



U.S. Department of Housing and
Urban Development
Office of Single Family Housing
Washington, DC
COVID-19 Forbearance

**Office of Audit
Kansas City, KS**

**Audit Report Number: 2022-KC-0001
December 15, 2021**





OFFICE OF INSPECTOR GENERAL
U.S. Department of Housing and Urban Development

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

//signed//

From: Kilah S. White
Assistant Inspector General for Audit, GA

Subject: FHA Borrowers Did Not Always Properly Receive COVID-19 Forbearances
From Their Loan Servicers

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Federal Housing Administration (FHA)-insured loans to determine whether FHA-insured borrowers properly received the COVID-19-related forbearance under the Coronavirus Aid, Relief, and Economic Security Act, March 2020.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. 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 audit.

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

If you have any questions or comments about this report, please do not hesitate to call Gregory Soames, Acting Audit Director, at (913) 551-5870.

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Visit the Office of Inspector General website at <https://www.hudoig.gov>.

Highlights

What We Audited and Why

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), signed into law on March 27, 2020, provided a mortgage payment forbearance option for all borrowers who suffered a financial hardship due to the COVID-19 national emergency. We audited the Federal Housing Administration's (FHA) oversight of this COVID-19 forbearance option. Several media reports and complaints filed with the Consumer Finance Protection Bureau indicated instances when servicers did not properly administer or offer COVID-19 forbearance. In addition, OIG's Office of Evaluation identified issues with the forbearance information available on servicers' websites (Memorandums issued [April 27, 2020](#), and [September 30, 2020](#)). Our audit objective was to determine whether FHA-insured borrowers properly received the COVID-19-related forbearance.

FHA Borrowers Did Not Always Properly Receive COVID-19 Forbearances From Their Loan Servicers

What We Found

Borrowers were not always made aware of their right to a COVID-19 forbearance under the CARES Act. Based on a statistical sample, at least one-third of the nearly 335,000 borrowers who were delinquent on their FHA-insured loans and not on forbearance in November 2020, were either not informed or misinformed about the COVID-19 forbearance. As a result, any of these borrowers experiencing a hardship due to COVID-19 did not benefit from the COVID-19 forbearance.

Servicers did not always properly administer the COVID-19 forbearance. Based on a statistical sample, they improperly administered the forbearance for at least one-sixth of the nearly 815,000 borrowers on forbearance plans in November 2020, with the most common errors being unnecessary document requirements, improper periods for forbearance, and credit reporting. Servicers also performed excessive communication and collection efforts for borrowers who were already in forbearance. As a result, these borrowers experienced additional burdens from improperly administered forbearance.

What We Recommend

We recommend that FHA identify borrowers who are delinquent and did not fully benefit from the COVID-19 forbearance and ensure that information about the CARES Act and COVID-19 forbearance is distributed to these borrowers. Because FHA has already issued letters to delinquent borrowers in June 2021 informing them about the COVID-19 forbearance, we will mark the recommendations as completed upon issuance of this report. We also recommend that FHA review the 21 loans in our statistical sample with improperly administered forbearance to ensure that the borrowers were assisted by the servicers, if possible, and ensure that these servicers updated their forbearance procedures to prevent future noncompliance; ensure that the issues found during our audit are incorporated into servicing monitoring reviews to deter future noncompliance and prevent potential loss to the FHA fund; and provide additional guidance to the servicers so that they limit their communication and collection efforts for the borrowers in forbearance.

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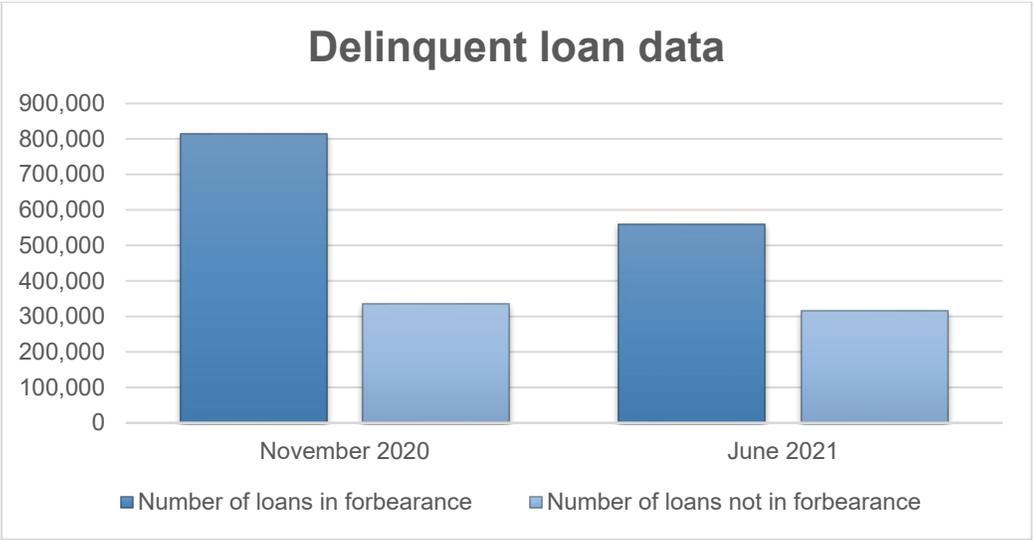
Background and Objective

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (Public Law 116-136) into law. The CARES Act provided a mortgage payment forbearance option for all borrowers who, either directly or indirectly, suffered a financial hardship due to the COVID-19 national emergency. Under the CARES Act, borrowers are entitled to request an initial forbearance of their monthly mortgage payments for up to 180 days and may request up to an additional 180 days. The borrower also has the option at any time to shorten the forbearance period and resume payments. For the borrowers who requested their initial COVID-19 forbearance on or before June 30, 2020, the borrower may request and the lender must approve up to two additional 3-month COVID-19 forbearance periods.

A forbearance allows for reduced or suspended payments without specific terms of repayment. To request forbearance, borrowers do not need to provide documentation showing their hardship and only must attest to their servicer that they are suffering a financial hardship. During the forbearance period, servicers cannot charge borrowers additional fees, penalties, or interest, and forbearance should not result in negative credit reporting. Before the forbearance ends, lenders must evaluate borrowers for loss mitigation options to assist with repayment of missed amounts.

The U.S. Department of Housing and Urban Development's (HUD) Office of Single Family Housing administers housing assistance programs that insure mortgage lenders against losses from default and encourages lenders to provide mortgage financing to eligible home buyers, including first-time and low-to-moderate-income home buyers. Within the Office of Single Family Housing, the National Servicing Center is responsible for providing guidance and training to lenders so they can better assist the homeowners. The Quality Assurance Division (QAD) is responsible for evaluating lenders' portfolios to identify performance issues. The Office of Housing Counseling provides support and oversight to HUD-approved housing counseling agencies nationwide. These agencies, in turn, provide tools and educational resources to borrowers so that they can make responsible choices to address their housing needs.

As of November 30, 2020, there were more than 814,000 active Federal Housing Administration (FHA) loans in forbearance totaling \$141.6 billion in unpaid principal balance, while there were nearly 335,000 delinquent loans not in forbearance totaling \$49.37 billion in unpaid principal balance. As of June 30, 2021, these numbers had changed to more than 560,000 loans in forbearance totaling more than \$96.1 billion and nearly 316,000 delinquent loans not in forbearance totaling \$47.82 billion in unpaid principal balance.



