



December 10, 2021

MEMORANDUM NO:
2022-PH-0801

Memorandum

TO: Julienne Y. Joseph
Deputy Assistant Secretary for Single Family Housing, HU

FROM: *//signed//*
Kilah S. White
Assistant Inspector General for Audit, GA

SUBJECT: HUD Did Not Always Implement Corrective Actions To Further Ensure That
HECM Borrowers Complied With Principal Residency Requirements

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), completed a corrective action verification (CAV) of recommendations from four prior home equity conversion mortgage (HECM) audit reports. The CAV was initiated because protecting the Federal Housing Administration (FHA) mutual mortgage insurance fund is one of HUD's top management challenges.

Section 8-1 of HUD Handbook 2000.06, REV-4, requires OIG to evaluate the effectiveness of HUD's Audit Management System by selecting recommendations and performing a CAV review after all final actions are taken. The CAV is intended to be the quality control process for the audit management system.

The prior audits determined that HUD lacked controls to prevent HECM borrowers from violating principal residency requirements. The CAV objectives were to determine whether HUD implemented adequate corrective actions in response to (1) recommendation 1B from audit

report 2012-PH-0004,¹ (2) recommendation 1B from audit report 2013-PH-0002,² (3) recommendation 1B from audit report 2014-PH-0001,³ and (4) recommendation 1C from audit report 2015-PH-0004.⁴

HUD Handbook 2000.06, REV-4, provides specific timeframes for management decisions on recommended corrective actions and for recommendations that have been reopened. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the review.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

SCOPE AND METHODOLOGY

Our CAV generally covered the period March 2014 to December 2019 and included actions taken by HUD's Office of Single Family Housing as a result of four recommendations in four prior OIG audit reports. We conducted the audit fieldwork from the OIG Offices of Audit in Philadelphia and Pittsburgh, PA, and Baltimore, MD, between July 2020 and June 2021. To accomplish our objective, we

- reviewed the prior OIG audit reports, including four recommendations addressed to HUD's Office of Single Family Housing;
- reviewed the management decisions⁵ and final action certifications submitted by HUD in the Audit Resolution and Corrective Action Tracking System (ARCATS);
- reviewed background information, such as relevant criteria and regulations regarding the HECM loan principal residency requirements, including HUD Handbooks 2000.06,

¹ HUD Controls Did Not Always Ensure That Home Equity Conversion Mortgage Loan Borrowers Complied With Program Residency Requirements, Audit Report 2012-PH-0004, issued February 9, 2012 (The audit identified borrowers that had more than one HECM loan.)

² HUD Policies Did Not Always Ensure That Borrowers Complied With Program Residency Requirements, Audit Report 2013-PH-0002, issued December 20, 2012 (The audit identified HECM borrowers that also rented their properties to families participating in HUD's Housing Choice Voucher Program.)

³ HUD Policies Did Not Always Ensure That HECM Borrowers Complied With Residency Requirements, Audit Report 2014-PH-0001, issued September 30, 2014 (The audit identified HECM borrowers that also received rental housing assistance under HUD's Housing Choice Voucher Program.)

⁴ HUD Policies Did Not Always Ensure That HECM Borrowers Complied With Residency Requirements, Audit Report 2015-PH-0004, issued August 21, 2015 (The audit identified HECM borrowers that also received assistance under HUD's multifamily programs.)

⁵ Management decisions are management responses to recommendations included in an internal or external audit report, which include corrective actions needed to resolve a recommendation.

REV-4, and 4235.1, and 24 CFR (Code of Federal Regulations) 206.27, 206.39, and 206.211;

- interviewed HUD officials; and
- performed preliminary testing of the 278,844 HECM loans endorsed during the period March 2014 to December 2019 from HUD's Single Family Data Warehouse (SFDW)⁶ and compared that information to participant data in HUD's Public Housing Information Center (PIC)⁷ and the Tenant Rental Assistance Certification System (TRACS).⁸ However, due to the changes in HUD's systems' database structure which included limiting access to personally identifiable information, the methodology of the data match that the auditors performed in the prior audits could not be duplicated or validated. However, our basic data analysis showed that 123 HECM borrowers also participated in HUD's Housing Choice Voucher Program and multifamily programs.

