U.S. Department of Housing and Urban Development, Office of Single Family Housing

FHA Loans to Delinquent Debtors

Office of Audit, Region 7
Kansas City, KS

Audit Report Number: 2018-KC-0001
March 26, 2018

To: Gisele Roget, Deputy Assistant Secretary for Single Family Housing, HU

//**signed**//

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

Subject: FHA Insured $1.9 Billion in Loans to Borrowers Barred by Federal Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Federal Housing Administration (FHA)-insured loans to delinquent Federal debtors or those who were subject to Federal offset for delinquent child support.

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.

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FHA Insured $1.9 Billion in Loans to Borrowers Barred by Federal Requirements

Highlights

What We Audited and Why

We audited Federal Housing Administration (FHA)-insured loans from calendar year 2016. We worked with the Bureau of the Fiscal Service's Do Not Pay Business Center to identify potentially ineligible borrowers. The Do Not Pay Business Center was developed to support Federal agencies in their efforts to reduce the number of improper payments. We initiated this audit because of the risk that FHA might insure loans to ineligible borrowers with delinquent debt since it did not include a review of the Do Not Pay databases as part of its underwriting process described in FHA's Single Family Policy Handbook. Our audit objective was to determine whether FHA insured loans to borrowers with delinquent Federal debt or who were subject to Federal administrative offset for delinquent child support.

What We Found

FHA insured an estimated 9,507 loans worth $1.9 billion, which were not eligible for insurance because they were made to borrowers with delinquent Federal debt or who were subject to Federal administrative offset for delinquent child support. We reviewed a statistical sample of 60 loans from a universe of 13,927 FHA-insured loans that closed in 2016 and also had data on their related borrowers in the U.S. Department of the Treasury's Do Not Pay databases. We verified that 47 of the 60 sample loans were made to borrowers who were barred by Federal requirements. We used these results to project the total number and value of ineligible loans insured by FHA.

What We Recommend

We recommend that FHA put $1.9 billion to better use by developing a method for using the Do Not Pay portal to identify delinquent child support and delinquent Federal debt to prevent future FHA loans to ineligible borrowers. We also recommend that FHA revise the single-family handbook to comply with the regulation that prevents loans to borrowers with delinquent child support subject to Federal offset and schedule the timely renewal of data-sharing agreements to prevent data loss in the Credit Alert Interactive Voice Response System (CAIVRS) or discontinue use of CAIVRS if the information duplicates the information available in the Do Not Pay portal. CAIVRS is a shared database of defaulted Federal debtors developed by HUD to provide information to processors of applications seeking Federal credit benefits.

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Background and Objective

The Federal Housing Administration (FHA) provides mortgage insurance for loans made by FHA-approved lenders throughout the United States and its territories. FHA mortgage insurance protects lenders against losses from homeowners' defaulting on their mortgage loans. The lenders bear less risk because FHA will pay a claim to the lender if a homeowner defaults on his or her loan. Loans must meet FHA requirements to qualify for insurance coverage. FHA insured more than 1 million loans with mortgages totaling $212 billion that closed during calendar year 2016 and were subject to FHA underwriting requirements. The overall management and administration of the FHA single family mortgage insurance program is the responsibility of the Office of Deputy Assistant Secretary for Single Family Housing.

FHA guidance prohibits lenders from continuing to process an application for an FHA-insured mortgage for borrowers with delinquent Federal nontax debt. Lenders are required to determine whether the borrowers have delinquent Federal nontax debt. Lenders may obtain information on delinquent Federal debts from public records, credit reports, or the equivalent and must check all borrowers against the U.S. Department of Housing and Urban Development's (HUD) Credit Alert Interactive Voice Response System (CAIVRS). CAIVRS was developed by HUD in June 1987 as a shared database of defaulted Federal debtors. It enables processors of applications for Federal credit benefit to identify individuals who are in default or have had claims paid on direct or guaranteed Federal loans or are delinquent on other debts owed to Federal agencies.

