OFFICE of INSPECTOR GENERAL
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Office of Single Family Housing, Loss Mitigation for FHA Loan Servicing

Nationstar Mortgage LLC, Dallas, TX | 2023-KC-1001

June 13, 2023

Office of Audit | Office of Inspector General
U.S. Department of Housing and Urban Development

Date: June 13, 2023

To: Julie A. Shaffer
Acting Deputy Assistant Secretary for Single Family Housing, HU

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

Subject: Nationstar Generally Did Not Meet HUD Requirements When Providing Loss Mitigation to Borrowers of Delinquent FHA-Insured Loans

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of Nationstar Mortgage, LLC's loss mitigation for Federal Housing Administration (FHA) loan servicing. 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 of 1978, as amended, 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 Patrick Anthony, Audit Director, at (716) 646-7056.

Highlights

Nationstar Generally Did Not Meet HUD Requirements When Providing Loss Mitigation To Borrowers Of Delinquent FHA-Insured Loans | 2023-KC-1001

What We Audited and Why

We audited Nationstar Mortgage, LLC's (doing business as Mr. Cooper (Nationstar)) compliance with the Federal Housing Administration's (FHA) requirements for providing loss mitigation assistance to borrowers after their COVID-19 forbearance ended. We concurrently conducted a nationwide audit of servicers' compliance with the U.S. Department of Housing and Urban Development's (HUD) COVID-19 loss mitigation requirements (HUD Office of Inspector General (OIG) Report 2023-KC-0005). This audit complements that audit by examining how a single provider, Nationstar, provided loss mitigation for borrowers coming out of COVID-19 forbearance. We selected Nationstar after completing a risk assessment in 2021 that identified a significant volume of delinquent loans with prior COVID-19 forbearance in its portfolio and based on our awareness of complaints made about Nationstar to the Consumer Financial Protection Bureau and the HUD OIG hotline. Our audit objective was to determine whether Nationstar provided proper loss mitigation assistance to FHA-insured borrowers after the COVID-19 forbearance ended.

What We Found

Nationstar did not provide proper loss mitigation assistance to more than 80 percent of borrowers with delinquent FHA-insured loans after their COVID-19 forbearance ended. Based on a statistical sample drawn from a universe of 4,288 FHA-insured forward loans totaling $767 million, Nationstar did not meet HUD's requirements for providing assistance to an estimated 3,572. Based on our loan sample projection, more than half of the borrowers received incorrect loss mitigation assistance. In these cases, Nationstar did not provide the loss mitigation option for which borrowers were eligible, incorrectly calculated loss mitigation options, did not reinstate arrearages, or declined loss mitigation in error. More than one-third of the borrowers in our sample projection received the correct loss mitigation option; however, Nationstar did not correctly follow COVID-19 loss mitigation guidance for these borrowers.

What We Recommend

We recommend that HUD require Nationstar to (1) review the sampled loans for which borrowers did not receive appropriate loss mitigation; (2) implement controls and provide employee training; (3) update and implement controls to the Nationstar internal system; (4) identify loans with COVID-19 recovery partial claims that were affected by the improper application of partial claim funds; (5) identify FHA borrowers who received a non-HUD-approved loss mitigation option and ensure that the borrowers receive an updated, approved loss mitigation option; and (6) update the servicing script to include information related to the Homeowner Assistance Fund (HAF) program, identify borrowers who may benefit from HAF, and conduct outreach to these borrowers.

Table of Contents

Background and Objective 5

Results of Audit 8

Nationstar Generally Did Not Meet HUD Requirements When Providing Loss Mitigation To Borrowers Of Delinquent FHA-Insured Loans 8

Scope and Methodology 16

Appendixes 18

Appendix A - Auditee Comments and OIG's Evaluation 18

Appendix B – Criteria 31

Appendix C – Sample Results 37

Appendix D – Statistical Projection – Results and Methodology 41

Background and Objective

The Federal Housing Administration (FHA), part of the U.S. Department of Housing and Urban Development (HUD), provides mortgage insurance on loans made by FHA-approved lenders. Since its inception in 1934, FHA has insured nearly 50 million mortgages to protect lenders against loss from borrower default. The combined unpaid principal balance in FHA's insurance portfolio is nearly $1.3 trillion as of October 2022.

HUD's Office of Single Family Housing administers FHA programs and encourages lenders to provide mortgage financing to eligible home buyers, including first-time and low- to moderate-income home buyers. The Office of Single Family Housing's National Servicing Center is responsible for providing guidance and training to lenders so they can better assist homeowners. The Quality Assurance Division is responsible for monitoring origination and servicing activities, and the Office of Housing Counseling provides support and oversight to HUD-approved housing counseling agencies nationwide.

Nationstar Mortgage LLC (Nationstar), also known as Mr. Cooper, is a mortgage origination and servicing company headquartered in Dallas, TX. Nationstar has more than 3.9 million customers and holds around 6.2 percent of the market share of loans. As of October 31, 2021, Nationstar serviced almost 500,000 FHA loans, of which 34,435 were 90 days or more delinquent.

On March 13, 2020, the President declared a national emergency concerning the COVID-19 pandemic. On March 27, 2020, the President also signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) into law. The CARES Act provided a mortgage payment forbearance option for borrowers who, either directly or indirectly, suffered a financial hardship due to the COVID-19 national emergency. The COVID-19 forbearance allowed for reduced or suspended payments without specific terms of repayment. Before the forbearance ended, lenders servicing the loans (servicers) needed to evaluate borrowers for loss mitigation options to assist with repayment of missed amounts. HUD loss mitigation options are designed to assist borrowers in default or imminent default in retaining their homes and reduce losses to the FHA insurance fund that result from mortgage foreclosures. Servicers use several loss mitigation options that lead to home retention, including a partial claim or a loan modification.

- Partial claim. Make a no-interest loan to the borrower in an amount sufficient to reinstate the mortgage.
- Loan modification. Update the interest rate, extend the term of the loan, and add missed payments to the loan balance to make payments more affordable.

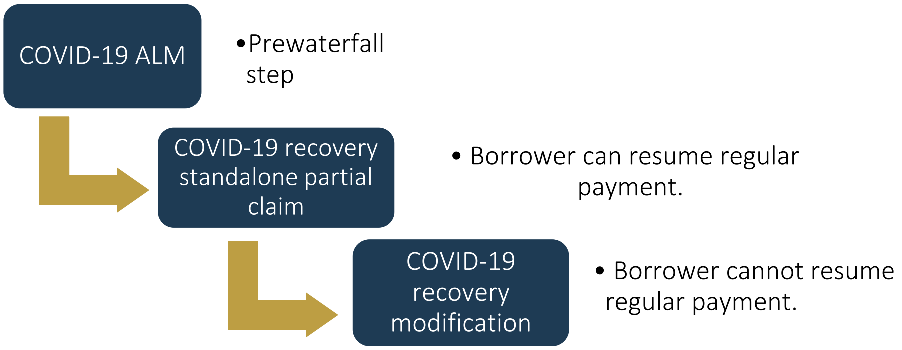
HUD changed its loss mitigation program in response to the COVID-19 national emergency.

- On April 1, 2020, HUD introduced the COVID-19 national emergency standalone partial claim in anticipation of COVID-19's financial impacts on many borrowers.
- On July 8, 2020, HUD introduced a full suite of COVID-19 loss mitigation options to build upon the previously introduced options.
- On February 16, 2021, to support broad economic recovery goals following the pandemic, HUD established expanded COVID-19 loss mitigation options to address the impacts many Americans were experiencing in recovering financially from the long-lasting effects of the pandemic.

- On June 25, 2021, HUD released guidance on a new loss mitigation option, the COVID-19 advance loan modification (ALM). A COVID-19 ALM is a permanent change in one or more terms of a borrower's mortgage that achieves a minimum 25 percent reduction to the borrower's monthly principal and interest payment. ALM gave significant relief to eligible homeowners without the need for borrowers to contact their servicers.
- On July 23, 2021, HUD released new guidance after it further decided that broader payment relief might be needed to aid a sustained and equitable recovery and protect FHA's Mutual Mortgage Insurance Fund. As a result, HUD streamlined COVID-19 loss mitigation options and introduced the COVID-19 recovery options, which included ALM, a COVID-19 recovery standalone partial claim, and a COVID-19 recovery modification—like the previously described options but expanded to qualify more borrowers for the streamlined options.

The pandemic caused a lengthy period of instability that deeply impacted FHA homeowners. HUD intended the options, described above, to provide borrowers impacted by the pandemic a path to significant and sustained recovery and, whenever possible, the ability to remain in their homes. HUD refers to its loss mitigation options as a waterfall, with decision point questions dictating which option servicers must offer and with ALM being a prewaterfall step. The new COVID-19 recovery home retention waterfall streamlined HUD's previous options for struggling homeowners, reduced required documentation, and allowed mortgage servicers to provide greater payment reduction for eligible homeowners. HUD issued two waivers allowing servicers additional time to transition to the new options. Based on the waivers, servicers had to offer ALM to qualifying borrowers who had not already been mailed documents for another option before August 24, 2021, and the recovery options needed to be offered to borrowers who had not been mailed documents for another option before October 21, 2021. Nationstar was required to follow the steps shown in figure 1 when determining the borrowers' eligibility for each loss mitigation option.

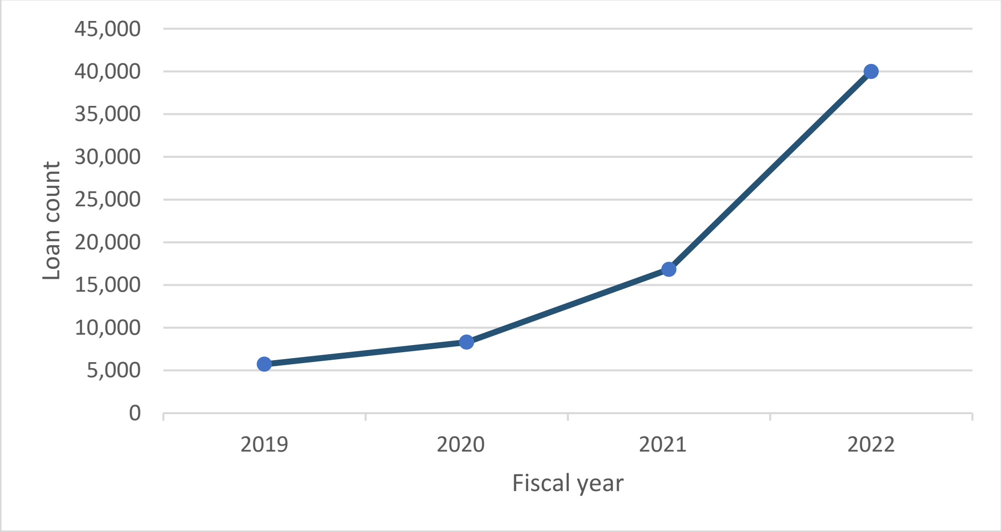
Figure 1. HUD's COVID-19 loss mitigation options waterfall (home retention)



Further, HUD required that servicers of FHA-insured loans inform borrowers exiting forbearance about additional assistance available through the Homeowner Assistance Fund (HAF) if it was available in their jurisdiction. This program is a nearly $10 billion Federal program, administered by the U.S. Department of the Treasury. The purpose of HAF is to prevent mortgage delinquencies leading to defaults and foreclosures. Further, borrowers can use HAF relief in conjunction with HUD's loss mitigation options. (See appendix B for more information on the COVID-19 loss mitigation requirements.)

