Issue Date January 28, 2005	
Audit Report Number 2005-FW-1004	

TO: John C. Weicher
Assistant Secretary for Housing, H

James D. McKay

FROM: James D. McKay
Acting Regional Inspector General, 6AGA

SUBJECT: American Property Financial
Nonsupervised Loan Correspondent
San Antonio, Texas

HIGHLIGHTS

What We Audited and Why

We audited American Property Financial (American), a nonsupervised loan correspondent approved to originate Federal Housing Administration mortgage loans under the U.S. Department of Housing and Urban Development's (HUD) Single Family Direct Endorsement Program.[1] American originated 83 Federal Housing Administration loans between February 1, 2002, and January 31, 2004. As of February 23, 2004, 14 of the 83 loans were in default status. Synergy Mortgage, Inc.[2] had underwritten the 14 loans. Accordingly, we limited our review to loans originated by American and underwritten by Synergy Mortgage, Inc. During the audit period, Synergy Mortgage, Inc., underwrote 39 loans for American.[3]

Our audit objectives were to determine whether American: (1) complied with HUD's regulations, procedures, and instructions in the origination of Federal Housing Administration-insured mortgages and (2) implemented a quality control plan according to HUD's requirements.

We performed our review in accordance with generally accepted government auditing standards.

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1 Federal Housing Administration originating number 12015.
2 Federal Housing Administration sponsor number 75542.
3 This includes affiliates of Synergy Mortgage, Inc.

What We Found

American failed to originate Federal Housing Administration-insured loans in accordance with HUD requirements. American used gift funds to pay delinquent debts, rolled delinquent debts into mortgage loans, and submitted loans for unqualified applicants. American used inflated or poor appraisals to increase the sales price to accommodate the incentives to purchase. All 39 loans reviewed involved the same underwriter and 35 of the 39 involved the same loan officer. Nineteen of the loans involved the same manufactured home seller, and 24 involved the same appraiser. American received $185,691 from originating the 39 loans. As of February 23, 2004, 14[4] of the loans totaling $1,368,257 were in default status.[5] The deficiencies resulted from American's failure to follow HUD's requirements, its failure to implement an adequate quality control plan, and its lack of supervision over its loan officers. These deficiencies contributed to the high default rate, putting at risk 34 loans totaling more than $3.3 million in insured loans.

What We Recommend

We recommend that HUD's Assistant Secretary for Housing-Federal Housing Commissioner and Chairman of the Mortgagee Review Board:

- Require Synergy Mortgage, Inc., American's sponsor on the loans, to indemnify HUD against losses on the 34 loans.
- Require Synergy Mortgage, Inc., American's sponsor on the loans, to reduce the 20 loans that received incentives to buy disguised as gift funds by $165,158.
- Ensure American establishes controls to ensure that personnel are knowledgeable of HUD procedures and supervision is adequate to maintain an effective operation.
- Take appropriate administrative action(s) against parties involved.

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.

[4] We found problems with 13 loans.
[5] HUD has lost $301,753 on the sale of four defaulted properties.

Auditee's Response

We provided American a draft report on November 18, 2004, and held an exit conference with American on December 1, 2004. American provided written comments on December 4, 2004. 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

The National Housing Act,[6] as amended, authorizes the U. S. Department of Housing and Urban Development (HUD) to provide mortgage insurance for single-family homes. HUD must formally approve a mortgagee that originates, purchases, holds, or sells Federal Housing Administration-insured loans. Mortgagees must follow the statutory and regulatory requirements of the National Housing Act and HUD's instructions, guidelines, and regulations when originating insured loans. Mortgagees that do not follow these requirements are subject to administrative sanctions.

We audited American Property Financial (American), a nonsupervised loan correspondent approved to originate Federal Housing Administration mortgage loans under HUD's Single Family Direct Endorsement Program. American originated 83 loans between February 1, 2002, and January 31, 2004. As of February 23, 2004**,** 14 of the 83 (17 percent) loans were in default status. Synergy Mortgage, Inc., had underwritten the 14 loans. Accordingly, we limited our review to loans originated by American and underwritten by Synergy Mortgage, Inc. During the audit period, Synergy Mortgage, Inc., underwrote 39 loans for American.[7] In 35 loans reviewed, the loan included affixing a manufactured home on either purchased land or on land already owned by the borrower.

In 1998, HUD approved American as a nonsupervised loan correspondent mortgagee to originate Federal Housing Administration loans. As a condition for its HUD approval, American was required to maintain a quality control plan for the origination and servicing of insured loans. The quality control plan must be a prescribed function of American's operations and must comply with HUD's requirements and its own policies and procedures.

As a loan correspondent, American must send its originated loans to a HUD-approved direct endorsement sponsor(s) for underwriting approval before loan closing and submission to HUD for insurance endorsement. The loan origination process includes

- Taking initial loan applications,
- Initiating the appraisal assignment,
- Obtaining the credit report, and
- Procuring verifications of deposit and employment.

