OFFICE OF AUDIT
REGION 4
ATLANTA, GA

EverBank Servicing Lender
Jacksonville, FL

Federal Housing Administration's
Preforeclosure Sale Program

2014-AT-1012

SEPTEMBER 29, 2014

Issue Date: September 29, 2014

Audit Report Number: 2014-AT-1012

TO: Kathleen Zadareky, Deputy Assistant Secretary for Single Family Housing, HU

//signed//

FROM: Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: EverBank Did Not Properly Determine Mortgagor Eligibility for FHA's Preforeclosure Sale Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of EverBank's servicing of mortgagor approval for FHA's Preforeclosure Sale Program.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.

September 29, 2014

EverBank Did Not Properly Determine Mortgagor Eligibility for FHA's Preforeclosure Sale Program

Highlights

Audit Report 2014-AT-1012

What We Audited and Why

We audited EverBank's Preforeclosure Sale Program because it had the highest Florida preforeclosure sale claims of all servicing lenders located in Florida and more than 50 percent of its Florida Federal Housing Administration (FHA) claims were from preforeclosure sales with more than $12.9 million paid from 2011 through 2013. Our objective was to determine whether EverBank properly determined that mortgagors were eligible to participate in FHA's Preforeclosure Sale Program.

What We Recommend

We recommend that the Deputy Assistant Secretary for Single Family Housing require EverBank to (1) reimburse the U.S. Department of Housing and Urban Development (HUD) for the 11 ineligible preforeclosure sale claims totaling $1,567,518 and (2) develop and implement policies and procedures in accordance with HUD requirements to properly determine mortgagor eligibility for the program.

What We Found

EverBank did not properly determine that mortgagors were eligible to participate in FHA's Preforeclosure Sale Program in accordance with HUD requirements. EverBank did not adequately (1) assess the mortgagors' financial information to ensure that it properly determined the mortgagors' default was due to an adverse and unavoidable financial situation, (2) assess the mortgagors' ability to pay the FHA-insured mortgage and (3) substantiate that the mortgagors' need to vacate the FHA-insured property was related to the cause of default. This condition occurred because EverBank's interpretation of the program requirements that it adopted to qualify the mortgagors for the program was not in accordance with HUD requirements. As a result, the FHA insurance fund paid nearly $1.6 million in improper claims for 11 preforeclosure sales, including lender and mortgagors incentives.

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BACKGROUND AND OBJECTIVE

The Federal Housing Administration's (FHA) Preforeclosure Sale Program was introduced as a national program in 1994 and has helped thousands of mortgagors avoid foreclosure and transition to more affordable housing. The program allows mortgagors who cannot make their mortgage payments, resulting from an adverse and unavoidable financial situation, to sell their home at fair market value. The sale proceeds satisfy the mortgage debt even if the proceeds are less than the amount owed. This option is appropriate for mortgagors whose financial situation requires that they sell their home but who cannot do so without FHA relief because the gross recovery on the sale of their property is less than the amount owed on the mortgage. FHA lenders must maintain supporting documentation to demonstrate a comprehensive review of the mortgagor's financial records and that the mortgagor did not have sufficient income to pay the mortgage. A lender may submit an FHA insurance claim and be compensated for the difference between the sale proceeds and the amount owed on the mortgage. In addition, lenders will receive an incentive fee of $1,000 for each transaction completed using this program in accordance with HUD requirements. Mortgagors who successfully sell their property to a third party within the required time may receive a cash consideration of up to $1,000.

Mortgagee Letter 2008-43, issued December 24, 2008, is the main criterion for the program and serves to remind lenders of the relief that the program can bring to mortgagors with FHA-insured mortgages. To facilitate greater use of this program, FHA issued this Mortgagee Letter to consolidate the requirements of the program that have been issued over the years, update and clarify those requirements wherever needed, better address the problems faced by mortgagors today, and provide greater flexibility in considering a mortgagor's candidacy for participation in this program.

EverBank, a HUD-approved Title II supervised lender, is a federally chartered thrift institution with its home office located in Jacksonville, FL. Its direct banking services are offered nationwide. In addition, EverBank operates financial centers in Florida and commercial and consumer lending centers across the United States. Among its lending services, EverBank (1) originates, purchases, services, sells, and securitizes residential real estate mortgage loans and (2) originates consumer and home equity loans. EverBank's Loss Mitigation department is divided into multiple teams based on default solution types and investor and insurer designations. It is in part responsible for performing a compliance review at two intervals: before approval to participate is issued and before preforeclosure sale approval is issued. One such team within the global Loss Mitigation department is the FHA Liquidation team, which is comprised of two groups responsible for administering FHA's Preforeclosure Sale Program.

The HUD Office of Inspector General (OIG) issued internal audits of the program in 2012[1] and 2013[2], which reported that a majority of claims did not meet the criteria for participation in the

[1] Audit Report No. 2012-KC-0004, HUD Preforeclosure Sale Program, issued September 18, 2012.
[2] Audit Report No. 2013-LA-0002, Office of Single Family Housing FHA Preforeclosure Sale Program, issued September 5, 2013.

program, and HUD paid many claims that did not meet the minimum net sale proceeds, respectively.

The objective of the audit was to determine whether EverBank properly determined that mortgagors were eligible to participate in FHA's Preforeclosure Sale Program.

RESULTS OF AUDIT

Finding: EverBank Did Not Properly Determine That 11 Mortgagors Were Eligible for the Preforeclosure Sale Program

EverBank did not properly determine that mortgagors were eligible to participate in FHA's Preforeclosure Sale Program in accordance with HUD requirements. Specifically, EverBank did not adequately (1) assess the mortgagors' financial information to ensure that it properly determined their defaults were due to an adverse and unavoidable financial situation, (2) assess their ability to pay the FHA-insured mortgage, and (3) substantiate that the need to vacate the FHA-insured property was related to the cause of the default. This condition occurred because EverBank's interpretation of the program requirements that it adopted to qualify the mortgagors for the program was not in accordance with HUD requirements. As a result, the FHA paid nearly $1.6 million in improper claims including lender and borrower incentives.

EverBank Submitted Ineligible Claims

EverBank did not properly determine that mortgagors were eligible to participate in the program for 11 of the 17 claim files reviewed totaling nearly $1.6 million (see appendix C). EverBank did not ensure that the mortgagors' default on the FHA-insured mortgages was due to an adverse and unavoidable financial situation. Also, EverBank did not conduct a thorough and independent verification of the mortgagors' income, claimed expenses and personal resources to properly determine if they had the ability to pay their mortgage payments. Lastly, EverBank did not substantiate that mortgagors' need to vacate the FHA-insured property was due to the cause of the default. Regulations at 24 CFR (Code of Federal Regulations) 203.370 provide that HUD will pay FHA insurance benefits to lenders for preforeclosure sales that are conducted in accordance with all regulations and procedures applicable to the Program. This condition occurred because EverBank's interpretation of the program requirements that it adopted to qualify the mortgagors for the program was not in accordance with HUD requirements. EverBank management believed that the processes it adopted to operate the program and qualify the mortgagors were adequate and in accordance with the available guidance. Therefore, EverBank did not ensure that the mortgagors were eligible for the program and submitted 11 ineligible preforeclosure sales claims. See appendix D for case narratives for all 11 ineligible claim files.

Summary of review deficiencies						
			Inadequate financial analysis to support the mortgagor's ability to meet mortgage			
Sample no.	**Claim amount**	**Default not due to adverse and unavoidable financial situation**	**Financial information not obtained or assessed**	**Income not supported or calculated properly**	**Expenses not independently verified**	**Need to vacate the property not substantiated**
#1	$148,304	x			x	x
#2	$276,570	x	x	x	x	
#5	$131,781	x			x	x
#6	$130,213	x			x	x
#7	$126,872	x		x	x	
#10	$143,147	x			x	
#11	$149,330	x			x	
#12	$128,851	x	x	x	x	x
#14	$104,359	x			x	
#15	$112,342	x			x	
#17	$115,749	x			x	
Total ineligible claims	**$1,567,518**	**11**	**2**	**3**	**11**	**4**

Default Not Due to an Adverse and Unavoidable Financial Situation

EverBank did not adequately assess the mortgagors' financial information to ensure that it determined that the mortgagors were in default as a result of an adverse and unavoidable financial situation. Specifically, it did not (1) have documentation to support the mortgagors' hardships caused the default, and (2) adequately assess the mortgagors' personal resources. Mortgagee Letter 2008-43, Section B – Mortgagor Qualification, requires that the mortgagors of the FHA loan be in default as a result of an adverse and unavoidable financial situation.

Unsupported hardship claims – EverBank did not have documentation to support the mortgagors' hardship claims used as a reason for the default for 11 claims. In 6 claims, the mortgagors' hardship letters stated that they were in a default due to a reduction in income. However, EverBank did not have documentation to support an income reduction, or unemployment claims. In other 5 claims, the mortgagors' stated they were in default due to increased expenses, no longer could afford or maintain the property, and wanted to relocate to another state. The claims files did not contain documentation to sufficiently support the hardships claimed by the mortgagors. Therefore, EverBank did not support that the default was due to an adverse and unavoidable financial situation.

Personal resources not adequately assessed – EverBank inappropriately approved mortgagors to participate in the program without adequately reviewing and evaluating the mortgagors' financial information to ensure that they did not have sufficient personal resources to pay their mortgage commitment for four claim files reviewed. Mortgagee Letter 2008-43, Section D – Financial Analysis, provides that the preforeclosure sale option may not be offered to mortgagors who have sufficient personal resources to pay off their mortgage commitment.

In three of the four claims, the mortgagors purchased or acquired another home within 1 to 2 months before defaulting on their FHA-insured mortgages. Thus, the mortgagors had the resources to purchase more than one property. These mortgagors had an address listed on their credit reports or bank statements that differed from the FHA-insured property address. Two of the mortgagors' credit reports showed that they had a second mortgage with the initial payment occurring the month of or 1 month before the mortgagors defaulted on their FHA-insured mortgages.

For sample 6, the mortgagors had a conventional second mortgage of $159,000 with a monthly mortgage payment of $810 that started in September 2011, the same month in which they stopped paying their FHA-insured mortgage. The mortgagors purchased the second property in August 2011 for $199,900 and defaulted on the FHA-insured mortgage in September 2011. EverBank approved the mortgagors for the program in January 2013.

In all three claims, EverBank obtained documentation indicating that the mortgagors purchased or acquired another property. However, EverBank did not question mortgagors' ability to obtain the additional property or require additional explanation from the mortgagors.

In addition, EverBank overstated the mortgagors' overall monthly expenses when it improperly included the second mortgage debt in its financial analysis for the mortgagors, which contributed to the mortgagors' overall net income deficit. When excluding the inappropriate expenses from the financial calculations, two of the mortgagors had a surplus net income, which would not have qualified them financially to participate in the program.

This condition occurred because EverBank did not perform its due diligence and failed to recognize the information from the mortgagors' credit reports or bank statements as a potential issue. It did not prudently evaluate the mortgagors' financial information to ensure that the mortgagors were in default as a result of an adverse and unavoidable financial situation. In addition, it did not ensure that these claims were in accordance with program requirements.

Inadequate Financial Analysis to Support Mortgagor's Ability to Meet the Mortgage Obligation

EverBank did not conduct a thorough and independent financial analysis to properly determine the mortgagors' ability to meet the mortgage obligation. Mortgagee Letter 2008-43, Section D – Financial Analysis, requires that the lender request financial documentation to evaluate the mortgagor's ability to support the mortgage debt and analyze the mortgagor's ability to meet the monthly mortgage obligation.

Mortgagors' financial information not obtained or assessed – EverBank approved the mortgagors for the program before obtaining or adequately assessing the financial information of all mortgagors on the mortgages to determine their ability to pay the mortgage payment for two of the claim files reviewed. In sample 2, there were three mortgagors named on the FHA-insured mortgage. The credit report showed that the second mortgagor was deceased. EverBank only documented the financial information of the first mortgagor. It did not obtain or document that it obtained and assessed the third mortgagor's financial information before approving the mortgagors to participate in the program. In addition, EverBank did not independently verify the first mortgagor's self-employment income of $2,256 and expenses of $1,188. EverBank provided tax returns for the first mortgagor, but the tax returns were not current and did not support the mortgagor's reported income. Therefore, EverBank did not support or obtain adequate financial information to properly analyze and determine the mortgagors' ability to pay the FHA-insured mortgage. This condition occurred because the processes that EverBank adopted to assess mortgagor eligibility were not adequate and in accordance with HUD requirements.

