



OFFICE of  
**INSPECTOR GENERAL**

UNITED STATES DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT

# The Puerto Rico Housing Finance Authority's Homebuyer Assistance Program Positively Impacted Participants but May Not Have Distributed Disaster Recovery Funds Equitably

Audit Report Number: 2024-FW-1003

March 19, 2024

To: Claudia I. Monterrosa  
Deputy Assistant Secretary, Office of Deputy Assistant Secretary for Grant Programs, DG

*//signed//*

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Subject: The Puerto Rico Housing Finance Authority's Homebuyer Assistance Program Positively Impacted Participants but May Not Have Distributed Disaster Recovery Funds Equitably, San Juan, PR

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the Puerto Rico Housing Finance Authority's Homeowner Assistance Program's outcomes.

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, 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 Danita Wade, Audit Director, Disaster Recovery Audit Division, at (817) 978-9309.

## Highlights

### The Puerto Rico Housing Finance Authority's Homebuyer Assistance Program Positively Impacted Participants but May Not Have Distributed Disaster Recovery Funds Equitably | 2024-FW-1003

#### What We Audited and Why

We audited the Puerto Rico Housing Finance Authority's (PRHFA) Homebuyer Assistance Program (HBA), which provides eligible applicants with closing costs and downpayment assistance for the purchase of a primary residence. The U.S. Department of Housing and Urban Development (HUD) provided its grantee, the Puerto Rico Department of Housing (PRDOH), \$495 million in Community Development Block Grant Disaster Recovery funds for HBA. PRDOH selected PRHFA as its subrecipient to administer the program. We selected HBA for review based on our risk assessment and the large amount of disaster recovery funds awarded to the program after the 2017 disasters. Our objective was to determine whether PRHFA was on track for delivering the expected program outcomes and the impact the program had on home ownership rates in Puerto Rico after Hurricanes Irma and Maria.

#### What We Found

We found that HBA program participants were mostly satisfied with the program and stated that it had a significant impact on their lives by helping them obtain a safe and stable home for themselves and their families. The program was on track to deliver the expected outcomes as defined in the subrecipient agreement, including, but not limited to, the number of program applications received, reviewed, and approved per month and monthly funds disbursed to assist participants obtaining housing. However, PRDOH, which is responsible for monitoring the progress of the program, did not have current and reliable data to measure the program's effect on home ownership rates in Puerto Rico. In addition, PRHFA inappropriately allowed participating lending institutions to calculate financial assistance award amounts. Further, PRHFA did not have clear and consistent guidelines to determine household income and final HBA financial assistance awards. As a result, PRHFA cannot ensure that it distributed disaster recovery funds equitably among eligible program participants.

#### What We Recommend

We recommend that the Director of the Office of Disaster Recovery work with PRDOH and PRHFA to (1) update its action plan and program guidelines to reflect the current method(s) being used by the agency to measure the impact of the HBA program, (2) revise the HBA guidelines and the Puerto Rico disaster recovery action plan, and (3) develop and implement clear and consistent guidance and procedures that establish a verifiable method for determining financial awards and provide necessary training to participating lending institutions.

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## Background and Objective

In September 2017, Hurricanes Irma and Maria caused catastrophic damage to Puerto Rico. Although Hurricane Irma’s eyewall did not hit Puerto Rico directly, it caused significant damage to the island. Two weeks later, Hurricane Maria, a category 4 hurricane, struck the island directly. It caused flooding and wind damage that destroyed the power grid. From September 2017 to June 2019, Congress appropriated more than \$37 billion<sup>1</sup> to assist with the recovery of major declared disasters in the Continental United States, U.S. Virgin Islands, and Puerto Rico. From February 2018 to June 2021, the U.S. Department of Housing and Urban Development (HUD) allocated more than \$20 billion in Community Development Block Grant Disaster Recovery and Mitigation (commonly known as CDBG-DR and CDBG-MIT) funds to Puerto Rico to help it recover from the hurricanes. Hurricanes Irma and Maria magnified the outmigration issue that already existed across the island.<sup>2</sup> As a result, HUD’s grantee, the Puerto Rico Department of Housing (PRDOH), developed the Homebuyer Assistance Program (HBA) with the objective of incentivizing families to stay in Puerto Rico.

PRDOH designated the Puerto Rico Housing Finance Authority (PRHFA) as its subrecipient to administer the program. The program’s total budget during our review period was \$495 million,<sup>3</sup> as shown in table 1 below.

**Table 1: Funding for HBA<sup>4</sup>**

Purpose	Budget	Allocated	Disbursed
HBA – low-moderate income	\$ 344,721,869	\$ 339,959,407	\$ 138,970,260
HBA – urgent need	\$150,278,131	\$149,080,812	\$99,242,170
<b>Total</b>	<b>\$495,000,000</b>	<b>\$489,040,219</b>	<b>\$238,212,430</b>

PRHFA is a government instrumentality created under Act No. 103-2001 as amended. The Puerto Rico legislature created the PRHFA to provide public and private housing developers with interim and permanent financing through mortgage loans for the construction, improvement, operation, and maintenance of rental housing for low- and moderate-income families. PRHFA administers HUD’s Housing Choice Voucher program and HOME Investment Partnerships program and acts as an approved borrower for both multifamily rental units and single-family homes. In addition, it is an authorized issuer

<sup>1</sup> Public Law (P.L.) 115–56 appropriated \$7.4 billion on September 8, 2017. P.L. 115–123 appropriated \$28 billion on February 9, 2018. P.L. 116–20 appropriated \$2.4 billion on June 6, 2019.

<sup>2</sup> “Outmigration” refers to the permanent departure of Puerto Ricans from Puerto Rico to the United States. According to one study, after Hurricane Maria, there was a 17% increase in the number of Puerto Ricans living in the United States during the months of October 2017 through January 2018. Monica Alexander, Kivan Polimis, and Emilio Zagheni, *The impact of Hurricane Maria on out-migration from Puerto Rico: Evidence from Facebook data (2020)*.

<sup>3</sup> The program budget started at \$295 million in July 2020 and increased to \$495 million in February 2023. Additionally, in October 2023, after we completed our audit field work, PRDOH amended its action plan to increase HBA funding to \$695 million.

<sup>4</sup> Information retrieved on July 13, 2023, from HUD’s Disaster Recovery Grant Reporting System.

of Government National Mortgage Association mortgage-backed securities. Finally, PRHFA oversees the Low-Income Housing Tax Credit program in Puerto Rico, which provides tax credits as a financial incentive to construct, rehabilitate, and operate housing for low-income tenants.

## The Homebuyer Assistance Program

PRHFA initiated HBA in July 2020, and its objective was to (1) increase home ownership rates to support the long-term sustainability and economic viability of communities impacted by Hurricanes Irma and Maria across the island; (2) incentivize the critical recovery workforce (CRW) to continue to reside in communities, helping to reduce outmigration and improve job retention and productivity; and (3) improve the opportunities for home ownership for low- and moderate-income (LMI) and urgent needs (UN) households in Puerto Rico.<sup>5</sup> The program was intended to allow families to have a stable place of residence, strengthening the unity of the family, neighborhood, and community.

Through the HBA program, PRHFA provides eligible applicants with closing costs and downpayment assistance to help minimize the gap between the amount of the first mortgage the household can obtain from a lender and the purchase price of a home. The program provides grants of up to \$45,000 for LMI or UN households and \$55,000 for LMI or UN households with a CRW member.<sup>6</sup> An additional \$5,000 is provided for households that elect to purchase a home in a designated urban center certified by PRDOH. At closing, a 5-year lien in the amount of the disaster recovery assistance grant is filed against the property in the form of a second mortgage. The lien is forgiven at the end of the 5-year period upon confirmation that the applicants still own and live in the house as a primary residence.

As HUD's grantee, PRDOH is responsible for monitoring the progress of HBA and the program's impact on home ownership rates.

Our audit objective was to determine whether PRHFA was on track for delivering the expected program outcomes and the impact the program had on home ownership rates in Puerto Rico after Hurricanes Irma and Maria.

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<sup>5</sup> HUD's modified income limits change annually. See <https://www.hudexchange.info/resource/5334/cdbg-income-limits>.

<sup>6</sup> Program caps based on HBA guidelines, version 4, effective November 21, 2021. Previous program guidelines versions (1, 2, and 3) set the maximum grant amounts at \$25,000 for LMI-UN and \$35,000 for CRW.

## Results of Audit

### The Homebuyer Assistance Program Positively Impacted Participants; However, PRDOH Could Not Effectively Measure the Program's Impact on Puerto Rico's Home Ownership Rates

HBA program participants were mostly satisfied with the program and stated that the program had a significant impact on their lives. Specifically, the program allowed them to have a safe and stable home for themselves and their families, which would have been difficult to obtain otherwise. PRDOH's subrecipient, PRHFA, was on track to deliver expected outcomes, such as the number of buyers applying for the program, applications reviewed, and funds disbursed, and it had exceeded some of its performance measures. However, PRDOH, which is responsible for monitoring the progress of the program, did not have current and reliable data to measure the program's effect on home ownership rates in Puerto Rico. This condition occurred because PRDOH believed that data from the U.S. Census Bureau and Puerto Rico Office of the Commissioner of Financial Institutions, being official government sources, were reliable enough to measure the impact of HBA on the home ownership rates in Puerto Rico. As a result, PRDOH could not properly measure the impact of the HBA program's effect in increasing the home ownership rates in Puerto Rico and whether the program's intent was being maximized.

### Participants Were Mostly Satisfied With HBA, but Some Felt the Program Could Be Improved

Overall, HBA participants reported that the program had a significant and life-changing impact by making it possible for them to have a safe home and to be able to stay in Puerto Rico. We interviewed 67<sup>7</sup> participants who purchased their homes through HBA.<sup>8</sup> Figure 1 below summarizes the results of some interview questions projected<sup>9</sup> to the universe of closed cases.

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**HBA's positive impact:** Of the participants interviewed, **74 percent** mentioned that they would not have been able to purchase their home without HBA assistance, and **87 percent** said that they stayed in Puerto Rico because they had a safe and stable home.

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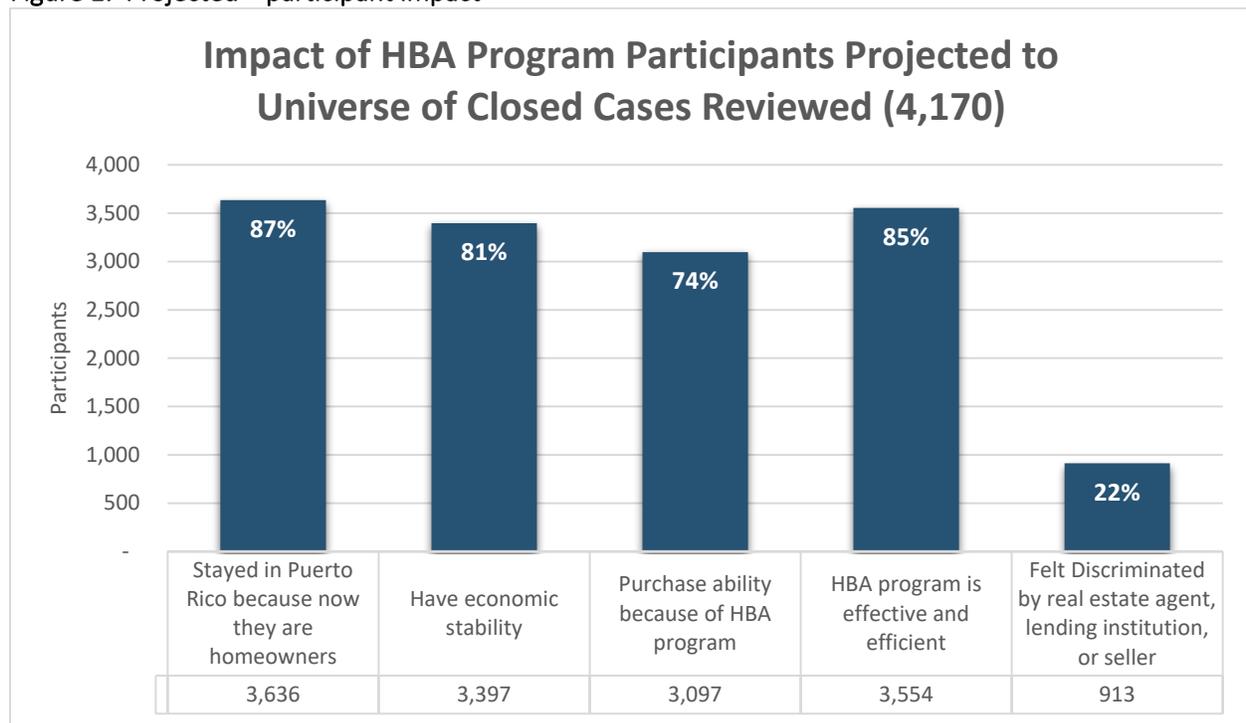
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<sup>7</sup> Sample statistically selected from a total universe of closed cases of 4,170 for the period July 1, 2020, through November 30, 2022. See details in the Scope and Methodology section of this report.

