



Issue Date December 22, 2005

Audit Report Number: 2006-CH-1004

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

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

SUBJECT: Trustcorp Mortgage Company, Nonsupervised Lender; South Bend, Indiana,
Substantially Complied with Requirements Regarding Late Requests for
Endorsement and Underwriting of Loans

HIGHLIGHTS

What We Audited and Why

We audited Trustcorp Mortgage Company (Trustcorp), a nonsupervised lender approved to originate, underwrite, and submit insurance endorsement requests under the U.S. Department of Housing and Urban Development's (HUD) single family direct endorsement program. The audit was part of the activities in our fiscal year 2005 annual audit plan. We selected Trustcorp for audit because of its high late endorsement rate. Our objectives were to determine whether Trustcorp complied with HUD's regulations, procedures, and instructions in the submission of insurance endorsement requests and underwriting of Federal Housing Administration loans.

What We Found

Trustcorp substantially complied with HUD's requirements on late requests for insurance endorsement; however, before Trustcorp improved its procedures, it improperly submitted five late requests for endorsement out of 1,035 loans tested. The loans were either delinquent or otherwise did not meet HUD's requirements of six monthly consecutive timely payments after delinquency but before

submission to HUD. Four of the five loans were later paid in full and no longer pose a risk to the Federal Housing Administration insurance fund. Trustcorp also incorrectly certified that escrow accounts for taxes, hazard insurance, and mortgage insurance premiums for two of 34 loans' certifications reviewed were current when they were not.

Further, Trustcorp substantially complied with HUD's underwriting requirements for nine loans reviewed. However, it included unallowable charges when determining the debt for two loans that went to claim in excess of HUD's maximum insurable mortgage limits. It also incorrectly certified that due diligence was used in underwriting the two loans reviewed when it was not.

As a result, the risk to HUD's Federal Housing Administration insurance fund was increased.

What We Recommend

We recommend that HUD's assistant secretary for housing-federal housing commissioner take appropriate action against Trustcorp for not following the requirements in effect at the time when it submitted one loan with a total mortgage value of \$99,759 without the proper six-month payment history, require Trustcorp to reimburse HUD \$2,889 for unallowable charges on the two loans that went to claim, implement adequate procedures and controls to ensure its underwriters follow HUD's underwriting requirements regarding allowable charges and the accuracy of underwriting certifications submitted to HUD, and review Trustcorp's implementation of procedures and controls for full compliance with HUD's underwriting requirements.

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

Auditee's Response

During the audit, we provided the results of our late endorsement and underwriting reviews to Trustcorp's management. We also provided our discussion draft audit report to Trustcorp's president, senior vice president/chief operating officer, senior vice president and vice president of compliance, and HUD's staff on December 2, 2005. We conducted an exit conference with Trustcorp's management on December 16, 2005.

We asked Trustcorp's president to provide comments on our discussion draft audit report by December 17, 2005. Trustcorp's vice president of compliance

provided written comments dated December 16, 2005, that agreed with our findings. The complete text of the written comments can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

In 1975, the U.S. Department of Housing and Urban Development (HUD) approved St. Joseph Mortgage Company to originate, purchase, and sell Federal Housing Administration loans. In 1987, St. Joseph Mortgage Company changed its name to Trustcorp Mortgage Company (Trustcorp). Trustcorp operates as a nonsupervised lender under HUD's direct endorsement program. Under the direct endorsement program, Trustcorp is required to determine that a proposed loan is eligible for mortgage insurance under applicable program regulations without prior HUD review of the loan package.

As of October 2005, Trustcorp is the authorized agent for four principals as well as the acting principal for 44 loan correspondents involved in Federal Housing Administration loans. From January 2003 through December 2004, Trustcorp submitted 3,215 Federal Housing Administration loans for mortgage insurance totaling more than \$331 million.

Trustcorp is a wholly owned mortgage banking subsidiary of 1st Source Corporation, which has more than \$3.5 billion in total assets as of October 2005. Trustcorp is headquartered in South Bend, Indiana and has five offices in Indiana and Ohio. It services more than 15,000 mortgages totaling in excess of \$1.3 billion as of October 2005.