Income not properly calculated or supported – EverBank did not support or properly calculate the mortgagors' income for 3 of the 17 claim files reviewed. The mortgagors' income information provided in the files did not support EverBank's calculated income amounts for the mortgagors. For sample 7, EverBank did not correctly calculate the mortgagors' income, or its income calculations did not agree with the earnings and bank statements in the claim files. EverBank's financial calculations showed that the mortgagors had a deficit net income, but when applying the mortgagors' income amounts that were supported by the earnings or bank statements in the claim files, the result of the calculations showed that the mortgagors had a surplus net income.

EverBank did not have documentation to support its income calculations used to qualify the mortgagors for the program. This condition occurred because EverBank did not have adequate procedures to ensure that mortgagors' income information was properly reviewed and calculated.

Expenses not supported or independently verified – EverBank did not independently verify or have documentation to support the mortgagors' expenses, such as utilities, rents, childcare, and other services, which can be verified by requesting receipts, invoices, or billing statements, for all 17 claim files reviewed[3]. EverBank also did not question or obtain support for large lump-sum expense amounts that were not itemized. Mortgagee Letter 2008-43, Section D – Financial Analysis, states that regardless of how the mortgagor's financial information is obtained, the lender must independently verify the financial information.

For sample 14, EverBank did not independently verify $3,478 of the mortgagor's expenses, including a $1,700 expense for helping her parents. The file did not contain documentation to support the validity of the mortgagor's expenses. For sample 10, EverBank showed a $3,800 lump-sum amount for living expenses in its financial assessment for the mortgagors but did not independently verify or obtain supporting documentation for the expenses. In both claims, EverBank's calculation showed that the mortgagors had a deficit net income, but when excluding the lump-sum unsupported expense amounts, the mortgagors had a surplus net income. This condition occurred because EverBank believed that it satisfied the requirements when it obtained and solely relied upon payroll checks, credit reports, and/or bank statements as program qualification documents since the Mortgagee Letter did not prescribe any specific financial documentation or independent verification requirements.

Without obtaining and adequately assessing the financial information for all the mortgagors and properly calculating and verifying the mortgagors' income and expenses, EverBank did not ensure that it adequately assessed the mortgagors' financial ability to make the FHA-insured mortgage payment and properly determined that the mortgagors were eligible to participate in the program for 11 of the 17 claim files reviewed. Therefore, it did not ensure that the claims were submitted in accordance with program requirements.

[3] Although EverBank did not adequately verify and review the mortgagors' financial information, the documentation for 6 of the 17 claim files reviewed showed that the mortgagors did not have the ability to pay the monthly mortgage and were eligible to participate in the program.

EverBank Did Not Substantiate the Mortgagors' Need To Vacate the FHA-insured Property

EverBank did not adequately establish or demonstrate that the mortgagors' need to vacate the FHA-insured property was related to the cause of default for four of the claim files reviewed. Mortgagee Letter 2008-43, Section B – Mortgagor Qualifications, provides that lenders are authorized to grant reasonable exceptions to nonoccupant mortgagors when it can be demonstrated that the need to vacate was related to the cause of default (for example, job loss, transfer, divorce, death). This condition occurred because EverBank's interpretation of the program requirements that it adopted to determine mortgagor eligibility was not in accordance with HUD requirements.

In sample 6, the mortgagors indicated in their hardship application that they occupied the property. However, the mortgagors' address listed on their credit reports and bank statements was different from the FHA-insured property address. EverBank did not require or document that it required proof of occupancy. In sample 5, the mortgagor indicated that she and her spouse, who was not on the mortgage, vacated the property in part due to health issues. However, the distance between the FHA-insured property and the second property purchased was less than 5 miles. Thus, it appeared there was no connection between the mortgagors' need to vacate the property and their health issues. In sample 1, the mortgagor stated that he was not occupying the property at the time of default due to his hardship claim that he had a new baby, was the only one working, and could not maintain the property. However, the mortgagor purchased another home about 1 month before defaulting on his FHA-insured mortgage.

In all three claims, the mortgagors purchased another property and obtained another mortgage within 1 or 2 months before defaulting on the FHA-insured mortgage. The file did not contain evidence that EverBank recognized these issues or required an explanation from the mortgagors before qualifying them to participate in the program. Thus, the mortgagors' need to vacate the FHA-insured property was not related to the cause of the default.

Conclusion

EverBank did not properly determine that mortgagors were eligible to participate in FHA's Preforeclosure Sale Program in accordance with HUD requirements. The files reviewed did not contain documentation to adequately support the mortgagors' eligibility for 11 of 17 claim files (or 65 percent) reviewed. EverBank did not adequately (1) assess the mortgagors' financial information to ensure that it properly determined the mortgagors' defaults were due to an adverse and unavoidable financial situation, (2) determine the mortgagors' ability to pay the FHA-insured mortgage (3) substantiate that the mortgagors' need to vacate the FHA-insured property was related to the cause of the default before approving the mortgagors for the program. This condition occurred because EverBank's interpretation of the program requirements that it adopted to qualify the mortgagors for the program was not in accordance with HUD requirements. As a result, FHA paid nearly $1.6 million for improper claims, including lender and borrower incentives.

Recommendations

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

1A. Reimburse HUD for the 11 improper claims totaling $1,567,518.

1B. Develop and implement policies and procedures in accordance with HUD requirements to properly determine mortgagor eligibility for the program.

SCOPE AND METHODOLOGY

We performed our review from February through July 2014 at EverBank's offices located at 301 West Bay Street Jacksonville, FL, and the Jacksonville OIG Office of Audit. Our review covered the period October 1, 2011, through September 30, 2013.

To accomplish our objective, we

- Reviewed Federal regulations, HUD handbooks, and mortgagee letters;
- Reviewed applicable EverBank policies and procedures for the Preforeclosure Sale Program;
- Reviewed HUD monitoring and independent public accountant reports;
- Reviewed EverBank's preforeclosure sale claim files; and
- Interviewed HUD and EverBank officials.

During the audit period, HUD processed 153 preforeclosure sale claims totaling more than $12.9 million filed by EverBank for properties located in Florida. We selected and reviewed all 17 claim files with a total claim amount greater than or equal to $100,000 and the percentage of total claim amount to original mortgage amount greater than or equal to 70 percent. The 17 claim files selected totaled more than $2.5 million, or 19 percent of the total preforeclosure sale claims. The results of this audit apply only to the claims reviewed and were not projected to the universe of preforeclosure sale claims.

We reviewed EverBank's preforeclosure sale claim files to evaluate whether EverBank properly determined the mortgagors' eligibility in accordance with Federal requirements. Specifically, we reviewed the files to determine whether EverBank

- Verified that the mortgagors were in default as a result of an adverse and unavoidable financial situation,
- Obtained and assessed the financial information for all mortgagors on the mortgage,
- Adequately assessed the mortgagors' personal resources,
- Properly calculated and supported the mortgagors' income,
- Independently verified or adequately supported the mortgagors' expenses, and
- Properly substantiated the mortgagors' need to vacate the FHA-insured property for nonowner occupants.

We also reviewed the case files to determine whether EverBank verified that

- The mortgagors did not have another FHA-insured mortgage,
- The mortgage was more than 30 days delinquent when the preforeclosure sale closed,
- The mortgage payoff amount exceeded the "as-is" fair market value of the home,
- The home was listed for sale at no less than the appraised "as-is" fair market value,
- The sale generated the minimum net sale proceeds required by the program, and

- The closing fees were appropriate and allowable by the program.

We used information from HUD's Single Family Data Warehouse[4] and Neighborhood Watch[5] databases as background information for our review. Specifically, we used the information to identify preforeclosure sale claims that were processed during the audit period, the claim amounts, and the original mortgage amounts. However, we did not rely on these data for our conclusions or assess the reliability of the computer-processed data. The conclusions were based on additional reviews performed during the audit.

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 finding and conclusion based on our audit objective.

[4] HUD's Single Family Data Warehouse is a system of records that enables HUD/FHA to operate the single family mortgage insurance programs and respond to inquiries regarding insured mortgages.

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

INTERNAL CONTROLS

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

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

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

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Relevant and reliable information – Policies and procedures that management has implemented to establish controls over the relevance and reliability of information.

- Compliance with laws and regulations – Policies and procedures that management has implemented to provide reasonable assurance that program implementation is in accordance with laws, regulations, and provisions of contracts or grant agreements.

We assessed the relevant controls identified above.

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

Significant Deficiency

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

- The policy and procedures that EverBank adopted to qualify the mortgagors for the program were not in accordance with HUD requirements.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/
1A	$1,567,518

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

EverBank

September 15, 2014

VIA ELECTRONIC MAIL AND FEDERAL EXPRESS

Ms. Nikita N. Irons
Regional Inspector General for Audit
U.S. Department of Housing
and Urban Development
Office of the Inspector General
Richard B. Russell Federal Building
75 Sprint Street SW, Room 330
Atlanta, GA 30303

RE: EverBank
HUD OIG Draft Audit Report

Dear Ms. Irons:

EverBank ("EverBank" or "Company") is in receipt of the Draft Audit Report ("Report"), dated September 3, 2014, from the U.S. Department of Housing and Urban Development ("HUD" or "Department") Office of Inspector General ("OIG"). The Report is based on a review of 17 Federal Housing Administration ("FHA") loans with pre-foreclosure sale claims filed during the period October 1, 2011 through September 30, 2013, which was conducted between February and July of 2014.

The Report states that its objective was to determine whether EverBank properly determined that mortgagors were eligible to participate in FHA's pre-foreclosure sale program. The Report contains one finding, alleging that EverBank did not properly determine that 11 mortgagors were eligible for the pre-foreclosure sale program. Based on this finding, the Report recommends that HUD require EverBank to: (1) reimburse the Department for 11 pre-foreclosure sale claims; and (2) develop and implement policies and procedures in accordance with HUD requirements to properly determine mortgagor eligibility for the program.

The OIG provided EverBank with an opportunity to submit written comments for inclusion in the final report. This response summarizes EverBank's history and operations and addresses the individual findings in the Report. We appreciate this opportunity to comment on the Report's findings and recommendations. That said, we understand that final audit reports routinely include auditors' comments about the

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audited mortgagee's written response, but that the Company is not provided an opportunity to respond to these additional comments. Often, these comments include substantive allegations or statements that were not a part of the draft audit report provided to the Company. To the extent that the OIG makes such additional substantive comments in this instance, we respectfully request an opportunity to respond to these additional statements to ensure that a full picture of the audited issues is presented in the final report.

I. BACKGROUND AND ENHANCED CONTROLS

Comment 1

EverBank is a leading nationwide mortgage servicer committed to properly servicing the FHA-insured and conventional loans in its portfolio. With regard to FHA-insured loans, EverBank takes its responsibilities under the FHA program seriously. We are dedicated to working with HUD to provide FHA borrowers with efficient service and, when delinquencies arise, to providing loss mitigation in a timely manner when such options are available. We would never knowingly violate FHA requirements nor endanger the reputation of the Company or its employees. Throughout our existence, we have endeavored to provide dependable and professional service and have repeatedly demonstrated our commitment to borrowers and allegiance to the FHA program. Specifically related to delinquent loans and loss mitigation practices, EverBank's goal is, and has always been, to act in the best interests of our customers within the parameters of HUD's loss mitigation programs and the borrowers' financial conditions.

Comment 1

Earlier this year, in connection with a larger sale of servicing assets to Green Tree Servicing LLC ("Green Tree"), EverBank entered into a subservicing agreement pursuant to which Green Tree now subservices the vast majority of EverBank's FHA-insured loans. To ensure adherence with FHA requirements, the Company engages in active oversight of Green Tree's FHA servicing activities, including routine reviews of policies and procedures and quality control reviews of loan servicing records. To this end, Green Tree has detailed policies and procedures in place designed to ensure compliance with FHA loss mitigation requirements. With respect to the pre-foreclosure sale program, Green Tree's procedures include conducting deficit income tests and obtaining verifications of income and expenses in accordance with Mortgagee Letter 13-23.[1] If applicable, Green Tree's procedures require customers to provide documentation verifying their need to vacate the property, which must be related to the cause of default. Green Tree's policies and procedures also include measures to

[1] Please note that this response pre-dates the effective date of Mortgagee Letter 14-15.

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attempt to identify strategic defaults. Finally, Green Tree's procedures include quality control reviews to test compliance with applicable FHA requirements.

