



# CitiMortgage, O'Fallon, MO

## Partial Claims Loss Mitigation Option

**Office of Audit, Region 7  
Kansas City, KS**

**Audit Report Number: 2018-KC-1001  
March 5, 2018**

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**To:** Gisele Roget, Deputy Assistant Secretary for Single Family Housing, HU  
*//signed//*  
**From:** Ronald J. Hosking, Regional Inspector General for Audit, 7AGA  
**Subject:** CitiMortgage, Inc., O'Fallon, MO, Improperly Filed for FHA-HAMP Partial Claims Before Completing the Loan Modifications and Reinstating the Loans

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of CitiMortgage's processing of partial claims.

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: 2018-KC-1001**

**Date: March 5, 2018**

**CitiMortgage, Inc., O'Fallon, MO, Improperly Filed for FHA-HAMP Partial Claims Before Completing the Loan Modifications and Reinstating the Loans**

## Highlights

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### What We Audited and Why

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We selected CitiMortgage Inc. for review based on its volume of partial claims among lenders located in the St. Louis metropolitan area. During the preliminary phase of the audit, we found instances in which CitiMortgage improperly processed partial claims related to loan modifications because it did not reinstate the mortgage delinquency to zero. We decided to focus our audit on partial claims that potentially did not result in reinstating the loan delinquency. Our audit objective was to determine whether CitiMortgage filed for partial claims only after completing the loan modifications and reinstating the loans.

### What We Found

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CitiMortgage improperly filed for 66 partial claims before completing the loan modifications and reinstating the loans. The loans remained delinquent, and CitiMortgage later foreclosed on these properties, approved them to sell in preforeclosure sales, or assigned the loans to the U.S. Department of Housing and Urban Development (HUD). The Federal Housing Administration insurance fund paid out more than \$1.7 million for these improper partial claims, including the lender incentive fees. CitiMortgage had repaid \$722,893 of these claims before our audit.

### What We Recommend

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We recommend that HUD's Deputy Assistant Secretary for Single Family Housing require CitiMortgage to (1) repay HUD for improperly filed partial claims and incentive fees totaling more than \$1 million, (2) work with HUD to ensure the release of the liens on the 66 properties with improper partial claims, and (3) perform an internal review of all FHA-HAMP partial claims that were combined with loan modifications to determine their eligibility and report the results to HUD for the repayment of improperly filed partial claims.

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# Background and Objective

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CitiMortgage is a lender located at 1000 Technology Drive in O’Fallon, MO. CitiMortgage received approval from the Federal Housing Administration (FHA) in May 1981 and currently operates five branch offices in five States. CitiMortgage announced in January 2017 that it planned to stop loan servicing operations by the end of 2018.

FHA provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. It is the largest insurer of mortgages in the world, insuring more than 41 million loans since its inception in 1934. FHA mortgage 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.

The FHA-Home Affordable Modification Program (FHA-HAMP) was authorized by the Helping Families Save Their Home Act of 2009. FHA-HAMP is a loss mitigation option, which uses a partial insurance claim, combined or separate from a loan modification, to allow the mortgage to be reinstated by establishing an affordable monthly payment and providing for principal deferment as needed. A promissory note must be executed in the name of the U.S. Department of Housing and Urban Development (HUD) Secretary, and a subordinate mortgage must be obtained and recorded, creating a lien on the property. A partial claim is FHA’s reimbursement of a lender advance of funds on behalf of the borrower in an amount necessary to assist in reinstating the delinquent mortgage. The program allows lenders to receive a \$500 incentive fee for the successful completion of a partial claim. The Office of Single Family Housing administers the FHA-HAMP program.

Between October 1, 2013, and September 30, 2017, CitiMortgage executed nearly 7,000 partial claims totaling more than \$200 million.