Our audit objective was to determine whether FHA-insured borrowers properly received the COVID-19-related forbearance.

Results of Audit

Finding 1: Borrowers for One-Third of the Delinquent FHA-Insured Loans Not on Forbearance Were Not Aware of Their Right to a COVID-19 Forbearance

FHA-insured borrowers were not always made aware of their right to a COVID-19 forbearance under the CARES Act. This condition occurred because FHA did not ensure that servicers adequately informed the borrowers of this option. In addition, there was an apparent conflict between the Federal Bankruptcy Code and the CARES Act. As a result, out of nearly 335,000 loans, at least 112,160 borrowers with FHA-insured loans totaling at least \$13.25 billion did not benefit from the COVID-19 forbearance.

Borrowers Not Informed About the COVID-19 Forbearance

From a sample of 85 delinquent loans that were not reported by servicers as in forbearance in November 2020, 29 borrowers were not informed about the COVID-19 forbearance.

More than half of the borrowers who were not informed were in bankruptcy. The automatic stay provisions of the Federal Bankruptcy Law limited interaction between servicers and borrowers, so servicers were prohibited from contacting some borrowers in bankruptcy. Upon receiving notice of a bankruptcy filing, servicers send information to the borrower's attorney or the borrower when appropriate, indicating that loss mitigation may be available. The FHA Single-Family Housing Policy Handbook does not indicate that ongoing communication is required. The borrowers in bankruptcy were especially vulnerable to the financial hardship caused by the pandemic and potentially would have benefited from the COVID-19 forbearance. There were two borrowers in the sample who were in bankruptcy and had asked for information about forbearance because they lost their jobs. However, the servicer did not provide them with information on the COVID-19 forbearance.

Some borrowers were only informed about regular loss mitigation options, which did not include the COVID-19 forbearance. FHA requires servicers to send delinquency notices and a pamphlet called "Save Your Home – Tips to Avoid Foreclosure" when the loan becomes more than 30 days delinquent. The pamphlet provides information about special forbearance, mortgage modification, partial claim, and the FHA-Home Affordable Modification Program (FHA-HAMP). In one case, a servicer discussed the standard loss mitigation options in the pamphlet with the borrower but did not mention the COVID-19 forbearance or other information related to mortgage assistance due to the pandemic.

One borrower called the servicer and explained her COVID-19-related hardship of waiting for unemployment benefits. The servicer's agent directed her to look at the information online and attempted to collect a payment, claiming that this would help her to avoid foreclosure. The servicer's agent should have explained the COVID-19 forbearance option, potentially placing her loan on a forbearance over the phone without further effort on her part.

Borrowers Misinformed About the COVID-19 Forbearance

From a sample of 85 delinquent loans that were not reported by servicers as in forbearance in November 2020, borrowers for 7 loans received inaccurate information from the servicers, which could have discouraged them from requesting forbearance. For example, borrowers were told that they needed to fill out excessive documentation to obtain a forbearance, including a hardship letter, assistance application, income and expenses verification, and other supporting documents. The CARES Act requires servicers to provide forbearance with no additional documentation other than the borrower’s attestation to a financial hardship caused by the COVID-19 emergency upon the borrower’s request. (See appendix C.) Excessive documentation could have discouraged borrowers from requesting forbearance by putting an additional burden on the borrowers in distress.

In one case, a servicer improperly denied forbearance for a borrower experiencing a COVID-19 hardship, stating that the borrower was delinquent and in foreclosure proceedings before pandemic, which contradicts the CARES Act. Some borrowers were told that they did not qualify for forbearance because they did not lose a job due to the pandemic even though the borrowers experienced indirect hardship, such as supporting adult children who moved back home. Some borrowers were given inaccurate information about repayment options. For example, a borrower asked about forbearance but was told that the only two options to repay the missed payments would be adding them to the mortgage payments after forbearance ended or repaying the missed payments in a lump sum. The servicer did not discuss the partial claim or other loss mitigation options. This misinformation may have discouraged these borrowers from requesting a forbearance.

When interviewed by the audit team, a borrower stated that she kept her job through the pandemic but her household expenses increased. The borrower’s children were doing remote learning, and her husband was forced to work from home as well. The family needed to purchase electronics for all household members and had additional food and utility expenses. The borrower knew about the COVID-19 forbearance but was informed by the servicer that she did not qualify because none of her family members lost their jobs. The borrower was behind on her mortgage for a few months but eventually caught up on payments. She stated that the COVID-19 forbearance would have made it easier for her to handle the financial stress during pandemic.

No Standardized Communication and Apparent Conflict With Bankruptcy Law

FHA did not ensure that servicers adequately informed borrowers of the option for a COVID-19 forbearance. In addition, there was an apparent conflict between the Federal Bankruptcy Code and the CARES Act.

FHA did not develop a standardized communication on COVID-19 forbearance. While standard loss mitigation options are communicated to delinquent borrowers in a clear and consistent manner using FHA’s “Save Your Home – Tips to Avoid Foreclosure” pamphlet, there was not a similar communication method for COVID-19 forbearances and related loss mitigation options. (See appendix C.) The COVID-19 forbearance information could have been mailed in addition to the standard loss mitigation options brochure and as a separate update to the borrowers who were already in default.

FHA also did not identify delinquent borrowers who were not in forbearance and ensure that they were informed. FHA had issued several mortgagee letters and press releases and provided trainings to the servicers to inform them about the CARES Act requirements. FHA had also updated its website with information on the COVID-19 forbearance. Although FHA did not identify delinquent borrowers who could have benefited from the COVID-19 forbearance, had such an analysis been performed, FHA could have instructed servicers to send notices to the borrowers to ensure that these borrowers were adequately informed.

Further, the Federal Bankruptcy Code may have prevented some borrowers from receiving COVID-19 forbearance. The CARES Act created an apparent conflict between Section 4022 forbearance and the Bankruptcy Code. Section 1113 of the CARES Act amended the Bankruptcy Code to allow modifications of plans postconfirmation, based on financial hardship caused directly or indirectly by the COVID-19 emergency. However, it did not directly address the forbearance or moratorium provisions of the CARES Act as they relate to bankruptcy in general. This conflict was not addressed until December 2020, when the Consolidated Appropriations Act amended the Bankruptcy Code. That law stated that for 1 year, “A person may not be denied relief under sections 4022 through 4024 of the CARES Act (15 U.S.C. [United States Code] 9056, 9057, 9058) because the person is or has been a debtor under this title [that is, Chapter 7 or 13 bankruptcy].” (See appendix C.) Because this conflict was not resolved until December 2020, a month after our sample period, it may have prevented the borrowers in our sample from being offered forbearance. To ensure that the maximum number of borrowers was aware of the option for a COVID-19 forbearance, FHA could have instructed servicers to send an informational mailing to those borrowers and their attorneys for their consideration.