To ensure Green Tree's compliance with these procedures and FHA requirements in connection with the pre-foreclosure sale program, EverBank's Enterprise Vendor Management Office ("EVMO") takes responsibility for the implementation and oversight of the Enterprise Vendor Management Program ("the, Program"). The Program is a risk based framework of governance, processes, and tools that must be followed enterprise-wide by all business units and operating areas within EverBank, to continuously manage vendor risk and performance. The Program requires active involvement by all applicable EverBank control functions (Quality Control, Enterprise Risk Management, Compliance, Legal and Internal Audit) and business units for the execution of the Program objectives and the day-to-day management of EverBank's vendors including, Green Tree. The EVMO reports monthly to Management and quarterly to the Board regarding these activities.

Comment 1

The Program incorporates three levels of vendor oversight, which start with the Company's servicing operations units playing key roles in monitoring the risk imposed by using third-party vendors. These business units are involved in day-to-day interactions with Green Tree to manage quality, risk, and service level performance. EverBank's Operational Governance Office ensures that the Company's management and the Board Oversight and Risk Committees are informed through quarterly reports on EverBank's compliance with these oversight activities, and the Change Management Office formally coordinates the ongoing process of communicating, monitoring and implementing regulatory requirements.

Comment 1

The second line of oversight consists of vendor governance and oversight entities that work together to effectively identify, measure, monitor, and control the risks associated with vendors, both on an individual basis as well as an enterprise level. For example, EverBank's Quality Control department tests and monitors servicing activities and reports on such testing to management. EverBank's Compliance Department works with the Company's Legal Department to identify legal and regulatory requirements and supports the lines of business in implementing these laws and requirements and communicating them to our vendors, such as Green Tree. Enterprise Risk Management identifies key compliance controls, and monitors those controls on a monthly basis through the testing performed by Quality Control. Finally, the Company's Internal Audit department supports EverBank's vendor oversight processes by testing and validating the Program's implementation and effectiveness.

Comment 1

With respect to the relatively small portfolio of FHA-insured loans that are still serviced by EverBank, a new default management team has been in place since May 2014. Under this new management team, EverBank has implemented certain process

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enhancements that support compliance with FHA requirements. For instance, to validate that a mortgagor's default is due to an adverse and unavoidable financial situation, EverBank requires documentation to substantiate hardship claims due to a reduction in income or unemployment. If a mortgagor states that his or her hardship is due to an increase in financial obligations, EverBank reviews the mortgagor's expenses for signs of financial mismanagement or strategic default. EverBank also assesses the mortgagor's bank accounts, paying particular attention to unexplained deposits, withdrawals, or transfers of funds, to ensure that the mortgagor does not have the personal resources to pay off the mortgage. Subject to limited exceptions (e.g., mortgagors who are divorced where the property was court-awarded to a specific party, death of a mortgagor), EverBank assesses the financial information of all mortgagors, regardless of whether they reside in the property.

Comment 1

Regarding the calculation and verification of income, EverBank provides refresher courses to its employees regarding the proper method to calculate income. With respect to living expenses, Everbank compares the mortgagor's claimed expenses to the IRS standards for allowable living expenses. If the mortgagor's stated expenses vary significantly from the IRS standards, EverBank requests substantiating documentation to validate the expenses. EverBank also attempts to have the borrower verbally confirm the itemized expenses. If the FHA-insured property is not owner-occupied, EverBank validates that the mortgagor's need to vacate the property was related to the cause of the default. For all files that are not streamlined, the Company ensures that vacancy letters and variances are obtained.

Comment 1

In addition to such enhancements, EverBank also conducts testing to ensure compliance with FHA requirements. Specifically, all files are reviewed by a second-look Quality Assurance team to ensure that the Company took appropriate measures to evaluate the mortgagor for eligibility for the pre-foreclosure sale program. The Company's Quality Control team reviews the credit report, signed financial statement, pay stubs and other income documentation provided by the borrower to confirm income and expenses, as well to confirm that the surplus/deficit calculation reflects eligibility for the particular loss mitigation option, including the pre-foreclosure sale. Quality Control also reviews the loan's eligibility for the pre-foreclosure sale based on, among other requirements, the level of delinquency, the reason for default, and the occupancy status of the mortgagors. The Quality Control Department also determines whether the Company's system of record accurately reflects this information. Additionally, Enterprise Risk Management monitors key compliance controls through the regular testing performed by Quality Control, and Internal Audit tests and validates the effectiveness of the Company's processes and implementation.

Comment 1

Comment 1

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As a result of these enhancements and changes to our servicing operations, we believe that many, if not all, of the issues raised in the Report have effectively been resolved. With regard to default loan servicing, EverBank is in many ways a different company than at the time it reviewed and approved the loans identified in the Report for the pre-foreclosure sale program.

II. RESPONSE TO THE FINDINGS

The Report contains one finding, alleging that EverBank improperly determined that certain loans were eligible for the pre-foreclosure sale program. Specifically, the Report asserts that, in 11 loans, loan file documentation did not demonstrate that: (1) the mortgagors' defaults were due to adverse and unavoidable financial situations; (2) the mortgagors' ability to pay the FHA-insured mortgage was adequately assessed; and/or (3) the mortgagors' need to vacate the property was related to the cause of default.

EverBank strives to comply with applicable HUD regulations, rules, and requirements, and the Company is committed to accurately processing loss claims made to HUD and to complying with the requirements of HUD's pre-foreclosure sale program. EverBank understands that the pre-foreclosure sale loss mitigation option is not authorized or appropriate for all borrowers. The Company is familiar with the program requirements set forth in HUD's governing regulation, see 24 C.F.R. § 203.370, and guidance to servicers, see Mortgagee Letter 2008-43.[2] EverBank understands that, to be eligible for a pre-foreclosure sale, the borrower must, among other requirements: (1) be an owner-occupant of the property to be sold, except under certain specified circumstances; (2) be 30 days delinquent on the mortgage as a "result of an adverse and unavoidable financial situation"; (3) have a mortgaged property with a current fair market value of less than the amount owed; and (4) be unable to continue paying the loan. See 24 C.F.R. § 203.370(c); Mortgagee Letter 2008-43. EverBank further understands that the Company is obligated to independently verify the borrower's income and expenses as part of this assessment. See id. The Company also appreciates the claim documentation requirements under HUD regulations. For each claim submitted to HUD, EverBank maintains, as required, records "containing

[2] As you know, HUD issued Mortgagee Letters 2013-23 and 2014-15, which contain updated requirements regarding the provision of the pre-foreclosure sale loss mitigation option to FHA borrowers. As Mortgagee Letter 2013-23 did not become effective until October 1, 2013, and Mortgagee Letter 2014-15 will not become effective until October 1, 2014, we focus on the pre-foreclosure sale requirements set forth in Mortgagee Letter 2008-43, which were in effect at the time the 11 pre-foreclosure sale claims cited in the Report were filed.

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documentation supporting all information submitted for claim payment for at least three years after a claim has been paid." See 24 C.F.R. § 203.370(c)(2).

Comment 2

Upon receipt of the draft Report, EverBank conducted a thorough review of the findings and loan files, as well as examined applicable HUD/FHA guidelines and internal Company procedures at the time these loans were approved for the pre-foreclosure sale program, in an effort to provide pertinent information and documentation with this response. Our review indicated that certain of the allegations in the Report are at variance with the facts, do not constitute violations of HUD/FHA requirements, or do not affect the underlying loans' eligibility for a pre-foreclosure sale. Several examples follow. While we recognize that there is always room for improvement, at no time did the Company intentionally disregard HUD guidelines or knowingly misrepresent information to the Department.

A. Sample No. 7 - FHA No. 091-4315827

Comment 3

In Sample No. 7, **FHA Case No. 091-4315827**, the Report asserts that the default was not due to an adverse or unavoidable financial situation. The Report notes that the mortgagor was looking for work in another state because her husband, the co-mortgagor, had to travel for his job, and the family wanted to stay together. Additionally, the Report notes that while the mortgagor stated that she had resigned from her job as a school bus driver to take care of her two disabled sons, the mortgagor provided income documentation showing that she was still working when she and the co-mortgagor applied for the pre-foreclosure sale program. Based on these statements, the Report concludes that the mortgagors were not in default due to an adverse or unavoidable financial situation.

Comment 3

EverBank respectfully disagrees with this conclusion. In this case, the co-mortgagor lost his job in September 2008 **(Exhibit A-1)**. The co-mortgagor was unable to find a new job in Florida, where the subject property was located, and he remained unemployed for approximately one year **(Exhibit A-2)**. At that time, he found work in South Carolina, while his wife and their sons remained in the Florida property **(Exhibit A-3)**. It was during the co-mortgagor's period of unemployment that the mortgage went into default **(Exhibit A-4)**. Around this time, the family also faced increased medical expenses. As noted in the Report, the mortgagor and co-mortgagor had two adult sons with mental disabilities who lived at home. Between March and July 2009, one of these sons was diagnosed with both leukemia and testicular cancer, which necessitated surgery and radiation treatments **(Exhibit A-2)**. Moreover, the mortgagor was required to undergo heart catheterization, and the co-mortgagor was diagnosed with a tumor on his vestibular nerve, which had been causing stroke-like symptoms **(Exhibit A-2)**.

To take care of her disabled sons and relocate to keep the family together, the mortgagor resigned from her job in June of 2011 **(Exhibit A-2)**. While the mortgagor did provide pay stubs from her job as a school bus driver, all of these pay stubs predated the letter in which she indicated that she had resigned **(Exhibit A-5)**. Specifically, the last pay stub was dated June 16, 2011, while the letter from the mortgagor regarding her resignation was dated June 24, 2011 **(Exhibits A-2; A-5)**. Thus, the Company had no reason to question the mortgagor's statement that she had resigned in order to care for and reunite her family.

Comment 3

As demonstrated above, the servicing record clearly documented adverse and unavoidable financial conditions that impacted the borrowers' ability to maintain the FHA-insured loan. For these reasons, we request that this assertion be removed from the final report.

B. Sample No. 10 - FHA No. 093-6033284

Comment 4

Sample No. 10, **FHA No. 093-6033284**, involves a loan that went into default as a result of the dissolution of the borrowers' domestic partnership. In this case, the mortgagor and co-mortgagor noted in their hardship letter that, following their separation, neither the mortgagor nor the co-mortgagor could afford to maintain the mortgage payment on his own **(Exhibit B-1)**. Yet, the Report contains a review of the mortgagor's and co-mortgagor's income and expenses as if the mortgagor and co-mortgagor still resided in the same household. The appropriate question was whether, given the dissolution of the partnership, either the mortgagor or the co-mortgagor could support the mortgage on his own.

Comment 4

Here, the Report indicates that the mortgagor had monthly net income of $2,938. The monthly mortgage payment was $1,561, the mortgagor's monthly auto loan payment was $410, and the mortgagor's required monthly payment on revolving debt was $468 **(Exhibit B-2)**. Thus, after satisfying these documented expenses, the mortgagor would have been left with only $499 to cover all remaining living expenses. With regard to living expenses, the Report suggests that because the mortgagor and co-mortgagor did not itemize their living expenses, all living expenses should have been excluded from the financial analysis. We respectfully disagree. In this case, regardless of the lump-sum amount claimed by the mortgagor and co-mortgagor, calculating each borrower's living expenses in accordance with the IRS Collection Financial Standards still results in a monthly deficit. The IRS Collection Financial Standards assume that one person spends $583 per month on food, clothing, and other items (not including utilities such as electricity, water, cell phone service, cable television, and internet service) **(Exhibit B-3)**. These standards also assume that the operating costs for one car are $244 per month **(Exhibit B-4)** and that individuals under the age of 65, as the mortgagor and co-mortgagor were, spend an additional $60 per month on out-of-pocket

Comment 4

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health care costs **(Exhibit B-5)**. Considering these standardized expenses and the documented expenses referenced above, making the mortgage payment would have resulted in a monthly deficit in excess of $388 for the mortgagor. Clearly, the mortgagor could not afford to maintain the mortgage on his own.

Similarly, the Report indicates that the co-mortgagor had monthly net income of $3,185. The monthly mortgage payment was $1,561, the co-mortgagor's documented monthly auto loan payment was $417, and the co-mortgagor's required monthly payment on revolving debt was $132 **(Exhibit B-6)**. Thus, the co-mortgagor would have been left with only $1,075 per month to cover all remaining living expenses. As noted above, the IRS Collection Financial Standards assume that one person spends $583 per month on food, clothing, and other items (not including utilities); $244 per month on operating costs for one car; and $60 on out-of-pocket health care costs. Moreover, the co-mortgagor's bank statements reflect an average monthly Verizon bill of approximately $134 and an average monthly Progress Energy bill of approximately $95 **(Exhibit B-7)**. As noted above, these utility expenses are not covered by the IRS Collection Financial Standards amounts quoted above. Thus, like the mortgagor, the co-mortgagor could not afford to maintain the mortgage on his own as paying the mortgage would have resulted in a monthly deficit.