We audited Trustcorp as part of the activities in our fiscal year 2005 annual audit plan. We selected Trustcorp for audit because of its high late endorsement rate of 36 percent during the period of January 1, 2003, through December 31, 2004. Trustcorp originated and/or sponsored 3,215 loans totaling more than \$331 million between January 2003 and December 2004.

Our objectives were to determine whether Trustcorp complied with HUD's regulations, procedures, and instructions in the submission of insurance endorsement requests and underwriting of Federal Housing Administration loans.

RESULTS OF AUDIT

Finding 1: Trustcorp Substantially Complied with HUD's Requirements Regarding Late Requests for Endorsement

Trustcorp implemented improvements to its procedures and controls for late requests for endorsement in 2004. However, before the procedures and controls were strengthened, Trustcorp improperly submitted five loans with mortgages totaling more than \$499,000 for insurance endorsement when the borrowers did not make six monthly consecutive timely payments after delinquency but before submission to HUD. Four of the five loans were later paid in full and no longer pose a risk to the Federal Housing Administration insurance fund. Trustcorp also incorrectly certified that the escrow accounts for taxes, hazard insurance, and mortgage insurance premiums for two of 34 loans' certifications reviewed were current when they were not. Trustcorp improperly submitted loans for late endorsement due to errors made by its staff such as misreading the loans' mortgage payment histories. As a result, the remaining one loan poses a risk to the Federal Housing Administration insurance fund.

Trustcorp Took Corrective Actions Regarding Late Endorsements

During 2004, Trustcorp implemented improvements to its procedures and controls for processing Federal Housing Administration loans for endorsement.

Trustcorp implemented a more efficient loan processing system for its Underwriting, Post Closing, and Document Control Departments to use when processing Federal Housing Administration loans. The computerized loan processing system provides the departments with the current status of loans being processed for endorsement. Such status includes but is not limited to the types of loan deficiencies to be addressed in a timely manner or within a reasonable period so loans can be properly submitted to HUD for endorsement.

Additionally, Trustcorp's Post Closing Department's process was restructured to thoroughly audit loan files before the loans are set up for servicing and before they are submitted to HUD for endorsement. Such a thorough audit minimizes errors made by Trustcorp's staff when reading the mortgage payment histories before submitting loans to HUD for late endorsement.

Further, Trustcorp changed the way its staff manages all loans. It has separate management and staff who process conventional loans versus government loans, including Federal Housing Administration loans. Splitting the management oversight of these loans helps Trustcorp to efficiently and effectively manage its

loan processing, thus reducing untimely and improper submissions of loans to HUD for endorsement.

Improperly Submitted Late Requests for Endorsement

Our analysis of the mortgage payment histories provided by Trustcorp and endorsement data from HUD's systems showed that for the 1,035 loans we tested, Trustcorp substantially complied with HUD's requirements regarding late requests for endorsement. However, before Trustcorp improved its procedures, it improperly submitted five loans for endorsement when the borrowers had not made six monthly consecutive timely payments after the delinquency but before submission to HUD.

After endorsement, four of the five loans were paid in full and no longer represent a risk to HUD's Federal Housing Administration insurance fund. One remaining loan (case number 201-3228116) holds active Federal Housing Administration insurance as of December 19, 2005, with \$99,759 in total mortgage value and poses a risk to the insurance fund.

According to HUD's Neighborhood Watch system, Trustcorp submitted 7 out of 270 loans for late endorsement from January 1 through September 30, 2005, which represents more than a 2 percent late endorsement rate. During this same period in 2004, Trustcorp submitted 32 of 302 loans late for endorsement for more than a 10 percent late endorsement rate. We did not determine whether the seven loans met HUD's requirements; we only used the information to determine whether Trustcorp's late endorsement rate had increased or decreased.

Trustcorp signed certification letters for two of 34 loans' certifications reviewed (case numbers 411-3581272 and 411-3633987) it submitted for late requests for endorsement and certified that the escrow accounts for these loans were current. However, the loans Trustcorp submitted to HUD for late endorsement had escrow accounts that were not current at the time of submission. We did not make a recommendation relating to the incorrect certifications in this report because Trustcorp's implementation of the improved procedures and controls in 2004 provides reasonable assurance that loans are correctly certified for late endorsement.

