



Issue Date	July 2, 2010
Audit Report Number	2010-DE-1004

TO: Vicki Bott, Deputy Assistant Secretary for Single Family Housing, HU

//signed//

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

SUBJECT: Access National Mortgage Corporation, Denver, CO, Did Not Follow HUD Requirements When Submitting Two of Its Loans for Endorsement

HIGHLIGHTS

What We Audited and Why

We audited Access National Mortgage Corporation (Access National), a Federal Housing Administration (FHA)-approved direct endorsement lender. We reviewed a total of 25 loans underwritten by Access National. We reviewed 23 loans to determine whether it complied with HUD regulations, procedures, and instructions in originating, and underwriting, the FHA-insured loans selected for review. We reviewed 2 FHA-insured loans to determine whether it complied with HUD regulations, procedures, and instructions in submitting the loans for endorsement. We audited Access National because its 2-year default rate was 12.22 percent, which is higher than FHA's national 2-year default rate of 6.04 percent.

What We Found

Access National generally complied with HUD regulations, procedures, and instructions in the origination and underwriting of 23 insured loans selected for review. However, it did not comply with U.S. Department of Housing and Urban Development (HUD) regulations, procedures, and instructions for two insured

loans it submitted to HUD for endorsement. It submitted the loans, totaling more than \$410,000, for endorsement when the loan payments were not current.

What We Recommend

We recommend that HUD require Access National to reimburse it for the future loss on the two loans that should not have been insured because they were not current when submitted for endorsement. We also recommend that HUD ensure that Access National implements policies to ensure that loans are current when submitted to HUD for endorsement.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the discussion draft of the audit report to Access National on June 11, 2010, and requested its comments by June 25, 2010. Access National provided its written response on June 22, 2010. Access National generally concurred with the finding and recommendations.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

Access National Mortgage Corporation's (Access National) home office is located in Reston, VA. Access National has a number of branches including two branches located in Denver, CO. We audited the Denver branch located at West 26th Avenue (lender identification number 7729200320). The U.S. Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) authorized this branch as a nonsupervised mortgage company on July 11, 2006. A nonsupervised mortgage company is a nondepository financial entity the principal activity of which is the lending or investment of funds in real estate mortgages. This branch only originates loans. The home office in Reston, VA, performs the underwriting and the quality assurance reviews.

From January 1, 2008, through December 31, 2009, the Denver branch office originated 5,334 FHA-insured loans, with a total original mortgage amount of more than \$1 billion. Of the 5,334 loans, 652 (12.22 percent) defaulted within the first 2 years, which is higher than the Nation's 2-year default rate of 6.04 percent.

FHA mortgage insurance encourages lenders to approve borrowers with less than perfect credit because FHA insures the mortgage against default. Approved FHA lenders are responsible for complying with all applicable HUD regulations and are required to determine a borrower's ability and willingness to repay the mortgage. Approved direct endorsement lenders may underwrite and close mortgage loans without prior FHA review or approval. To obtain direct endorsement approval, a lender must demonstrate it has the qualifications, experience, and expertise to underwrite mortgage loans that satisfy FHA requirements. To maintain approval, a lender must consistently underwrite and close loans that meet FHA requirements. The lender must submit the loan for insurance endorsement within 60 days after loan settlement or funds disbursement, whichever is later. HUD determines whether the loan is received late for endorsement based upon the date it actually receives the loan case binder. When a loan is submitted late for endorsement, the lender must certify that the mortgage was not unpaid more than 30 days.

The objectives of the review were to determine whether Access National complied with HUD regulations, procedures, and instructions in originating, underwriting, and submitting for endorsement the FHA-insured loans selected for review.

RESULTS OF AUDIT

Finding 1: Access National Did Not Follow HUD Requirements When Submitting Loans for Endorsement

Access National submitted two loans for endorsement when the payments on those loans were not current. This condition occurred because Access National did not have adequate written policies to ensure that loans were current when submitted to HUD for endorsement. As a result, HUD endorsed two ineligible loans for more than \$410,000.

