



U.S. Department of Housing and Urban Development
Region VI, Office of Inspector General
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July 30, 2007

2007-FW-1801

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

Gerald R. Kirkland

FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: SecurityNational Mortgage Company
Dallas, Texas
FHA Loan Number 491-8724912

Highlights

During the audit of Alethes Mortgage LLC¹ (Alethes), we noted a loan that closed in November 2005 and defaulted in April 2006 contained a questionable rent verification. While the loan was originated by Alethes, it was underwritten by SecurityNational Mortgage Company (SecurityNational). Due to this and U. S. Department of Housing and Urban Development (HUD) not being able to provide the case file, we did not include this loan in our audit findings on Alethes. We are requesting that the Quality Assurance Division review this loan and determine whether it should be indemnified.

Background and Scope

According to information obtained from HUD's Neighborhood Watch System, the borrower received a loan totaling \$96,735 on November 16, 2005. After originating the loan, SecurityNational sold it to Countrywide Home Loans, Inc. (Countrywide). Countrywide reported the borrower as delinquent in June 2006 and began foreclosure. Countrywide conveyed the property to HUD in January 2007. HUD resold the property in April 2007 for \$60,500.²

HUD could not provide the case file to review. Therefore, we could not make a determination of whether the loan should be indemnified. We provided a draft copy of this memorandum to HUD for comment on July 3, 2007. HUD's Quality Assurance Division replied that it would locate and review the file and respond to the final memorandum.

¹ Audit Report 2007-FW-1010, dated June 8, 2007.

² HUD's net proceeds from the sale were \$57,425 (\$60,500 less closing costs of \$3,075).

Finding

SecurityNational underwrote the loan which closed on November 16, 2005.³ During our audit of Alethes, it contended and we accepted that it was not responsible for the resolution since it did not underwrite the loan.

After the April loan default, Alethes' quality control review (in June 2006) found that someone "whited-out" the number of months that the borrower paid rent late.⁴

HUD paid a claim totaling \$106,154 in January 2007. Based on Alethes' quality control review and months after HUD paid a claim, Alethes' attempted to contact the landlord regarding the questionable rent verification.

Since HUD could not provide the loan file, we are requesting the Quality Assurance Division review this loan because of the potentially questionable underwriting.

Recommendation

We recommend that the assistant secretary for housing—federal housing commissioner require the Quality Assurance Division to:

- 1A. Review this loan and take appropriate action based on loan documentation and the adequacy of the underwriting. If the Quality Assurance Division determines that the underwriting was inadequate, then require SecurityNational to reimburse the \$48,729.⁵

³ Because HUD cannot retrieve the file we were unable to determine when the borrower first completed the loan application documents for Alethes' Waters Edge branch.

⁴ Eleven months after closing.

⁵ HUD sold the property April 2007 for \$60,500. HUD's loss was \$48,729 (\$106,154 less \$57,425).