

# SYSTEMIC IMPLICATIONS REPORT

U. S. Department of Housing  
and Urban Development  
Office of Inspector General  
*Office of Investigation*

AGENT (b) (7)(C)	
DISTRICT/OFFICE: (b) (7)(C)	DATE: 12/11/2008

**A. Description of Systemic Deficiency:**

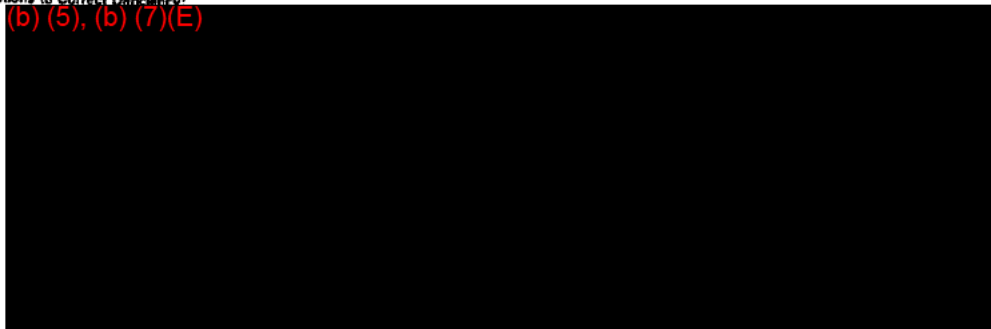
This office initiated an investigation into Landsafe Inc. regarding violations of RESPA. Landsafe is a subsidiary company of Countrywide Home Loans and is also known as an appraisal management company. After conducting numerous interviews with appraisers and homebuyers throughout the country, it was revealed that the appraisers are being paid a lower fee for their services than what the borrower is paying for the appraisal. The complete fee is being paid by the borrower to the appraisal company and then that company pays the appraiser the fee that was negotiated. Also, it appears that on certain occasions the borrower was paying a higher fee than what the average cost of the appraisal should be for the area where the property is located. Since there were numerous interviews conducted with appraisers and homebuyers throughout the country, testimony obtained differs depending on the state in which these interviews were conducted. Many of the buyers were unaware of what they paid for their appraisal and the services provided.

An interview was conducted with the Appraisal Foundation (AF). According to the AF, the appraisers are losing money because Banks and Mortgage companies have their own appraisal management companies. The appraisals have to be done through the appraisal company and many appraisers are accepting much lower fees just to receive the work.

According to Mortgagee Letter 97-46, FHA considered the fact that appraisal management companies may provide a host of services that expedite and improve the quality of the appraisal. The mortgagor is allowed to pay a fee for the appraisal, which may encompass fees for services, performed by the appraisal management company as well as fees for the appraisal itself. However, the total of these fees is limited to the customary and reasonable fee for an appraisal in the market area where the appraisal is performed. Such arrangements must comply with all aspects of RESPA.

**B. Suggestions to Correct Deficiency:**

(b) (5), (b) (7)(E)



**C. Investigative Techniques:**

After reviewing FHA case binders and conducting interviews, it was determined that there is a possibility that the appraisal management companies may not be providing the services for which they are receiving money. In addition it was unclear as to what extra service the appraisal management company was providing and whether or not the borrower was aware of the fees associated with those services. In addition further regulation would allow the appraiser to further understand what the appraisal management company is providing separate from their service.

Distribution: 1  Case File     2 AIGI     3 OMAP     4 Other: \_ \_

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AGENT: (b) (7)(C) [REDACTED]	
DISTRICT/OFFICE: 5AGI (b) (7)(C) [REDACTED]	DATE: 02/18/09
A. Description of Systemic Deficiency:  HUD does not currently have provisions that limit (b) (5) (b) (7)(E), (b) (5) [REDACTED] Verification or Verification of Deposits. The website of [REDACTED] under "Sample Transaction" describes how their service could be utilized. The transaction is as follows: (b) (5), (b) (7)(E) [REDACTED]	
B. Suggestions to Correct Deficiency: The Department of Housing and Urban Development should take steps to bar institutions that manipulate and corrupt the integrity of its loan programs. (b) (5), (b) (7)(E) [REDACTED] (b) (5), (b) (7)(E) [REDACTED]	
C. Investigative Techniques: (b) (5), (b) (7)(E) [REDACTED]	
Distribution: 1 <input checked="" type="checkbox"/> Case File <input checked="" type="checkbox"/> 2 AIGI <input type="checkbox"/> 3 OMAP <input checked="" type="checkbox"/> 4 Other: <u>  CID  </u>	