Based on the information compiled by American, the sponsor mortgagee underwrites the loan and decides whether the borrower represents an acceptable credit risk for HUD. Since the sponsor bases its approval in large part on the information submitted by American, it is critical that the loan correspondent exercise due care and follow prudent lending practices and HUD's requirements, HUD Handbook 4155.1, REV-5, "Mortgage Credit Analysis for Mortgage Insurance, One to Four Family Properties," when originating loans.

Our audit objectives were to determine whether American (1) complied with HUD's regulations, procedures, and instructions in the origination of Federal Housing Administration-insured mortgages and (2) implemented a quality control plan according to HUD's requirements.

6 12 United States Code 1706c.
7 This includes affiliates of Synergy Mortgage, Inc.

Finding 1: American Failed to Originate Loans in Accordance with HUD Requirements

American failed to originate Federal Housing Administration-insured loans in accordance with HUD requirements. American used gift funds to pay delinquent debts, rolled delinquent debts into mortgage loans, and submitted loans for unqualified applicants. American used inflated or poor appraisals to increase the sales price to accommodate the incentives to purchase. All 39 loans reviewed involved the same underwriter and 35 of the 39 loans involved the same loan officer. Nineteen of the loans involved the same manufactured home seller, and 24 involved the same appraiser. American charged $185,691 to originate the 39 loans. As of February 23, 2004, 14[8] of 39 loans totaling $1,368,257 were in default status.[9] The deficiencies resulted from American's failure to follow HUD's requirements, its failure to implement an adequate quality control plan, and its lack of supervision over its loan officers. These deficiencies contributed to the high default rate, putting at risk 34 loans totaling over $3.3 million in insured loans.

Gift Funds for Delinquent Debts

American inappropriately used gifts from Housing Action Resource Trust (Housing Trust), Sonrise Church, San Antonio Development Agency, and various other sources to pay off debts of the borrower or to create the illusion that the borrowers had the required downpayment. To compensate for the gifts, in many instances,[10] the sellers increased the sales price by the amount of the gift. The gifts for the 29 loans receiving gift funds totaled $233,539.

Sources and Amounts of Gifts

Housing Trust	Sonrise Church	San Antonio Development Agency/City of Laredo	Relatives	Seller	Other Sources	Total
$114,012	$51,146	$34,468	$23,435	$3,691	$6,787	$233,539

8 We found problems with 13 loans.
9 HUD has lost $301,753 on the sale of four defaulted properties.
10 Since American files did not always contain all iterations of sales contracts, the mortgage credit analysis worksheets, or other documents detailing the gifts or sales price, we could not identify all instances of where this may have occurred.

Housing Trust Gifts Added to Sales Price

As shown in the table, the majority of the gifts were from Housing Trust, which provided gift funds to the borrower and then received the same amount from the seller plus a fee of $500 to $950 after closing. American used Housing Trust, exclusively or in combination with other gifts, for 16 of the 39 loans reviewed.

Housing Trust claims the seller can contribute in this way because it goes into a "blind mixed pool of funds" but has the loan officer and borrower sign this statement:

> "The gift funds provided by HART [Housing Trust] are not made available to me/us from any person or entity with an interest in the sale of the property including the seller, real estate agent or broker, builder, loan officer, or any entity associated with any of them."

According to Housing Trust's Web site,[11] the builder/seller does not have to pay until after the closing of the property. The Housing Trust funds do not meet HUD's definition of a gift since it was added to the sales price, and, therefore, the borrower is expected to repay it. HUD requirements state, "no repayment of the gift may be expected or implied."[12]

For example, Loan 495-6351727 had an original sales price of $88,000, as shown below in the excerpt from the request for appraisal.[13]

October 29, 2002, Request for Appraisal for Loan 495-6351727

CO-OP No. of Units 1		
13. Sales Price : $ 88,000	14. Estimated Value : $ 93,000	15. Loan Amount : $ 86,478.00
16. Property Address :		

The appraiser valued the property at $97,900 on October 28, 2002. According to the settlement statement, dated November 6, 2002, the borrower received a $6,635 Housing Trust gift with the seller's amount, as noted below, reduced by $7,285 for payment to Housing Trust.[14]

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11 See Housing Trust's Web site at www.hartprogram.com for details on the Housing Trust program.

12 HUD Handbook 4155.1, REV-5, "Mortgage Credit Analysis for Mortgage Insurance, One to Four Family Properties," section 3, 2-10.

13 The request for appraisal lets the appraiser know what the appraisal needs to cover the sale of the property.

14 $6,635 (gift) plus $650 (fee) equals $7,285.

Excerpt from settlement statement "Reductions in Amount Due to Seller"

507.	
508. TAXES	1,749.63
509. HART	7,285.24

The contract price was increased from $88,000 to $97,900 on the settlement statement. The files did not provide an explanation of why the sales price increased by $9,700 and matches the appraised value. However, it is reasonable to conclude that the sales price was increased to incorporate the $7,285 Housing Trust gift. HUD requirements define this transaction as an inducement to purchase, rather than a gift. Consequently, the loan should be reduced by $7,285. Also, HUD requirements[15] define the appraised value as the lesser of the sales price or the value assigned by the appraisal. Without any justification, the sales price of this property should have stayed at $88,000.

