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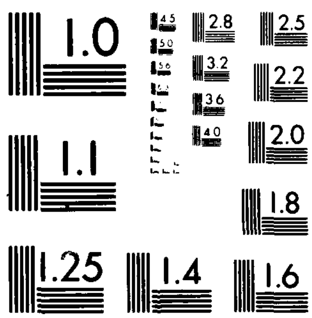

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REPORT BY THE

Comptroller General

OF THE UNITED STATES

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HUD Should Strengthen Mortgagee Monitoring To Reduce Losses .

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Department of Housing and Urban Development-approved mortgage lenders ~~identified in this report as~~ mortgagees--are responsible for originating and servicing HUD-insured single-family loans. If a mortgagee does not adequately assess the prospective home buyer's ability to repay a loan and/or does not provide proper servicing of the loan, defaults, foreclosures, and substantial losses to the Federal Government can occur. In fiscal year 1980, HUD sold 13,698 single-family homes that it had acquired after foreclosures at a loss of about $183 million--about $13,400 on the average for every property sold. Improved loan origination and servicing would reduce foreclosures and the ~~Federal~~ Government's losses.

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GAO found that HUD needs to improve mortgagee monitoring by: (1)

- establishing more realistic mortgagee review goals; (2)
- concentrating on mortgagees that need monitoring the most; (3)
- providing more extensive review coverage; and (4)
- improving the quality and comprehensiveness of reviews.

UNITED STATES GENERAL ACCOUNTING OFFICE

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JUNE 9, 1981

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-203490

The Honorable Carl Levin
Ranking Minority Member, Subcommittee on
Oversight of Government Management
Committee on Governmental Affairs
United States Senate

Dear Senator Levin:

In response to your June 6, 1980, request, we are reporting on the Department of Housing and Urban Development's monitoring of mortgagee loan origination and servicing practices. The report discusses HUD's need to improve monitoring of mortgagee compliance with HUD regulations. As part of our response, we briefed you on August 18, 1980, concerning the Mortgagee Review Board.

At your request we did not take the additional time to obtain written agency comments. The matters covered in the report, however, were discussed with agency officials and their comments are incorporated where appropriate.

As arranged with your office, unless you publicly release its contents earlier, we plan no further distribution of this report until 30 days from the issue date. At that time we will send copies to the Director, Office of Management and Budget, and the Secretary of Housing and Urban Development and we will make copies available to other interested parties.

Sincerely yours,

Milton J. Socolar

Acting Comptroller General
of the United States

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COMPTROLLER GENERAL'S
REPORT TO THE RANKING MINORITY MEMBER
SUBCOMMITTEE ON OVERSIGHT
OF GOVERNMENT MANAGEMENT
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

HUD SHOULD STRENGTHEN MORTGAGEE MONITORING TO REDUCE LOSSES

D I G E S T

The Department of Housing and Urban Development's (HUD's) system for reviewing mortgage lenders (mortgagees) participating in HUD-insured loan programs needs revised review goal-setting techniques, strict compliance with existing procedures, more effective review coverage, and a stronger commitment to quality control of mortgagee reviews.

HUD-approved mortgagees are responsible for originating and servicing HUD-insured single-family loans. As of April 1981, HUD had approved about 19,000 mortgagees to originate HUD-insured loans. This number increases to 41,000 when mortgagee branch offices are included. For the 5-year period ending September 30, 1980, only about 5,000 mortgagees were active in originating HUD-insured loans. Approximately 5,000 mortgagees, some of which also originate loans, are active in servicing HUD-insured loans. (See p. 1.)

If a mortgagee fails to adequately assess a prospective home buyer's ability to repay a loan and/or fails to provide proper servicing of the loan, defaults, foreclosures, and substantial losses to the Federal Government can occur. As of September 30, 1980, HUD had over $105 billion of mortgage insurance in force covering 4.8 million homes. In fiscal year 1980, HUD sold 13,698 single-family homes that it had acquired after foreclosures at a loss of about $183 million--about $13,400 on the average for every property sold. Improved loan origination and servicing would reduce foreclosures and the Federal Government's losses. (See p. 1.)

HUD primarily monitors this program through its Office of Mortgagee Activities. Two branches, Origination and Servicing, conduct onsite mortgagee reviews to determine the degree of compliance with HUD loan origination and servicing procedures. The Origination Branch directly supervises 10 mortgagee field representatives stationed in HUD regions. The mortgagee field representatives, who only make origination reviews, conducted over 800 mortgagee reviews in fiscal year 1980. In contrast, during the same fiscal year, the Servicing Branch used about 130 loan specialists located at HUD's 69 field offices to conduct more than 1,400 reviews of mortgagees servicing HUD-insured loans. (See p. 1.)

If mortgagees violate HUD requirements in connection with their HUD-insured lending activities, HUD can impose sanctions against them through its Mortgagee Review Board. Since the inception of the Board in September 1975 through June 1980, the Board had withdrawn HUD mortgagee approval in 229, or 75 percent, of the 304 cases reviewed. (See pp. 1 and 2.)

MORTGAGEE ORIGINATION REVIEWS--IMPROPER SELECTIONS AND POOR COVERAGE

HUD is, at times, selecting mortgagees for review that have originated small numbers of HUD-insured loans while more active mortgagees are not reviewed as often. In addition, mortgagees experiencing high foreclosure rates--one indicator of poor loan origination--are often not selected for review. GAO found that about 50 percent of the top 100 mortgagees with the highest claim ratio, as of December 31, 1978, had not been reviewed during fiscal years 1979 and 1980. Yet less critical mortgagees were being reviewed. GAO believes this practice is an ineffective use of limited resources, contributes to inadequate review coverage, and limits opportunities to correct loan origination problems. (See p. 5.)