If a delinquent Federal debt is reflected in a public record, credit report, or the equivalent or CAIVRS or an equivalent system, the lender must verify the validity and delinquency status of the debt by contacting the creditor agency to which the debt is owed. If the creditor agency confirms that the debt is valid and in delinquent status as defined by the Debt Collection Improvement Act, the borrower is ineligible for an FHA-insured mortgage until the borrower resolves the debt with the creditor agency.

The Debt Collection Improvement Act of 1996 is a Federal law, which prohibits a person from obtaining any Federal assistance in the form of a loan, loan insurance, or guarantee if that person has a delinquent outstanding debt with any Federal agency. Such a person may obtain additional loans or loan guarantees only after such delinquency is resolved. Federal regulation allows offset of Federal payments to satisfy delinquent nontax debt owed to the United States and to collect past-due child support obligations. Agencies also must deny Federal financial assistance to individuals who are subject to administrative offset to collect delinquent child support payments.

The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) requires FHA to review underwriting procedures and ensure that a thorough review of available databases with relevant information on eligibility occurs to determine eligibility. Two of the databases listed in the Act were HUD's CAIVRS and the Debt Check database of the U.S. Department of the Treasury. The Act established the Do Not Pay Initiative, which includes use of these databases to prevent improper payments before the release of any Federal funds.

Two U.S. Department of Treasury bureaus, the Bureau of the Public Debt and the Financial Management Service combined in 2012 to create the Bureau of the Fiscal Service. Combining these responsibilities transformed the way the Federal government manages its financial services. The Bureau of the Fiscal Service partnered with the St. Louis and Kansas City Federal Reserve Banks as Treasury's fiscal agent to develop the Do Not Pay Business Center. The Do Not Pay Business Center was established to help federal agencies seamlessly comply with IPERIA by supporting their efforts to prevent and detect improper payments. This office runs the Treasury Offset Program (TOP), a centralized offset program for collecting delinquent debts owed to Federal agencies and States. The Do Not Pay Business Center matches a database of delinquent debtors, known as the TOP Debt Check database, against payments Treasury disburses, then withholds Federal payments to recipients who owe delinquent debts. In addition, it maintains its own version of CAIVRS. The Do Not Pay Business Center also offers a portal to its databases that agencies can use at no cost.

Our objective was to determine whether FHA insured loans to borrowers with delinquent Federal debt or who were subject to Federal administrative offset for delinquent child support.

Results of Audit

Finding: FHA Insured $1.9 Billion in Loans to Borrowers Barred by Federal Requirements

Of loans closed in 2016, FHA insured more than 9,500 loans worth $1.9 billion, which were not eligible for insurance because they were made to borrowers with delinquent Federal debt or who were subject to Federal administrative offset for delinquent child support. This condition occurred because the sources used by lenders to identify ineligible borrowers lacked sufficient current information and FHA did not adequately guide lenders on reviewing child support. As a result, the FHA insurance fund faced a higher risk of loss, and the government in general did not realize the benefits of the Debt Collection Improvement Act.

Loans to Ineligible Borrowers

FHA insured loans to borrowers with delinquent Federal debt or who were subject to Federal administrative offset for delinquent child support. FHA insured an estimated 9,507 loans totaling more than $1.9 billion to these ineligible borrowers. We reviewed a statistical sample of 60 loans from a universe of 13,927 FHA-insured loans that closed in 2016 and also had data on their related borrowers in the Bureau of the Fiscal Service's Do Not Pay databases. The Do Not Pay Business Center supports Federal agencies in their efforts to reduce the number of improper payments. Do Not Pay allows agencies to check various databases before making payments or awards to identify ineligible recipients and to prevent fraud or errors. We verified that 47 of the 60 sample loans were made to borrowers who were barred by Federal requirements. We used these results to project the total number and value of ineligible loans insured by FHA (see appendix D).

