case binder. (5) The OIG also states that the HUD- I settlement statement showed an expense for yield spread premium but it is unclear who paid this amount at closing. (6) The OIG notes that the HUD- 1 settlement statement also showed that the seller paid \$21,433.08 to an investment company, but the OIG found no explanation in the case binder of the role of this investment company in the sales transaction. (7) Finally, other than a letter indicating a transfer of the escrow deposit to another settlement agent, the OIG states that they did not find supporting documentation in the case binder that this transfer of funds occurred.

Comment 44

CHL's Response: We concur with the OIG's statement that we did not fully investigate the status of the borrower's dependents.

Comment 45

We cannot explain why the HUD-1 Settlement Statement showed the seller paid commissions to a broker who was not identified on the sales contract or other documents in the case binder. We can only assume that the seller must have advised the closing agent to pay this sales commission.

Comment 46

Regarding the yield spread premium amount shown on the HUD-1 Settlement Statement as paid to the originating lender. Although the HUD-1 Settlement Statement does not adequately disclose that it was CHL who paid this amount to the originating lender, we believe that it is well known and understood in the industry that this is what occurs, and therefore, no further explanatory statement is needed. In any event, this disclosure is one made by the entity that is required under HUD regulations to prepare the HUD-1, which was not CHL. And, it should not affect the insured status of this loan.

Comment 47

The OIG also noted that the HUD-1 Settlement Statement shows that the seller paid \$21,433.08 to an investment company, but there is no explanation in the file of the role of this investment company in the transaction. The HUD-1 Settlement Statement shows that the seller paid the \$21,433.08 to L&H Investments, Inc. as a "payoff." Since this was a seller payment, and not a payment by the borrower in this transaction, we do not believe that an explanatory statement was necessary.

See Exhibit K.

12) FHA Case# 092-9512816

OIG Findings: Questionable Source of Funds

The OIG alleges that CHL failed to properly verify the borrower's source of funds to close and failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. The OIG calculated the minimum downpayment and minimum required investment to be \$5,317 and \$4,920, respectively, but states that the borrower invested only \$4,800, and the OIG did not find supporting documentation in the case binder that the borrower complied with the funding requirements.

Comment 48

CHL's Response: Respectfully, we disagree. The required borrower investment on this loan was \$4920 (3%). The borrower had made a \$4,800 earnest money deposit and the HUD-1 Settlement Statement shows he needed to bring \$120.00 to the closing. This totals the required amount of \$4,920. The borrower's available funds were in excess of \$120.00 and the file was properly documented showing these funds.

We note also that the underwriter of this loan is no longer employed by CHL.

See Exhibit L.

OIG Findings: Excess Ratios without Adequate Justification

The OIG alleges that CHL did not provide valid compensating factors for exceeding the ratio. The OIG states that CHL justified the excess front-end-ratio of 33.35 percent by stating that the borrower (1) has no outstanding debt, allowing more to be used for housing, and (2) has a savings account not documented. However, the OIG states, the auditor found copies of bank statements in the case binder that showed the borrower maintained a minimum bank balance of \$36. Therefore, it appears to the OIG that the borrower used his savings for daily purchases to live and remain free of outstanding debt. Thus, the OIG questions the validity of the justifications for the excess qualifying ratio and whether the borrower has the financial capability to make future mortgage payments.

Comment 49

CHL's Response: Respectfully, we disagree with the OIG's conclusion that the compensating factors noted by the underwriter were insufficient cause to exceed the front-end ratio. We believe that having no outstanding consumer debt thus allowing more of the income to be used for housing expense is an excellent compensating factor. The underwriter who reviewed this file found the compensating factors credible at time of approval. Respectfully, there is not reasonable basis for the OIG to second-guess the considered and experienced judgment of the Direct Endorsement Underwriter with respect to this issue, or to recommend the denial of insured status for this loan for that reason.

OIG Findings: Credit Issues

The OIG alleges that CHL did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. Based on the credit report, the OIG states, the borrower had no credit history. Although information was provided in the case binder from the landlord, the OIG concludes that CHL should have used a nontraditional credit history method and considered this when determining approval for the loan. The OIG also notes that the landlord information was faxed from the broker to the loan correspondent in violation of prescribed HUD requirements.

Comment 50

CHL's Response: Respectfully, we disagree. The credit report also showed alternative credit history, including the rental/landlord verification. Therefore, although the verification of rent may have been faxed from the broker to the loan correspondent, this information also was independently verified by the credit report.

See Exhibit L.

OIG Findings: Other Deficiencies and Inconsistencies

The OIG also alleges that CHL did not resolve inconsistent information in the case binder. In particular, the OIG notes, the initial loan application and sales contract showed the earnest money deposit to be \$500, while the final loan application, HUD-1 settlement statement and mortgage credit analysis worksheet showed the earnest money deposit was \$4,800. The OIG's review of pay stubs, bank statements, and other documentation in the case binder noted a potential conflicting relationship between the borrower's girl friend and the landlord. The OIG also states that they found no explanation for the sales contract being faxed from a broker to a real estate agent who appeared to have no involvement in the sales transaction. While the broker was involved in the sales transaction, the verification of employment form was inappropriately faxed from the broker to the loan correspondent in violation of prescribed HUD requirements.

Comment 51

CHL's Response: Respectfully, we disagree with the OIG's conclusion that "inconsistencies" between the loan applications and other documents, with respect to the earnest money deposit were not resolved. They were. The initial loan application stated that the earnest money deposit was \$500. The final loan application, MCAW and HUD-1 Settlement Statement showed that the earnest money paid was \$4,800. The difference was given after the initial loan application was taken. Usually the initial loan application includes simply an estimate of what the borrower thinks they have in assets and liabilities, and is written down by the interviewer. The assets and liabilities of course change over time. The final loan application contains the correct information that has been verified and documented in the file by the credit report and other documentation. The Loan Correspondent provided us with a letter, dated July 9, 2003, from

in which he stated that he is holding in his escrow account the total of \$4,800 for the earnest money deposit on the subject property. was the closing agent. The final loan application, MCAW and HUD-1 Settlement Statement reflect the correct earnest money deposit amount.

See Exhibit L.

Comment 52

With respect to the OIG's allegation that there may have been a potential conflicting relationship between the borrower's girl friend and the landlord, we cannot comment. This was certainly not known to us at the time the loan was underwritten. Nor are we clear on what the OIG is implying may be the result of such a relationship, if it exists.

Comment 53

Finally, the OIG also stated that they saw no explanation for the sales contract being faxed from a broker to a real estate agent who appeared to have no involvement in the sales transaction. We cannot explain this unusual situation either. But, we respectfully suggest, it does not render this loan uninsurable.

Comment 54

The OIG also alleges that the verification of employment form was inappropriately faxed from the broker to the loan correspondent. We cannot explain. We note however, that at the time the loan was underwritten, the file was fully documented with the verification of employment, paycheck stubs, W-2s and a State of Florida record confirming the corporate employer. These documents were all consistent and complete. Therefore, the underwriter did not comment on the fact that the verification of employment had been inappropriately faxed.

13) FHA Case# 092-9554548

OIG Findings: Questionable Source of Funds

The OIG alleges that CHL failed to properly verify the borrower's source of funds to close and failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. The OIG calculated the minimum downpayment and minimum required investment to be \$6,429 and \$3,510, respectively, but states that they did not find supporting documentation in the case binder that the borrower met these funding requirements.

The OIG also alleges that CHL failed to clearly identify the gift amount provided to the borrower. The case binder contained the HUD- I settlement statement showing a gift of \$10,261 and the mortgage credit analysis worksheet showing a gift of \$10,160, while the gift letter found in CHL's loan file showed a gift of \$9,978. The OIG states that CHL provided no further explanation for this discrepancy.

Comment 55

CHL's Response: Respectfully, we disagree with the OIG's conclusions. The Seller of this property was a relative of the buyer. Consequently, as shown on the sales contract and the gift letter, the source of funds was a gift of the seller's equity in the property sufficient to cover the borrower's closing costs, prepaids, non-allowable expenses, discount points and down payment amount. The MCAW was based on estimated costs, and therefore, the amount shown on the MCAW for the gift was \$10,159.65. The HUD-1 Settlement Statement shows the exact amount needed for the gift based on actual costs. No further documentation should be required.

Since FHA allows a 100% gift from a relative of the borrower, of course the required investment was met. The down payment required for this loan was \$3,510 and it was included in the gift of equity.

We note also that the underwriter of this loan is no longer employed by CHL.

See Exhibit M.

OIG Finding: Other Deficiencies and Inconsistencies

The OIG further alleges that CHL did not resolve conflicting or inconsistent information in the case binder. In particular, the OIG notes, the initial and final loan applications showed a different bank account number than the bank statements do, and the verification of employment form showed the borrower being paid on a biweekly basis, while the pay stub showed the borrower being paid on a weekly basis. Further, the pay stub showed no hours worked.

Comment 56

CHL's Response: CHL's experienced D.E. Underwriter resolved all of these hindsight underwriting complaints of the OIG in real time on the basis of all of the information before her, and in her considered and experienced judgment. However, as is the case with respect to other similar complaints with respect to other questioned CHL loans, full documentation is not available to CHL of the underwriter's judgment. Respectfully, the absence of such documentation is not, and should not be, a basis upon which an OIG indemnification demand is based.

Comment 57

14) FHA Case# 092-9560516

OIG Findings: Questionable Source of Funds

The OIG alleges that CHL failed to properly verify the borrower's source of funds to close and failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. The OIG calculated the minimum downpayment and minimum required investment to be \$5,164 and \$2,734, respectively, but states that the borrower invested only \$2,000. The OIG did not find supporting documentation in the case binder that the borrower met these funding requirements.

CHL's Response: Respectfully, we disagree with the OIG's conclusions. The borrower made a \$2,000 earnest money deposit, as documented by a letter from the seller indicating that he was holding this deposit and as shown on the HUD-1 Settlement Statement. The HUD-1 Settlement Statement also showed that the borrower needed to bring an additional \$3,603.49 to closing. (Total \$5,603.49 paid by the borrower.) The source of funds was the borrower's bank account with Washington Mutual, which showed that the borrower had more than enough funds in the account to close the loan. The bank account statement, dated 7/16/03 showed a closing balance of \$12,704.

We note also that the underwriter of this loan is no longer employed by CHL.

See Exhibit N.

OIG Findings: Other Deficiencies and Inconsistencies

Finally, the OIG alleges that CHL did not resolve conflicting or inconsistent information in the case binder. In particular, the OIG notes that the initial loan application, dated July 16, 2003, showed \$809 in liabilities, while the final loan application showed \$427 in liabilities. The OIG notes that the decrease in liabilities was due to repayment of a \$17,009 debt as of June 1, 2003, but the OIG alleges that CHL provided no supporting documentation in the case binder for when and how the repayment of this debt occurred.

CHL's Response: As previously noted, these issues were resolved to the contrary by CHL's Direct Endorsement Underwriter. The absence of full documentation available to CHL, particularly if not available in the original documentation provided to HUD in this insuring file, respectfully is not a basis for the OIG to conclude that that judgment was not exercised, and exercised reasonably and responsibly, by CHL's underwriter. We also note that although the source of funds for repayment of the \$17,009 debt was not fully documented, it was verified as being paid in full by the credit report.

See Exhibit N.