GAO's analysis shows that mortgagees originating HUD-insured loans are reviewed by HUD, on average, only about once every 6 years. Furthermore, in fiscal year 1979 mortgagee review coverage ranged from 0 to 20 percent for the areas covered by field mortgagee representatives; fiscal year 1980 review coverage ranged from 8 to 59 percent. Mortgagee review coverage is hindered, in part, by limited resources. (See p. 6.)

MONITORING OF SERVICING MORTGAGEES-- IMPROVEMENT NEEDED

HUD's system for monitoring mortgagees which service HUD-insured loans does not operate effectively enough to minimize losses. GAO found that mortgagee review goals apportioned to HUD area offices do not ensure the most efficient review coverage. The review goals are not based on the relative number or percentage of total HUD-insured loans serviced in one area office versus another, the available staff or their experience, or other workload priorities. (See p. 8.)

Although HUD's criteria for selecting mortgagees for servicing reviews are sound, GAO found that often they are not followed. As a result, area offices have not always reviewed the most appropriate mortgagees or provided adequate review coverage. GAO found that 6 of the 11 area offices it reviewed had selected smaller, less active mortgagees for review in order to meet their annual review goals. As an example, the Atlanta area office in fiscal year 1980 performed 46 mortgagee reviews. GAO found that 30 of these reviews, or 65 percent, were of mortgagees with less than 50 HUD-insured mortgages; 16 of the 30 were of mortgagees with less than 10 mortgages. Two mortgagees were reviewed that were not servicing any HUD-insured loans. Yet Atlanta had a number of large, active mortgagees within its jurisdiction that were not reviewed in 1980. Furthermore, GAO found that 7 of 11 area offices visited could not accurately account for all mortgagees servicing loans in their jurisdictions. (See pp. 9 to 11.)

HUD's mortgagee-servicing reviews often lack the quality and comprehensiveness needed to determine if lenders are complying with program procedures. GAO found that mortgagee review quality is hindered by loan specialists' not spending sufficient time on reviews, inexperienced staff, and low priority given reviews by some area offices. GAO believes HUD's Office of Mortgagee Activities can play a stronger role of overseeing area office performance in conducting mortgagee-servicing reviews. (See pp. 11 to 13.)

RECOMMENDATIONS

To correct the identified problems, GAO is recommending that the Secretary of Housing and Urban Development:

--Revise the methods the Office of Mortgagee Activities and HUD regional offices use to set area office mortgagee-servicing review goals to ensure that factors such as the number of mortgagees and their total HUD-insured loan portfolio, other area office workload priorities, and review staff availability and experience levels are considered.

--Direct the Office of Mortgagee Activities and all HUD area offices to follow existing HUD procedures on selecting mortgagees for origination and servicing reviews. Require that area offices submit, in advance, the required quarterly mortgagee review itineraries and document reasons why mortgagees were selected for servicing reviews.

--Reassess how mortgagee reviews can be conducted most effectively to cover active mortgagees and evaluate alternative ways to provide necessary review coverage. One alternative would be for HUD to use area office loan specialists to assist mortgagee field representatives in conducting origination reviews, especially for mortgagees that both originate and service loans. This alternative would be most helpful in areas where mortgagee field representatives cannot provide adequate coverage of originating mortgagees.

--Require the Office of Mortgagee Activities to play a stronger role in the quality control of mortgagee reviews by requiring more timely reporting of review findings to mortgagees, more followup reviews on prior mortgagee deficiencies, and the use of coordinated reviews to monitor the largest mortgagees or those active in HUD-insured programs nationwide.

AGENCY COMMENTS

GAO made this review at the request of Senator Carl Levin, Ranking Minority Member, Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs. As requested by Senator Levin, GAO did not take the additional time to obtain written agency comments. The matters covered in the report, however, were discussed with agency officials and their comments are incorporated where appropriate.

Contents

ABBREVIATIONS

GAO	General Accounting Office
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
OMA	Office of Mortgagee Activities

CHAPTER 1

INTRODUCTION

HUD offers mortgage insurance to help prospective home buyers purchase new or existing single-family housing. Under HUD-insured housing programs, lending institutions provide the mortgage money and HUD insures the lender or mortgagee against default by the home buyer, or mortgagor. When a home buyer fails to make the required mortgage payment, the mortgagee can foreclose on the defaulted mortgage and convey the property to HUD for the insurance benefits. In fiscal year 1980, mortgagees received about $405 million after conveying over 14,400 single-family properties to HUD. During this same period HUD sold 13,698 single-family homes that it had acquired after foreclosures at a loss of about $183 million. As of September 30, 1980, HUD had about $105 billion of mortgage insurance in force covering over 4.8 million homes.

As of April 1981, HUD had approved about 19,000 mortgagees to originate loans. This number increases to 41,000 when mortgagee branch offices are included. For the 5-year period ending September 30, 1980, only about 5,000 mortgagees were active in originating HUD-insured loans. Approximately 5,000 mortgagees, some of which also originate loans, are active in servicing HUD-insured mortgages.

HUD is responsible for assuring that mortgagees are taking every reasonable step to minimize losses in mortgage insurance programs. Poor loan origination and servicing practices can contribute to mortgage defaults and eventual foreclosures. With the average home turnover now costing the Government about $13,400, a reduction in the number of foreclosures through improved loan origination and servicing would reduce the Federal Government's losses.