This example demonstrates that the gift donor was the seller. HUD Handbook 4155.1, REV-5, states: "the gift donor may not be a person or entity with an interest in the sale of the property, such as the seller, real estate agent or broker, builder, or any entity associated with them." Accordingly, the other 15 loans that received a Housing Trust gift should be reduced by $107,377 for the inducements to purchase paid by the sellers.

Sonrise Church Gifts Went to Pay Off Debt

Sonrise Church contributed "gift" funds consistently to pay the borrower's debt. Since the gifts were intended to pay off debt as opposed to paying down the mortgage and closing costs, this is considered an "incentive to purchase." According to the requirements, the eight mortgages that received these gifts should be reduced by $51,146.

When contacted, Sonrise Church could not provide a not-for-profit designation. Under HUD requirements, a gift of the cash investment is acceptable if the donor is the borrower's relative, the borrower's employer or labor union, a charitable organization, or a governmental agency. According to mortgage records of Bexar County, Sonrise Church has a "company/corporation" status. Since Sonrise Church could not prove its nonprofit status, Sonrise Church may not be an eligible donor.[16] Sonrise Church should provide its not-for-profit designation, or Synergy Mortgage, Inc., should decrease the loans by $48,502.

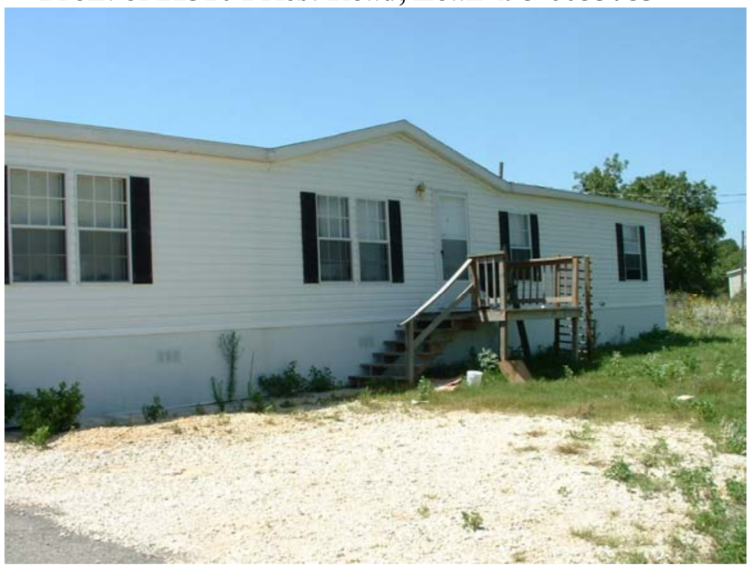
As with the Housing Trust gifts, the sales prices were increased to reflect the payment of the debt. For example, for Loan 495-6053783, the borrower had $17,899 of debts listed as settlement charges. The borrower received $17,894 from Sonrise Church and $8,309 downpayment assistance from San Antonio

[15] 24 Code of Federal Regulations §203.18.

[16] In one instance, Loan number 495-6114650 received a $2,644 gift from Sonrise Church. One borrower did cite Sonrise Church as her employer. For this loan, Sonrise Church would be an acceptable donor.

Development Agency. Based upon a memorandum in American's files, the sales price was adjusted. The files did not contain the original sales price. However, according to Braunig Investments' invoice, it paid $30,676 for the manufactured home. The property pictured below had an appraised value of $119,300. Two other HUD properties on the same block recently sold for about $30,000.[17]

Front of 21310 Priest Road, Loan 495-6053783



In another example of adjusting the sales price, the sales price on Loan 495-6053357 was increased four times. According to the files, the changes were to allow for 11 acres of land[18] and addition of money to the sales amount to allow a profit margin large enough to pay down the borrower's delinquent loans.

Braunig Investments Added Assistance to the Sales Price

Braunig Investments, the manufactured home retailer in 19 of the 39 loans reviewed, often offered assistance with closing costs; however, when it did, it added the amount of assistance to the purchase price of the home. Braunig Investments did this by changing the sales receipt.[19]

Neither Braunig nor American Resolved a $10,812 Overcharge

The review of Loan 495-6037252 showed an overcharge of $10,812 to the borrower. In addition to artificially inflating the value of the homes, the modification of paperwork and sales price increased the potential for errors.

17 Loans 495-6130442 and 495-598423.
18 The property only had approximately 5 acres.
19 Because all iterations of the sales receipt were not always available, it is unknown how often or how much.

Based upon Braunig Investments' signed sales receipt and the settlement statement, the mortgage should have been calculated as

From Braunig Investments' signed sales receipt:

Home	$39,900	
Septic & well	12,000	
Foundation	4,500	
Cost of the manufactured home		$ 56,400

Cost on settlement statement:

Closing costs and prepaids	$ 9,900	
Cost to pay off land mortgage	10,679	
Less downpayment	(1,780)	
Subtotal		$ 18,799
Correct total for home mortgage		**$ 75,199**

However, the mortgage amount on the settlement statement was $86,011, a difference of $10,812. This may have occurred because Braunig Investments' sales receipt included the land[20] and closing costs but did not deduct these costs on the settlement statement.[21]

HUD's file had an unsigned sales receipt with $67,211 listed as the cost of the manufactured home. The borrowers said they originally refused to sign the closing papers in part because the price had been increased. However, after the American loan officer threatened to sue the borrowers, they capitulated and signed. This loan should be reduced by the $10,812 to reflect the signed sales receipt.