Federal fiscal year	Total amount partial claims	Total number of partial claims
2014	\$82,124,569	3,237
2015	69,412,596	2,221
2016	33,368,616	931
2017	19,500,468	591
<b>Totals</b>	<b>204,406,249</b>	<b>6,980</b>

Our audit objective was to determine whether CitiMortgage filed for partial claims only after completing the loan modifications and reinstating the loans.

# Results of Audit

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## **Finding: CitiMortgage Improperly Filed for Partial Claims**

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CitiMortgage improperly filed for 66 partial claims before completing the loan modifications and reinstating the loans. This condition occurred because CitiMortgage did not have adequate policies and procedures for partial claims. As a result, the FHA insurance fund paid out more than \$1.7 million for these 66 improper partial claims, including the lender incentive fees.

### **Improperly Filed Partial Claims**

CitiMortgage improperly filed for partial claims before completing the loan modifications and reinstating the loans. It filed 66 improper partial claims out of a sample of 68 loans that appeared not to have been reinstated (see Scope and Methodology). HUD requires lenders that are implementing the partial claim option to advance funds on behalf of a borrower in an amount necessary to reinstate a delinquent loan. After the reinstatement, the lender will file a partial claim for the amount of the advance plus its incentive fee (see appendix C). CitiMortgage improperly processed the partial claims before finalizing the related loan modifications for the FHA-HAMP loans. The partial claims, in conjunction with modifications, would have cured the delinquency. Since the loan modifications were not completed, the loans remained delinquent. CitiMortgage later foreclosed on these properties, approved them to sell in preforeclosure sales, or assigned the loans to HUD.

### **Inadequate Policies and Procedures**

CitiMortgage did not have adequate policies and procedures to ensure that the FHA-HAMP partial claims, combined with loan modifications, resulted in curing the loans' delinquency. At the beginning of our audit period, it had two separate processes for FHA-HAMP partial claims and loan modifications. It would process and file for the partial claims first and then finalize the loan modifications. This process allowed CitiMortgage to receive its insurance claims but also allowed loans to remain delinquent if the loan modifications failed. In June 2016, CitiMortgage updated its written policies and procedures to require parallel completion of partial claims and loan modifications. All of the improper partial claims included in the audit sample were processed before this policy change.

### **HUD Payments for Improper Partial Claims**

The FHA insurance fund paid out more than \$1.7 million for these 66 improper partial claims, including the lender incentive fees. Of the 66 improperly filed partial claims, CitiMortgage had reimbursed the FHA insurance fund for 26 partial claims totaling \$722,893, including the incentive fees, except for 2 incentive fees totaling \$1,000. It had not repaid the FHA insurance fund for 40 improperly filed partial claims and incentive fees totaling more than \$1 million (see appendix D). In addition, the properties had liens placed for these ineligible partial claims that are the responsibility of CitiMortgage rather than the homeowners.

## **Recommendations**

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

- 1A. Repay HUD for improperly filed partial claims and incentive fees totaling \$1,053,688.
- 1B. Work with HUD to ensure the release of the liens on the 66 properties with improper partial claims.
- 1C. Perform an internal review of all FHA-HAMP partial claims that were combined with loan modifications to determine their eligibility and report the results to HUD for repayment of improperly filed partial claims.

# Scope and Methodology

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We performed our audit work between October 2017 and January 2018. We performed our onsite work at CitiMortgage's office located at 1000 Technology Drive, O'Fallon, MO. Our audit period was October 1, 2013, through September 30, 2017.

To accomplish our objective, we

- reviewed applicable regulations and HUD guidance,
- reviewed CitiMortgage's policies and procedures,
- reviewed loan documents related to partial claims and loan modifications, and
- interviewed and followed up with employees of CitiMortgage and responsible HUD officials.