OIG Evaluation of Auditee Comments

Finding 1- CHL Did Not Follow HUD Requirements when Originating and Approving Loans

Comment 1

Certified believed that proper and required procedures were followed, and appropriate and responsible Direct Endorsement Underwriter judgments were made considering that full documentation of the judgments are unavailable.

We disagree that Certified followed proper and required procedures. Certified underwrote loans containing deficiencies that affected the insurability of the loans. We are not questioning the underwriter’s judgment. However, it is important to maintain documentation to understand how the underwriter arrived at their conclusion and to show evidence that the transaction occurred. According to HUD Handbook 4155.1 Revision 4, Change 1, paragraph 3-1, the application package should contain sufficient documentation to support the lender’s decision to approve the mortgage loan.

Comment 2

Certified reported that the OIG cited loan correspondents as originating eight of the loans. The documentation provided to Certified was regular on its face, consistent, and complete. Certified had no reason to suspect and further investigate or “verify” the documentation.

We reported that loan correspondents originated four loans. In addition, we disagree with Certified that the documentation was regular on its face, consistent, and complete. We found questionable documentation such as faxed documents from third parties, inconsistent employment information between the final loan application and verification of employment form, and unreasonable annual salaries. We also disagree that Certified had no reason to further verify documentation provided to them by loan correspondents. Section 3-4A (1) of HUD Handbook 4060.1 REV-1, CHG 1 holds sponsors responsible for the actions of its loan correspondents in originating insured mortgages.

Comment 3

Certified said it has always submitted the original documentation to HUD and that is why the original documentation is not in their files. According to Certified, HUD does not require that the lender maintain all of the original documentation. Certified cites paragraph 5-8 of HUD Handbook 4000.2, Rev-3, that the lender may retain documentation in either hardcopy or electronic format for two years from the date of insurance endorsement.

We agree that all original documentation is not required to be maintained by the lender. However, HUD Handbook 4155.1, REV-4, CHG 1, Section 3-2, requires that the lender maintain the original verification of employment form that was mailed and returned from the employer or creditor. We found faxed verifications from third parties and the original verification form was not found in HUD's or Certified's files. We reviewed loans that were within two years from the date of insurance endorsement and found several instances in which closing documentation was not in HUD's or Certified's files.

Comment 4

Certified considers the 14 loans questioned by the OIG not representative of the 590 FHA-insured loans originated during the audit period or the 1,000 FHA-insured loans originated by Certified since being approved by the FHA as a mortgagee.

We did not conclude that the 14 loans were representative of the 590 FHA loans originated during our audit period or the 1,000 FHA-insured loans originated by Certified since being approved by the FHA as a mortgagee. We reported that the 14 loans contained underwriting deficiencies, and they were selected for review because of risk factors associated with defaulted loans.

Finding 2- CHL Did Not Fully Comply with Federal Housing Administration Quality Control Requirements

Comment 5

Certified disagreed with our conclusion and indicated that some areas of its quality control operations were deficient, but it was not done deliberately. Certified reported a full review and revision of its quality control program including the hiring of a Quality Control Director. Certified's revised quality control plan and procedures include a section devoted to the processing and underwriting guidelines of HUD/FHA.

We agree with Certified that the hiring of knowledgeable staff is vital in the processing and underwriting of quality loans. The development of a written Quality Control Plan to comply with HUD requirements is also vital in assuring HUD that Certified's loan origination and underwriting operations will be accurate, valid, and complete. It is in the implementation and application of the plan that HUD can evaluate whether Certified's loan origination and underwriting operations meet HUD requirements.

Comment 6

Certified reported that their quality control procedures will include monitoring the performance of loans they originate and assuring that all early defaulted and rejected loans are timely submitted to their independent quality control provider for review.

Quality control procedures should include monitoring the performance of FHA-insured loans that Certified and loan correspondents originate. As indicated above, HUD holds sponsors responsible for the actions of its loan correspondents in originating insured mortgages. Quality control reviews conducted in accordance with HUD requirements are the responsibility of Certified. According to HUD Handbook 4060.1, Rev 1- CHG 1, Section 6-3(B), a mortgagee contracting out any part of its Quality Control function is responsible for ensuring that the outside source is meeting HUD's requirements. Among the requirements is to review all loans that default within the first six payments, and at least 10 percent of all rejected loans. These reviews must be conducted within 90 days of loan closing.

Comment 7

Case Number 092-9291283

Certified stated that the verification of employment form, W-2, and paycheck stubs for the coborrower were regular on their face, consistent, and complete. However, we disagree. For example, the paystubs were not originals, which raised questions regarding the existence of the employer or the employer address. Had Certified properly reviewed employment information, they would have learned that the employment information was inaccurate. According to Certified, since the verification of employment form was generated by the loan correspondent, they were responsible in this case to simply underwrite the loan. The responsibility of an underwriter is not to simply approve a loan. It is to ensure that the information provided is accurate, complete, and consistent to support the lender's decision. If these procedures are not practiced then the loan was improperly approved adversely affecting the risk assumed by the FHA insurance fund.

Based on HUD Handbook 4000.4 REV-1, paragraph 2-5 the lenders are to obtain and verify information with at least the same care that would be exercised if the lender were originating a mortgage entirely dependent on the property as security to protect its investment.

Comment 8

Case Number 092-9359262

Certified stated that the verification of employment form, W-2, and paycheck stubs for the borrower were regular on their face, consistent, and complete. We disagree because the name of the employer and employer address are different among the credit report, verification of employment form and a print out from the Florida Department of State, Division of Corporations. Furthermore, the verification of employment form showed that the borrower was employed for four years, while the loan application indicated only two years employment. We believe this conflicting information should have alerted the lender to question the borrower's employment information and contact the employer. Had Certified contacted the employer, they would have learned that the employment information was inaccurate.

Certified did not comment on the gift information because they did not maintain copies of all the gift documentation. Our review and verification of gift documentation found in HUD's files revealed that the information was inaccurate.

Comment 9

Case Number 092-9367167

Certified reported verbally re-verifying the gift information. We disagree because the exhibit provided by Certified does not illustrate having contacted the donor. It simply shows that Certified assured the package contained a gift letter, donor's account bank statement, and transfer of funds. We maintain that had Certified contacted the gift donor, it would have determined that the donor never completed or signed the gift letter and that funds provided to the borrower were a loan. In addition, the pre-closing quality control clerk informed us that Certified does not require contacting the gift donor. Certified also stated that the gift information was generated by the loan correspondent. Based on HUD Handbook 4000.4 REV-1, paragraph 2-5 the lenders are to obtain and verify information with at least the same care that would be exercised if the lender were originating a mortgage entirely dependent on the property as security to protect its investment. Moreover, HUD Handbook 4060.1 Rev-1, section 3-4A (1) holds sponsors responsible for the actions of its loan correspondents in originating insured mortgages.

Case Number 092-9404542

Comment 10

OIG Findings: Inaccurate Employment and Income Information

Certified said that although the verification of employment form, W-2, and paycheck stubs for the borrower may prove to be false documents, they were regular on their face, consistent, and complete. Certified contended it had no indication that the documents might not be accurate during the origination of this loan.

We disagree. The face of the paystub appears suspicious since it was created manually. We believe Certified should have reverified the paystub to determine its authenticity. Furthermore, the employer address is different among the credit report, verification of employment form, a print out from the Florida Department of State, Division of Corporations, and Internet searches. We believe this conflicting information should have alerted the lender to question the borrower's employment information and contact the employer. Had Certified contacted the employer, they would have learned that the employment information was inaccurate. In addition, Certified underwrote the loan based on the documentation provided by the loan correspondent, and also noted that the borrower reconfirmed the accuracy of the employment and income information by signing the final loan application at closing. Paragraph 2-5 of HUD Handbook 4000.4 REV-1, states that lenders are to obtain and verify information with at least the same care that would be exercised if the lender were originating a mortgage entirely dependent on the property as security to protect its investment. Certified is ultimately responsible for ensuring that the information provided is accurate, complete, and consistent to support the lender's decision.

Comment 11

Case Number 092-9404542

OIG Findings: Other Deficiencies and Inconsistencies

Certified disagreed with the OIG's conclusions regarding inconsistent information. Certified clarified that the \$4,200 was a gift provided to the borrower as indicated on the HUD-1 settlement statement, final loan application, and mortgage credit analysis worksheet. However, while Certified corrected the mortgage credit analysis worksheet to reflect \$4,200 in gift funds, this amount appears as both a gift and earnest deposit on this document. Certified should have reconciled the information and provided a clear explanation of events that occurred. Section 3-1 of HUD Handbook 4155.1, REV-1, CHG 1, states that the lender must provide explanatory statements, consistent with other information in the application, to clarify or supplement.

Comment 12

Case Number 092-9574386

OIG Findings: Inaccurate Gift Information

Certified reported that the loan was processed by a loan correspondent and not the lender. The gift documentation provided to Certified was regular on its face, consistent, and complete. Certified had no reason to suspect misrepresentation. We disagree with Certified that the documentation was regular on its face, consistent, and complete. If Certified had contacted the donor and conducted internet searches to confirm the gift information, they would have learned that the gift information was inaccurate. Furthermore, Certified would have learned that the loan correspondent (donor relative) may have provided the gift fund to the borrower. Certified underwrote the loan based on the documentation provided by the loan correspondent. Section 3-4A (1) of HUD Handbook 4060.1 REV-1, CHG 1, holds sponsors responsible for the actions of its loan correspondents in originating insured mortgages. Paragraph 2-5 of HUD Handbook 4000.4 REV-1, states that lenders are to obtain and verify information with at least the same care that would be exercised if the lender were originating a mortgage entirely dependent on the property as security to protect its investment. Certified is ultimately responsible for ensuring that the information provided is accurate, complete, and consistent to support the lender's decision.

Case Number 092-9574386

Comment 13

OIG Findings: Inaccurate Gift Information

Certified stated that they were only aware of one gift donor. We found gift documentation in HUD's files for two donors. Certified also said that the HUD-1 and final application reflected \$3,000 in earnest deposit in which \$2,000 was contributed by the gift donor and \$1,000 by the borrower. The borrower's bank account history indicates two gift deposits totaling \$5,500, which corresponds with the information provided to HUD. Furthermore, the \$2,000 was made out to the settlement agent; however, the bank statements indicate two gift deposits to the borrower's account. These inconsistencies should have indicated a potential problem. In addition, Certified disagrees that the borrower did not sign the gift letter. We are referring to the second gift letter that Certified does not have in its files.

Case Number 092-9574386

Comment 14

OIG Findings: Questionable Source of Funds

Certified disagreed with the OIG's conclusions that they did not properly verify the borrower's source of funds to close. Certified indicated that both the initial and final loan application provided by the loan correspondent show the borrower as a single woman. According to Certified, there was no documentation suggesting she was married. We disagree. If Certified had reviewed the mortgage note, they would have known that the borrower was married. Paragraph 2-5 of HUD Handbook 4000.4, REV-1, CHG 2, states that the mortgagee must review all closing statements, certifications on the closing statements, legal instruments and other documents executed at closing, and certify to HUD that the transaction and loan meet statutory and regulatory requirements of the National Housing Act and HUD. As noted above, although the information was provided by a loan correspondent, it is the lender's responsibility to ensure that the information provided is accurate, complete, and consistent to support the lender's decision.