Additionally, both the mortgagor and co-mortgagor had vacated the home, a condition for which EverBank received a variance **(Exhibit B-8)**, and the loan had already been referred to foreclosure. Thus, the pre-foreclosure sale option was the most appropriate loss mitigation alternative under the circumstances and resulted in a smaller claim to HUD than if the loan had proceeded to foreclosure.

As demonstrated above, based on the loan file and supporting information, the borrowers qualified for the pre-foreclosure sale, as neither borrower was able to maintain the loan payments as a result of the dissolution of their partnership. For these reasons, Sample 10 should be removed from the final report.

C. Sample No. 11 - FHA No. 093-6629749

In Sample No. 11, **FHA No. 093-6629749**, the Report asserts that the mortgagor was not eligible for the pre-foreclosure sale program because she had recently purchased another home with a sale price of $199,000; however, the Company maintains that it adhered to HUD's pre-foreclosure sale program guidelines when it approved this pre-foreclosure sale transaction.

In preparing its response to the Report, EverBank discovered that, according to local property records, the mortgagor purchased a second property with a sale price of $199,000 on April 8, 2013. At the time the Company was evaluating the mortgagor for

Comment 5

eligibility to participate in the pre-foreclosure sale program, however, the Company was unaware of this purchase transaction and there was nothing in the loan file to suggest that the mortgagor had purchased a second property. Importantly, according to both the mortgagor's hardship form and the appraisal, the FHA-insured property was owner-occupied, and the mortgagor's credit report revealed no new mortgage debt **(Exhibit C-1)**. Additionally, when the mortgagor applied for loss mitigation assistance, she listed her gross income as only $3,367.99 per month and listed only $1,350 in assets **(Exhibit C-1)**. The Report does not cite, nor is EverBank aware of, any HUD guidance requiring servicers to check local property records to determine whether a mortgagor recently acquired an additional property. EverBank satisfied applicable HUD guidelines under Mortgagee Letter 2008-43 by verifying the borrower's income and expenses and determining that she had a monthly deficit.

Comment 5

The Report also notes that the mortgagor's March 2013 bank statement showed two transfers into her checking account in the amounts of $1,000 and $2,000 and suggests that, had the Company sought additional information regarding these transfers, it could have uncovered the existence of the second property. This argument, we believe, relies too heavily on the benefit of hindsight. Given that the mortgage was 20 payments past due at the time the Approval to Participate was issued and the financial analysis showed a substantial monthly deficit, it was reasonable for EverBank to conclude that the two small transfers at issue did not impact the mortgagor's eligibility for the pre-foreclosure sale.

Comment 5

Finally, the Report takes issue with two claimed living expenses, which it asserts were not properly supported by loan file documentation. Even if these amounts were removed entirely, the financial analysis still would have shown a substantial deficit **(Exhibit C-2)**. The mortgagor's husband, the co-mortgagor, had recently passed away, and the household's income had been significantly reduced as a result. The exact dollar values of the mortgagor's utility bills and home insurance expense were immaterial to the mortgagor's eligibility for participation in the program.

Comment 5

For the reasons set forth above, the Company maintains that, based on the information available to it at the time, it properly analyzed the borrower's eligibility for the pre-foreclosure sale and, as a result, the finding with respect to Sample 11 should be removed from the final report.

D. Sample No. 15 - FHA No. 094-5169620

Comment 6

As a final example, in Sample No. 15, **FHA No. 094-5169620**, the Report alleges that the default was not due to an adverse and unavoidable financial situation because the claim file did not contain information to support the mortgagors' claim of a reduction in income. EverBank respectfully disagrees.

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Comment 6

Here, the mortgagors indicated in a hardship letter **(Exhibit D-1)** that their income as public school teachers recently had been reduced by three percent and that opportunities to earn supplemental income, such as by coaching or performing "extended duty," were no longer available. Moreover, as their income decreased, their expenses increased, in large part because the mortgagors had a child in 2008. As a result, the mortgagors indicated that their mortgage payment was no longer affordable. To evaluate the mortgagors for the pre-foreclosure sale program, EverBank assessed their current income and expenses and determined that they had a monthly deficit **(Exhibit D-2)**. The Report does not cite, nor is EverBank aware of, any HUD guidance that would have required EverBank to document the mortgagors' income over time to verify that their income had, in fact, decreased as claimed. Assessing the mortgagors' current financial situation satisfied applicable HUD requirements.

Comment 6

The Report also asserts that EverBank did not have documentation to support three expenses included in the financial analysis: a $500 monthly expense for childcare, a $500 monthly expense for repayment of a loan, and a $560 monthly expense for utilities. EverBank respectfully disagrees. With regard to utilities, the mortgagors' bank statements reflected that the amount of each utility bill varied by month; however, the bank statements in the loan file supported $500 as a reasonable estimate of the mortgagors' monthly utility expenses **(Exhibit D-3)**. In November 2011, for example, the mortgagors paid $199.31 to Verizon Wireless, $92.83 to Deltona Water, $147.62 to Progress Energy, and $133.09 to Bright House, a home telephone, cable, and Internet provider **(Exhibit D-3)**. With regard to repayment of a loan, the loan file included documentation that the mortgagors had made a $500 loan payment via check in both January and February 2012 **(Exhibit D-4)**. Finally, with regard to child care expenses, the mortgagors' bank statements included references to checks that it was reasonable for EverBank to conclude supported the claimed child care expenses. For example, the mortgagors' bank statement from November 2011 indicates that the mortgagors wrote a check for $125 once per week, totaling $500, the amount claimed for child care expenses **(Exhibit D-5)**. Moreover, it appears that the mortgagors may have underestimated certain other monthly expenses. While the financial analysis factored in $500 in monthly expenses for food and toiletries **(Exhibit D-2)**, the IRS Collection Financial Standards assume that a family of three will spend $1,249 per month on food, toiletries, and related items **(Exhibit D-6)**. This further supports the conclusion that the mortgagors truly could not afford to maintain their mortgage.

Comment 6

As the loan file documented the mortgagors' adverse and unavoidable financial situation and as the mortgagors' claimed expenses were reasonable and supported by the documentation in the loan file, this finding should be removed from the final report.

Finally, with regard to the Report, while the audit process is still ongoing at the time the OIG issues its "final" report, the Report and the OIG's recommendations are made public on the OIG website. As a result, a mortgagee's investors and peers are able to access the preliminary recommendations of the OIG before a final assessment as to their merit can be made by the Department. These entities often misinterpret the OIG's recommendations to be final actions by the Department, and also frequently misunderstand the potential reimbursement amount cited to be the actual financial penalty assessed by HUD on the audited FHA mortgagee. Under these circumstances, making these preliminary recommendations public will have a material, adverse effect on the business of the audited FHA mortgagee. If the OIG's goal is to present the reader with a full and accurate disclosure of the audit and its implications to the audited mortgagee, the Report should include the following disclosure on the first page in bold, capitalized lettering:

THE REPORT FINDINGS REFLECT THE VIEWS OF THE OFFICE OF INSPECTOR GENERAL AND DO NOT CONSTITUTE A FINAL DETERMINATION OF THE MATTERS RAISED HEREIN BY THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT. THE FINAL DETERMINATION IN THIS MATTER WILL BE MADE BY THE REPORT'S ADDRESSEES, THE HUD ASSISTANT SECRETARY FOR HOUSING – FEDERAL HOUSING COMMISSIONER AND THE ASSOCIATE GENERAL COUNSEL FOR PROGRAM ENFORCEMENT, WHO WILL ULTIMATELY DECIDE WHETHER TO ACCEPT THE REPORT'S RECOMMENDATIONS IN WHOLE OR IN PART OR REJECT THEM.

III. CONCLUSION

Comment 1

EverBank takes the matters raised in the draft Report seriously. As discussed above, the Company's thorough review of the findings set forth in the Report indicated that certain of the allegations in the Report are at variance with the facts, do not constitute violations of HUD/FHA requirements, or do not affect the underlying loans' eligibility for a pre-foreclosure sale. Moreover, since the loans cited in the Report were approved for the pre-foreclosure sale program, EverBank has entered into a subservicing agreement pursuant to which Green Tree now subservices the vast majority of EverBank's FHA-insured loans subject to the Company's monitoring and oversight. Additionally, with respect to the FHA-insured loans that remain in EverBank's servicing portfolio, the Company has implemented a number of process enhancements to ensure compliance with FHA requirements.

Comment 7

We believe that this response and accompanying exhibits demonstrate that certain allegations in connection with the cited loans are unwarranted. We respectfully request that the OIG revise its final report to fit the facts of this case and remove allegations from the final report in those instances in which EverBank has demonstrated

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its compliance with HUD requirements or has addressed the issues raised through procedural or policy changes.

If you have any additional questions, or if you need additional information, please do not hesitate to contact our Washington counsel, Krista Cooley, at (202) 778-9257.

Thank you for your kind consideration.

Sincerely,

Babacar Ba
Vice President

Enclosures

cc: Krista Cooley, Esq.

OIG Evaluation of Auditee Comments

Comment 1 EverBank stated that it takes its responsibilities under the FHA program seriously. It has entered into a subservicing agreement with Green Tree Servicing to service the majority of its FHA-insured loans. EverBank has implemented a program that included three levels of oversight for Green Tree to ensure compliance with FHA loss mitigation requirements. In addition, the remainder of the loans in EverBank's portfolio included process enhancements that support compliance with FHA requirements.

We did not review EverBank's agreement with Green Tree Servicing or any of the work or changes implemented because of that agreement. However, we acknowledge EverBank's proactive approach to ensuring compliance with HUD loss mitigation regulations as well as its efforts in developing the enhancements and applying changes to its servicing operations to resolve issues raised in the draft audit report. Implementing these report recommendations will assist in ensuring compliance with HUD requirements and ensure the issues in the report have been effectively resolved.

Comment 2 EverBank stated that upon receipt of our draft report, it conducted a thorough review of the findings and loan files. Its review indicated that certain allegations in the report are at variance with the facts and did not constitute violations of HUD requirements.

The information contained in the claim files did not show that the 11 files questioned in the report were in compliance with HUD requirements. The issues identified in the report were provided to, and discussed with EverBank officials throughout the audit. EverBank did not provide additional information during the audit or in response to the draft report to show that the questioned files were in compliance with requirements. As a result, the FHA insurance fund paid nearly $1.6 million in improper claims for 11 preforeclosure sales.

Comment 3 EverBank disagreed with our conclusion that the mortgagors were not in default as a result of an adverse and unavoidable financial situation for sample 7. EverBank stated that the co-mortgagor was unemployed for one year and unable to find a job where the subject property was located. It explained that the mortgagors' medical hardships impacted their ability to maintain the FHA-insured loan. EverBank believed that its servicing record documented adverse and unavoidable financial conditions and requested that the asserted deficiency be removed from the final report.

The mortgagors' earnings statements provided in the claim file showed both mortgagors were employed as of May 2011 when EverBank approved the mortgagors for the program on June 14, 2011. In addition, the income verified in the earnings and bank statements provided in the claim file showed that the mortgagors had sufficient net income ($6,658) to support their FHA monthly mortgage payment ($1,162) and other reported expenses ($ 4,783). We acknowledged the mortgagors' hardship statements that EverBank noted in its response. The mortgagors' hardship letters were dated June 15, 2011, and June 24, 2011, after EverBank approved the mortgagors for the program on June 14, 2011. We did not dispute whether the mortgagors' hardships were valid. However, the claim file did not contain documentation to support that EverBank verified the mortgagors' hardship claims such as reduction of income and increased expenses. EverBank did not have supporting documentation for the mortgagors' expenses that it showed in its financial assessment for the mortgagors. Its reported income for the mortgagors was not supported or properly calculated. Therefore, EverBank's servicing records did not adequately support that it properly reviewed and determined that the mortgagors were in default as a result of an adverse and unavoidable financial situation. As a result, sample 7 should not be revised or removed from the final report.

Comment 4 EverBank disagreed with the report's conclusion regarding sample 10. In EverBank's response, it contended that the appropriate question was whether, given the dissolution of the domestic partnership, either the mortgagor or the co-mortgagor could support the mortgage on his own. In addition, EverBank identified various debt and expenses incurred by the mortgagor and co-mortgagor in its response that, individually, would result in a deficit for the mortgagor and the co-mortgagor. Some of the expenses were considered in its financial analysis and others were derived from the IRS Collection Financial Standards. Therefore, EverBank believed that based on the loan file and supporting information, the mortgagors qualified for the preforeclosure sale and requested that sample 10 be removed from the final report.