Borrowers Not Benefiting From the COVID-19 Forbearance

Some FHA-insured borrowers did not benefit from the COVID-19 forbearance. FHA insured loans for at least 112,160 borrowers totaling at least \$13.25 billion that could have been needlessly delinquent. This represented at least one-third of the universe of nearly 335,000 loans that were delinquent but not in forbearance in November 2020. (See appendix D.) These borrowers may have wanted forbearance if they had been given the option or if they had been adequately informed. As a result, some borrowers experienced financial hardship that could have been avoided by the COVID-19 forbearance.

Conclusion

The COVID-19 forbearance was designed to help borrowers experiencing financial hardship from the COVID-19 pandemic. However, an estimated 112,160 FHA-insured borrowers with loans totaling at least \$13.25 billion did not take advantage of the COVID-19 forbearance. These borrowers were not informed or were misinformed about their right to a forbearance. They would have been eligible for a forbearance if they experienced a financial hardship related to the COVID-19 emergency and attested to such a hardship. FHA should have monitored these borrowers and required mailing them an informational brochure similar to that used for standard loss mitigation options to ensure that they were adequately informed about their right to a forbearance. From not entering forbearance, the potential loss to FHA on these loans is \$5.43 billion, based on the FHA insurance fund average loss rate of 41 percent as of June 30, 2021.

On June 14, 2021, HUD's Office of Housing Counseling sent letters to borrowers with FHA-insured mortgages who had not made a mortgage payment for more than 60 days as of April 30, 2021, and had not obtained a mortgage payment forbearance from their mortgage servicer. The letters advised borrowers of the options they could take to obtain mortgage payment assistance for their COVID-19-related financial challenges. The letters were sent to more than 300,000 FHA borrowers, including to those in bankruptcy. Therefore, the recommendations will be marked as completed upon issuance of this report.

Recommendations

We recommend that the Deputy Assistant Secretary for Single Family Housing

- 1A. Perform data analysis of FHA's portfolio to identify borrowers who are delinquent and did not fully benefit from the COVID-19 forbearance, including those in bankruptcy;
- 1B. Develop a standardized brochure or informational pamphlet that would inform delinquent borrowers of their right to a forbearance under the CARES Act; and
- 1C. Ensure that this information is distributed to delinquent borrowers so it can benefit the greatest number of borrowers to put \$5.43 billion to better use by avoiding potential future losses on 112,160 loans.

Finding 2: Servicers Did Not Properly Administer Forbearance for One-Sixth of FHA Loans in Forbearance

FHA servicers did not always properly administer the COVID-19 forbearance. Due to the evolving nature of the COVID-19 pandemic, servicers did not promptly adapt to the changing forbearance requirements. In addition, FHA had not had sufficient time to complete the monitoring reviews by the end of the audit period to address noncompliance issues related to the COVID-19 forbearance. As a result, out of nearly 815,000 loans, borrowers for nearly 139,000 loans with the total unpaid balance of \$22.5 billion experienced an additional burden from improperly administered forbearance.

Improperly Administered Forbearances

From a statistical sample of 85 FHA loans, servicers improperly administered the forbearance for 21 loans. Our review focused on six requirements for the COVID-19 forbearance that were outlined in the CARES Act and FHA guidance. (See Scope and Methodology and Appendix C.)

The table below summarizes the issues found during our review. Note that some loans had multiple deficiencies.

Forbearance administration deficiencies	Number of loans
Unnecessary information to grant forbearance	10
Improper forbearance period	7
Improper reporting of forbearance to the credit agencies	5
Forbearance approval or extension without the borrower's request	3
Lack of proper forbearance exit contact	2
Improper application of the borrower's payments during forbearance	1

For nearly half of the sampled loans with deficiencies, servicers required borrowers to provide unnecessary information. The CARES Act required servicers to grant forbearance to borrowers without requiring additional documentation other than the borrower's attestation to a financial hardship caused by the COVID-19 emergency. Some servicers required borrowers to fill out a hardship application, provide documents supporting income and expenses, or submit an affidavit of hardship. Other borrowers were required to sign, date, and return the forbearance agreement before a certain deadline, which presented an additional burden to the borrowers.

Servicers did not always provide the proper forbearance period. The CARES Act requires servicers to grant forbearance for up to 180 days and extend it for an additional period of up to 180 days at the request of the borrower, provided that at the borrower's request, either the initial or extended period of forbearance may be shortened. However, some servicers did not promptly start or end forbearance upon the borrower's request, and one servicer extended forbearance for

more than 12 months. Some servicers extended forbearance beyond the initial 180 days without the borrower's request in violation of the CARES Act. FHA guidance also disallowed any negative credit reporting as a result of the COVID-19 forbearance. However, we found instances when servicers improperly reported loans to the credit agencies as delinquent or in a loan modification status during forbearance.

Servicers did not always conduct proper exit contact with the borrower at the end of forbearance. FHA guidance required servicers to evaluate borrowers before the forbearance ended for a stand-alone partial claim loss mitigation option and offer other loss mitigation options at the end of forbearance. One servicer did not contact the borrowers before their forbearance lapsed, and another did not provide accurate information about forbearance repayment options. The CARES Act also prohibits servicers from charging late fees during forbearance. In one case, a servicer assessed a late fee during forbearance.

Excessive Communication and Collection Efforts

In addition, some servicers engaged in excessive communication and collection efforts for borrowers who were already in forbearance, including frequent phone calls, emails, and delinquency letters. While FHA guidance requires servicers to contact delinquent borrowers by following a specific timeline, there are no limitations on the extent of servicers' communication with borrowers who are in forbearance. Such communication may have caused unnecessary confusion and stress for the borrowers who were already experiencing hardship due to the COVID-19 pandemic.

A borrower was approved for a forbearance on September 21, 2020. The servicer sent payment reminders on September 28, 29, and 30. The borrower eventually made a payment on September 30, 2020, even though he was on a forbearance plan. The borrower attested that he was experiencing financial hardship due to the COVID-19 pandemic, so he could have used that payment to mitigate other financial stress caused by the pandemic instead of paying on his mortgage.

Evolving COVID-19 Environment

Due to the evolving nature of the COVID-19 pandemic, servicers had to quickly adapt to the changing forbearance requirements. Some servicers reused their processes for administering standard loss mitigation options, which did not align with the CARES Act requirements. For example, servicers asked borrowers to provide documents that would be required for a standard loss mitigation option but not allowed under the CARES Act.

FHA also needed to quickly update its procedures to monitor servicing of loans with COVID-19 forbearances. In the Office of Single Family Housing, QAD is responsible for conducting such reviews. FHA held several meetings with the servicing industry and provided trainings to servicers on updated forbearance policy and quality controls. QAD also issued reminders to its staff to incorporate the forbearance requirements into monitoring reviews. Due to the time needed to conduct reviews and communicate results, the reviews covering COVID-19 forbearances had not been completed at the end of our audit period. As a result, FHA had not had the opportunity to act on those findings to address the noncompliance issues with servicers.

Additional Burden on the Borrowers

Borrowers for nearly 139,000 loans with total unpaid balance of \$22.5 billion experienced an additional burden from an improperly administered forbearance. This represented at least one-sixth of the nearly 815,000 FHA-insured loans reported to be forbearance in November 2020. (See appendix D.) The CARES Act was designed to provide relief to borrowers and to alleviate their financial stress from the COVID-19 pandemic. By not following all CARES Act requirements, servicers prevented borrowers from fully benefiting from the new mortgage relief option.