Federal law prohibits loans, loan guarantees, or insurance to delinquent Federal debtors. The Debt Collection Improvement Act in 31 U.S.C. (United States Code) 3720B prevents a person from obtaining any Federal financial assistance in the form of a loan or loan insurance or guarantee if the person has an outstanding debt with any Federal agency, which is in a delinquent status, until such delinquency is resolved. FHA's Single Family Housing Policy Handbook 4000.1 states that lenders are prohibited from processing an application for an FHA-insured mortgage for borrowers with delinquent Federal nontax debt (see appendix C). We verified that 25 loans in our sample were made to borrowers with delinquent debts owed to four Federal agencies: the U.S. Department of Education, U.S. Department of Justice, Small Business Administration, and Army and Air Force Exchange Service.

Federal regulation also prohibits loans, loan guarantees, or insurance to borrowers with delinquent child support subject to administrative offset. Regulations at 5 CFR (Code of Federal Regulations) 1310.5 reference Office of Management and Budget (OMB) Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables. The Circular states that agencies must deny Federal financial assistance to individuals who are subject to administrative offset to collect delinquent child support payments. We verified that 24 loans in our sample were made to borrowers subject to Federal offset for delinquent child support. These loans included two loans counted earlier because the borrowers had both delinquent Federal debt and delinquent child support subject to Federal offset.

Insufficient Sources and Guidance

The sources used by lenders to underwrite FHA loans lacked information critical to compliance with Federal requirements, and FHA did not adequately guide lenders on reviewing child support. Our testing verified that the Do Not Pay databases reported delinquent Federal debtors and debtors subject to Federal offset for delinquent child support not identified using current underwriting methods.

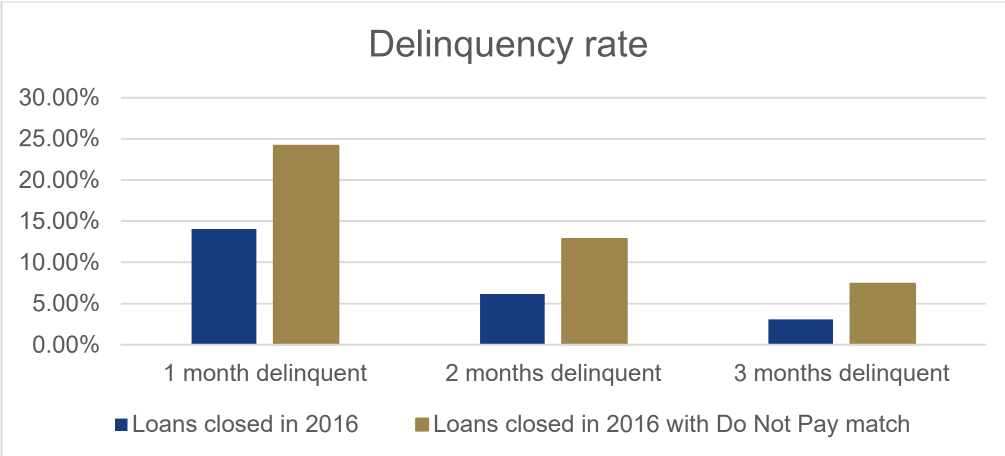
HUD's CAIVRS was not an adequate source of information on delinquent Federal debt. HUD developed CAIVRS to identify individuals who were in default or had claims paid on direct or guaranteed Federal loans or who were delinquent on other debts owed to Federal agencies. FHA required lenders to check each borrower in CAIVRS during the underwriting process. CAIVRS provided the lenders a passing result for our sample items and failed to reveal the existence of the Federal debt. Some of the passing results can be attributed to a lapse in data-sharing agreements with the U.S. Department of Justice and the Small Business Administration. The Do Not Pay databases used for our testing included information on the delinquent Federal debt that was missing from CAIVRS.

Credit reports also were not an adequate source of information on Federal debt and delinquent child support. FHA required lenders to verify the validity and delinquency status of any delinquent Federal debts reflected in credit reports. However, for our sample, the delinquent debts owed to the Small Business Administration and U.S. Department of Justice did not appear on the associated credit reports. The delinquent student loans did not always appear on the credit reports, and those that appeared did not specify whether they were Federal or private student loans. While credit reports sometimes listed child support debts, the existence of a Federal offset was not included on credit reports. All of this information was included in the Do Not Pay databases for the loans tested; however, FHA did not yet have access to the system.