Case Number 092-9574386

Comment 15 OIG Findings: Questionable Source of Funds

Certified agreed that the borrower had numerous overdraft charges but feels that the explanation provided by the borrower was considered and accepted. The borrower's explanation was for one incident that may have resulted in two overdraft charges within one month. However, the borrower's bank account history shows reoccurring bank overdraft charges for an additional two months without explanation. Furthermore, the bank account history illustrates the borrower had a negative beginning balance prior to these overdraft charges occurring. We continue to question the borrower's ability to repay the mortgage because the ending bank balance was attributed to the gift funds the borrower received and several deposits with inconsistent explanations from information in the bank statements.

Case Number 092-9574386

Comment 16 OIG Findings: Questionable Source of Funds

Certified agreed that it does not have supporting documentation indicating the source of funds used to repay a \$287 debt. However, Certified believed it was unnecessary to address because the amount of debt was low and the borrower had sufficient assets to pay this amount. The credit report shows the debt was repaid in July 2003. The borrower's bank account history showed a negative balance through July 2003.

Case Number 092-9574386

Comment 17 OIG Findings: Questionable Source of Funds

We believe the borrower only had sufficient funds to repay this debt because of the gift.

Certified claims that the borrower met the minimum downpayment and minimum required investment of \$8,073 and \$5,340, respectively. According to Certified, the HUD-1 settlement statement shows the borrower made a \$3,000 earnest deposit and was required to bring \$5,786 to closing. HUD requires the lender to verify all funds for the borrower's investment in the property. Accordingly, we did not find supporting documentation showing the borrower made the \$5,786 payment at closing to meet the minimum required investment and downpayment.

Case Number 092-9574386

Comment 18

OIG Findings: Credit Issues

Certified disagreed with the OIG's conclusions regarding the analysis of the borrower's credit history. While Certified did agree that an explanation was not provided for an account in collection status, they argued that it was unnecessary since it was a small amount. Although the amount is minimal, the existence of collections indicates the borrower's disregard for credit obligations and must be considered in the analysis of the borrower's creditworthiness. Section 2-3 of HUD 4155.1 Rev-4, Change 1 requires that major indications of derogatory credit, including judgments and collections, and any other recent credit problem require sufficient written explanation from the borrower.

In addition, Certified stated that the credit report indicated the borrower had alternate credit for a car loan and that other alternative credit was unavailable because the borrower lived with her family. The credit report shows a balance for the car loan of zero. Therefore, it does not show the borrower's credit performance and attitude towards credit obligations. We maintain that Certified should have used a nontraditional credit history method and considered this when determining approval for the loan.

Case Number 092-9574386

Comment 19

OIG Findings: Other Deficiencies and Inconsistencies

Certified concurred that a \$266 debt was not included in the final loan application. However, Certified reasoned that the application was provided by a loan correspondent. As noted above, although the information was provided by a loan correspondent, it is the lender's responsibility to ensure that the information provided is accurate, complete, and consistent to support the lender's decision. Section 3-4A (1) of HUD Handbook 4060.1 REV-1, CHG 1, holds sponsors responsible for the actions of its loan correspondents in originating insured mortgages. In addition, Certified shared that the inconsistent data regarding assets available was due to the gift monies not deposited at the time of initial loan application. We disagree because the gift monies were deposited directly to the settlement agent; therefore, the increase in the borrower's funds could not be attributed to the gift.

Case Number 092-9574386

Comment 20

OIG Findings: Other Deficiencies and Inconsistencies

Certified stated that they had no reason to question the validity of the borrower's employment since the loan correspondent provided supporting documentation that was consistent and regular on its face and complete. We disagree because if Certified had contacted the employer or reviewed the mortgage note at closing, they would have learned that the employer was the borrower's husband. In addition, Certified believed that an average of other people's earnings is irrelevant. We also disagree because knowing the average income for a certain position provides a guide in determining the reasonableness of the reported income. Section 3-1 of HUD Handbook 4155.1, REV-4, CHG 1, states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the loan.

Case Number 092-9594135

Comment 21

OIG Findings: Inaccurate Employment and Income Information

Certified indicated that the credit report shows that employment had been verified by the borrower's employer and the same employer signed the verification of employment form. However, the employer informed us that she did not employ the borrower, did not sign the verification of employment form, and the information on the pay stub and the verification of employment form are inaccurate. In addition, the last name of the employer is inconsistent between the credit report and verification of employment form. Furthermore, the credit report shows under source of information that the borrower worked for the company since August 1999. Had Certified contacted the employer, they would have learned that the employment information was inaccurate. Certified also stated that it confirmed with the Florida Department of State, Division of Corporations that the employer identification number on the borrower's W-2 form is correct and belongs to the borrower's employer. The information provided to us by Certified is a recent print out from the Florida Department of State that we also found in the HUD case binder. However, Certified's file also contained a print out from the Florida Department of State, Division of Corporations dated September 2003 indicating an employer identification number that did not correspond with the employer identification on the borrower's W-2 form. We believe this conflicting information along with the reasons noted above should have alerted the lender to question the borrower's employment information.

Case Number 092-9594135

Comment 22

OIG Findings: Inaccurate Employment and Income Information

Certified indicated that all original documentation was sent to HUD and not maintained in their files. We found the original employment verification form in the HUD case binder but only copies of pay stubs.

Case Number 092-9594135

Comment 23

OIG Findings: Questionable Source of Funds

Certified claims that the minimum required investment of \$4,710 was met and documentation of that judgment was provided. The HUD-1 settlement statement indicates that the borrower was required to bring \$4,719.64 to closing. HUD requires the lender to verify all funds for the borrower's investment in the property. Accordingly, we did not find supporting documentation showing the borrower made the \$4,719.64 payment at closing to meet the minimum required investment of \$4,710. In addition, Certified did not comment on the minimum downpayment of \$5,250.

Case Number 092-9594135

Comment 24

OIG Findings: Credit Issues

Certified did not comment on this issue but reiterated that their Direct Endorsement Underwriter reached the opposite conclusion and approved this loan despite the full documentation of that judgment is not now available. We are not questioning the underwriter's judgment. However, it is important to maintain documentation to understand how the underwriter arrived at their conclusion and to show evidence that the transaction occurred. According to HUD Handbook 4155.1 REV- 4, CHG 1, paragraph 3-1, the application package should contain sufficient documentation to support the lender's decision to approve the mortgage loan. Therefore, we stand by our conclusion.

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Case Number 092-9594135

Comment 25 OIG Findings: Other Deficiencies and Inconsistencies

Certified indicated that it was simply coincidence that the credit report and HUD-1 settlement statement identified the employer and settlement agent with the same name. According to Certified, the credit report concluded the borrower was employed with the employer stated in the verification of employment. We agree with Certified that this event is coincidental. However, Certified should have questioned this coincidence and verified employment information. As noted above, the employer informed us that she did not employ the borrower, did not sign the verification of employment form, and the information on the pay stub and the verification of employment form are inaccurate.

Case Number 092-9644668

Comment 26 OIG Findings: Inaccurate Employment and Income Information

Certified commented that the loan application form, verification of employment form, W-2, and paycheck stubs contained the same consistent employer information and they had no reason to suspect that they might not be accurate. However, the employer informed us that he did not employ the borrower, did not sign the verification of employment form, and the information on the pay stub, and W-2 are inaccurate. Had Certified contacted the employer, they would have known that the employment information was inaccurate. Certified also affirmed that all original documents were sent to HUD. We found the original employment verification form in the HUD case binder but only copies of pay stubs. In addition, Certified did not comment that the credit report and verification of employment form show a different employer because they did not have a copy of the credit report. However, Certified stated that this information was confirmed at closing by the borrower signing the loan application. Section 3-1 of HUD Handbook 4155.1, REV-1, CHG 1, states the lender must provide explanatory statements, consistent with other information in the application, to clarify or supplement.

Case Number 092-9644668

Comment 27 **OIG Findings: Questionable Source of Funds**

Certified claims the borrower had sufficient funds to meet the minimum required investment and minimum downpayment of \$3,690 and \$7,359, respectively. Although the bank statement shows a high ending balance, there was no verification of deposit to ensure the funds did not come from prohibited parties. Furthermore, the bank statement shows total withdrawals exceeding total deposits and raises a concern on the borrower’s lack of discipline in managing his cash resources. According to Certified, the HUD-1 settlement statement indicates the borrower was required to bring \$9,145 to the closing that would exceed both the minimum downpayment and minimum investment in the property. HUD requires the lender to verify all funds for the borrower’s investment in the property. Accordingly, we did not find supporting documentation showing the borrower made the \$9,145 payment at closing. Therefore, HUD cannot be assured that the funds did not come from a prohibited source.

Case Number 092-9644668

Comment 28 **OIG Findings: Credit Issues**

Certified did not comment on this issue because it did not have a copy of the credit report in their files. However, Certified cited that the loan was evaluated and approved by the loan prospector. Section 2-3 of HUD Handbook 4155.1,REV-4, CHG 1, states that while minor derogatory information occurring two or more years in the past does not require explanation, major indications of derogatory, including judgments and collections, and any other recent credit problem require sufficient written explanation from the borrower. The borrower’s explanation must make sense and be consistent with other information in the file. Additionally, HUD Handbook 4000.2 Rev-2, Chapter 5, paragraph 5-10 requires lenders must retain the entire case file pertaining to loans for two years.

Comment 29

Case Number 092-9644668

OIG Findings: Other Deficiencies and Inconsistencies

Certified cited that they were unaware of any possible relationship between the interviewer and selling agent. Furthermore, Certified has strict policy regarding any other employment and potential conflicts of interest of their employees. However, we found that the interviewer and selling real estate agent are co-owner's of a business. Moreover, based on Certified's employee list, the selling agent was an employee of Certified.

Case Number 092-9644668

Comment 30

OIG Findings: Other Deficiencies and Inconsistencies

Certified did not comment on the borrower's high annual salary. However, Certified stated that the verification of income, paycheck stubs, and W-2 forms were consistent and supported the borrower's stated income and they had no reason to question if he was being paid more than the average or why that might be. Nevertheless, the employer informed us that he did not employ the borrower, did not sign the verification of employment form, and the information on the pay stub and W-2 are inaccurate. Had Certified contacted the employer, they would have known that the employment information was inaccurate. HUD requires lenders to evaluate the stability and adequacy of income. They must ensure the application package contains sufficient documentation to support their decision to approve the mortgage loan.

Case Number 092-9689460

Comment 31

OIG Findings: Inaccurate Employment and Income Information

Certified disagreed with our conclusion and said that although the verification of employment form, W-2, and paycheck stubs for the borrower may prove to be false documents, they were regular on their face. Certified added that corporate records show the borrower was a part owner of her employer and they had no indication that the documents might not be accurate. Certified further stated that the borrower re-confirmed the accuracy of the employment and income information by signing the final loan application at closing.

Comment 31

We disagree. If Certified had contacted the employer, they would have known that the employment information was inaccurate. Furthermore, we noted that the verification of employment form was a fax and the original employment verification form was not found in HUD's or Certified's files. Section 3-2 of HUD Handbook 4155.1 REV-4, CHG 1, requires that the lender's files contain the original verification form that was mailed to and returned from the employer or creditor. In addition, Section 3-1 of HUD Handbook 4155.1, REV-1, CHG 1, states the lender must provide explanatory statements, consistent with other information in the application, to clarify or supplement.