Conclusion

The COVID-19 pandemic presented a financial burden to many FHA borrowers, and the CARES Act was intended to alleviate such burden through the new mortgage relief option. However, FHA servicers did not always properly administer the COVID-19 forbearance because they did not quickly adapt to the changing forbearance requirements, and FHA did not have sufficient time to monitor these servicers' actions. As a result, some borrowers did not fully benefit from the COVID-19 forbearance. By implementing our recommendations, FHA will ensure that servicers provide FHA-insured borrowers with proper treatment while on a COVID-19 forbearance.

Recommendations

We recommend that the Deputy Assistant Secretary for Single Family Housing

- 2A. Review the 21 loans with improperly administered forbearance to ensure that the borrowers were remedied by the servicers, if possible, and ensure that these servicers updated their forbearance procedures to prevent future noncompliance;
- 2B. Ensure that the issues found during our audit are incorporated into QAD's servicing monitoring reviews; and
- 2C. Provide additional guidance to the servicers so they will limit their communication and collection efforts for the borrowers in forbearance.

Scope and Methodology

We performed our audit work between December 2020 and July 2021. We did not conduct onsite fieldwork for this audit. Our audit period covered March 1 through November 30, 2020.

To accomplish our objective, we

- reviewed provisions in the CARES Act and FHA guidance,
- interviewed FHA staff to gain an understanding of the program and relevant monitoring controls,
- reviewed FHA's policies and procedures, and
- reviewed records provided by FHA servicers for two statistical samples to determine whether FHA-insured borrowers properly received the COVID-19 forbearance.

We relied in part on data maintained by FHA in its Single-Family Data Warehouse (SFDW) and Neighborhood Watch Early Warning System, which displays information from the SFDW database. SFDW is a large and extensive collection of database tables, organized and dedicated to support the analysis, verification, and publication of single-family housing data. Specifically, we relied on the system to identify delinquent loans that were in forbearance status and loans that were not in forbearance status as of November 30, 2020. Although we did not perform a detailed assessment of the reliability of the data, we determined that the computer-processed data were sufficiently reliable for our purposes because we corroborated the data with documentation provided by servicers in our sample.

Using data from SFDW, we identified 334,549 FHA-insured loans totaling \$49.37 billion that had an active delinquency code reported in the November reporting cycle with no associated forbearance codes and had the oldest unpaid installment date on or before October 1, 2020. From this universe, we selected a statistical sample of 85 loans totaling \$12.7 million that were delinquent but not in forbearance as of November 30, 2020. For each loan in the sample, we requested documentation from servicers, including information on whether the borrowers requested forbearance or reached out to delinquent borrowers to inform them about forbearance and what information was provided to the borrowers. We also requested the loan payment history, servicing notes, and records of communication with the borrowers. In addition, we requested, if applicable, forbearance agreements, evaluation for permanent loss mitigation options, information given to the borrowers about repayment options, and occupancy inspections. We reviewed this information for the 85 sample items to determine whether the borrowers were made aware of their rights under the CARES Act. We determined that 36 loans had been on a forbearance plan, and most of these borrowers had recently exited forbearance and were working on a permanent loss mitigation option to bring their loans current. Properties for five loans either had a foreclosure sale held or were vacant and abandoned with foreclosure in progress before the pandemic. For the 44 remaining sample loans, 36 borrowers were not informed about the COVID-19 forbearance or received inaccurate information from their servicers.

Using data from SFDW, we identified 814,037 FHA-insured loans totaling \$141.6 billion that were in forbearance status as of November 30, 2020, and selected a statistical sample of 85 loans totaling \$14.9 million. For each loan in the sample, we requested documentation from servicers, including the loan payment history, servicing notes, borrower's forbearance request, forbearance agreement and its terms, documentation from the borrowers to approve forbearance, information reported to the credit reporting agencies, and any communication from HUD regarding the loan. We also requested, if applicable, evaluation for loss mitigation options and evidence that the borrower was contacted about an extension or repayment options before the forbearance ended. We reviewed this information to determine whether servicers properly administered the COVID-19-related forbearance. See appendix D for a detailed explanation of our sample selection and results projection for both samples.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Controls to ensure that borrowers were made aware of their rights under the CARES Act.
- Controls to ensure that servicers properly administered the COVID-19 forbearances.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- FHA did not monitor its portfolio to identify delinquent borrowers who were not in forbearance and ensure that they were informed. (See Finding 1.)

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 1/
1C	\$5,430,000,000

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, if FHA implements our recommendation, it could potentially avoid losses from defaulted loans that did not benefit from the COVID-19 forbearance. The amount reflects that upon paying claims for defaulted loans, FHA's average loss experience is about 41 percent, based on statistics provided by FHA ($\$13,250,000,000 \times 0.41 = \$5,432,500,000 \sim \$5,430,000,000$).

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

 U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

OFFICE OF HOUSING

MEMORANDUM FOR: Kilah S. White, Assistant Inspector General for Audit, GA

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

SUBJECT: Discussion and Comments on Draft Audit:
FHA Borrowers Did Not Always Properly Received COVID-19 Forbearances from Their Loan Servicers
OIG Audit Report Number: 2021-XX-XXXX
Issue Date: October 14, 2021

The Office of Inspector General (OIG) audited the U.S. Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) oversight of this COVID-19 forbearance option. The audit was a result of several media reports and complaints filed with the Consumer Finance Protection Bureau indicating instances when servicers did not properly administer or offer COVID-19 forbearance. Also, the OIG's Office of Evaluation identified issues with the forbearance information available on servicers' websites. OIG's audit objective was to determine whether FHA-insured borrowers properly received the COVID-19 related forbearance.

The Office of Single Family Housing (Single Family) agrees with the OIG findings described in the draft audit report and will develop action plans to address the open audit recommendations. Single Family's comments to the draft audit report are outlined below:

Response to OIG Findings and Proposed Recommendations

1. Introduction, Summary and Highlights
In the What We Found section, the OIG authors should consider qualifying language on the summary page to make it clearer that their quantitative findings ("at least one third... at least one sixth") are estimates based on a statistical sample.

In addition, with respect to the discussion on Pages 6 and 7 regarding the purported conflict between the Federal bankruptcy law and the CARES Act, it would not have been appropriate for Single Family or HUD to interpret or resolve the conflict between those statutes.

2. Recommendation Highlights and Conclusion

For Recommendations 1A, 1B and 1C, Single Family agrees with Finding 1 and concurs

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Comment 1

Comment 2

Comment 3

with the OIG's conclusion that the recommendations will be marked as completed upon issuance of the final report. An action plan is not needed for the recommendations based on the action the Office of Housing completed. The Office of Housing identified and sent letters to delinquent borrowers with FHA-insured mortgages who had not made a mortgage payment for more than 60 days as of April 30, 2021. The letters informed borrowers of the options they could take to obtain mortgage payment assistance for financial challenges related to COVID-19.