Access National Submitted Loans That Were Not Current

Access National submitted two loans for endorsement when the payments on those loans were not current. It submitted loan FHA case number 571-0809019 to HUD for endorsement on May 3, 2008, when the April 1, 2008, payment had not been made by the borrower. Additionally, it submitted loan FHA case number 381-8612471 to HUD for endorsement on December 8, 2008, when the November 1, 2008, payment had not been made by the borrower.

Chapter 3 of HUD Handbook 4165.1, REV-2, stipulates that a loan is not eligible for endorsement if the payment due for the month before the lender submitted the loan for endorsement has not been received.

Access National Had Inadequate Written Policies

Access National did not have adequate written policies. Its written policies did not include procedures for ensuring that loans were current when submitted to HUD for endorsement. Based on our review, Access National developed written policies for submitting loans for endorsement to ensure that it meets HUD requirements.

HUD Endorsed Two Uninsurable Loans

HUD endorsed two ineligible loans for more than \$410,000. The FHA insurance fund is at risk for the potential loss to HUD on the total value of the unpaid loan amounts, which was \$402,441. HUD will determine the final loss when it disposes of the properties. HUD's most recent data disclosed that the average loss

rate is 60 percent. Therefore, the estimated loss to HUD is \$241,464. See Appendix C for late endorsement loan details.

Since we only identified two loans with this deficiency during our audit period, this was not a pervasive issue. However, it is an issue that needs to be addressed to prevent future losses to the insurance fund.

Recommendations

We recommend that the Assistant Secretary for Housing – Federal Housing Commissioner

- 1A. Require Access National to indemnify HUD for the future loss on the two loans. The estimated loss to HUD is \$241,464.
- 1B. Ensure that Access National implements policies to ensure that loans are current when submitted to HUD for endorsement.

SCOPE AND METHODOLOGY

Our audit period was January 1, 2008, through December 31, 2009. Access National's Denver branch office originated 5,334 FHA-insured loans with beginning amortization dates during our audit period. We did not perform a 100 percent selection or a representative selection using statistical or nonstatistical sampling. We selected 23 of the 652 loans that defaulted within the first 2 years after closing. Of the 23 loans, five were non-streamline-refinanced loans. We sorted the non-streamline-refinanced loans by the number of payments made before the lender reported the first 90-day default, and the underwriters. We selected the 4 loans that were manually underwritten and had 14 or fewer payments made before the first 90 day default was reported. Additionally, we selected the one automated underwritten loan with no payments made before the first 90 day default was reported. The remaining 18 loans were streamline-refinanced loans that had three or fewer payments before the lender reported the first 90-day default, were manually underwritten, and had a default reason of excessive obligations or unable to contact the borrower. We also noted the loan's current status, and those in a claim status were placed higher on the list. From the list, we selected 2 loans from each of the 9 underwriters represented.

When we reviewed the loan files for the 23 loans, we determined that none of the 23 loans were submitted late for endorsement. In order to determine if Access National followed HUD requirements when it submitted loans late for endorsement, we identified and reviewed the two loans with beginning amortization dates between January 1, 2008, and December 31, 2009, that were not current when they were submitted to HUD for endorsement. We did not perform a full review of these two loans. We only reviewed these loans to determine that they were not current when they were submitted for endorsement.

To accomplish the audit objectives, we

- Reviewed HUD regulations and reference materials related to single-family requirements.
- Reviewed Access National's underwriting and quality control policies and procedures.
- Reviewed HUD's and Access National's loan case files.
- Reviewed Access National's quality control reports and corrective actions taken.
- Interviewed Access National's management to obtain information regarding its policies and procedures.

We used origination, default, claim, and current loan status data maintained by HUD in the Single Family Data Warehouse and Neighborhood Watch systems for background information and in selecting our sample of loans. We did not rely on the data to base our conclusions. Therefore, we did not assess the reliability of the data.

We classified \$241,464 as funds to be put to better use. This is a projected amount of loss to HUD for the two loans which we recommend that HUD require Access National to indemnify. To determine the potential loss, we used HUD's calculation for its average loss on FHA-insured foreclosed-upon properties, which is 60 percent of the unpaid loan balance. The 60 percent is based on the Actuarial Review of the FHA Mutual Mortgage Fund for Fiscal Year 2009.

