



Office of Housing Washington, DC

Single-Family Note Sales Program



To: Susan Betts, Acting Deputy Assistant Secretary for Finance and Budget, Office of Housing, HW

//signed//

From: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

Subject: HUD Generally Ensured That Purchasers Followed the Requirements Outlined in the Conveyance, Assumption, and Assignment Contracts, but Improvements Are Needed

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 single-family note sales 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 website. 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.



Audit Report Number: 2017-KC-0010
Date: September 29, 2017

HUD Generally Ensured That Purchasers Followed the Requirements Outlined in the Conveyance, Assumption, and Assignment Contracts, but Improvements Are Needed

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) rulemaking process for its single-family note sales program. This is the second in a series of audits on the note sales program. The previous audit, 2017-KC-0006, reported that HUD did not conduct rulemaking or develop formal procedures for its single-family note sales program. This audit examines a different aspect of the program. Our audit objective was to determine whether HUD ensured that purchasers complied with their purchase agreement requirements.

What We Found

HUD generally ensured that purchasers followed the requirements outlined in the conveyance, assumption, and assignment contracts (purchase agreements). However, the requirements in the purchase agreements need improvement. This condition occurred because HUD lacked formalized rules for its note sales program. If a purchaser chose not to comply with its purchase agreement, HUD lacked assurance that the purchaser would offer homeowners foreclosure avoidance, loan modification options, and other program requirements.

What We Recommend

We recommend that the Acting Deputy Assistant Secretary of Finance and Budget update the terms in the purchase agreement to ensure that the agreement defines "extenuating circumstance" in reference to foreclosure avoidance, establish how long stabilization outcomes may continue to be reported as "planned," and establish financial or other penalties to hold purchasers accountable in instances of nonreporting and noncompliance.

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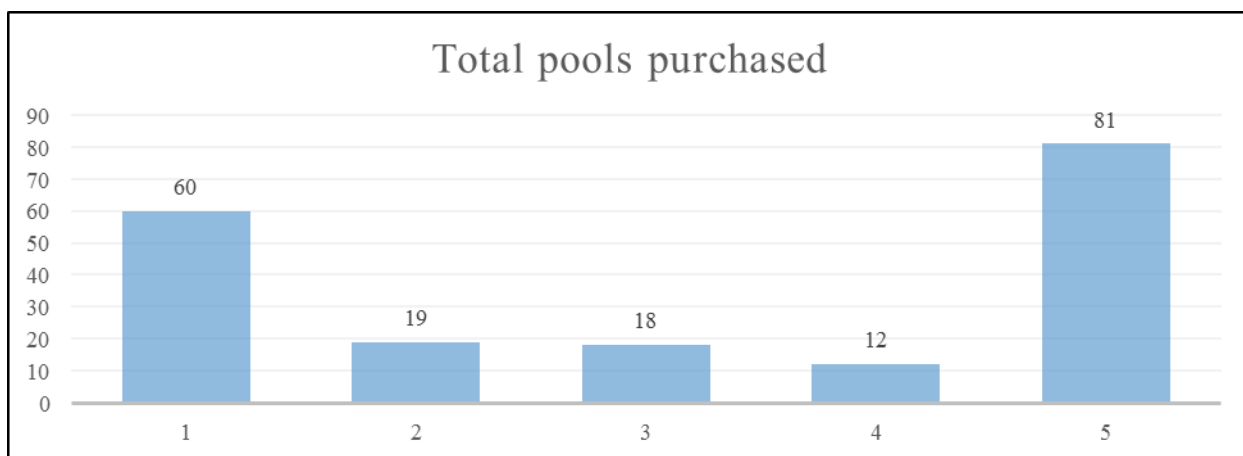
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Background and Objective

The U.S. Department of Housing and Urban Development’s (HUD) Office of Housing conducts single-family mortgage note sales under section 204(g) of the National Housing Act. The Office of Housing administers the note sales through its finance and budget office. The sales structure consists of whole loan, competitive auctions, offering for purchase defaulted single-family mortgages provided by Federal Housing Administration (FHA)-approved loan servicers. The notes are sold with minimal postsale restrictions or reporting requirements.