Since 2019, there has been a significant increase in loss mitigation activity due to the COVID-19 national emergency at Nationstar, as shown in figure 2.

Figure 2. Nationstar's loss mitigation activities (partial claims and loan modifications)



Source: Our analysis of loss mitigation activity data obtained from HUD's Single Family Data Warehouse, November 2022

Our audit objective was to determine whether Nationstar provided proper loss mitigation assistance to FHA-insured borrowers after the COVID-19 forbearance ended.

Results of Audit

Nationstar Generally Did Not Meet HUD Requirements When Providing Loss Mitigation To Borrowers Of Delinquent FHA-Insured Loans

Nationstar did not comply with HUD's requirements in providing loss mitigation assistance to more than 80 percent of borrowers after their COVID-19 forbearance ended. The influx of borrowers exiting COVID-19 forbearance created significant operational pressure for Nationstar and stressed aspects of its servicing processes in a unique manner. Nationstar struggled to comply with HUD's new loss mitigation requirements. As a result, we estimate that Nationstar did not provide appropriate loss mitigation to borrowers for 3,572 loans. Further, we estimate that Nationstar's noncompliance creates additional risk to the FHA insurance fund for 2,401 loans that received an incorrect option, improperly calculated option, option that did not reinstate the loan, or option improperly declined in error.

Nationstar Did Not Provide Proper Loss Mitigation Assistance on an Estimated 3,572 FHA Loans

From a universe of 4,288 FHA-insured forward loans totaling $767 million, Nationstar did not provide proper assistance between November 2021 and February 2022 to borrowers of a projected 3,572 FHA-insured loans after their COVID-19 forbearance ended.[1] This projection is based on a statistical sample of 67 loans totaling $12.7 million. As shown in table 1, 60 of these borrowers did not receive proper assistance, either because they received the incorrect loss mitigation or because servicers did not follow HUD's guidance.

[1] As described in HUD Office of Inspector General (OIG) Report 2023-KC-0005, we concluded more broadly that servicers did not provide proper loss mitigation assistance to a projected 155,297 borrowers after COVID-19 forbearance ended. This represents 67 percent of the universe of 231,362 FHA-insured forward loans totaling $41 billion.

Table 1. Sample loan count and statistical projection

Issue	Count of sample	Statistical projection count (percentage)
Nationstar did not provide correct loan mitigation ▪ Improper loss mitigation option ▪ Proper loss mitigation option but incorrectly calculated, did not reinstate arrearages, or was not completed	44	2,401 (56.0%)
Nationstar did not follow HUD's guidance ▪ Improper HAF notification ▪ Significant delays ▪ Improper waterfall use ▪ Failure to review for ALM ▪ Unnecessary documentation ▪ Late mailing of the modification documents	30	1,485 (34.6%)
Total*	60	3,572 (83.3%)
*Some of the sampled loans had multiple issues. See appendix C for more information.		

Nationstar Did Not Provide Correct Loss Mitigation

Based on the sample projection, Nationstar did not provide correct loss mitigation to more than half (56 percent) of the borrowers. These borrowers did not receive the loss mitigation option for which they were eligible, had their option not calculated properly, received an option that did not reinstate arrearages, or had their option declined in error.

HUD's guidance required servicers to review all borrowers who were on a COVID-19 forbearance for the COVID-19 loss mitigation options and, later, for the COVID-19 recovery loss mitigation options to bring their mortgages current after the completion or expiration of the borrowers' forbearance. We found 15 instances in which borrowers did not receive the appropriate option for which they were eligible. For example, Nationstar

- Reviewed and approved an FHA borrower for a non-HUD loss mitigation option. (See illustration 1 describing one sampled loan.)
- Did not follow HUD's COVID-19 loss mitigation waterfall and allowed borrowers to choose a loss mitigation option for which they were not eligible.
- Did not offer ALM to eligible borrowers.
- Evaluated borrowers for standard loss mitigation rather than streamlined COVID-19 loss mitigation options, in some cases requiring additional documentation and trial payments.
- Did not properly determine the borrower's ability to make the modified monthly payment to qualify for the COVID-19 recovery modification.

Illustration 1. Incorrect loss mitigation option

A borrower requested to be evaluated for postforbearance options in November 2021. Nationstar informed the borrower that she needed to pay $11,000 to bring the loan current and offered her a payment disaster deferral, which is not one of HUD's loss mitigation options but, rather, Nationstar's internal loss mitigation option. Nationstar should have evaluated the borrower for the streamlined COVID-19 loss mitigation options and asked her qualifying questions. Instead, the borrower was incorrectly informed that her past-due escrow payments could not be placed to the back of the loan. Nationstar went on to advise the borrower that she should have made escrow payments during her forbearance, which was not a requirement for the COVID-19 loss mitigation options. Later in the process, the borrower indicated that she could resume her regular monthly mortgage payments. Nationstar, at this point, should have evaluated the borrower again and placed her on the proper waterfall step, a recovery partial claim, placing the past-due payments and escrow shortages into a junior lien so the borrower could resume making her normal monthly payments. As a result of an improper option, the borrower had a shortage of $5,000 in her escrow account, which was prorated over 12 months, resulting in a payment increase of $488 per month. The borrower called in February 2022 and expressed her frustration with how this significant payment increase had created a financial burden on her.

We found that 29 borrowers were eligible for their loss mitigation option, but Nationstar did not properly calculate the option, did not reinstate all arrearages, or declined it in error. The partial claim arrearages should include only amounts needed to bring the borrower current. In our sample, Nationstar made several types of errors, such as

- Including additional months of future payments in the partial claim, even though borrowers were ready to resume making payments. As a result, the partial claim was overstated by extra amounts that were not needed.
- Not including all arrearages needed to bring the borrower current. As a result, the borrower's escrow was underfunded, and the borrower was required to pay an escrow shortage over a period, increasing monthly payments.
- Not including future escrow disbursements to calculate the loss mitigation option and including only past-due escrow payments, which resulted in an increased payment after the servicer performed an escrow analysis on the loan. The escrow balance was not reinstated to the required amount after the loss mitigation funds were applied to the borrower's account.
- Inappropriately applying suspense funds to a principal reduction instead of holding the suspense funds until a full mortgage payment could be made and applied toward principal and escrow during loss mitigation.
- Including the incorrect interest rate in the calculation of loss mitigation options, forcing the borrower to pay more interest over the life of the modified loan because of a higher interest rate.
- Inappropriately applying the COVID-19 recovery standalone partial claim funds as an extra principal or payment instead of applying the projected escrow as an arrearage to the escrow. These errors made the borrowers have an underfunded escrow and caused the borrowers' loans to not be fully reinstated.
- Including late fees in the partial claim that should have been waived.
- Not completing a loss mitigation option in error, even though the borrower submitted all required documentation and made the first modified mortgage payment so the option could be finalized. (See illustration 2 describing one sampled loan.)

Illustration 2. Loss mitigation option declined in error

A borrower was evaluated for postforbearance options in December 2021 and was offered the ALM option. The borrower completed the loan modification documents, returned the documents to Nationstar, and called to ensure that everything had been finalized. In January 2022, Nationstar assured the borrower that all documents had been received and took the borrower's payment over the phone to finalize the ALM in February 2022. The borrower called in March 2022 and was informed that she had been placed back on the COVID-19 forbearance without her consent. Despite the borrower's providing all required documents on time and making the first modified payment, the ALM was not finalized due to Nationstar's error.

Nationstar Did Not Follow HUD's Guidance

Based on the sample projection, Nationstar provided the correct loss mitigation option but did not follow HUD's guidance to help more than one-third (34.6 percent) of the borrowers with payments that were missed during forbearance. The following issues illustrate Nationstar's noncompliance with HUD's guidance.

Loss Mitigation Completed Outside 120 Days

HUD's guidance required servicers to complete a loss mitigation action for borrowers who were on a COVID-19 forbearance no later than 120 days from the end of forbearance. However, Nationstar took more than 120 days to complete a COVID-19 recovery loss mitigation option for six borrowers.

Improper HAF Notification

Nationstar did not inform borrowers about HAF during loss mitigation. HUD required servicers to inform borrowers that these funds might be available through their States and borrowers could use HAF in conjunction with HUD's loss mitigation. We found that 16 borrowers were not informed about HAF, even after the funds became available in their States. Nationstar updated its billing statements and sent emails to borrowers after our audit began to inform them of HAF.

Failure To Review for ALM

We found seven instances in which Nationstar did not perform an ALM review for borrowers who were coming out of forbearance. For example, borrowers who were evaluated for loss mitigation before the monthly ALM batch was run were not evaluated for ALM. HUD required servicers to review all borrowers on a COVID-19 forbearance for the COVID-19 ALM within 30 days of the forbearance's ending and offer it to the borrowers if they qualified for it. Servicers do not have to contact the borrowers before reviewing them for ALM or sending out the modification documents.

Improper Waterfall Use

Nationstar improperly offered four borrowers multiple loss mitigation options by presenting the options as a choice instead of following HUD's loss mitigation waterfall. For example, Nationstar representatives asked borrowers which option they preferred instead of first asking them qualifying questions during the loss mitigation review and then offering the appropriate option based on their answers. In one case, the Nationstar representative, upon hearing the loss mitigation option the borrower wanted, marked the communication log to get the borrower that option by inferring the borrower's answers to qualifying questions.

Unnecessary Documentation Required

Nationstar improperly required one borrower to provide unnecessary financial documents to be considered for COVID-19 loss mitigation options. HUD introduced streamlined loss mitigation options to assist borrowers who experienced hardships during the COVID-19 pandemic that did not require any financial information. For this loan, Nationstar required the borrower to provide an application, the last 30 days of year-to-date paystubs, proof of rental receipts for 2 months, and a tax return with all schedules to be reviewed for the COVID-19 recovery nonoccupant loan modification. The only documentation HUD required for this loss mitigation option was a copy of the rental agreement for each rental unit and a written statement from the borrower declaring that the borrower was the landlord and that his or her renter was impacted by the COVID-19 pandemic. These documents presented additional hardships to the borrower.

Delayed Completion

Nationstar delayed the completion of loss mitigation for six borrowers. (See illustration 3 describing two sampled loans.)

Illustration 3. Loss mitigation option delayed

In one case, the borrower called many times during loss mitigation and was told each time to provide different documents to be considered for the loss mitigation option. The borrower expressed frustration with Nationstar and threatened to get legal representation. In another case, Nationstar failed to update the borrower's name in the system and continuously rejected the notarized loss mitigation documents because of name inconsistencies. This error caused the borrower to be rejected for the approved ALM option since the ALM was incorrectly solicited only one time by Nationstar.

Late Mailing of Loss Mitigation Documents

Nationstar improperly provided modification documents after the due date for the first modified payment. HUD's guidance allows servicers to include an additional month in the total outstanding debt to be resolved to allow time for the borrower to return the executed loan modification documents before the modified mortgage payment. However, in three cases, Nationstar did not send the modification documents to borrowers until after the first modified payment due date, even after including an extra month in the loan modification. The borrowers would not have been aware of the modified payment amount and the date when it was due so they would have needed to catch up on mortgage payments, in some cases several months' worth of payments, in a short period to avoid rejection of their loss mitigation. At least one of the borrowers did not have enough funds to pay the multiple monthly payments at once, and the loss mitigation option was denied.