<sup>8</sup> Appendix C highlights all interview questions and responses that show the program's overall positive impact on the participants' lives and their belief that some aspects of the program needed improvement.

<sup>9</sup> See appendix D of the report for information on statistical projections.

Figure 1: Projected<sup>10</sup> participant impact



Based on the sample projection, 87 percent of participants stayed in Puerto Rico because they were able to purchase a safe and stable home. This amount includes 22 percent (projected to 913 participants) who had a plan to move out of Puerto Rico after Hurricanes Irma and Maria. As shown in figure 1 above, according to our projection, this means that at least 3,636 HBA participants in our universe of closed cases were able to stay in Puerto Rico, which is one of the main objectives of the program. Further, 74 percent of participants indicated that they would not have been able to purchase their home without the assistance provided through the program. In addition, 91 percent of participants indicated that purchasing their home gave them stability at their current jobs because they knew they had a safe and stable home to return to every day.

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Of the participants interviewed, 22 percent felt discriminated against by lending institutions, real estate agents, or both because they were using HBA.

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Although the participants appeared to be pleased with having a safe home for themselves and their families, they also identified an area in which they faced challenges. Based on the sample projection, more than 20 percent of participants felt discriminated against by lending institutions, real estate agents, or both when they indicated that they wanted to purchase real estate property through the program.

- Some participants said that lending institutions' personnel advised against the program because

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<sup>10</sup> Percentages for the numbers interviewed and the numbers projected can be different. See Appendix D for an explanation of the methodology used for projections.

the case could take months before closing.

- Other participants said that when they called real estate agents (or owners when “sold by owner”) to make an appointment to see the property, they were told that the sellers would not sell the property to anyone working with the program because the selling process would take longer.

## PRDOH’s Subrecipient, PRHFA, Met HBA Performance Measures

According to PRHFA officials, they initiated the HBA program in July 2020 in the middle of the Covid-19 pandemic, which made it more difficult to hire personnel and conduct outreach activities to market the program to eligible participants. However, PRHFA made all program information available online for the benefit of the public. In addition, it continued working toward hiring the necessary personnel, providing necessary training to participating lending institutions, and assisting the public through the program’s webpage<sup>11</sup> and email.<sup>12</sup> After a slow start, PRHFA was on track to deliver the expected outcomes it established in its subrecipient agreement<sup>13</sup> with PRDOH. From February 2021

through November 2022, PRHFA demonstrated that HBA generally met the performance measures, such as the number of buyers that applied to the program, applications reviewed, and funds disbursed, and sometimes exceeded the measures. For example, PRHFA executed 63 memorandums of understanding (MOU) with lending institutions, exceeding the 50 MOU target established for PRHFA. Also, since February 2021, the program had received an average of more than 434 applications monthly and disbursed more than \$5.2 million in disaster recovery funds, exceeding targets of 400 applications and \$5 million in disbursements. (Refer to appendix B for a summary of PRHFA’s key activities’ results.) Finally, based on the disaster recovery program’s online dashboard, HBA had assisted more than 6,700 eligible families in acquiring their home as shown in figure 2 below.

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### PRHFA exceeded some performance measures.

There was an increase of 57 percent in applications received from quarter 4 2020 through quarter 2 2022, exceeding the 30 percent target.

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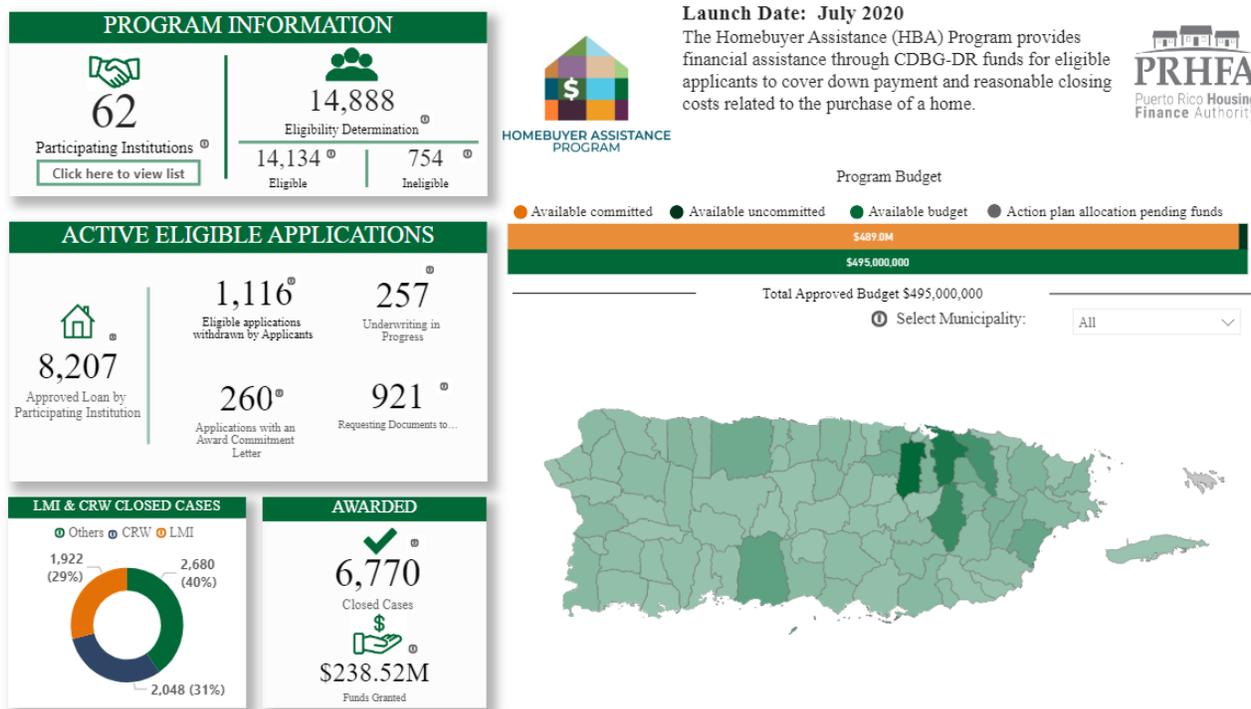
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<sup>11</sup> The HBA website is [www.compratucasa.pr.gov](http://www.compratucasa.pr.gov).

<sup>12</sup> HBA information email is [hba-info@afv.pr.gov](mailto:hba-info@afv.pr.gov).

<sup>13</sup> Appendix B outlines all performance measures and target timelines as described in the subrecipient agreement.

Figure 2: HBA online public dashboard<sup>14</sup> as of July 21, 2023



## PRDOH Could Not Effectively Measure the Impact of HBA on Home Ownership Rates in Puerto Rico

Based on PRDOH’s action plan<sup>15</sup> and program guidelines,<sup>16</sup> a primary objective of HBA is to increase home ownership rates in Puerto Rico. PRDOH chose to use the Puerto Rico Community Survey (PRCS) within the U.S. Census Bureau’s American Community Survey (ACS)<sup>17</sup> and the statistical information provided by the Puerto Rico Office of the Commissioner of Financial Institutions (OCIF for its abbreviation in Spanish)<sup>18</sup>

<sup>14</sup> The information on this dashboard is automatically updated daily by PRDOH on <https://cdbg-dr.pr.gov/en/transparency-portal/transparency-reports/housing-reports/hba-dashboard/>.

<sup>15</sup> Puerto Rico Disaster Recovery Action Plan for the Use of CDBG-DR Funds in Response to 2017 Hurricanes Irma and Maria, Housing Programs, Homebuyer Assistance Program, page 147.

<sup>16</sup> Homebuyer Assistance Program Guidelines, Section 4.2 – Program Objectives on Guidelines, versions 1 through 4. Section 4.1 – Program Objectives, version 5.

<sup>17</sup> ACS is an annual nationwide survey designed to provide communities with reliable and timely social, economic, housing, and demographic data. PRCS collects similar data about the island’s population and housing units. The Census Bureau uses data collected in ACS and PRCS to provide estimates on a broad range of population, housing unit, and household characteristics for States, counties, cities, school districts, congressional districts, census tracts, block groups, and many other geographic areas.

<sup>18</sup> PRDOH indicated that it used information provided by OCIF because it received significant financial and statistical information, along with data on recent home ownership rates, from different segments of the island’s financial sector. This information included (1) the total number of closed mortgages for new and used housing for 2021-2022 and (2) statistical information on the housing market activity from 2019 to 2021.

to measure HBA's impact on Puerto Rico's home ownership rates. However, this is not an effective method of measuring HBA's impact because these home ownership data are influenced by many factors other than HBA, such as Puerto Rico's current economic conditions, population trends, and home sale and rental market conditions, among others. PRDOH acknowledged that a broad range of factors affect the sources but told us that it believed that the datasets were reliable enough to measure the impact of HBA on the home ownership rates in Puerto Rico. However, as acknowledged by PRDOH, the information provided by these sources may be influenced by a broad range of factors that PRDOH does not control.

PRDOH also believed that the most accurate and reliable method to measure HBA's impact was by quantifying the number of people the program had served. In practice, PRHFA had been able to demonstrate that for the audit period July 1, 2020, through November 30, 2022, HBA had successfully assisted more than 4,170 eligible participants<sup>19</sup> in purchasing their first home through the program. Using the number of assisted participants or other quantifiable method(s) could better assist PRHFA in determining the HBA program's impact.

## Conclusion

HBA has made it possible for thousands of families in Puerto Rico to purchase a home and ultimately remain on the island. As of July 21, 2023, the lives of more than 6,700 families had been positively impacted and changed through the program by having a safe place to call home. However, some participants identified challenges with finding real estate agents, sellers, and lending institutions willing to work with the program. PRHFA had improved the time it took to go through the process, and it appeared to be on track to deliver the expected program outcomes and continue to assist families until program funds are exhausted. However, PRDOH chose to measure the program's impact by using the U.S. Census Bureau and OCIF data because it believed that these data were reliable enough to measure the impact of the program on the home ownership rates in Puerto Rico. However, since home ownership rates are affected by many factors other than HBA, PRDOH could not effectively measure the impact of HBA on home ownership rates in Puerto Rico and determine whether the program was achieving its maximum benefit for the people of Puerto Rico.

## Recommendations

We recommend that the Director of the Office of Disaster Recovery

- 1A. Work with PRDOH to determine whether its current method of measuring how many applicants purchased their home through the program is the best way to measure the HBA program's impact.
- 1B. Based on the results of recommendation 1A, update the HBA guidelines and the Puerto Rico disaster recovery action plan.

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<sup>19</sup> Number of eligible participants who purchased their first home through HBA based on the Universal Report, dated December 20, 2022.