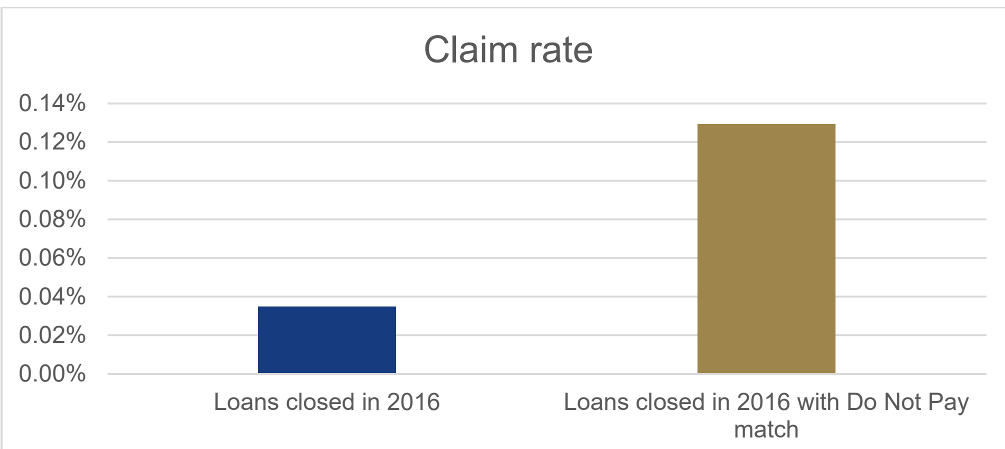
FHA's handbook did not incorporate the Federal regulation related to delinquent child support. The FHA Single Family Housing Policy Handbook instructed underwriters to treat child support as a recurring liability and include the monthly obligation in the borrower's liabilities and debt. However, it did not include instructions to determine whether the child support was delinquent and subject to Federal offset.

Risk From Ineligible Loans

FHA faced a higher risk due to an increased likelihood of default on the ineligible loans. The loans to borrowers in the Do Not Pay database had 2- and 3-month delinquency rates, twice as high as those of the general population. Failing to exclude these ineligible borrowers resulted in increased risk to the FHA fund. Our testing did not attempt to determine whether the delinquent Federal debt or other borrower characteristics caused these higher delinquency rates.



The increased delinquency rates of the ineligible loans might subject FHA to future increased claims. To date, the loans to borrowers in the Do Not Pay database have resulted in insurance claims at a rate more than three times higher than those of the general population.



Above charts were created using data extracted from the Single Family Data Warehouse.

Debt Collection Improvement Act

The government did not realize the benefits of the Debt Collection Improvement Act. The purposes of the Act include collection of nontax debts owed to the Federal Government and assistance to families in collecting past-due child support obligations.

Conclusion

FHA improperly insured loans to delinquent Federal debtors and delinquent child support debtors subject to Federal offset. This condition occurred because the FHA underwriting process lacked information critical to complying with Federal requirements. This information is available in the Bureau of the Fiscal Service's Do Not Pay databases. However, FHA did not include a review of these databases as part of the underwriting process. During the audit, FHA recognized the value of gaining access to the Do Not Pay portal and agreed to pursue it. By implementing our recommendations, FHA will avoid insuring an estimated $1.9 billion in ineligible loans each year.

Recommendations

We recommend that the Deputy Assistant Secretary for Single Family Housing

1A. Develop a method for using the Do Not Pay portal during the underwriting process to identify delinquent child support and delinquent Federal debt to prevent future FHA loans to ineligible borrowers to put $1,905,340,944 to better use.

1B. Revise the single-family handbook to comply with regulations that prevent loans to borrowers with delinquent child support subject to Federal offset.