Nationstar Did Not Properly Plan for an Influx of Borrowers Exiting Forbearance, Which Exposed Operational Weaknesses

The large influx in loss mitigation activity exposed Nationstar's operational weaknesses in both its system and policies. Nationstar's system allowed improper application of the partial claim funds to borrowers' accounts due to a lack of system updates. In addition, Nationstar's system had a control to not allow non-HUD options to occur; however, a manual override at the call center allowed the non-HUD option to be opened and finalized. In addition, Nationstar did not review all borrowers for ALM because its system did not evaluate borrowers if they requested loss mitigation before being analyzed for eligibility through the monthly ALM batch run.

Nationstar did not properly plan for an influx of borrowers exiting COVID-19 forbearance, experiencing a 600 percent increase in loss mitigation activity since 2019. Nationstar's servicing call center was set up by scripts that presented the information needed to be discussed with borrowers. Nationstar did not expect servicing employees to know HUD servicing rules or keep up with changes, instead Nationstar focused on automating its processes. Changes in loss mitigation requirements led the servicing employees to see only different or additional questions to ask borrowers.

Nationstar's policies allowed for the miscalculation of arrearages. Its policy allowed only mortgage insurance premium payments that were due in the calculation of arrearages and not future payments. However, HUD's guidance stated that arrearages were any amounts needed to bring the borrower current. In addition, all required escrow payments were not included to fully reinstate the borrowers' accounts after loss mitigation. If an escrow shortage occurred, Nationstar would allow the shortage to be spread over a certain period. Nationstar's policy also improperly allowed for an additional month to be added to the partial claim arrearages, increasing the borrower's partial claim to HUD.

Nationstar's policy also improperly required borrowers to be evaluated for standard loss mitigation in cases in which the initial attempt to complete the COVID-19 options did not succeed. Nationstar's script would prompt servicing employees to ask questions related to standard loss mitigation if the borrower failed a COVID-19 recovery option. However, HUD's guidance required Nationstar to review eligible borrowers for the COVID-19 loss mitigation options again for another COVID-19 option if they did not successfully complete the initial option. Nationstar rereviewed borrowers for an additional COVID-19 option only if the borrower specifically asked for it.

Nationstar did not review all borrowers for ALM because its system did not evaluate borrowers who requested loss mitigation before being analyzed for eligibility through the monthly ALM batch run. In addition, borrowers' loan accounts contained exclusion codes that did not allow borrowers to be reviewed for ALM. This condition caused borrowers to miss out on the required prewaterfall step, causing additional borrowers who came off forbearance to not be reviewed for ALM if the system and exclusion codes were not corrected.

Nationstar did not inform borrowers about the potential availability of HAF funds because its servicing script did not include information on the program. Nationstar did not want to inform borrowers about HAF because it did not dictate eligibility for the funds. If a borrower was interested in learning about the HAF program, the borrower had to ask Nationstar. Nationstar also did not inform borrowers about the HAF program because it did not want them holding up loss mitigation while waiting on HAF relief, which was not guaranteed. However, HUD required Nationstar to inform borrowers, using any available method of communication, that they could apply for HAF, if it was available in their jurisdiction.

Borrowers Faced Additional Hardships, and the FHA Fund Could Be at Additional Risk

As a result of Nationstar's practices and inadequate policies and system, borrowers for an estimated 3,572 loans may have faced additional hardships from improper loss mitigation. HUD's streamlined loss mitigation requirements provided a path to recovery for borrowers impacted by the pandemic. By not following all COVID-19 loss mitigation requirements, Nationstar prevented borrowers from fully benefiting from the new mortgage relief options. Some borrowers incurred additional costs from increased escrow payments and underfunded escrows, increased payments from incorrect interest rates, and additional expenses from not being fully reinstated.

Nationstar's borrowers also missed out on ALM and HAF benefits. ALM gave significant relief to eligible homeowners without the need for borrowers to contact their servicers. With respect to HAF, borrowers missed out on a potential benefit that could have prevented the need for loss mitigation or could have cured some of their loss mitigation funds after they were accepted for HAF if Nationstar had updated its script to inform borrowers about the program.

In addition, the FHA insurance fund could be at risk of loss for an estimated 2,401 loans to borrowers who received a loss mitigation option that was not appropriate, was miscalculated, did not reinstate arrearages, or was declined in error. Improper loss mitigation for borrowers who recently experienced a pandemic-related hardship would increase the risk of future default on their loans, ultimately increasing the risk of loss to HUD from potential insurance claims.

Conclusion

While the Nation grappled with the impact of the COVID-19 pandemic, HUD released guidance to servicers to help borrowers. HUD established expanded COVID-19 loss mitigation options to address the impacts many borrowers were experiencing in recovering financially from the long-lasting effects of the pandemic. In our audit, we found that Nationstar had issues in providing the proper assistance to borrowers after the COVID-19 forbearance ended because it was not prepared for such a large increase in borrowers exiting forbearance and needing loss mitigation options. As a result, some borrowers faced additional hardships, and the FHA insurance fund could be at an increased risk of loss for loans not properly receiving loss mitigation. Our audit captured a 4-month period in the borrowers' loss mitigation journey, and we recognize that the pandemic's impact on these borrowers may be ongoing. By implementing our recommendations, Nationstar will better service its FHA-insured loans exiting COVID-19 forbearance by providing proper assistance to borrowers.

Recommendations

We recommend that the Deputy Assistant Secretary for Single Family Housing require Nationstar to

1A. Review the sampled loans for which borrowers did not receive appropriate loss mitigation options to ensure that the borrowers were remedied by Nationstar, if possible, and take administrative actions if appropriate.

1B. Implement controls and provide employee training to help prevent noncompliance in loss mitigation.

1C. Update and implement controls to the Nationstar internal system to ensure the correct application of COVID-19 partial claims.

1D. Identify loans with COVID-19 recovery partial claims that were affected by the improper application of partial claims funds and update the accounts.

1E. Identify FHA borrowers who received a non-HUD-approved loss mitigation option and ensure that the borrowers receive an updated approved HUD loss mitigation option.

1F. Update the servicing script to include information related to the HAF program, identify borrowers who may benefit from HAF, and conduct outreach to these borrowers.

Scope and Methodology

We conducted our audit work from March through December 2022. We did not conduct onsite fieldwork for this assignment. Our audit period covered November 2021 through February 2022.

To accomplish our objective, we

- Reviewed relevant laws, regulations, and HUD's guidance.
- Reviewed Nationstar's policies and procedures.
- Interviewed HUD's staff to gain an understanding of relevant loss mitigation requirements and the results of recent reviews of Nationstar.
- Interviewed Nationstar's staff to gain an understanding of relevant controls to ensure compliance with HUD's loss mitigation requirements.
- Selected and reviewed a statistical sample of FHA-insured loans to determine compliance with HUD's loss mitigation requirements.
- Reviewed records provided by Nationstar, including loan histories, borrower communication histories, loan and escrow statements, and other documents as needed to determine compliance with HUD's loss mitigation requirements.
- Followed up with Nationstar on issues found during the audit to determine the reasons for noncompliance.

We relied in part on data contained in HUD's Single Family Data Warehouse (SFDW) system to achieve our audit objective. 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 loans that were FHA insured and delinquent following forbearance in December 2021. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing, which included comparing information from this system to Nationstar's records, and found the data to be adequate for our purposes.

Using data from SFDW, we identified 10 servicers with the greatest number of loans that were 90 or more days delinquent in October 2021 and had a COVID-19 forbearance. We reviewed risk factors for these servicers and assigned ranking based on the potential financial impact to FHA, risk to FHA borrowers, third-party and congressional interest, and historical oversight. Part of our risk assessment looked at complaints filed against Nationstar with the Consumer Financial Protection Bureau and the HUD Office of Inspector General (OIG) hotline. There were a variety of complaints, including noncompliance of COVID-19 loss mitigation requirements. Based on this internal risk analysis, we selected Nationstar for review.

Using data from SFDW, we identified an audit universe of 4,288 FHA-insured forward loans serviced by Nationstar totaling nearly $767 million as of December 31, 2021. This universe included loans that were 90 days delinquent and in COVID-19 forbearance on October 31, 2021, and were no longer in COVID-19 forbearance on December 31, 2021. These loans remained actively delinquent in December 2021 and represented Nationstar's FHA-insured borrowers who recently exited COVID-19 forbearance and needed to be evaluated for loss mitigation options.

To project the results of our review to the audit universe, we selected a statistical sample of 67 loans totaling $12.7 million. (See appendix D.) For each loan in the sample, we requested documentation from Nationstar, including information on whether the borrowers were reviewed for COVID-19 loss mitigation options including ALM and whether the borrowers were informed about HAF. We also requested the loan payment history, servicing and claim notes, servicers' communication records with the borrowers, forbearance and loss mitigation agreements, servicers' evaluation of borrowers for loss mitigation options, and other relevant documents.

We evaluated the information provided for the 67 sample loans to determine whether Nationstar provided proper loss mitigation assistance to FHA-insured borrowers after the COVID-19 forbearance ended. To determine whether sampled loans completed loss mitigation within 120 days as required by HUD's guidance, we looked at the date on which the loss mitigation funds were applied to the borrower's account, which could have been outside our audit period. When determining whether the borrowers of sampled loans received the appropriate option, we considered the loss mitigation to have been received when offered even if not finalized during our audit period.

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.

Appendixes

Appendix A - Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation – Auditee Comments

Nationstar

Jay Jones
EVP Servicing

Delivery via Electronic Mail

June 8, 2023

Kilah S. White
Assistant Inspector General for Audit, GA
Office of Inspector General
U.S. Department of Housing and Urban Development
451 7th Street SW
Washington, DC 20410

Re: Nationstar Mortgage LLC, doing business as Mr. Cooper
COVID-19 Loss Mitigation Program – Response to Discussion Draft Audit Report
Audit Report Number: 2023-KC-000X

Dear Ms. White,

I write on behalf of Nationstar Mortgage LLC, doing business as Mr. Cooper ("Mr. Cooper" or the "Company") in response to the U.S. Department of Housing and Urban Development ("HUD"), Office of the Inspector General's ("OIG") discussion draft audit report (the "Draft Report"). Mr. Cooper greatly values HUD OIG's perspective and appreciates the opportunity to further demonstrate our shared commitment to the Federal Housing Administration ("FHA") loan program and FHA borrowers. Mr. Cooper also would like to acknowledge the extraordinary efforts of HUD staff, who have worked diligently and in collaboration with servicers to provide streamlined solutions to homeowners; those solutions have been a source of strength throughout the pandemic, are far superior to the solutions delivered during the financial crisis of 2008 and have allowed the vast majority of homeowners to stay in their homes, often with significantly reduced monthly payments and interest rates.

Comment 1 >

Very respectfully, Mr. Cooper disagrees with many of the findings and statements contained in the Draft Report and believes the Draft Report fails to provide a fair understanding of the pivotal role the Company has played in helping its customers navigate the COVID-19 pandemic. As we have discussed with HUD OIG staff, Mr. Cooper sought, in good faith, to quickly implement HUD's new, complex loss mitigation options in order to assist homeowners in need. While there were some limited, technical exceptions in addressing FHA guidelines (subject to important factual clarifications noted below), those exceptions do not reflect broad non-compliance with HUD's loss mitigation requirements, but rather reflect the practical difficulties Mr. Cooper encountered. The Company has consistently maintained its focus on positive customer outcomes, outcomes that the Draft Report does not reflect due to the limited nature of HUD OIG's audit. Indeed, as a direct result of Mr. Cooper's robust, customer-focused actions, to date all of the distressed borrowers from HUD OIG's adversely-selected sample remain in their home (or were in their home when servicing was transferred), and hundreds of thousands of other pandemic-impacted borrowers have exited the pandemic with sustainable mortgage payments.