For recommendation 1B in audit report 2012-PH-0004, we reviewed HUD's multiple loan listing report, dated September 2020, which identified HECM borrowers with Social Security numbers associated with more than one active loan. Specifically, the Office of Single Family Housing used data from its FHA Connection (FHAC)⁹ system to determine whether borrowers had only one active HECM loan. We also tested the 278,644 HECM loans endorsed during the period March 2014 to December 2019.

We were unable to replicate the methodology of the data matches that the auditors performed in the prior audits due to the changes in HUD's systems' database structure which included limiting access to personally identifiable information. However, our basic data analyses showed that HECM borrowers also participated in HUD's Housing Choice Voucher Program and multifamily programs. We performed an analysis of borrower and participant information in which we matched information such as addresses and social security numbers when available to determine whether principal residency requirements were violated.

For recommendation 1B in audit report 2013-PH-0002, to determine whether HECM loan borrowers also rented their properties to families participating in HUD's Housing Choice Voucher Program, we pulled loan data from SFDW for the period March 1, 2014, to December 30, 2019, and matched those data, based on address, to program participant data from PIC for the same period.

For recommendation 1B in audit report 2014-PH-0001, to determine whether HECM loan borrowers also received rental housing assistance under HUD's Housing Choice Voucher

⁶ SFDW is a large collection of database tables dedicated to support analysis, verification, and publication of FHA single-family data.

⁷ In March 26, 2020, HUD's PIC was renamed the Public and Indian Housing Inventory Management System (IMS). IMS centralizes exchanges of data and interactions between housing authorities and local HUD Offices.

⁸ TRACS is a HUD computer system developed to help improve financial controls over assisted housing programs through automated controls.

⁹ FHAC provides approved FHA lenders and other HUD approved business partners real-time access to data residing in a number of HUD FHA systems on the internet.

Program, we pulled loan data from SFDW for the period March 1, 2014, to December 30, 2019, and matched those data, based on address, to program participant data from PIC for the same period.

For recommendation 1C in audit report 2015-PH-0004, to determine whether HECM loan borrowers also received rental housing assistance under HUD's multifamily programs, we pulled loan data from SFDW for the period March 1, 2014, through December 30, 2019, and matched those data, based on Social Security number, to program participant data from TRACS for the same period.

Although the scope of this review was limited, we conducted the review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objective.

BACKGROUND

HUD provides reverse mortgage insurance through the HECM program. The HECM program enables elderly homeowners to obtain income by accessing the equity in their homes. To be eligible for a loan, homeowners must be 62 years of age or older, have significant equity in their home, occupy the property as a principal residence, not be delinquent on any Federal debt, and participate in HUD-approved reverse mortgage counseling. Borrowers are not required to repay the loan if they continue to occupy the home as a principal residence, maintain the property,¹⁰ and pay the property taxes and the mortgage insurance premiums.

Program regulations at 24 CFR 206.27 state that the mortgage balance will be due and payable in full if the property ceases to be the principal residence of a borrower for reasons other than death and the property is not the principal residence of at least one other borrower.