1C. Schedule the timely renewal of data-sharing agreements to prevent data loss in CAIVRS or discontinue use of the system if implementation of 1A makes CAIVRS unnecessary.

Scope and Methodology

We performed our audit between June 2017 and January 2018 at our office in St. Louis, Missouri. Our audit generally covered loans that were closed from January 1 through December 31, 2016.

To accomplish our objective, we

- reviewed Federal regulations, FHA Single Family Policy Handbook (Handbook 4000.1), OMB guidance, and an executive order;
- attended FHA underwriting training presented by underwriters from the Denver Homeownership Center;
- completed the authorization process to access the Do Not Pay data;
- selected and reviewed a statistical sample of loans that were closed during our audit period; and
- reviewed sample documentation from lenders and debt-reporting agencies.

HUD's Single Family Data Warehouse is a large and extensive collection of database tables, organized and dedicated to support the analysis, verification, and publication of single-family housing data. Using this system, we identified more than 1.8 million borrowers who closed FHA-insured mortgages during our audit period. We transferred the data for these borrowers to the Do Not Pay Business Center to be matched against data sources contained within Do Not Pay.

Do Not Pay is a collection of data sources established to protect the integrity of the Federal Government's payment processes by assisting agencies in mitigating and eliminating improper payments. The Do Not Pay Business Center matched the borrower taxpayer identification numbers we provided to Treasury's CAIVRS and the TOP Debt Check system.

The Do Not Pay borrower taxpayer identification number match identified individual borrowers who closed on FHA-insured mortgages while having owed delinquent nontax debt to the Federal Government or delinquent child support subject to Federal offset. After receiving the data file of matches from the Do Not Pay Business Center, we removed matches related to unendorsed loans because unendorsed loans are not insured by FHA and streamline refinanced loans because they are not subject to screening for Federal nontax debt. This match resulted in an audit universe of 13,927 loans with an original mortgage amount of more than $2.7 billion. The audit universe included 12,606 loans matched to TOP Debt Check, 943 loans matched to Treasury's CAIVRS, and 378 loans matched to both TOP Debt Check and Treasury's CAIVRS. From the audit universe, we selected a statistical sample of 60 FHA-insured mortgages with original mortgage balances totaling more than $12 million as described in appendix D. We tested these sample items to verify that the match results were accurate. See appendix D for an explanation of the method used to statistically project the results.

For each loan in our statistical sample, we requested from lenders the underwriting file to review credit documentation. For each loan in our sample, we also requested from the debt-reporting agency confirmation of the date on which the delinquency started, the date the debt was reported to HUD and Treasury CAIVRS, whether the debt was currently delinquent, and the date on which the delinquency was cured. We reviewed this information to determine whether each sampled loan was made to a borrower who was delinquent on a nontax Federal debt or child support at the time the FHA-insured mortgage closed and was endorsed.

We relied in part on data maintained by HUD in its Single Family Data Warehouse database to identify loans closed during our audit period. We also relied on data maintained by Do Not Pay to identify borrowers who owed delinquent nontax debt to the Federal Government or delinquent child support. Although we did not perform a detailed assessment of the reliability of the data, we verified the fields used to determine our sample against documentary evidence supplied by the lenders and debt-reporting agencies for our 60 sampled loans. Based on the work performed, we determined that the computer-processed data were sufficiently reliable for the purposes of this report.

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 compliance with applicable laws, regulations, and OMB guidance – Policies to prevent the issuance of FHA loan insurance to delinquent Federal debtors and individuals subject to Federal offset for delinquent child support.

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:

- FHA required the use of inadequate information sources during underwriting and did not provide lenders with adequate guidance for identifying borrowers with delinquent child support subject to Federal offset (finding).