## PRHFA Needs To Improve Its Process For Distributing Disaster Recovery Funds in HBA To Ensure Equitable Distribution Among Eligible Participants

PRHFA's records did not demonstrate how PRHFA calculated the financial assistance award amounts in any of the 67 closed cases reviewed. This condition occurred because PRDOH and PRHFA did not have clear and consistent criteria and guidance for determining the household income and financial awards granted to eligible program participants. In addition, the PRHFA underwriter did not perform the analysis and determination of the financial assistance award as required by the HBA guidelines. Instead, PRHFA ceded this responsibility and allowed lending institutions to determine the amount granted to each participant. By not having a clear, consistent, and verifiable method to determine the financial award for eligible participants, PRHFA could not ensure that disaster recovery funds were equitably distributed among program participants and that it was maximizing the effect of the program.

### PRHFA Could Not Demonstrate How the Financial Assistance Award and Household Income Determinations Were Performed

We reviewed the documentation contained in PRHFA's System for Subsidy Program (SSP)<sup>20</sup> for 67 cases closed from July 2020 through November 2022. We were unable to determine how PRHFA made determinations on the amount of financial assistance awarded in all 67 cases. The PRHFA subrecipient agreement<sup>21</sup> states that the subrecipient must retain all official records on programs and activities as required by HUD regulations.<sup>22</sup> The relevant regulation requires the subrecipient to maintain records to facilitate review and audit by HUD's Office of Inspector General (OIG) and other agencies. However, PRHFA could not demonstrate how it calculated the participant's financial assistance awards because the calculation and analysis conducted to determine the financial award amount and household income was not documented in SSP. As a result, PRHFA officials were not able to explain why some participants were awarded the maximum subsidy amount and others were not.

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**Financial Assistance Awards:** Participants with similar financial conditions received substantially different award amounts.

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For example, from our sample of 67 cases, we identified two cases of CRW participants with similar financial profiles who received different financial award amounts (table 2). One participant received the maximum assistance amount of \$55,000, while the other participant with similar applicant data received \$8,500.

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<sup>20</sup> SSP is a web-based system created by PRHFA to facilitate the administration of HBA.

<sup>21</sup> Amendment A, Exhibit F – HUD General Provisions and Other Federal Statutes, paragraph 49.

<sup>22</sup> 24 CFR (Code of Federal Regulations) 570.490 – Recordkeeping Requirements.

**Table 2: Comparison of two CRW HBA participants**

Description	Participant A	Participant B
Applicant type	CRW	CRW
Type of loan	FHA*	FHA
Household income	\$42,556	\$37,432
Property sale price	\$130,000	\$112,000
Front-end ratio <sup>23</sup>	15.99%	19.53%
Back-end ratio <sup>24</sup>	46.87%	44.78%
HBA financial assistance total	<b>\$55,000<sup>25</sup></b>	<b>\$8,500<sup>26</sup></b>
Amount of assistance for closing costs	\$6,666	\$2,000
Amount of assistance for downpayment	\$48,334	\$6,500
Loan amount	\$82,163	\$107,346
Mortgage payment	\$567.23	\$613.71
Closing date	8/30/2022	3/05/2021

\* FHA = Federal Housing Administration

The participant who received \$8,500 did not receive an explanation for how the final award amount was calculated and why the participant was not eligible for the maximum amount of assistance. We interviewed PRHFA staff to understand the process for calculating the financial assistance award and to understand why these cases had such different results. PRHFA officials, including a PRHFA underwriter, could not explain how these or any other financial assistance awards were calculated.

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**PRHFA** officials could not explain or demonstrate how financial assistance awards were determined or computed.

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According to PRHFA, SSP is programmed with controls and functions that require participating institutions to submit all necessary information and documentation for subsidy calculation.

The financial assistance amount is then automatically calculated by SSP based on the system's programming, which is based on the current program guidelines. On multiple occasions, we requested that the PRHFA provide the SSP system parameters used to compute the amount; however, PRHFA could not provide or demonstrate the calculations used to reach financial awards for the 67 cases reviewed.

<sup>23</sup> Front-end ratio is the relationship, expressed as a percentage, between applicant's housing expense and their gross monthly income. That includes principal, interest, taxes, hazard insurance, and mortgage insurance.

<sup>24</sup> Back-end ratio, also known as the Debt-to-Income Ratio, is the relationship, expressed as a percentage between a borrower's total monthly obligations (including total mortgage payment) and their gross monthly income.

<sup>25</sup> At the time this case was approved, the HBA guidelines, version 4, were in effect, and the maximum financial assistance at the time was \$55,000. These guidelines' effective period was from November 18, 2021, through November 7, 2022.

<sup>26</sup> At the time this case was approved, the HBA guidelines, version 3, were in effect, and the maximum financial assistance at the time was \$35,000. These guidelines' effective period was from October 22, 2020, through November 17, 2021.

During interviews, PRHFA officials insisted that the financial award was based upon the need of each applicant to be able to afford home ownership. However, we reviewed cases that were closed between July 2020 and November 2022 and identified a case in which the applicant<sup>27</sup> had more than \$188,000 cash-on-hand and still received the maximum HBA financial assistance award of \$45,000. PRHFA could not explain its financial assistance award calculation and analysis for this case. See table 3 below.

**Table 3: HBA participant C**

Description	Participant C
Applicant type	LMI
Type of loan	Conventional conforming
Household income	\$34,270
Property sale price	\$385,000
Cash-to-close	<b>\$123,899</b>
Cash-on-hand	<b>\$188,719<sup>28</sup></b>
Front-end ratio	32.48%
Back-end ratio	46.95%
HBA financial assistance total	<b>\$45,000<sup>29</sup></b>
Amount of assistance for closing costs	\$18,173
Amount of assistance for downpayment	\$26,827
Loan amount	\$215,000
Mortgage payment	\$1,884
Closing date	8/26/2022

After further inquiry, PRHFA officials admitted that the lending institutions had been calculating the financial assistance award amount based upon their understanding of the program’s guidelines. PRHFA allowed this to happen even though it was responsible for determining the final financial assistance awards. Specifically, PRHFA did not ensure that it had a consistent and verifiable method for calculating financial assistance awards. Therefore, PRHFA could not demonstrate that the amounts HBA participants received were accurate and fair and assisted families that were most in need.

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<sup>27</sup> This participant was not part of the sample of 67 cases we reviewed in depth but was part of the universe of 4,170 closed cases of participants that were assisted through HBA during the audit review period. (See the Scope and Methodology section of this report for additional details.) We did not question whether this participant qualified for the program based on household income. However, we included this example to show the potential for disparate distribution of PRHFA’s limited disaster funds and to further demonstrate the inconsistencies in calculating award amounts. This example also provides additional insight into the full complexity and reach of PRHFA’s program.

<sup>28</sup> Amount described on Form 1003 - URLA and verified through checking account bank statement.

<sup>29</sup> At the time this case was approved, the HBA guidelines, version 4, were in effect, and the maximum financial assistance at the time was \$45,000. These guidelines’ effective period was November 18, 2021, through November 6, 2022.

## PRHFA Lacked Clear and Consistent Guidance for HBA Financial Assistance Award Determinations

PRHFA did not have clear and consistent guidance for determining the household income of eligible program participants and the financial assistance awards granted to them for the program. The HBA guidelines had been revised seven<sup>30</sup> times since the program's inception in July 2020. During our audit period, July 1, 2020, through November 30, 2022, the effective and applicable guidelines for the sample cases reviewed were versions 3, 4, and 5.<sup>31</sup> PRHFA's revised guidelines and procedures did not include or specify the calculation, formula, or factors used to determine the financial assistance amount. We found these guidelines and procedures to be vague and confusing. When the guidance and procedures are left to interpretation by each lending institution, there is a strong probability that award amounts provided to each participant could be arbitrarily determined.

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**HBA program guidelines and procedures** are vague, confusing, and left to interpretation by participating lending institutions.

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We interviewed top management officials at five of the participating lending institutions with the largest number of cases approved to understand how they computed financial assistance award amounts for the program. Of the five lending institution officials, four stated that SSP calculates the amount based on the information the lending institutions' staff enters into the system. In addition, the officials stated that they relied upon PRHFA's review of the documentation uploaded into SSP to approve the financial assistance award amount.

The president of the remaining lending institution indicated that it initially assumed that the applicant would be approved for the maximum financial assistance award amount and SSP would indicate whether the amount was approved. To better explain, he provided the following example: If the purchase price of a property was \$100,000 and closing costs totaled \$8,000, that would be a \$108,000 loan. If the lending institution assumed that the participant would receive a maximum award of \$45,000, it would result in a loan of \$63,000. The lending institution's staff entered these amounts into SSP, and SSP indicated whether the participant was eligible for the \$45,000 in financial assistance.

Further, he added that HBA had a direct negative effect on its income as a lending institution because the financial assistance award lowered the loan amount. A higher loan is more valuable to lending institutions because their income is a percentage of the total loan amount for each loan they close. In addition, he mentioned that lending institutions may be inclined to determine a lower amount of financial assistance to increase the loan amount and, ultimately, their income.

Therefore, eligible participants may be awarded a different financial assistance amount, depending on the lending institution they choose to work with for their HBA loan. We do not believe this important information was known by the participant. By not having consistent and clear guidance and procedures

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<sup>30</sup> PRHFA's most recent HBA guidelines, version 7, were effective May 26, 2023.

<sup>31</sup> Please refer to appendix E for a summary of the significant changes among the applicable HBA guidelines.

and not fulfilling its responsibilities of calculating the final financial assistance award amount, PRHFA may have been allowing lending institutions to arbitrarily determine financial assistance award amounts.

## Conclusion

PRHFA could not demonstrate that it distributed disaster recovery funds for HBA in a consistent and equitable manner among eligible program participants. Due to weaknesses in its HBA program guidelines and procedures, PRHFA was unable to support how it determined financial awards for eligible program participants. Further, PRHFA inappropriately allowed lending institutions to interpret how to calculate financial assistance award amounts and be the ultimate decision makers for distributing disaster recovery program funds. By doing so, PRHFA could not ensure that it was maximizing outcomes of the program, which is designed to provide downpayment and closing cost assistance to the people of Puerto Rico who are low- and moderate-income or have an urgent need as defined by disaster recovery guidelines. PRHFA could not ensure a fair and equitable distribution of disaster recovery funds provided to participants in HBA, possibly resulting in program participants' incurring larger loan amounts due to lower financial assistance awards than they may have been eligible to receive.

## Recommendations

We recommend that the Director of the Office of Disaster Recovery

- 2A. Instruct PRDOH and PRHFA to develop and implement clear and consistent guidelines and procedures that establish a verifiable methodology for determining the amount of financial awards granted to eligible HBA participants.
- 2B. Include, as part of the revised procedures, a requirement to document within each case in SSP a detailed (1) calculation of the household income and (2) the analysis and computations conducted by the PRHFA underwriter for determining the amount of the financial assistance award.
- 2C. Instruct PRDOH and PRHFA to provide training and guidance to participating lending institutions related to the updated guidelines and procedures for determining the financial award granted to HBA participants to ensure that program funds are distributed in an equitable manner.

## Scope and Methodology

We conducted our audit work between December 2022 and May 2023 at our office in San Juan, PR. The onsite work consisted of face-to-face interviews with HBA participants and property site visits throughout 29 municipalities in Puerto Rico. In addition, the review of case files and additional interviews were performed remotely. The audit covered the period July 1, 2020, through November 30, 2022.