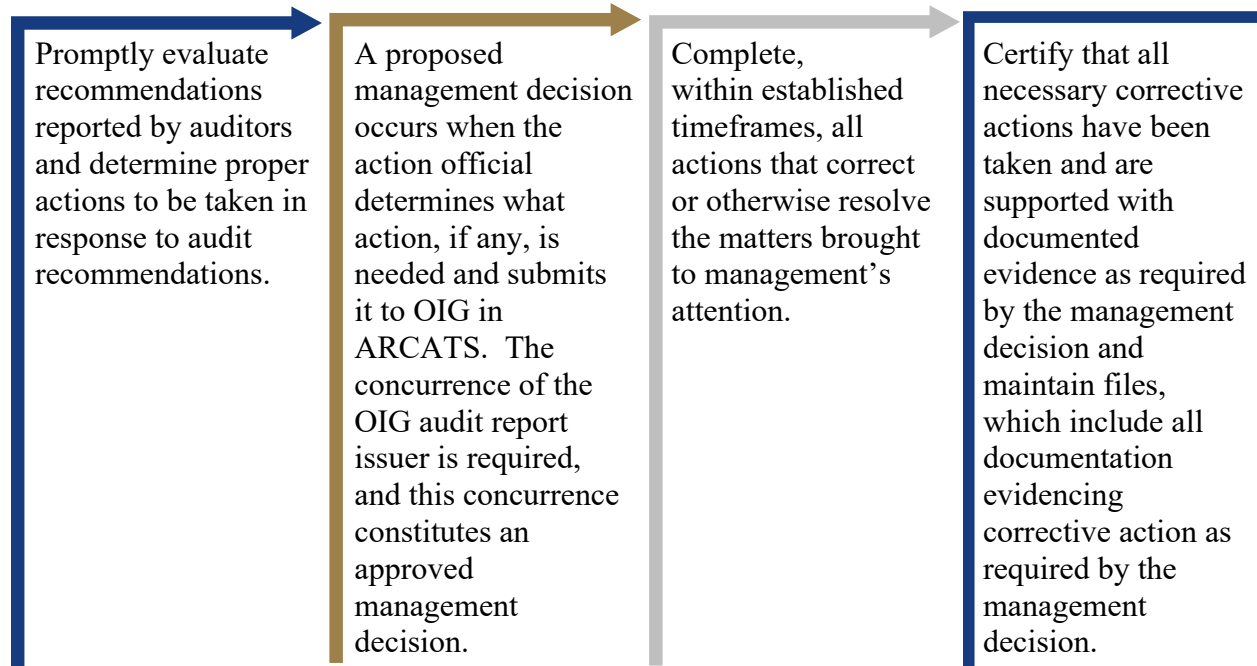
Additionally, 24 CFR.206.211 requires servicing lenders to at least annually determine whether the property associated with a loan is the principal residence of at least one borrower and requires the HECM borrower to certify that the residence is the borrower's principal residence.

Audit Resolution Process

HUD Handbook 2000.06, REV-4, details the operating procedures for HUD's management system used to monitor the implementation of recommendations in audit reports prepared by OIG, the U.S. Government Accountability Office, or other auditors. The core responsibility for implementation of the audit resolution process is vested within HUD and its subordinate headquarters and field program and administrative managers. After OIG issues an audit report or memorandum with recommendations, HUD program or administrative managers are to follow the audit resolution process shown below.

¹⁰ Includes paying homeowner association fees and maintaining homeowner insurance

Audit resolution process



Final action for an OIG-issued recommendation occurs when all actions identified in the management decision or the revised management decision have been implemented; the action official, recommendation action official, or point of contact certifies to the completion of all actions; and the audit liaison officer accepts the certification and closes the recommendation. Final action should normally occur within 1 year of the original management decision date.

RESULTS OF REVIEW

HUD implemented the agreed-to corrective action for one recommendation, did not implement the ongoing corrective action for one recommendation, and did not implement corrective actions for two recommendations.

HUD Implemented the Agreed-to Corrective Action To Prevent Borrowers From Having Multiple HECM Loans

In recommendation 1B from audit report 2012-PH-0004, we recommended that HUD perform quality assurance tests at least annually to ensure that edits in its FHAC system were effective in preventing the approval and generation of FHA case numbers for borrowers with existing loans. HUD agreed with the recommendation. We reviewed the items HUD submitted for final action certification in ARCATS to determine whether they supported closure of the recommendation. HUD submitted procedures it would use to detect HECM borrowers with multiple loans, which included the use of multiple loan queries and other assessment tools. Based on our review of the documentation presented for final action certification, we agreed with HUD's assessment to close the recommendation.