HUD's Single Family Data Warehouse (SFDW) 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 68 loans with partial claims processed between October 1, 2013, and September 30, 2017, that CitiMortgage terminated as foreclosures, preforeclosures, or assignments of note and had the oldest unpaid installment date before the partial claim processed date, suggesting that the partial claims did not reinstate the loan delinquency. The total amount of partial claims, including incentive fees, for all 68 was more than \$1.9 million. We reviewed the loan documents for these 68 partial claims to determine whether CitiMortgage executed only partial claims that fully reinstated the loans. This documentation included partial claim and loan modification documents, loan payment history, a copy of the claim filed with HUD, and proof of remittance when CitiMortgage returned funds to HUD. In order to provide context for background purposes, we determined that CitiMortgage executed nearly 7,000 partial claims totaling more than \$200 million during our audit period (see Background). The results of the 68 loans reviewed cannot be projected to the larger group.

We relied in part on data maintained by HUD in its SFDW database and Neighborhood Watch Early Warning System, which displays information from the SFDW databases. Specifically, we used the systems to identify the universe of partial claims executed by CitiMortgage that did not fully reinstate the mortgage and to help verify potential instances of noncompliance. However, we did not rely on these data for our conclusions. All conclusions were based on additional review performed during the audit using documentation provided by CitiMortgage.

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.

## **Relevant Internal Controls**

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

- Controls to ensure that CitiMortgage filed only for partial claims, combined with loan modifications that reinstated the loans.

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:

- CitiMortgage did not have adequate policies and procedures to ensure that the FHA-HAMP partial claims, combined with loan modifications, resulted in curing the loan's delinquency.

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Ineligible 1/</b>
1A	\$1,053,688
<b>Totals</b>	<b>1,053,688</b>

- 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

Comment 1

Comment 2

Comment 3



February 22, 2018

Ronald J. Hosking  
Regional Inspector General for Audit  
U.S. Housing and Urban Development  
Office of Inspector General  
400 State Avenue, Suite 501  
Kansas City, KS 66101

Dear Mr. Hosking:


Please accept this letter in response to the U.S. Department of Housing and Urban Development Office of Inspector General's ("OIG") February 8, 2018 discussion draft audit report (the "Report") concerning the OIG's audit of CitiMortgage, Inc.'s ("CMI") partial claim processing practices. CMI takes its mortgage servicing responsibilities seriously and appreciates the opportunity to provide this response to the Report.

The Report includes three findings: (1) that CMI improperly filed partial claims in 66 instances, (2) that those findings were the result of inadequate policies and procedures, and (3) that the OIG believes CMI is due to pay \$1,053,688 to HUD for what it considers to be improperly paid insurance benefits and incentives. Of note, CMI has previously updated its policies and procedures related to potential claims which should address any issues which may have given rise to these findings. Similarly, prior to the audit, CMI had already identified and repaid \$722,893 to HUD as a result of its standard quality control processes. In addition, upon reviewing the partial claims list in Appendix D to the Report, CMI has identified 4 additional loans reflecting possible errors and for which it has now reimbursed an additional \$192,521.92 to the Department of Housing and Urban Development ("HUD"). Finally, CMI has begun an additional internal review of all FHA-HAMP partial claims it has submitted as recommended by OIG.

Please note that CMI is continuing to review the partial claims list contained in Appendix D to fully understand the facts of each case and to further evaluate the OIG's findings. With that said, CMI disagrees with the OIG's determination that HUD is due to receive an additional \$1,053,688 in funds from CMI as a result of this audit.

Again, CMI takes its servicing responsibilities seriously, which includes taking appropriate actions to remediate mistakes made in the servicing process. CMI looks forward to working with HUD to reach an acceptable resolution to the matters raised in the Report.

Sincerely,



Shawn Kormanek  
Managing Director  
CitiMortgage Inc.