HUD primarily monitors mortgagee activities through its Office of Mortgagee Activities (OMA) located in Washington, D.C. Two OMA branches, Origination and Servicing, conduct onsite mortgagee reviews to determine the degree of compliance with HUD loan origination and servicing procedures. The Origination Branch directly supervises 10 mortgagee field representatives stationed in HUD regions. The mortgagee field representatives, who only do origination reviews, conducted over 800 mortgagee reviews in fiscal year 1980. In contrast, the Servicing Branch uses about 130 loan specialists from HUD's Office of Single Family Loan Management to perform servicing reviews. The loan specialists located at HUD's 69 field offices conducted more than 1,400 reviews in fiscal year 1980. In addition, HUD's Office of Inspector General annually conducts about 50 detailed mortgagee audits covering both loan origination and servicing activities. Also, HUD's Mortgagee Review Board reviews and imposes sanctions against mortgagees that violate HUD lending requirements. Since the inception of the Board in

September 1975 through June 1980, the Board had withdrawn HUD mortgagee approval in 229, or 75 percent, of the 304 cases it reviewed.

HUD's mortgagee monitoring has often been criticized by the Congress, GAO, and HUD's own Office of Inspector General. Two prior GAO reports on this subject are "Processes for Approving and Monitoring Nonsupervised Mortgagees" (Nov. 8, 1973) and "Protecting and Disposing of Single-Family Properties Acquired by the Department of Housing and Urban Development" (Aug. 31, 1976).

OBJECTIVE, SCOPE, AND METHODOLOGY

We made this review at the request of Senator Carl Levin, former Chairman, Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs. We reviewed HUD's procedures for monitoring mortgagees and the implementation of these procedures to determine if opportunities exist to strengthen monitoring and reduce the number of mortgage foreclosures. As part of this objective, we assessed HUD's (1) mortgagee review goal-setting processes, (2) process of selecting mortgagees to review, (3) adequacy of review coverage, and (4) comprehensiveness in conducting the reviews.

Our field work was performed at HUD's central office in Washington, D.C., and at 11 HUD area offices within 4 regional jurisdictions. The area offices visited are: Atlanta, Georgia; Baltimore, Maryland; Chicago, Illinois; Columbia, South Carolina; Detroit, Michigan; Los Angeles and San Francisco, California; Pittsburgh and Philadelphia, Pennsylvania; Richmond, Virginia; and Washington, D.C. Collectively, these area offices are responsible for mortgagees that service 1,256,196 loans, or about 26 percent of total HUD-insured loans. We selected the 11 area offices to obtain nationwide geographical coverage of program activities. The OMA Director considered these offices to be representative of HUD's total monitoring activities. Furthermore, HUD's Mortgagee Monitoring Division Director and the Servicing Branch Chief acknowledged that problems noted in these area offices would more than likely be present nationwide. Two of the area offices included in our review--Los Angeles and San Francisco--were considered by the OMA Director to be two of the best at conducting mortgagee reviews.

We interviewed agency representatives at the locations visited and reviewed agency records, regulations, and procedures. In addition, we visited 24 mortgagees and telephoned 4 more at these locations to obtain their observations on the adequacy of HUD's monitoring. We selected mortgagees that had either been recently reviewed or those responsible for a large number of HUD-insured loans.

Our review, conducted from July 1980 to May 1981, covered HUD mortgagee-monitoring activities for fiscal years 1979 and 1980. We reviewed case files at area offices we visited as well as HUD central office files. As arranged with the subcommittee representatives, we did not perform detailed audit work at individual mortgagees but instead reported on the results of HUD's Inspector General mortgagee audits.

CHAPTER 2

NEED FOR IMPROVEMENTS IN HUD's

MONITORING OF ORIGINATING MORTGAGEES

HUD is not reviewing those mortgagees that need monitoring the most. Our review showed that OMA is at times selecting mortgagees for review that have originated small numbers of HUD-insured loans while more active mortgagees are not reviewed as often. In addition, mortgagees experiencing high foreclosure rates--one indicator of poor loan origination--are not always selected for review. This practice is an ineffective use of available resources, contributes to inadequate review coverage of mortgagees active in HUD-insured programs, and limits opportunities to correct loan origination problems. HUD is aware of the problem, and OMA's Mortgagee Monitoring Division Director and Origination Branch Chief cite staff shortages and limited travel funds as reasons.

HUD-approved mortgagees are originators of HUD-insured loans. If a mortgagee fails to adequately assess a prospective home buyer's ability to repay the proposed loan, the loan may subsequently default and be foreclosed, with the Government incurring a substantial loss. HUD has a responsibility to monitor mortgagee activities to ensure that they comply with its loan origination procedures. HUD's OMA and Office of Inspector General identified the following major types of mortgagee noncompliance with HUD origination requirements through onsite reviews and audits of mortgagees during fiscal years 1979 and 1980:

--Submitting incomplete and/or inaccurate loan applications to HUD.

--Charging unallowable interest rates and fees at closing.

--Using fictitious buyers.

--Improperly handling deposits and employment verifications.

--Improperly processing HUD-Federal Housing Administration-insured mortgages.

--Falsifying mortgagor downpayments.

An April 1980 Office of Inspector General audit of loan origination practices in Puerto Rico demonstrates why mortgagee monitoring is necessary and shows what can happen if HUD does not provide adequate mortgagee review coverage. In its October 31, 1980, report to the Congress, the Office of Inspector General disclosed that about 200 HUD-insured single-family mortgage loans were based upon false information. False certifications were submitted on mortgage loan applications, employment verifications, sales contracts, and settlement statements. Other irregularities included the use of fictitious buyers, questionable payments to third parties, and simulated sales. In a later report, the Inspector General concluded that in a number of cases, these factors resulted in HUD's approving mortgages for insurance and contributed to, if not caused, the mortgages to be foreclosed.