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 1/
1A	$1,905,340,944
Totals	1,905,340,944

1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, if HUD implements our recommendations, it will no longer provide FHA insurance to delinquent debtors reported in the Do Not Pay databases. When FHA successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit, which we believe will be similar to the 2016 results since FHA activity is stable. These amounts do not include potential offsetting costs or benefits to implement our recommendations to revise the underwriting process.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

OFFICE OF HOUSING

MAR 16 2018

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

FROM: Gisele G. Roget, Deputy Assistant Secretary for Single Family Housing, HU

SUBJECT: Discussion and Comments on Draft Audit:
FHA Loans to Delinquent Debtors
OIG Audit Report 2018-KC-000X

The Office of Inspector General (OIG) performed a review of Federal Housing Administration (FHA) insured loans from calendar year 2016. The audit objective was to determine if FHA insured loans to borrowers with delinquent Federal debt or who were subject to Federal administrative offset for delinquent child support.

The Office of Single Family Housing (Single Family) agrees with the OIG recommendations described in the audit and will work with the U.S. Department of the Treasury to determine the most efficient plan of action to incorporate the Do Not Pay portal into its insuring procedures.

Response to OIG Draft Recommendations

1. Systems and Policies

Single Family agrees with the recommendations and will seek to procure funding in order to establish a method for using the Do Not Pay portal to screen applications for FHA insurance prior to loan endorsement. FHA policy must be implemented in coordination with the applicable system enhancements and integration. As soon as the path to utilization of the Do Not Pay portal is established, Single Family will begin the steps to updates its guidance in the HUD Handbook 4000.1. This new guidance will direct lenders to utilize the Do Not Pay portal and thereby improve upon current controls to alert lenders of delinquent Federal debtors as well as applicants with delinquent child support subject to Federal offset.

2. CAIVRS

Currently there are four Governmental Agencies outside of FHA that utilize and supply information into the Single Family Credit Alert Verification Interactive Reporting System (CAIVRS). Single Family has established a mechanism to monitor the timely renewal of data-sharing agreements with these participating agencies and will continue such monitoring and renewal until use of the Do Not Pay portal makes CAIVRS duplicative and unnecessary.

www.hud.gov espanol.hud.gov

Comment 1

Conclusion

As indicated above, Single Family agrees with the findings and recommendations outlined in the audit and eagerly awaits the opportunity to fully integrate the Do Not Pay portal. Single Family is currently seeking various funding resources to enhance its current systems and thereby enable the usage of Do Not Pay.

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OIG Evaluation of Auditee Comments

Comment 1 We appreciate HUD's willingness to implement our recommendations and look forward to working with them to complete the corresponding management decisions.

Appendix C

Criteria

31 CFR 285.13
Barring delinquent debtors from obtaining Federal loans or loan insurance or guarantees.

(c) *General rule.* (1) As required by the provisions of 31 U.S.C. 3720B, a person owing an outstanding nontax debt that is in delinquent status shall not be eligible for Federal financial assistance. This eligibility requirement applies to all persons seeking Federal financial assistance and owing an outstanding nontax debt in delinquent status, including, but not limited to, guarantors. This eligibility requirement applies to all Federal financial assistance even if creditworthiness or credit history is not otherwise a factor for eligibility purposes, e.g., student loans. A person may be eligible for Federal financial assistance only after the delinquency is resolved in accordance with this section. An agency may waive this eligibility requirement in accordance with paragraph (g) of this section.

31 U.S.C. 3720B - Barring delinquent Federal debtors from obtaining Federal loans or loan insurance guarantees.

(a) Unless this subsection is waived by the head of a Federal agency, a person may not obtain any Federal financial assistance in the form of a loan (other than a disaster loan or a marketing assistance loan or loan deficiency payment under subtitle C of the Agricultural Market Transition Act (7 U.S.C. 7231 et seq.)) or loan insurance or guarantee administered by the agency if the person has an outstanding debt (other than a debt under the Internal Revenue Code of 1986) with any Federal agency which is in a delinquent status, as determined under standards prescribed by the Secretary of the Treasury. Such a person may obtain additional loans or loan guarantees only after such delinquency is resolved in accordance with those standards. The Secretary of the Treasury may exempt, at the request of an agency, any class of claims.