American Loan Officer Recommended Raising the Sales Price and Appraisal

Since the files contained the adjustments to the sales price and other documents, American should have raised questions. Instead, American's files contained documentation from its loan officer trying to increase either the sales price or appraisal to ensure the success of the transaction.

For example, in a memorandum in the file for Loan 495-6255711, shown below, the loan officer informed a manufactured home retailer the amount of the bad debt could be included in the loan:

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[20] The borrowers had purchased the land in a separate transaction from another entity.
[21] Both the land and closing costs are listed separately on the settlement statement.

> There is approximately $4,473.00 in bad debt and/or payoff that will have to be paid off at time of closing and/or can be rolled into the deal if your profit margin allows.

To resolve the problem of the borrower not being qualified, the loan officer offered the solution of violating HUD requirements and adding the bad debt to the mortgage. One reason American might have ignored the information is because it received an additional 2 percent on the loans involving Braunig Investments products.

In another example, the files for Loan 495-6098817 contained the following note from the loan processor:

> Not only do I not have the above conditions, you have a big problem. The appraised value only came in at $84,000.00. **Condition # 8 states max LTV is 80%.** Max loan amount is $68,208.00 which includes the MIP. Sales price is $80,261.00. will have to come in with $18.103.44 (See attached GFE).

The loan officer responded that he would direct the seller to call the appraiser. The appraiser provided an appraisal, dated 4 days prior to the loan processor's memorandum, citing a market value of $124,000. This loan is currently in default status.

Undisclosed Payments Made to American

American received a minimum of $31,414 for fees paid outside of closing and undisclosed during the closing of 22 loans. These fees were paid by three sellers of manufactured homes: (1) Braunig Investments/Home Express/Peoples Manufactured Housing,[22] (2) Fleetwood Homes, and (3) Diamond D Steam Cleaning, Inc. The Real Estate Settlement Procedures Act[23] prohibits kickbacks or unearned fees. These payments were in addition to American's normal fees to process the loan. Also, the fees were tied to the loan as a percentage.

<u>Braunig Investments Had an Agreement with Loan Officer.</u>

American arranged to have an exclusive right to originate all of Braunig Investments' loans. In one file,[24] is the following excerpt from a letter to Braunig Investments from the American loan officer when Braunig Investments baulked at the 3-percent fee:

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22 One individual controls these three entities.
23 12 U.S. Code 2607.
24 Loan 495-6178445.

> Please understand that the pricing at 1% origination and 2% discount was agreed on by all parties involved, as evidenced by the Good Faith Estimate, of which I have sent you a copy for your records, dated 04-18-02.
>
> I seriously believe that your gross profit on this deal is substantial enough to generate an acceptable profit for Braunig Investments, Ltd.
>
> Also, please take into consideration that American Property Financial, Inc. is no longer bound to the verbal contract agreed upon by Braunig Investments, Ltd. and American Property Financial, Inc., at the inception of our business relationship. That verbal agreement being that I would price all your deals at **1%** origination and 1% discount (broker advisory fee), due to Braunig Investments, Ltd. canceling said verbal agreement when you made the decision to stop using American Property Financial, Inc. exclusively for your financing in the arena of FHA, and Conventional loans.
>
> My suggestion at this point would be to contact , and advise him that your office failed to incorporate enough monies into this deal, as you say, to cover your expenses, and if indeed, does sympathize with your situation to the extent that he is willing to increase the loan amount, upon his request I will do so. Keep in mind, as you say, is very astute , and I wouldn't be surprised if he requested to see your purchase invoice on this home.

American did not have copies of all the invoices for the broker's fees in its files. Braunig Investments' files contained payments made to American but not included in American's files. In at least two instances, Braunig Investments paid the loan officer $500 for a "bird dog" fee and $500 for a referral fee. Both fees appear to be for business referrals, prohibited by the Real Estate Settlement Procedures Act.[25] American's president was aware of the broker's fees being paid by the sellers. The president justified the extra fees because the manufactured home sellers did not know how to put the deal together; therefore, the loan officer had to spend extra time teaching them.

Faulty Appraisals Provided the Latitude to Increase the Sales Price

In order to increase the sales prices to include the gifts and borrowers debt, the appraisals had to be inflated to justify the upward adjustments of the sales price. In 30 of the 39 loans (77 percent), one of two appraisers was used. One appraiser, who HUD removed from its approved appraiser list, admitted to being a poor appraiser in the past. HUD's Quality Assurance Division noted in its review of the appraiser:

> "… there were several items which he did not addressed or explained in his appraisal of these properties such as sales dates in excess of six months, extreme distances from subject properties, excessive adjustments on site, no age adjustment for a new construction subject to several years older comparables, excessive sales price differences on comparables and vastly exceeding the 15% Net and 25% Gross adjustment without adequate justification."

[25] 12 U.S. Code §2607.