MORTGAGEE SELECTION CRITERIA ARE NOT FOLLOWED

OMA does not consistently follow its guidelines for selecting mortgagees for origination reviews. As a result, mortgagees most active in originating loans and others experiencing high foreclosure rates are not always given priority attention.

HUD guidelines list selection criteria for the OMA central office staff to use in determining which mortgagees the 10 field representatives will review. The criteria state that reasons for selecting a particular mortgagee over another are loan origination volume, high claim ratios, adverse industry comments, field mortgagee representatives' collective knowledge of the mortgagees within their jurisdiction, and data compiled in OMA files. OMA's Mortgagee Monitoring Division Director and Origination Branch Chief stated that they use these criteria to select a number of mortgagees in a geographic area needing review and plan 2- or 3-week trips for the 10 field mortgagee representatives to make these reviews. Although trip schedules are to be completed in advance to cover two fiscal year quarters, this was not being done. The Origination Branch Chief cited lack of staff and uncertainties over travel funds as barriers to providing advance trip schedules.

Our review showed that field mortgagee representatives were reviewing low-volume mortgagees and in many cases those with zero claim or foreclosure rates. High-claim ratio mortgagees were often neglected for no apparent reason. About 50 percent of the top 100 mortgagees with the highest claim ratio, as of December 31, 1978, had not been reviewed during fiscal years 1979 and 1980. The OMA Director stated that some of these high-claim ratio mortgagees may not have been active during this period and therefore should not have been reviewed. Yet, from a monitoring viewpoint, less critical mortgagees were being reviewed. For example, at four mortgagee field representative jurisdictions, we noted a few cases where mortgagees that were inactive or had not originated HUD-insured loans for 1 to 3 years were reviewed. In other instances, we noted low-volume and low-claim ratio branch offices of a mortgagee were reviewed more than once in a given year even though the prior reviews had either no findings or only one to two minor findings. The OMA Origination Branch Chief stated that these reviews are made because HUD data does not reflect mortgagee branch office portfolio size or claim ratios. OMA officials indicated, in other cases, that reviews of mortgagees with low volume or low claims could have been triggered for a variety of reasons, including complaint letters, Office of Inspector General reports, or information obtained from the mortgage industry or other government agencies. OMA officials noted that documentation should be available to support such reviews. However, we saw little documentation in records maintained by mortgagee field representatives and at HUD's central office. The Acting Deputy Assistant Secretary for Single-Family Housing and Mortgagee Activities stated that HUD will institute a master file of active mortgagees in October 1981 that will compile data on mortgagee workloads.

INADEQUATE MORTGAGEE REVIEW COVERAGE

HUD is not providing adequate review coverage of those mortgagees originating HUD-insured loans because it is reviewing mortgagees that do not need monitoring the most and has limited resources available to provide nationwide review coverage. Our review showed that mortgagees originating HUD-insured loans are being visited, on the average, only about once every 6 years even though OMA staff indicated that, at a minimum, mortgagees experiencing no problem should be reviewed every 3 years.

Our analysis of the geographic jurisdictions covered by the 10 HUD field mortgagee representatives showed that mortgagee review coverage in fiscal year 1979 ranged from a low of 0 percent in one jurisdiction to 20 percent in another; fiscal year 1980 review coverage ranged from 8 to 59 percent. The following chart shows a breakdown of those mortgagees originating HUD-insured loans in the four field mortgagee representative jurisdictions (ranging from 3 to 7 States or territories) we reviewed, the number of reviews conducted, and the percentage of review coverage for fiscal years 1979 and 1980. We based this chart on HUD's Mortgagee Performance Monitoring System, a data source which identifies mortgagees by volume of production over a 5-year period.

Jurisdiction	Number of originating mortgagees (note a)	Number of mortgagees reviewed 1979	Percent of mortgagees reviewed 1979	Number of mortgagees reviewed 1980	Percent of mortgagees reviewed 1980	Total mortgagees reviewed 1980	Total percent of mortgagees reviewed 1979-80
Atlanta: 5 States	667	40	6	80	12	120	18
Chicago: 4 States	412	33	8	83	20	116	28
Philadelphia: 5 States 2 territories	364	42	12	74	20	116	31
Los Angeles: 2 States 1 territory	357	43	12	62	17	105	29
Total	1,800	158	9	299	17	457	25

a/Represents only the number of mortgagee main offices based on data in the June 30, 1980, Mortgagee Performance Monitoring System.

OMA estimated that with 14 field mortgagee representatives, its review goals would number 1,060 and 1,260 for fiscal years 1979 and 1980, respectively. However, as of March 1981, OMA had only 10 field mortgagee representatives to conduct mortgagee origination reviews. The field mortgagee representative position in San Francisco has been vacant since May 1979; the Houston position was vacated in January 1981. HUD conducted about 350 mortgagee origination reviews in fiscal year 1979; over 800 reviews, an increase of over 100 percent from 1979, were performed in fiscal year 1980. These reviews, however, did not adequately cover all regions. For example, the lack of a representative in San Francisco resulted in a significant void in review coverage for northern California. Except for nine mortgagee reviews made in Sacramento, California, no reviews were conducted in this area during fiscal years 1979 and 1980, even though mortgagees with large volumes of HUD-insured loans are present.

We noted other areas where either no reviews or only a limited number of reviews have been conducted. Based on records maintained at HUD's central office, we noted that in fiscal year 1979 no reviews were conducted in 33 States, including Nevada, New Jersey, New York, Puerto Rico, and major portions of California and Florida where mortgagees that are either experiencing problems or very active in HUD-insured programs are located. Further, in fiscal year 1980, HUD representatives again did not review the northern portion of California and the southern portion of Florida.