HUD generally separates the Distressed Asset Stabilization Program (DASP) notes into two types of pools: the national or regional pools and the neighborhood stabilization outcome (NSO) pools. The NSO pools have enhanced reporting requirements that purchasers meet specific stabilization outcomes for 50 percent or more of the properties in the NSO pool. Purchasers of both national and NSO pools are required to agree to terms in a conveyance, assignment, and assumption contract (purchase agreement). These terms include avoiding finalizing foreclosure actions for a period of 6 or 12 months, providing loan modification options, and reporting outcomes to HUD.

Since the first DASP note sale in 2012-2013, there have been 27 different purchasers, acquiring 190 pooled sales, totaling 108,616 distressed home loans. The following chart shows 190 pooled note sales. Of the total number of sales, four companies purchased more than half of all pools, with one investor purchasing nearly one-third of all pooled sales. Columns 1 through 4 below represent individual companies. Column 5 represents all other investors.



For our audit we reviewed 88 loans purchased by 23 separate purchasers. We found that many of the homes were vacant, foreclosed on or near final foreclosure, or a combination of both. The following statistics show some of the outcomes for the 88 properties:

- 23 properties were vacant at the time of sale,

- 39 properties had already been foreclosed on or had a foreclosure sale scheduled, and
- 23 properties still had the original homeowner

The property shown to the right is in Newark, DE, and sold during DASP sale 2015-1, pool 101. The investment purchaser conducted a foreclosure after the purchase because the property was vacant at the time of the note sale.

Our audit objective was to determine whether HUD ensured that purchasers complied with their purchase agreement requirements.



Results of Audit

Finding: HUD Generally Ensured That Purchasers Followed Their Purchase Agreements but Improvements are Needed

HUD generally ensured that purchasers followed the requirements outlined in the purchase agreements. However, the requirements in the purchase agreements need improvement. This condition occurred because HUD lacked formalized rules for its note sales program. If a purchaser chose not to comply with its purchase agreement, HUD lacked assurance that the purchaser would offer homeowners foreclosure avoidance, loan modification options, and other program requirements.

HUD Generally Ensured That Purchasers Followed the Requirements

HUD generally ensured that purchasers followed the requirements outlined in the note sale purchase agreements. It monitored the purchasers' self-certification of avoiding finalizing foreclosure for the required period of time, loan modification, quarterly reporting, and whether the purchasers obtained neighborhood stabilization outcomes. We reviewed a statistical sample of the 108,616 distressed notes sold through DASP. Our sample included 88 loans among all of the pooled sales. We found that the purchasers generally followed the terms of the purchase agreements.

Purchase Agreements Contain Terms That Purchasers Must Meet

The purchase agreements contain the requirements purchasers must certify to and comply with after purchasing either an NSO or national distressed note pool. All purchase agreements require the purchaser to avoid finalizing any foreclosure action for a specific timeframe and provide quarterly property status reports. Newer pooled sales require a purchaser to offer loan modification options to the homeowner. Purchase agreements for NSO pools have additional requirements for purchasers to meet neighborhood stabilization outcomes. Appendixes C and D include examples of the purchase agreement terms.

Avoiding Foreclosure Actions

Of the 88 loans reviewed, 70 required 6 months of avoiding finalizing foreclosure actions, and 18 required 1 year of avoiding finalizing foreclosure actions. According to our search of county property records and purchaser records, the purchaser for all 88 properties avoided finalizing any foreclosure actions for the required timeframes, or the purchaser self-reported an extenuating circumstance that was allowed by the contract.

Loan Modification

Starting with DASP note sale 2015-1, HUD added a requirement for purchasers to offer homeowners loan modification options. Of the 88 loans, there were 18 properties, held by 5 purchasers that required compliance with the loan modification provision. All five

purchasers reported to HUD that they offered the homeowners a loan modification option.

Quarterly Reporting Requirements

The purchasers were required to report quarterly on the property status for all 88 loans reviewed. All purchasers initially provided quarterly property status reports to HUD. As of January 1, 2017, three purchasers had stopped providing quarterly reports to HUD. However, the purchase agreements lacked consequences for not reporting.