To determine whether the corrective action was implemented after closure of the recommendation, we requested that HUD provide documentation showing that controls had been

implemented. HUD provided its internal policies showing how it used the FHAC system daily to identify HECM borrowers with multiple loans. The FHAC system performs two validations, using the FHA case number and Social Security number of each borrower, to determine whether the borrower is associated with another active FHA case number at both origination of the loan and when the lender submits the FHA insurance application for the loan. At the time of our review, the current multiple loan report in the FHAC system showed that no borrowers had more than one loan. In addition, our analysis of 278,644 HECM loans endorsed during the period March 2014 through December 2019 showed that no borrowers had more than one loan.

HUD Did Not Implement the Ongoing Corrective Action Agreed-to To Prevent HECM Borrowers From Renting Their Properties to Housing Choice Voucher Program Participants

In recommendation 1B from audit report 2013-PH-0002, we recommended that HUD develop and implement controls to prevent borrowers from violating residency requirements by renting their properties as landlords to voucher recipients. HUD agreed with the recommendation. We reviewed the items HUD submitted for final action certification in ARCATS to determine whether they supported closure of the recommendation. HUD submitted documentation showing that it had performed the data match described in its management decision. The 2016 data match identified 244 HECM borrowers that violated residency requirements by renting their homes to voucher recipients. The Office of Single Family Housing took action and declared the 244 loans due and payable.¹¹ We reviewed 10 of the 244 files and verified that 8 loans had been terminated and 2 loans had been assigned to HUD.¹² The recommendation was closed on March 30, 2017. We agreed with HUD's determination to close the recommendation.

To determine whether the corrective action was implemented after closure of the recommendation, we requested that HUD provide documentation showing that it performed data matches after 2016. HUD explained that due to a turnover in leadership and lack of communication, the planned process to identify HECM borrowers renting their homes to Housing Choice Voucher Program participants was not thoroughly implemented. As a result, HUD had not performed a data match since 2016.

Our analysis showed that 41 HECM borrowers may be renting their units to Housing Choice Voucher Program participants. We provided the results to HUD during the review. HUD reviewed the results and determined that 25 borrowers had active HECM loans, which indicated that they may have rented their homes to Housing Choice Voucher Program participants. We determined that an additional two loans were active. For the remaining 14 loans, 10 had been terminated. We accessed HUD's Neighborhood Watch system¹³ to determine why the 10 loans were terminated and found that the 10 loans were terminated because they had been paid off. We found no indication that the loans were terminated because of a violation of principal residency requirements. For the remaining four loans, although they were delinquent, no

¹¹ Regulations at 24 CFR 206.27 state that the mortgage balance will be due and payable in full if the property ceases to be the principal residence of a borrower for reasons other than death and the property is not the principal residence of at least one other borrower.

¹² Assigned to HUD means that foreclosure action was taken, and an insurance claim was paid.

¹³ The Neighborhood Watch System is a web-based application designed to provide comprehensive data querying, reporting, and analysis capabilities for tracking the performance of loans originated, underwritten, and serviced by FHA-approved lending institutions.

insurance claims were paid. Specifically, two borrowers were deceased, and the loans were due and payable, one borrower fell behind on taxes, and the remaining loan was delinquent because the home was in a state of disrepair. HUD agreed to perform additional work to determine whether the 25 borrowers had violated residency requirements.

Although our analysis showed that a small number of HECM borrowers may have violated residency requirements, the Office of Single Family Housing has access to complete, up-to-date data and the ability to perform the necessary data matches. By performing data matches routinely, HUD can identify borrowers who violate residency requirements and remove them from the program.