For Recommendation 2C, regarding additional guidance to servicers so they will limit their communication and collection efforts, Single Family issued both regulatory and Handbook waivers in December 2020, waiving the requirements that mortgagees issue delinquency notices to borrowers. The waivers were not referenced in the draft audit report and Single Family recommends that the recommendation is marked complete upon issuance of the final report. Please see attachments.

Conclusion

As indicated above, Single Family agrees with the findings outlined in the draft audit report and agrees to take appropriate corrective actions for the open recommendations. Single Family will provide details and final action target dates in its Management Decision.

Attachments:

1. Handbook (HB) Waiver (HUD2) for COVID-19 Delinquency Notices
2. Regulatory (Reg) Waiver for COVID-19 Delinquency Notices

**Request for
Waiver of Housing Directive**

**U.S. Department of Housing
and Urban Development**
Office of Housing
Federal Housing Commissioner

OMB Approval No. 2502-0029
(Expires 04/30/2020)

1. Field Office National Servicing Center (NSC)	2. Program and DAS (e.g., multifamily development) Single Family Housing
3. Waiver Requested by (person, entity, HUD employee) Matt Martin, Director, NSC	
4. Waiver Item (directive number, date, page, paragraph, etc.) Handbook 4000.1, Section III.A.2.h.iii (Collection Communication Timeline, Mortgage Action table, Days 20 and 32), viii, ix, and x.	

Relief Sought
For borrowers on a COVID-19 Forbearance, this waiver provides temporary relief for mortgagees from the requirements to send notices related to delinquency as listed in Handbook 4000.1 Section III.A.2.h.ii (only waiving the Collection Communication Timeline, Mortgage Action table, Days 20 and 32), Section III.A.2.h.viii (Assigned Loss Mitigation Personnel), Section III.A.2.h.ix (Required Notices to Borrower by 45th Day of Delinquency), and Section III.A.2.h.x (Required Notices to Borrower by 60th Day of Delinquency). This temporary waiver will remain in effect for loans on a COVID-19 Forbearance.

5. Did a check of SharePoint indicate Prior Approval of a factually similar waiver?	<input type="checkbox"/> Yes (skip No. 6)	If previously approved, give Counsel's name and date of approval.
	<input checked="" type="checkbox"/> No (go to No. 6)	

6. Counsel Determination. The Waiver Proposal **does not conflict** **conflicts** with statutory or regulatory provisions (cite rule or provision)

The related temporary waiver of the requirements of 24 CFR § 203.602 - Delinquency Notice to Mortgagor prevents this Waiver Proposal from conflicting with that regulation. There is no statutory conflict.

Counsel (signature)	ELIZABETH DAVIS	Digitally signed by ELIZABETH DAVIS Date: 2020.12.14 12:38:48 -0500	Date
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7. Employee Justification (attach additional pages if necessary)

The purpose of this waiver is to reduce confusion among borrowers and mortgagees.

For borrowers on a COVID-19 Forbearance, this waives the requirement for mortgagees to send early delinquency notices under Handbook 4000.1:

- Section III.A.2.h.ii (only waiving the Collection Communication Timeline, Mortgage Action table, Days 20 and 32),
- Section III.A.2.h.viii Assigned Loss Mitigation Personnel,
- Section III.A.2.h.ix Required Notices to Borrower by 45th Day of Delinquency, and
- Section III.A.2.h.x Required Notices to Borrower by 60th Day of Delinquency.

These sections require mortgagees to provide multiple notices to borrowers, beginning on the 45th and 60th days of delinquency, to help prevent foreclosure and provide borrowers with additional options in delinquency. Mortgagees may not proceed with foreclosure while a borrower is on a COVID-19 Forbearance. The notices could cause confusion, as borrowers may interpret them to mean that a mortgagee is proceeding with a foreclosure. Therefore, HUD is waiving the requirement to send out these notices to borrowers on a COVID-19 Forbearance. This temporary waiver will remain in effect for loans on a COVID-19 Forbearance.

Field Office Concurrence		
Name	Title	Date
Elissa O. Saunders	Acting Director, Office of Single Family Asset Management	

8. <input checked="" type="checkbox"/> Granted <input type="checkbox"/> Not Granted	Housing Director (signature)	ELISSA SAUNDERS	Digitally signed by ELISSA SAUNDERS Date: 2020.12.14 18:31:53 -0500	Date
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Comments

Effective as of December 17, 2020.

Public reporting burden for this collection of information is estimated to average xx minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. HUD may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

Distribution: (includes waivers granted and denied)
Original to Field Office;
One copy to each of the following: Director, Organizational Policy, Planning and Analysis Division, Room 9116, HUD Headquarters, HRO
Assistant General Counsel, Multifamily Mortgage Division, HUD Headquarters, Room 9230, CAHAA
Office of the Deputy Assistant Secretary for Single Family Housing, Room 9082, HUD Headquarters, HJ
And one copy to either of the following: Office of the Deputy Assistant Secretary for Multifamily Housing, Room 6106, HUD Headquarters, HT

Previous versions obsolete form HUD-2 (12/2013)



ASSISTANT SECRETARY FOR
FEDERAL HOUSING COMMISSION

Temporary Waiver of 24 CFR § 203.602 – Delinquency Notice to Mortgagor on a COVID-19 Forbearance

Pursuant to § 7(q) of the Department of Housing and Urban Development Act (codified at 42 U.S.C. § 3535(q)), and the waiver authority contained in 24 CFR § 5.110, I hereby temporarily waive the requirements of 24 CFR § 203.602 – Delinquency Notice to Mortgagor, as provided in more detail below. Through this waiver, for borrowers provided a COVID-19 Forbearance, I temporarily waive the requirement that a mortgagee shall give notice to any mortgagor in default no later than the end of the second month of any delinquency in payments under the mortgage during the period of the COVID-19 Forbearance. This waiver is being issued to address potential confusion and uncertainty surrounding policy changes enacted due to the Coronavirus Disease 2019 (COVID-19) pandemic.

In support of the temporary waiver, I make the following Findings and Determinations:

FINDINGS

1. HUD requires that mortgagees give notice to each mortgagor in default on a form supplied by the Secretary or, if the mortgagee wishes to use its own form, on a form approved by the Secretary, no later than the end of the second month of any delinquency in payments under the mortgage. In the case of borrowers provided forbearance specifically related to the spread of COVID-19, this requirement is potentially confusing. Borrowers who are provided a COVID-19 Forbearance are technically delinquent; however, they are granted a period of reduced or suspended payments and do not face adverse actions, such as foreclosure, during that period.
2. HUD recognizes that providing delinquency notices to borrowers on a COVID-19 Forbearance will likely confuse borrowers about their payment obligations and create uncertainty about the overall status of their mortgages during the forbearance period. Additionally, mortgagees who comply with the notice requirement may appear to be acting contrary to the provisions of Mortgagee Letters 2020-06 and 2022, as well as subsequent guidance setting forth the COVID-19 Forbearance requirements. The borrower confusion and uncertainty stemming from delinquency notices, and the resulting misperception about noncompliance with COVID-19 Forbearance requirements, creates legal and financial uncertainty for mortgagees.
3. A temporary waiver is necessary to allow mortgagees to forego transmission of delinquency notices to borrowers who are technically delinquent but are not subject to an adverse action (e.g. foreclosure) arising from their delinquency during the COVID-19 Forbearance period.
4. Without the waiver, there will be increased potential for borrower confusion and mortgagee uncertainty.