We performed the onsite review work from February to March 2010 at the Denver branch office located at 2420 West 26th Avenue, Denver, CO.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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 objectives:

- Management's controls to ensure that FHA-insured loans are underwritten in accordance with HUD requirements.
- Management's controls to ensure that loans are submitted for endorsement in accordance with HUD requirements.
- Management's controls to ensure that a quality control plan is developed and implemented in accordance with HUD requirements.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe that the following item is a significant weakness:

- Controls over ensuring that loans are current when they are submitted to HUD for endorsement/insuring.

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use 1/
1A	\$241,464

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.

Implementation of our recommendation to require Access National to indemnify HUD for the future loss on the two loans it submitted for endorsement when the payments on those loans were not current will reduce the risk of loss to the FHA insurance fund. The amount above reflects the amount of estimated loss to HUD incurred for the two loans. To determine the estimated loss, we used HUD's calculation for its average loss on FHA-insured foreclosed-upon properties, which is 60 percent of the unpaid loan balance. The 60 percent is based on the Actuarial Review of the FHA Mutual Mortgage Fund for Fiscal Year 2009.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



June 22, 2010

VIA FEDERAL EXPRESS

Mr. Ronald J. Hosking
Regional Inspector General for Audit
U.S. Department of Housing
and Urban Development
Office of the Inspector General
Region 8AGA
UMB Plaza, 24th Floor
1670 Broadway
Denver, Colorado 80202-4801

**RE: Access National Mortgage Corporation
HUD OIG Draft Audit Report**

Dear Mr. Hosking:

Access National Mortgage Corporation ("ANMC" or "Company") is in receipt of the Draft Audit Report ("Report") and cover letter dated June 11, 2010, from the U.S. Department of Housing and Urban Development ("HUD" or "Department") Office of the Inspector General ("OIG"). The Report is based on a review of ANMC's Denver, Colorado branch office to determine whether that office's procedures and practices in originating, underwriting, and submitting Federal Housing Administration ("FHA") loans for insurance endorsement adhered to HUD requirements. The review was conducted in February and March of 2010, and covered loans with closing dates between January 1, 2008 and December 31, 2009.

The Report concluded that "Access National generally complied with HUD regulations, procedures, and instructions in the origination and underwriting of the twenty-three loans selected for review." The Report, however, contains one finding asserting that the Company submitted two loans for FHA insurance endorsement when loan payments were not current. Based on these findings, the Report recommends that HUD require ANMC to: (1) indemnify the Department for any future losses in connection with these two loans; and (2) confirm that the Company implements policies to ensure that loans are current when submitted to HUD for insurance endorsement. The OIG provided ANMC with an opportunity to submit written comments for inclusion in the final report. This response summarizes ANMC's history and operations, including improvements ANMC has implemented in its case binder submission procedures, and addresses the Report's finding. We appreciate this opportunity to comment on the OIG's findings and recommendations.

1800 Robert Fulton Drive, Suite 350
Reston, Virginia 20191

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I. BACKGROUND

ANMC received approval as a Direct Endorsement mortgagee in August of 1994. Headquartered in Reston, Virginia, ANMC operates in several states through thirteen FHA-approved branch offices and employs approximately 195 individuals. The Company enjoys excellent relationships with both consumers and its investors, and ANMC's employees consistently strive to produce high quality loans in compliance with HUD/FHA standards. FHA lending constitutes approximately 63% of ANMC's business operations. Because FHA lending represents a substantial portion of ANMC's overall production, the Company takes its responsibilities under the FHA program seriously. We strive to comply with applicable rules and regulations and are committed to educating and training our employees on issues of FHA compliance. In addition, ANMC is dedicated to customer service. We aim to make the lending process as simple as possible for borrowers and work closely with each individual applicant to ensure that he or she receives the type of financing that best fits his or her needs. Throughout our existence, we have endeavored to provide dependable and professional service and have repeatedly demonstrated our commitment to borrowers and allegiance to the FHA Program.