EverBank did not assess the ability of one mortgagor to meet the mortgage obligation, but used both the mortgagor's and co-mortgagor's income and expenses in its financial analysis (dated September 6, 2011) when evaluating the mortgagor's and co-mortgagor's eligibility to participate in the preforeclosure sales program.

The expenses from the IRS Standards were not shown in EverBank's financial analysis and there was no mention of the Standards in the claim file provided. Also, when using the expenses identified from the IRS Collection Financial Standards in EverBank's response, the expenses total $2,003 (see below), which is less than the $3,800 shown as the lump sum living expenses in its financial analysis.

Expense	Amount
Mortgagor food, clothing, other items	$ 583
Mortgagor car costs	$ 244
Mortgagor health care costs	$ 60
Co-mortgagor food, clothing, other items	$ 583
Co-mortgagor car costs	$ 244

Co-mortgagor health care costs	$ 60
Co-mortgagor Verizon bill	$ 134
Co-mortgagor Progress Energy bill	$ 95
TOTAL	**$2,003**

We maintain that EverBank did not conduct a thorough and independent financial analysis to support that the mortgagors (1) were in default as a result of an adverse and unavoidable financial situation and (2) did not have the ability to meet their mortgage obligation. Therefore, sample 10 should not be revised or removed from the final report.

Comment 5 EverBank disagreed with the report's conclusion regarding sample 11. It stated that it discovered that the co-mortgagor purchased a second property when preparing its response to the draft audit report. It explained that there was no indication in the loan file to suggest that the co-mortgagor had purchased a second property. EverBank also stated that it was not aware of any HUD guidance requiring servicers to check local property records to determine whether a co-mortgagor recently acquired and additional property. In addition, it contended the deposits and unsupported living expenses are immaterial to the mortgagors' eligibility for the program. EverBank believed that based on the information available at the time, it properly analyzed the mortgagors' eligibility for the preforeclosure sales program and requested that sample 11 be removed from the final report.

HUD regulations require that the mortgagee (servicing lender) request and obtain sufficient financial information and independently verify the information to determine whether the mortgagor had surplus income or other assets that would require repayment of the indebtedness through the use of a repayment plan (Mortgagee Letter 2008-43, Section D - Financial Analysis). EverBank did not follow HUD's requirement to independently verify the co-mortgagor's financial information. The mortgagors' bank statements indicated that the mortgagors' received deposits, other than the co-mortgagor's salary. Based on the information from the bank statements, we researched and identified that the co-mortgagor purchased another property. Thus, the co-mortgagor had other personal resources that afforded her the ability to purchase a second property for $199,000, one week before approval into the program. As a whole, the claim was determined ineligible because EverBank did not support that it adequately assessed the co-mortgagor's financial information to properly determine whether the co-mortgagor had other assets that may have provided her the ability to repay the mortgage debt and therefore, sample 11 should not be revised or removed from the final report.

Comment 6 EverBank disagreed with the report that the default was not due to an adverse and unavoidable financial situation for sample 15. EverBank contended that to evaluate the mortgagors for the preforeclosure sale program, it assessed the mortgagors' current income and expenses and determined that they had a monthly deficit. It further explained that the report did not cite nor was EverBank aware of any HUD guidance that would have required EverBank to document the mortgagors' income over time to verify that their income had, in fact, decreased as claimed. EverBank stated that assessing the mortgagors' current financial situation satisfied applicable HUD requirements. In addition, EverBank disagreed that it did not have supporting documentation for three expenses included in its financial analysis—a $500 child care expense, a monthly $500 loan repayment, and a $560 monthly utilities expense. EverBank stated that bank statements in the loan file supported $500 as a reasonable estimate of the mortgagors' monthly utility expense based on copies of the bank statements showing payments to cell phone, water, electricity, home telephone, cable, and internet providers totaling $572.85 (or $573 rounded). Further, EverBank responded that the loan file included documentation that the mortgagors made a $500 loan payment via check in January and February 2012, and the mortgagors' bank statements included references to checks that it believed supported the claimed child care expenses. EverBank provided the mortgagors' bank statement from November 2011 showing that the mortgagors wrote four checks, one per week, totaling $500, which was the amount claimed for child care expenses. Lastly, EverBank responded that it appeared that the mortgagors may have underestimated other monthly expenses according to the IRS Collection Financial Standards. It stated that this further supports the conclusion that the mortgagors truly could not afford to maintain their mortgage. EverBank believed that the loan file documented the mortgagors' adverse and unavoidable financial situation, and that the mortgagors' claimed expenses were reasonable and supported and requested that this sample 15 be removed from the report.

Mortgage Letter 2008-43, Section B-Mortgagor Qualifications, stipulates that the preforeclosure sales option may be extended to mortgagors who are in default as a result of an adverse and unavoidable financial situation, which may include a <u>verifiable</u> income reduction. EverBank did not confirm the mortgagors' claim of a reduction in income, and thereby did not support that the default was due to an adverse and unavoidable financial situation. Included with its response, EverBank provided a copy of a bank statement showing a $500 payment in January 2012 with a name of the payee handwritten on the page and a copy of a $500 check written to the same name in February 2012. However, there was no evidence of the loan term, reason, balance or that the payments were satisfying a regular recurring monthly debt. There was no other supporting documentation in the case file to support legitimacy of the debt. In addition, the bank statement provided had no indication that the payments were for child care expenses and no other supporting information was provided. The bank statement only showed check numbers, dates, and amounts. Therefore, the child care expense was not verified by independent verification because there were no supporting documents, such as a bill or contract in the case file to support the expense. The expenses from the IRS Standards were not shown in EverBank's financial analysis and there was no mention of the Standards in the claim file provided. If EverBank's response were considered, then the utility expense used in EverBank's financial analysis was overstated because it listed separately the utilities ($560), Internet ($50), and cell phone ($160) expenses, totaling $770. Using the utilities expenses (totaling $573) from the bank statements in EverBank's financial analysis would result in a surplus of $81, instead of a $116 deficit, which would have made the mortgagors ineligible for participation in the preforeclosure sales program.

Based on the above information, EverBank did not support that the default was due to an adverse and unavoidable financial situation or independently verify certain expenses. As a result, sample 15 should not be revised or removed from the final report.

Comment 7 EverBank stated that its review indicated that the deficiencies stated in the report were at variance with the facts and did not affect the loans' eligibility for a preforeclosure sale. EverBank believed that its response and the accompanying exhibits, related to four loans questioned in the report, demonstrate that certain allegations in connection with the cited loans were unwarranted.

We thoroughly reviewed and considered EverBank's comments and the related exhibits for the four claims. The procedural and internal control policy changes that EverBank made will assist in addressing the issues raised in the report. However, EverBank's comments and related exhibits for the four claims did not validate the eligibility of the claims as discussed in comments 3, 4, 5, and 6. The review showed that EverBank did not properly determine and accurately assess the mortgagors' eligibility for the program in accordance with HUD's requirements. As a result, the FHA insurance fund paid nearly $1.6 million in improper claims for 11 preforeclosure sales.

Appendix C

SCHEDULE OF PREFORECLOSURE SALE CLAIMS REVIEWED

Sample no.	Claim amount	Ineligible claim amount
1	$ 148,304	$ 148,304
2	$ 276,570	$ 276,570
3*	$ 193,632	n/a
4*	$ 196,019	n/a
5	$ 131,781	$ 131,781
6	$ 130,213	$ 130,213
7	$ 126,871	$ 126,872
8*	$ 183,931	n/a
9*	$ 129,831	n/a
10	$ 143,147	$ 143,147
11	$ 149,330	$ 149,330
12	$ 128,851	$ 128,851
13*	$ 106,091	n/a
14	$ 104,359	$ 104,359
15	$ 112,342	$ 112,342
16*	$ 128,118	n/a
17	$ 115,749	$ 115,749
Totals	**$2,505,140**	**$1,567,518**

*Although EverBank did not adequately verify and review the mortgagors' financial information, the documentation for 6 of the 17 claim files reviewed showed that the mortgagors did not have the ability to pay the monthly mortgage and were eligible to participate in the program.

Appendix D

CASE NARRATIVES

Sample 1 – Ineligible claim
2nd home purchase date: June 10, 2010
Default date: August 1, 2010
Approval to participate date: July 8, 2011
Settlement date: August 3, 2011

FHA No. 095-0314619
Original mortgage amount: $167,627
Unpaid principal balance: $159,585
Claim amount: $148,304

EverBank did not adequately evaluate and determine the mortgagor's eligibility to participate in the preforeclosure sales program. Specifically, EverBank did not conduct a thorough and independent financial analysis to properly determine that the mortgagor (1) was in default as a result of an adverse and unavoidable financial situation, (2) did not have the ability to meet the mortgage obligation and (3) vacating the property was related to the cause of default as required by Mortgagee Letter 2008-43, Section B (Mortgagor Qualifications) and Section D (Financial Analysis).

Default not due to an adverse and unavoidable financial situation

The mortgagor stated that his hardship was he had a new baby, was the only one working, and could not maintain the property. However, the mortgagor's credit report showed that the mortgagor had a second mortgage of $86,316 with a monthly mortgage payment of $975 beginning July 2010, 1 month before he defaulted on his FHA-insured loan. The mortgagor purchased the second property on June 10, 2010, for $85,000 and defaulted on the FHA mortgage in August 2010. Therefore, the mortgagor had the financial ability to purchase a second home and obtain a second mortgage and was not in default as a result of an adverse and unavoidable financial situation. EverBank approved the mortgagor for the program on July 8, 2011. EverBank did not recognize the information from the credit report as a potential issue and prudently evaluate the mortgagor's financial situation to ensure that the mortgagor complied with program requirements.

Inadequate financial analysis to support the mortgagor's ability to meet mortgage obligations

EverBank did not independently verify $2,200 in expenses, such as $1,000 for food for a household of two adults and one baby and $335 for utilities. In addition, EverBank inappropriately used the $975 second mortgage payment as an expense to qualify the mortgagor for the program. Excluding the $975 mortgage debt from the financial calculation, the mortgagor had a net income surplus of $545 as opposed to a deficit net income of $430 as calculated by EverBank. Mortgagors with surplus income or other assets are required to repay the indebtedness through the use of a repayment plan and are not eligible to participate in the program (Mortgagee Letter 2008-43, Section D, Financial Analysis).

EverBank’s financial analysis		OIG’s review		
		Verified amount	**Unverified or unsupported amount**	**Inappropriate 2nd mortgage amount**
Monthly net income:				
Mortgagor income	$4,089	$4,089		
Monthly expenses:				
FHA-insured mortgage	$1,330	$1,330		
2nd home mortgage	$ 975			$975
Auto loan or transportation	$ 400		$ 400	
Credit cards	$ 14	$ 14		
Homeowner association or condo fees	$ 190		$ 190	
Auto or health insurance	$ 275		$ 275	
Food	$1,000		$1,000	
Utilities	$ 335		$ 335	
Total expenses	**$ 4,519**	**$1,344**	**$2,200**	**$975**
Total income	$4,089	Total verified income		$4,089
Less total expenses	- $4,519	Less verified expenses		- $1,344
		Less unsupported expenses		- $2,200
Net surplus or (deficit)	**$ (430)**	**Net surplus or (deficit)**		**$ 545**

Vacating the property was not related to the cause of default

EverBank did not adequately assess the mortgagor’s information to ensure that the mortgagor’s need to vacate the property was related to the cause of the default. The mortgagor indicated in his uniform mortgagor assistance form that he was not occupying the property because of his hardship. The claim file did not support the mortgagor’s hardship and therefore, did not support that the mortgagor’s need to vacate the property was related to the cause of default. The mortgagor purchased another property and obtained another mortgage within 1 to 2 months before defaulting on the FHA-insured mortgage. Thus, his need to vacate the FHA-insured property was not related to the cause of the default, instead, he chose to purchase another home and walk away from the FHA-insured property.

HUD granted a variance for the nonowner occupant on June 1, 2011, based on the mortgagor’s hardship claim. However, EverBank did not document in the variance that the mortgagor had purchased another home 1 month before he defaulted on his FHA-insured mortgage.