**SYSTEMIC IMPLICATIONS  
REPORT**

**U. S. Department of Housing  
and Urban Development  
Office of Inspector General  
Office of Investigation**

<b>AGENT:</b> (b) (7)(C)	
<b>DISTRICT/OFFICE:</b> (b) (7)(C) (b) (7)(C)	<b>DATE:</b> April 9, 2009

**A. Description of Systemic Deficiency:**

During the course of review the HUD/REO file (b) (7)(C) Next Door/Good Neighbor Next Door (TND/GNND) (b) (7)(C) it was disclosed that HUD forms that are required to be signed by GNND participants are recycled forms from the HUD/REO Program – the main issue involved is that when an individual purchases a property from HUD (through the REO Program), they are required to sign documentation indicating that they will reside in the subject property for at least 12 months. However, for GNND Program Participants, they are required to live in the subject property for at least 36 months, but certain forms are not reflecting the difference.

For example, (b) (7)(C) was required to sign the "Addendum to the Sales Contract, Property Disposition Program, Individual Owner-Occupant Certification", (b) (7)(C) purchase the property located (b) (7)(C) an owner-occupant. I/we certify that I/we have not purchased a HUD-owned property within the past 24 months as an owner-occupant. This offer is being submitted with the representation that I/we will occupy the property as my/our primary residence for at least 12 months." This form is a requirement of individuals who purchase HUD/REO properties.

However, with the GNND Program, participants are required to reside in the GNND property for at least three years. As such, the certification on the aforementioned form contradicts the GNND program requirements and may cause legal and administrative issues in the future regarding GNND participants who do not satisfy the full three-year owner-occupancy requirement. (Agent Note: (b) (7)(C) did sign the Second Mortgage and Subordinate Note, which do indicate the three-year owner-occupancy requirement.)

As of at least April 9, 2009, the aforementioned issue was brought to the (b) (7)(C) (b) (7)(C) (b) (7)(C) (b) (7)(C) HUD/HOC/Atlanta, via email. (Agent Note: Information about the issue (b) (7)(C) prior, however it was unclear whether or not (b) (7)(C) received it until April 9, 2009 due to technical issues involving email between HUD and HUD/OIG's systems.)

Secondly, it is not clear whether or not the program participants are provided with documentation that explicitly stated, "As a participant of HUD's Good Neighbor Next Door Program, you are required to reside in the property, as your primary residence for at least three years. If for some reason you cannot fulfill the three year residency requirements, then you must notify HUD (or HUD's contractor) in writing at XXXX address" or something to that effect.

HUD GNND Standard Operating Procedures, Second Mortgage Servicing (issued December 2006), Section 7.5.2 state "Interruptions to owner-occupancy terms. HUD may, at its sole discretion, allow interruptions to the 36-month owner-occupancy term if it determines that the interruption is necessary to prevent hardship, but only if the law enforcement officer, teacher, or firefighter/emergency medical technician submits a written and signed request to HUD containing the following information:

- The reasons why the interruption is necessary;
- The dates of the intended interruption;
- And a certification from the law enforcement officer, teacher, or firefighter/emergency medical technician that: they are not abandoning the home as his/her permanent residence; and they will resume occupancy of the home upon the conclusion of the interruption and complete the remainder of the 36-month owner-occupancy term."

In (b) (7)(C) stated that § 8 did not complete the owner-occupancy terms (wherein § 8 only "stayed for a few nights") because GNND property was broken into and § 8 personal possessions were stolen. As such (b) (7)(C) safety and decided not to move into the property. (b) (7)(C) stated that § 8 looked on the internet to try to find someone at HUD to talk to about the property, but was unsuccessful. Ultimately, (b) (7)(C) claimed § 8 didn't know what to do with the property and it has been sitting vacant.

**B. Suggestions to Correct Deficiency:**

It would be prudent for HUD not to recycle forms from HUD/REO's program (those required in cases of owner-occupancy requirements), but to create forms specific to the GNND Program and it's requirement.

For example, it is recommended HUD create a another "Addendum to the Sales Contract, Property Disposition Program, Good Neighbor Next Door Owner-Occupant Certification" which would specifically state that the GNND participant/owner-occupant will occupy the property as their primary residence for at least 36 months (versus the 12 months for non-GNND participants).

It is also recommended for GNND participants to sign and date documentation that explicitly states, "As a participant of HUD's Good Neighbor Next Door Program, you are required to reside in the property, as your primary residence for at least three years. If for some reason you cannot fulfill the three year residency requirements, then you must notify HUD (or HUD's contractor) in writing at XXXX address" or something to that effect; and, provide the GNND program participant with a copy (or least the verbiage of) HUD's Standard Operating Procedures, Second Mortgage Servicing (issued December 2006), Section 7.5.2 - Interruptions to owner-occupancy terms. It is also recommended that in addition to "interruptions to owner-occupancy terms", provide the GNND program participant guidance on what to do if they are unable to move into the GNND property or have to move out of the property before the 36 month owner-occupancy term is complete.