Mr. Cooper's focus on the borrower is central to its culture. For nearly two decades now, dating back to the 2008 financial crisis, Mr. Cooper has helped hundreds of thousands of American homeowners stay in their homes. Mr. Cooper's commitment and experience, coupled with years of investment in compliance, people, processes, and technology, meant that the Company was prepared to step in quickly and help its customers impacted by the COVID-19 pandemic with solutions that kept nearly all Mr. Cooper customers in their homes.

8950 Cypress Waters Blvd. Dallas, TX 75019

Comment 2 >

More specifically, as the nation's largest non-bank mortgage servicer, Mr. Cooper maintains an active FHA servicing portfolio of nearly 642,000 loans as of May 31, 2023, and is currently the second largest servicer of FHA loans by portfolio size, with FHA loans representing approximately 15% of the Company's overall servicing portfolio. During the pandemic, Mr. Cooper assisted more than 550,000 customers, including approximately 170,000 FHA customers, as they went on pandemic forbearance plans. As of this month, approximately 90% of those customers have received post-forbearance assistance or otherwise became current on their loan. This success reflects Mr. Cooper's commitment to helping homeowners, especially those impacted by the COVID-19 pandemic.

We believe the most important role servicers can play in a moment of crisis is to keep homeowners in their homes, first and foremost. While we understand that HUD OIG needs to audit to the standards of the programs that FHA implements, ignoring the positive outcomes that servicers' expedited program implementation had on customers risks that servicers will need to request longer periods to implement new options, which ultimately only will delay relief to customers and increase risk to the insurance fund. Accordingly, it is important to note—given HUD's recent release to FHA's Office of Single Family Housing "Drafting Table" of a new FHA loss mitigation option, which is even more complex to execute than the options HUD released in the Summer of 2021—that perfection of execution often equates to longer implementation timeframes.

Below, we have provided detailed information regarding:

- Inaccuracies in the Draft Report, and the Draft Report's failure to reflect Mr. Cooper's strong track record with FHA customers;
- Mr. Cooper's outperformance of the servicing industry in helping homeowners exit forbearances with permanent solutions;
- Mr. Cooper's significant investments in compliance, people, processes, and technology in response to the pandemic; and
- Mr. Cooper's navigation of complex rules and rapidly changing guidance, while keep homeowners' interests central to its decision-making.

I. <u>The Draft Report includes Inaccuracies and Fails to Reflect Mr. Cooper's Strong Track Record with FHA Customers</u>

Mr. Cooper's strong track record with FHA homeowners is why the Company was so disappointed to see that the Draft Report does not accurately reflect its diligent work to keep the thousands of FHA customers who needed permanent solutions after their forbearance periods ended in their homes.

A. Even Though HUD OIG Used an Adversely Selected Audit Sample, Mr. Cooper Was Successful in Helping These Customers with Permanent Loss Mitigation Solutions After their Forbearance Periods Ended

While most of Mr. Cooper's FHA customers selected a permanent workout solution prior to exiting forbearance, HUD OIG only reviewed a 67-loan sample from the much smaller population of homeowners that were 90 days delinquent and in COVID-19 forbearance on October 31, 2021, and were no longer in COVID-19 forbearance on December 31, 2021. In addition, HUD OIG limited its review to assistance that Mr. Cooper provided in the narrow four-month period from November 2021 to February 2022. Despite that adverse selection, Mr. Cooper's ability to keep those FHA customers in their homes was remarkable:

- ~98% (all but one loan) were offered a solution that would bring their loan current;
- ~90% accepted a solution that would bring their loan current;
- Of the ~10% that did not accept a solution that would bring their loan current:

Comment 3 >

- ~5% (3 loans) have paid their loans in full or are in active loss mitigation;
- ~3% (2 loans) have transferred to another servicer, such that Mr. Cooper does not have information regarding their current performance; and
- Less than 2% (one loan) does not have active loss mitigation in place; and

- Mr. Cooper has not foreclosed upon any of the borrowers in the sample.

For each of the four loans that the Draft Report uses as illustrations of HUD OIG's findings, Mr. Cooper provided a permanent loss mitigation solution and the loan either remains current today or was current at the time it was transferred to another mortgagee. A more fulsome factual context shows Mr. Cooper's holistic approach to helping homeowners, even if there were some limited, technical exceptions in meeting FHA's guidelines with respect to these loans:

- With respect to the Illustration 1 loan, Mr. Cooper deferred the past due amount to the end of the loan, with no interest or payments due, and without using the customer's partial claim eligibility, leaving significant room for future loss mitigation should a subsequent hardship occur. As of the time of this response, the loan is current, and the customer is no longer paying any escrow shortage amount associated with the loss mitigation solution provided.

- With respect to the Illustration 2 loan, although there was a delay in processing the Advance Loan Modification ("ALM"), following the time period of HUD OIG's review, on April 8, 2022, Mr. Cooper attempted to finalize the ALM by contacting the customer and the customer advised the Company of a new, intervening hardship—unemployment beginning in February 2022 and a close friend's tragedy that delayed the restart of the customer's income. The customer requested an additional forbearance period, which Mr. Cooper granted. Ultimately, with Mr. Cooper's focused support, the customer's arrearages were resolved with a stand-alone partial claim once the customer's income resumed. The loan remained current from the booking of the partial claim to the loan's transfer to another servicer.

- With respect to the two different loans identified in Illustration 3 as having "delayed" loss mitigation solutions:

  - In the initial case, the borrower was asked to submit a complete application due to the investor options available at that time for tenant-occupied properties. Although a system issue triggered multiple requests for missing documents, the customer was actively engaged in the review process, was in continuous contact with the Company, and was denied based on failure to complete the application. The customer subsequently was able to resume making contractual payments and booked a partial claim on May 31, 2022. The loan remains current as of the date of this response.

  - In the second case, the borrower entered a pandemic forbearance effective October 1, 2021, describing multiple hardships, including death and illness of family members and unemployment. At the expiration of the initial forbearance plan in December 2021, Mr. Cooper reviewed and approved the loan for an ALM, with an effective date of February 2022. While additional documentation was requested from the borrower to correct the names on the loan and establish change in title to allow for proper recording in accordance with investor requirements, the modification was not finalized due to the customer's unemployment, which resulted in the customer's inability to make the modified payment. At the customer's request, the loan returned to

Comment 4 >

Comment 5 >

Comment 2 >

Comment 6 >

a forbearance plan from April 2022 through September 2022, when the financial hardship resolved. At that time, the borrower was able to resume making contractual payments and qualified for a partial claim, which was effective as of November 2022, bringing the loan current at the time it was service transferred.

B. The Draft Report Mischaracterized Mr. Cooper's Assistance to Homeowners

Mr. Cooper takes its responsibility to satisfy HUD requirements very seriously. For that reason, it is critical to address any suggestion in the Report that Mr. Cooper "generally did not meet HUD requirements when providing loss mitigation." Setting aside the factual inaccuracies that Mr. Cooper has identified among HUD OIG's findings (which we discuss below), such a sweeping statement, if read without a deep dive into and analysis of the details in the Report and Appendices, falsely implies that HUD OIG's review and findings were broader than they actually were.

Indeed, as discussed above, HUD OIG's review was limited to the universe of loans that were 90 days delinquent and in COVID-19 forbearance on October 31, 2021 and were no longer in COVID-19 forbearance on December 31, 2021, and only covered four months of the customers' loss mitigation experiences. Strikingly, the period that HUD OIG's audit covered fell immediately after servicers' deadline for implementing the new loss mitigation requirements that HUD OIG was testing; HUD published Mortgagee Letter 2021-18 on July 23, 2021, which required servicers to implement the letter's complex loss mitigation program changes in just 90 days, by October 21, 2021. In our view, it is not surprising that, notwithstanding a servicer's diligence and good faith efforts to implement the new program, there may be some interpretational questions and areas identified for enhancements, in the initial implementation stages, but the Draft Report's sweeping conclusions do not account for that practical reality. Moreover, the total audit universe from which the 67-loan sample was drawn was only 4,288 FHA-insured loans; by contrast, Mr. Cooper has assisted approximately 170,000 FHA-insured customers with pandemic forbearance plans.

More fundamentally, Mr. Cooper generally *did* satisfy the program's objectives, especially given the favorable customer outcomes that it achieved, even for the limited sample of loans that HUD OIG reviewed. Further, Mr. Cooper believes the Draft Report contains multiple factual inaccuracies, based on our independent review of the Draft Report and relevant loan files. For example:

- Although the Draft Report asserts that certain customers did not receive the appropriate loss mitigation option, and that certain customers did not complete COVID-19 recovery loss mitigation solutions within 120 days after exiting forbearance, Mr. Cooper identified cases from among the relevant loan files where it can demonstrate that customers received the correct loss mitigation option or where Mr. Cooper satisfied the timing requirement, as applicable.

- Any assertion in the Draft Report (or Final Report) that customers in the sample "missed out on ALM … benefits" is simply untrue. Although the Draft Report asserts that certain customers were not reviewed for an ALM when they exited forbearance and therefore "missed out on ALM … benefits," Mr. Cooper reviewed these customers and determined that none of them qualified for an ALM. In accordance with HUD officials' directives, Mr. Cooper proceeded to offer these customers alternative solutions and did not reconsider them for ALMs. Notably, these customers would not have qualified for ALMs even if they had been reconsidered for that option.

  To explain further, Exhibit 1 below identifies the seven loans that HUD OIG asserts were not properly assessed for an ALM. However, Mr. Cooper assessed the first six loans in the Exhibit for ALMs when the loans first became eligible for consideration, i.e., "within 30 days of the expiration" of COVID-19

8950 Cypress Waters Blvd. Dallas, TX 75019

Comment 6 >

Ms. White
June 8, 2023
Page 5

forbearance,[1] which occurred before the time period that the audit covered. These loans were uniformly determined to be ineligible for an ALM because an ALM would not "achieve a minimum 25% reduction to the borrower's monthly principal & interest payment."[2] Because an ALM requires a "30-year loan modification at the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate,"[3] any increase in that rate would necessarily result in increased principal and interest payments for customers being assessed for an ALM, ensuring that a customer who did not qualify for an ALM would not later qualify if the PMMS Rate increased. To illustrate this point, Exhibit 1 shows the pro forma ALM runs that would have resulted from a December 2021 assessment (within the time period that the audit covered and consistent with when these loans could have been re-run for an ALM if Mr. Cooper had been required to re-run them after the forbearance was extended). As displayed, given the rising interest rate environment, a loan that did not meet the target payment reduction in August or September 2021 would also have been ineligible for an ALM if reviewed later in 2021. Therefore, any assertion in the Draft Report (or Final Report) that customers in the sample "missed out on ALM … benefits" is simply untrue.