Case Number 092-9689460

Comment 32

OIG Findings: Questionable Source of Funds

Certified claims the borrower had sufficient funds to meet the minimum required investment and minimum downpayment of \$6,600 and \$6,950, respectively. According to Certified, the HUD-1 settlement statement indicates the borrower was required to bring \$1,612.66 to the closing. Certified did not provide additional documentation showing the borrower made the \$1,612.66 payment at closing. Therefore, HUD cannot be assured that the funds did not come from a prohibited source. HUD requires the lender to verify all funds for the borrower's investment in the property.

Case Number 092-9689460

Comment 33

OIG Findings: Other Deficiencies and Inconsistencies

Certified reported that it is not unusual for the initial and final loan application not to show a borrower's actual assets or liabilities as the amounts change over time. They also stated that the cash assets and liabilities shown on the final loan application are supported by the borrower's bank account statements and credit report. We agree that amounts may change between the initial and final loan application. However, the credit report indicates that the borrower had several liabilities before the initial loan application.

Case Number 092-9689460

Comment 34 **OIG Findings: Other Deficiencies and Inconsistencies**

Certified was unable to explain the discrepancy why the earnest deposit funds were withdrawn on December 15, 2003 while the check was dated January 14, 2004. Certified does not believe this discrepancy makes the loan an uninsured one. Section 3-1 of HUD Handbook 4155.1, REV-4, CHG 1 states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement.

Comment 35 **Case Number 092-9331983**

HUD systems show this loan to have been terminated. Recommendation 1A has been revised to reflect those Federal Housing Administration loans that have been paid in full.

Case Number 092-9384317

Comment 36 **OIG Findings: Questionable Source of Funds**

Certified disagreed with the OIG's conclusions regarding the minimum downpayment and minimum required investment of \$45,420 and \$6,000, respectively. Certified claims that the borrower met and exceeded both of the minimum amounts calculated by the OIG by providing us with a copy of a \$47,000 check that the borrower paid at closing. However, the copy of the cashier's check was not provided to us during our review and was not included in the HUD case binder and lender's loan file.

Case Number 092-9384317

Comment 37

OIG Findings: Credit Issues

Certified believes that an emotional problem as stated by the borrower is a perfectly understandable reason why someone may have not paid full attention to financial obligations during a particular period.

We agree that emotional problems can be stressful and may cause someone to not pay full attention to their obligations. However, the credit report indicates that the borrower's derogatory credit was from 2001 - 2003. While Certified noted that the borrower provided alternative credit documentation to support a satisfactory payment history, we still found derogatory credit during 2003. We also find it unusual that only certain accounts were paid while the borrower avoided other financial responsibilities. In addition, we continue to question why credit accounts would not be paid in a timely manner since the borrower maintained a bank account balance of approximately \$50,000. Section 2-3 of HUD Handbook 4155.1, REV-4, CHG1, states that while minor derogatory information occurring two or more years in the past does not require explanation, major indications of derogatory credit, including judgments and collections, and any other recent credit problem require sufficient written explanation from the borrower. The borrower's explanation must make sense and be consistent with other information in the file.

Case Number 092-9384317

Comment 38

OIG Findings: Excess Ratios without Adequate Justification

Certified stated that the compensating factors they provided were reasonable and acceptable for exceeding the front-end ratio. We disagree. Although Certified indicated that the borrower had no consumer debt, the mortgage credit analysis worksheet in both HUD and Certified's files does not indicate any compensating factors. Also as stated above, the borrower had derogatory credit during 2003. Section 2-12A of HUD Handbook 4155.1, REV-4, CHG 1 requires the lender to state on the remarks section of the mortgage credit analysis worksheet compensating factors when the front-end ratio exceeds 29 percent.

Case Number 092-9384317

Comment 39 **OIG Findings: Other Deficiencies and Inconsistencies**

Certified was unable to explain the conflicting or inconsistent information but believes it was an oversight by the closer or settlement agent. It is Certified's responsibility to provide HUD with information that is accurate, complete, and consistent to support the lender's decision. Certified should have reconciled the information and provided a clear explanation of events that occurred. Section 3-1 of HUD Handbook 4155.1, REV-1, CHG 1, states that the lender must provide explanatory statements, consistent with other information in the application, to clarify or supplement.

Case Number 092-9491433

Comment 40 **OIG Findings: Questionable Source of Funds**

Certified claims the borrower had sufficient funds to pay the minimum required investment and minimum downpayment of \$3,840 and \$7,812, respectively. According to Certified, the HUD-1 settlement statement indicates the borrower was required to bring \$2,209.05 to closing. Certified did not provide additional documentation showing the borrower made the \$2,209.05 payment at closing. Therefore, HUD cannot be assured that the funds did not come from a prohibited source. HUD requires the lender to verify all funds for the borrower's investment in the property.

Case Number 092-9491433

Comment 41 **OIG Findings: Excess Ratios without Adequate Justification**

Certified disagreed with the OIG's conclusions and believed that the compensating factors were more than sufficient. Certified noted several compensating factors such as (1) no consumer debt allowing more income to be used for housing costs; (2) not using rental income from the other unit; and (3) the borrower qualifying for the entire payment.

Comment 41 While we agree that the above compensating factors may be sufficient, Certified should have provided other compensating factors to explain why the excess front-end ratio will not impact the borrower’s ability to make future mortgage payments. For example, the credit report shows the borrower with an outstanding debt for two years. In addition, our review found that the borrower had a child and the HUD case binder does not provide sufficient information to determine whether the child is the borrower’s dependent or whether child support is owed. These issues may impact the borrower’s ability to make future mortgage payments.

Case Number 092-9491433

Comment 42 **OIG Findings: Excess Ratios without Adequate Justification**

We disagree with Certified that the additional compensating factors were listed on the mortgage credit analysis worksheet.

Case Number 092-9491433

Comment 43 **OIG Findings: Credit Issues**

Certified maintains that the HUD-1 settlement statement is the supporting documentation that the borrower actually paid the \$131 debt at closing. We disagree. Without a cancelled check or another form of payment, HUD cannot be assured that the funds did not come from a prohibited source. HUD requires the lender to verify all funds for the borrower’s investment in the property. In addition, Certified did not address our concern regarding the borrower’s explanation why this account was in collection status for over two years.

Case Number 092-9491433

Comment 44 **OIG Findings: Other Deficiencies and Inconsistencies**

Certified did not comment on the conflicting or inconsistent information in the case binder involving monthly income and payments on several loan documents. Certified did agree that it did not fully investigate the status of the borrower’s dependents.

Case Number 092-9491433

Comment 45

OIG Findings: Other Deficiencies and Inconsistencies

Certified was unable to explain why the HUD-1 settlement statement showed the seller paid commissions to a broker that was not identified on the sales contract or other documents. Certified assumes the seller advised the settlement agent to pay this commission. However, Section 3-3 of HUD Handbook 4155.1, REV-4, CHG 1 states that the borrower, seller, and the selling real estate agent or broker involved in the sales transaction must certify that the terms and conditions of the sales contract are true to the best of their knowledge and belief and that any other agreement entered into by any of the parties in connection with the real estate transaction is part of, or attached to, the sales agreement.

Case Number 092-9491433

Comment 46

OIG Findings: Other Deficiencies and Inconsistencies

Certified commented that they paid the yield spread premium amount even though the HUD-1 settlement statement does not adequately disclose it. Certified also commented that this disclosure is made by the entity that is required under HUD regulations to prepare the settlement statement, which was not Certified.

We disagree. The lender is responsible to review the HUD-1 settlement statement and ensure that all charges are allowable based on HUD regulations. Although the loan was originated by a loan correspondent, paragraph 2-5 of HUD Handbook 4000.4 REV-1, states that lenders are to obtain and verify information with at least the same care that would be exercised if the lender were originating a mortgage entirely dependent on the property as security to protect its investment. Therefore, it is the lender's responsibility for ensuring that the information provided is accurate, complete, and consistent to support the lender's decision.

Case Number 092-9491433

Comment 47

OIG Findings: Other Deficiencies and Inconsistencies

Certified does not believe that an explanatory statement was necessary because the borrower did not make the payment. We disagree because even though it was a seller transaction, it was a large amount that the lender should have questioned to ensure the seller did not pay other unallowable expenses on behalf of the borrower. Additionally, Certified did not comment regarding the transfer of the escrow deposit to another settlement agent.

Case Number 092-9512816

Comment 48

OIG Findings: Questionable Source of Funds

Certified said that the borrower had sufficient funds to meet the minimum required investment of \$4,920. According to Certified, the borrower paid a \$4,800 earnest deposit and the HUD-1 settlement statement indicates the borrower was required to bring \$120 to closing. We did not find additional supporting documentation showing the borrower made the \$120 payment at closing. In addition, Certified did not comment on the borrower not meeting the \$5,317 minimum downpayment.

Case Number 092-9512816

Comment 49

OIG Findings: Excess Ratios without Adequate Justification

Certified believed that having no outstanding consumer debt thus allowing for more income to be used for housing expense is an excellent compensating factor. Certified added that the compensating factors were credible at the time of approval. We maintain that the bank statements appear to show that the borrower had a minimum balance and that the savings were used for daily purchases to live and remain free of outstanding debt. We continue to question the validity of the justifications for the excess qualifying ratio and whether the borrower has the financial capability to make future mortgage payments.

Case Number 092-9512816

Comment 50 OIG Findings: Credit Issues

Certified commented that the credit report showed an alternative credit history including rental and landlord verification. We question the validity of the alternative credit history because it showed no current balances. Therefore, no conclusion could be reached regarding the borrower’s attitude toward the use of credit. We maintain that Certified should have used a nontraditional credit history method and considered this when determining approval for the loan. In addition, Certified stated that although the verification was faxed, it was independently verified by the credit report. Section 3-1 of HUD Handbook 4155.1, REV-4, CHG 1, states the underwriter has to verify that verification forms are passed directly between the lender and provider without being handled by a third party.

Case Number 092-9512816

Comment 51 OIG Findings: Other Deficiencies and Inconsistencies

Certified disagreed that inconsistencies between the loan applications and other documents were not addressed and provided us with a letter from the loan correspondent to support the correct earnest money deposit. During our audit, we did not find this explanation in the HUD case binder. Certified should have reconciled the information and provided a clear explanation of events that occurred. Section 3-1 of HUD Handbook 4155.1, REV-4, CHG1, states that the lender must provide explanatory statements, consistent with other information in the application, to clarify or supplement.

Case Number 092-9512816

Comment 52 OIG Findings: Other Deficiencies and Inconsistencies

Certified did not comment about the potential relationship between the borrower’s girl friend and landlord because it was not known to them when the loan was underwritten and they are unclear about what the OIG is implying may be a relationship, if it exists. We found that the landlord’s last name is similar to the borrower’s girl friend in reviewing pay stubs, bank statements, and other documentation in the HUD case binder. Since a possible relationship may have existed, we believe that the lender should have requested credit information from other objective third parties.