Appendix C of this report provides details of federal requirements regarding late request for insurance endorsement.

During our review, Trustcorp's vice president of compliance provided us a letter dated October 27, 2005, regarding our late endorsement review results. The vice president agreed with our findings in that Trustcorp improperly submitted and underwrote Federal Housing Administration loans.

Recommendation

We recommend that HUD's assistant secretary for housing-federal housing commissioner

- 1A. Take appropriate action against Trustcorp for not following the requirements in effect at the time when it submitted one loan with a total mortgage value of \$99,759 without the proper six-month payment history.

Finding 2: Trustcorp Substantially Complied with HUD's Underwriting Requirements

Trustcorp substantially complied with HUD's underwriting requirements for nine loans reviewed. However, Trustcorp included unallowable charges when determining the debt for two loans that went to claim in excess of HUD's maximum insurable mortgage limits. Trustcorp also incorrectly certified that due diligence was used in underwriting the two loans reviewed when it was not. The problems occurred because Trustcorp's underwriters misinterpreted HUD's requirements regarding the types of allowable costs. As a result, the two loans collectively exceeded HUD's maximum insurable mortgage limit by \$2,889.

Trustcorp Included Unallowable Charges When Determining Two Loans

Trustcorp sponsored 3,215 Federal Housing Administration loans between January 1, 2003, and December 31, 2004. Of the 3,215 loans, HUD paid \$927,513 in claims on nine loans (four home purchase, three streamline refinanced with appraisals, and two streamline refinanced without appraisals).

We reviewed all nine loans for compliance with HUD's underwriting requirements. Based on our review, Trustcorp substantially complied with HUD's underwriting requirements. However, it included unallowable charges when it funded two of the nine insured loans in excess of HUD's maximum insurable mortgage limits. These two loans were streamline refinanced without appraisals.

Paragraph 1-12 of HUD Handbook 4155.1, REV-4, requires Trustcorp to fund Federal Housing Administration streamline loans up to HUD's maximum insurable mortgage limits. Further, paragraph 1-12 prohibits delinquent interest, late charges, or escrow shortages from being included in the mortgages of streamline refinanced loans.

Section IV of HUD's Mortgagee Letter 94-7 states that HUD does not object to commitment or "lock-in" fees charged for guaranteeing the interest rate and/or discount points for a specific period. Commitment or "lock-in" fees may be paid by the borrower but not financed in the loan.

From January 2003 through December 2004, Trustcorp funded two streamline refinanced loans in excess of HUD's maximum insurable mortgage limits. Trustcorp funded the two loans for a total of \$252,375. HUD's maximum insurable limit for the two loans totaled \$249,486. Therefore, the two loans exceeded HUD's limit by \$2,889.

Trustcorp overfunded the loans because its underwriters misinterpreted HUD's requirements regarding the types of costs that can be included when calculating the mortgage amounts for streamline refinanced loans. For loan number 151-7513632, Trustcorp's underwriter included in the new mortgage amount unallowable charges including escrow shortages of the previous loan as well as the unpaid late charges. For loan number 201-3221631, Trustcorp's underwriter included in the new mortgage amount unallowable closing costs such as commitment or "lock-in" fees. HUD paid \$31,544 in claims on these loans.

Further, Trustcorp's underwriters also incorrectly certified that due diligence was exercised in the underwriting of the two loans reviewed when it was not. When underwriting a loan, HUD requires direct endorsement underwriters to calculate the mortgage amounts to be funded based upon their review of information and other associated loan documents that were compiled for a particular loan. After underwriting a Federal Housing Administration loan, HUD requires the direct endorsement underwriters to certify that they reviewed all associated documents and used due diligence in underwriting the mortgages. HUD relies on these certifications to ensure that direct endorsement underwriters follow HUD's underwriting requirements.