IMPROPER PAYMENTS ELIMINATION AND RECOVERY IMPROVEMENT ACT OF 2012
SEC. 5. DO NOT PAY INITIATIVE.

(a) PREPAYMENT AND PREAWARD PROCEDURES.—
(1) IN GENERAL.—Each agency shall review prepayment and preaward procedures and ensure that a thorough review of available databases with relevant information on eligibility occurs to determine program or award eligibility and prevent improper payments before the release of any Federal funds.
(2) DATABASES.—At a minimum and before issuing any payment and award, each agency shall review as appropriate the following databases to verify eligibility of the payment and award:
(A) The Death Master File of the Social Security Administration.
(B) The General Services Administration's Excluded Parties List System.
(C) The Debt Check Database of the Department of the Treasury.

(D) The Credit Alert System or Credit Alert Interactive Voice Response System of the Department of Housing and Urban Development.
(E) The List of Excluded Individuals/Entities of the Office of Inspector General of the Department of Health and Human Services.

OMB Circular No. A-129, Policies for Federal Credit Programs and Non-Tax Receivables.

1. Applicant Screening
   a. *Program Eligibility.* Federal credit granting agencies and private lenders in guaranteed loan programs shall determine whether applicants comply with statutory, regulatory, and administrative eligibility requirements for loan assistance.

   b. *Delinquency on Federal Debt.* Agencies should determine if the applicant is delinquent on any Federal debt, including tax debt. Agencies should include a question on loan application forms asking applicants if they have such delinquencies. In addition, agencies and guaranteed loan lenders shall use credit bureaus as a screening tool. Agencies are also encouraged to use other appropriate databases, such as the Department of Housing and Urban Development's Credit Alert Verification Reporting System and Treasury's Do Not Pay List to identify delinquencies on Federal debt.

      Processing of applications shall be suspended when applicants are delinquent on Federal tax or non-tax debts, including judgment liens against property for a debt to the Federal Government, and are therefore not eligible to receive Federal loans, loan guarantees or insurance. (See 31 U.S.C. § 3720B regarding non-tax debts.) This provision does not apply to disaster loans or a marketing assistance loan or loan deficiency payment under Subtitle C of the Agricultural Market Transition Act (7 U.S.C. 7231, et. seq.). Agencies should review and comply with 31 U.S.C. § 3720B and 31 C.F.R. 285.13 before extending credit. Processing should continue only when the debtor satisfactorily resolves the debts (e.g., pays in full or negotiates a new repayment plan).

   d. *Delinquent Child Support.* Agencies shall deny Federal financial assistance to individuals who are subject to administrative offset to collect delinquent child support payments. See Executive Order 13,019, 61 Federal Register 51,763 (1996).

Executive Order 13019, Supporting Families: Collecting Delinquent Child Support Obligations.

Section 1. *Administrative Offsets.* (a)(1) The Secretary of the Treasury (''the Secretary''), in accordance with the provisions of the Debt Collection Improvement Act of 1996 and to the extent permitted by law, and in consultation with the Secretary of Health and Human Services and other affected agencies, shall promptly develop and implement procedures necessary for the Secretary to collect past-due child support debts by administrative offset, and shall issue such rules, regulations, and procedures as the Secretary, in consultation with the heads of affected agencies, deems appropriate to govern administrative offsets by the Department of the Treasury and other executive departments and agencies that disburse Federal payments.

Sec. 2. *Denial of Federal Assistance.* (a) The Secretary shall, to the extent permitted by law, ensure that information concerning individuals whose payments are subject to administrative

offset because of delinquent child support obligations is made available to the head of each executive department and agency that provides Federal financial assistance to individuals.
(b) In conformance with section 2(e) of this order, the head of each executive department and agency shall, with respect to any individuals whose payments are subject to administrative offset because of a delinquent child support obligation, promptly implement procedures to deny Federal financial assistance to such individuals.