Comment 6 >

The seventh loan in Exhibit 1 was not considered for an ALM prior to the audit period because the customer already had requested and was approved for a COVID-19 Recovery Modification under the terms of the waterfall, before the expiration of the 30-day period for the customer to be evaluated for an ALM. As described in Mortgagee Letter 2021-18, the ALM is a "pre-waterfall" step. This distinction is important as it implies that, if the waterfall has already been run and an offer extended, consideration for an ALM is not required, as the loss mitigation solution from the waterfall already has been determined (such that a "pre-waterfall" review would no longer apply). Nevertheless, when the customer did not return a signed modification agreement for the COVID-19 Recovery Modification, Mr. Cooper ran an ALM analysis in February 2022, with the results included in Exhibit 1. Exhibit 1 also includes the pro forma that Mr. Cooper ran for December 2021. As shown, the customer would have realized less than a 25% savings from an ALM, regardless of when the ALM evaluation occurred, making the customer ineligible for an ALM. Therefore, this customer also did not "miss out on ALM … benefits," contrary to the Draft Report's assertions.

Exhibit 1

ALM Assessment			December 2021 Pro Forma ALM Assessment	
Case ID	**Run Date**	**% Monthly P&I Change**	**% Monthly P&I Change**	**Comments**
137-9267XXX	9/13/2021	(8.7)	(5.7)	Borrower did not qualify in 9/21 or 12/21
095-5178XXX	9/13/2021	(9.3)	(6.4)	Borrower did not qualify in 9/21 or 12/21
094-8206XXX	9/13/2021	3.5	6.9	Borrower did not qualify in 9/21 or 12/21
249-6901XXX	9/13/2021	(16.7)	(14.0)	Borrower did not qualify in 9/21 or 12/21
446-3860XXX	9/13/2021	(16.5)	(13.8)	Borrower did not qualify in 9/21 or 12/21
251-6309XXX	8/19/2021	(22.1)	(19.6)	Borrower did not qualify in 9/21 or 12/21
045-8648XXX	2/14/2022	5.3	(2.6)	Borrower did not qualify in 12/21 or 2/22*

* This borrower was evaluated for an ALM in February 2022, while the other six borrowers were reviewed in September 2021.

[1] *See* HUD Handbook 4000.1 III.A.2.o.ii(C); Mortgagee Letter 2021-18 (July 23, 2021) (superseded by HUD Handbook 4000.1).
[2] *See* Mortgagee Letter 2021-18 (July 23, 2021) (superseded by HUD Handbook 4000.1); *see also* HUD Handbook 4000.1 III.A.2.o.ii(A).
[3] *See id.*; *see also* HUD Handbook 4000.1 III.A.2.o.ii(B).

8950 Cypress Waters Blvd. Dallas, TX 75019

- Although the Draft Report alleges that certain customers were not informed of Homeowner Assistance Fund ("HAF") benefits after funds became available in their states, as discussed further below, when taking into consideration the audit timeframe, many of the states had not yet started to provide HAF funding when the customers were evaluated for loss mitigation options.

Comment 6 >

Mr. Cooper appreciates the discussions it had with HUD OIG regarding the Draft Report's findings and HUD OIG's consideration of the Company's feedback. We note, though, that the limited information HUD OIG provided regarding the evidentiary basis for its concerns within each loan file hampered Mr. Cooper's ability to understand the basis for certain of HUD OIG's findings. Although HUD OIG provided a list of the loans subject to its review and high-level explanations of its findings, it did not provide details regarding how it reached such findings. For example, while the Draft Report denotes findings of improper or incorrectly calculated options, it does not detail the option HUD OIG believes would have been appropriate and why, or the calculation HUD OIG believes would have been correct. Mr. Cooper specifically requested further details from HUD OIG to understand these types of factual discrepancies, but HUD OIG declined to provide it. As a result, based on the information available to Mr. Cooper, we were often unable to confirm whether we agree or disagree with certain of HUD OIG's conclusions.

II. Mr. Cooper Has Outperformed the Servicing Industry in Helping Homeowners Exit Forbearance with Solutions

The customer is at the heart of Mr. Cooper's operations and our team members work diligently to ensure customers can obtain the relief they need and to which they are entitled, both in connection with forbearance and post-forbearance loss mitigation options.

- Since March 2020, we have helped over 550,000 customers go on COVID-19 forbearance plans, almost 170,000 of which have been FHA customers. As of this month, approximately 90% of those nearly 170,000 FHA accounts have received post-forbearance assistance or resolved their delinquency. The remaining 10% include accounts that are still on forbearance, are being evaluated for loss mitigation options, or have not completed a post-forbearance loss mitigation option.

- According to the Mortgage Bankers Association ("MBA") Loan Monitoring Survey published in May 2023, approximately 20% of Ginnie Mae homeowners who exited forbearance from September 1, 2020 to April 30, 2023 had missed monthly payments and exited forbearance without a loss mitigation plan in place.[4] Given the strength of Mr. Cooper's post-forbearance planning and outreach efforts, during the same period, the company had less than half the industry average (only 9% of customers) exit forbearance without a loss mitigation plan in place, see Exhibit 2. (We note that the MBA data aggregates results for FHA, Department of Veterans Affairs, Rural Housing Service, and Office of Public and Indian Housing-insured or guaranteed loans. Because the available industrywide data is aggregated, and we have not seen meaningful deviations between the various agencies' loans, Exhibit 2 is based on the aggregated data for both the Company and the Industry.)

- With respect to forbearance exits during the period covered by HUD OIG's audit, industrywide, nearly 77% of homeowners exiting forbearance received a solution (e.g., loan modification, partial claim, repayment plan, or reinstatement); for that same period, nearly 90% of Mr. Cooper's customers exiting forbearance received a solution, with many of the remaining customers having recently exited forbearance and eligible for loss mitigation review (see Exhibit 2). The rising interest rate environment, which has been in place throughout the relevant time period, made the need for solutions more urgent and Mr. Cooper's expedient review of its customers has been critical in helping homeowners stay in their homes while receiving the benefit of a lower interest rate.

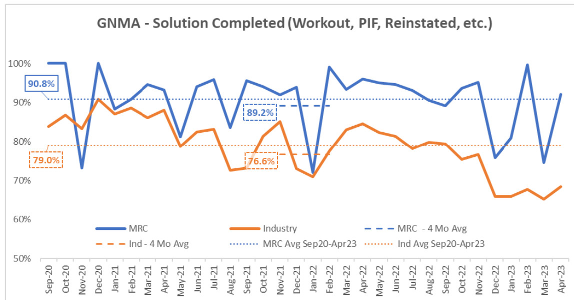
[4] Mortgage Bankers Association ("MBA"), Loan Monitoring Survey – April 1 to April 30, 2023, at p. 36 (May 15, 2023).

Comment 7 >

Comment 8 >

Ms. White
June 8, 2023
Page 7

Exhibit 2[5]



- In addition to offering forbearance plans as outlined in the CARES Act, the Mr. Cooper team is proud to participate in the HAF Program and have helped our customers get access to more than $270 million in funds to date. Mr. Cooper is actively working with all state and regional housing authorities, and so far through this program, nearly 16,500 of its customers have been able to remain in their homes. To date, approximately 7,500 Mr. Cooper FHA customers have received around $115 million in HAF funds.

III. Mr. Cooper Has Made Significant Investments in Compliance, People, Processes and Technology in Response to the Pandemic

Mr. Cooper's strong track record is no accident. Mr. Cooper has not hesitated to make the compliance, people, training, and technology investments necessary to back-up its commitment to effective loss mitigation solutions for customers, increasing Modification Group headcount by 200 FTEs (a 120% increase), and investing an additional $13 million in loss mitigation-related technology enhancements, from the start of the pandemic through the end of the audit period.

Mr. Cooper has taken seriously its efforts to provide customers with affordable post-pandemic loss mitigation solutions in an expeditious manner and in good faith to help avoid contributing to post-pandemic foreclosures while complying with applicable investor/insurer (including HUD/FHA) requirements. Critical among the efforts has been the delivery of digital tools to help customers educate themselves and review their investor/insurer options for pandemic assistance. Even before the CARES Act became law, Mr. Cooper developed a web-based tool for customers to opt into forbearance plans. As post-forbearance solutions were developed, Mr. Cooper further built out the website to help place eligible customers in the appropriate permanent solution. Additionally, Mr. Cooper has created content both on the web and delivered via e-mail that explains in plain language the specific options offered by an individual customers' investor/insurer, allowing customers to educate themselves prior to the end of their forbearance period.

Nevertheless, Mr. Cooper understands that technology development alone will not provide answers for all customers. For the team members in direct contact with customers, Mr. Cooper also stressed empathy training, awareness of hardships from the homeowners' perspectives, and information gathering to ensure its representatives both understand customers' financial circumstances and can provide the best solutions available under applicable investor/insurer

[5] The industry average exhibits less variability than Mr. Cooper's data because individual servicers' variable results are moderated when averaged across multiple servicers. To explain further, upward, or downward spikes in Mr. Cooper's data are driven by the volume of customers exiting forbearance each month. When a larger number of forbearance exits occur, a lower percentage may be solutioned within the first 30-days, leading to a downward spike; however, when the remaining forbearance exits from the previous month are solutioned shortly thereafter, this leads to an upward spike in the data.

8950 Cypress Waters Blvd. Dallas, TX 75019

Comment 9 >

Comment 10 >

Comment 6 >

Comment 6 >

Comment 11 >

(including HUD/FHA) guidelines. Mr. Cooper further supplemented these efforts with standard outreach through mailings, phone calls, text messages, and emails.

IV. Mr. Cooper Navigated Complex Rules and Rapidly Changing Guidance by Interpreting Requirements Reasonably, Seeking Guidance as Needed, and Keeping Homeowners' Interests Central to its Decision-Making

Mr. Cooper is proud of the manner in which it helped its customers navigate the unprecedented impact of the pandemic. Governing law and policy changed rapidly and, in many cases with extremely tight implementation timelines. As a non-bank mortgage servicer regulated in all 50 states, the District of Columbia, and three United States territories, Mr. Cooper is subject not just to federal law, but also quickly changing (and sometimes contradictory) state laws, and continually evolving investor/insurer guidelines, including HUD/FHA guidelines. Mr. Cooper devoted substantial resources to implementing the wave of incoming guidance and requirements in real time—including applying and interpreting the law and other requirements, as well as building processes to operationalize them (e.g., developing system codes, creating new controls, updating compliance testing, revising policies and procedures, creating and rewriting customer communications to ensure clarity, and hiring, reallocating, and training staff).

Navigating complex loss mitigation options with multiple governing bodies was challenging during the pandemic—HUD (and, indeed, most investors) needed to rapidly provide workable solutions to pandemic-impacted homeowners, and servicers needed to operationalize these solutions in real-time, as they evolved. Mr. Cooper addressed these challenges by interpreting applicable laws and guidance reasonably, interfacing with regulators (including HUD) to address interpretive questions when warranted and possible, and keeping customers' interests central to its decision-making.

However, we believe the Draft Report does not adequately acknowledge Mr. Cooper's good faith in addressing these challenges and ignores certain realities of the servicing process or HUD's current policies.

For example:

- Contrary to the Draft Report's suggestions, alleged inconsistencies with HUD guidance do not necessarily result in harm to the customer or to HUD. For example, one of the loans where the Draft Report asserts that Mr. Cooper provided the incorrect loss mitigation option had a pre-modification interest rate of 4.875% and monthly principal and interest ("P&I") payment of $1,218.69. Post-modification, the customer has a 3.125% interest rate and $914.02 monthly P&I payment. This substantial reduction in payment significantly benefited the customer and the HUD insurance fund by reducing the likelihood of future default. By contrast, the option Mr. Cooper assumes HUD OIG believes was appropriate would not have reduced the customer's monthly payment at all, which could increase the risk of future default.