We had similar conclusions regarding his 22 appraisals used to support the costs of these loans. The appraisals generally contained errors,[26] contradictions,[27] and misstatements.[28] HUD requires the lower of the sales price or the appraisal amount to be used for the mortgage. When unrelated debt and other costs are added to the sales price, it would be expected to exceed the appraised value.[29] In some instances, the appraiser used other appraisals he had made as comparables, thus creating an upward spiral of overvalued manufactured homes.

HUD Has Lost More Than $300,000 on the Resale of the Properties

HUD has lost more than $301,753 on the four properties that went into default and later resold. As of September 30, 2004, five properties that went into default have been appraised for resale, but only four have been sold. Of the five listed in the table below, four were originally appraised by the appraisers discussed previously. Since nine other loans are also in default status, HUD could potentially lose $675,000 on the resale if it does not obtain indemnification on the loans.

Losses on Defaulted Properties Resold

Loan Number	Address	Original Sales Price	Appraisal Amount for Resale	Accepted Bid on Property	Net Loss on Property
495-6028352[30]	6504 Cereus Ct.	$70,800[31]	$66,300	$49,500	$27,689
495-6045259	677 Live Oak	$115,732	$65,000	$32,000	$94,660
495-6110953	25451 Sandview	$126,015	$55,000	$24,000	$117,119
495-6130442	21346 Priest Rd.[32]	$84,359	$30,000	$30,000	$62,285
495-6147287	108 Creekpark Dr.	$84,240	$40,000	Not sold	
Total					**$301,753**

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26 For example, the appraisal stated there were 11 acres, whereas the site had only 5 acres. Loan 495-6037252.

27 The appraisal would state in the narrative that all of the comparables were within 1 mile but in the table of comparables put the actual distance, which were many times further than a mile.

28 The appraiser listed properties on the appraisals as not being sold within the previous year when in fact the homes had.

29 *Black's Law Dictionary, 7th Edition,* defines an appraisal as "The determination of what constitutes a fair price; valuation; estimation of worth."

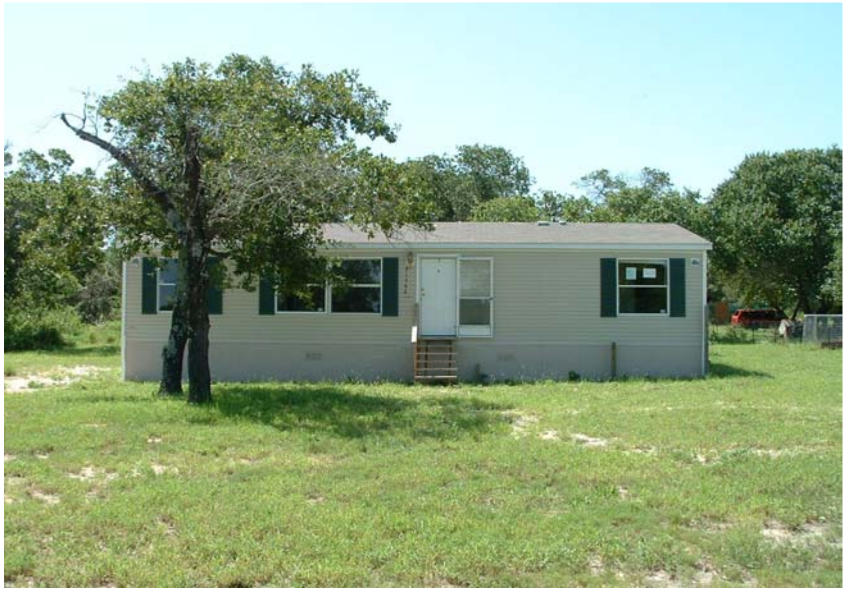
30 We are not recommending that this loan be indemnified.

31 Appraisal not performed by the two appraisers discussed previously.

32 The price information was obtained from HUD's Single Family Data Warehouse Database.

The home pictured below originally sold for $84,359, went into default, and was sold for $30,000.

21346 Priest Road



Manufactured Homes Did Not Have Acceptable Foundations

At our request,[33] a HUD structural engineer reviewed one manufactured home foundation and found it to be unacceptable.[34] According to HUD's structural engineer, the foundation did not comply with HUD requirements for the following reasons:

> (1) The site-specific design does not address specific load distribution or home characteristics but, rather, indicates that the foundations will be located and sized by the manufactured home installation instructions. In addition, the concrete masonry piers are not on the footing/pier layout.
>
> (2) Vinyl skirting is not sufficient as a permanent foundation. HUD's definition of a permanent foundation requires the inclusion of an enclosure with a continuous wall (bearing or nonbearing), which separates the crawlspace from the backfill and keeps out vermin and water. The details and specifications provided do not indicate such an enclosure.
>
> (3) HUD requires footings be placed at or below the frost line. Provisions for frost depth were not located in the details provided and substantiation to determine equivalency through engineering analysis has not been submitted. In order for interior piers to be placed at grade (above the frost depth), a special foundation design must be completed with appropriate justification for elimination of soil volume change due to frost penetration.