Case Number 092-9512816

Comment 53

OIG Findings: Other Deficiencies and Inconsistencies

Certified was unable to provide an explanation for the sales contract being faxed from a broker to a real estate agent who appeared to have no involvement in the sales contract. Section 3-3 of HUD Handbook 4155.1 REV-4, CHG 1, states that the borrower, seller, and the selling real estate agent or broker involved in the sales transaction must certify that the terms and conditions of the sales contract are true to the best of their knowledge and belief and that any other agreement entered into by any of the parties in connection with the real estate transaction is part of, or attached to, the sales agreement.

Case Number 092-9512816

Comment 54

OIG Findings: Other Deficiencies and Inconsistencies

Certified was unable to provide an explanation why the verification of employment was inappropriately faxed from the broker to the loan correspondent. However, they maintain that the file was fully documented with the verification of employment form, W-2, and paycheck stubs and these documents were all consistent and complete. HUD requires that written verification forms must pass directly between the lender and provider without being handled by any third party. HUD also requires the lender's file must contain the original verification form that was mailed to and returned from the employer or creditor, which we did not find in the lender's or HUD file. A faxed verification of employment should have been an indication that the lender needed to further verify the information provided and ensure the employer completed the form.

Case Number 092-9554548

Comment 55 OIG Findings: Questionable Source of Funds

Certified clarified that the \$10,261 gift provided to the borrower was indicated on the HUD-1 settlement statement and that no further documentation was required. Certified should have reconciled the information and provided a clear explanation of events that occurred. Section 3-1 of HUD Handbook 4155.1, REV-4, CHG 1, states that the lender must provide explanatory statements, consistent with other information in the application, to clarify or supplement. In addition, Certified stated that this gift met the required investment and downpayment. We found no supporting documentation in the HUD case binder or lender's files for the \$10,261 gift. As a result, we were unable to determine whether the minimum required investment and downpayment were met. Section 2-10 of HUD Handbook 4155.1, REV-4, CHG 1, requires that all funds for the borrower's investment in the property be verified.

Case Number 092-9554548

Comment 56 OIG Findings: Other Deficiencies and Inconsistencies

Certified indicated that the underwriter resolved all of the OIG complaints based on her experienced judgment despite full documentation not being available. However, we maintain that Certified did not resolve conflicting or inconsistent information in the HUD case binder. According to HUD Handbook 4155.1, REV- 4, CHG 1, paragraph 3-1, the application package should contain sufficient documentation to support the lender's decision to approve the mortgage loan.

Comment 57 Case Number 092-9560516

HUD systems show this loan to have been terminated. Recommendation 1A has been revised to reflect those Federal Housing Administration loans that have been paid in full.

Appendix C

SUMMARY OF LOAN DEFICIENCIES

Case #	Other deficiencies & inconsistencies	Questionable source of funds	Credit issues	Inaccurate employment, income & gift information	Excess ratios w/o adequate justification	Funds to be put to better use	Ineligible cost
092-9291283 *	X	X	X	X			
092-9359262 *	X	X		X			
092-9367167 *	X	X	X	X	X		
092-9404542	X			X			\$130,269
092-9574386	X	X	X	X			\$183,055
092-9594135	X	X	X	X			\$165,046
092-9644668	X	X	X	X		\$120,232	
092-9689460	X	X		X		\$216,601	
092-9331983 *	X	X	X				
092-9384317	X	X	X		X	\$162,400	
092-9491433	X	X	X		X		\$133,406
092-9512816	X	X	X		X	\$161,466	
092-9554548	X	X					\$116,703
092-9560516 *	X	X					
Total	14	13	9	8	4	\$ <u>660,699</u>	\$ <u>728,479</u>

* According to Neighborhood Watch, as of October 31, 2005, 5 of the 14 loans terminated. Because these loans no longer represent a risk to the Federal Housing Administration insurance fund, we have removed these 5 loans from our recommendation.

Appendix D

NARRATIVE LOAN DEFICIENCIES

Case number: 092-9291283
Insured amount \$91,787
Date of loan closing: December 30, 2002
Current status: Terminated (paid in full) as of 10/31/05
Payments before first default report: 3

Inaccurate Employment and Income Information

Certified approved the loan based on inaccurate employment and income information. We verified with the coborrower's employer that the coborrower never worked for the company. The employer told us that the company never completed or signed the verification of employment form, and the pay stubs and W-2 forms did not belong to the company. In addition, Certified did not maintain original employment and income documentation in its files. Although a loan correspondent originated this loan, Certified failed to properly verify employment and income information and, therefore, generated and submitted to HUD inaccurate employment and income data for the coborrower.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, requires lenders to determine a borrower's ability and willingness to repay the mortgage debt and, thus, limit the probability of default or collection difficulties. Lenders should evaluate the stability and adequacy of income, funds to close, credit history, qualifying ratios, and compensating factors. They must ensure the application package contains sufficient documentation to support their decision to approve the mortgage loan. Section 3-2 states that the lender's files must contain the original verification form that was mailed to and returned from the employer or creditor.

HUD Handbook 4000.4, REV-1, paragraph 2-5, states that lenders are to obtain and verify information with at least the same care that would be exercised if the lender were originating a mortgage entirely dependent on the property as security to protect its investment.

Questionable Source of Funds

Certified failed to properly verify the borrower's source of funds to close. We noted a \$1,500 and \$1,000 deposit in the coborrower's bank statement without an explanation of the source of these funds. The verification of deposit form indicated an opening bank balance of \$7,728 without information on the source of these funds. Certified also failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. We calculated the minimum downpayment and minimum required investment to

be \$3,731 and \$2,817, respectively. The borrower only invested \$1,000. We did not find supporting documentation in the case binder that the borrower complied with these funding requirements.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-10, requires that all funds for the borrower's investment in the property be verified. Paragraph 2-10B states that a verification of deposit may be used to verify these accounts, along with the most recent bank statement. If there is a large increase in an account or the account was opened recently, an explanation and evidence of source of funds must be obtained by the lender.

Mortgagee Letter 98-29 establishes that borrowers have to invest at least 3 percent into the property. The Federal Housing Administration has determined that the minimum cash investment must be based on sales price.

Other Deficiencies and Inconsistencies

Certified did not resolve conflicting or inconsistent information in the case binder. The final loan application showed a liability of \$9,573, while the initial loan application and credit report did not. The borrower's income was reported as \$2,158 on the verification of employment form, \$2,043 on the loan application, and \$2,179 on the mortgage credit analysis worksheet. In addition, the sales contract showed a selling broker and no listing broker. However, the HUD-1 settlement statement showed the seller paid \$2,676 in commissions to a broker that was not listed in the sales contract or any other documents in the case binder.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 3-1, states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement.

Credit Issues

Certified did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. The coborrower's credit report indicated four accounts with a zero balance. We believe that Certified should have used a nontraditional credit history method and considered this when determining approval for the loan. Although the credit reports did not show any recent payoffs, the HUD-1 settlement statement indicated that the borrower paid \$5,567 toward five debts. The borrower did not give a justification in the case binder for two debts in collection status. While the borrower provided justification in the case binder for the other three debts, we do not believe the explanations were acceptable. The borrower claimed that a cousin used his credit card and left the country without paying the outstanding balance. The borrower is ultimately responsible for repayment of his debts. We also question the financial stability of the borrower since some of the debts in collection status seem to have been

outstanding for more than a year. In addition, we did not find supporting documentation in the case binder for these payments.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-3, states that while minor derogatory information occurring two or more years in the past does not require explanation, major indications of derogatory credit, including judgments and collections, and any other recent credit problem require sufficient written explanation from the borrower. The borrower's explanation must make sense and be consistent with other information in the file. For those borrowers who may not have established a credit history, the lender must develop a credit history from utility payment records, rental payments, and automobile insurance payments (nontraditional credit history method).

Case number: 092-9359262
Insured amount: \$118,146
Date of loan closing: April 30, 2003
Current status: Terminated (paid in full) as of 10/31/05
Payments before first default report: 14

Inaccurate Employment, Income and Gift Information

Certified approved the loan based on inaccurate employment and income information. The verification of employment form indicated that the borrower was a teacher. We verified with the employer that the borrower worked in maintenance. The employer informed us that he signed a blank verification of employment form and indicated that the pay stubs and W-2 forms did not belong to the employer. The verification of employment form also showed that the borrower was employed for four years, while the loan application indicated only two years. We found no explanation in the case binder for this discrepancy. Certified did not maintain original employment and income documentation in its files.

Certified also approved the loan based on inaccurate gift information. We verified with the gift donor that she never completed or signed the gift letter found in the case binder. In addition, the donor indicated that she did not know the borrower and never provided a gift to the borrower. Certified failed to properly verify employment, income, and gift information and, therefore, generated and submitted to HUD inaccurate employment, income, and gift data for the borrower.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, requires lenders to determine a borrower's ability and willingness to repay the mortgage debt and, thus, limit the probability of default or collection difficulties. Lenders should evaluate the stability and adequacy of income, funds to close, credit history, qualifying ratios, and compensating factors. They must ensure the application package contains sufficient documentation to support their decision to approve the mortgage loan. Section 3-2 requires that the lender's files contain the original verification form that was mailed to and returned from the employer or creditor.

Questionable Source of Funds

Certified failed to properly verify the borrower's source of funds to close. The borrower maintained two joint bank accounts with unrelated parties. We are unable to determine how much of these funds belong to the borrower including a deposit of \$2,562 for a tax refund. Therefore, we are concerned that the borrower may not have the financial capability to pay the mortgage or related expenses. In addition, Certified failed to ensure that the borrower met the minimum downpayment in the purchase of the property. We calculated the minimum downpayment to be \$5,758. The borrower only invested \$4,225. We did not find supporting documentation in the case binder that the borrower complied with the minimum downpayment.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-10, requires that all funds for the borrower's investment in the property be verified.

Other Deficiencies and Inconsistencies

Certified did not resolve conflicting or inconsistent information in the case binder. The final loan application showed the borrower's debt and income, while the initial loan application did not list any debt and income. The sales contract reported an earnest deposit of \$900, while the loan application and HUD-1 settlement statement reported \$0. There was no explanation provided for these inconsistencies. In addition, Certified did not provide an explanation for the delay in endorsing the loan in a timely manner and what actions it plans to take to prevent future delayed submissions.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 3-1, states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement.

HUD Handbook 4165.1, REV-1, CHG-3, paragraph 3-1B, states that when a lender is submitting a late request for endorsement case, HUD requires an explanation for the delay and actions taken to prevent future delayed submissions. The lender must also submit a payment ledger showing the loan was current and certify that escrow accounts for taxes, hazard insurance, and mortgage insurance premiums are current and intact except for normal disbursements.

Case number: 092-9367167
Insured amount: \$113,223
Date of loan closing: May 8, 2003
Current status: Terminated (paid in full) as of 10/31/05
Payments before first default report: 12

Inaccurate Gift Information

Certified approved the loan based on inaccurate gift information. We verified with the gift donor that he never completed or signed the gift letter found in the case binder. The donor admitted never providing a gift to the borrower. He did, however, provide a \$2,500 loan to help his brother purchase the property. If Certified had contacted the gift donor, the information would not have been validated. Although a loan correspondent originated this loan, Certified failed to properly verify gift information and, therefore, generated and submitted to HUD inaccurate gift data for the borrower.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, requires lenders to determine a borrower's ability and willingness to repay the mortgage debt and, thus, limit the probability of default or collection difficulties. Lenders should evaluate the stability and adequacy of income, funds to close, credit history, qualifying ratios, and compensating factors. They must ensure the application package contains sufficient documentation to support their decision to approve the mortgage loan.