DETERMINATIONS

1. To prevent borrower confusion and uncertainty, and mortgagee uncertainty, in the case of mortgages provided a COVID-19 Forbearance, a waiver of the notice requirements prescribed under 24 CFR § 203.602 must be granted.
2. The granting of the waiver is consistent with the Department’s objectives to promote homeownership and avoid foreclosure.
3. All other requirements and guidance concerning FHA servicing requirements in 24 CFR § 203 remain in effect.
4. Pursuant to the authority contained in 24 CFR § 5.110, the above findings constitute good cause for the granting the waiver of 24 CFR § 203.602.
5. The waiver does not violate any statutory requirements.
6. This waiver shall be in effect for all mortgages on a COVID-19 Forbearance pursuant to the provisions of Mortgagee Letters 2020-06 and 2020-22.

12/11/2020

Issued December 17, 2020

x *Dana Wade*

Signed by: DANA WADE

Dana T. Wade
Assistant Secretary for Housing
-Federal Housing Commissioner

OIG Evaluation of Auditee Comments

- Comment 1 The Office of Single Family requested OIG to consider qualifying language on the summary page to make it clearer that OIG’s quantitative findings are estimates based on a statistical sample. We updated the language on the summary page as requested.
- Comment 2 The Office of Single Family stated that it would not have been appropriate for HUD to interpret or resolve the conflict between the bankruptcy law and the CARES Act. We did not recommend that HUD interpret or resolve the conflict, but instead merely suggested that FHA could have instructed servicers to send an informational mailing to those borrowers and their attorneys for their consideration to ensure that the maximum number of borrowers was aware of the option for a COVID-19 forbearance.
- Comment 3 The Office of Single Family issued regulatory and Handbook waivers in December 2020, waiving the requirements that mortgagees issue delinquency notices to borrowers to prevent confusion and uncertainty. We did not reference the waivers in our report because they were issued outside of our audit period ending November 30, 2020. However, based on our review of these waivers that we received with the auditee comments, the waivers did not specifically require servicers to discontinue outreach to the borrowers in forbearance about their delinquency via other communication methods and to stop collection efforts. For example, some borrowers were constantly contacted via phone calls and emails while being in forbearance. Therefore, we will leave the recommendation 2C open.

Appendix C

Criteria

Coronavirus Aid, Relief, and Economic Security Act (enacted on March 25, 2020, and signed into law on March 27, 2020)

Section 1113 Bankruptcy

(b) Bankruptcy Relief

(1) In General

(C) Modification of Plan After Confirmation

Section 1329 of title 11, United States Code, is amended by adding at end the following:

“(d)(1) Subject to paragraph (3), for a plan confirmed prior to the date of enactment of this subsection, the plan may be modified upon the request of the debtor if—

- (A) the debtor is experiencing or has experienced a material financial hardship due, directly or indirectly, to the coronavirus disease 2019 (COVID–19) pandemic; and
- (B) the modification is approved after notice and a hearing...”

Section 4022 Foreclosure Moratorium and Consumer Right to Request Forbearance

(b) Forbearance

- (1) In general. During the covered period, a borrower with a Federally backed mortgage loan experiencing a financial hardship due, directly or indirectly, to the COVID–19 emergency may request forbearance on the Federally backed mortgage loan, regardless of delinquency status, by
 - (A) submitting a request to the borrower’s servicer; and
 - (B) affirming that the borrower is experiencing a financial hardship during the COVID–19 emergency.
- (2) Duration of forbearance. Upon a request by a borrower for forbearance under paragraph (1), such forbearance shall be granted for up to 180 days and shall be extended for an additional period of up to 180 days at the request of the borrower, provided that, at the borrower’s request, either the initial or extended period of forbearance may be shortened.
- (3) Accrual of interest or fees. During a period of forbearance described in this subsection, no fees, penalties, or interest beyond the amounts scheduled or calculated as if the borrower made all contractual payments on time and in full under the terms of the mortgage contract, shall accrue on the borrower’s account.

(c) Requirements for Servicers

- (A) In general. Upon receiving a request for forbearance from a borrower under subsection (b), the servicer shall with no additional documentation required other than the borrower’s attestation to a financial hardship caused by the COVID–19 emergency and with no fees, penalties, or interest (beyond the amounts scheduled or calculated as if the borrower made all contractual payments on time and in full under the terms of the mortgage contract) charged to the borrower in connection with the forbearance, provide the forbearance for up to 180 days, which may be extended for an additional period of up to 180 days at the request of the borrower, provided that, the borrower’s request for an extension is made during the covered period, and, at the borrower’s request, either the initial or extended period of forbearance may be shortened.

H.R. [House of Representatives] 133 -Consolidated Appropriations Act, 2021

Title X – Bankruptcy Relief

Section 1001. Bankruptcy Relief

(c) Protection Against Discriminatory Treatment.

(1) In general. Section 525 of title 11, United States Code, is amended by adding at the end the following:

“(d) A person may not be denied relief under sections 4022 through 4024 of the CARES Act (15 U.S.C. 9056, 9057, 9058) because the person is or has been a debtor under this title.”

Handbook 4000.1, FHA Single Family Housing Policy Handbook (issued October 24, 2019)

III. Servicing and Loss Mitigation

A. Title II Insured Housing Programs Forward Mortgages

2. Default Servicing

h. Early Default Intervention

iii. Collection Communication Timeline

(F) Definition

The Collection Communication Timeline sets forth the servicing actions that Mortgagees [lenders] must take when contacting a Borrower with a Delinquent Mortgage.

x. Required Notices to Borrower by 60th Day of Delinquency

(A) Standard

Beginning on the 32nd Day but no later than the 60th Day from the date payment was due, the Mortgagee must send the:

- Delinquency Notice Cover Letter; and
- “Save your Home – Tips to Avoid Foreclosure” pamphlet (form HUD-2008-5-FHA).

(2) “Save Your Home: Tips to Avoid Foreclosure” Brochure

The brochure (form HUD-2008-5-FHA) is available in English, Spanish, Chinese, and Vietnamese. Mortgagees may either obtain the brochure by accessing HUD’s Direct Distribution Center or reproduce electronic versions of the brochure at their own expense. The Mortgagee may not change the contents of the brochure in any way.

j. HUD’s Loss Mitigation Program

(1) Definitions

A Loss Mitigation Option is one of the following strategies under FHA’s Loss Mitigation Program requirements intended to minimize economic impact to the MMIF [Mutual Mortgage Insurance Fund] and to avoid foreclosure, if possible:

- SFB-Unemployment [special forbearance - unemployment]
- FHA-HAMP Loan Modifications, Partial Claims, and Combination Loan Modification/Partial Claims
- PFS [preforeclosure sale]
- DIL of Foreclosure [deed in lieu of foreclosure]

Mortgage Letter 2020-06 (issued April 1, 2020)

Loss Mitigation for Borrowers Affected by the COVID-19 National Emergency

The Mortgagee must not deny COVID-19 National Emergency Home Retention Options to Borrowers that experience an adverse impact on their ability to make on-time Mortgage Payments due to the COVID-19 National Emergency and satisfy the loss mitigation criteria set forth in this section.