EverBank explained that the mortgagor had purchased the second home with the intention of converting his FHA-insured home to an investment property, but was unable to secure a tenant for the FHA property. There was no documentation from the claim file to support EverBank’s statement of the mortgagor intention or show that the mortgagor listed the FHA-insured property for rent. However, the mortgagor was not eligible for the program if the FHA-insured property was used as a rental within 18 months prior to acceptance into the program (Mortgagee Letter 2008-43, Section B). EverBank also stated that the $975 second mortgage debt was included in the mortgagor’s financial analysis because the mortgagor resided at the second home. Thus, EverBank inappropriately approved the mortgagor to participate in the program knowing that the mortgagor (1) had purchased a second home 2 months before he defaulted on his FHA-insured mortgage (2) vacating the FHA-insured property was not related to the cause of the default and (3) would have had a surplus net income had he not incurred the additional mortgage debt for the second home. Therefore, EverBank did not comply with HUD requirements in qualifying the mortgagor for the program and consequently submitted an improper claim to HUD.

Sample 2 – Ineligible claim
Default date: December 1, 2008
Approval to participate date: May 6, 2011
Settlement date: October 18, 2011

FHA No. 095-0249182
Original mortgage amount: $265,828
Unpaid principal balance: $257,555
Claim amount: $276,570

EverBank did not adequately evaluate and determine the mortgagors' eligibility to participate in the preforeclosure program. Specifically, EverBank did not conduct a thorough and independent financial analysis to support that the mortgagors (1) were in default as a result of an adverse and unavoidable financial situation and (2) did not have the ability to meet their mortgage obligation as required by Mortgagee Letter 2008-43, Section B (Mortgagor Qualifications) and Section D (Financial Analysis).

Default not due to an adverse and unavoidable financial situation

The claim file showed that there were three mortgagors on the FHA-insured mortgage. The first mortgagor claimed that the real estate market crises affected his business and his ability to maintain his mortgage payments. EverBank did not document that it evaluated the mortgagor was experiencing a decrease in business services. The credit report showed the second mortgagor as deceased. EverBank did not document information about the third mortgagor. Thus, EverBank did not support and obtain the hardship claims for all mortgagors to properly determine that the mortgagors were unable to meet their mortgage obligation due to an adverse and unavoidable financial situation.

Inadequate financial analysis to support the mortgagor's ability to meet mortgage obligations

EverBank did not obtain and assess the financial information for all the mortgagors to properly determine their ability to meet the mortgage obligation. EverBank documented the first mortgagor's financial information, but did not obtain and assess the third mortgagor's financial information in its evaluation before approving the mortgagors to participate in the program. EverBank stated that it did not consider the third mortgagor in its financial analysis because the third mortgagor did not reside at the property. Not residing at the property did not release the third mortgagor of his responsibility for the mortgage.

In addition, EverBank did not independently verify the first mortgagor's self-employment income of $2,256 and expenses of $1,188 before approving him to participate in the program. The unsupported expenses included $460 for transportation and $146 for childcare. The claim file did not contain (1) a current tax return to support the first mortgagor's self-employment income and (2) invoices or billing statements to support the expenses.

EverBank's financial analysis		OIG's review	
		Verified amount	**Unverified or unsupported amount**
Monthly net income:			
First Mortgagor	$2,256		$2,256
Second Mortgagor (deceased)	n/a		
Third Mortgagor			
Monthly expenses:			
1st and 2nd mortgage	$2,884	$2,884	
Charge cards	$ 256	$ 266	
Installment	$ 136	$ 136	
Food (toiletries)	$ 300		$ 300
Utilities	$ 500	$318	$ 182
Transportation	$ 460		$ 460
Childcare	$ 146		$ 146
Other	$ 100		$ 100
Total expenses	**$4,782**	**$3,604**	**$1,188**
Total income Less total expenses **Net surplus or (deficit)**	$ 2,256 - $ 4,782 **$(2,526)**	The claim file did not have adequate supporting documentation to determine the mortgagors' monthly financial position since EverBank did not obtain the third mortgagor's financial information or have adequate support for the first mortgagor's income and expenses.	

EverBank did not obtain and adequately assess the financial information for the third mortgagor or independently verify the first mortgagor's self-employment income of $2,256 and expenses of $1,188 to support that it properly calculated the deficit income of $2,526 that it showed for the first mortgagor. Therefore, EverBank did not follow HUD's requirements in determining the mortgagor's eligibility in the program and submitted an improper claim to HUD.

Sample 5 – Ineligible claim

2nd home acquire date: March 30, 2010
Default date: May 1, 2010
Approval to participate date: October 15, 2011
Settlement date: April 26, 2012

FHA No. 093-6099688

Original mortgage amount: $149,458
Unpaid principal balance: $143,777
Claim amount: $131,781

EverBank did not adequately evaluate and determine the mortgagor's eligibility to participate in the preforeclosure sales program. Specifically, EverBank did not conduct a thorough and independent financial analysis to properly determine that the mortgagor (1) was in default as a result of an adverse and unavoidable financial situation, (2) did not have the ability to meet the mortgage obligation and (3) vacating the property was related to the cause of default as required by Mortgagee Letter 2008-43, Section B (Mortgagor Qualifications) and Section D (Financial Analysis).

Default not due to an adverse and unavoidable financial situation

The mortgagor indicated in her hardship letter that she and her spouse (who was not on the mortgage) could no longer afford the property and vacated it due to the reduction of her spouse's income and their health issues. However, EverBank did not provide documents to support that the household experienced an income reduction, or that there were health issues affecting their income. The mortgagor's address listed on her bank statements and credit report was not the FHA-insured property address. It was the address of a property that she and her spouse acquired through a quitclaim deed[6] for the sale price of $90,000 on March 30, 2010, about 1 month before she defaulted on her FHA-insured loan on May 1, 2010. EverBank did not recognize the information from the bank statements as a potential issue. It did not prudently evaluate the mortgagor's financial situation to ensure the mortgagor complied with program requirements and was in default as a result of an adverse and unavoidable financial situation.

Inadequate financial analysis to support the mortgagor's ability to meet the mortgage obligation

EverBank did not verify or document that it verified $3,140 of the mortgagor's expenses, such as $585 for utilities and $300 for cell phones. In addition, EverBank's financial analysis showed that the mortgagor had a rent expense of $760, but it did not independently verify the information or obtain documentation to support the rent payment. EverBank should have followed up on the nature of this expense to adequately evaluate whether or not it made sense for the mortgagor to have a rent expense when she and her spouse acquired the property of their residence.

[6] A quit claim deed is a legal document used to transfer interest in real estate from one person or entity (grantor) to another (grantee).

EverBank's financial analysis		OIG's review	
		Verified amount	**Unverified or unsupported amount**
Monthly net income:			
Mortgagor income	$3,133	$3,133	
Monthly expenses:			
FHA-insured mortgage	$1,285	$1,285	
Rent	$ 760		$ 760
Auto loan	$ 321	$ 321	
Credit cards	$ 177	$ 177	
Auto insurance	$ 250		$ 250
Home maintenance	$ 280		$ 280
Food	$ 545		$ 545
Utilities	$ 585		$ 585
Transportation	$ 420		$ 420
Cell phones	$ 300		$ 300
Total expenses	**$4,923**	**$1,783**	**$3,140**
Total income Less total expenses **Net surplus or (deficit)**	$ 3,133 -$ 4,923 **$(1,790)**	The claim file did not have adequate supporting documentation for the expenses to determine the mortgagor's monthly financial position.	

Vacating the property was not related to the cause of default

EverBank did not adequately assess the mortgagor's information to ensure that the mortgagor's need to vacate the property was related to the cause of the default (Mortgagee Letter 2008-43, Section B – Mortgagor Qualifications). The mortgagor indicated that she and her spouse vacated the property, in part, due to health issues. However, the distance between the FHA-insured property and the second property that the mortgagor and her spouse acquired was less than 5 miles. Thus, it appeared there was no connection between the mortgagors' need to vacate the property and their health issues. There was no evidence in the file that EverBank noted the distance between the two properties or required additional explanation regarding the need to vacate.

HUD granted a variance on March 25, 2011, to allow the mortgagor to be reviewed for the program as a nonowner based on her spouse's illness and their need to move due to the inability to pay. However, EverBank did not document in the file that the mortgagor and her spouse acquired another home, less than 5 miles away, 1 month before she defaulted on her FHA-insured mortgage.

EverBank did not (1) support that the mortgagor was in default due to the income reduction and health issues and that the mortgagor's need to vacate the FHA-insured property was related to the cause of the default (2) question and evaluate the mortgagor's acquired property as a potential asset used to satisfy the FHA-insured mortgage obligation, and (3) independently verify the mortgagor's claimed expenses. Therefore, EverBank did not comply with HUD requirements in qualifying the mortgagor for the program and consequently submitted an improper claim to HUD.

Sample 6 – Ineligible claim
2nd home purchase date: August 10, 2011
Default date: September 1, 2011
Approval to participate date: January 16, 2013
Settlement date: April 25, 2013

FHA No. 093-7034937
Original mortgage amount: $174,952
Unpaid principal balance: $172,393
Claim amount: $130,213

EverBank did not adequately evaluate and determine the mortgagors' eligibility to participate in the preforeclosure sales program. Specifically, EverBank did not conduct a thorough and independent financial analysis to properly determine that the mortgagors (1) were in default as a result of an adverse and unavoidable financial situation, (2) did not have the ability to meet the mortgage obligation and (3) vacating the property was related to the cause of default as required by Mortgagee Letter 2008-43, Section B (Mortgagor Qualifications) and Section D (Financial Analysis).

Default not due to an adverse and unavoidable financial situation

The mortgagors stated that their hardship was due to the loss of year-end bonus income, no pay for 12 weeks of maternity leave, and increased medical expenses. Yet, the mortgagors purchased a second property on August 10, 2011 for $199,900 and one month later defaulted on its FHA-insured mortgage in September 2011. The mortgagors' credit report showed that they had a second mortgage of $159,000 with a monthly mortgage payment of $810 beginning September 2011. Therefore, the mortgagors had the financial ability to purchase a second property and obtain a second mortgage. The purchase of a second property did not support that the default due to an adverse and unavoidable financial situation. EverBank approved the mortgagors for the program on January 16, 2013. It did not recognize the information from the credit report as a potential issue and prudently evaluate the mortgagors' financial information to ensure that they did not have sufficient personal resources to pay their mortgage commitment before approving them for the program. The preforeclosure sale option may not be offered to mortgagors who have sufficient personal resources to pay off their mortgage commitment (Mortgagee Letter 2008-43, Section D, Financial Analysis).

Inadequate financial analysis to support the mortgagor's ability to meet the mortgage obligation

EverBank did not independently verify or have supporting documentation for $2,721 of the mortgagors' expenses, such as $490 for utilities and $465 for miscellaneous expenses. In addition, it used the $810 second mortgage payment as an expense to qualify the mortgagors for the program. Excluding the $810 mortgage debt from the financial calculation, the mortgagors had a net income surplus of $710 as opposed to a deficit net income of $100 as calculated by EverBank. Mortgagors with surplus income or other assets are required to repay the indebtedness through the use of a repayment plan and are not eligible for the program (Mortgagee Letter 2008-43, Section D, Financial Analysis).

EverBank's financial analysis		**OIG's review**		
		Verified amount	**Unverified or unsupported amount**	**Inappropriate 2nd mortgage amount**
Monthly net income:				
Mortgagor	$2,984	$2,984		
Co-mortgagor	$2,749	$2,749		
Total net income	**$5,733**	**$5,733**		
Monthly expenses:				
FHA-insured mortgage	$1,330	$1,330		
2nd home mortgage	$ 810			$ 810
Auto loans	$ 771	$ 771		
Credit cards	$ 201	$ 201		
Auto insurance	$ 215		$ 215	
Food	$ 450		$ 450	
Utilities	$ 490		$ 490	
Transportation	$ 675		$ 675	
Childcare	$ 426		$ 426	
Other (phone, home maintenances, medical)	$ 465		$ 465	
Total expenses	**$ 5,833**	**$2,302**	**$2,721**	**$ 810**
Total income	$ 5,733	Total verified income		$ 5,733
Less total expenses	- $ 5,833	Less verified expenses		- $2,302
		Less unsupported expenses		- $2,721
Net surplus or (deficit)	**$ (100)**	**Net surplus or (deficit)**		**$ 710**

Vacating the property was not related to the cause of the default

The mortgagors indicated in their application that they occupied the property; however, the address on their credit report did not match the FHA-insured property address. The file did not contain evidence that EverBank recognized the issue or required proof of occupancy or an explanation from the mortgagors. The mortgagors purchased another property and obtained another mortgage within a month before defaulting on their FHA-insured mortgage. Thus, their need to vacate the FHA-insured property was not related to the cause of the default.