HUD Handbook 4000.4, REV-1, paragraph 2-5, states that lenders are to obtain and verify information with at least the same care that would be exercised if the lender were originating a mortgage entirely dependent on the property as security to protect its investment.

Questionable Source of Funds

Certified failed to properly verify the borrower's source of funds to close. The case binder indicated two personal money orders were used in providing the gift funds of \$2,000 to the borrower. The purchaser for both money orders was the borrower. The case binder also contained the gift donor's bank account showing a withdrawal of \$2,008. However, there was no supporting documentation to ensure the \$2,008 was used to purchase the personal money orders.

Certified also failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. We calculated the minimum downpayment and minimum required investment to be \$4,175 and \$3,450, respectively. The borrower only invested \$3,400. We did not find supporting documentation in the case binder that the borrower complied with these funding requirements.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-10, requires that all funds for the borrower's investment in the property be verified.

Mortgagee Letter 98-29 establishes that borrowers have to invest at least 3 percent into the property. The Federal Housing Administration has determined that the minimum cash investment must be based on sales price.

Excess Ratios without Adequate Justification

Certified did not provide valid compensating factors for exceeding the ratios. Certified justified the excess front and back end ratios by stating that the borrower had (1) minimal outstanding consumer debt, allowing more to be used for housing and (2) a small family whose living needs are less than larger expanding families. It appears that the borrower used his savings for daily purchases to live and remain free of outstanding debt. This is reflected in the minimal average bank balance of \$251 for two months. In addition, the borrower claimed to have reserves not placed in his bank account. However, there was no evidence that supported this.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-12A, states that a ratio exceeding 29 percent may be acceptable only if significant compensating factors are presented. Section 2-12B states that a ratio exceeding 41 percent may be acceptable if significant compensating factors are presented.

Credit Issues

Certified did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. While the borrower provided two letters in the case binder explaining all derogatory credit information, the explanations were insufficient and inconsistent. For example, the borrower indicated being unaware of medical bills not covered by insurance in collection status. We find this explanation unusual because if a medical provider does not get paid from the insurance company, it then bills the insured person. After several attempts to get paid, the provider reports the unpaid balance to a collection agency. While the credit report shows some of the accounts were paid, we are uncertain whether other accounts were paid since the credit report only indicates that they were updated.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-3, states that while minor derogatory information occurring two or more years in the past does not require explanation, major indications of derogatory credit, including judgments and collections, and any other recent credit problem require sufficient written explanation from the borrower. The borrower's explanation must make sense and be consistent with other information in the file.

Other Deficiencies and Inconsistencies

Certified did not resolve conflicting or inconsistent information in the case binder. We found several inconsistencies between the initial and final loan applications, including (1) the initial loan application stated that the borrower had two dependents, but the final loan application and credit report indicated zero dependents; (2) the initial loan application did not list any debts, but the final loan application listed a debt of \$1,624; (3) the initial loan application showed \$1,000 held by the settlement agent, while the final loan application showed \$2,900 held in escrow; and (4) the initial loan application indicated the borrower had a bank account with no amount disclosed, but the final loan application disclosed a balance of \$506 in the same bank account. In addition, page 2 of the final loan application showed the escrow agent holding \$2,900 as an escrow deposit, while page 3 stated \$3,400. No explanations were provided in the case binder regarding these inconsistencies.

While we verified with the employer that the borrower worked for the company, our review of the case binder found that the borrower was not employed at the time of closing. Closing occurred in May 2003, and the borrower's bank statement for April and May 2003 showed that the employer electronically deposited no funds.

HUD Requirements

HUD Handbook 4155.1, REV 4, CHG 1, section 3-1, states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement.

Case number:	092-9404542
Insured amount:	\$125,037
Date of loan closing:	June 5, 2003
Current status:	Claim
Claim amount:	\$130,269
Payments before first default report:	13

Inaccurate Employment and Income Information

Certified approved the loan based on inaccurate employment and income information. We verified with the borrower's employer that the borrower never worked for the company. The employer told us that the company never received, completed, or signed the verification of employment form, and the pay stubs and W-2 forms did not belong to the company. In addition, Certified did not maintain original employment and income documentation in its files. Although a loan correspondent originated this loan, Certified failed to properly verify employment and income information and, therefore, generated and submitted to HUD inaccurate employment and income data for the borrower.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, requires lenders to determine a borrower's ability and willingness to repay the mortgage debt and, thus, limit the probability of default or collection difficulties. Lenders should evaluate the stability and adequacy of income, funds to close, credit history, qualifying ratios, and compensating factors. They must ensure the application package contains sufficient documentation to support their decision to approve the mortgage loan. Section 3-2 requires that the lender's files contain the original verification form that was mailed to and returned from the employer or creditor.

HUD Handbook 4000.4, REV-1, paragraph 2-5, states that lenders are to obtain and verify information with at least the same care that would be exercised if the lender were originating a mortgage entirely dependent on the property as security to protect its investment.

Other Deficiencies and Inconsistencies

Certified did not resolve conflicting or inconsistent information in the case binder. The initial loan application showed total funds available of \$500, while the final loan application showed total funds available of \$7,196. Both the initial loan application and sales contract showed a \$500 earnest deposit, while the HUD-1 settlement statement and final loan application showed an earnest deposit of \$0. The mortgage credit analysis worksheet showed \$4,200 as the earnest deposit, while the final loan application showed this amount as a gift. The mortgage credit analysis worksheet showed \$1,000 as a gift; however, the case binder did not have supporting documentation for this gift. We did not find an explanation in the case binder for these inconsistencies.

HUD Requirements

HUD Handbook 4155.1, REV- 4, CHG-1, section 3-1, states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement.

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Case number: 092-9574386
Insured amount: \$175,249
Date of loan closing: September 19, 2003
Current status: Claim
Claim amount: \$183,055
Payments before first default report: 10

Inaccurate Gift Information

Certified approved the loan based on inaccurate gift information. We verified with the two gift donors that they never completed or signed the gift letters found in the case binder. In one instance, it appeared that an interested third party (selling broker) informed the donor that the funds were necessary to approve the loan for the borrower. However, the donor attested that the funds provided were a loan and not a gift to the borrower. In addition, the donor confirmed that he is not the borrower's relative as indicated in the gift letter. Further, the borrower did not sign the gift letter. The borrower did repay this loan. In the second instance, the donor told us he did not know the borrower and did not provide a gift to the borrower. It appears that the loan correspondent (donor relative) provided the gift funds to the borrower. Although a loan correspondent originated this loan, we believe that Certified failed to properly verify gift information and, therefore, generated and submitted to HUD inaccurate gift data for the borrower.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, requires lenders to determine a borrower's ability and willingness to repay the mortgage debt and, thus, limit the probability of default or collection difficulties. Lenders should evaluate the stability and adequacy of income, funds to close, credit history, qualifying ratios, and compensating factors. They must ensure the application package contains sufficient documentation to support their decision to approve the mortgage loan.

HUD Handbook 4000.4, REV-1, paragraph 2-5, states that lenders are to obtain and verify information with at least the same care that would be exercised if the lender were originating a mortgage entirely dependent on the property as security to protect its investment.

Questionable Source of Funds

Certified failed to properly verify the borrower's source of funds to close. According to the mortgage agreement, the borrower and employer are married. However, the case binder showed that the loan correspondent certified in a letter that two of the borrower's boyfriend's payroll checks were deposited into the borrower's bank account. The husband and boyfriend had different names. We also noted that the borrower's bank statements had recurring overdraft and insufficient fund charges. During a nearly three-month period, the borrower had nine overdraft charges. Although the borrower provided an explanation in the case binder, we question whether the borrower had the financial capability to repay the mortgage. We also noted that a \$287 debt

was repaid according to a credit report without supporting documentation in the case binder indicating the source of funds used to repay this debt.

Certified failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. We calculated the minimum downpayment and minimum required investment to be \$8,073 and \$5,340, respectively. The borrower only invested \$3,390. We did not find supporting documentation in the case binder that the borrower complied with these funding requirements.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-10, requires that all funds for the borrower's investment in the property be verified.

Mortgagee Letter 98-29 establishes that borrowers have to invest at least 3 percent into the property. The Federal Housing Administration has determined that the minimum cash investment must be based on sales price.

Credit Issues

Certified did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. Based on the credit report, the borrower did not have a sufficient credit history. Certified should have used a nontraditional credit history method and considered this when determining approval for the loan. In addition, the borrower had one account in collection status without an explanation provided in the case binder. It did not appear that Certified considered this collection account in its analyses of the borrower's credit worthiness. We consider this important since the borrower did not have an established credit history and it could have been an indicator of future financial difficulties.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-3, states that while minor derogatory information occurring two or more years in the past does not require explanation, major indications of derogatory credit, including judgments and collections, and any other recent credit problem require sufficient written explanation from the borrower. The borrower's explanation must make sense and be consistent with other information in the file. For those borrowers who may not have established a credit history, the lender must develop a credit history from utility payment records, rental payments, and automobile insurance payments (nontraditional credit history method).

Other Deficiencies and Inconsistencies

Certified did not resolve conflicting or inconsistent information in the case binder. The final loan application did not list a \$266 debt as it appeared in the initial loan application. The initial loan application showed funds available of \$1,400, and the final loan application showed \$6,058. The earnest deposit was \$2,000 on the initial loan application but \$3,000 on the final loan application, HUD-1 settlement statement, and mortgage credit analysis worksheet and \$1,000 on the sales contract. We did not find an explanation in the case binder for these inconsistencies.

By reviewing the case binder and Certified's loan files and conducting Internet searches, we learned that the employer was the husband of the borrower. In addition, the borrower's income as an account representative was high. A copy of the verification of employment form from the case binder reported income of \$1,200 weekly or \$62,400 per year. We conducted Internet searches and learned that an account representative in Miami earns an average income of \$25,192 per year. Therefore, we question the authenticity of the employment and income information generated and submitted to HUD.

HUD Requirements

HUD Handbook 4155.1 REV-4, CHG-1, section 3-1, states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement. Section 3-2 requires that the lender's files contain the original verification form that was mailed to and returned from the employer or creditor.

Case number: 092-9594135
Insured amount: \$155,769
Date of loan closing: October 8, 2003
Current status: Claim
Claim amount: \$165,046
Payments before first default report: 9

Inaccurate Employment and Income Information

Certified approved the loan based on inaccurate employment and income information. We verified with the borrower's employer that the borrower never worked for the company. The employer told us that the company never received, completed, or signed the verification of employment form, and the pay stubs did not belong to the company. Certified did not maintain original employment and income documentation in its files.

We also noted that the credit report showed the borrower had worked for the employer since August 1999, while the verification of employment form indicated the borrower began working for the employer in 2000. There was no supporting documentation in the case binder that explains this inconsistency. In addition, we verified that the employee identification on the W-2 form was different from that reported by the Florida Department of State, Division of Corporations. Certified failed to properly verify employment and income information and, therefore, generated and submitted to HUD inaccurate employment and income data for the borrower.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, requires lenders to determine a borrower's ability and willingness to repay the mortgage debt and, thus, limit the probability of default or collection difficulties. Lenders should evaluate the stability and adequacy of income, funds to close, credit history, qualifying ratios, and compensating factors. They must ensure the application package contains sufficient documentation to support their decision to approve the mortgage loan. Section 3-2 requires that the lender's files contain the original verification form that was mailed to and returned from the employer or creditor.