NSO Requirements

In our sample, 20 of the 88 loans were part of an NSO pooled note sale. HUD's NSO purchase agreements require that the purchaser not exceed 50 percent non-NSOs within the 4-year monitoring period. HUD considered purchasers to be compliant with the agreement as long as they reported an outcome of "planned" or "final" on 50 percent or more of their pooled NSO properties. Of the 20 loans reviewed, 1 loan was reported as planned; six were reported as final; eight were awaiting a determination by the purchaser as to whether to pursue a stabilization outcome and if so, which outcome; and five were reported as "Servicing outcome is not a qualified NSO." We could not determine each purchaser's overall compliance with the 50 percent requirement because we did not review 100 percent of the notes in each NSO pool.

Purchase Agreement Requirements Needed Improvement

Although the purchasers generally complied with the purchase agreements, we believe HUD should strengthen the wording in the purchase agreements to better define purchasers' post-sale requirements. There were weaknesses in the purchase agreement requirements for avoiding finalizing foreclosure actions, stabilization outcome reporting, and penalties for noncompliance with the purchase agreements.

Avoiding Foreclosure Actions

From 2012 to 2015, HUD required purchasers to avoid finalizing foreclosure actions on properties for the first 6 months. That timeframe was extended through program enhancements in 2015 to 1 year. The purchase agreement requires the purchaser to certify to the following statement:

Part II: For each Mortgage Loan that was foreclosed within six months of the applicable Settlement Date, report below on the reason for the foreclosure. Indicate if the loan was either: a) not owner occupied, or b) provide a summary explanation of the extenuating circumstance for the foreclosure action. Note that this requirement is only applicable to the first two reporting period.

However, the purchase agreement provided no clear explanation of what a purchaser may consider to be an extenuating circumstance and does not require them to provide support for the extenuating circumstance when it forecloses within the avoidance timeframe.

Stabilization Outcomes

The purchase agreement for NSO pooled note sales allows the purchasers to report a status of final or planned. However, there is no clear definition in the purchase agreement of the length of time a purchaser may continue to report a stabilization outcome as planned. Purchase agreements for NSO pooled properties contain financial penalties for not meeting stabilization outcomes. However, it is unlikely a purchaser would not meet the requirements of the agreement since HUD considers a planned outcome as meeting the terms of the agreement. See appendix D for the complete stabilization outcome chart included in the purchase agreements.

Nonreporting and Noncompliance

The purchase agreements require purchasers to submit for 4 years from the settlement date quarterly reports on the status of all purchased properties to show compliance with the terms of the purchase agreement. However, the purchase agreements reviewed in our audit period lacked penalties for purchasers that did not submit the quarterly reports or did not comply with the agreements. HUD had since added language to the purchase agreements giving HUD the discretion to not consider a purchaser for future sales if that purchaser failed to report its compliance with the purchase agreement. However, while this change could potentially prevent future issues, it did not hold current purchasers responsible for failure to comply with the current agreement.

HUD Lacked Formalized Rules

HUD lacked formalized rules for its note sales program. In our July 14, 2017, audit report, entitled HUD Did Not Conduct Rulemaking or Develop Formal Procedures for Its Single-Family Note Sales Program (2017-KC-0006), we found that HUD did not conduct rulemaking or develop formal procedures for its single-family note sales program. With a lack of rules and formalized procedures, HUD did not develop terms that would hold purchasers accountable for noncompliance with purchase agreements.

Conclusion

If a purchaser chose not to comply with its purchase agreement, HUD lacked assurance that the purchaser would offer homeowners foreclosure avoidance, loan modification options, and other program requirements. While in our previous report we recommended that HUD complete the rulemaking process and develop formal procedures and guidance, we believe HUD should strengthen the terms of its purchase agreements to hold purchasers more accountable to comply with their purchase agreements.

Recommendations:

We recommend that the Acting Deputy Assistant Secretary of Finance and Budget

- 1A. Update the terms in the purchase agreement to ensure that the agreements define “extenuating circumstance” in reference to foreclosure avoidance, establish how long stabilization outcomes can continue to be reported as planned, and establish financial or other penalties to hold purchasers accountable in instances of nonreporting and noncompliance.

Scope and Methodology

Our audit work covered DASP records from 2010 to 2016. We performed our work from March to July 2017 at HUD headquarters located in Washington, DC.