EverBank did not (1) identify that the mortgagors had a second home that was purchased about a month before defaulting on their FHA-insured mortgage, (2) independently verify $2,721 of the mortgagor's expenses and include only the mortgagor's appropriate expenses to support that it properly calculated the deficit income of $100 it showed for the mortgagors, and (3) ensure that the mortgagors' need to vacate the FHA-insured property was related to the cause of the default. Therefore, EverBank submitted an improper claim to HUD for mortgagors that were not eligible to participate in the program.

Sample 7 – Ineligible claim
Default date: February 1, 2009
Approval to participate date: June 14, 2011
Settlement date: August 29, 2011

FHA No. 091-4315827
Original mortgage amount: $166,815
Unpaid principal balance: $165,116
Claim amount: $126,872

EverBank did not adequately evaluate and determine the mortgagors' eligibility to participate in the preforeclosure sales program. Specifically, EverBank did not conduct a thorough and independent financial analysis to support that the mortgagors (1) were in default as a result of an adverse and unavoidable financial situation and (2) did not have the ability to meet their mortgage obligation as required by Mortgagee Letter 2008-43, Section B (Mortgagor Qualifications) and Section D (Financial Analysis).

Default not due to an adverse or unavoidable financial situation

The mortgagors stated in their hardship letter that they were in the process of looking for jobs in another state because the co-mortgagor had to travel for his job, and the family wanted to stay together. The mortgagor stated that she had resigned from her job as a school bus driver to take care of their two disabled sons and planned to find a job by their new residence. However, the earnings statement showed that the mortgagor was still working at the time EverBank approved the mortgagors for the program. Thus, EverBank did not support that the mortgagors were not default due to an adverse or unavoidable financial situation.

Inadequate financial analysis to support the mortgagor's ability to meet the mortgage obligation

EverBank did not have supporting documentation for $1,104 of the mortgagors' auto loan expenses shown in its financial assessment for the mortgagors. EverBank stated that it was unable to locate the mortgagors' credit reports. It also did not have documentation to support it independently verified $3,327 of the mortgagors' other expenses, such as $630 in medical bills and $600 in miscellaneous expenses. The lender must independently verify the financial information and maintain all evidence to comply with HUD's loss mitigation program requirements (Mortgagee Letter 2008-43, Section D).

In addition, the mortgagors' income information provided in the file did not support EverBank's income calculation. EverBank showed that the mortgagors had a net income of $5,897, but the total amount did not agree with the earnings statements and deposited payment information from the bank statements, which provided a total income amount of $6,658. EverBank's calculation of the mortgagors' financial information showed that the mortgagors had a deficit net income of $48. However, using the income amount of $6,658 that was supported by the documentation in the file and deducting it from the verified expenses of $1,539 and the unverified expenses of $4,431, the result showed the mortgagors had a net income surplus of $688. Mortgagors with surplus income or other assets are required to repay the indebtedness through the use of a repayment plan and are not eligible for the program (Mortgagee Letter 2008-43, Section D, Financial Analysis).

EverBank's financial analysis		**OIG's review**	
		Verified amount	**Unverified or unsupported amount**
Monthly net income:			
Mortgagor	$2,950	$1,763	
Co-mortgagor	$1,800	$3,614	
Supplemental Security Income	$1,147	$1,281	
Total income	**$5,897**	**$6,658**	
Monthly expenses:			
Mortgage	$1,162	$1,162	
Auto loan (1)	$ 672		$ 672
Auto loan (2)	$ 432		$ 432
Medical bills	$ 630		$ 630
Auto insurance	$ 258		$ 258
Utilities	$ 300		$ 300
Telephone	$ 62	$ 79	
Cable TV	$ 190	$ 192	
Cell phone	$ 100	$ 106	
Groceries	$ 600		$ 600
Transportation	$ 500		$ 500
Eating out	$ 200		$ 200
Miscellaneous	$ 600		$ 600
Insurance	$ 239		$ 239
Total expenses	**$ 5,945**	**$1,539**	**$4,431**
Total income	$ 5,897	Total verified income	$ 6,658
Less total expenses	- $ 5,945	Less verified expenses	- $ 1,539
		Less unsupported expenses	- $ 4,431
Net surplus or (deficit)	**$ (48)**	**Net surplus or (deficit)**	**$ 688**

EverBank did not support that it properly analyzed the mortgagors' income and expenses used to qualify the mortgagors for the program. The mortgagors' information in the claim file did not support that the mortgagors were in default as a result of an adverse and unavoidable financial situation. Therefore, EverBank did not follow HUD's requirements for determining the mortgagor' eligibility into the program and submitted an improper claim to HUD.

Sample 10 – Ineligible claim **FHA No. 093-6033284**

Default date: June 1, 2010
Approval to participate date: September 27, 2011
Settlement date: December 16, 2011

Original mortgage amount: $183,207
Unpaid principal balance: $175,224
Claim amount: $143,147

EverBank did not adequately evaluate and determine the mortgagors' eligibility to participate in the preforeclosure program. Specifically, EverBank did not conduct a thorough and independent financial analysis to support that the mortgagors (1) were in default as a result of an adverse and unavoidable financial situation and (2) did not have the ability to meet their mortgage obligation as required by Mortgagee Letter 2008-43, Section B (Mortgagor Qualifications) and Section D (Financial Analysis).

Default not due to an adverse or unavoidable financial situation

The mortgagors' hardship claim was that their expenses increased after they dissolved their domestic partnership. Part of the mortgagors' claimed expenses included a $3,800 lump-sum amount for living expenses. EverBank accepted the lump-sum amount and included it in its financial analysis without identifying and independently verifying the individual expenses that made up the $3,800. The lender must independently verify the financial information and maintain all evidence of compliance with HUD's loss mitigation program requirements (Mortgagee Letter 2008-43, Section D). Therefore, EverBank did not adequately support that the mortgagors' expenses increased or that the default was due to an adverse and unavoidable financial situation.

Inadequate financial analysis to support the mortgagor's ability to meet the mortgage obligations

EverBank's analysis of the mortgagors' financial information showed that the mortgagors had a net deficit income of $642. Without verifying the $3,800 in living expenses, EverBank did not substantiate that the mortgagors' expenses had increased and affected its ability to meet its mortgage obligation. When excluding the $3,800 unsupported expense from the financial calculation, the mortgagor had a net surplus of $3,134. Mortgagors with surplus income or other assets are required to repay the indebtedness through the use of a repayment plan and are not eligible to participate in the program (Mortgagee Letter 2008-43, Section D).

EverBank's financial analysis		OIG's review: Verified amount	OIG's review: Lump-sum unsupported amount
Monthly net income:			
Mortgagor income	$2,938	$2,938	
Co-mortgagor income	$3,185	$3,185	
Total net income	**$6,123**	**$6,123**	
Monthly expenses:			
FHA-insured mortgage	$1,561	$1,561	
Credit cards and installment loans	$ 576	$ 600	
Auto loans - mortgagor	$ 417	$ 417	
Auto loans – co-mortgagor	$ 410	$ 410	
Food, utilities, gas, living expenses combined	$3,800		$3,800
Total expenses	**$6,764**	**$2,988**	**$3,800**

EverBank		OIG's review	
Total income	$6,122	Total verified income	$6,122
Less total expenses	- $6,764	Less verified expenses	- $2,988
Net surplus or (deficit)	**$ (642)**	**Net surplus or (deficit)**	**$3,134**

EverBank did not independently verify or support the expenses used to qualify the mortgagors for the program. The claim file did not have adequate documentation to support the mortgagors' monthly financial position. As a result, EverBank did not follow program requirements for determining the mortgagors' eligibility and submitted an improper claim to HUD.

Sample 11 – Ineligible claim

2nd home purchase date: April 8, 2013
Default date: September 1, 2011
Approval to participate date: April 15, 2013
Settlement date: July 12, 2013

FHA No. 093-6629749

Original mortgage amount: $ 211,196
Unpaid principal balance: $ 203,836
Claim amount: $ 149,330

EverBank did not adequately evaluate and determine the mortgagor's eligibility to participate in the preforeclosure sales program. Specifically, EverBank did not conduct a thorough and independent financial analysis to properly determine that the mortgagor (1) was in default as a result of an adverse and unavoidable financial situation and (2) did not have the ability to meet the mortgage obligation as required by Mortgagee Letter 2008-43, Section B (Mortgagor Qualifications) and Section D (Financial Analysis).

Default not due to an adverse or unavoidable financial situation

The co-mortgagor indicated in her hardship letter that with the mortgagor's (her spouse) passing on December 13, 2012, the household income was reduced by more than half. Based on her financial situation, EverBank approved the co-mortgagor for the program on April 15, 2013. However, the co-mortgagor's bank statement for March 2013 indicated that she had other sources of income, such as two deposits ($2,000 and $1,000) transferred from two accounts into her bank account. EverBank did not identify or show that it was aware of the deposits and inquire into the co-mortgagor's additional personal resources to pay the mortgage. About 1 week before EverBank approved the co-mortgagor for the program, the co-mortgagor obtained another home with a sale price of $199,000 on April 8, 2013. We did not identify financing for the purchased property. Thus, the co-mortgagor had the financial ability to obtain a second home and was not in default as a result of an adverse and unavoidable financial situation.

Inadequate financial analysis to determine the mortgagor's ability to meet the mortgage obligation

EverBank did not independently verify or have supporting documentation for $1,005 of the mortgagors' expenses. For example, the claim file did not contain an invoice for the reported home insurance expense of $126 and supported only $178 of the $409 reported for utilities. The lender must independently verify the financial information and maintain all evidence of compliance with HUD's loss mitigation program requirements (Mortgagee Letter 2008-43, Section D).

EverBank did not adequately review the deposits from the co-mortgagor's bank statement as an indication that she may have had other personal resources that afforded her the ability to purchase another property, although the financial information submitted by the co-mortgagor indicated that she had a deficit net income. EverBank may have identified the additional asset had it independently verified the financial information submitted by the co-mortgagor. Therefore, EverBank did not prudently evaluate the co-mortgagor's financial information to ensure that she did not have sufficient personal resources to pay her mortgage commitment before approving her for the program.

EverBank's financial analysis		**OIG's review**	
		Verified or supported amount	**Unverified or unsupported amount**
Monthly net income:			
Mortgagor (deceased)	n/a	n/a	
Co-mortgagor	$2,344	$2,344	
Monthly expenses:			
FHA-insured mortgage	$1,576	$1,576	
Auto insurance	$ 248	$ 248	
Food	$ 600		$ 600
Utilities	$ 409	$ 231	$ 178
Transportation	$ 400	$ 402	
Life insurance	$ 130	$ 70	$ 60
Cell phone	$ 220	$ 208	$ 12
Cable and Internet	$ 120	$ 121	
Home insurance	$ 126		$ 126
Total expenses	**$ 3,829**	**$ 2,856**	**$ 976**
Total income	$ 2,344	Total verified income	$ 2,344
Less total expenses	- $ 3,829	Less verified expenses	- $ 2,856
		Less unsupported expenses	- $ 976
Net surplus or (deficit)	**$ (1,485)**	**Net surplus or (deficit)**	**$(1,488)**

EverBank did not properly analyze the co-mortgagor's financial information when it failed to identify additional assets held by the co-mortgagor. The co-mortgagor claimed a reduction in income, but was able to purchase another home while applying for the program. As a result, the mortgagor was not eligible for the program and EverBank submitted an improper claim to HUD.

Sample 12 – Ineligible claim
Default date: August 1, 2011
Approval to participate date: June 4, 2012
Settlement date: September 27, 2012

FHA No. 094-5541127
Original mortgage amount: $175,050
Unpaid principal balance: $169,307
Claim amount: $128,851

EverBank did not adequately evaluate and determine the mortgagors' eligibility to participate in the preforeclosure sales program. Specifically, EverBank did not conduct a thorough and independent financial analysis to support that the mortgagors (1) were in default as a result of an adverse and unavoidable financial situations (2) did not have the ability to meet their mortgage obligation, and (3) vacating the property was related to the cause of default as required by Mortgagee Letter 2008-43, Section B (Mortgagor Qualifications) and Section D (Financial Analysis).

Default not due to an adverse and unavoidable financial situation

The co-mortgagor stated that she was unemployed as of September 2011 and was financially supported by her spouse, who was not on the FHA-insured mortgage. EverBank included the co-mortgagor's financial information, which was based on the co-mortgagor's spouse's income, but did not include the financial information of the mortgagor in its financial analysis to qualify the mortgagors for the program. EverBank did not document its reason for not including and assessing the mortgagor's financial information. During our audit, EverBank provided a faxed document in which the mortgagor stated that he was currently unemployed and was working odd jobs. The document was not dated, but had a faxed date of August 29, 2012. In addition, EverBank's financial analysis used to qualify the mortgagors was updated on August 31, 2012, more than 2 months after it approved the mortgagors to participate in the program in June 4, 2012. The claim file did not contain documentation showing that EverBank verified the mortgagors' unemployment claims, assessed the mortgagor's financial information, and verified the co-mortgagor's financial expenses to substantiate that the mortgagors were in default as a result of an adverse and unavoidable financial situation.