- With respect to the requirement that servicers complete loss mitigation solutions within 120 days, as a practical matter, homeowners may exit a forbearance and not contact their servicer for several months, despite the servicer making multiple outreach attempts. Requiring servicers to "complete" all recovery options within 120 days of a homeowner exiting forbearance fails to account for this type of customer behavior and severely limits the number of FHA customers who can receive assistance. Indeed, HUD officials have expressed to Mr. Cooper that, notwithstanding the 120-day metric, customers may be evaluated for COVID-19 loss mitigation options until the foreclosure sale date, even if they exited a COVID-19 forbearance greater than 120 days in the past; HUD did not indicate a need to request an extension of the 120-day period to assist borrowers in this manner. HUD OIG's leveraging of the 120-day metric to allege fault with Mr. Cooper's servicing practices does not account for the realities of customer conduct or the continued availability of loss mitigation options to borrowers. However, Mr. Cooper acknowledges the ability to request extensions from HUD and is building this into its process as a result of HUD OIG's audit.

Comment 6 >

- With respect to ALM reviews, HUD officials instructed Mr. Cooper that, if an ALM review shows that a loan fails to meet the target payment reduction, the loan should be excluded from further ALM reviews, and the customer should be reviewed for other solutions. As discussed in detail above, Mr. Cooper followed this guidance and did not reconsider borrowers who had been determined to be ineligible for ALM a second time, even though their forbearance had been extended. But, as demonstrated above, even if Mr. Cooper had followed HUD OIG's view of the requirement (which is contrary to the view HUD officials have expressed to Mr. Cooper), these homeowners would not have been eligible for ALMs.

- With respect to communicating with customers regarding HAF benefits, HUD's published guidance indicates that a mortgagee must provide HAF notifications "if HAF is available in [the borrower's] jurisdiction."[6] If Mr. Cooper blindly built HAF referrals into its loss mitigation communications without concern for the current status of the states' offering of HAF funds, it would have risked customers reaching out for funds that did not yet exist and would have been perceived as providing inaccurate information. At a minimum, including information about HAF when it was not available would have been misleading for customers causing unnecessary confusion. Waiting to advise customers of HAF funds until funds were available in their jurisdiction was completely consistent with HUD guidance. Thus, any assertion in the Report that customers should have been informed of HAF benefits before such benefits became available in their state is misplaced. Similarly misplaced is any assertion that borrowers who already were in loss mitigation options should have been informed of HAF benefits, given HAF's purpose of assisting delinquent borrowers who continue to need assistance.

* * * * *

Mr. Cooper is passionate about keeping the dream of homeownership alive and is proud of the extraordinary efforts it has made to help customers during this unprecedented time. Mr. Cooper appreciates HUD OIG's important role in auditing FHA program participants and the professionalism of HUD OIG staff and looks forward to ongoing dialog in the spirit of helping as many homeowners as possible. If you have any questions regarding this response, please do not hesitate to contact me directly.

Sincerely,

Jay Jones

[6] HUD Handbook 4000.1 III.A.2.o.iii(B)(4); Mortgagee Letter 2021-18 (superseded by HUD Handbook 4000.1).

OIG Evaluation of Auditee Comments

Comment 1 Nationstar disagreed with many of the findings in our report and stated that the report failed to provide a fair understanding of the pivotal role the company has played in helping its customers navigate the COVID-19 pandemic. Nationstar maintained that it was prepared to step in quickly and help its customers impacted by the COVID-19 pandemic with solutions that kept nearly all Nationstar's customers in their homes. Nationstar also stated that the report failed to consider the positive outcomes related to the company's implementation of the COVID-19 requirements.

It is important to note that our audit objective was limited to determining whether Nationstar provided proper loss mitigation to FHA-insured borrowers after the COVID-19 forbearance ended. We did not design this audit to make sweeping conclusions about Nationstar's performance or customer service provided to FHA borrowers throughout the pandemic, and our report does not attempt to do so either. We audited Nationstar's loss mitigation activities using the current FHA program standards contained in Handbooks and Mortgagee Letters and other applicable criteria.

Because the objective of our audit was limited to determining whether Nationstar provided proper loss mitigation to FHA-insured borrowers after the COVID-19 forbearance ended, we limited our review to a 4-month period. We used a targeted statistical sample of loans to assess that issue. Our sample was not designed to follow borrowers and Nationstar's servicing activities after that period.

Comment 2 Nationstar questioned the validity of our sampling approach, characterizing it as looking at a much smaller population of homeowners who exited forbearance without first entering a permanent loss mitigation option. In our discussions with Nationstar throughout this audit, we have been consistent in describing our sampling methodology, which is statistically sound for the purpose of completing our objective.

Our sampling methodology is described in detail in appendix D of the report. The sample was not designed to include FHA borrowers that selected permanent workout solutions prior to exiting forbearance. It was designed to assess how Nationstar provided loss mitigation options to those borrowers whose forbearance ended who did not already have a workout solution in place.

The results were projected to the universe of loans that were 90 days delinquent and in COVID-19 forbearance on October 31, 2021, and were no longer in COVID-19 forbearance on December 31, 2021. They are not representative of any other universe of loans, such as loans entering a permanent loss mitigation option before exiting forbearance.

Again, our audit objective was not to assess Nationstar's comprehensive performance or customer service across its FHA portfolio during the pandemic, and we make no findings or conclusions about it in this report.

Comment 3 Nationstar noted that, for each of the four loans that the report used as illustrations of our findings, it provided a permanent loss mitigation solution and the loan either remains current or was current at the time it was transferred to another lender. Despite Nationstar's claims that it provided a permanent loss mitigation solution, the report identified the errors during our audit period with Nationstar's loss mitigation.

For example, in illustration 1, the borrower was given a non-FHA-approved loss mitigation option after she asked for a COVID-19 partial claim. Because of this error, the borrower faced an escrow deficiency after booking the ineligible loss mitigation option, and the borrower's monthly mortgage payment was almost $500 higher. Had the borrower been appropriately evaluated for loss mitigation, these deficient amounts could have been rolled into it, and the borrower's monthly mortgage payments would not have increased. For illustration 2, Nationstar failed to complete the offer of an ALM for the borrower. The borrower missed out on a lower interest rate, which would have reduced her monthly payment amount. For illustration 3, the completion of the two borrowers' loss mitigation options was delayed by Nationstar, causing one borrower to miss out on the ALM and its lower interest rate and the other borrower to never receive a loss mitigation option during our review. Nationstar provided additional information concerning this borrower which was outside of our audit period and therefore we cannot comment on the validity of the information.

Comment 4 Nationstar asserted that the report's statement that it "generally did not meet HUD requirements when providing loss mitigation" falsely implies that our findings were broader than they actually were. Nationstar's statement overstates HUD OIG's finding by implying we looked at Nationstar's loss mitigation program. Instead, our audit examined only Nationstar's handling of loss mitigation for those borrowers' exiting forbearance. And, as supported by the report and appendices, we found that Nationstar generally did not meet HUD requirements when providing loss mitigation to borrowers of delinquent FHA-Insured loans because Nationstar did not provide the loss mitigation option for which borrowers were eligible, incorrectly calculated loss mitigation options, did not reinstate arrearages, or declined loss mitigation in error.

Comment 5 Nationstar stated that the audit period took place immediately following FHA's deadline to implement new loss mitigation requirements and, HUD OIG's selection of this audit period did not consider the practical realities of the difficulties in implementing these requirements. Our audit objective was to determine whether Nationstar provided proper loss mitigation assistance to FHA-insured borrowers after the COVID-19 forbearance ended and based our conclusions on the FHA requirement in effect during our audit period November 2021 through February 2022. In HUD OIG Report 2023-KC-0005, we found that that some servicers were unprepared for the pace in which HUD changed loss mitigation requirements. We also found that some servicers appeared to be confused with the new requirements and provided borrowers with conflicting information on eligibility requirements. Nationstar did not require its employees to know HUD servicing rules or keep up with changes.

Comment 6 Nationstar pointed to several examples of what it saw as factual inaccuracies in the report, alleging that no borrowers qualified for an ALM, Nationstar's support was timely, and most States had not yet offered HAF funding.

- We found 15 instances in which borrowers did not receive the appropriate option for which they were eligible. For example, Nationstar reviewed and approved an FHA borrower for a non-HUD loss mitigation option, did not follow HUD's COVID-19 loss mitigation waterfall and allowed borrowers to choose a loss mitigation option for which they were not eligible, did not offer ALM to eligible borrowers, evaluated borrowers for standard loss mitigation rather than streamlined COVID-19 loss mitigation options, in some cases requiring additional documentation and trial payments, did not properly determine the borrower's ability to make the modified monthly payment to qualify for the COVID-19 recovery modification.

- We found that it took more than 120 days to complete the loss mitigation solution for six borrowers and there were no requests for extensions in the borrower's loan files. HUD guidance requires the servicer to complete a loss mitigation option for borrowers who were on a COVID-19 forbearance no later than 120 days from the earlier date of completion or expiration of the forbearance. If a servicer experiences delays beyond its control, it may file a request for an extension for HUD approval via the Extensions and Variances Automated Requests System. Any requests that Nationstar may have failed to provide during the audit can be provided to HUD during the audit resolution process.

- We found two borrowers who qualified for an ALM but were not offered the loss mitigation option and therefore missed out on ALM benefits. These borrowers requested loss mitigation assistance online before being reviewed through the monthly ALM batch run by Nationstar and were coded for an alternate workout exclusion that was put on the borrowers' accounts. This error resulted in the borrowers not being offered an ALM they qualified for and missing out on the ALM benefit of reducing the borrowers' monthly principal and interest payment by a minimum 25 percent. These two borrowers were not evaluated in Nationstar's Exhibit 1. Nationstar interpreted prewaterfall as optional if the loss mitigation waterfall was already run. However, it means that it must be evaluated for ALM before the official loss mitigation waterfall.

- There were 16 borrowers who were not informed about HAF, even after the funds became available in their States. HUD's guidance stated that servicers must inform borrowers that they may apply for HAF if it is available in their jurisdiction.

Nationstar maintained that its review of the findings contained in the draft report has been hampered by the limited information we provided. However, we provided Nationstar with the listing of the loans in our sample on March 17, 2022, and we audited the information Nationstar provided to us for those sample items. Therefore, Nationstar had all of the information available to review the sample items. We held many meetings with Nationstar throughout the audit, during which the opportunity to raise questions or concerns was provided. In fact, we shared our analysis and results on five loans selected by Nationstar so that they could learn more about the exceptions in the report and Nationstar did not refute the facts as we presented them in that meeting.

Comment 7 Nationstar shared data and statistics that were not part of our audit, and we cannot comment on the validity of the information. In addition, Nationstar provided exhibit 2, which shows Government National Mortgage Association homeowners who exited forbearance without a workout plan in place. This graphic included aggregate information for multiple Federal agencies, and we again cannot comment on its validity, especially since this information is not relevant to only FHA loans. We can only report on what was found during the audit review period and not on the status of the loans today or outside that period.