II. RESPONSE TO THE FINDING

A. HUD Requirements for Late Case Endorsement

The Report concludes that ANMC generally complied with HUD requirements in its origination and underwriting of FHA-insured loans, but asserts that the Company submitted two loans for insurance endorsement that were not current at the time of submission. Upon receipt of the draft Report, ANMC conducted a thorough review of the finding and examined applicable HUD/FHA guidelines and internal Company procedures at the time these loans were originated in an effort to provide pertinent information and documentation with this response.

As you know, HUD requires lenders to submit case binders involving a mortgage originated under the Direct Endorsement program for FHA insurance endorsement to the appropriate HUD Homeownership Center ("HOC") so that it is received within 60 days after closing. See 24 C.F.R. § 203.255(b); HUD Handbook 4165.1 REV-2, ¶ 2-2.¹ Provided certain requirements are met, HUD permits "late requests for endorsement," which include case binders received more than 60 days after the later of the loan

¹ While the Department has issued a new online Handbook 4155.2, which governs the case binder submission process, the new Handbook became effective for loans originated on or after May 11, 2009, after the cited loans were originated and closed. We therefore rely on the prior Handbook, 4165.1 REV-2, in this response.

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closing or disbursement of funds or, in cases involving a Notice of Return ("NOR"), within 30 days from the date of issuance of the original NOR. See HUD Handbook 4165.1 REV-2, ¶¶ 3-1, 3-2. When submitting late case endorsement requests, HUD requires lenders to include a certification stating that: (1) at the time of the certification, no mortgage payment is currently unpaid more than 30 days; (2) all escrow accounts for taxes, hazard insurance and mortgage insurance premiums are current and intact, except for disbursements that may have been made to cover payments for which the accounts were specifically established; and (3) the mortgagee or its agents did not provide the funds to bring and/or keep the loan current or to bring about the appearance of an acceptable payment history. See id. ¶ 3-3.

ANMC understands and appreciates that, at the time it submitted the two loans at issue for FHA insurance endorsement, ANMC was responsible for ensuring that late requests for endorsement complied with these provisions. It was and is ANMC's policy and procedure to strictly comply with HUD requirements. At the time the loans at issue were submitted to the Department, if a case binder was submitted more than 60 days after closing, ANMC required its employees to ensure that the loan was current and that the case binder contained all additional required documentation. ANMC acknowledges, however, that in the two isolated instances identified by the OIG, the late case endorsement requests did not strictly conform to these requirements.

These atypical deficiencies occurred as a result of human error in two cases in which the Department had issued NORs and, in resolving the issues presented in the NORs, the case binders had become late case endorsement requests. As noted in the Report, these inadvertent oversights did not constitute a pervasive issue. Company officials consistently have provided employees submitting case binders to HUD with oral instructions on ensuring that all loans constituting late case endorsement requests be current at the time of submission. Moreover, ANMC has implemented new written procedures regarding this issue. Specifically, the Company revised its Government Insuring Procedure to make clear that case binders should be submitted to HUD within 30 days from the disbursement date (**Exhibit A**). Should a file receive an NOR and be re-submitted past the "first payment" due date, the specialist responsible for submitting the case binder must obtain a pay history for the loan and ensure that the loan is current (**Exhibit A**). Any loans not insured within 60 days are handled by the responsible specialist, as well as the Senior Vice President of ANMC's Secondary Department (**Exhibit A**).

The Report acknowledges that ANMC has developed written policies for submitting loans for FHA insurance endorsement, and the Company will continue to monitor its case binder submission practices to ensure compliance with ANMC policy and FHA guidelines. We are confident that these written policies and our current

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Comment 1

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procedures resolve any outstanding concerns and will ensure ANMC's adherence to HUD's late case endorsement guidelines.

B. The Report Contains Recommendations to HUD, Rather than a Final Action By the Department

As noted above, the Report merely recommends that the Department pursue indemnification in the cited cases. Upon receiving the final report, the Department will have an opportunity to independently examine the review findings and make an independent determination of whether such penalties are appropriate in these two loans. Although the review process is still ongoing at the time the OIG issues its "final" report, the Report and the OIG's recommendations typically are made public on the OIG website. As a result, a lender's investors and peers are able to access the preliminary recommendations of the OIG before a final assessment as to their merit can be made by the Department. These entities often misinterpret the OIG's recommendations to be final actions by the Department. Under these circumstances, making these preliminary recommendations public may have a material, adverse effect on the Company.