HUD Did Not Implement the Agreed-to Corrective Action To Prevent Borrowers From Also Receiving Assistance From the Housing Choice Voucher Program

HUD did not perform annual data matches to prevent or mitigate instances of borrowers' violating HECM program residency requirements by concurrently participating in the Housing Choice Voucher Program as members of an assisted household.

In recommendation 1B from audit report 2014-PH-0001, we recommended that the Office of Single Family Housing implement controls to prevent or mitigate instances of borrowers' violating HECM program residency requirements by concurrently participating in the Housing Choice Voucher Program, including policies and procedures to at least annually coordinate with the Office of Public and Indian Housing to match borrower data in SFDW to member data in PIC. HUD agreed with the recommendation. We reviewed the items HUD submitted for final action certification in ARCATS to determine whether they supported closure of the recommendation. HUD provided a memorandum prepared by the former Director of the Office of Single-Family Asset Management, describing the procedures and methodology to be used to perform the annual data matches. It explained that an annual data match review was to be completed by the end of the first quarter of every calendar year. Data matches would be provided to the National Servicing Center for verification of the borrower's continued eligibility in the HECM loan program. Based on our review of the documentation provided for final action certification, we agreed with HUD's determination to close the recommendation.

To determine whether a corrective action was implemented after closure of the recommendation, we requested that HUD provide documentation showing that it performed the data matches. The Office of Single Family Housing did not coordinate with the Office of Public and Indian Housing to obtain an annual comparison of the respective systems as agreed to. However, after we brought this matter to its attention, the Office of Single Family Housing coordinated with HUD's Real Estate Assessment Center specialist in September 2020 and performed a data match. The data match did not identify any instances in which HECM borrowers also participated in the Housing Choice Voucher Program as heads of household. This data match was not complete because it included only the heads of household and did not include any household members. We addressed this issue with the Office of Single Family Housing, and it stated that it planned to update its procedures and perform a complete data match.

Our analysis showed that 42 HECM borrowers may be participating in the Housing Choice Voucher Program as members of a household. During our review, we provided the results to

HUD. HUD performed additional analyses and determined that of the 42 HECM borrowers that we identified as household members of a family being assisted in the Housing Choice Voucher Program, the HECM loans associated with the 42 borrowers had been terminated. We accessed HUD's Neighborhood Watch system and found that 37 of the 42 loans were terminated because they were paid off. Of the remaining five loans, two loans were associated with foreclosed insurance claims totaling \$90,244, and one loan was terminated because of a deed-in-lieu transaction claim of \$81,124. For the remaining two terminated foreclosed-on loans, no insurance claims were paid. We found no indication that the loans were terminated due to a violation of principal residency requirements. Although our analysis showed that a small number of HECM borrowers may have violated residency requirements, the Office of Single Family Housing had access to complete, up-to-date data and the ability to perform the necessary data matches. By performing the data match, HUD can identify borrowers who violate residency requirements and remove them from the program.

HUD Did Not Implement the Agreed-to Corrective Action To Prevent Borrowers From Also Receiving Multifamily Program Assistance

HUD did not implement controls to determine whether HECM borrowers violated the HECM program residency requirements by concurrently participating in its multifamily programs.

In recommendation 1C from audit report 2015-PH-0004, we recommended that the Office of Single Family Housing implement controls to determine whether HECM borrowers violated the HECM program residency requirements by concurrently participating in its multifamily programs. HUD agreed with the recommendation. We reviewed the items HUD submitted for final action certification in ARCATS to determine whether they supported closure of the recommendation. HUD provided a memorandum prepared by the former Director of the Office of Single-Family Asset Management, describing the procedures and methodology to be used to perform the annual data matches. It explained that an annual data match review was to be completed by the end of the first quarter of every calendar year. Positive match results would be provided to the National Servicing Center for verification of the borrower's eligibility in the HECM loan program. Based on our review of the documentation provided for final action certification, we agreed with HUD's determination to close the recommendation.