Comment 8 Nationstar noted its delivery of digital tools to help customers educate themselves and review their investor and insurer options for pandemic assistance. However, many of the exceptions in the report were a result of borrowers' interacting with Nationstar representatives and not because of the web-based tools. We recommended additional training for Nationstar representatives to ensure that they fully understood the information being presented to the borrowers when requesting HUD loss mitigation options. We found 15 instances in which representatives did not provide correct loss mitigation options.

Comment 9 We acknowledge Nationstar's efforts during the pandemic. We believe our recommendations will strengthen Nationstar's ability to help all struggling FHA homeowners navigate HUD's loss mitigation options in the future.

Comment 10 Nationstar stated that the report ignores certain realities of the servicing process or HUD's current policies, further asserting that inconsistencies with HUD guidance do not necessarily result in harm to the customer or to HUD. We performed our audit based on HUD's servicing guidance applicable at the time and developed our interpretation of that guidance through discussions with HUD personnel. HUD provided all servicers, including Nationstar, with specific guidance on how they must provide loss mitigation to borrowers and the criteria of eligibility for each loss mitigation option. Nationstar generally did not follow that guidance when it provided improper HAF notifications, did not follow HUD's COVID-19 loss mitigation waterfall, and failed to conduct ALM reviews.

In the case of the borrower mentioned by Nationstar, the borrower was improperly offered a loan modification, even though the borrower stated that the borrower could resume regular payments, which should have resulted in the borrower's being offered the COVID-19 recovery standalone partial claim.

Comment 11 As a result of our audit, Nationstar acknowledged the ability to request extensions from HUD and is updating its processes when needed.

Appendix B – Criteria

American Rescue Plan Act of 2021 (Enacted on March 11, 2021)

Section 3206 Homeowner Assistance Fund:

Establishment of Fund

(1) Establishment; Qualified Expenses—There is established in the Department of the Treasury a Homeowner Assistance Fund to mitigate financial hardships associated with the coronavirus pandemic by providing such funds as are appropriated by subsection (a) to eligible entities for the purpose of preventing homeowner mortgage delinquencies, defaults, foreclosures, loss of utilities or home energy services, and displacements of homeowners experiencing financial hardship after January 21, 2020, through qualified expenses related to mortgages and housing.

Handbook 4000.1, FHA Single Family Housing Policy Handbook (Issued October 26, 2021)

III. Servicing and Loss Mitigation

A. Title II Insured Housing Programs Forward Mortgages

2. Default Servicing

o. Presidentially-Declared COVID-19 National Emergency

iii. COVID-19 Recovery Loss Mitigation Options

(B) Standard

The Mortgagee must review eligible Borrowers for the COVID-19 Recovery Options. Eligible Borrowers may receive more than one COVID-19 Recovery Option.

(1) Borrowers who were on a COVID-19 Forbearance

The Mortgagee must review all Borrowers who were on a COVID-19 Forbearance for the COVID-19 Recovery Options after the completion or expiration of the Borrower's forbearance period. Mortgagees may review the Borrower for the COVID-19 Recovery Options prior to the completion or expiration of the Borrower's forbearance period. A Borrower does not need to exit their forbearance to be reviewed for the COVID-19 Recovery Options. The Mortgagee must complete a loss mitigation option for these Borrowers no later than 120 Days from the earlier of the date of completion or expiration of the forbearance. The 120-Day period to complete a loss mitigation option includes the COVID-19 ALM.

Mortgagee Letter 2021-05 (Issued on February 16, 2021, and Effective Immediately)

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

i. Definitions

The following COVID-19 Home Retention Options provide options to reinstate the Mortgage for Borrowers who are able to resume monthly or modified monthly Mortgage payments:

- Owner-Occupant Borrowers are eligible to be reviewed for the:
    - COVID-19 Standalone Partial Claim;
    - COVID-19 Owner-Occupant Loan Modification;
    - COVID-19 Combination Partial Claim and Loan Modification; and

    - COVID-19 FHA Home Affordable Modification Program (FHA-HAMP) Combination Loan Modification and Partial Claim with Reduced Documentation, which may include principal deferment and requires income documentation.
- Non-Occupant Borrowers are eligible to be reviewed for the COVID-19 Non-Occupant Loan Modification.

ii. Standard

(A) Borrowers who were on a COVID-19 Forbearance or other forbearance related to the COVID-19 Pandemic

The Mortgagee must review all Borrowers who were on a COVID-19 Forbearance or other forbearance related to the COVID-19 pandemic, for COVID-19 Loss Mitigation Home Retention and Home Disposition Options after the completion or expiration of the Borrower's forbearance period.

Mortgagee Letter 2021-15 (Issued June 25, 2021, and Effective No Later Than 60 Days From the Publication Date)

iv. COVID-19 Home Retention Options

(A) COVID-19 Advance Loan Modification

The Mortgagee must review eligible Borrowers for a COVID-19 Advance Loan Modification (COVID-19 ALM).

(1) Definition

A COVID-19 ALM is defined as a permanent change in one or more terms of a Borrower's Mortgage that achieves a minimum 25 percent reduction to the Borrower's monthly Principal & Interest (P&I) payment that does not require Borrower contact. The COVID-19 ALM is not incentivized.

(2) Eligibility

The Property may be owner-occupied or non-owner occupied. The Borrower must be 90 or more Days Delinquent. A 30-year loan modification at the most recent Freddie Mac [Federal Home Loan Mortgage Corporation] Weekly Primary Mortgage Market Survey (PMMS) Rate rounded to the nearest one-eighth of 1 percent (0.125 percent) will achieve a minimum 25 percent reduction in the Borrower's monthly P&I

(3) Standard

The Mortgagee must review eligible Borrowers for the COVID-19 ALM as follows:

- The Mortgagee must review all Borrowers on a COVID-19 forbearance for a COVID-19 ALM within 30 days of the expiration of the Forbearance.
- No later than August 24, 2021, the Mortgagee must review the following Borrowers for a COVID-19 ALM where the Mortgagee has not yet sent out the final documents to the Borrower to complete a Loss Mitigation Option as of June 25, 2021:
    - Borrowers who have exited or requested to exit their COVID-19 Forbearance;
    - Borrowers whose COVID-19 Forbearance has expired or will expire by August 24, 2021; or
    - Borrowers who were not on a COVID-19 Forbearance.

If the Borrower is eligible, the Mortgagee must:

- prepare and send out the loan modification documents to the Borrower; and
- provide a cover letter.

The Mortgagee does not have to contact the Borrower prior to reviewing the Borrower for the COVID-19 ALM or sending out the modification documents.

Borrowers who do not qualify for the COVID-19 ALM must be evaluated for the other COVID-19 Loss Mitigation Options.

Mortgagee Letter 2021-18 (Issued July 23, 2021, and Effective No Later Than 90 Days From the Publication Date)

iii. COVID-19 Recovery Loss Mitigation Options

(B) Standard

The Mortgagee must review eligible Borrowers for the COVID-19 Recovery Options. Eligible Borrowers may receive more than one COVID-19 Recovery Option.

(1) Borrowers who were on a COVID-19 Forbearance

The Mortgagee must review all Borrowers who were on a COVID-19 Forbearance for the COVID-19 Recovery Options after the completion or expiration of the Borrower's forbearance period.

(4) Homeowners Assistance Fund

The Mortgagee must inform the Borrower, utilizing any available method of communication, that they can apply for the Department of Treasury's Homeowner Assistance Fund (HAF), if HAF is available in their jurisdiction. As permitted by the jurisdiction's HAF program, HAF funds may be used in connection with the Borrower's FHA-insured Mortgage or any Partial Claim Mortgage in a manner consistent with the respective mortgage documents and FHA requirements.

(C) COVID-19 Recovery Home Retention Options

(1) COVID-19 Recovery Standalone Partial Claim

The COVID-19 Recovery Standalone Partial Claim reinstates the Mortgage through the use of a Partial Claim for Borrowers impacted by COVID-19 who are able to resume their Mortgage Payments. The Mortgagee must evaluate Owner-Occupant Borrowers impacted by COVID-19 for a COVID-19 Recovery Standalone Partial Claim.

(a) Eligibility

The Mortgagee must ensure that:

- The Borrower indicates they have the ability to resume making on-time Mortgage Payments; and
- The Property is owner-occupied.

(b) Terms

The Mortgagee must ensure that:

- the COVID-19 Recovery Standalone Partial Claim fully reinstates the Mortgage;

- the COVID-19 Recovery Standalone Partial Claim amount includes only arrearages, which refers to any amounts needed to bring the Borrower current and includes:
  - Mortgagee advances for escrow items;
  - Projected escrow shortage amount; and
  - Related legal fees and foreclosure and bankruptcy costs not higher than the foreclosure-related fees and costs HUD has identified as customary and reasonable; and
- for a COVID-19 Recovery Standalone Partial Claim, the Partial Claim must not exceed 25 percent of the unpaid principal balance as of the date of Default at the time of payment of the initial Partial Claim less any previous Partial Claims paid.

Eligible Borrowers may receive more than one COVID-19 Recovery Standalone Partial Claim.

(2) COVID-19 Recovery Modification

For Borrowers who do not meet the requirements for a COVID-19 Recovery Standalone Partial Claim, the Mortgagee must review the Borrower for the COVID-19 Recovery Modification.

(a) Definition

The COVID-19 Recovery Modification is a 360-month Loan Modification, which must include a Partial Claim, if Partial Claim funds are available. The COVID-19 Recovery Modification targets a reduction in the P&I portion of the Borrower's monthly Mortgage Payment.

(b) Eligibility

The Mortgagee must ensure that:

- the borrower indicates they have the ability to make the modified monthly payment; and
- the property is owner-occupied.

Eligible Borrowers may receive more than one COVID-19 Recovery Modification.

(c) Standard

Step 2 – Arrearages

The Mortgagee must calculate the arrearages. Arrearages refers to any amounts needed to bring the Borrower current and includes:

- unpaid accrued interest;
- mortgagee advances for escrow items;
- projected escrow shortage amount; and
- related legal fees and foreclosure and bankruptcy costs not higher than the foreclosure-related fees and costs HUD has identified as customary and reasonable.

Mortgagees may include an additional month in the total outstanding debt to be resolved to allow time for the Borrower to return the executed Loan Modification documents before the modified Mortgage Payment.

(d) Terms

The Mortgagee must ensure that the COVID-19 Recovery Modification fully reinstates the Mortgage including all arrearages.

(3) COVID-19 Recovery Non-Occupant Loan Modification

The Mortgagee must review Non-Occupant Borrowers for a COVID-19 Recovery Non-Occupant Loan Modification.

(a) Definition

The COVID-19 Recovery Non-Occupant Loan Modification is a rate and term loan modification.

(b) Eligibility

The mortgagee must ensure that:

- the borrower indicates they have the ability to make the modified mortgage payments; and
- the property is not owner-occupied. The property can be used as a rental property, secondary residence, or vacation home for the borrower.

Requests for Waiver of Housing Directive – Office of Single Family Housing

Waiver Item: Handbook 4000.1, Section III.A.o.iv(A)(3), COVID-19 Advance Loan Modification Standard, Bullet 2; Mortgagee Letter (ML) 2021-18, III.A.2.o.ii(C), Bullet 3

Relief Sought:

A waiver of the following requirement under the "Standard: for the COVID-19 Advance Loan Modification (COVID-19 ALM): "No later than August 24, 2021, the Mortgagee must review the following Borrowers for a COVID-19 ALM where the Mortgagee has not yet sent out the final documents to the Borrower to complete a Loss Mitigation Option as of June 25th, 2021; Borrowers who have exited or requested to exit their COVID-19 Forbearance; Borrowers whose COVID-19 Forbearance has expired or will expire by August 24, 2021; or Borrowers who were not on a COVID-19 Forbearance."