To accomplish our objective, we

- conducted interviews with HUD officials on the postsale purchaser requirements and processes,
- conducted interviews with the third-party contractors that provide postsale oversight and reporting for the DASP note sales,
- interviewed various purchasers on the process for postsale reporting and compliance with the purchase agreement,
- determined the total number of loans sold through DASP,
- developed a sample of loans and reviewed servicing documents to determine whether purchasers complied with the terms of the purchase agreement,
- reviewed post-note sale requirements outlined in the purchase agreements,
- reviewed documentation from purchasers to ensure that they complied with the foreclosure avoidance and loan modification requirements,
- compiled data to determine the number of sample loans bought for properties that were either already vacant or in an active foreclosure, and
- researched county property records to determine home ownership and occupancy status.

Using HUD's Single Family Data Warehouse and Office of Asset Sales data, we identified 108,616 distressed note sales from 2012 to 2016. The Single Family Data Warehouse contains business data from FHA Single Family automated systems. We selected a statistical sample of 88 loans to represent our universe. We used a statistical sample so we could project our property analysis to the universe. The full sampling plan is located in appendix B of this audit report. The following are highlights from the statistical analysis:

- the audit universe contained all 108,616 loans sold in settled DASP note sales from 2012 – 2016,
- the audit sample contained 88 loans throughout all of the pooled note sales.

Our review focused on HUD's oversight of the purchaser's compliance with the purchase agreements.

To achieve our objective, we relied on data obtained from HUD's Single Family Data Warehouse. We used these data to make our statistical sample and for contextual information in the report. We also used these data to establish the note sales' unpaid principal balance, note

sale purchase price, and total claim amount paid by HUD. We performed sufficient work to determine that these data were reliable for purposes of this report.

We used computer-generated data and source documentation as audit evidence to support our audit conclusions. We obtained both self-certifications and detailed documentation from purchasers to determine the following for each loan: foreclosure avoidance, loan modification, and homeowner occupancy status. We based our conclusions on documentation received from HUD and the purchasers reviewed 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 findings and conclusions based on our audit objective.

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 objective:

- Controls to ensure that HUD ensured that purchasers complied with purchase 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.

We evaluated internal controls related to the audit objective 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 HUD's internal control.

Followup on Prior Audits

HUD Did Not Conduct Rulemaking or Develop Formal Procedures for Its Single-Family Note Sales Program, 2017-KC-0006

We reviewed the recommendations related to the finding, HUD Did Not Conduct Rulemaking or Develop Formal Procedures for Its Single-Family Not Sales Program, from audit report 2017-KC-0006, issued July 14, 2017. As of August 2017, the following recommendations remained open:

| Recommendation number | Recommendation | Status |
|-----------------------|--|--------|
| 1A | Complete the rulemaking process for HUD's single-family note sales program. | Open |
| 1B | Develop and implement formal procedures and guidance for the note sales program. | Open |

In response to our report, HUD stated that it concurred with the recommendations and was working on incorporating its current procedures and desk guides into one Asset Sales Handbook. HUD has 120 days from the issuance of the report to develop an action plan for implementing the recommendations of that report.



Appendixes

Appendix A

Ref to OIG
Evaluation

Auditee Comments and OIG's Evaluation

Auditee Comments

| | |
|---|---|
|  | <p>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, DC 20410-8000</p> |
| Office of Housing | |
| | SEP 26 2017 |
| MEMORANDUM FOR: | Ronald J. Hosking, Regional Inspector General for Audit, 7AGA |
| FROM: |  Susan Betts, Deputy Assistant Secretary for Finance and Budget, HW |
| SUBJECT: | Response to Discussion Draft Report - HUD Generally Ensured That Purchasers Followed the Requirements Outlined in the Conveyance, Assumption, and Assignment Contracts, but Improvements Are Needed |
| | <p>Thank you for giving us the opportunity to respond to the Discussion Draft Report - HUD Generally Ensured That Purchasers Followed the Requirements Outlined in the Conveyance, Assumption, and Assignment Contracts, but Improvements Are Needed. The Office of Housing has reviewed the subject draft report.</p> <p>The Office of Housing is pleased that the OIG recognized that HUD generally ensured purchasers followed the requirements outlined in the purchase agreements. Further, we take the recommendation under advisement and are conducting a review of the terms of the purchase agreements.</p> <p>Should you have any questions or need additional information, please contact me at (202) 402-2785.</p> |

Comment 1

OIG Evaluation of Auditee Comments

Comment 1 We will work with HUD during the audit resolution process to ensure the purchase agreements contain adequate requirements.