## OIG Evaluation of Auditee Comments

- Comment 1 CitiMortgage noted that it had updated its policies and procedures related to potential claims which should address any issues which may have given rise to the findings. We acknowledged in the report that CitiMortgage updated its policies and procedures related to partial claims and loan modifications. However, we found that HUD paid for improper partial claims before CitiMortgage updated its processes, and we recommended these partial claims to be repaid to HUD.
- Comment 2 CitiMortgage stated that it has begun an additional internal review of all FHA-HAMP partial claims it has submitted as recommended by OIG. CitiMortgage needs to provide the results of the internal review to HUD to resolve recommendation 1C of the audit report.
- Comment 3 CitiMortgage noted that it is reviewing the partial claims list contained in Appendix D, but it disagrees with the OIG's determination that HUD is due to receive an additional \$1,053,688 in funds as a result of this audit. CitiMortgage will need to work with HUD to resolve recommendation 1A.

## Appendix C

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### Criteria

#### **Mortgagee Letter 2003-19**

Under the partial claim option, a mortgagee [lender] will advance funds on behalf of a mortgagor [borrower] in an amount necessary to reinstate a delinquent loan (not to exceed the equivalent of 12 months' worth of principal, interest, taxes, and insurance (PITI)). The mortgagor, upon acceptance of the advance, will execute a promissory note and subordinate mortgage payable to HUD. Currently, these promissory or "partial claim" notes carry no interest and are not due and payable until the mortgagor either pays off the first mortgage or no longer owns the property.

Following reinstatement, the mortgagee will file a partial claim for the amount of the advance plus the mortgagee's incentive fee, and forward a copy of the recorded documents to HUD. A contractor retained by HUD will service the partial claim notes.

The following provisions apply to all partial claim notes:

- The partial claim must fully reinstate the loan...

A promissory note must be executed in the name of the Secretary and a subordinate mortgage must be obtained and recorded. In accordance with 24 CFR [Code of Federal Regulations] 203.371(d) "along with the prescribed application for partial claim insurance benefits, the mortgagee shall forward to HUD the original credit and security instruments requirements by paragraph (c) of this section." Provided that the mortgagee has complied with the regulations, the mortgagee must file the claim within 60 days of the date the subordinate lien to HUD is executed.

#### **Mortgagee Letter 2009-23**

The new FHA-HAMP authority will allow the use of a partial claim up to 30 percent of the unpaid principal balance as of the date of default combined with a loan modification. The objective of FHA-HAMP is to assist FHA mortgagors who are in default to modify their mortgage to an affordable payment.

Mortgagees that utilize FHA-HAMP are eligible to receive incentive payments. Mortgagees utilizing this initiative will be allowed to first file for a partial claim (to bring the loan current and defer principal where appropriate), followed by a loan modification claim (claim type 32). Under FHA-HAMP, the Mortgagee may receive an incentive fee of up to \$1,250. This total includes \$500 for the partial claim and \$750 for the loan modification. Mortgagees may also claim up to \$250 for reimbursement for a title search and/or recording fees.

#### **Mortgagee Letter 2012-22**

FHA-HAMP typically involves the combination of a Loan Modification and a Partial Claim. However, FHA-HAMP may now involve the use of one or both of those Loss Mitigation options.

As part of FHA-HAMP, a Partial Claim may include an amount needed to cover arrears in loan payments and, potentially, an additional amount for principal deferment.

The total of arrearages used in calculating the FHA-HAMP Partial Claim amount is no longer limited to 12 months PITI.

**Mortgagee Letter 2016-14**

The Mortgagee must ensure that the FHA-HAMP Loan Modification fully reinstates the Mortgage and complies with the interest rate and modified principal provisions.

