



**Wyoming Community Development Authority,  
Casper, WY**

**HUD's Loss Mitigation Program for  
FHA-Insured Mortgages**



U.S. DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT  
OFFICE OF INSPECTOR GENERAL

Issue Date: January 22, 2014

Audit Report Number: 2014-DE-1001

TO: Charles S. Coulter, Deputy Assistant Secretary for Single Family Housing, HU

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

SUBJECT: The Wyoming Community Development Authority Properly Administered  
HUD's Loss Mitigation 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 the Wyoming Community Development Authority's administration of HUD's Loss Mitigation Program for FHA-insured mortgages.

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 913-551-5870.



January 22, 2014

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## The Wyoming Community Development Authority Properly Administered HUD's Loss Mitigation Program

# Highlights

Audit Report 2014-DE-1001

### What We Audited and Why

We reviewed the administration of the U.S. Department of Housing and Urban Development's (HUD) Loss Mitigation Program at the Wyoming Community Development Authority, located in Casper, WY. Our objective was to determine whether the Authority properly administered HUD's Loss Mitigation Program for Federal Housing Administration (FHA)-insured mortgages. We selected the Authority based on its high rate of foreclosure claims. Its foreclosure rate was more than four times the national average.

### What We Recommend

This report contains no recommendations; therefore, no further action is necessary with respect to this report.

### What We Found

The Authority properly administered HUD's Loss Mitigation Program for the FHA loans reviewed.

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## **BACKGROUND AND OBJECTIVE**

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The Wyoming Community Development Authority is an approved Federal Housing Administration (FHA) loan servicer in Casper, WY. The Authority services more than 13,000 mortgage loans of which approximately a fourth are currently FHA loans. A State statute created the Authority in 1975 to finance affordable housing. The Authority's largest housing program is the Single Family Mortgage Purchase Program for first-time home buyers. To fund this program, the Authority raises capital by selling tax-exempt mortgage revenue bonds to investors.

FHA provides mortgage insurance on loans made by FHA-approved lenders. This insurance provides lenders with protection against losses as the result of homeowners' defaulting on their mortgage loans. The lenders bear less risk because FHA will pay a claim to the lender in the event of a homeowner's default. Loans must meet certain requirements established by FHA to qualify for insurance.

The U.S. Department of Housing and Urban Development (HUD) established the Loss Mitigation Program in 1996 to ensure that distressed FHA-insured borrowers would have opportunities to keep their homes and reduce losses to FHA's insurance fund. Loan servicers must offer loss mitigation options to borrowers in distress based on the borrower's financial circumstances. The Program consists of reinstatement options to promote retention of borrowers' homes and disposition options which assist in disposing of their homes.

The reinstatement options are special forbearance, partial claim, loan modification, and the Home Affordable Modification Program. A special forbearance is a written repayment agreement between a loan servicer and borrower, containing a plan to reinstate a delinquent loan. A partial claim consists of an interest-free loan to the borrower in the amount needed to reinstate the mortgage, thereby becoming a subordinate mortgage payable to HUD. On February 3, 2010, the Authority obtained permission from HUD to exclude the loan modification and the Home Affordable Modification Program from its available options to borrowers.

The disposition options are preforeclosure sale and deed in lieu of foreclosure. The preforeclosure sale option allows the defaulted borrower to sell his or her home and use the sales proceeds to satisfy the mortgage debt even if the proceeds are less than the amount owed. A deed in lieu of foreclosure allows a borrower to hand over his or her home to HUD in exchange for a release from all mortgage obligations.

Our objective was to determine whether the Authority properly administered HUD's Loss Mitigation Program for FHA-insured mortgages.

## RESULTS OF AUDIT

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### The Authority Properly Administered HUD's Loss Mitigation Program

The Authority properly administered HUD's Loss Mitigation Program for the 20 FHA loans reviewed.

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#### The Authority Properly Administered the Program

The Authority properly approved and rejected borrowers from HUD's Loss Mitigation Program. We selected and reviewed a sample of three FHA loans the Authority approved for each of the four loss mitigation options it used during our audit period and a sample of eight FHA loans it rejected for loss mitigation. The loss mitigation options used by the Authority included special forbearance, partial claim, preforeclosure sale, and deed in lieu of foreclosure. We reviewed the Authority's loan files to determine whether it properly approved or rejected the borrowers for each loss mitigation type. All 20 borrowers appeared to have been properly eligible or ineligible for the Program. We did note minor instances of noncompliance with HUD's loss mitigation requirements; however, these minor deficiencies did not directly affect the eligibility of the participants.

#### Recommendations

This report contains no recommendations, and no further action is necessary with respect to this report.

## SCOPE AND METHODOLOGY

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We performed our onsite audit work at the Authority’s office located at 155 North Beech Street, Casper, WY, between May and September 2013. The audit covered the period April 1, 2011 through March 31, 2013.

To accomplish our objective, we

- Interviewed Authority and HUD staff;
- Reviewed Federal regulations, HUD handbooks, and mortgagee letters;
- Evaluated the Authority’s policies and procedures; and
- Reviewed the Authority’s loan servicing case files.

Additionally, we used HUD’s data maintained in its Single Family Data Warehouse database to identify the Authority’s FHA loans. However, we did not rely on these data for our conclusions. All conclusions were based on additional review performed during the audit. The Single Family Data Warehouse includes a collection of database tables allowing users to access Single Family Housing data on properties and associated loans, insurance, claims, defaults, and demographics.

During the audit period, the Authority had 76 FHA loans that underwent loss mitigation, resulting in claims totaling more than \$6.8 million. We selected a sample of three FHA loans the Authority approved for each loss mitigation type it used. These 12 selected loans had more than \$1.2 million in resulting claims. The sample consisted of all three of the partial claims and deeds in lieu of foreclosure approved. We also selected the three special forbearance and preforeclosure sales that had the fewest days from the loan closing to the first default as the fewer the days from the loan closing, the more risk is involved since these loans may have the highest unpaid balance due. We reviewed these loan files to determine whether the Authority properly approved the loan for each loss mitigation type.

The Authority's FHA loans that underwent loss mitigation during the audit period				
Loss mitigation type	Total loans	Total claims	Selected loans	Total claims for selected loans
Special forbearance	29	\$3,853,910.55	3	\$397,277.34
Partial claim	3	\$188,186.66	3	\$188,186.66
Preforeclosure sale	41	\$2,286,672.06	3	\$130,162.97
Deed in lieu of foreclosure	3	\$514,161.19	3	\$514,161.19
<b>Totals</b>	<b>76</b>	<b>\$6,842,930.46</b>	<b>12</b>	<b>\$1,229,788.16</b>

The Authority had 44 FHA loans that went into foreclosure during the audit period totaling more than \$6.5 million that were ineligible for loss mitigation. We selected the eight loans with the fewest days from loan closing to the first default, which resulted in more than \$1.2 million in claims. We reviewed these loan files to determine whether the Authority properly rejected the loan from each loss mitigation type.

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

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

We determined that the following internal control was relevant to our audit objective:

- Policies and procedures to ensure that eligible borrowers are accepted and ineligible borrowers are rejected under HUD's Loss Mitigation Program for FHA-insured mortgages.

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 Deficiencies

We evaluated internal controls related to the audit objectives in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal controls.

## **Separate Communication of Minor Deficiencies**

We reported minor deficiencies to the auditee in a separate management memorandum.

## **APPENDIX A**

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### **AUDITEE COMMENTS**

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The Authority chose not to provide written comments for this audit report.