Questionable Source of Funds

Certified failed to properly verify the borrower's source of funds to close. Certified failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. We calculated the minimum downpayment and minimum required investment to be \$5,250 and \$4,710, respectively. We found no evidence in the case binder of a minimum downpayment or investment in the property by the borrower.

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HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-10, requires that all funds for the borrower's investment in the property be verified.

Mortgagee Letter 98-29 establishes that borrowers have to invest at least 3 percent into the property. The Federal Housing Administration has determined that the minimum cash investment must be based on sales price.

Credit Issues

Certified did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. The borrower provided a letter in the case binder explaining all derogatory credit information. However, the explanations were insufficient and inconsistent. According to the borrower, her visiting relative placed the mail in a new bundle other than her ordinary pile. The relative told the borrower about the mail three weeks later and was unaware that some bills had arrived. This explanation is unacceptable because missing one month's payment would not usually prompt the creditor to refer the borrower to a collection agency. Generally, an account goes into collection status after the creditor has unsuccessfully tried many times to collect payment. In addition, the credit report shows several instances in which the borrower was late in repayment of a credit card. Therefore, we question the financial stability of the borrower since some of the overdue accounts were in collection status for more than a year.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-3, states that while minor derogatory information occurring two or more years in the past does not require explanation, major indications of derogatory credit, including judgments and collections, and any other recent credit problem require sufficient written explanation from the borrower. The borrower's explanation must make sense and be consistent with other information in the file.

Other Deficiencies and Inconsistencies

The credit report and HUD-1 settlement statement identified the employer and settlement agent with the same name. They could be related or the same person.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 3-1, states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement.

Case number: 092-9644668
Insured amount: \$120,232
Date of loan closing: December 24, 2003
Current status: Active
Payments before first default report: 8

Inaccurate Employment and Income Information

Certified approved the loan based on inaccurate employment and income information. We verified with the borrower's employer that the borrower never worked for the company. The employer told us that the company never received, completed, or signed the verification of employment form, and the pay stubs and W-2 forms did not belong to the company. Certified did not maintain original employment and income documentation in its files. Further, the credit report and verification of employment form show different employers. Certified failed to properly verify employment and income information and, therefore, generated and submitted to HUD inaccurate employment and income data for the borrower.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, requires lenders to determine a borrower's ability and willingness to repay the mortgage debt and, thus, limit the probability of default or collection difficulties. Lenders should evaluate the stability and adequacy of income, funds to close, credit history, qualifying ratios, and compensating factors. They must ensure the application package contains sufficient documentation to support their decision to approve the mortgage loan. Section 3-2 requires that the lender's files contain the original verification form that was mailed to and returned from the employer or creditor.

Questionable Source of Funds

Certified failed to properly verify the borrower's source of funds to close. It failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. The borrower did not provide the minimum downpayment and minimum required investment calculated to be \$7,359 and \$3,690, respectively. We did not find supporting documentation in the case binder that the borrower complied with these funding requirements.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-10, requires that all funds for the borrower's investment in the property be verified.

Mortgagee Letter 98-29 establishes that borrowers have to invest at least 3 percent into the property. The Federal Housing Administration has determined that the minimum cash investment must be based on sales price.

Credit Issues

Certified did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. The credit report showed an account that had been in collection status since 2002 without an explanation from the borrower in the case binder. We also noted that a creditor wrote off \$4,239 after not receiving payment from the borrower. We did not find an explanation in the case binder regarding this account.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-3, states that while minor derogatory information occurring two or more years in the past does not require explanation, major indications of derogatory credit, including judgments and collections, and any other recent credit problem require sufficient written explanation from the borrower. The borrower's explanation must make sense and be consistent with other information in the file.

Other Deficiencies and Inconsistencies

We conducted Internet searches and learned that the interviewer and the selling real estate agent appear to be related and are co-owners of a business. We found no documentation in the case binder explaining this discrepancy. In addition, we believe that the borrower's income as a welder was high. The verification of employment form reported income of \$909 weekly or \$47,258 per year. We conducted Internet searches and learned that a welder in Miami earns an average income of \$29,982 per year.

HUD Requirements

HUD Handbook 4155.1 REV-4, CHG-1, requires lenders to determine a borrower's ability and willingness to repay the mortgage debt and, thus, limit the probability of default or collection difficulties. Lenders should evaluate the stability and adequacy of income, funds to close, credit history, qualifying ratios, and compensating factors. They must ensure the application package contains sufficient documentation to support their decision to approve the mortgage loan. Section 3-2 requires that the lender's files contain the original verification form that was mailed to and returned from the employer or creditor.

Case number: 092-9689460
Insured amount: \$216,601
Date of loan closing: February 25, 2004
Current status: Active
Payments before first default report: 1

Inaccurate Employment and Income Information

Certified approved the loan based on inaccurate employment and income information. We verified with the employer that borrower income was based on commissions and was reported on an Internal Revenue Service 1099 form. The employer said that the signature on the verification of employment form was not the employer's, and the pay stubs and W-2 forms did not belong to the company. Certified did not maintain original employment and income documentation in its files. It failed to properly verify employment and income information and, therefore, generated and submitted to HUD inaccurate employment and income data for the borrower.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, requires lenders to determine a borrower's ability and willingness to repay the mortgage debt and, thus, limit the probability of default or collection difficulties. Lenders should evaluate the stability and adequacy of income, funds to close, credit history, qualifying ratios, and compensating factors. They must ensure the application package contains sufficient documentation to support their decision to approve the mortgage loan. Section 3-2 requires that the lender's files contain the original verification form that was mailed to and returned from the employer or creditor.

Questionable Source of Funds

Certified failed to properly verify the borrower's source of funds to close. It failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. We calculated the minimum downpayment and minimum required investment to be \$6,950 and \$6,600, respectively. The borrower only invested \$5,000. We did not find supporting documentation in the case binder that the borrower complied with these funding requirements.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-10, requires that all funds for the borrower's investment in the property be verified.

Mortgagee Letter 98-29 establishes that borrowers have to invest at least 3 percent into the property. The Federal Housing Administration has determined that the minimum cash investment must be based on sales price.

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Other Deficiencies and Inconsistencies

The initial loan application showed \$0 in liabilities, while the final loan application showed \$1,877. According to the borrower's bank statement, the earnest deposit was withdrawn on December 15, 2003. However, a copy of the check in the case binder showed a date of January 14, 2004. We did not find an explanation in the case binder for these inconsistencies.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2, states that 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 income ratios.

Section 3-1 states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement.

Case number: 092-9331983
Insured amount: \$113,984
Date of loan closing: March 4, 2003
Current status: Terminated (paid in full) as of 10/31/05
Payments before first default report: 14

Questionable Source of Funds

Certified failed to properly verify the borrower's source of funds to close. It failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. We calculated the minimum downpayment and minimum required investment to be \$4,613 and \$3,447, respectively. The borrower only invested \$2,570. We did not find supporting documentation in the case binder that the borrower complied with these funding requirements.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-10, requires that all funds for the borrower's investment in the property be verified.

Mortgagee Letter 98-29 establishes that borrowers have to invest at least 3 percent into the property. The Federal Housing Administration has determined that the minimum cash investment must be based on sales price.

Credit Issues

Certified did not properly analyze credit performance to ensure financial responsibility. The credit report showed accounts in collection status that were paid in 2000 and 2001. No further information was provided in the case binder. While this transaction was completed in 2003, Certified should have obtained an explanation from the borrower about these accounts and considered this during the analysis to approve the loan.

The coborrower provided an explanation for all collection accounts, but the explanations were not acceptable. The coborrower indicated having overdraft bank balances, but the bank never billed her. Overdraft charges usually appear in bank statements. The coborrower should have had knowledge of these charges. The coborrower also claimed she had never been billed for overdue medical debts.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-3, states that while minor derogatory information occurring two or more years in the past does not require explanation, major indications of derogatory credit, including judgments and collections, and any other recent credit problem require sufficient written explanation from the borrower. The borrower's explanation must make sense and be consistent with other information in the file.

Other Deficiencies and Inconsistencies

The coborrower's Social Security number was different among several documents in the case binder. We believe this could be a typing error since our Internet searches confirmed the copy of the Social Security card in the case binder.

The final loan application showed the borrower having zero dependents and the coborrower having one dependent. However, the credit reports showed the borrower having one dependent and the coborrower having zero dependents. The initial loan application showed the coborrower with a bank balance of \$935, while the final loan application showed a balance of \$2,942. The earnest money deposit in the sales contract, initial and final loan applications, and HUD-1 settlement statement was \$2,000, while the mortgage credit analysis worksheet showed \$2,335. The case binder had no documentation explaining these discrepancies. In addition, Certified did not provide an explanation for the delay in endorsing the loan in a timely manner and what actions it plans to take to prevent future delayed submissions.

Certified approved the loan based on questionable employment information. We attempted to verify employment, but the current employer's business had dissolved. We then attempted to verify the prior employment. The prior employer was a contractor whom we were unable to contact. Instead, we verified with the subcontractor (not the employer) that the borrower provided the information to them to complete the verification of employment form. In addition, Certified did not maintain original employment and income documentation in its files. Although a loan correspondent originated this loan, Certified failed to properly verify employment information and, therefore, generated and submitted to HUD inaccurate employment and income data for the borrower.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, requires lenders to determine a borrower's ability and willingness to repay the mortgage debt and, thus, limit the probability of default or collection difficulties. Lenders should evaluate the stability and adequacy of income, funds to close, credit history, qualifying ratios, and compensating factors. They must ensure the application package contains sufficient documentation to support their decision to approve the mortgage loan. Section 3-1 states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement. Section 3-2 requires that the lender's files contain the original verification form that was mailed to and returned from the employer or creditor.

HUD Handbook 4000.4, REV-1, paragraph 2-5, states that lenders are to obtain and verify information with at least the same care that would be exercised if the lender were originating a mortgage entirely dependent on the property as security to protect its investment. HUD Handbook 4165.1, REV-1, CHG-3, paragraph 3-1B, states when a lender is submitting a late request for endorsement case, HUD requires an explanation for the delay and actions taken to prevent future delayed submissions.

Case number: 092-9384317
Insured amount: \$162,400
Date of loan closing: April 15, 2003
Current status: Active
Payments before first default report: 4

Questionable Source of Funds

Certified failed to properly verify the borrower's source of funds to close. It failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. We calculated the minimum downpayment and minimum required investment to be \$45,420 and \$6,000, respectively. The borrower only invested \$2,825. We did not find supporting documentation in the case binder that the borrower complied with these funding requirements.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-10, requires that all funds for the borrower's investment in the property be verified.

Mortgagee Letter 98-29 establishes that borrowers have to invest at least 3 percent into the property. The Federal Housing Administration has determined that the minimum cash investment must be based on sales price.

Credit Issues

Certified did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. The credit report indicated the borrower had three accounts sent to collection agencies. However, the credit report did not indicate when these accounts were paid and how much the borrower owed. The borrower provided an explanation for the overdue accounts in the case binder by claiming she had emotional problems. Despite the explanation by the borrower, we question why credit accounts would not be paid in a timely manner since the borrower maintained a bank account balance of approximately \$50,000.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-3, states that while minor derogatory information occurring two or more years in the past does not require explanation, major indications of derogatory credit, including judgments and collections, and any other recent credit problem require sufficient written explanation from the borrower. The borrower's explanation must make sense and be consistent with other information in the file.