EverBank explained that the mortgagor and the co-mortgagor were separated, and the co-mortgagor got married and stayed in the home. Although the mortgagor was not residing at the property, he was responsible for the mortgage. Without documentation showing that EverBank adequately assessed and verified both mortgagors' financial information, EverBank did not properly substantiate the mortgagors' eligibility to participate in the program.

Inadequate financial analysis to support the mortgagor's ability to meet mortgage obligations

EverBank incorrectly determined the co-mortgagor's spouse had a net income of $2,070. The earnings and bank statements supported a total calculated income amount of $3,809 per month, a difference of $1,739. EverBank also did not have or obtain supporting documentation to independently verify $2,445 of the co-mortgagor's expenses, such as $950 for rent and $200 for cell phones. The lender must independently verify the financial information and maintain all evidence of compliance with HUD's loss mitigation program requirements (Mortgagee Letter 2008-43, Section D).

EverBank's financial analysis		OIG's review	
		Verified amount	**Unverified or unsupported amount**
Monthly net income:			
Mortgagor	0		
Co-mortgagor (income from spouse)	$ 2,070	$ 3,809	
Monthly expenses:			
1st and 2nd mortgage	$ 1,391	$ 1,391	
Rent	$ 950		$ 950
Credit cards	$ 15		$ 15
Food	$ 450		$ 450
Utilities	$ 300		$ 300
Transportation	$ 400		$ 400
Cable and Internet	$ 130		$ 130
Cell phones	$ 200		$ 200
Total expenses	**$3,836**	**$ 1,391**	**$2,445**
Total income	$ 2,070	The claim file did not have adequate supporting documentation to determine the mortgagors' monthly financial position since EverBank did not obtain income or unemployment income documentation for either the mortgagor or co-mortgagor or have support for the expenses.	
Less total expenses	- $ 3,836		
Net surplus or (deficit)	**$ (1,766)**		

Vacating the property was not related to the cause of default

The claim file indicated that neither of the two mortgagors occupied the property at time of application for the program. The co-mortgagor stated she vacated the property as of October 2011 to be with her current spouse, who financially supported her because she was unemployed as of September 2011. There was no information in the claim file documenting the mortgagor's reason for vacating the property. EverBank explained that the mortgagor and the co-mortgagor were separated, but did not state when the mortgagor vacated the property. Therefore, EverBank did not adequately assess the mortgagors' information to ensure that the mortgagors' need to vacate the property was related to the cause of the default.

EverBank did not adequately assess the mortgagors' unemployment information to substantiate that the reason for the default was due to an adverse and unavoidable financial situation and support that the mortgagors' need to vacate was related to the default. Also, EverBank did not independently verify the claimed expenses such as rent and transportation. As a result, EverBank did not follow HUD requirements to qualify mortgagors for the program and submitted an improper claim for this preforeclosure sale.

Sample 14 – Ineligible claim	**FHA No. 094-5187886**
Default date: February 1, 2011	Original mortgage amount: $136,010
Approval to participate date: June 3, 2011	Unpaid principal balance: $128,911
Settlement date: September 11, 2011	Claim amount: $104,359

EverBank did not adequately evaluate and determine the mortgagor's eligibility to participate in the preforeclosure sales program. Specifically, EverBank did not conduct a thorough and independent financial analysis to support that the mortgagor (1) was in default as a result of an adverse and unavoidable financial situation and (2) did not have the ability to meet her mortgage obligation as required by Mortgagee Letter 2008-43, Section B (Mortgagor Qualifications) and Section D (Financial Analysis).

Default not due to an adverse and unavoidable financial situation

The mortgagor stated that her financial hardship started in 2008 when she began supporting her deceased brother's four children in addition to her two children, her disabled mother, and her unemployed father. EverBank's financial analysis indicated that the expenses the mortgagor incurred in supporting her parents contributed to her deficit net income. However, the claim file did not contain documentation to support the validity of the mortgagor's expenses. EverBank did not require or document that it verified the mortgagor's additional expenses incurred. Without adequate financial documentation to support the mortgagor's claim of increased expenses, EverBank did not properly determine the mortgagor's default was due to an adverse and unavoidable financial situation.

Inadequate financial analysis to support the mortgagor's ability to meet mortgage obligations

EverBank did not independently verify or have documentation such as invoices to support that it independently verified $3,478 in expenses, including a $1,700 expense for helping her parents and $100 for childcare. Therefore, EverBank did not substantiate that the calculated deficit net income of $1,398 was correct. When excluding the $1,700 unsupported expense from the financial calculation, the mortgagor had a net surplus of $257. Mortgagors with surplus income or other assets are required to repay the indebtedness through the use of a repayment plan and are not eligible to participate in the program (Mortgagee Letter 2008-43, Section D). However, since the file lacked documentation to support the claimed expenses and its true amounts, EverBank did not properly determine the mortgagor's eligibility to participate in the program.

EverBank's financial analysis		OIG's review Verified amount	Unverified or unsupported amount	Lump-sum unsupported amount
Monthly net income:				
Mortgagor income	$3,818	$3,818		
Monthly expenses:				
FHA-insured mortgage	$1,042	$1,042		
Car payments	$ 250	$ 244	$ 6	
Student loan	$ 250	$ 212	$ 38	
Food	$ 800		$ 800	
Utilities	$ 235		$ 235	
Transportation	$ 479		$ 479	
Childcare	$ 100		$ 100	
Auto insurance	$ 140	$ 150		
Cell phone	$ 120		$ 120	
Home phone, Internet, cable	$ 100	$ 135		
Helping parents	$1,700			$1,700
Total expenses	**$5,216**	**$1,783**	**$1,778**	**$1,700**

Total income	$ 3,818	Total verified income	$3,818
Less total expenses	- $ 5,216	Less verified expenses	- $1,783
		Less unsupported expenses	- $1,778
Net surplus or (deficit)	**$(1,398)**	**Net surplus or (deficit)**	**$257**

EverBank did not support that it approved a mortgagor who was in default as a result of an adverse and unavoidable financial situation and was eligible for the program. Also, it did not independently verify the expenses claimed to support that the mortgagor had a net deficit income. As a result, EverBank did not follow HUD requirements to qualify the mortgagor for the program and submitted an improper claim to HUD.

Sample 15 – Ineligible claim
Default date: July 1, 2011
Approval to participate date: November 17, 2011
Settlement date: June 8, 2012

FHA No. 094-5169620
Original mortgage amount: $148,724
Unpaid principal balance: $138,794
Claim amount: $112,342

EverBank did not adequately evaluate and determine the mortgagors' eligibility to participate in the preforeclosure sales program. Specifically, EverBank did not conduct a thorough and independent financial analysis to support that the mortgagors (1) were in default as a result of an adverse and unavoidable financial situation and (2) did not have the ability to meet their mortgage obligation as required by Mortgagee Letter 2008-43, Section B (Mortgagor Qualifications) and Section D (Financial Analysis).

Default not due to an adverse and unavoidable financial situation

The mortgagors stated that their income decreased significantly and they had not received a cost of living increase, were making $6,000 less than the year they purchased the house, took a 3 percent cut in take-home pay, and had a child. They indicated that these changes, along with other things, contributed to their struggle to make their mortgage payment. However, the claim file did not contain information to support the mortgagors' claim of a reduction in income. EverBank did not support that the default was due to an adverse and unavoidable financial situation.

Inadequate financial analysis to support the mortgagor's ability to meet mortgage obligations

EverBank did not independently verify or have documentation such as invoices to support that it verified $2,560 in expenses and debts, such as $500 for childcare, $500 for a loan repayment, and $560 for utilities. Without independently verifying the expenses to accurately determine the mortgagors' ability to meet their mortgage obligation, EverBank did not follow with program requirements to qualify the mortgagors for the program. The lender must independently verify the financial information and maintain all evidence of compliance with HUD's loss mitigation program requirements (Mortgagee Letter 2008-43, Section D).

EverBank's financial analysis		OIG's review	
		Verified amount	Unverified or unsupported amount
Monthly net income:			
Mortgagor income	$2,322	$2,286	
Co-mortgagor income	$2,322	$2,322	
Total net income	**$4,644**	**$4,608**	
Monthly expenses:			
FHA-insured mortgage	$1,165	$1,165	
Credit cards	$ 405	$ 405	
Student loans	$ 131	$ 131	
Repayment of loan	$ 500		$ 500
Food and toiletries	$ 500		$ 500
Utilities	$ 560		$ 560
Transportation and insurance	$ 700		$ 700
Childcare	$ 500		$ 500
Medicine	$ 30		$ 30
Internet	$ 50		$ 50
Cell phone	$ 160		$ 160
House maintenance	$ 60		$ 60
Total expenses	**$4,761**	**$1,701**	**$3,060**
Total income Less total expenses **Net surplus or (deficit)**	$ 4,644 - $ 4,761 **$ (117)**	The claim file did not have adequate supporting documentation for expenses to determine the mortgagors' monthly financial position.	

EverBank did not properly analyze the mortgagors' financial information to support the expense amounts used to qualify the mortgagors for the program and that the mortgagors were in default as a result of an adverse and unavoidable financial situation. Therefore, EverBank did not follow requirements to qualify the mortgagors for the program and submitted an improper claim to HUD.

Sample 17 – Ineligible claim

Default date: July 1, 2011
Approval to participate date: January 28, 2013
Settlement date: May 3, 2013

FHA No. 094-5230354

Original mortgage amount: $162,450
Unpaid principal balance: $153,715
Claim amount: $115,749

EverBank did not adequately evaluate and determine the mortgagors' eligibility to participate in the preforeclosure sales program. Specifically, EverBank did not conduct a thorough and independent financial analysis to support that the mortgagors (1) were in default as a result of an adverse and unavoidable financial situation and (2) did not have the ability to meet their mortgage obligation as required by Mortgagee Letter 2008-43, Section B (Mortgagor Qualifications) and Section D (Financial Analysis).

Default due to an adverse and unavoidable financial situation

The mortgagors stated that their hardship was due to a reduction in income and an increase in expenses. However, EverBank did not document the mortgagor's claimed reduction in income and increases in expenses as an adverse and unavoidable financial situation that caused them to default. Without adequate financial documentation to support the mortgagors' expenses, EverBank did not substantiate the mortgagors' eligibility to participate in the program.

Inadequate financial analysis to support the mortgagor's ability to meet mortgage obligations

EverBank did not independently verify or have documentation such as invoices to support that it independently verified $2,756 in expenses, such as $700 for transportation and $260 for cell phones. Without independently verifying the expenses to accurately determine the mortgagors' ability to meet their mortgage obligation, EverBank did not follow with program requirements to qualify the mortgagors for the program. The lender must independently verify the financial information and maintain all evidence of compliance with HUD's loss mitigation program requirements (Mortgagee Letter 2008-43, Section D).

EverBank's financial analysis		OIG's review	
		Verified amount	Unverified or unsupported amount
Monthly net income:			
Mortgagor income	$2,331	$2,331	
Co-mortgagor income	$2,504	$2,504	
Total net income	**$4,835**	**$4,835**	
Monthly expenses:			
FHA-insured mortgage	$1,305	$1,305	
Auto loans	$ 709	$ 709	
Credit cards	$ 55	$ 133	
Dues and uniforms	$ 212		$ 212
Student loans	$ 98	$ 98	
Food	$ 600		$ 600
Utilities	$ 264		$ 264
Transportation	$ 700		$ 700
Auto insurance	$ 200		$ 200
Pet expenses	$ 100		$ 100
Home maintenance	$ 300		$ 300
Cell phone	$ 260		$ 260
Cable, Internet, and home phone	$ 120		$ 120
Total expenses	**$ 4,923**	**$ 2,245**	**$ 2,756**
Total income Less total expenses **Net surplus or (deficit)**	$ 4,835 - $ 4,923 **$ (88)**	The claim file did not have adequate supporting documentation for expenses to determine the mortgagors' monthly financial position.	

EverBank did not properly analyze the mortgagors' financial information to support the expense amounts used to qualify the mortgagors for the program and that the mortgagors were in default as a result of an adverse and unavoidable financial situation. Therefore, EverBank did not follow HUD requirements for approving the mortgagors into the program and submitted an improper claim to HUD.