To accomplish our objective, we

- Reviewed relevant HBA policies, guidelines, procedures, and agreements, which included but were not limited to the following:
  - Program Guidelines of the Homebuyer Assistance Program (versions 1 through 5);
  - Puerto Rico Disaster Recovery Action Plan for the Use of CDBG-DR Funds in Response to 2017 Hurricanes Irma and Maria;
  - Subrecipient agreements between PRDOH and PRHFA for HBA (2021-DR0001, dated July 2, 2020; 2021-DR0001A, dated June 4, 2021; and 2021-DR0001C, dated November 18, 2021); and
  - MOU between PRHFA and PRDOH (2021-DR0022, dated September 29, 2020).
- Interviewed PRHFA officials responsible for HBA.
- Interviewed officials of lending institutions participating in HBA.
- Interviewed HBA participants.
- Reviewed PRHFA's Universal Report<sup>32</sup> containing the universe of cases processed from July 1, 2020, through November 30, 2022.<sup>33</sup> From the population of closed cases, which served as our universe, we conducted limited data analytics to identify potential instances of outlier cases.

To determine the program's impact on home ownership rates in Puerto Rico and the program's outcome, we selected a statistical sample of 67 cases from the population of 4,170 HBA cases closed between July 1, 2020, and November 30, 2022, and performed the following:

- Reviewed files to assess whether all relevant data were included in the case file to support LMI, CRW, and UN requirements. We identified eight cases that had been misclassified as LMI or UN. Although they were misclassified, the cases were still within the parameters of the program. As a result, we did not project the results of the sample to the universe.
- Conducted interviews with program participants (applicants and participating lending institutions) to assess the level of customer satisfaction with the service provided by the program. We also inquired about how (and whether) the program had helped them to maintain residency in Puerto Rico. We projected the results of these interviews to the universe of cases. These projections are included as appendix D of this report.
- Conducted site visits to corroborate information from case documents and participant interviews. Specifically, we verified that homes purchased with HBA funds met the requirements of the

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<sup>32</sup> The Universal Report provided by PRHFA is a report downloaded from the PRHFA's Reporting Service Portal, which is created from all the data of the HBA program within the SSP database.

<sup>33</sup> Total cases open, closed, and withdrawals totaled 12,597.

program and, more importantly, that the homebuyer was still living in the home as required by program guidelines.

We relied in part on computer-processed data contained in PRHFA's systems<sup>34</sup> to achieve our audit objective. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes. The tests for reliability included but were not limited to comparing computer-processed data to the supporting documents, a walkthrough of how the Universal Report is downloaded from the PRHFA Reporting Service Portal, and interviews with PRHFA personnel responsible for SSP and its reporting function.

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.

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<sup>34</sup> We used PRHFA's SSP, which is a web-based system created by PRHFA to facilitate the administration of HBA. Specifically, we relied on the participants' documentation uploaded into the system for each closed case reviewed.

# Appendixes

## Appendix A – Auditee Comments and OIG’s Evaluation

### Ref to OIG Evaluation – Auditee Comments

PRDOH included five attachments with its written comments. While we reviewed and evaluated the five attachments, due to their volume and sensitivity of the information contained in the documents, we did not include them in this final report.



GOVERNMENT OF PUERTO RICO  
DEPARTMENT OF HOUSING

January 22, 2024

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

Via email: [kwhite@hudoig.gov](mailto:kwhite@hudoig.gov)

**RE: PRDOH Response Worksheet – HUD OIG Draft Report HBA**

Dear Ms. White,

On December 21, 2023, the Puerto Rico Department of Housing (PRDOH) received a Draft Audit Report No. 2023-XX-XXXX from the U.S. Department of Housing and Urban Development – Office of Inspector General (HUD OIG), which includes two (2) draft findings from their review of the Homebuyer Assistance Program (HBA or Program). As requested by HUD OIG, PRDOH hereby submits its comments in a response worksheet to be included in the final audit report.

<b>HUD OIG Statement 1</b>	<b>PRDOH Could Not Effectively Measure the Impact of HBA on Home Ownership Rates in Puerto Rico</b>
<b>PRDOH Response 1</b>	As mentioned in our previous response, PRDOH does not measure the impact of the HBA program through Puerto Rico’s overall homeownership rates but through the number of people served by the program. Accordingly, PRDOH will modify the CDBG-DR Action Plan (AP) and the HBA Program Guidelines to further clarify this, per OIG recommendations 1A and 1B.
<b>HUD OIG Statement 2 Related to Recommendation 2A and 2B</b>	<i>“PRHFA could not demonstrate how it calculated the participant’s financial assistance awards because the calculation and analysis conducted to determine the financial award amount and household income was not documented in SSP. As a result, PRHFA officials were not able to explain why some participants were awarded the maximum subsidy amount and others were not.”</i>
<b>PRDOH Response 2</b>	The HBA Program Guidelines establish the parameters for determining subsidies offered to eligible participants. Firstly, the maximum amount of the award is established in Section 4, Program Description, and it may vary depending on two (2)

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**Comment 1  
Comment 7**

**Comment 2**

distinct factors: an additional incentive for Household Members classified as Critical Recovery Workforce (CRW) and an amount offered for properties located in Urban Centers. The current version of the HBA Program Guidelines (v.8) has set the maximum award at **\$45,000**, or **\$55,000 for a CRW household**, and an additional **\$5,000** for properties in Urban Centers.

These amounts represent a contrast between previous versions (v.1 through v.3) of the HBA Program Guidelines for which the maximum award was set at \$25,000, \$35,000 for a CRW household and an additional \$5,000 for Urban Center properties. Pursuant to Substantial Amendment #7 to the Disaster Recovery Action Plan for the use of CDBG-DR Funds, and the subsequent publication of the HBA Program Guidelines (v.4), the maximum award was set at the current limits of \$45,000, \$55,000 for CRW household and an additional \$5,000 for Urban Center properties.

Having established the maximum amount that the Program may award, the HBA Program Guidelines continue to explain how the subsidy for each case is calculated, and what would the assistance entail.

The PRHFA underwriting review requires an appraisal commissioned by the Participating Institutions. The purchase price of the property must not exceed the current FHA mortgage limits and the stated appraisal value.

As per Section 9.2 of the HBA Program Guidelines (v.8), the Program will cover one hundred percent (100%) of the down payment required by the selected mortgage loan product. However, the down payment amount required will vary depending on the loan product selected by the applicants and the Participating Institution's requirements. As explained by PRHFA in its response to the draft findings dated July 14, 2023, in cases where the applicant's income to debt ratios do not exceed 20% for the front-end ratio and 36% for the back-end ratio, such down payment assistance will vary as follows:

For Conforming Loans: Minimum of 20% of the sales price as down payment plus closing costs up to a maximum award of (\$45,000/\$55,000).

For Non-Conforming Loans: Minimum of 15% of the sales price as down payment plus closing costs up to a maximum award of (\$45,000/\$55,000).

For FHA Loans: Minimum of 3.5% of the sales price as down payment plus closing costs up to a maximum award of (\$45,000/\$55,000).

For Rural Loans: Subsidy will cover total closing costs up to a

	<p>maximum award of (\$45,000/\$55,000).</p> <p><u>For VA Loan:</u> Subsidy will cover total closing costs up to a maximum award of (\$45,000/\$55,000).</p> <p>Additionally, the Program will provide direct financial assistance to subsidize the interest rate, mortgage principal amount and reasonable closing costs for eligible applicants to facilitate homeownership. See Sections 9.2 and 9.3 of the HBA Program Guidelines (v.8).</p> <p>The calculation for the mortgage subsidy amount will lower the Borrower's front-end ratio as close to twenty (20%) or the Borrower's back-end ratio as close to thirty-six (36%); whichever is most beneficial for sustaining homeownership. Pursuant to the HBA Program Guidelines, Section 2 Definitions, the front-end ratio is the relationship, as a percentage, between the Applicant's housing expense divided by their gross monthly income (<math>HE/MI</math> = front end ratio). The housing expense includes amounts related to the loan P&amp;I (Principal and Interest), homeowner's insurance, and mortgage insurance, among others, and are disclosed in detail in the Uniform Underwriting and Transmittal Summary Form (see Attachment 1_Case Files) which is uploaded and saved under the Documents tab of the HBA platform System for Subsidy Program (SSP) and validated by the PRHFA Case Manager during the award determination. The gross monthly income is also documented in this Form.</p> <p>Likewise, the HBA Program Guidelines also defines the back-end ratio, as the relationship, on a percentage basis, between the borrower's total monthly obligations and their gross monthly income (<math>MO/MI</math> = back-end ratio). The total monthly obligations include the total mortgage payment and all other monthly obligations. The Uniform Underwriting and Transmittal Summary Form also includes the back-end ratio.</p> <p>These ratios are traditionally used by Participating Institutions to assess lending risk and borrower responsibility. By utilizing these parameters as described in the HBA Program Guidelines, the Program aids participants in attaining and sustaining homeownership. Subsidies lessen homeownership costs for LMI and UN homebuyers.</p> <p>The PRHFA ensures that the mortgage subsidy ratio used is the most beneficial for the applicant sustaining homeownership, as required by Section 9.3 of the HBA Program Guidelines (v.8). A verification process by PRHFA Case Managers will confirm that the Participating Institutions are in compliance with this requirement (see Section C, subsections 3.1-3.3 of Award Determination, Underwriting, DOB, and Award Determination SOP v.3, Attachment #2). Adjustments required by PRHFA to the</p>
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Participating Institutions because of the PRHFA Case Manager's assessment are adequately logged in the SSP.

Finally, pursuant to Section 9.4 of the HBA Program Guidelines, the subsidy may cover reasonable and customary closing costs incurred by the applicant when purchasing a property. Such closing costs are regulated by the Consumer Financial Protection Bureau (CFPB).

Thus, the amount of subsidy awarded to applicants is contingent upon multiple factors, encompassing mortgage loan products, prevailing interest rates, the capacity to meet repayment obligations (as reflected in debt-to-income ratios), and associated closing costs. Therefore, the unmet housing needs will vary based on the aforementioned factors, and there will be instances where the maximum allowable subsidy is not necessarily required. In no case the amount awarded shall exceed the maximum award of \$45,000, or \$55,000 for a CRW household, and an additional \$5,000 for properties in Urban Centers.

In response to questions raised by the HUD-OIG regarding the award determination in cases [REDACTED] y [REDACTED] PRHFA provided details via email on March 28, 2023, on how the awards of the highlighted cases in the Report were calculated. Below is an extract:

**Participant A:**

Award determination for Participant A was done pursuant to HBA Program Guidelines (v.4), which calculated the subsidy based solely on back-end ratio as close to thirty-six (36%). The maximum award allowed in this case had been determined to be \$55,000 since the applicant was a CRW household.

In this case, the loan was an FHA loan product, which carries a minimum down payment of 3.5% of the sales price. The sales price for this participant was \$130,000 (\$130,000 x 0.035) for a minimum down payment for this loan type of \$4,550, resulting in a back-end ratio of 54.67%.

In compliance with the HBA Program Guidelines v.4, which mandated lowering the back-end ratio as close to thirty-six percent (36%) to facilitate property acquisition, the PRHFA determined that an additional amount for down payment of \$44,700 over the required minimum of \$4,550 (3.5%) per the FHA loan was needed. The down payment total was \$49,250, resulting in a back-end ratio of 46.87%.