In January and April 1981, OMA attempted to correct the sparse review coverage in certain regions by reorganizing several field mortgagee representatives' territorial responsibility. Although this action has decreased the number of States and mortgagees some representatives are responsible for, it has increased the number of mortgagees to be covered by others. Furthermore, because of several field mortgagee representative vacancies, HUD decreased its fiscal year 1981 review goals to 788--a reduction of 93 reviews from the previous year--resulting in less mortgagee review coverage.

In our discussions with four field mortgagee representatives, they indicated that providing adequate review coverage is difficult since a large number of mortgagees originate HUD-insured loans within their jurisdictions. For example, the field mortgagee representative stationed in Atlanta, Georgia, stated that he is unable to review all mortgagees in his jurisdiction. Consequently, parts of southern Florida and another area, Mobile, Alabama, have been neglected, even though mortgagees originating large numbers of HUD-insured loans are present. The representative further stated that because so many mortgagees originate HUD-insured loans in his jurisdiction and because of travel limitations, he is unable to conduct followup reviews on mortgagees, especially in Miami, Florida, that have been previously cited for loan origination problems.

CHAPTER 3

HUD NEEDS TO STRENGTHEN ITS MONITORING OF SERVICING MORTGAGEES

Although HUD has a system for monitoring the mortgagees which service HUD-insured loans, this system does not operate effectively enough to ensure minimal losses to the Government. HUD has set goals for reviewing these mortgagees but has not taken into account mortgagee activity, other workload priorities of the area offices, and staff experience. Area offices responsible for selecting mortgagees for servicing reviews do not always follow established criteria. When they do undertake reviews, area office staff are not always thorough in their surveys of mortgagees' activities. The area offices themselves have limited time for these reviews and may, therefore, give them low priority. In addition, OMA has not played a strong enough role in overseeing and coordinating area offices' performance of mortgagee-servicing reviews.

OMA and the Office of Inspector General, through their review of mortgagees, report servicing deficiencies, especially concerning subsidized loans, collections, delinquent loans, and property conveyance and maintenance. The Office of Inspector General, however, in a 1980 field office report, concluded that HUD does not have an adequate monitoring system that ensures mortgagees are servicing loans properly and thus minimizing defaults, foreclosures, and losses. Our review also questions the adequacy of HUD's mortgagee-monitoring system.

ALLOCATION OF REVIEW GOALS IS INEFFICIENT

HUD's annual goals for mortgagee reviews have not provided the best possible coverage of mortgagees servicing HUD-insured loans. OMA establishes the national review goal and HUD regional offices determine and allocate annual review goals to each area office. However, our review found no one consistent method of determining these goals. While the goals sometimes relate to the number of mortgagees in an area office's jurisdiction, we saw little evidence that goals were based on the relative number or percentage of total HUD-insured loans in one area office jurisdiction versus another. Further, regional offices sometimes do not account for the number of available staff to conduct the reviews, their experience level, or other area office workloads of higher priority when establishing review goals. Moreover, the goals include only the number of reviews to be achieved and do not address the comprehensiveness of reviews or the amount of coverage they should provide.

HUD's mortgagee review goals for fiscal years 1978 and 1979 were 2,727 and 2,800 reviews, respectively. The HUD central office established 1980 goals at 1,450 reviews, a reduction of about 50 percent, after determining that previous goals were unrealistic and resulted in poor quality or cursory reviews. Also, in some area offices 1978 and 1979 review goals exceeded the number of available mortgagees for review.

The 1980 reduced goal, however, was not distributed effectively. For example, 2 of the 11 area offices we visited still have review goals almost equal to the number of mortgagees they are responsible for while 6 offices have review goals that are about one-third or less their number of HUD-insured lenders. Three other area offices had review goals reduced anywhere from 25 to 50 percent. The San Francisco area office, for instance, has to review all its active mortgagees plus about 15 branch offices of one large mortgagee just to achieve its review goal. Conversely, staff at the Richmond area office predict a lag of 3 to 4 years between mortgagee reviews at each active servicer in its jurisdiction. Staff at the Chicago area office, whose goals dropped from 90 reviews in fiscal year 1979 to 20 in fiscal year 1980, and the Atlanta office stated that the reduced goals have decreased their mortgagee review coverage. In the Philadelphia area office, review goals did not allow for other workload priorities, and therefore only 2 of 28 planned reviews were conducted.

OMA's Servicing Branch Chief, as well as regional and area office officials we talked with, agreed that review goals should be more realistic and cater to each area office's makeup. The Housing Director and Insured Housing Specialist at several regional offices, however, saw their role as goal managers only; that is, they were to make sure that area offices achieve established numerical goals, without stressing review coverage or comprehensiveness. Two of the four regional offices we reviewed based their area office goals only on the previous year's goals and did not account for changes in composition of their area office--the number of mortgagees, the number of loans serviced, staff experience levels, or other workload priorities. In 8 of the 11 area offices we visited, loan specialists said they have little or no input into the goal-setting process and did not know how their review goals were established.

MOST CRITICAL MORTGAGEES ARE NOT CONSISTENTLY REVIEWED

Selection criteria for mortgagee reviews are sound, but they are not always followed by area offices. HUD procedures state that mortgagees should be selected for review based on the number of HUD-insured loans they service, the number of section 235 subsidized loans in their portfolio, high mortgage default and foreclosure rates, and mortgagor complaints. Since area office staff have not consistently used these criteria, they have not reviewed those mortgagees that need monitoring the most, nor have they provided adequate review coverage.