To avoid confusion, we respectfully request that the final Report include a disclosure on the first page indicating that the Report's findings reflect the views of the OIG and do not constitute a final determination of the matters by the Department, which will be made by the Report's addressee, the HUD Assistant Secretary for Housing – Federal Housing Commissioner. Such a disclosure would more accurately convey the status of the OIG's final report to the Company's investors, customers, and the public.

III. CONCLUSION

ANMC takes the matters raised in the draft Report seriously. As discussed above and acknowledged in the Report, ANMC complied with FHA underwriting requirements and made loans to qualified FHA borrowers. This compliance reflects the Company's commitment to educating and training its employees on issues regarding FHA compliance and to assuring their adherence to HUD's rules and regulations. While the Company acknowledges that isolated errors occurred in the submission of two case binders for insurance endorsement, the Company has made several improvements to its procedures for case binder submission to ensure that such incidents do not recur.

If you have any additional questions, or if you need additional information, please do not hesitate to contact our Washington counsel, Phillip Schulman, at (202) 778-9027.

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Thank you for your kind consideration.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Hackemer', with a long horizontal line extending to the right.

Dean Hackemer
President

cc: Phillip L. Schulman, Esq.



GOVERNMENT INSURING PROCEDURE

April 13, 2010

Senior Vice President – Zoo Jannesar

In order to ensure that all government loans are insured in a timely manner, the following procedures have been set in place.

Once a government loan has funded, it is the government loan specialist's responsibility to pay the UFMIP (Up Front Mortgage Insurance Premium) for FHA loans, or the FF (Funding Fee) for VA loans within 10 days of disbursement.

FHA

Once payment has been transmitted, the specialist stacks the file in accordance with HUD's requirement in a HUD Case Binder. It is then sent overnight to the appropriate HOC for review and ultimately insuring. This is done within 15, but no later than 30 days from the disbursement date.

NORs

Should a file be NOR'd (Notice of Rejection) the notes as posted on FHA Connection are entered in our data system and the specialist takes further action to correct/update the necessary items. If the case is being resubmitted past the "first payment" due date, then it is the specialist's responsibility to ensure that the loan is current by obtaining a pay history from the current lender and/or a Verification of Mortgage. A certification must also be submitted with the resubmission. This must be done each time a case binder is resubmitted to HUD.

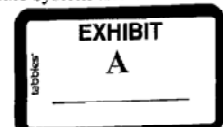
Should a loan go NOR'd for an excess of 60 days it will still be handled by the specialist, however the SVP of Secondary, or higher, will have the direct oversight of these loans.

Once a loan has been issued an MIC the specialist is required to scan a copy into the data system and enter the date the loan was insured.

VA

Once payment has been transmitted, the specialist enters in the necessary information on the VA website for insuring. The VA will either immediately issue a LGC or request additional information. If the VA requires additional information the specialist will package the file and immediately send to VA for review and ultimately insuring.

Once a loan has been issued a LGC the specialist is required to scan a copy into the data system and enter the date the loan was insured.



OIG Evaluation of Auditee Comments

Access National generally concurs with the report and has taken action to prevent future errors.

Comment 1 This report contains our audit results and final recommendations for resolving any issues identified. The facts supporting all conclusions and recommendations are clearly presented in the finding and the magnitude of any issues identified is clearly represented. Therefore, we do not believe further disclosures are warranted.

Appendix C

LATE ENDORSEMENT LOAN DETAILS

Case number	Original loan amount	Date submitted for endorsement	Payment not made	Unpaid principal balance as of April 30, 2010	Sixty percent
571-0809019	\$205,323	5/3/2008	4/1/2008	\$201,483	\$120,890
381-8612471	\$205,135	12/8/2008	11/1/2008	\$200,958	\$120,574
Total	\$410,458			\$402,441	\$241,464