This case was eligible for the maximum award of \$55,000 which breaks down as follows:

- Down payment: \$49,250,
- Minus gifts and others prepaids: \$915.98,

	<ul style="list-style-type: none"><li>• Plus, total closing costs: \$6,665.98.</li></ul> <p>These amounts are evidenced through the Closing Disclosure provided by the Participating Institution, stored in the SSP and validated by the PRHFA Case Manager. See Information on Closing Disclosure of Case No. [REDACTED], in Attachment 1_Case Files.</p> <p><b>Participant B:</b> Award determination for this case was calculated pursuant to the HBA Program Guidelines (v.3) which established a cap on closing costs of 7% (the subsidy would cover 6%, participant would cover the remainder up to 7%) of the loan Principal amount and a maximum award of \$25,000, \$35,000 for CRW, plus an additional redevelopment incentive of up to \$5,000 to eligible households who elect to purchase a home in a designated urban center, based on the front-end ratio.</p> <p>An FHA loan product was also offered to this participant by the Participating Institution, which carries a minimum down payment of 3.5% of the sales price. The sales price in this case was \$112,000, (<math>\\$112,000 \times 0.035</math>) for a minimum down payment of \$3,920. According to the HBA Program Guidelines (v.3), down payment assistance may be provided to lower the front-end ratio of the applicant as close to twenty percent (20%) and additional assistance may be provided based on the need of the applicant, up to the corresponding maximum award. See Section 5.1.1 Down Payment Assistance, HBA Program Guidelines v.3.</p> <p>In this case, the loan amount was reduced by providing a down payment of \$6,500, instead of the minimum of 3.5% (\$3,920) required by the FHA loan product.</p> <p>The Program covered 100% of this down payment.</p> <p>Additionally, in accordance with the HBA Program Guidelines (v.3), the maximum closing costs allowed for this case were calculated by multiplying the loan amount of \$105,500 by 0.06 which resulted in a total of \$6,330.</p> <p>Validation for the actual costs of this transaction was performed by the PRHFA Case Manager by examining the Closing Disclosure document stored in the SSP. This document evidenced closing costs of \$8,905.61. This amount, however, was reduced by the amount of Financed Mortgage Insurance (MIP) of \$1,846, and prepaids and credits of \$5,059.61 for the awarded total of \$2,000 in closing costs (<math>\\$8,905.61 - \\$1,846 - \\$5,059.61 = \\$2,000</math>). See Information on Closing Disclosure of Case No. [REDACTED], in Attachment 1_Case Files.</p> <p>In synthesis, the discrepancies in the awards calculated under</p>
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**Comment 3**  
**Comment 11**

	<p>these two cases boil down to differences in down payments, caps in closing costs and front-end vs back-end ratios to determine the award from version 4 (Applicant A) and version 3 (Applicant B) of the HBA Program Guidelines current at the time of the award approvals.</p>
<p><b>HUD OIG Statement 3 Related to Recommendation 2A and 2B</b></p>	<p><i>PRHFA did not have clear and consistent guidance for determining the household income of eligible program participants and the financial assistance awards granted to them for the program.</i></p>
<p><b>PRDOH Response 3</b></p>	<p>The methodology for determining household income has been consistently established in the HBA Program Guidelines. The current version of said document (V.8), defines household income as "the anticipated adjusted gross amount of income from all sources for all adult family members as defined for reporting under the Internal Revenue Service (IRS) Form 1040 series for individual Federal annual income tax purposes." Previous iterations of these Guidelines defined Household Income as the "anticipated gross amount of income from all sources for all adult family members during the upcoming twelve (12) month period in accordance with the definition of annual (gross) income at 24 C.F.R. Part 5."</p> <p>To ascertain the eligibility of applicants to the Program, PRHFA has also included in their internal procedures this 1040 Form. See Intake and Eligibility Review SOP (See Section 2 Intake, Subsection 2.1 of the Intake and Eligibility Review SOP Attachment #3). As laid out in such SOP, PRHFA Case Managers verify applicants' income and household information, which has been previously uploaded and stored into the SSP. All uploaded and stored documents are subject to eligibility review and determination by PRHFA Case Managers.</p> <p>It is imperative to note, however, that the calculation of household income for the purpose of program eligibility is different from the income calculation used by the Participating Institutions for loan processing and approval, which may vary between loan products and consider different factors than the HBA income eligibility. For instance, when processing and approving a loan application, the Participating Institution considers only the applicant's and if applicable, the co-applicants' income, while the Program considers the income of all Household members aged 18 or older. As such, PRHFA staff determine income eligibility by applying uniform standards as described in the HBA Program Guidelines.</p> <p>PRHFA has also implemented training sessions to provide guidance to its staff on household income determination utilizing the IRS 1040 Methodology, see Income Determination Training on IRS 1040 Methodology (See 1040 Income Determination Training</p>

**Comment 4**

	<p>Attachment #4). These resources offer guidance to PRHFA personnel in determining household size, income verification and income assessment.</p> <p>Determinations of Financial Assistance awards are calculated using the criteria laid out in the HBA Program Guidelines (v.8), specifically Section 9 (Underwriting Review) and related subsections. Examples of such award calculations have been provided herein. See PRDOH response to HUD OIG Statement 2 concerning the award determination.</p>
<p><b>HUD OIG Statement 4          Related to          Recommendation 2A</b></p>	<p><b><i>HBA Program Guidelines and Procedures are vague, confusing, and left to interpretation by participating lending institutions.</i></b></p>
<p><b>PRDOH Response 4</b></p>	<p>The Participating Institutions are not allowed to interpret how to perform the financial award calculation, as it is programmed into SSP pursuant to the HBA Program Guidelines and done using the information these institutions provide. Validation from PRHFA Case Managers must occur before approval of the award. The Participating Institutions are obligated to upload closing disclosures, personal income/expenses information and transmittal forms detailing every field completed in the Loan tab of the SSP. Moreover, Participating Institutions must follow HBA Program Guidelines on using the most beneficial ratio to attain or sustain homeownership for participants.</p> <p>The SSP is currently programmed with the limits set forth in the HBA Program Guidelines (v.8) concerning current award cap and instruction on the underwriting section related to down payments, mortgage subsidy and closing costs which determine final award upon PRHFA validation.</p> <p>The role of the Participating Institutions is limited to submitting the Applicant's file through the SSP and obtaining the necessary information from potential applicants. These entities perform a supportive role in the Program implementation by performing data entry in the SSP's loan tab, inputting loan details and specifications, closing costs, and property descriptions. The SSP performs the final subsidy calculation, which is then validated and approved by the PRHFA Case Manager.</p> <p>PRHFA is tasked with the underwriting review and confirming the loan information entered is backed by adequate documentation, and that Participating Institutions adhere to the HBA Program Guidelines. PRHFA is ultimately responsible for the final determination and approval concerning subsidy awards.</p>

**Comment 5**

<p><b>HUD OIG Statement 5 Related to Recommendation 2C</b></p>	<p><i>PRHFA inappropriately allowed lending institutions to interpret how to calculate financial assistance award amounts and be the ultimate decision makers for distributing disaster recovery program funds. By doing so, PRHFA could not ensure that it was maximizing outcomes of the program, which is designed to provide downpayment and closing cost assistance to the people of Puerto Rico who are low and moderate income or have an urgent need as defined by disaster recovery guidelines. PRHFA could not ensure a fair and equitable distribution of disaster recovery funds provided to participants in HBA, possibly resulting in program participants' incurring larger loan amounts due to lower financial assistance awards than they may have been eligible to receive.</i></p>
<p><b>PRDOH Response 5</b></p>	<p>PRHFA's Standard Operating Procedures concerning Underwriting, Duplication of Benefits and Award Determination (see Part VI Responsibilities, Underwriting, DOB, and Award Determination SOP v.3, Attachment #2) outlines roles and responsibilities of the parties engaging in these processes. Participating Institution representatives are tasked with identifying potentially eligible buyers and submitting the Applicant's file through the SSP. The Loan process begins with the Participating Institution completing applicable fields in the Loan tab of the SSP. Information on this tab includes data on the description and address of the property, property location information (coordinates), loan details, determination date, and Housing Counseling. See Section 2.1.2 of the SOP. Once this tab is completed, the Participating Institution clicks Submit and the case is then transferred to PRHFA. Following PRHFA's review, the Participating Institutions will be able to upload loan documents and advise applicants on disclosures to sign and submit.</p> <p>SSP will calculate the subsidy automatically based on the relevant information entered by the Participating Institution on the loan tab and the rules programmed in SSP pursuant to the current HBA Program Guidelines concerning maximum award, mortgage subsidy, down payment and closing costs. The information on this tab is validated by PRHFA with uploaded documentation prior to approving the award.</p> <p>The SSP includes particular business rules validations that must pass before submitting the case to PRHFA for award determination. Submitting these while fulfilling these rules will allow the underwriting review by PRHFA to commence.</p> <p>Underwriting review for the HBA Program is performed solely by PRHFA prior to the commitment of any funds and must include an in-depth analysis of the case, the interpretation of the data submitted by the Participating Institution and all the documentation uploaded to SSP.</p>

**Comment 6**

	<p>The PRHFA Case Manager shall review documents submitted through the SSP and will consider the applicant’s ability to repay the mortgage, property requirements, and terms and conditions. Inconsistencies with the information entered will trigger the return of the case to the Participating Institutions by PRHFA through the Management Tab. Additionally, the PRHFA Case Manager must enter the reason for the decision to return the case in the comments section before remitting it. Case transfers are logged in the case history. For example, in instances where ratios (calculated by the Participating Institution based on income and expenses) need to be adjusted to comply with Section 9.3 of the HBA Program Guidelines on mortgage subsidies, cases will be remitted by the PRHFA Case Manager to the Participating Institution so they may adjust the ratios as close to 20% or 36% whichever is most beneficial to the applicant, which may affect the loan conditions offered. New conditions shall be documented through the Closing Disclosure and Underwriting Transmittal Form in the SSP and validated by PRHFA before any funds are committed.</p>
<p><b>HUD OIG Recommendation 2C</b></p>	<p><i>Instruct PRDOH and to provide training and guidance to participating lending institutions related to the updated guidelines and procedures for determining the financial award granted to HBA participants to ensure that program funds are distributed in an equitable manner.</i></p>
<p><b>PRDOH Response</b></p>	<p>To ensure adequate handling of the cases submitted to the Program, PRHFA offers continuous training sessions to Participating Institutions related to the HBA Program Guidelines, the SSP system, and case closeout, among other relevant topics. A log of trainings offered to Participating Institutions during 2023 has been included as Attachment #5. See Attachment 5_Tabla de Adiestramientos -Instituciones Financieras 2023.xlsx.</p> <p>Additionally, PRHFA distributes among all Participating Institutions a user manual titled HBA-CDBG-DR HBA Platform User Manual that details how to use SSP and all the required information and documentation needed for PRHFA’s review and approval of the HBA cases. See Attachment 6 HBA Platform User Manual 10-5-2023.pdf.</p> <p>Moreover, PRHFA has established an email account for Participating Institutions to submit PRHFA any inquiries or concerns related to the HBA program requirements. Access to this email address is an essential part of PRHFA’s efforts to safeguard consistency and outstanding service to applicants.</p>

PRDOH appreciates the opportunity provided by HUD OIG to clarify and respond to the items included in the draft audit report. Should you have any questions about the submitted responses, please feel free to contact me.

Sincerely,



Marezia Díaz Sánchez, Esq.  
Disaster Recovery Deputy Secretary  
Puerto Rico Department of Housing

## Ref to OIG Evaluation – HUD Comments

 OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT	<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b> WASHINGTON, DC 20410-7000
<b>MEMORANDUM FOR:</b>	Kilah S. White, Assistant Inspector General for Audit, GA
<b>FROM:</b>	Tennille Smith Parker, Director, Office of Disaster Recovery, DGR
<b>SUBJECT:</b>	HUD Comments for OIG Draft Audit Report – The Puerto Rico Finance Housing Authority’s Homebuyer Assistance Program Positively Impacted Participants but May Not Have Distributed Disaster Recovery Funds Equitably

The Office of Disaster Recovery (ODR) has reviewed the draft audit report of *The Puerto Rico Finance Housing Authority’s Homebuyer Assistance Program Positively Impacted Participants but May Not Have Distributed Disaster Recovery Funds Equitably*. ODR offers the following comments on the draft audit report for consideration.

The Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) conducted an audit of the Puerto Rico Finance Housing Authority’s (PRFHA) Homebuyer Assistance (HBA) Program to determine if it was on track for delivering the expected program outcomes and the impact the Program had on home ownership rates in Puerto Rico after Hurricanes Irma and Maria. The OIG draft report indicated that the participants were mostly satisfied with the HBA Program and stated that it had a significant impact on their lives by helping them obtain a safe and stable home for themselves and their families. In addition, the report concluded that the HBA Program was on track to deliver the expected outcomes as defined in the subrecipient agreement, including, but not limited to, the number of program applications received, reviewed, and approved per month and monthly funds disbursed to assist participants obtaining housing. The Puerto Rico Department of Housing (PRDOH), which is responsible for monitoring the progress of the Program, did not have current and reliable data to measure the Program’s effect on home ownership rates in Puerto Rico. Moreover, PRHFA inappropriately allowed participating lending institutions to calculate financial assistance award amounts and that it did not have clear and consistent guidelines to determine household income and final HBA financial assistance awards. As a result, PRHFA cannot ensure that it distributed disaster recovery funds equitably among eligible program participants.

There are some general comments on the audit that are presented below:

- 1) The audit contains contradictory statements; it states that the HBA Program is meeting the objective of providing access to safe housing to families but also indicates that the grantee cannot measure the impact of the Program on home ownership rates in Puerto Rico. The number of households served (by income) is the required performance measure that the grantee must report to HUD. Although home ownership data is influenced by multiple factors other than the HBA Program, such as the COVID-19 pandemic, increased interest

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Comment 7  
Comment 1

rates, lack of housing unit production and skilled labor, increasing costs of materials and supply interruptions, damages caused by continuous natural disasters, among others,<sup>1</sup> it's impossible to isolate the Program's impact on home ownership. In fact, the Program's impact is evidenced by the results of the interviews conducted by the OIG where 74% of the HBA Program's participants sampled stated that they would not have been able to purchase their homes without HBA assistance and 87% stated that they stayed in Puerto Rico because they had a safe and stable home.

Comment 8

- 2) Page 1 - The national objective in *Table 1: Funding for HBA* should be urgent need instead of unmet need.

Comment 9

- 3) Page 4 - The 22% of the participants interviewed that indicated that they felt discriminated against by real estate agents, lending institutions, or sellers, as depicted in *Figure 1: Projected participant impact*, seems to indicate that the actions of those entities is regulated by the PRDOH. Nevertheless, the grantee has taken various steps to address these concerns. For example, PRDOH has conducted multiple outreach events such as meetings with lending institutions and roundtables with the Puerto Rico Association of Realtors to address the concerns from potential homebuyers. In addition, PRDOH's R3 Program provides an incentive of \$4,000 for the payment of real estate broker's commission for those brokers who assist R3 applicants in finding and closing replacement properties. Most importantly, HUD combats housing discrimination and this item was referred for fair housing and civil rights review.

The discussion below includes ODR's comments on the specific OIG Recommendations for the following audit results:

#### I. Impact of HBA Program on Home Ownership Rates in Puerto Rico

**OIG Recommendation 1A:** Work with PRDOH to update its action plan and program guidelines to reflect the current method(s) being used by the agency or other quantifiable method(s) to measure the impact of the HBA program.

**OIG Recommendation 1B:** Based on the results of recommendation 1A, update the HBA guidelines and the Puerto Rico disaster recovery action plan.

Comment 7

**ODR's Comments:** This recommendation is unclear. The grantee is reporting on the types of performance measures required for a homebuyer assistance program, such as the HBA Program participant data, which is what is required to demonstrate that households received eligible homebuyer assistance. The data presented by the OIG in this audit report shows that the Program has had an impact in homeownership and has allowed families to stay in Puerto Rico, which was the goal of the Program.<sup>2</sup> For example, the grantee is reporting the number of

<sup>1</sup> Foundation for Puerto Rico (2023, May 15). *The State of Housing in Puerto Rico, An Analysis of the Factors that Impact Housing and Rent Prices in Puerto Rico and Proposed Strategies to Increase Housing Affordability*. [https://foundationforpuertorico.org/wp-content/uploads/2023/05/state\\_of\\_housing.pdf](https://foundationforpuertorico.org/wp-content/uploads/2023/05/state_of_housing.pdf)

<sup>2</sup> Please refer to the Conclusion on page 7.

households served by income. As stated in the audit report, the HBA Program had assisted more than 6,770 eligible families in acquiring their homes.<sup>3</sup>

**II. PRHFA Lacked Clear and Consistent Guidance for HBA Financial Assistance Award Determinations**

**OIG Recommendation 2A:** Instruct PRDOH and PRHFA to develop and implement clear and consistent guidelines and procedures that establish a verifiable methodology for determining the amount of financial awards granted to eligible HBA participants.

**ODR's Comments:** ODR agrees with this recommendation.

**III. PRHFA Could Not Demonstrate How the Financial Assistance Award and Household Income Determinations Were Performed**

**OIG Recommendation 2B:** Include, as part of the revised procedures, a requirement to document within each case in SSP a detailed (1) calculation of the household income and (2) the analysis and computations conducted by the PRHFA underwriter for determining the amount of the financial assistance award.

**ODR's Comments:** ODR agrees with this recommendation. In addition, it's important to note that as part of the August 2021 Remote Monitoring, HUD reviewed the Homebuyer Assistance Program. HUD identified one Concern regarding how the income limits were determined. After reviewing the income documentation within program participant files, HUD found that there was no consistent way of verifying whether the program participants were eligible after their first application, which could be years before they completed the process, and that there was no clear way of determining whether the program participants were low- and moderate income for purposes of documenting HUD compliance. As such, HUD recommended that PRDOH define, in a clearer way, the process for when and how income limits were determined for the HBA Program purposes and add it to the program policies and procedures. In addition, HUD provided technical assistance on documentation of homebuyer activities and encouraged PRDOH to ensure the electronic program participant files were complete, that they supplement their existing cost-reasonableness determination practice, and they clarify which exception is being applied and why to award determinations.<sup>4</sup> On November 18, 2021, as a corrective action, PRDOH issued version 4 of the HBA Program Guidelines which addressed the concern raised during the remote monitoring.<sup>5</sup>

<sup>3</sup> Please refer to Figure 2 on page 6.

<sup>4</sup> Please refer to the August 2-6, 2021, Remote Monitoring Report for B-17-DM-72-0001 and B-18-DP-72-0001 grants, Attachment A.

<sup>5</sup> Please refer to PRDOH's Initial Response to HUD August 2-6, 2021 Monitoring Report issued on December 2, 2021, Attachment B.

**Comment 10**

**Comment 11  
Comment 3**

**IV. PRHFA Needs to Improve Its Process for Distributing Disaster Recovery Funds in HBA to Ensure Equitable Distribution Among Eligible Participants**

**OIG Recommendation 2C:** Instruct PRDOH and PRHFA to provide training and guidance to participating lending institutions related to the updated guidelines and procedures for determining the financial award granted to HBA participants to ensure that program funds are distributed in an equitable manner.

**ODR's Comments:** ODR agrees with this recommendation.

Should you have any questions regarding these draft audit report comments, please do not hesitate to contact me or Laura I. Rivera-Carrón, Coordinating Officer for Disaster Recovery at [Laura.I.Rivera-Carron@hud.gov](mailto:Laura.I.Rivera-Carron@hud.gov).

**Comment 12**

## OIG Evaluation of Auditee Comments

We received comments to our draft report from both PRDOH and HUD's Office of Disaster Recovery (ODR). Each set of comments contained differing viewpoints on the key findings. For example, HUD ODR commented that the OIG draft report contained contradictory statements because it states that the HBA program is meeting the objective of providing access to safe housing to families but also that the grantee cannot measure the impact of the program using home ownership rates in Puerto Rico. We disagree that the statements in our report are contradictory because the program can be meeting its current objectives even if the measurements the program uses to define success can be improved. In fact, PRDOH recognized that it does not measure the success of its program using overall home ownership rates. Further, PRDOH and HUD ODR acknowledged that it is not possible to isolate the HBA program's impact on overall home ownership rates because they are affected by many factors other than the HBA program. In response to our audit finding, PRDOH agreed to revise its action plan and HBA guidelines to make it clear that it measures the program's impact through the number of people served by the program rather than using home ownership rates in Puerto Rico. PRDOH revising its action plan and HBA guidelines to reflect the current and reliable method that it uses to measure the program's impact will help PRDOH determine whether the HBA program is maximizing its efforts to provide access to safe housing to families for the people of Puerto Rico. We encourage PRDOH to work with HUD ODR to fully implement our recommendations.

In response to our conclusions regarding the lack of clear and consistent guidance for HBA financial assistance award determinations, PRDOH commented that the HBA program's updated guidelines establish the parameters for determining subsidies offered to eligible participants and the subsidy amount limits, and that key terms like gross monthly income and financial assistance award are both documented in the PRHFA System for Subsidy Program (SSP). However, these guidelines were not applicable for the period under audit. Using the applicable guidelines for the period under review, PRHFA was unable to demonstrate how it determined the amount of financial assistance it awarded for all 67 cases reviewed. Documentation for the 67 sampled case files showed that the household income calculation was not detailed in SSP, and PRHFA's guidance did not specifically explain how to determine household income in those instances. HUD ODR's comments on this finding agreed with the recommendations and noted that HUD raised similar concerns in the August 2021 HUD Remote Monitoring Review of the HBA program. HUD also provided technical assistance to PRDOH on homebuyer activities documentation and encouraged it to ensure that the program participant files are complete, which resulted in PRDOH revising the HBA program guidelines (version 4) in place at the time. However, the updated guidelines still do not contain a clear and replicable methodology for providing financial assistance awards to participants. We acknowledge PRDOH's effort in making the HBA program guidelines more specific about the financial award amount determination. While these July 2023 updates were not applicable for the period under audit (July 1, 2020, through November 30, 2022), they show responsiveness to our discussion with PRDOH during the audit about our findings. We encourage PRDOH and PRHFA to adopt a policy and procedure that is clear and transparent to all parties involved in the determination and verification of household income.

Regarding the potential equity issue identified in the report, PRDOH discussed its guidelines, award process, training, and other steps it has taken to educate lending institutions. However, it falls short of identifying any additional steps or actions it plans to take in response to our findings on this issue. HUD ODR stated that reporting that 22 percent of the interviewed participants who indicated that they felt discriminated against by real estate agents, lending institutions, or sellers, seemed to indicate that the actions of those entities were regulated by PRDOH. While the experiences of 22 percent of the interviewed participants are important and reportable, our discussion about equity in the report is more extensive. Our equity discussion focused on PRHFA ceding its responsibility and allowing lending institutions to determine the award amount granted to each participant. By doing so, PRHFA could not ensure that its disaster recovery funds were equitably distributed. HUD stated that it had referred this item for fair housing and civil rights review. We appreciate HUD's attention to the potential equity issue we identified.

Below is a summary of PRDOH and HUD ODR's responses to our draft report and further details of our evaluation of them.

**Comment 1** PRDOH commented that it does not measure the HBA program impact through Puerto Rico's overall home ownership rates but, rather, through the number of people served by the program. Accordingly, PRDOH will revise the CDBG-DR action plan and the HBA guidelines to make this difference clear.

We acknowledge PRDOH's response and agreement with recommendations 1A and 1B.

**Comment 2** PRDOH commented that the HBA program guidelines, version 8, establish the parameters for determining subsidies offered to eligible participants and the subsidy amount limits. Also, PRDOH explained that the gross monthly income and financial assistance award are both documented in PRHFA's SSP. The revised guidelines specify that the downpayment assistance will vary according to the downpayment required, based on the loan type (Federal Housing Administration, conventional, rural, etc.). Additionally, these revised guidelines establish that the criteria to determine the subsidy is based on the applicant's front-end ratio not to exceed 20 percent and back-end ratio not to exceed 36 percent. Finally, PRDOH explained how the financial assistance awards were calculated for participant A and participant B.

We acknowledge PRDOH's effort in making the HBA program guidelines more specific about the financial award amount determination. However, these guidelines were not applicable for the period under audit, which was July 1, 2020, through November 30, 2022, because they were modified on July 23, 2023. After we provided draft finding outlines, PRDOH and PRHFA provided comments similar to those submitted in response to the draft report and included in the modified guidelines. We encourage PRDOH and HUD ODR to work together to ensure the guidelines are appropriately specific about determining the final award amount.