HUD's evaluation of area offices' mortgagee-servicing reviews for fiscal year 1979 criticized them for not following the selection criteria and for reviewing mortgagees servicing small numbers of HUD-insured loans before larger ones just to accomplish their review goals. In August 1980 a report from HUD's Office of Inspector General also found "* * * mortgagees servicing insignificant numbers of HUD-insured mortgages were reviewed while more active mortgagees were not * * *." Area offices defended their review practices because of "pressures to meet operational goals rather than follow HUD Handbook requirements on selection."

Our field work verified these findings and emphasized the inconsistencies among field offices when selecting mortgagees for review. Some offices, such as Los Angeles and San Francisco, had no problems with selection because their review goals come close to the number of active mortgagees in their jurisdiction. However, in area offices with lower goals, problems such as low-volume mortgagees being reviewed, mortgagees servicing section 235 loans not being given priority, and inaccurate data on default and foreclosure rates plague the selection process.

Although the size of a mortgagee's HUD-insured loan portfolio is to be given top priority when selecting mortgagees for review, our analyses showed that six area offices, in an attempt to meet review goals, still had selected smaller mortgagees for review in 1980 before their larger lenders (those servicing more than 1,000 HUD-insured loans). In these cases, we were unable to find any documentation in the area office files justifying why smaller mortgagees were selected. For example, the Atlanta area office in fiscal year 1980 performed 46 mortgagee reviews. Thirty of these reviews, or 65 percent, were of mortgagees with less than 50 HUD-insured mortgages; 16 of the 30 reviews were of mortgagees with less than 10 mortgages. Two mortgagees that were not servicing any HUD-insured mortgages were reviewed by this area office. Yet, our analysis showed that as of February 1981 Atlanta had at least 13 active mortgagees servicing more than 1,000 HUD-insured loans that were not reviewed in 1980.

The number of section 235 subsidized mortgages is another criterion for mortgagee selection. HUD emphasizes the monitoring of these loans, since mortgagees are required to annually recertify the mortgagor's income and program eligibility. We noted that only two of the field offices we visited, however, put priority on these lenders for review. Detroit recently concluded it had been deficient in reviewing section 235 lenders and plans to make these reviews a priority in fiscal year 1981. Our analysis showed that other offices are not giving section 235 loans review priority. The Atlanta staff had not reviewed at least 10 mortgagees with more than 100 section 235 loans during the last year and a half. The Washington office has also been remiss in its review of mortgagees servicing section 235 loans.

High default and foreclosure rates are another criterion for selecting mortgagees. The source of this information is the Single Family Default Monitoring System reports, which collate and analyze mortgage default and foreclosure data. However, area office staff complained that these reports are "outdated," and do not list all mortgagees. Philadelphia staff had never even seen the reports for their office and therefore never considered such information in their selection of mortgagees to review. OMA took immediate action to correct this problem once we brought it to their attention.

The proper selection of mortgagees to review can only be achieved if HUD has good data; that is, accurate information on the number of mortgagees servicing loans. OMA's Servicing Branch Chief stated that although OMA requires area offices to annually submit a list of active mortgagees within their jurisdiction, most do not comply. Furthermore, our review showed that 7 of the 11 area offices we visited were not aware of all mortgagees actively servicing loans in their jurisdiction. This was especially true at the Columbia area office where we found 16 servicing mortgagees that were not previously known to be active in this jurisdiction. We question these area offices' ability to make proper selections without an accurate list of mortgagees active within their area. The OMA Director stated that it is difficult to maintain accurate lists of mortgagees since the economy has caused many lending institutions to go out of business or to merge. Several area offices we talked with are trying to update their lists of mortgagees by sending out questionnaires and through telephone inquiries.

REVIEWS ARE OFTEN NOT COMPREHENSIVE

Mortgagee reviews by area offices are often not as thorough as necessary. Although HUD procedures provide a good framework for conducting mortgagee reviews, area office implementation varies. Our analysis showed that these reviews have lacked the quality and comprehensiveness needed to determine if lenders are complying with program regulations.

Several studies by HUD's Office of Inspector General and OMA highlighted the poor quality of past mortgagee reviews. In August 1980, the Office of Inspector General criticized the comprehensiveness of HUD's mortgagee-servicing reviews at seven field offices, noting that "field offices were not effectively controlling the quality of mortgagee reviews." OMA also questioned the thoroughness of reviews in an evaluation of area office monitoring performance in fiscal year 1979. The evaluation noted that (1) some staff did not review mortgagee files or records, (2) certain area offices reviewed mortgagees that had no HUD-insured loans, (3) staff were not always spending enough time at mortgage companies to do a complete review, and (4) servicing reviews were consistently resulting in "no findings," an indicator that reviews may not have been comprehensive. Area office staff we interviewed concurred that they were doing only cursory reviews in fiscal year 1979.

HUD, in an attempt to improve review quality, reduced mortgagee-servicing review goals in fiscal year 1980. However, no formal written guidance was provided by either OMA or HUD regional offices to area offices on how to improve their reviews. Four of the area offices were not even aware of the fiscal year 1979 evaluation which criticized the quality of reviews. While HUD has offered several training sessions during 1980 in which review quality was discussed, two area office staff admitted that they had made no changes in their review process between fiscal years 1979 and 1980. They cited staff limitations, competing tasks, and pressure to meet goals as reasons for no changes.