**C. Investigative Techniques:**

Review of HUD/GNND file;

Review of HUD/GNND Standard Operating Procedures;

(b) (7)(C)(b) (7)(C)

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U. S. Department of Housing  
and Urban Development  
Office of Inspector General  
*Office of Investigation*

AGENT: (b) (7)(C)(b) (7)(C)

DISTRICT/OFFICE:

DATE: February 23, 2009

A. Description of Systemic Deficiency:

During the course of the investigation of allegations of wrongdoing on the part of (b) (7)(C)(b) (7)(C)(b) (7)(C)(b) (7)(C) (b) (7)(C) it was disclosed that (b) (7)(C) assigned truck (wherein the truck, insurance, gas, maintenance, etc. was paid for in total by the (b) (7)(C) as his own. According (b) (7)(C)(b) (7)(C)(b) (7)(C)(b) (7)(C)(b) (7)(C) and (b) (7)(C)(b) (7)(C) who also drove a (b) (7)(C) vehicle, the vehicles were to be for work-home use only. However, (b) (7)(C) assigned truck "everywhere" wherein it was the only vehicle (b) (7)(C) (b) (7)(C) had seen (b) (7)(C) use. (b) (7)(C)

(b) (7)(C)

(b) (7)(C)

(b) (7)(C)

A review of the (b) (7)(C) gasoline credit card receipts reflected that the monthly gas charges attributed (b) (7)(C) were significant, sometime several hundred dollars. It is important to note that it is less than a five mile round trip from (b) (7)(C)(b) (7)(C) to the (b) (7)(C) past all of their properties, and (b) (7)(C)

During the course of the investigation (b) (7)(C) agreed to be interviewed by law enforcement officers and cooperated with the investigation. (b) (7)(C) was specifically questioned about the use of (b) (7)(C) which was to be used for official (b) (7)(C) business and for travel to and from work (b) (7)(C) told law enforcement officers that (b) (7)(C) was told in (b) (7)(C)(b) (7)(C) was allowed to use the truck all the time because (b) (7)(C) was on call all the time. (b) (7)(C) was told that the Board had instructed (b) (7)(C) to stop driving (b) (7)(C) while not on official (b) (7)(C) business. (b) (7)(C) was further told by (b) (7)(C) the HUD rules and regulations were clear on the use of the

assigned [redacted] truck. The [redacted] Board members reported (b) (7)(C) refused to comply with the rules and regulations.

(b) (7)(C) told law enforcement officers that (b) (7)(C) spent on the average \$200.00 per month for gasoline for (b) (7)(C) assigned truck. (b) (7)(C) later stated that when gas prices were higher, (b) (7)(C) would spend between \$300.00 to \$400.00 each month. Law enforcement officers asked (b) (7)(C) thought that was excessive and (b) (7)(C) replied "yes". (b) (7)(C) later admitted during the interview (b) (7)(C) use of the [redacted] assigned truck was wrong.

(b) (7)(C) used (b) (7)(C) assigned truck (b) (7)(C) (b) (7)(C) to various locations while working for [redacted]. This practice of using the assigned [redacted] vehicle was prohibited and (b) (7)(C) acknowledged (b) (7)(C) was wrong.

During the investigation, it was determined the value (b) (7)(C) personal use of the [redacted] assigned truck was not valued on (b) (7)(C) W-2 as a fringe benefit, per IRS guidelines. As such, it appears that (b) (7)(C) received a significant benefit wherein did not pay taxes on the personal use of the [redacted] assigned vehicle.

Although the fringe benefit issue is an IRS one, it is incumbent upon HUD that all government laws, rules, and regulations are followed and enforced. In addition, as stewards of federal tax dollars is it incumbent upon HUD to ensure that these monies and resources are being utilized in the most efficient manor and that is to provide for the community being served – not for self fulfilling purposes as in (b) (7)(C) case.

**B. Suggestions to Correct Deficiency:**

Require any housing authorities, local/state entities, non-profits, or other entities receiving HUD dollars to abide by IRS guidelines regarding taxable fringe benefits, as well as OPM and/or HUD guidelines for Government Owned Equipment and Vehicles. To further ensure that they do so, require these entities to sign documentation that they understand the rules, regulations, and tax implications regarding Government Owned Equipment and Vehicles; and, maintain a copy of such acknowledgement at the Regional HUD Office (or

(b) (5)

**C. Investigative Techniques:**

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