In its response, PRDOH explained that participant A's financial assistance award was calculated using the applicable program guidelines (version 4). PRDOH stated that the participant was awarded the maximum amount of \$55,000 because that was the amount needed to lower the participant's back-end ratio from 54.67 to 46.87 percent. Of the \$55,000 awarded, PRDOH indicated that \$49,250 covered the downpayment and \$5,750 was for closing costs. However, with the information provided in its response and in the program guidelines, PRDOH still did not explain how the financial assistance amount was determined. For example, the Uniform Residential Loan Application<sup>35</sup> (URLA), signed on March 22, 2022, already contained an award amount of \$55,000, which shows that the financial institution had already determined the participant's financial award before PRHFA provided the eligibility notice (dated August 8, 2022) or the approved subsidy notice (dated August 25, 2022) to the participant. There was no documentation within the case file showing the analysis or calculation performed by the PRHFA underwriter to determine the financial assistance amount, as required by the program guidelines. Further, the amount of closing costs and downpayment specified by PRDOH in its response did not reconcile with the amounts shown in the closing disclosure document for this case.

For participant B, PRDOH explained that the financial assistance award was calculated using the applicable program guidelines at the time (version 3). It also stated that the amount of downpayment given to the participant was \$6,500, instead of the minimum required by the loan product of \$3,920. In this instance, the participant was awarded \$2,580 above the minimum downpayment required by the loan product. However, the case file documentation did not include evidence of why or how this amount was determined.

Using the applicable guidelines for the period under review, PRHFA was unable to demonstrate how it determined the amount of financial assistance it awarded for all 67 cases reviewed. Further, the updated guidelines still do not contain a clear and replicable methodology for providing financial assistance awards to participants. For example, the guidelines contain contradictory statements. Specifically, they state that the financial assistance award is calculated based on the amount necessary to lower the participant's front-end ratio as close to 20 percent or the back-end ratio to 36 percent, whichever is most beneficial to sustain home ownership. However, in another section, the guidelines state that the award will be limited to the amount needed by the participant to qualify for the mortgage loan.

In addition, the guidelines state that PRHFA's underwriter determines the financial assistance award; however, based on the information obtained during the fieldwork and as noted by PRDOH's response (page 7 of PRDOH's response), SSP calculates the financial assistance award. As discussed in our report, on multiple occasions we

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<sup>35</sup> The URLA (also known as the Freddie Mac Form 65 or Fannie Mae Form 1003) is a standardized document used by borrowers to apply for a mortgage. The URLA is jointly published by the Government Sponsor Entities and has been in use for more than 40 years in all U.S. States and territories.

requested that PRHFA provide the specific parameters used by the SSP platform to calculate the financial assistance award but PRDOH could not provide it. PRHFA can better ensure equitable distribution of the financial assistance to homebuyers if it develops and implements clear and consistent guidelines and procedures that establish a verifiable methodology for determining the amount of financial awards granted to eligible HBA participants, and then documents those determinations so that it can review the determinations to ensure the program is being executed as intended. We encourage PRDOH and PRHFA to work with HUD during the audit resolution process to ensure that its revised guidelines are adequate and will fully address the recommendations.

### **Comment 3**

In response to recommendations 2A and 2B, PRDOH commented that the methodology for determining household income has been consistently established in the HBA program guidelines. They include the definition of household income and make a distinction between the household income calculation for HBA program eligibility purposes and the income amount that lending institutions take under consideration for loan processing and approval purposes.

Our detailed review of the 67 sampled case files showed that the household income calculation was not documented in detail in SSP, which is critical to ensuring accountability for why participants were awarded different subsidies. For example, we found issues with participants who earned commissions, worked overtime, or were self-employed, for which PRHFA's guidance for household income determination did not specifically explain how to determine household income in those instances. This matter was also documented as a concern in the August 2021 HUD Remote Monitoring Review of the HBA program. (See OIG evaluation of auditee comment 11 below for more details.)

With HUD's assistance, PRDOH and PRHFA should adopt a policy and procedure that is clear and transparent to all parties involved in the determination and verification of household income. While outside of the scope of this audit, PRDOH could leverage efforts to improve determinations of household income in the HBA program in other disaster recovery programs for which household income must be determined and documented. We did not modify the report or recommendations 2A and 2B.

### **Comment 4**

In response to recommendation 2A, PRDOH stated that participating institutions are not allowed to interpret how to perform the financial award calculation as it is programmed into SSP using the HBA program guidelines. It also discussed the most recent revision of the HBA program guidelines (version 8), describing the role the participating lending institutions as one limited to submitting the applicant's file through the SSP platform and entering data about the applicant's loan details.

We acknowledge that PRDOH's revised HBA program guidelines describe written procedures; however, our review found that the guidelines were not consistently followed. Interviewed PRHFA personnel said that in fact participating lending

institutions interpret the program guidelines and assist in the determination of the financial assistance award. Further, the lending institution must know the amount of the financial assistance award in advance to enter the loan information into the SSP platform as it directly affects the amount of the financial assistance provided to cover the downpayment and closing costs. As the lending institution enters the loan information data into the SSP platform it is interpreting the guidelines and assisting in the financial assistance award calculation. We did not revise our findings or conclusions.

**Comment 5**

In response to recommendation 2C, PRDOH again emphasized the supportive role that the participating lending institutions have in the HBA program. In addition, PRDOH described the responsibilities of the PRHFA case managers, which include, for example, determining when the participating lending institutions need to adjust the ratios (front-end or back-end ratio) to comply with section 9.3 of the HBA program guidelines and adjust them as close to 20 percent or 36 percent, whichever is most beneficial to the applicant sustaining home ownership.

As discussed in our report, this assessment, as well as the calculation of the financial assistance award, was not documented in the 67 reviewed applicant case files in SSP. Also, as stated in comment 4 above, the lending institution must know in advance the financial assistance award to determine the loan amount and related closing costs. We did not revise our findings or conclusions.

**Comment 6**

In response to recommendation 2C, PRDOH explained that PRHFA provides continuous training sessions to participating lending institutions related to the HBA program guidelines. In addition, it distributes the HBA platform user manual and has established an email account for any inquiries the lending institutions may have.

We appreciate PRDOH's efforts toward keeping lending institutions educated and informed on the latest developments and revisions of the program guidelines. These training efforts should include training for any updated guidelines and procedures implemented in response to our audit recommendations. We encourage PRDOH and PRHFA to maintain records for these training sessions, to maintain open communication with the lending institutions, and to work with HUD to fully implement recommendation 2C.

**Comment 7**

HUD ODR commented that the draft report contains contradictory statements because it states that the HBA program is meeting the objective of providing access to safe housing to families but also that the grantee cannot measure the impact of the program in home ownership rates in Puerto Rico. In addition, it stated that PRDOH is reporting on the performance measures required for the program. However, HUD ODR also explained that it is impossible to isolate the program's impact on home ownership. Further, HUD ODR stated that data in our report show that the HBA program has had an impact on home ownership.

As noted above, both conditions exist. Program participants were mostly satisfied with the program, PRHFA was on track to deliver expected outcomes (e.g., number of applicants, applications reviewed, funds disbursed), and it had exceeded some of its performance measures. However, we also found that PRDOH's primary objective of measuring the increase in home ownership rates was not effective. The HBA program guidelines, Section 4.1, Program Objective, states, "The primary objective of the program is to increase *home ownership rates* that will support the long-term sustainability and economic viability of communities impacted by Hurricanes Irma and Maria across the Island." Using a general measurement not primarily affected by the program itself makes the measurement ineffective.

As acknowledged by PRDOH and HUD ODR, it is not possible for PRDOH to measure the program's impact using the information from the U.S. Census Bureau and the Puerto Rico Office of the Commissioner of Financial Institutions because home ownership rates could be influenced by a broad range of factors unrelated to the HBA program. In other words, PRDOH is not able to measure the impact of the HBA program on home ownership rates in Puerto Rico, which PRDOH acknowledged and agreed to address. HUD ODR should work with PRDOH to update its action plan and HBA program guidelines to reflect the current method(s) used by the agency or other quantifiable method(s) to measure the impact of the HBA program. See OIG evaluation of auditee comment 1 above for more details.

**Comment 8** HUD ODR commented that on page 1 of the report, the national objective in Table 1: Funding for HBA should be "urgent need" instead of unmet need.

We appreciate HUD's comment and revised table 1 accordingly.

**Comment 9** HUD ODR commented that the statement on page 4 of the report, in which 22 percent of the participants interviewed indicated that they felt discriminated against by real estate agents, lending institutions, or sellers, seems to indicate that the actions of those entities are regulated by the PRDOH. However, HUD also noted that the grantee has conducted multiple outreach events, such as meetings with lending institutions and roundtables with the Puerto Rico Association of Realtors, to address the concerns from potential homebuyers. HUD also explained that the PRDOH's R3 program provides incentives toward real estate brokers' commission working with R3 program participants. Finally, HUD stated that it had referred this item for fair housing and civil rights review.

The experiences of these participants are important and is one aspect of our discussion about equity in the program. We reported responses from the 22 percent of participants, who said that they felt discriminated against by real estate agents, lending institutions, or sellers that would not want to work with them through the HBA program because the process would take longer. Our discussion also focused on PRHFA ceding its responsibility and allowing lending institutions to determine the award amount granted to each participant. By doing so, PRHFA could not ensure that its disaster recovery funds were equitably distributed.

We appreciate PRDOH's efforts to address program participants' concerns and HUD ODR's steps to work with the Office of Fair Housing and Equal Opportunity. However, we note that HUD ODR's discussion about incentives provided by the PRDOH R3 program toward real estate brokers' commission is applicable to a program that is separate and distinct from PRDOH's HBA program participants.

**Comment 10** HUD ODR stated its agreement with recommendation 2A.

We appreciate HUD's agreement with recommendation 2A.

**Comment 11** HUD ODR agrees with recommendation 2B. Further, it notes that during the August 2021 remote monitoring of the HBA program, HUD reported a concern related to the inconsistency in the verification of income to determine eligibility of the participant in the program based on the established income limits. Therefore, HUD made a recommendation to PRDOH to define, in a clear way, the process for how income limits were determined for program purposes and add it to its policies and procedures. HUD also provided technical assistance to PRDOH on homebuyer activities documentation and encouraged it to ensure that the program participant files are complete. As a result of this recommendation, PRDOH revised the HBA program guidelines (version 4).

We acknowledge and agree with HUD's response and appreciate its agreement with recommendation 2B.

**Comment 12** HUD ODR stated its agreement with recommendation 2C.

We appreciate HUD's agreement with recommendation 2C.