Handbook 4000.1, FHA Single Family Housing Policy Handbook

II. Origination Through Post-Closing/Endorsement

A. Title II Insured Housing Programs Forward Mortgages

1. Origination/Processing

(10) Borrower Ineligibility due to Delinquent Federal Non-Tax Debt

(a) Standard

Mortgagees are prohibited from processing an application for an FHA-insured Mortgage for Borrowers with delinquent federal non-tax debt, including deficiency Judgments and other debt associated with past FHA-insured Mortgages. Mortgagees are required to determine whether the Borrowers have delinquent federal non-tax debt. Mortgagees may obtain information on delinquent Federal Debts from public records, credit reports or equivalent, and must check all Borrowers against the Credit Alert Verification Reporting System (CAIVRS).

Appendix D

Statistical Sampling With Projected Results

Audit Universe
The audit universe consists of 13,927 FHA-insured loans. The total of the mortgage amounts in this audit universe is more than $2.7 billion.

Sample Frame
The audit universe.

Sampling Unit
FHA-insured loan (case_nbr).

Sampling Unit Valuation
The total dollar amount for a given sampling unit (orig_mtg_amt).

Sample Selection Method
We used **s**ystematic random sampling to select our sample. We ordered sampling units by FHA-insured loan amount (orig_mtg_amt) and selected a random sample of 60 records for auditing, using systematic random sampling method with a random-number seed value of 2017 available in SAS Proc Surveyselect procedure. SAS is a statistical software developed by SAS Institute for advanced analytics, multivariate analyses, business intelligence, data management, and predictive analytics.

Audit data often have a skewed distribution of amounts, and this audit universe is no exception. To avoid the unrealistic large sample size requirement of central limit theorem for such skewed data, we developed a subsampling approach, using the same sampling scheme that we selected for the audit sample above, to draw 10,000 different samples (with 60 records in each sample) for a prespecified universe error rate (and its associated error amount) to approximate the true distribution of its corresponding sample error rates and sample error amounts.[i,ii] We repeated this process for a range of potential universe error rates, typically covering from 0.01 to 95 percent. (Depending on the situation of a specific audit, the higher end might be increased.) Thus, we generated two subsampling datasets: one for error rate and one for error amount.

Projection
For projection, we wanted to know what the distribution of universe error rates was for a given sample error rate and what the distribution of universe error amounts was for a given sample error amount. To answer these two questions, we reordered the two subsampling datasets by sample error rate and sample error amount, respectively. By such reordering, we could map out the empirical distributions of universe error rates and universe error amounts for any possible sample error rates or sample error amounts that the selected audit sample might reveal. In other words, we established two empirical sample-to-universe projection tables: one for error rate projection and one for error amount projection. Once we obtained the audit sample results, we relied on these two projection tables to make a reliable statistical inference on the universe error rate and universe error amount. To be conservative, we reported values at a one-sided 95 percent

confidence level as the final projected dollar amount and percentage (and number) for the universe.

Projected Results

We implemented subsampling and projection methods (described above) in SAS. The table below shows the projected distribution of loans – the 5th, 50th (median), and 95th percentiles of projected error rate (in percentage); error count; and error amount for loans closed between January and December 2016 that FHA endorsed for insurance and the corresponding review results from the audit sample. The 5th percentile (bolded column) corresponds to the one-sided 95 percent confidence level. From the table, we can conclude that FHA had (1) improperly insured loans to an estimated 9,507 delinquent debtors and (2) insured an estimated $1.9 billion in loans to borrowers with delinquent debt at the time the loans closed in 2016.

The projected distribution of ineligible loans

Measure	Sample results	5th percentile	50th percentile	95th percentile
Error rate (%)	78.3	**68.3**	77.7	85.6
Error count	47	**9,507**	10,820	11,918
Error amount	$9,586,908	**$1,905,340,944**	$2,185,057,292	$2,420,659,702

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[i] Politis, D. N.; Romano, J. P. (1994). Large sample confidence regions based on subsamples under minimal assumptions. Annals of Statistics, 22, 2031-2050.

[ii] Politis, D. N.; Romano, J. P.; Wolf, M. (1999). Subsampling. Springer Verlag.