Trustcorp Needs to Implement Adequate Procedures and Controls Regarding Allowable Costs and Accuracy of Underwriting Certifications

Although Trustcorp kept current with HUD's underwriting requirements by updating its underwriting manual, it needs to ensure that its underwriters fully understand HUD's requirements regarding allowable closing and other types of costs when calculating new mortgages under streamline refinanced loans. Trustcorp needs to implement adequate procedures and controls to provide reasonable assurance that its underwriters follow HUD's underwriting requirements, including but not limited to adequate training. In addition, implementing adequate procedures and controls over the underwriting of loans would ensure that HUD endorses only Federal Housing Administration loans that have allowable or eligible amounts for insurance, thereby, not only preventing HUD from overinsuring loans but also protecting the Federal Housing Administration fund from future risks. The adequate procedures and controls should also ensure the accuracy of Trustcorp's underwriting certifications submitted to HUD.

Using the two loans with unallowable charges/incorrect certifications and the total claims HUD paid on the nine loans we reviewed, the estimated total risk to the Federal Housing Administration is \$102,026 per year if Trustcorp does not

improve its underwriting procedures and controls (two divided by nine, times \$927,513 in claims paid for two years) over Federal Housing Administration loans.

Trustcorp's vice president of compliance provided us a letter dated October 27, 2005, regarding our underwriting review results. The vice president agreed that Trustcorp included unallowable charges for the two loans cited in this finding.

Recommendations

We recommend that HUD's assistant secretary for housing-federal housing commissioner

- 2A. Requires Trustcorp to reimburse HUD \$2,889 for the two loans (\$2,592 for case number 151-7513632 and \$297 for case number 201-3221631) that went to claim with unallowable charges.
- 2B. Requires Trustcorp to implement adequate procedures and controls to ensure its underwriters follow HUD's underwriting requirements. Such procedures and controls must include but are not limited to providing adequate training to the underwriters regarding HUD's underwriting requirements for Federal Housing Administration loans, adequately monitoring the underwriting of Federal Housing Administration loans to ensure full compliance with HUD's requirements, and ensuring the accuracy of underwriting certifications submitted to HUD. These procedures and controls should help reduce future risks to the Federal Housing Administration fund by \$102,026.
- 2C. Reviews Trustcorp's implementation of Recommendation 2B for full compliance with HUD's underwriting requirements.

SCOPE AND METHODOLOGY

We performed our audit work between July and October 2005. We conducted our audit at Trustcorp’s headquarters office and HUD’s Chicago Regional Office.

To achieve our objectives, we relied on computer processed and hard-copy data from Trustcorp, and data contained in HUD’s Single Family Data Warehouse system. We relied on the loan payment histories provided by Trustcorp, the certifications and loan payment histories in the case binders that Trustcorp submitted to HUD, and the various dates in Trustcorp’s and HUD’s data systems, including loan-closing dates, notice of rejection dates, submission dates, resubmission dates, and endorsement dates. We assessed the reliability of computerized data, including relevant general and application controls. We used mortgage amount and claim status from HUD’s systems for information purposes only.

In addition, we interviewed HUD’s and Trustcorp’s management and staff involved in processing late requests for endorsement, mortgage payments, and underwriting of Federal Housing Administration loans. Further, we reviewed HUD’s rules, regulations, and guidance for proper submission and underwriting of Federal Housing Administration loans and Trustcorp’s policies and procedures.

Using HUD’s data system, we identified that Trustcorp sponsored 3,215 Federal Housing Administration loans with closing dates between January 1, 2003, and December 31, 2004. The total mortgage value of these loans was more than \$331 million. The following table depicts the adjustments made to the initial universe of 3,215 loans identified for testing. A narrative explanation follows the chart.

Description of loans	Number of loans	Original mortgage amounts
Originated and/or sponsored by Trustcorp from January 1, 2003, through December 31, 2004	3,215	\$330,804,810
Closed after April 12, 2004	15	1,622,440
Submitted within 61 to 66 days of closing	2,028	207,607,605
New construction	10	1,364,059
Submitted before the first payment was due	59	5,952,779
Transferred before submission	68	7,880,466
Loans tested	<u>1,035</u>	<u>\$106,377,461</u>

For our late endorsement testing of the 3,215 loans in the initial universe, we removed 15 loans closed after April 12, 2004, not subject to the 90-day requirement, 10 new construction loans, and 59 loans that were submitted before the first payment due date because these loans were not subjected to the 60-day pre-April 2004 submission requirements.