Appendix B

Statistical Sampling Plan

Distressed Asset Sale Program (DASP II)

Audit: KC-17-0010

Date: March 21, 2017

Method: Stratified simple random sample

Confidence interval: One sided 95 percent

Scope of Audit

The purpose of the statistical sampling within this audit is to determine whether HUD properly administered DASP II single-family loans. If the audit teams finds mismanagement, we will use the sample design results to determine whether improper administration of this program constituted a material amount of funds that could be put to better use (FTBPTBU).

Audit Universe

The audit universe consists of 108,616 loans in DASP II during the eight note sales from 2012-3 to 2016-2.

Sample Frame

The audit universe.

Sampling Unit

Individual DASP II loans.

Sampling Unit Valuation

The total form A claim amount for a given sampling unit.

Sample Selection Method

Sample design: Stratified random sample

We identified a stratified random sample of 88 records for auditing¹ among the audit universe. A stratified approach was used to help control for potential differences across different payment amounts as well as note sale categories represented in the audit timeframe.

We designed the strata to group sampling units by the size of their valuation and designated note sale. First, we ordered the sampling units by payment amount. The breakpoints encompassed the following percentile distribution: 0 - 50, 50 - 95, and 95 - 100. Then we linked the ranges to

¹ Selected sample in Excel spreadsheet DASP II Sample Selection.xlsx

their corresponding note sale categories. There were a total of 24 strata (3 ranges X 8 node sales). We sampled the data using a computer program² written in SAS[®], using the survey select procedure with a random-number seed value of 7. The table below lists the strata boundaries and other key data related to this sample design.

| Sample design table | | | | | |
|---------------------|----------------|-----------------------|--------------|--------------------------|-----------------|
| Strata label | Subsidy amount | Total count in strata | Sample count | Probability of selection | Sampling weight |
| 2012-3_0-50pct | > 0 | 2,497 | 2 | 0.023 | 1248.50 |
| 2012-3_50-95pct | ≥ \$164326 | 3,096 | 2 | 0.029 | 1548.00 |
| 2012-3_95-100pct | ≥ \$376422 | 525 | 2 | 0.005 | 262.50 |
| 2013-1_0-50pct | > 0 | 5,747 | 3 | 0.053 | 1915.67 |
| 2013-1_50-95pct | ≥ \$164326 | 7,089 | 5 | 0.065 | 1417.80 |
| 2013-1_95-100pct | ≥ \$376422 | 518 | 2 | 0.005 | 259.00 |
| 2013-2_0-50pct | > 0 | 9,460 | 7 | 0.087 | 1351.43 |
| 2013-2_50-95pct | ≥ \$164326 | 6,366 | 4 | 0.059 | 1591.50 |
| 2013-2_95-100pct | ≥ \$376422 | 482 | 2 | 0.004 | 241.00 |
| 2014-1_0-50pct | > 0 | 9,062 | 6 | 0.083 | 1510.33 |
| 2014-1_50-95pct | ≥ \$164326 | 10,274 | 7 | 0.095 | 1467.71 |
| 2014-1_95-100pct | ≥ \$376422 | 1,123 | 2 | 0.010 | 561.50 |
| 2014-2_0-50pct | > 0 | 17,853 | 13 | 0.164 | 1373.31 |
| 2014-2_50-95pct | ≥ \$164326 | 14,662 | 11 | 0.135 | 1332.91 |
| 2014-2_95-100pct | ≥ \$376422 | 1,854 | 2 | 0.017 | 927.00 |

² Supporting documentation in DASP II SAS log.txt

| Strata label | Subsidy amount | Total count in strata | Sample count | Probability of selection | Sampling weight |
|------------------|----------------|-----------------------|--------------|--------------------------|-----------------|
| 2015-1_0-50pct | > 0 | 2,805 | 2 | 0.026 | 1402.50 |
| 2015-1_50-95pct | ≥ \$164326 | 2,632 | 2 | 0.024 | 1316.00 |
| 2015-1_95-100pct | ≥ \$376422 | 368 | 2 | 0.003 | 184.00 |
| 2016-1_0-50pct | > 0 | 3,346 | 2 | 0.031 | 1673.00 |
| 2016-1_50-95pct | ≥ \$164326 | 2,269 | 2 | 0.021 | 1134.50 |
| 2016-1_95-100pct | ≥ \$376422 | 175 | 2 | 0.002 | 87.50 |
| 2016-2_0-50pct | > 0 | 3,538 | 2 | 0.033 | 1769.00 |
| 2016-2_50-95pct | ≥ \$164326 | 2,490 | 2 | 0.023 | 1245.00 |
| 2016-2_95-100pct | ≥ \$376422 | 385 | 2 | 0.004 | 192.50 |
| Totals | N/A | 108,616 | 88 | N/A | N/A |