(A) Forbearance for Borrowers Affected by the COVID-19 National Emergency

If a Borrower is experiencing a financial hardship negatively impacting their ability to make on-time Mortgage Payments due to the COVID-19 National Emergency and makes a request for a forbearance, the Mortgagee must offer the Borrower a forbearance, which allows for one or more periods of reduced or suspended payments without specific terms of repayment.

The Mortgagee may utilize any available methods for communicating with a Borrower regarding a forbearance to meet these requirements. Acceptable methods of communication regarding a forbearance include, but are not limited to, emails, texts, fax, teleconferencing, websites, or sending out a general communication advising Borrowers that forbearance is granted provided the Borrower emails a request or calls their Servicer.

The initial forbearance period may be up to 6 months. If needed, an additional forbearance period of up to 6 months may be requested by the Borrower and must be approved by the Mortgagee.

The term of either the initial or the extended forbearance may be shortened at the Borrower's request.

The Mortgagee must waive all Late Charges, fees, and penalties, if any, as long as the Borrower is on a Forbearance Plan.

(B) COVID-19 National Emergency Standalone Partial Claim

For any Owner-Occupant Borrower who receives a Forbearance for Borrowers Affected by the COVID-19 National Emergency, the Mortgagee must evaluate the Borrower for the COVID-19 National Emergency Standalone Partial Claim no later than the end of the forbearance period(s).

(D) Required Financial Evaluation for other Loss Mitigation Home Retention Options

The Mortgagee must evaluate any Borrower not brought current through a "COVID-19 National Emergency Standalone Partial Claim" Option for other Loss Mitigation Home Retention Options and Home Disposition Options.

Borrowers who are Delinquent due to a forbearance received following a COVID-19 National Emergency Declaration are deemed to satisfy the eligibility requirements for FHA Loss mitigation Home Retention and Home Disposition Options.

(F) Reporting to Consumer Reporting Agencies of Borrowers Impacted by COVID-19 National Emergency

Any Borrower who is granted a “Forbearance for Borrowers Affected by the COVID-19 National Emergency” and is otherwise performing as agreed is not considered to be delinquent for purposes of credit reporting.

FHA requires Servicers to comply with the credit reporting requirements of the Fair Credit Reporting Act (FCRA); however, FHA encourages Servicers to consider the impacts of the COVID-19 National Emergency on Borrowers’ financial situations and any flexibilities a Servicer may have under the FCRA when taking any negative credit reporting actions.

Mortgagee Letter 2020-22 (issued July 8, 2020)

iii. Forbearance for Borrowers Affected by the COVID-19 National Emergency (COVID-19 Forbearance)

The COVID-19 Forbearance allows for one or more periods of reduced or suspended payments without specific terms of repayment.

All FHA-insured Borrowers are eligible for a COVID-19 Forbearance, regardless of the delinquency status of the Mortgage.

iv. COVID-19 Home Retention Options

(B) COVID-19 Owner-Occupant Loan Modification

For Borrowers who do not qualify for the COVID-19 Standalone Partial Claim, the Mortgagee must review the Borrower for a COVID-19 Owner-Occupant Loan Modification, which modifies the rate and term of the Mortgage, at the end of the COVID-19 Forbearance period.

(C) COVID-19 Combination Partial Claim and Loan Modification

For Owner-Occupant Borrowers where the modified monthly Mortgage payment will increase utilizing the COVID-19 Owner-Occupant Loan Modification, and who are unable to bring the Mortgage current through the COVID-19 Standalone Partial Claim because the total arrearage exceeds the available portion of the statutory maximum for Partial Claims and the available portion of the statutory maximum for the Mortgage has not been fully exhausted, or because the Borrower cannot resume their existing monthly Mortgage Payments with a COVID-19 standalone Partial Claim, the Mortgagee must review the Borrower for a COVID-19 Combination Partial Claim and Loan Modification.

(D) COVID-19 FHA-HAMP Combination Loan Modification and Partial Claim with Reduced Documentation

Borrowers may provide income documentation to be reviewed for an affordable monthly payment under a COVID-19 FHA-HAMP Combination Loan Modification and Partial Claim with Reduced Documentation, which may include a principal deferment.

(E) COVID-19 Non-Occupant Loan Modification

At the expiration of the COVID-19 Forbearance period, the Mortgagee must review Non-Occupant Borrowers for a COVID-19 Non-Occupant Loan Modification, which modifies the rate and term of the Mortgage.

Appendix D

Sampling and Projections

Delinquent Loans Not in Forbearance

Sample Selection

Our sampling objective was to determine whether delinquent borrowers, who are not in forbearance, were aware of their rights under the CARES Act. The sample design provided an estimate of the total dollar amounts and counts of FHA loans with material deficiencies based on the audit results. The audit universe consisted of 334,549 delinquent FHA loans that totaled \$49.37 billion in unpaid principal balance in SFDW as of November 30, 2020.

We identified a stratified sample of 85 records for auditing in the universe. We designed the strata to group sampling units by the size of their valuation. Therefore, we rank ordered the sampling units by the unpaid balance for each loan. The strata breakpoints encompassed the following ranges by percentile: 0-10, 10-30, 30-50, 50-70, 70-90, 90-95, 95-98, and 98-100. We employed a systematic sort in the final sample design to help control for differences across servicers and the State in which the property is located.

Sample design table

Stratum label	Amount	Total count in stratum	Sample count	Sampling weight
0-10pct	> 0	33,457	8	4182.1
10-30pct	≥ \$51,918	66,905	17	3935.6
30-50pct	≥ \$90,356	66,911	17	3935.9
50-70pct	≥ \$127,034	66,912	17	3936.0
70-90pct	≥ \$175,318	66,909	17	3935.8
90-95pct	≥ \$267,022	16,727	4	4181.8
95-98pct	≥ \$321,748	10,037	3	3345.7
98-100pct	≥ \$404,272	6,691	2	3345.5
Totals		334,549	85	

We tested the sample design with various rates of error to confirm that we could obtain a reliable projection answer with this sample design and that the confidence intervals as specified would provide an accurate probabilistic statement. Based on the testing and simulated sampling distributions, we found a stratified sample of 85 to be more than sufficient, and we selected that sample size.

Methodology

We computed the percentage and number of counts of loans that may be needlessly delinquent based on the sampling results and extended this result to the population using the surveyfreq procedure provided by SAS^{®1}. We estimated the lower confidence interval using a Gaussian sampling distribution, which is appropriate for error rates in this range. We extended these percentages to the 334,549 records in the universe to get the total universe count of these records.

We used the surveymeans procedure in SAS[®] to estimate the total loan dollars that may be needlessly delinquent. We reduced the average amount by the margin of error (that is, the standard error with a student's t factor) associated with this sample design. For complex sample designs, such as the stratified technique used for this review, the surveymeans procedure in SAS

¹ Statistical analysis software that includes exact techniques for small data sets, high-performance statistical modeling tools for large data tasks and modern methods for analyzing data with missing values.

uses the Taylor expansion method to estimate sampling errors (standard errors). We then extended this result to the 334,549 records in the universe.