Despite the reduced goals, our review showed that problems persisted in the fiscal year 1980 reviews. Although we found that offices had made progress in some review areas, interviews with loan specialists, discussions with mortgagees, and examination of files revealed that some mortgagee reviews are not yet comprehensive. For example, some mortgagee reviews

--did not cover all review areas of the HUD procedures;

--relied solely on a questionnaire, without case review;

--did not include property inspections, as required by HUD;

--did not monitor mortgagee counseling for problem mortgagors; and

--were described as public relation visits only.

Our analysis also showed that some field staff were not spending sufficient time on reviews of large mortgagees in fiscal year 1980. Most loan specialists agreed it takes about 2 or 3 days to complete a mortgagee review, which concurs with a HUD work measurement study that concluded an average mortgagee review takes about 19.24 hours. Nevertheless, review reports confirm that area office staff in Pittsburgh, Richmond, and Washington were continuing to spend 1 day or less on most of their reviews. Loan specialists at the above area offices cited other workload priorities as one cause of not spending sufficient time on reviews.

The comprehensiveness of mortgagee reviews is also determined by the experience level of area office loan specialists. HUD central, regional, and area office officials agree that the lack of experienced loan specialists contributes to the poor quality of reviews conducted by some area offices. Single-family loan servicers have a high turnover rate since the same loan servicer positions in multifamily housing carry a higher pay grade. As a result, newer, less experienced staff review mortgagees. Six mortgagees we talked with complained about the inexperience of HUD reviewers, inconsistent guidance different HUD offices provide, or untimely feedback of review results. We noted several area offices that took from 4 to 7 months to communicate review results to mortgagees. Area office officials cite workload conflicts and lack of administrative support as causes of these delays.

OMA reported in its evaluation of area office mortgagee reviews for fiscal year 1980 that the overall quality and comprehensiveness of reviews have improved somewhat. Nevertheless, not all area offices had improved their review methods, and we noted that deficiencies still exist.

HUD OFTEN GIVES MORTGAGEE REVIEWS LOW PRIORITY

Time spent completing other work has taken away from some area offices' ability to adequately conduct mortgagee reviews. While HUD considers mortgagee reviews to be a critical link in its oversight function, increasing workloads and other priorities of the Office of Single Family Housing have forced area office staff to give these reviews lower priority. Our work showed that mortgagee reviews in some area office jurisdictions have suffered.

Pursuant to a 1979 settlement that was agreed to by HUD in connection with the case of Ferrell v. Landrieu before the United States District Court for the Northern District of Illinois, HUD was required to implement a "reconsideration process" that has pushed mortgagee reviews aside in the competition for staff time at some area offices. This process has top priority at most of these offices, and staff commented that mortgagee reviews had "taken a back seat." HUD agreed to reconsider the cases of all rejected mortgagors who were pending foreclosure and who had requested assistance under HUD's assignment program between May 1976 and January 1979. As of January 1981, HUD had reconsidered 6,489 applicants, accepting 1,106 as Secretary-held mortgages and rejecting 5,378. These reconsiderations dramatically increased some area office workloads and therefore interfered with mortgagee reviews.

Six area offices we reviewed were affected by the reconsideration process. In Philadelphia the staff had to reconsider about 1,043 cases in fiscal year 1980 and consequently did only two mortgagee reviews. Yet Philadelphia has over 110 mortgagees in its jurisdiction. Officials at the Detroit office removed loan specialists from regular mortgagee reviews for several weeks to process reconsiderations. To compensate for this lag in reviews, the loan specialists visited smaller mortgagees or did special, less comprehensive reviews. The reconsideration process also interfered with mortgagee reviews at Atlanta, Chicago, Columbia, and Richmond area offices.

Still other competing tasks have hindered area offices from completing mortgagee reviews. For instance, most loan specialists must also

--process mortgagor requests for HUD assistance under the assignment program;

--service "Secretary-held" mortgages, which are those mortgages conveyed to HUD through the assignment program; and

--handle any problems or complaints between mortgagees and mortgagors.

We concluded that these other responsibilities have caused area offices to sacrifice the quality and coverage of mortgagee reviews. In Richmond, staff admitted that they squeezed in 31 cursory reviews during the last months of fiscal year 1979 just to meet their annual review goal. The Atlanta area office did likewise in fiscal year 1980.

HUD has recognized the conflicting work demands on its area offices. In an August 1980 report, HUD's Office of Inspector General investigated review activities at seven area offices and found that at some offices conflicting workload priorities reduced the quality of mortgagee reviews. In addition, in June 1980 OMA acknowledged that "the processing of the assignment reconsiderations and the normal assignment cases still have priority." A representative from HUD's Single Family Loan Servicing Division told us that as of December 31, 1980, the reconsideration process had been completed. However, HUD central and area office staff pointed out that competing demands for loan specialists' time would escalate with ever-increasing applications for the assignment program and the resulting increase in Secretary-held mortgages. Such pressures could result in mortgagee monitoring continuing to receive a low priority.

HUD's OFFICE OF MORTGAGEE ACTIVITIES MUST PLAY A STRONGER ROLE IN MORTGAGEE MONITORING

OMA is not as effective as it should be in its role of "overseer" to the HUD area offices conducting mortgagee-servicing reviews. Our review showed that OMA's effectiveness is hampered, in part, by organizational structure and resource problems, such as staffing and travel funds.

Area office loan specialists report to HUD's Office of Single Family Loan Management. As a result, OMA has no direct control over area offices' monitoring activities. Although OMA may set the overall review goals each year, it has little input into how the individual area office goals are met. As a result, area offices conduct low-quality reviews, review mortgagees with insignificant numbers of HUD-insured loans, and plan few coordinated reviews of large mortgagees. OMA annually evaluates area offices on their reviews of mortgagee-servicing activities and makes recommendations for improvement. However, we noted cases where some area offices do not agree or comply with these recommendations.