Design testing, refinement, and validation: Audit data often have a skewed distribution of amounts, and this audit universe is no exception. To verify that the sampling distribution of possible audit findings conforms to the central limit theorem under this design and to ensure that this design is dependable enough to rely on a traditional confidence interval of $\mu \pm z_{(1-\alpha/2)} * SE$, we used computer simulations to model the true sampling distribution of possible audit findings.

To parameterize the computer simulations (or replicated sampling³), we modeled the behavior and accuracy of possible audit findings. We used the audit universe of 108,616 Single Family Data Warehouse claim records and modeled circumstances in which the likelihood of error ranged from 10 to 15 percent in 1 percent increments and 15 to 50 percent in 5 percent increments. For each of these error ranges, we used the total claim paid for each loan as indicated in the Single Family Data Warehouse (all of form A; there were no Form B amounts reported).

Through this scenario, we found that a sample size of 88 records consistently yielded accurate results and confidence intervals. The risk of overestimating the audit finding outside the 5

³ Replicated sampling was carried out by sampling at least 1,000 times at a given expected error rate; lower rates of error had more sampling replications.

percent confidence level did not occur. However, the risk of underestimating the audit finding ranged from 5.2 to 9.6 percent.

Lastly, the sample is designed to be statistically valid only if at least 14 percent (or at least 13) of the records audited have errors in their calculations.⁴

Simple random sample size comparisons: As a point of reference and comparison, we estimated the sample size suggested by the classic formulas for a simple random sample using the audit universe of 108,616 claim payments. We did this by assuming a moderate error scenario of 30 percent, and for this example, this means 30 percent of the records reviewed. We calculated the true population values under this error scenario for the mean and standard deviation, while we used the precision estimation from the replicated sampling results under this error scenario using 88 as our sample size. We used these values to calculate the sample size by using the formula as defined by Cochran (1977);⁵ the result is 99:

$$n_{SRS} = \frac{z^2 \sigma^2}{d^2} = \frac{1.645^2 + 100793^2}{(0.299 * 55000)^2} = 98.76 \approx 99$$

n_{SRS} = comparable sample size for a simple random sample

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

σ^2 = population variance of sampling unit as modeled at a known error rate (100793²)

\bar{d} = the one-sided precision (per sampling unit) achievable in simulations at a 30 percent rate of error using a highly stratified sample. This is the precision \times mean = (0.299 \times 55800).

Please note that we offer this number only as a point of comparison. We do not recommend a simple random sample of this size without stratification for this sample design.

⁴ At least 13 claim payments need to be found having errors to project total claim amounts with errors.

⁵ Cochran, William G. Sampling Techniques. New York: John Wiley & Sons, Inc., 1977

Appendix C

Foreclosure Avoidance and Loan Modification Provision

This self-certification form is included in all post-2015 note sales, and it requires the purchaser to self-certify that it will avoid foreclosure for 12 months after the settlement date and offer the homeowner loan modification options.