The basic estimation calculations are as follows:

$$Amount_{LCL} = N * (\mu - t_{\alpha/2} SE_{\$})$$

$$Count_{LCL} = N * (pct - t_{\alpha/2} SE_{\%})$$

$Amount_{LCL}$ = total review-finding amount after deducting a margin of error.

$Count_{LCL}$ = total number of sampling units with the error after deducting a margin of error.

N = total number of sampling units in the sampling frame.

μ = weighted average value of the error per unit.

pct = weighted percent of sampling units with the error in the sampling frame.

$SE_{\$}$ = standard error per unit, as applies to projecting dollars.

$SE_{\%}$ = standard error per unit, as applies to projecting proportions.

$t_{\alpha/2}$ = student's - t for projecting a one-sided confidence interval for a sample of this size.

Projection Results

We found that in 36 of 85 loan records reviewed, borrowers could be needlessly delinquent with their FHA loans and could have potentially been in forbearance. This amounts to a weighted average of \$52,886.00 per loan. Deducting for a statistical margin of error, we can say - with a one-sided confidence interval of 95 percent - that this amounts to at least \$39,617.32 per loan that could be needlessly delinquent. In the context of the universe of 334,549 loan records, this amounts to at least \$13.25 billion in FHA loans that could be needlessly delinquent and could be in forbearance, and this dollar amount could be more.

$$\text{Per loan calculation: } \$52,886.00 - (1.665 \times \$7,969.73) \approx \$39,617.32_{LCL}$$

$$\text{Universe projection: } 334,549 \times (\$52,886.00 - (1.665 \times \$7,969.73)) \approx 13,253,933,685.50_{LCL}$$

We found that in 36 of 85 loan records reviewed, borrowers could be needlessly delinquent with their FHA loans and could have potentially been in forbearance. This amounts to a weighted average of 42.4 percent. Deducting for a statistical margin of error we can say - with a one-sided confidence interval of 95 percent - that at least 33.5 percent of the loans could be needlessly delinquent. Extending this percentage to the universe of 334,549 loan records, at least 112,160 FHA loans could be needlessly delinquent and could be in forbearance, and the count of loans could be more.

$$\text{Percentage calculation: } 42.4\% - (1.664 \times 5.3\%) \approx 33.5\%_{LCL}$$

$$\text{Total loans projection: } 334,549 \times (42.4\% - (1.664 \times 5.3\%)) \approx 112,160_{LCL}$$

Delinquent Loans in Forbearance

Sample Selection

Our sampling objective was to determine whether FHA servicers properly administered forbearance under the CARES Act. The sample design provided an estimate of the total dollar amount and count of FHA loans that had material deficiencies in how servicers administered

forbearance. The audit universe consisted of 814,037 FHA loans in COVID-19 forbearance, which totaled \$141.6 billion in unpaid balance in SFDW as of November 30, 2020.

We identified a stratified sample of 85 records for auditing in the universe. We designed the strata to group sampling units by the size of their valuation. Therefore, we rank ordered the sampling units by the unpaid balance for each loan. The strata breakpoints encompassed following ranges by percentile: 0-10, 10-30, 30-50, 50-70, 70-90, 90-98, and 98-100. We employed a systematic sort in the final sample design to help control for differences across servicers and the State in which the property is located.

Sample design table

Stratum label	Amount	Total count in stratum	Sample count	Sampling weight
0-10pct	> 0	81,402	8	10175.3
10-30pct	≥ \$66,202	162,812	17	9577.2
30-50pct	≥ \$111,484	162,805	17	9576.8
50-70pct	≥ \$153,322	162,807	17	9576.9
70-90pct	≥ \$208,084	162,807	17	9576.9
90-98pct	≥ \$303,352	65,123	7	9303.3
98-100pct	≥ \$457,322	16,281	2	8140.5
Totals		814,037	85	

We tested the sample design with various rates of error to confirm that we could obtain a reliable projection answer with this sample design and that the confidence intervals as specified would provide an accurate probabilistic statement. Based on the testing and simulated sampling distributions, we found a stratified sample of 85 to be more than sufficient, and we selected that sample size.

Methodology

We computed the percentage and number of counts of loans with forbearance deficiencies based on the sampling results and extended this result to the population using the surveyfreq procedure provided by SAS®. We estimated the lower confidence interval using a Gaussian sampling distribution, which is appropriate for error rates in this range. We extended these percentages to the 814,037 records in the universe to get the total universe count of loans with forbearance deficiencies.

We used the surveymeans procedure in SAS® to estimate the total unpaid balance of loans with forbearance deficiencies. We reduced the average amount by the margin of error (that is, the standard error with a student’s t factor) associated with this sample design. For complex sample designs, such as the stratified technique used for this review, the surveymeans procedure in SAS uses the Taylor expansion method to estimate sampling errors (standard errors). We then extended this result to the 814,037 records in the universe.

The basic estimation calculations are as follows:

$$Amount_{LCL} = N * (\mu - t_{\alpha/2} SE_{\$})$$

$$Count_{LCL} = N * (pct - t_{\alpha/2} SE_{\%})$$

$Amount_{LCL}$ = total review-finding amount after deducting a margin of error.

$Count_{LCL}$ = total number of sampling units with the error after deducting a margin of error.

N = total number of sampling units in the sampling frame.

μ = weighted average value of the error per unit.

<i>pct</i>	= weighted percent of sampling units with the error in the sampling frame.
SE _{\$}	= standard error per unit, as applies to projecting dollars.
SE _%	= standard error per unit, as applies to projecting proportions.
t _{α/2}	= student's - t for projecting a one-sided confidence interval for a sample of this size.

Sample Projections

We found that in 21 of 85 loan records reviewed, there was a deficiency related to forbearance of the FHA loan. This amounts to a weighted average of \$44,721.91 per loan. Deducting for a statistical margin of error, we can say - with a one-sided confidence interval of 95 percent - that this amounts to at least \$27,678.73 per loan. In the context of this universe of 814,037 loan records, this amounts to at least \$22.5 billion in FHA loans with a deficiency related to their forbearance, and this dollar amount could be more.

$$\begin{aligned} \text{Per loan calculation:} & \quad \$44,721.91 - (1.665 \times \$10,238.45) \approx \$27,678.73 \text{ LCL} \\ \text{Universe projection:} & \quad 334,549 \times (\$44,721.91 - (1.665 \times \$10,238.45)) \approx \\ & \quad \$22,531,508,653.42 \text{ LCL} \end{aligned}$$

We found that in 21 of 85 loan records reviewed, there was a deficiency related to forbearance of the FHA loan. This amounts to a weighted average of 24.5 percent. Deducting for a statistical margin of error we can say - with a one-sided confidence interval of 95 percent - that at least 17.0 percent of the loans met this condition. Extending this percentage to this universe of 814,037 loan records, at least 138,946 FHA loans have a deficiency related to their forbearance, and the count of loans could be more.

$$\begin{aligned} \text{Percentage calculation:} & \quad 24.57\% - (1.663 \times 4.51\%) \approx 17.1\% \text{ LCL} \\ \text{Total loans projection:} & \quad 814,037 \times (24.57\% - (1.663 \times 4.51\%)) \approx 138,946 \text{ LCL} \end{aligned}$$