33 We provided HUD with pictures, correspondence, and related designs.
34 Loan 495-6037252.

(4) HUD requires that all masonry piers and walls have mortared bed and head joints (i.e., dry stacking blocks is not permitted). The home reviewed had dry stacked masonry piers used to support the home.

(5) HUD requires foundation footings to be reinforced when the footing projection on each side of the pier exceeds two-thirds of the footing thickness. The details provided do not indicate footing requirements for the masonry piers.

Based upon a review of the foundation drawings in the HUD files, none of the loans for manufactured homes requiring foundations met the requirements described by HUD's structural engineer.

The poor foundation could cause doors to not open and close properly and cracks to the interior finishes.[35] Since Braunig Investments was the seller and would have been responsible for installing the foundations on 18 other homes, the foundations on the 18 homes could also contain the deficiencies. HUD should inspect the foundations to ensure they meet requirements, and for those determined deficient, Synergy Mortgage, Inc., should indemnify the loans.

Lack of Quality Control Contributed to Problems

The quality control plan at American contributed to the problems identified in this report. American's quality control plan did not include HUD-required elements. In response to a HUD review in August 2003, American developed a quality control plan. The plan did provide for a random review of loans by an external company but did not include a required review of loans that go into default within the first 6 months.

Of the 39 loans reviewed, 9 went into default within the first 6 months. American's president stated that American did not review the loans because its sponsors did not report defaulted loans to them. Further, the president believed the defaulted loans were the sponsors' responsibility because they have final approval of the loans.

American had contracted a random review of loans by an external company. The external company had reviewed two loans and rated one loan "good" and one loan "poor." According to the president, he reviewed the reports and loans. After locating missing documentation, the president concluded the loan applicants were well qualified.

[35] Both conditions were noted at this borrower's house.

HUD requires a mortgagee to review[36]

1. Ten percent of loans and
2. All loans going into default within the first six payments.

American was not aware that it could use Neighborhood Watch to monitor its loans. If American had reviewed the loans, it might have identified some of the problems and taken corrective action to prevent repeating the errors.

Recommendations

We recommend that HUD's Assistant Secretary for Housing-Federal Housing Commissoner and Chairman of the Mortgagee Review Board

1A. Require Synergy Mortgage, Inc., American's sponsor on the loans, to indemnify HUD against losses on the 13 loans in default totalling $1,301,318.

1B. Require Synergy Mortgage, Inc., American's sponsor on the loans, to indemnify HUD against future losses on the 21 loans in default totalling $1,999,673.

1C. Require Synergy Mortgage, Inc., American's sponsor on the loans, to write down the 16 loans that received the Housing Trust funds by $114,012.

1D. Require Synergy Mortgage, Inc., American's sponsor on the loans, to write down the eight loans that received the Sonrise Church funds by $51,146.[37]

1E. Require the sponsor to reduce Loan 495-6037252 by $10,812.

1F. Impose civil monetary penalities against American, Synergy Mortgage, Inc., and the two appraisers for the deficiencies cited in this report.

1G. Ensure American establishes controls to ensure personnel are knowledgeable of HUD procedures and supervision is adequate to maintain an effective operation.

1H. Require Braunig Investments to repair the foundation to HUD requirements for Loan 495-6037252.

1I. Review the manufactured homes' foundations to determine whether they meet HUD requirements. If not, take appropriate action to have them repaired.

1J. Take appropriate administrative sanctions against the sellers of the manufactured homes that did not meet HUD foundation requirements.

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[36] Handbook 4060.1, REV-1, Mortgagee Approval Handbook.
[37] Since the Sonrise employee received the funds to pay down debt, the loan should also be written down.

SCOPE AND METHODOLOGY

We conducted the audit with files obtained from HUD's Denver Homeownership Office and at American's San Antonio office.

To accomplish our objectives we:

- Reviewed applicable HUD Handbooks and Mortgagee Letters.

- Reviewed 39 of the Federal Housing Administration-insured loans originated by American between February 1, 2002, and January 31, 2004. The 39 loans were part of a universe of 83 loans originated by American during that time. The results of the detailed testing apply to the 39 loans reviewed only and cannot be projected to the universe of Federal Housing Administration-insured loans.

- Examined records and related documents of American.

- Conducted interviews with officials and employees of American, Braunig Investments, San Antonio Development Agency, mortgagors, and the HUD Quality Assurance Division.

- Mailed letters and attempted to make other contacts with borrowers to solicit information about their mortgage experience.

- Performed site visits to various properties and attempted to interview homeowners.

In addition, we relied in part on data maintained by HUD in the Single Family Data Warehouse and Neighborhood Watch. We did not perform a detailed analysis of the reliability of these computer databases.

We provided American a draft report on November 18, 2004, and held an exit conference with American on December 1, 2004.