Excess Ratios without Adequate Justification

Certified failed to document the basis for accepting an excess front-end ratio of 33.07 percent.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-12A, states that if the total mortgage payment (principal and interest; escrow deposits for real estate taxes, hazard insurance, the mortgage insurance premium, homeowners' association dues, ground rent, special assessments, and payments for any acceptable secondary financing) does not exceed 29 percent of the gross effective income, the relationship of the mortgage payment to income is considered acceptable. A ratio exceeding 29 percent may be acceptable only if significant compensating factors are presented.

Other Deficiencies and Inconsistencies

Certified did not resolve conflicting or inconsistent information in the case binder. The HUD-1 settlement statement, sales contract, and mortgage credit analysis worksheet showed the earnest deposit was \$2,500, while both the initial and final loan applications showed the earnest deposit as \$500. We did not find an explanation in the case binder for this discrepancy.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 3-1, states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement.

Case number: 092-9491433
Insured amount: \$126,022
Date of loan closing: July 14, 2003
Current status: Claim
Claim amount: \$133,406
Payments before first default report: 1

Questionable Source of Funds

Certified failed to properly verify the borrower's source of funds to close. It failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. We calculated the minimum downpayment and minimum required investment to be \$7,812 and \$3,840, respectively. The borrower only invested \$3,500. We did not find supporting documentation in the case binder that the borrower complied with these funding requirements.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-10, requires that all funds for the borrower's investment in the property be verified.

Mortgagee Letter 98-29 establishes that borrowers have to invest at least 3 percent into the property. The Federal Housing Administration has determined that the minimum cash investment must be based on sales price.

Excess Ratios without Adequate Justification

Certified did not provide valid compensating factors for exceeding the ratio. The mortgage payment-to-income (front-end) ratio was 30.25 percent, which exceeds the 29 percent threshold limit. Certified justified the excess front-end-ratio by stating that the borrower does not currently have outstanding consumer debt. Since this is known, Certified should have provided other compensating factors to explain why this excess ratio will not impact the borrower's ability to make future mortgage payments.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-12A, states that if the total mortgage payment (principal and interest; escrow deposits for real estate taxes, hazard insurance, the mortgage insurance premium, homeowners' association dues, ground rent, special assessments, and payments for any acceptable secondary financing) does not exceed 29 percent of the gross effective income, the relationship of the mortgage payment to income is considered acceptable. A ratio exceeding 29 percent may be acceptable only if significant compensating factors are presented.

Credit Issues

Certified did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. The credit reports did not show recent payoffs, but the HUD-1 settlement statement showed the borrower paid \$131 toward an overdue account. The case binder indicated that the borrower claimed he did not know the account existed because his ex-girlfriend used his Social Security number to obtain the account. We question the validity of this explanation because creditors usually send monthly invoices requesting payment. In addition, it is unusual that the borrower had no knowledge of this balance for more than two years. We also found no supporting documentation in the case binder that the borrower paid this amount.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-3, states that while minor derogatory information occurring two or more years in the past does not require explanation, major indications of derogatory credit, including judgments and collections, and any other recent credit problem require sufficient written explanation from the borrower. The borrower's explanation must make sense and be consistent with other information in the file.

Other Deficiencies and Inconsistencies

Certified did not resolve conflicting or inconsistent information in the case binder. The verification of employment form and pay stubs showed \$4,274 monthly income, but the final loan application had \$3,835. The final loan application showed monthly payments of \$797, while the mortgage credit analysis worksheet showed \$881. We question this difference of \$85 even though it does not have an adverse affect on the qualifying ratio calculations. The final loan application showed the borrower was unmarried but did not indicate any dependents. However, a letter in the case binder indicated the borrower had a child. The case binder did not contain a tax return or other supporting documentation to confirm whether the child was a dependent or whether the borrower owes child support. We did not find an explanation in the case binder for these inconsistencies.

The sales contract indicated a broker was involved in the sales transaction. However, the HUD-1 settlement statement showed the seller paid commissions to a broker that was not identified in the sales contract or other documents in the case binder. The HUD-1 settlement statement showed an expense for yield spread premium but it is unclear who paid this amount at closing. The HUD-1 settlement statement also showed that the seller paid \$21,433.08 to an investment company. We found no explanation in the case binder of the role of this investment company in the sales transaction.

Other than a letter indicating a transfer of the escrow deposit to another settlement agent, we did not find supporting documentation in the case binder that this transfer of funds occurred.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 3-1, states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the

mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement. Section 3-3 states that the borrower, seller, and selling real estate agent or broker involved in the sales transaction must certify that the terms and conditions of the sales contract are true to the best of their knowledge and belief and that any other agreement entered into by any of the parties in connection with the real estate transaction is part of, or attached to, the sales agreement.

Case number: 092-9512816
Insured amount: \$161,466
Date of loan closing: July 10, 2003
Current status: Active
Payments before first default report: 9

Questionable Source of Funds

Certified failed to properly verify the borrower's source of funds to close. It failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. We calculated the minimum downpayment and minimum required investment to be \$5,317 and \$4,920, respectively. The borrower only invested \$4,800. We did not find supporting documentation in the case binder that the borrower complied with these funding requirements.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-10, establishes that all funds for the borrower's investment in the property to be verified.

Mortgagee Letter 98-29 establishes that borrowers have to invest at least 3 percent into the property. The Federal Housing Administration has determined that the minimum cash investment must be based on sales price.

Excess Ratios without Adequate Justification

Certified did not provide valid compensating factors for exceeding the ratio. It justified the excess front-end-ratio of 33.35 percent by stating that the borrower (1) has no outstanding debt, allowing more to be used for housing, and (2) has a savings account not documented. However, we found copies of bank statements in the case binder that showed the borrower maintained a minimum bank balance of \$36. It appears that the borrower used his savings for daily purchases to live and remain free of outstanding debt. Therefore, we question the validity of the justifications for the excess qualifying ratio and whether the borrower has the financial capability to make future mortgage payments.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-12A, states that if the total mortgage payment (principal and interest; escrow deposits for real estate taxes, hazard insurance, the mortgage insurance premium, homeowners' association dues, ground rent, special assessments, and payments for any acceptable secondary financing) does not exceed 29 percent of the gross effective income, the relationship of the mortgage payment to income is considered acceptable. A ratio exceeding 29 percent may be acceptable only if significant compensating factors are presented.

Credit Issues

Certified did not properly analyze credit performance to ensure that the borrower demonstrated financial responsibility. Based on the credit report, the borrower had no credit history. Although information was provided in the case binder from the landlord, Certified should have used a nontraditional credit history method and considered this when determining approval for the loan. In addition, the landlord information was faxed from the broker to the loan correspondent in violation of prescribed HUD requirements.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-3, states that while minor derogatory information occurring two or more years in the past does not require explanation, major indications of derogatory credit, including judgments and collections, and any other recent credit problem require sufficient written explanation from the borrower. The borrower's explanation must make sense and be consistent with other information in the file. For those borrowers who may not have established a credit history, the lender must develop a credit history from utility payment records, rental payments, and automobile insurance payments (nontraditional credit history method). Section 3-1 states that the underwriter has to verify that verification forms are passed directly between lender and provider without being handled by any third party.

Other Deficiencies and Inconsistencies

Certified did not resolve conflicting or inconsistent information in the case binder. The initial loan application and sales contract showed the earnest money deposit to be \$500, while the final loan application, HUD-1 settlement statement and mortgage credit analysis worksheet showed the earnest money deposit was \$4,800. Our review of pay stubs, bank statements, and other documentation in the case binder noted a potential conflicting relationship between the borrower's girl friend and the landlord. We also found no explanation for the sales contract being faxed from a broker to a real estate agent who appeared to have no involvement in the sales transaction. While the broker was involved in the sales transaction, the verification of employment form was inappropriately faxed from the broker to the loan correspondent in violation of prescribed HUD requirements.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 3-1, states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement. Section 3-1 also states that the underwriter has to verify that verification forms are passed directly between the lender and provider without being handled by a third party. Section 3-3 states that the borrower, seller, and selling real estate agent or broker involved in the sales transaction must certify that the terms and conditions of the sales contract are true to the best of their knowledge and belief and that any

other agreement entered into by any of the parties in connection with the real estate transaction is part of, or attached to, the sales agreement.

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Case number: 092-9554548
Insured amount: \$116,082
Date of loan closing: September 12, 2003
Current status: Claim
Claim amount: \$116,703
Payments before first default report: 7

Questionable Source of Funds

Certified failed to properly verify the borrower's source of funds to close. It failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. We calculated the minimum downpayment and minimum required investment to be \$6,429 and \$3,510, respectively. We did not find supporting documentation in the case binder that the borrower met these funding requirements. Certified also failed to clearly identify the gift amount provided to the borrower. The case binder contained the HUD-1 settlement statement showing a gift of \$10,261 and the mortgage credit analysis worksheet showing \$10,160, while the gift letter found in Certified's loan file showed a gift of \$9,978. Certified provided no further explanation for this discrepancy.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-10, requires that all funds for the borrower's investment in the property be verified.

Mortgage Letter 98-29 establishes that borrowers have to invest at least 3 percent into the property. The Federal Housing Administration has determined that the minimum cash investment must be based on sales price.

Other Deficiencies and Inconsistencies

Certified did not resolve conflicting or inconsistent information in the case binder. The initial and final loan applications showed a different bank account number than the bank statements. The verification of employment form showed the borrower being paid on a biweekly basis, while the pay stub showed the borrower being paid on a weekly basis. In addition, the pay stub showed no hours worked.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 3-1, states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement.

HUD Handbook 4000.4, REV-1, paragraph 2-5, states that lenders are to obtain and verify information with at least the same care that would be exercised if the lender were originating a mortgage entirely dependent on the property as security to protect its investment.

Case number: 092-9560516
Insured amount: \$89,736
Date of loan closing: August 6, 2003
Current status: Terminated (paid in full) as of 10/31/05
Payments before first default report: 5

Questionable Source of Funds

Certified failed to properly verify the borrower's source of funds to close. It failed to ensure that the borrower met the minimum downpayment and minimum required investment in the purchase of the property. We calculated the minimum downpayment and minimum required investment to be \$5,164 and \$2,734, respectively. The borrower only invested \$2,000. We did not find supporting documentation in the case binder that the borrower met these funding requirements.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 2-10, requires that all funds for the borrower's investment in the property be verified.

Mortgagee Letter 98-29 establishes that borrowers have to invest at least 3 percent into the property. The Federal Housing Administration has determined that the minimum cash investment must be based on sales price.

Other Deficiencies and Inconsistencies

Certified did not resolve conflicting or inconsistent information in the case binder. The initial loan application, dated July 16, 2003, showed \$809 in liabilities, while the final loan application showed \$427. The decrease in liabilities was due to repayment of a \$17,009 debt as of June 1, 2003. Certified provided no supporting documentation in the case binder for when and how the repayment of this debt occurred.

HUD Requirements

HUD Handbook 4155.1, REV-4, CHG-1, section 3-1, states that HUD expects the application package to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support this decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement.

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