## Appendix B - Summary of PRHFA's Key Activities' Results

Key activities	Target	Results
PRHFA achieves agreements with lending institutions	50 MOUs executed by quarter (Q)3 - Q4 2020	50 executed MOUs' goal was not met by 2020. 55 MOUs were executed by Q3 2021.
Training lending institutions	50 lending institutions trained yearly by Q3 2021, Q3 2022, Q4 2023	13 institutions trained in Q3 2020 42 institutions trained in Q3 2021 55 institutions trained by Q3 2021  8 institutions trained in Q1 2022  Total of 63 institutions trained by Q1 2022
<u>Outreach</u> Publish outreach materials in media	Two outreach activities weekly by Q4 2020 - Q2 2021	Outreach activities started in Q3 2021 and continued up to Q3 2022 with a total of 60 outreach activities.
Questions and answers and other outreach activities open to public	30% applications increase in month after outreach efforts start or continue by Q4 2020 - Q2 2021	Percentage of applications increased to 57%.
Buyers apply to program	Monthly target from Q3 2020 to Q2 2022  400 applications 400 evaluated applications 75% Approved applications	Received an average of 434 applications from July 2020 through November 2022  75% of applications received from July 2020 through November 2022 were approved.
Application goes through HUD-required reviews:  *Property; environment *Property; headquarters *Applicant; date of birth	Weekly from Q3 2020 to end of program.  75 reviews and approved certifications completed	Weekly target not always reached. Average approved certifications completed from September 2020 to November 2022 totaled 57.6 certifications. Target of 75 completed certifications had generally been reached or surpassed since January 2022.
Application approval and fund disbursement when case closed with lending institution	Monthly target from Q4 2020 to Q2 2023  400 awards approved monthly (ready for closing)	Monthly target was not always reached. The average approved monthly awards for all months from inception of program to November 2022 amounted to 362 approved awards.
	Monthly target from Q4 2020 to Q2 2023  50% disbursed-closed applications monthly	Monthly target was not always reached. The average disbursed or closed applications for all months from inception of program to November 2022 amounted to 164 disbursed or closed cases. Target of 200 awards (50% of 400 awards) had generally been reached or surpassed since February 2022.
	Monthly target from Q4 2020 to Q2 2023  \$5,000,000 disbursed monthly	The average monthly amount disbursed since the inception of the program up to November 2022 reached the \$5 million threshold. Monthly target had been reached or surpassed since February 2022.

## Appendix C - HBA Participants' Interview Questions and Responses

Question	Yes	%	No	%	N/A	%
Is this your first home?	66	99%	1	1%	-	-
Is this your principal residence?	67	100%	-	-	-	-
Were you advised on the different types of loans available for the purchase of your first home?	65	97%	2	3%	-	-
Did you receive orientation on the monetary amounts that you could receive through the HBA program?	64	96%	2	3%	1	1%
If you did not receive the maximum amount of assistance in accordance with the program guidelines as of the closing date of the purchase of the property, was it explained to you why?	9	13%	32	48%	26	39%
Were you asked for evidence of the family composition of your household?	63	94%	4	6%	-	-
Were you asked for proof of income for all household members 18 years of age or older?	66	99%	1	1%	-	-
Are you aware of the restrictive conditions of this aid? For example, that you must own and occupy your property and that you cannot rent short-term or long-term for a period of at least 5 years.	67	100%	-	-	-	-
Did you feel discriminated against by a lending institution and/or real estate once you informed them you wanted to purchase your home through the HBA program?	21	31%	46	69%	-	-
With the advice provided, did you feel ready to make the purchase of your home?	66	99%	1	1%	-	-
Did you have plans to move out of Puerto Rico after Hurricanes Irma and Maria?	21	31%	46	69%	-	-
Do you consider that the opportunity to buy your first home contributed to you staying in PR?	62	93%	5	7%	-	-
Do you consider that the opportunity to buy your first home had a positive impact on the stability and productivity of your job?	64	96%	1	1%	2	3%
Do you believe that the assistance provided through the HBA program has positively affected the economic stability of your family?	59	88%	8	12%	-	-
If you did not receive the HBA program financial assistance, would you have been able to purchase your home?	12	18%	55	82%	-	-
Would you recommend the HBA program to other people?	67	100%	0	0%	-	-
Do you consider the HBA program efficient and effective in assisting people on the purchase of a home?	61	91%	6	9%	-	-

## Appendix D – Statistical Projection – Results and Methodology

### Audit Universe

The audit universe consisted of 4,170 closed HBA cases for the period July 1, 2020, through November 31, 2022. These 4,170 cases had an SSP “HBA APP Status” of (1) Closed, (2) Closing Docs Incomplete, (3) Submitted Closing Docs Verification, or (4) Transaction Complete as of November 30, 2022.

### Sampling Methodology

We identified a simple random sample of 67 records for auditing among the audit universe. The sample size equation with a finite population correction factor calls for at least 66.67 records to sample. Since we cannot select a fraction of a sample, we selected 67 sample items.

### Methodology for Projections

Findings: Based on a simple random sample designed to minimize error, we can make the following statements.

#### Did Not Receive Maximum Assistance and Was Not Explained:

In 32 of the 67 records reviewed, the audit team found that the HBA respondent did not receive the maximum amount of assistance in accordance with the program guidelines as of the closing date of the purchase of the property, and the reasoning was not explained. This amounts to a weighted average of 47.76 percent of the sample. When we deduct for a statistical margin of error, we can say - with a one-sided confidence interval of 95 percent - that at least 37.59 percent of the records in the sample met this measure. Extending this estimated percentage to the universe of 4,170 records, at least 1,567.37 records met this measure, and the count could be greater.

Percentage calculation:	$47.76\% - (1.667 \times 6.10\%) \approx 37.59\% \text{ LCL}$
Total projection:	$4,170 \times (47.76\% - (1.667 \times 6.10\%)) \approx 1,567.37 \text{ LCL}$

#### Felt Discriminated:

In 21 of the 67 records reviewed, the audit team found that the HBA respondent felt discriminated against. This amounts to a weighted average of 31.34 percent of the sample. When we deduct for a statistical margin of error, we can say - with a one-sided confidence interval of 95 percent - that at least 21.89 percent of the records in the sample met this measure. Extending this estimated percentage to the universe of 4,170 records, at least 912.99 records met this measure, and the count could be greater.

Percentage calculation:	$31.34\% - (1.667 \times 5.66\%) \approx 21.89\% \text{ LCL}$
Total projection:	$4,170 \times (31.34\% - (1.667 \times 5.66\%)) \approx 912.99 \text{ LCL}$

#### Planned To Move From Puerto Rico:

In 21 of the 67 records reviewed, the audit team found that the HBA respondent planned to move from Puerto Rico after Hurricanes Irma and Maria. This amounts to a weighted average of 31.34 percent of the sample. When we deduct for a statistical margin of error, we can say - with a one-sided confidence interval of 95 percent - that at least 21.89 percent of the records in the sample met this measure.

Extending this estimated percentage to the universe of 4,170 records, at least 912.99 records met this measure, and the count could be greater.

Percentage calculation:  $31.34\% - (1.667 \times 5.66\%) \approx 21.89\% \text{ LCL}$   
Total projection:  $4,170 \times (31.34\% - (1.667 \times 5.66\%)) \approx 912.99 \text{ LCL}$

#### Home Purchase Helped Them To Not Emigrate

In 62 of the 67 records reviewed, the audit team found that the HBA respondents considered that the opportunity to be a first-time homebuyer helped them to not have to emigrate. This amounts to a weighted average of 92.537 percent of the sample. When we deduct for a statistical margin of error, we can say - with a one-sided confidence interval of 95 percent - that at least 87.18 percent of the records in the sample met this measure. Extending this estimated percentage to the universe of 4,170 records, at least 3,635.59 records met this measure, and the count could be greater.

Percentage calculation:  $92.537\% - (1.667 \times 3.21\%) \approx 87.18\% \text{ LCL}$   
Total projection:  $4,170 \times (92.537\% - (1.667 \times 3.21\%)) \approx 3,635.59 \text{ LCL}$

#### Home Purchase Provided Stable and Productive Work:

In 64 of the 67 records reviewed, the audit team found that the HBA respondents stated that the purchase of their home had positively influenced the stability and productivity of their work. This amounts to a weighted average of 95.52 percent of the sample. When we deduct for a statistical margin of error, we can say - with a one-sided confidence interval of 95 percent - that at least 91.31 percent of the records in the sample met this measure. Extending this estimated percentage to the universe of 4,170 records, at least 3,807.62 records met this measure, and the count could be greater.

Percentage calculation:  $95.52\% - (1.667 \times 2.53\%) \approx 91.31\% \text{ LCL}$   
Total projection:  $4,170 \times (95.52\% - (1.667 \times 2.53\%)) \approx 3,807.62 \text{ LCL}$

#### Economic Stability:

In 59 of the 67 records reviewed, the audit team found that the HBA respondents believed that the assistance provided through HBA positively affected the economic stability of their family. This amounts to a weighted average of 88.06 percent of the sample. When we deduct for a statistical margin of error, we can say - with a one-sided confidence interval of 95 percent - that at least 81.45 percent of the records in the sample met this measure. Extending this estimated percentage to the universe of 4,170 records, at least 3,396.66 records met this measure, and the count could be greater.

Percentage calculation:  $88.06\% - (1.667 \times 3.96\%) \approx 81.45\% \text{ LCL}$   
Total projection:  $4,170 \times (88.06\% - (1.667 \times 3.96\%)) \approx 3,396.66 \text{ LCL}$

#### Purchase Ability:

In 55 of the 67 records reviewed, the audit team found that the HBA respondents stated that had they not had HBA financial assistance, they would not have been able to buy the home they bought or any other home. This amounts to a weighted average of 82.09 percent of the sample. When we deduct for a

statistical margin of error, we can say - with a one-sided confidence interval of 95 percent - that at least 74.28 percent of the records in the sample met this measure. Extending this estimated percentage to the universe of 4,170 records, at least 3,097.44 records met this measure, and the count could be greater.

Percentage calculation:  $82.09\% - (1.667 \times 4.68\%) \approx 74.28\% \text{ LCL}$   
Total projection:  $4,170 \times (82.09\% - (1.667 \times 3.96\%)) \approx 3,097.44 \text{ LCL}$

Effective and Efficient:

In 61 of the 67 records reviewed, the audit team found that the HBA respondents considered the program effective and efficient in the acquisition of their home. This amounts to a weighted average of 91.04 percent of the sample. When we deduct for a statistical margin of error, we can say - with a one-sided confidence interval of 95 percent - that at least 85.23 percent of the records in the sample met this measure. Extending this estimated percentage to the universe of 4,170 records, at least 3,554.03 records met this measure, and the count could be greater.

Percentage calculation:  $91.04\% - (1.667 \times 3.49\%) \approx 85.23\% \text{ LCL}$   
Total projection:  $4,170 \times (91.04\% - (1.667 \times 3.49\%)) \approx 3,554.03 \text{ LCL}$

## Appendix E - HBA Guidelines

Below is a summary of the significant changes among versions 3, 4, and 5 of the HBA guidelines for eligible use of funds and underwriting sections.

### Version 3 – *Section 5.1, Eligible Use of Funds*

Effective October 22, 2020, Through November 17, 2021

- Maximum HBA assistance amount is **\$25,000-\$35,000 CRW**, plus \$5,000 for property in urban center.
- Downpayment assistance may be provided to lower the participant's **front-end ratio to 20 percent**.
- **Back-end ratio not considered.**
- 100 percent of closing costs covered, not to exceed 6 percent of the primary loan amount.

### Version 4 – *Section 5.1, Eligible Use of Funds*

Effective November 18, 2021, Through November 6, 2022

- Maximum HBA assistance amount is **\$45,000-\$55,000 CRW**, plus \$5,000 for property in urban center.
- Pay up to 100 percent of downpayment required by lending institution based on the loan type (Federal Housing Administration (FHA), conventional, U.S. Department of Agriculture (USDA) rural, U.S. Department of Veterans Affairs (VA) home loans).
- **Front-end ratio not considered.**
- The PRHFA underwriter will determine additional assistance needed to lower the participant's **back-end ratio to 36 percent**. This will be applied to reduce the purchase price, thereby reducing the loan amount.
- 100 percent of closing costs covered. Closing costs cap eliminated.

### Version 5 – *Section 5.1, Eligible Use of Funds and Section 9 Underwriting Review*

November 7, 2022, Through December 14, 2022

- Maximum HBA assistance amount is \$45,000-\$55,000 CRW plus \$5,000 for property in urban center.
- Pay up to 100 percent of downpayment required by lending institution based on the loan type (FHA, conventional, USDA rural, VA home loans).
- Subsidy amount is calculated by the PRHFA underwriter or authorized representative to lower the applicant's **front-end ratio to 20 percent or back-end ratio to 36 percent**; whichever is most beneficial to sustaining home ownership. Assistance will be applied to subsidize the interest rate and mortgage principal.
- 100 percent closing costs covered.