To determine whether corrective action was implemented after closure of the recommendation, we requested that HUD provide documentation showing that it performed the data matches. The Office of Single Family Housing did not coordinate with the Office of Multifamily Housing Programs to match borrower data in SFDW to TRACS data. HUD explained that it did not implement any of the corrective actions due to high staff turnover.

Our analysis showed that 40 HECM borrowers may be receiving assistance under HUD's multifamily programs. During the review, we provided the results to HUD. HUD performed additional analyses and determined that 19 of the borrowers may be participating in multifamily programs. For the remaining 21 HECM loans, HUD determined that 13 of the loans had been terminated, 4 loans were due and payable, 2 loans had been foreclosed on, and 2 loans were delinquent. We accessed HUD's Neighborhood Watch system to determine the reasons for the 13 terminated loans and found that 11 loans had been paid off. Of those 11 loans, 2 had insurance claim amounts for a foreclosure claim of \$36,920 and a deed-in-lieu transaction claim

of \$46,822. For the remaining eight loans, insurance claims were not paid on the loans. None of the loans showed that they were terminated due to a violation of principal residency requirements.

Although our analysis showed that a small number of HECM borrowers may be violating residency requirements, the Office of Single Family Housing has access to complete, up-to-date data and the ability to perform the necessary data matches. By performing the data match, HUD can identify borrowers who violate residency requirements and remove them from the program.

Conclusion

HUD successfully implemented corrective actions to ensure that HECM borrowers did not have multiple loans. However, for three recommendations in three prior HECM audit reports, HUD had not implemented adequate corrective actions to ensure that HECM borrowers did not concurrently participate in the Housing Choice Voucher Program and multifamily programs. These conditions occurred because HUD did not follow through with the agreed upon controls to ensure adequate implementation of corrective actions after closure of the recommendations. HUD also did not coordinate with HUD's Public and Indian Housing and Multifamily program offices to ensure that controls were in place to prevent violations of principal residency requirements. As a result, there is an increased risk to the insurance fund when the property is not the principal residence of at least one other borrower.

RECOMMENDATIONS

Based on the cited deficiencies, we will reopen the following recommendations from the following audit reports until corrective actions are fully developed and implemented.

We recommend that the Office of Single Family Housing address the following recommendations:

Audit Report 2013-PH-0002

Recommendation 1B. Implement control policies or procedures to at least annually coordinate with HUD's Office of Public and Indian Housing to match data in the SFDW to data in the PIC to prevent or mitigate instances of borrowers violating Program residency requirements by renting their properties to Section 8 voucher participants.

Audit Report 2014-PH-0001

Recommendation 1B. Implement controls to prevent or mitigate instances of borrowers violating HECM program residency requirements by concurrently participating in the Voucher program, including policies and procedures to at least annually coordinate with the Office of Public and Indian Housing to match borrower data in the SFDW to member data in the PIC.

Audit Report 2015-PH-0004

Recommendation 1C. Implement controls to prevent or reduce instances of borrowers violating HECM program residency requirements by concurrently participating in multifamily programs, including policies and procedures to at least annually coordinate with the Office of Multifamily Housing programs to match borrower data in the SFDW to member data in TRACS.

Additionally, we recommend that the Office of Single Family Housing

- 1A. Coordinate its efforts with the Office of Public and Indian Housing and the Office of Multifamily Housing Programs to further ensure that appropriate controls are in place to prevent HECM borrowers from violating principal residency requirements.

Appendix A

Auditee Comments and OIG's Evaluation

We provided HUD a copy of the draft memorandum for review. On November 5, 2021, we had an exit conference with HUD's Deputy Assistant Secretary for Single Family Housing and staff to discuss the results of our review. HUD chose not to provide written comments for this memorandum.