Foreclosure Avoidance and HAMP/Proprietary Modification Provision

**SFLS 2015-1 Purchaser
Compliance Certification**

**U. S. Department of Housing
and Urban Development**

| | | |
|--|--|-----------------------|
| <p>This SFLS 2015-1 Purchaser Compliance Form will be used by Purchasers to self-certify the Purchaser's compliance with the post-sale requirements that for each Mortgage Loan, except for any Mortgage Loan that is secured by a Mortgaged Property that is not owner-occupied, Purchaser must avoid finalizing any foreclosure action for twelve (12) months from the applicable Settlement Date unless there are extenuating circumstances. Notwithstanding the foregoing, nothing will prevent a Purchaser from moving forward with foreclosure if the security interest is jeopardized (e.g. statute of limitations) or the related Mortgaged Property is neglected in a manner that materially diminishes the value of the Mortgaged Property. For loans where a foreclosure is completed prior to the end of the twelve (12) month period, the Purchaser will report on reason(s) for the foreclosure with the first four (4) Post-Sale Reports as part of the Post Sale Reporting Requirements set forth in Exhibit B-1 of the Conveyance, Assignment and Assumption Agreement.</p> <p>Purchaser has evaluated Borrower for HAMP or a proprietary modification with substantially similar terms as HAMP during the initial twelve-month period unless the Borrower no longer resides in the Property or fails to participate. For qualifying Borrowers, Purchaser offered a HAMP modification or a substantially similar proprietary modification. Where Purchaser has completed a HAMP or such proprietary modification evaluation with respect to a Mortgage Loan, the Purchaser will report on the outcome of the evaluation and, if Borrower does not qualify for a modification, the reasons for such determination with the first four (4) Post-Sale Reports as part of the Post Sale Reporting Requirements set forth in Exhibit B-1 of the Conveyance, Assignment and Assumption Agreement.</p> <p>These requirements are set forth in Section 2.09(b) of the U.S. Department of Housing and Urban Development's SFLS 2015-1 Conveyance, Assignment and Assumption Agreement with Purchaser dated _____, 201__ for all Mortgage Loans, except for any Mortgage Loan that is secured by a Mortgaged Property that is not owner-occupied.</p> | | |
| 1. Purchaser Information (Name, Address and ZIP Code) | 2. Purchaser Contact Information (Name, Phone Number and e-mail Address) | 3. Date of Submission |
| <p>Certification: The undersigned hereby certifies to that: (a) to the best of his/her knowledge and belief that the information provided above is true and correct as of the report submission date; and (b) upon request of any authorized official of the Department of Housing and Urban Development the Purchaser will furnish or make available supporting documentation.</p> | | |
| Title of Certifying Official | Signature | Date |

Quarterly reporting requirements provide HUD with a status of the properties' postsale disposition.

POST-SALE REPORTING REQUIREMENTS

| | |
|--------------------------------------|--|
| Purchaser Name | |
| Sale Name | |
| Pool Number(s) | |
| As of Date (End of Reporting Period) | |

All or part of the information provided on this form may also be subject to disclosure under the Freedom of Information Act, 5 U.S.C. § 552(a). Pursuant to HUD's FOIA regulations at 24 C.F.R. § 15.108, you may request confidential treatment of business information submitted in connection with this form and support such request with the facts and the legal justification for such request. Any request for confidential treatment must state that the information has not been made public and clearly designate the information that is considered confidential. Should HUD receive a FOIA request for such confidential information, HUD will provide you with notice of the request and an opportunity to object to the disclosure in accordance with HUD's regulations, unless disclosure is required by federal law.

HUD, in its sole and absolute discretion, may require a Purchaser to submit documentation supporting the information provided in any Post-Sale Report ("Post-Sale Report Documentation"). Post-Sale Report Documentation may be requested after submission of the First Post-Sale Report and for any time within two (2) years following the submission of the final Post-Sale Report. Upon receipt of HUD's written request, Purchaser must provide the Post-Sale Report Documentation to HUD within sixty (60) Business Days.

In the event Purchaser fails to submit any Post-Sale Report or Post-Sale Report Documentation when due, upon a timely written request from Purchaser for an extension, HUD may grant a thirty (30) day grace period to Purchaser. Notwithstanding anything to the contrary in this subsection (a), in the event Purchaser demonstrates a pattern of failing to report, submitting incomplete Post-Sale Reports or failing to provide requested Post-Sale Report Documentation, HUD, in its sole and absolute discretion, may refuse to qualify or accept bids from Purchaser or any related entity participating in one or more subsequent sales.

Post-Sale Reports must be submitted quarterly through the applicable final reporting period on the schedule below. Note that reporting is due on the first Business Day of the month in which the report is due.

Part I Loan-by-Loan Data: For each Mortgage Loan, provide the following information as of the end of the applicable reporting period. Include status reporting on the entire loan population, even for loans or properties sold in the prior period. See the Data Dictionary for more specific instructions on how to populate each data element.

The three data fields that are only applicable to loans in Neighborhood Stabilization Outcome (NSO) pools are noted below.

