



U.S. Department of Housing and Urban Development

Office of Inspector General

451 7th St., S.W.

Washington, D.C. 20410-4500

June 5, 2007

MEMORANDUM FOR: Brian D. Montgomery, Assistant Secretary for Housing-Federal Housing Commissioner, H

FROM: John P. McCarty, Assistant Inspector General for Investigation, GI

SUBJECT: Social Security Number Validation for Single Family Loans
File: IED-06-0011

The Inspections and Evaluations Division conducts independent, objective examinations of Department of Housing and Urban Development (HUD) activities, programs, operations, or organizational issues.

We completed a limited review of social security number validation procedures used by lenders to qualify single family loans for FHA mortgage insurance. Prior to 2005, the use of invalid or false social security numbers (SSNs) by borrowers and co-borrowers to obtain FHA insured mortgages was an issue. Effective June 2005, FHA required the lenders to validate borrowers social security numbers by matching their names and dates of birth through FHA Connection. The FHA outlined specific procedures for the lenders to follow.

The objectives of our review were to determine: whether lenders are using the social security number validation procedures, if the procedures are working, and how lenders resolve validation failures.

We determined that: 1) lenders were using the validation procedures and the procedures were working; 2) use of invalid SSNs and total loans originated by lenders, significantly decreased since HUD's implementation of the revised validation procedures; 3) the findings reported in the Quality Assurance Division's reviews of the mortgage companies on the use of invalid or false social security numbers has declined considerably; and 4) lenders properly resolved validation failures when the SSNs failed initial verification through FHA Connection.

BACKGROUND

Congress created the Federal Housing Administration (FHA) in 1934. The FHA became a part of the Department of Housing and Urban Development's (HUD) Office of Housing in 1965. The FHA provides mortgage insurance on loans made by FHA approved lenders throughout the United States and its territories. The FHA mortgage insurance provides a lender

with protection against losses as the result of homeowners defaulting on their mortgage loans. The loans must meet certain requirements established by FHA to qualify for insurance.

HUD Handbook 4155.1, Mortgage Credit Analysis for Mortgage Insurance One to Four Family Properties, paragraph 3-1c, requires the lender to document a valid SSN for each borrower, co-borrower, and co-signer on the mortgage. The handbook allows lenders to use various means for validating the SSN including examining the borrower's pay stubs, passport, valid tax returns, and they may use service providers including those with direct access to the Social Security Administration (SSA). The lender is also required to resolve any inconsistencies or multiple SSNs for individual borrowers that are revealed during loan processing and underwriting.

On May 24, 2005, HUD issued Mortgagee Letter 2005-27. The letter stated that the FHA began validating SSN with the borrowers name and date of birth beginning on June 18, 2005. If the data elements do not match, the lender can correct any or all of the three data fields (date of birth, name and SSN) or if the lender believes the information fields are correct, may override the online validation, continue with all other data entries and the application will be placed in the "holds tracking" mode. An attempt will be made to verify the information overnight with the SSA's database. If the information is still not validated the borrower may produce conclusive documentation that the SSA database is in error and the lender may supply the information to the jurisdictional Homeownership Center (HOC). If the HOC believes the information is correct, the HOC can issue a manual case number.

In FHA Connection, SSNs are validated through Pay.Gov. Pay.Gov enables lenders to authenticate borrower information, such as, name, SSN and date of birth in real-time. The verification service references government and commercial databases to confirm the authenticity of the information provided, such as ChoicePoint, eFunds, Equifax, RAF Crystal (a proprietary database containing postal data used to verify name, but not SSN), Telecheck, and ACER (an extract from the Federal payments database called PACER). FHA Connection is an Internet based system that allows FHA approved lenders to have real-time access to several of FHA's systems for the purpose of originating and servicing FHA insured loans. Each lender employee is given his or her own identification and password to access the system.

If borrower information is not validated, a warning is displayed on the SSN Validation Warning Report. The loan will not be endorsed unless all case warnings are remedied. The lender must submit documentation to the applicable HOC to validate the borrower's failed SSN verification. It is the responsibility of the HOC to review and determine the adequacy of the documentation provided. Once verification is cleared, the HOC will override the SSN validation warning for loan endorsement. SSN Validation Warning Reports can be generated through FHA Connection. However, these reports only include SSN warnings for the past 13 months, by case number, lender identification and lender name.

SCOPE AND METHODOLOGY

To achieve our objectives, we identified all loans originated in the Chicago and Denver Metropolitan areas during June 2004 through June 2006 through the Single Family Data Warehouse (SFDW). We compared the social security numbers and dates of birth of borrowers and co-borrowers of these loans to the SSN's database, SSN Detect, to determine the trends in number of loans originated and invalid social security numbers for the twelve-month period before June 2005 and the twelve-month period after June 2005. SSN Detect is a proprietary software application developed by Comserv, Inc.