We further limited our universe to only those loans received by HUD more than 66 days after the loans closed. While HUD requires lenders to submit loans for endorsement within 60 days of the loan closing and after April 12, 2004, an additional 30 days after closing, we allowed six

additional days to ensure that we conservatively selected loans for further testing. We allowed six extra days because HUD's mailroom and endorsement contractor have three business days to process each loan and because any submission may be delayed in the mail for up to three days over a weekend.

As a result, after removing the 2,028 loans submitted within 61 to 66 days after closing, there were 1,103 loans remaining as late requests for endorsement.

In evaluating the 1,103 loans, we identified 68 for which Trustcorp transferred the loan servicing to other lenders/servicers before submission for endorsement; therefore, we also removed these loans from our testing universe. After removing the loans that were not subject to HUD's late endorsement requirements, we tested 1,035 loans for compliance with HUD's late endorsement requirements. For accuracy and proper format, we also reviewed Trustcorp's late endorsement certifications of 34 loans initially determined as improperly submitted.

We reviewed all nine loans that went to claim between January 1, 2003, and December 31, 2004, to determine whether Trustcorp complied with HUD's underwriting requirements. We also reviewed the accuracy of Trustcorp's underwriting certifications for two loans inappropriately underwritten out of the nine loans that defaulted and went to claim.

The audit covered the period of January 1, 2003, through December 31, 2004. This period was adjusted as necessary. We conducted the audit 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,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

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

We assessed the relevant controls identified above.

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

Significant Weakness

Based on our audit, we believe the following item is a significant weakness:

- Trustcorp lacked adequate procedures and controls to ensure its underwriters followed HUD's requirements regarding allowable charges and submitted accurate underwriting certifications to HUD (see finding 2).

FOLLOWUP ON PRIOR AUDITS

This was the first audit of Trustcorp's late requests for endorsement and underwriting of Federal Housing Administration-insured loans by HUD's Office of Inspector General (OIG).

The last two independent auditor's reports for Trustcorp covered the years ending December 31, 2003, and December 31, 2004. Both reports indicated the independent auditors' opinion that Trustcorp complied, in all material respects, with the program requirements under HUD's Title II Non-Supervised Mortgagees and Loan Correspondents.

In August 2004, HUD's Quality Assurance Division performed a quality assurance review of Trustcorp. The review resulted in findings related to a deficiency in Trustcorp's quality control plan. All of the findings were resolved and closed as of December 27, 2004.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
2A	<u>\$2,889</u>	
2B		<u>\$102,026</u>
Totals	<u>\$2,889</u>	<u>\$102,026</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 policies 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 later for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS



December 16, 2005

Ms. Rose Capalungan
Assistant Regional Inspector General for Audit
U. S. Department of Housing and Urban Development
Office of the Inspector General
77 West Jackson Blvd., Suite 2646
Chicago, IL 60604

HUD - OIG
OFFICE OF AUDIT
CHICAGO, ILLINOIS
2005 DEC 19 AM 10:30
RECEIVED

Re: HUD OIG Discussion Draft Audit Report # 2006-DH-100x
Trustcorp Mortgage Company

Dear Ms. Capalungan:

We are in receipt of your Audit Discussion Draft covering the results of your audit of Trustcorp Mortgage Company. Per our teleconference exit interview this date, this letter will serve as our response to findings listed your Discussion Draft Report as follows:

Finding 1: Trustcorp Substantially Complied with HUD's Requirements Regarding Late Request for Endorsement.

Case # 201-3228116, TMC #5302874, Becknoll: We acknowledged from the onset of this audit that we had erred in submitting this loan prior to waiting a full six months for consecutive current payments. The August 2003 payment was not applied until September 8, 2003 along with the September 2003 payment. We were also waiting for an address correction to be made in the FHA Connection by the originating source. After the September 2003 payment was posted, all other payments were paid within the month due. When the address affidavit was received on December 10, 2003, and the December 2003 payment was subsequently posted on December 18th, our submission clerk shipped the case binder, apparently not thinking about the payments still needed as much as receiving the current month's payment and the one exception on the loan.

We would like to note that the subsequent two payments were made on time by the borrower. While we admit we made the error, we would like to request that you also consider that HUD has, since that time, changed their regulations to allow mortgagees to submit the case for endorsement as soon as the loan becomes current, therefore eliminating the six month waiting period. Therefore, this loan would not be considered a violation under current regulation.