Employee Justification

Since the establishment of the COVID-19 Advance Loan Modification (COVID-19 ALM) option in Mortgagee Letter (ML) 2021-15, published June 25, 2021, some mortgagees have indicated that it is difficult for them to timely operationalize a portfolio level review of borrowers prior to August 24, 2021, to determine which borrowers would qualify for a 25% reduction in their monthly payment of Principal and Interest from a rate and term modification at market rate. Mortgagees further indicated that due to their inability to perform this level of review, certain borrowers would face delays in receiving loss mitigation documents until the mortgagee performs this calculation.

Further, on July 23, 2021, HUD published ML 2021-18, which established the COVID-19 Recovery Options and expanded eligibility for the COVID-19 ALM to all Borrowers who are 90 or more days delinquent and not on a COVID-19 Forbearance through the end of the COVID-19 National Emergency. This expansion mitigated the need for mortgagees to review borrowers for the COVID-19 ALM by the August 24, 2021, date. Therefore, mortgagees no longer need to re-review:

- Borrowers where the Mortgagee has not yet sent out the final documents to the Borrower to complete a Loss Mitigation Option as of June 25, 2021;
- Borrowers who have exited or requested to exit their COVID-19 Forbearance;
- Borrowers whose COVID-19 Forbearance has expired or will expire by August 24, 2021;
- Borrowers who were not on a COVID-19 Forbearance by August 24, 2021.

Mortgagees are reminded they must still implement the COVID-19 ALM for all eligible borrowers no later than 60 days from the publication date of ML 2021-15.

Waiver Item: Mortgagee Letter (ML) 2021-18, COVID-19 Recovery Loss Mitigation Options, III.A.2.o.iii(B)(3), Bullet 1

Relief Sought

A Waiver of the requirement under bullet 1 of the “Standard” for the COVID-19 Recovery Loss Mitigation Options: Re-Review of Borrowers, which reads: “the Mortgagee has not yet sent out the final documents to the Borrower to complete one of the COVID-19 Home Retention Options found in ML 2021-05 as of August 22, 2021.”

Employee Justification

On July 23, 2021, HUD published ML 2021-18 establishing the COVID-19 Recovery Options, which included the COVID-19 Recovery Loan Modification that targeted a 25% reduction to a Borrower's principal and interest portion of their monthly mortgage payment. FHA also implemented, in that same ML, policies for the COVID-19 Recovery Standalone Partial Claim, which is the same as the existing COVID-19 Standalone Partial Claim except for a limitation on the maximum partial claim amount available. Pursuant to that ML, mortgagees were required to ensure borrowers who were not sent final loss mitigation documents by August 22, 2021, are provided the opportunity to receive COVID-19 Recovery Options

Following the publication of the ML, feedback from mortgagees has been, in part, that complying with that time frame puts them in the difficult position of either resolving borrower delinquency quickly or complying with the requirements of the ML. Further, mortgagees have indicated that Borrowers may have already agreed to a loss mitigation option under the existing policy and would be confused by a revised loss mitigation offer. This waiver will allow Mortgagees to continue with the current loss mitigation options prior to the effective date of ML 2021-18 that is October 21, 2021.

Appendix C – Sample Results

	FHA case number	Borrowers received incorrect loss mitigation				Nationstar did not follow HUD's guidance						
		Improper option	Proper option incorrectly calculated	Proper option did not reinstate arrearages	Option failure in error	Not completed in 120 days	Improper HAF notification	No ALM review	Unnecessary documentation	Delayed completion	Improper waterfall	Late mailing of documents
1	011-9031XXX	X										
2	023-7157XXX						X					
4	045-8648XXX		X				X	X				
5	048-8445XXX						X					
6	052-9722XXX		X	X			X					
7	061-3838XXX										X	
8	091-5875XXX				X					X		
9	093-9513XXX		X	X								
10	094-8206XXX		X	X				X				
11	094-8609XXX		X	X								
12	095-5178XXX		X	X				X				
13	095-5481XXX		X	X								
15	106-0876XXX						X			X		X
16	106-2316XXX	X										
17	111-1741XXX		X			X						X
18	137-8613XXX								X	X		
19	137-9267XXX		X	X				X			X	
20	138-0441XXX		X	X								

	FHA case number	Borrowers received incorrect loss mitigation				Nationstar did not follow HUD's guidance						
		Improper option	Proper option incorrectly calculated	Proper option did not reinstate arrearages	Option failure in error	Not completed in 120 days	Improper HAF notification	No ALM review	Unnecessary documentation	Delayed completion	Improper waterfall	Late mailing of documents
21	141-1355XXX						X			X		
23	161-3857XXX	X										
24	194-1039XXX	X										
25	197-8912XXX						X					
26	198-1506XXX	X										
28	221-5850XXX	X										
29	241-8793XXX	X										
30	244-0796XXX						X					
31	249-6901XXX		X	X				X				
32	251-6309XXX						X	X				
33	263-4439XXX						X					
34	264-2805XXX	X										
35	277-0928XXX	X										
37	321-3563XXX		X	X								
38	351-5513XXX						X					
39	351-7828XXX		X	X								
40	352-9567XXX						X					
42	374-8253XXX		X			X	X					
43	374-8256XXX	X										

	FHA case number	Borrowers received incorrect loss mitigation				Nationstar did not follow HUD’s guidance						
		Improper option	Proper option incorrectly calculated	Proper option did not reinstate arrearages	Option failure in error	Not completed in 120 days	Improper HAF notification	No ALM review	Unnecessary documentation	Delayed completion	Improper waterfall	Late mailing of documents
44	387-4203XXX		X	X								
45	411-5247XXX		X	X								
46	412-9389XXX		X	X								
47	413-6710XXX		X			X						
48	422-3720XXX		X	X								
49	441-8939XXX		X									
50	446-3860XXX							X				
51	446-4134XXX		X	X			X					
52	461-5176XXX		X	X								
53	481-4356XXX	X										
54	483-6325XXX	X										
55	493-8663XXX					X				X		
56	494-4600XXX	X										
57	495-4444XXX	X										
58	511-2417XXX		X	X								
59	512-3418XXX		X	X								
60	512-3648XXX		X							X		X
61	513-1721XXX		X	X								
62	514-2090XXX					X					X	

	FHA case number	Borrowers received incorrect loss mitigation				Nationstar did not follow HUD’s guidance						
		Improper option	Proper option incorrectly calculated	Proper option did not reinstate arrearages	Option failure in error	Not completed in 120 days	Improper HAF notification	No ALM review	Unnecessary documentation	Delayed completion	Improper waterfall	Late mailing of documents
64	541-9069XXX					X	X					
65	548-6052XXX		X	X			X					
66	566-2813XXX		X	X							X	
67	581-5928XXX	X										
Totals		15	28	22	1	6	16	7	1	6	4	3

Appendix D – Statistical Projection – Results and Methodology

Audit Universe

The audit universe consisted of 4,288 FHA-insured forward loans serviced by Nationstar totaling nearly $767 million as of December 31, 2021. This universe included loans that were 90 days delinquent and in COVID-19 forbearance on October 31, 2021, and were no longer in COVID-19 forbearance on December 31, 2021. These loans remained actively delinquent in December 2021, and represented Nationstar's FHA-insured borrowers who recently exited COVID-19 forbearance and needed to be evaluated for loss mitigation options.

Sampling Methodology

We identified a systematic random sample of 67 records for auditing from the universe. The sample size equation was adjusted by a finite population correction factor. Loan records were sampled by a computer program written in SAS® using the surveyselect procedure with a random-number seed value of 7. For the systematic design, we sorted the data by a State proxy variable and by the type of delinquency to help control for possible differences across those variables.

We calculated the sample size using the classic formula from Daniel and Terrell (1985) for estimating proportions under conditions in which the distribution is normal:

$$traditional\ n_0 = \frac{z^2 p(1-p)}{d^2} = \frac{1.645^2 * .5(1-.5)}{0.10^2} = 67.65$$

$$FPC\ adjusted\ n = \frac{n_0}{1 + (n_0/N)} = \frac{67.65}{1 + \left(\frac{67.65}{4{,}288}\right)} = 66.6 \approx 67$$

We estimated the sample size in consideration of the following parameters:

z = The z-score used to set the outer bounds (1.645)

p = The theoretical rate of error (50%)

d = The desired precision or acceptable error in the sample (plus or minus 10%)

N = Total universe records

n = Sample size for current audit, as calculated

Statistical Estimates

We computed the percentage and number of counts of the audit results with exceptions based on the sampling results, and we 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 2,427 records in the universe to get the total universe count of housing units with a material deficiency.

The basic estimation calculations are as follows:

$Percent_{LCL}$ = pct - $t_{\alpha/2}$ $SE_{\%}$

$Universe\ Count_{LCL}$ = N * $Percent_{LCL}$

$Percent_{LCL}$ = Percentage of sampling units after deducting a margin of error.

$Universe\ Count_{LCL}$ = Total number of sampling units in the universe after deducting a margin of error.

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

pct = Weighted percentage of sampling units with the error in the sampling frame.

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

$t_{\alpha/2}$ = Student's

Percentage-Count Projection Results

We found that in 60 of the 67 loan records reviewed, there was an exception. This amounts to a weighted average of 89.55 percent of loans reviewed. Deducting for a statistical margin of error, we can say – with a one-sided confidence interval of 95 percent – that at least 83.32 percent of the loans met the overall condition. Extending this percentage to the universe of 4,288 loan records, at least 3,572 Nationstar FHA loans had an exception, and this count of loans could be higher.

Percentage calculation: $89.55\% - (1.666 \times 3.74\%) \approx 83.32\%_{LCL}$

Total loans projection: $4{,}288 \times (89.55\% - (1.666 \times 3.74\%)) \approx 3{,}572.77_{LCL}$

Subcondition 1

We found that in 44 of the 67 loan records reviewed, eligible borrowers met subcondition 1. This amounts to a weighted average of 65.67 percent of loans reviewed. Deducting for a statistical margin of error, we can say – with a one-sided confidence interval of 95 percent – that at least 56 percent of the loans met the first subcondition. Extending this percentage to the universe of 4,288 loan records, at least 2,401 Nationstar loans met the first subcondition, and this count could be higher.

Percentage calculation: $65.67\% - (1.666 \times 5.80\%) \approx 56.0\%_{LCL}$

Total loans projection: $4{,}288 \times (65.67\% - (1.666 \times 5.80\%)) \approx 2{,}401.19_{LCL}$

Subcondition 2

We found that in 30 of 67 loan records reviewed, eligible borrowers met subcondition 2. This amounts to a weighted average of 44.78 percent of loans reviewed. Deducting for a statistical margin of error, we can say – with a one-sided confidence interval of 95 percent – that at least 34.64 percent of the loans met the second subcondition. Extending this percentage to the universe of 4,288 loan records, at least 1,485 Nationstar loans met the second subcondition, and this count could be higher.

Percentage calculation: $44.78\% - (1.666 \times 6.07\%) \approx 34.64\%_{\text{LCL}}$

Total loans projection: $4{,}288 \times (44.78\% - (1.666 \times 6.07\%)) \approx 1{,}485.57_{\text{LCL}}$