The audit generally covered the period from February 1, 2002, through January 31, 2004. We conducted our fieldwork from March 2004 through July 2004. We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

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

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Loan Origination Process – Policies and procedures that management has in place to reasonably ensure that the loan origination process complies with HUD program requirements and

- Quality Control Plan – Policies and procedures that management has in place to reasonably ensure implementation of HUD quality control 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 the following items are significant weaknesses:

- American did not operate in accordance with HUD requirements as they relate to administration, loan origination, and quality control requirements.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation Number	Ineligible [1]	Unsupported [2]	Unreasonable or Unnecessary [3]	Funds To Be Put to Better Use [4]
1A				$1,301,318
1B				1,999,673
1C	$ 114,012			
1D	51,146			
1E		$10,812		
Totals	**$165,158**	**$10,812**		**$3,300,991**

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 polices or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

4/ "Funds to be put to better use" are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation	Auditee Comments

AMERICAN PROPERTY FINANCIAL

4242 MEDICAL DRIVE, SUITE 4150
SAN ANTONIO, TEXAS 78229
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December 4, 2004

U.S. Department of Housing and Urban Development
Region VI, Office of Inspector General
c/o D. Michael Beard, Regional Inspector General
819 Taylor Street, Room 13A09
Fort Worth, Texas 76102

Dear Mr. Beard:

This letter is to serve as our response to the draft audit report your office sent me November 18th. American Property Financial was approved as a nonsupervised loan correspondent mortgagee on June 8, 1998. From the time of our approval until now we have always tried to operate according to HUD rules and regulations for the origination of single-family loans. The audit has sited several instances where it felt we were out of compliance. We will try to address and explain our actions in this letter.

Comment 1

The audit first sited that we used gift funds for the purpose of paying consumer debt or collections. When we did this, it was with the assurance of several of our sponsors that this was an acceptable practice. When HUD Mortgagee Letter 2002-02 was issued and reaffirmed HUD's position on gift funds, we stopped the practice of using gift funds for that purpose. The only loans that were closed after the issuance of ML 2002-02 were loans that had outstanding case numbers. ML 2002-02 stated, " Some mortgagees may not have understood this portion of the existing policy so the provisions of this Mortgagee Letter will be effective for all case number assignments issued 30 days after the date of this Mortgagee Letter."

Comment 2

A second finding in the audit was that we allowed for the sales price of properties to be increased to accommodate the use of gift funds that were used as an enticement to sell the property. This was not the case. The intent and understanding with all of the loans where gift funds were used was that the sales price was to allow the borrower to acquire a home with little or no move-in cost. The problem existed with the salespersons and management of the manufactured home dealerships who drew up the sales contract. We discovered that manufactured home representatives had no real estate sales training or understanding of a traditional real estate transaction. The manufactured homes they typically sold were sold as titled collateral with ownership being conveyed the same way a car would be sold.

We discovered that the representatives of the manufactured home dealer were unaware of the cost or how to calculate mortgage loan closing costs and cost of prepaid items, and the difference between allowable and non-allowable closing costs. They were unaware of the costs, which are typically incurred by the seller in a sale of real estate, such as title insurance, lien releases and pro-rations. The dealer's representatives were unaware of the sequence of events that needed to occur in a construction loan and in the conveying of property from the buyer to the seller. This included the importance and necessity of surveys, correct filing of liens when building on property the buyer owned, either as collateral the buyer brought to the transaction or was purchased as part of the acquisition.

A traditional homebuilder would have understood all of these items. A builder wanting to sell a property where he pays the buyer's closing costs and wanted to participate in a down payment assistance program would include these costs in his sales price. The manufactured housing representatives did not understand pricing well enough to provide us with an accurate sales price at the initial application. Sales prices were adjusted to correct for costs and expenses left out in the price given us at the initial application. The adjustments were not made to create an enticement. From the initial application it was always the understanding of the borrowers buying a property that the seller would pay for the closing costs and prepaid costs and would participate in a down payment assistance program.

Comment 3

The third finding in the audit was that American Property Financial collected unearned and undisclosed fees. Because of the manufactured home dealers' general lack of knowledge in real estate, the processing of these loans became very costly and time consuming. In an effort to be compensated for the costs created by working with the manufactured home dealer, we charged a separate fee designated as a Broker Advisory Fee. We felt this fee was justified because of the extra time and effort required to bring these sales to completion.

An example of the type of situation occurred when a borrower was buying a piece of property and was going to have the dealer install a home on this site. According to Texas law, a contractor's lien must be filed before the contractor (in this case the manufactured home dealer) could perform any work. The dealer's representative was so anxious to start, he had the lien papers drawn, and filed before the borrower had taken title to the property. This caused several weeks of delay in filing lien releases and then filing the corrected paperwork at the appropriate time. These costs and work preformed by American Property Financial were beyond normal mortgage loan processing.

We initially made every effort to have this Broker Advisory fee included in the HUD –1 at closing. The situation that developed was that the sponsor would not allow us to add it to their fee sheet because when added to our normal charges they exceeded what they would allow a broker to charge, even though these costs were for services that were not related to the processing of the loan. We requested that the title company have this fee added to the HUD-1 and they initially agreed and later refused because they felt it was part of the loan.

The Broker Advisory fee represented services and work that was performed beyond the normal costs expected in the processing of a mortgage loan.

The fourth item mentioned was that American Property Financial had failed to establish a Quality Control plan that met HUD's guidelines. After a review of our company by HUD in 2003, we contracted with QC Mortgage Services to perform the elements required under HUD regulations. The HUD review in 2003 surmised that a firm of our size was too small to adequately perform the quality control function. QC Mortgage Services reviews a sample of FHA loans closed each quarter. QC selects these loans from a list of all loans we closed that quarter. We review the reports on these loans and take any action we feel is appropriate.