Sample Part I Loan-by-Loan Data Table:

Instructions: The report format provided below is for all loans purchased, regardless of whether they have been securitized or sold by the Purchaser. See the Data Dictionary for detailed instructions.

| | | | | | | These three fields are for NSO loans only. | | | |
|-------------|-----------|--------|------------|----------|----------------------|--|---------------------|-----------------|---------------|
| FHA_CASE | SALE_NAME | POOL # | AS_OF_DATE | STATUS | PERFORMANCE_CATEGORY | NSO_CATEGORY | INITIAL_DATE_OF_NSO | MARKETED_AS_REO | LOAN_MODIFIED |
| 011-3887874 | 2013-2 | 001 | 03/15/14 | FREOSOLD | | | | | No |
| 011-4028625 | 2013-2 | 001 | 03/15/14 | RPRF | PPM | | | | Yes |
| 011-4971644 | 2013-2 | 001 | 03/15/14 | DS | NP | | | | No |

(Continued)

| MOD_DATE | MOD_TYPE | ARREARAGES_CAPITALIZED | AMOUNT_WRITTEN_OFF | UPB_BEFORE_MOD | UPB_AFTER_MOD | P_AND_I_UNDER_MOD | RENT_IF_RENTED_TO_BORROWER | COMMENT |
|------------|----------|------------------------|--------------------|----------------|---------------|-------------------|----------------------------|---------|
| 12/12/2013 | B | No | \$4,000 | \$100,000 | 100,000 | \$650 | | |

(Continued)

| | | | | These fields are for the SFLS 2015-1 and later transactions. | | | |
|-------------------|------------|----------------------|------------------|--|-------------------------|-------------------------|---------------------------------|
| LOAN_SECURITIZED? | LOAN_SOLD? | DATE_STATUS_ACHIEVED | PROPERTY_OUTCOME | HAMP_EVALUATION_COMPLETED? | LOAN_ELIGIBLE_FOR_HAMP? | HAMP_ACTION_SUCCESSFUL? | TYPE OF HAMP ACTION IMPLEMENTED |
| Yes | No | 4/7/2014 | SOO | Yes | No | NA | |
| No | No | 6/1/2014 | | Yes | Yes | Yes | Modification |
| No | Yes | | | NA | No | NA | |

Appendix D

Approved Neighborhood Stabilization Outcome Chart

| Data Element Definitions/Acceptable Responses | Explanation | Special Notes | |
|---|---|--|--|
| 1 | Final NSO: Mortgage Loan Re-Performance | In order for a loan to be categorized as any of these <u>Final</u> categories, it must meet all requirements outlined in the NSO Rider of the CAA. Specifically, Mortgage Loan Re-Performance is defined as "six months of consecutive on-time payments on an un-modified or permanently modified Mortgage Loan." To qualify as "Final NSO: Held for Rental", "Purchaser must take title to a property previously secured by a Mortgage Loan and must hold such property as a rental unit until the expiration of a three year period beginning on date the Purchaser first leases the property, or of the Post-Sale Compliance Period, whichever occurs first." Further, a "Held-for-Rental unit may not qualify as an NSO if the property was listed for sale or marketed as an REO at any time" | |
| 2 | Final NSO: Sale to Owner Occupant | | |
| 3 | Final NSO: Held-for-Rental | | |
| 4 | Final NSO: Gift to Land Bank | | |
| 5 | Final NSO: NSP Grantee or Nonprofit Organization | | |
| 6 | Final NSO: Mortgage Loan Satisfaction | | |
| 7 | Final NSO: Disposition in Accordance with Eligible Program Guidelines | | |
| 8 | Planned NSO: Mortgage Loan Re-Performance | | Purchaser must have a plan to execute the NSO. |
| 9 | Planned NSO: Sale to Owner Occupant | | |
| 10 | Planned NSO: Held-for-Rental | | |
| 11 | Planned NSO: Gift to Land Bank | | |
| 12 | Planned NSO: NSP Grantee or Nonprofit Organization | | |
| 13 | Planned NSO: Mortgage Loan Satisfaction | | |

| Data Element Definitions/Acceptable Responses | Explanation | Special Notes |
|---|---|--|
| 14 | Planned NSO: Disposition in Accordance with Eligible Program Guidelines | |
| 15 | Interim Status | Purchaser is in process of determining whether to pursue an NSO, and if so, which NSO. |
| 16 | Non-NSO Outcome | Servicing outcome is not a qualified NSO. |