We reviewed the reports of mortgage company reviews done by Atlanta and Denver HOCs in their regions from June 2004 to June 2006. This was done to determine the trends on findings regarding the use of invalid or false social security numbers. There were 22 reports in Atlanta and 4 reports in Denver that included social security number findings.

To review whether the lenders were following HUD's validation procedures, we extracted the loan origination data from the Single Family Data Warehouse for the 13-month period, October 21, 2005 to November 21, 2006. The number of loans originated and insured by HUD totaled 8,901 for Chicago and 7,730 for Denver. There were 186 loans with initial SSN validation failures for Chicago and 165 for Denver, for a total of 351. We determined that HUD endorsed 93 of 351 loans. We obtained and reviewed the case binders for these loans to verify whether the social security numbers were properly validated.

We contacted the Chicago and Denver HOCs' Processing and Underwriting Branches to determine procedures established by HUD to ensure borrowers' SSNs initially failing FHA Connection's validation process are properly verified before HUD endorsement.

We contacted HUD's contract staff at Advance Technology Systems to obtain information pertaining to FHA Connection's Warning System relating to SSN number validations. We reviewed SSN Validation Reports.

OBSERVATIONS

OBSERVATION 1: Loans Originated and Invalid SSNs Declined

We found that the loans endorsed by HUD and the number of invalid social security numbers for endorsed loans declined considerably, during the 12-month period after the implementation of the revised validation procedures. The rate of decline for endorsed loans was 28% for the Chicago area and 39% for the Denver area. Also, the rate of decline for invalid social security numbers was 88% for the Chicago and Denver areas. The following tables show the decrease since HUD's implementation of the validation procedures in June 2005.

Chicago Metropolitan Area:

Period	Loans Endorsed	Total SSNs	Valid SSNs	Invalid SSNs
June 2004 – June 2005	9,225	19,667	19,543	124
June 2005 – June 2006	6,610	13,013	12,998	15

Denver Metropolitan Area:

Period	Loans Endorsed	Total SSNs	Valid SSNs	Invalid SSNs
June 2004 – June 2005	10,553	20,267	20,116	151
June 2005 – June 2006	6,394	12,639	12,631	18

OBSERVATION 2: Findings Regarding the Use of Invalid or False Social Security Numbers Declined

For the period June 2004 to June 2006, we reviewed the findings on the use of invalid or false social security numbers issued by the Atlanta and Denver HOCs after their reviews of the mortgage companies. The HOCs used AutoTrackXP, a subscriber based system, which cross references data, such as: addresses, driver’s license numbers, and SSN. The HOCs also used documentary evidence from individual borrowers. The Atlanta HOC issued 22 reports for the Chicago area and Denver issued 4 reports that included social security number findings.

For 22 reports issued for Chicago, the Atlanta HOC, Quality Assurance Division, identified 93 loans in which the borrowers may have used invalid or false social security numbers. Eighty-six of 93 loans were endorsed before June 2005 and only seven were endorsed after June 2005. The validation issues for these seven loans included: borrowers’ use of various names, borrowers’ use of different SSNs, a pay stub with a different SSN, and a borrower and co-borrower using the same SSN. For Denver, 30 loans were identified in the reports as having social security number issues. All loans were endorsed prior to June 2005.

Since HUD’s implementation of its revised SSN validation procedures, it appears that reported borrower use of invalid or false SSNs as evidenced by the Quality Assurance Division’s review of the mortgage companies has significantly declined.

OBSERVATION 3: Proper Validation of Initial SSN Validation Failure

For the past 13 months, November 21, 2005 to November 21, 2006, there were 186 loans (out of 8,901 endorsed) with SSN Validation warnings in the Chicago area and 165 loans (out of 7,730 endorsed) with warnings in the Denver area. HUD endorsed 50 of the 186 Chicago loans and 43 of the 165 Denver loans.

We reviewed 40 of the 50 loan files for Chicago, and 32 of the 43 loan files for Denver. For the Chicago area, we found social security numbers were properly verified and documented for 37 loans. We could not find documentation in the files for three loans. For the Denver area, we found social security numbers were properly verified and documented for 24 loans. We could not find documentation in the files for 8 loans. We verified the SSNs in AutoTrackXP for the loans in which validation documentation was not found. No discrepancies were noted. It appears that the lenders and the HOCs properly validated those SSNs failing initial validation through FHA Connection.

Recommendations

We recommend that the Assistant Secretary for Housing require HUD and the lenders to:

1. maintain documentation in the loan files supporting the Social Security Number validations.

ACKNOWLEDGEMENTS

The report was prepared under the direction of Ruth A. Ritzema, Deputy Assistant Inspector General for Inspections and Evaluations, Office of Inspections.

The assignment was supervised by Michael Groszkiewicz, Special Agent in Charge, Inspections and Evaluations Division, Office of Investigation.

The following field staff persons worked on the assignment and report:

Muhammad M. Akhtar, Supervisory Forensic Auditor
Jacqueline Billmeyer, Senior Forensic Auditor
Anne-Marie Vanderberg, Senior Forensic Auditor