OMA is further hampered since it has not performed necessary supervisory visits to area offices experiencing problems with reviews. For example, in 1980 only about seven supervisory visits were made even though OMA's goal was to conduct three reviews per month. Area office staff we talked with expressed the need for more training of its loan specialists and updates on changes within the mortgage industry. Several training courses have been provided by OMA, but more are needed.

OMA has not taken the lead to organize coordinated reviews (that is, using several area office staffs) of large mortgagees--those companies that are active nationwide but have centralized their loan-servicing department at one or more locations. Most area office staff we talked with felt this was an excellent means of providing more extensive review coverage to large mortgagees. However, they were reluctant to commit their staff or other resources to such reviews without OMA's involvement. Although OMA is responsible for coordinating such reviews, to date few have been conducted. Without coordinated reviews, monitoring of large mortgagees (mortgagees with a servicing portfolio greater than 20,000 HUD-insured loans) is the responsibility of the area office in whose jurisdiction the mortgagees' home or servicing office is located. Although a comprehensive review of large mortgagees would require only days or a week with multiple staff, the responsible area office does not get any additional resources to do these reviews. Consequently, they treat them as routine reviews--examining only those cases and records of loans being serviced in their own geographic jurisdiction--and may overlook problems with loans serviced outside their jurisdiction. Both the Baltimore and Washington area offices complained of problems with out-of-State lenders who are servicing loans in their areas. OMA officials cited staff shortages as a reason why few coordinated reviews have been conducted.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

HUD's mortgagee-monitoring program was often criticized during the 1970's by the Congress, GAO, and HUD's Office of Inspector General. Our latest review showed that while HUD has made some changes in response to earlier criticism, opportunities still exist for improvement in its monitoring of mortgagees originating and/or servicing HUD-insured loans.

CONCLUSIONS

HUD can more effectively monitor mortgagees originating HUD-insured loans. We found that HUD is selecting for review, at times, mortgagees that have originated small numbers of HUD-insured loans while more active mortgagees are not reviewed as often. Also, we noted that mortgagees experiencing high foreclosure rates are often not reviewed. HUD procedures detail mortgagee selection guidelines; however, we found these criteria are not always followed. When guidelines were not followed, we saw no supporting documentation in mortgagee files to substantiate why a review was performed. In addition, we noted that review coverage of mortgagees originating loans is inadequate. The 10 field mortgagee representatives responsible for performing the reviews are unable to adequately cover all mortgagees within their jurisdictions. As a result, some geographic areas containing large, active mortgagees are not being reviewed.

HUD's monitoring of those mortgagees that service HUD-insured loans also is not as effective as it could be. For example, our review showed that mortgagee review goals apportioned to HUD area offices do not ensure the most efficient review coverage. The goals are not based on the relative number or percentage of total HUD-insured loans serviced in one area office versus another, the available staff or their experience, or other workload priorities. Furthermore, although HUD has specified criteria for selecting mortgagees to review, we found that area office staff have not consistently followed them. Therefore, area offices have not been selecting mortgagees with the greatest percent of HUD loans or those mortgagees which present HUD with the greatest potential for loss. We also found that reviews have lacked the quality and comprehensiveness necessary to thoroughly identify mortgagee noncompliance and servicing deficiencies. We noted that conflicting workloads take priority over mortgagee reviews in some area offices, interfering with loan specialists' ability to conduct comprehensive reviews. Finally, in our opinion, OMA has not taken a leadership role or provided sufficient oversight to coordinate effective mortgagee reviews.

We believe HUD must evaluate its mortgagee-monitoring system and determine ways to make it more effective. HUD central and regional offices should annually adjust area office review goals to account for changes in area office and mortgage activities, thus ensuring more efficient review coverage. Field staff should have an accurate account of all mortgagees originating and servicing HUD-insured loans in their jurisdiction and then follow the established criteria when selecting their mortgagees for review. OMA must play a stronger role in mortgagee monitoring by providing the necessary guidance and support that will result in more detailed reviews and more adequate review coverage. If these steps are taken, we believe HUD will have more assurance that mortgagees are originating and servicing loans in a manner which minimizes the occurance of default and eventual foreclosure.

RECOMMENDATIONS

Despite shortages in staffing and available funds for training and travel, we believe HUD could improve its mortgagee monitoring. We are recommending that the Secretary of Housing and Urban Development:

--Revise the methods the Office of Mortgagee Activities and HUD regional offices use to set area office mortgagee-servicing review goals to ensure that factors such as the number of mortgagees and their total HUD-insured loan portfolio, other area office workload priorities, and review staff availability and experience levels are considered.

--Direct the Office of Mortgagee Activities and all HUD area offices to follow existing HUD procedures on selecting mortgagees for origination and servicing reviews. Require that area offices submit to OMA, in advance, the required quarterly mortgagee review itineraries and document reasons why mortgagees were selected for servicing reviews.

--Reassess how mortgagee reviews can be conducted most effectively to cover active mortgagees and evaluate alternative ways to provide necessary review coverage. One alternative would be for HUD to use area office loan specialists to assist mortgagee field representatives in conducting origination reviews, especially for those mortgagees that both originate and service loans. This alternative would be most helpful in areas where mortgagee field representatives cannot provide adequate coverage of originating mortgagees.

--Require the Office of Mortgagee Activities to play a stronger role in the quality control of mortgagee reviews by requiring more timely reporting of review findings to mortgagees, more followup reviews on prior mortgagee deficiencies, and the use of coordinated reviews to monitor the largest mortgagees or those active in HUD-insured programs nationwide.

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