## Appendix D

### Partial Claims Case Details

FHA case number	Amount paid by HUD	Ineligible	Repaid before audit	To be repaid
011-5570982	\$ 8,675.92	\$ 8,675.92		\$ 8,675.92
011-5605083	10,878.68	10,878.68		10,878.68
011-5870621	27,476.35	27,476.35		27,476.35
011-6122287	14,052.14	14,052.14		14,052.14
031-3489431	5,706.96	5,706.96		5,706.96
045-6417198	55,646.94	55,646.94		55,646.94
048-4362668	17,219.98	17,219.98	\$ 17,219.98	
061-2761453	22,680.32	22,680.32		22,680.32
094-5107823	14,220.87	14,220.87	14,220.87	
095-0370003	1,674.02	1,674.02		1,674.02
101-7230386	3,952.15	3,952.15		3,952.15
105-2429578	8,293.10	8,293.10		8,293.10
105-3023969	18,902.38	18,902.38		18,902.38
105-3141811	11,063.20	11,063.20		11,063.20
105-4849402	1,962.68	1,962.68	1,962.68	
131-9839985	6,371.40	6,371.40	6,371.40	
132-1921527	43,874.93	43,874.93	43,874.93	
137-2160146	50,722.95	50,722.95	50,722.95	
137-2897005	26,602.42	26,602.42		26,602.42
137-3540815	41,631.53	41,631.53	41,131.53	500.00
137-4699065	46,001.39	46,001.39		46,001.39
151-5217123	10,890.76	10,890.76		10,890.76
151-8342111	36,044.06			
151-8367845	18,849.00	18,849.00		18,849.00
151-8949013	21,304.26	21,304.26		21,304.26
151-9647731	6,743.96	6,743.96		6,743.96
197-0296423	11,377.67	11,377.67		11,377.67
201-3865087	4,259.12	4,259.12	4,259.12	
262-1460445	32,507.27	32,507.27		32,507.27
277-0035734	52,614.55	52,614.55		52,614.55
292-3776175	13,362.58	13,362.58	13,362.58	
292-5085745	64,112.42	64,112.42		64,112.42
332-4683965	38,211.30	38,211.30		38,211.30
351-4522261	31,297.68	31,297.68	30,797.68	500.00

FHA case number	Amount paid by HUD	Ineligible	Repaid before audit	To be repaid
351-4941156	43,646.13	43,646.13		43,646.13
351-5985783	43,890.93	43,890.93	43,890.93	
352-5576054	105,592.85	105,592.85	5,592.85	
371-3756399	66,518.60	66,518.60		66,518.60
374-4340140	30,413.12	30,413.12		30,413.12
374-4526808	21,730.81	21,730.81		21,730.81
374-4533657	62,125.12	62,125.12		62,125.12
374-5603176	138,348.46			
381-5234241	16,648.80	16,648.80		16,648.80
381-5677371	23,261.63	23,261.63	23,261.63	
381-7356444	10,534.37	10,534.37	10,534.37	
381-8981781	50,228.24	50,228.24		50,228.24
411-3939562	48,889.77	48,889.77	48,889.77	
411-4032127	4,662.88	4,662.88	4,662.88	
412-6059963	12,473.55	12,473.55	12,473.55	
412-6126365	20,231.21	20,231.21	20,231.21	
413-3737379	4,606.66	4,606.66		4,606.66
413-4110824	16,187.80	16,187.80		16,187.80
422-2684121	4,920.86	4,920.86		4,920.86
441-7124675	21,206.96	21,206.96	21,206.96	
441-7402173	3,756.99	3,756.99		3,756.99
461-4219724	3,248.31	3,248.31		3,248.31
481-2779076	9,674.99	9,674.99	9,674.99	
482-3564016	11,919.76	11,919.76		11,919.76
483-2664404	27,219.43	27,219.43		27,219.43
483-3818835	54,608.41	54,608.41	54,608.41	
491-7745633	8,580.63	8,580.63	8,580.63	
492-8301610	15,609.89	15,609.89		15,609.89
494-3497797	12,945.71	12,945.71	12,945.71	
521-7193005	68,696.32	68,696.32	68,696.32	
541-8581952	51,275.79	51,275.79	51,275.79	
541-8874744	2,442.86	2,442.86	2,442.86	
561-8463512	59,983.28	59,983.28		59,983.28
561-8844257	95,707.11	95,707.11		95,707.11
<b>Totals</b>	<b>1,950,973.17</b>	<b>1,776,580.65</b>	<b>722,892.58</b>	<b>1,053,688.07</b>