We would ask that HUD keep these facts in mind in making their final determination on this loan.

Finding 2: Trustcorp Substantially Complied with HUD's Underwriting Requirements.

Case #151-7513632, TMC #5216557, Duncan
Case #201-3221631, TMC #5202691, Pittman

Both of these cases were cited as including unallowable fees when computing the new mortgage amount on streamline refinances. We have agreed with these two items. In reviewing the files, we feel it was an oversight on the underwriter's part. In discussing these cases with the Underwriting Manager, she is aware of HUD's requirements and will discuss these matters with the entire underwriting staff to ensure they adhere to them in all instances. She also indicated that

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Auditee Comments



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HUD OIG Audit Response Letter

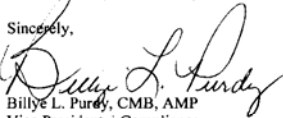
additional and ongoing training would take place on interpreting the escrow balance information on payoff statements as well as keeping the underwriting staff up-to-date on all HUD regulations.

Additionally, we would refer to Mortgagee Letter 2005-43 where HUD has now relaxed its guidelines and allows these fees to be financed.

In conclusion, we would like to state that we have, in the past, and will continue going forward, to make the most concerted effort to abide by any and all regulations and guidelines established by HUD in the origination, underwriting, closing and insuring and servicing of FHA loans. We pride ourselves in our staff and our continued efforts to produce quality loans and follow all regulations and guidelines in doing so. We do, however, realize that no matter what procedures and policies are in place, human error occasionally occurs. When such errors do occur, we make every effort to correct the matter immediately and to utilize the situation for training to ensure it does not occur again. We feel we have made the necessary changes in procedures within our company to enable us to review these loans for errors within days of closing, get any errors we may detect corrected quickly, and to get the loans submitted for insurance in a much timelier manner. We believe the OIG Audit Staff recognized that these changes have made a difference.

We will await your final response.

Sincerely,



Billye L. Purdy, CMB, AMP
Vice President - Compliance

/bip

cc: James W. Kunzler, President, Trustcorp Mortgage Company
Diana L. Ringer, CMB, SVP/COO, Trustcorp Mortgage Company

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Appendix C

FEDERAL REQUIREMENTS

According to 24 CFR [*Code of Federal Regulations*] Part 203.255(b), for applications for insurance involving mortgages originated under the direct endorsement program, the lender shall submit to the secretary of HUD, within 60 days after the date of closing of the loan or such additional time as permitted by the secretary, properly completed documentation and certifications.

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

- The loan is closed after the firm commitment,
- The direct endorsement underwriter's approval expires, and/or
- The mortgage is submitted to HUD for endorsement more than 60 days after closing. Section 3-1(B) states that a loan request for endorsement from the lender must include
 - (1) An explanation for the delay in submitting for endorsement and actions taken to prevent future delayed submissions.
 - (2) A certification that the escrow accounts for taxes, hazard insurance, and mortgage insurance premiums are current and intact except for disbursements which may have been made from the escrow accounts to cover payments for which the accounts were specifically established.
 - (3) A payment ledger that reflects the payments received, including the payment due for the month in which the case is submitted if the case is submitted after the 15th of the month. For example, if the case closed February 3 and the case is submitted April 16, the payment ledger must reflect receipt of the April payment although the payment is not considered delinquent until May 1. Payments under the mortgage must not be delinquent when submitted for endorsement.
 - (a) The lender must submit a payment ledger for the entire period from the first payment due date to the date of the submission for endorsement. Each payment must be made in the calendar month due.
 - (b) If a payment is made outside the calendar month due, the lender cannot submit the case for endorsement until six consecutive payments have been made within the calendar month due.
 - (4) A certification that the lender did not provide the funds to bring the loan current or to affect the appearance of an acceptable payment history.

Mortgagee Letter 2004-14, "Late Request for Endorsement Procedures," clarifies procedures for mortgage lenders when submitting mortgage insurance case binders to the Federal Housing Administration for endorsement beyond the 60-day limit following closing. It replaces the instructions found in the section "Late Request for Endorsement," contained in chapter 3 of HUD Handbook 4165.1, REV-3.

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

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

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

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