Comment 4

I would like to respond to one of the comments made on page 15. The audit sites that one of the loans reviewed was rated "poor" and the President took no action. This loan was made to a husband and wife who were both Border Patrol agents and worked for the Department of Justice. The borrower's credit scores were 701/703/706 and 700/669/675 and the loan received an Accept when submitted to FHLMC's automated underwriting system. The rating of "poor" came about because of the verifications of employment that were in the file from the "Work #" showed both borrowers as separated a week before loan closed. This existed because of a transition the borrowers were going through from one governmental agency to another.

When I questioned the manager of QC about the reason for the "poor" rating, his comment was that the only verifications found in the file were the "Work #" verifications which showed both borrowers as separated from their jobs and it appeared that we made a loan to borrowers who did not have jobs or the income to pay for the mortgage. QC evaluates loans based only on information that exists in the file at the time of closing. QC, as part of their review, re-verified both borrowers' employment and it showed that both were still employed by the Border Patrol. We know that documentation made it to the underwriter that explained this situation; however, was not retained in our file or was not found by QC in their quality control review. We took no action on this file even with the "poor" rating because the situation did not justify any additional action.

In summary:

Our intent in originating all the loans referred to in the audit was to assist low and moderate-income families to obtain affordable housing. All loans were processed in an effort to be in compliance with HUD regulations and we relied on the guidance of our sponsors when in doubt. Much of what we did was based on the reliance of others. The reliance on appraisers regarding value, engineers regarding the acceptability of foundations, compliance inspectors regarding the completion of construction of these homes in accordance with HUD requirements, and our sponsors regarding the acceptability of risk in approving loans where the applicant's loan submission did not meet credit or income guidelines. We were criticized on not monitoring the Neighborhood Watch website. This was not because of a lack of concern, but because we had no defaults prior to doing business with this manufactured home dealer. We would have addressed problems that existed if we had been aware of delinquencies and early term defaults. We have never received a call from anyone with the sponsor or subsequent servicer that let us know any of these loans had gone into default.

I feel that part of the reason for the defaults that occurred was a result of the business practices of the dealer in dealing with the borrowers and the poor installation and follow-up service regarding the construction of the homes. The audit has done a good job of pointing out the deficiencies that exist.

According to the Neighborhood Watch website, over the past two years we have originated 83 loans with 10 sponsors and have no defaults or claims except for loans where Synergy Mortgage, Inc was the sponsor. These loans were closed in January of 2003, indicating that we have had no defaults or claims for the last 23 months.

Recommendation:

Comment 5

Made part of Quality Control policy to have monthly monitoring of the Neighborhood Watch website and have all defaults that occur within the first six months be submitted to our Quality Control contractor for review. The finding of any review will be shared with the quality control division of the sponsor the loan was originated for.

Establish as part of Quality Control policy to provide training for both processing and loan officers with an emphasis on underwriting, regulatory compliance and consumer compliance. A record of all such training will be maintained as part of our Quality Control program.

If you have any questions regarding any of my comments about our audit, please contact me so I can provide an explanation.

Yours truly,

Hardy J. Mays
President

HJM/mpc

OIG Evaluation of Auditee Comments

Comment 1 American addressed the topic of using gift funds to pay for consumer debt or collections as an acceptable practice until the issuance of Mortgagee Letter 2002-02 and was a practice endorsed by American's sponsors. We disagree. Mortgagee Letter 2002-02 clarifies the practice was not allowed. American stated gift funds would have been acceptable for all case number assignments issued until February 15, 2002. American did not cite how many of our sample this would apply to, but only 3 of the 20 loans cited where gifts were used to pay down the debt closed before March 17, 2002, 30 days after February 15, 2002.

Comment 2 American's position overlooked HUD's requirement that a mortgage must be the lesser of the sales price or appraisal. American's position did not address the pass through of HART gifts.

Comment 3 While the loans may have taken extra effort by staff, the law does not permit undisclosed fees.

Comment 4 We clarified in the body of the finding.

Comment 5 We commend American on its efforts to improve its loan origination quality control process. American recommended several improvements to its Quality Control procedures that should aid in complying with HUD regulations. We also appreciate the professionalism and courtesy extended to the audit staff.

Appendix C

LOAN PROCESSING DEFICIENCIES

Loan Number	Mortgage Amount	Defaulted	Credit Worthiness	Minimum Downpayment	Gifts for Debts
495-5964867	$103,993		X	X	
495-6032203	$116,046		X	X	
495-6033011	$97,643		X		
495-6037252	$85,666			X	X
495-6052170	$94,069		X	X	X
495-6052322	$102,029		X	X	X
495-6053357	$146,205		X	X	X
495-6053783	$117,456	X	X	X	X
495-6059626	$72,877				X
495-6077823	$120,410		X	X	X
495-6098817	$81,707	X	X	X	X
495-6106370	$109,654	X	X	X	X
495-6114650	$108,891	X	X	X	X
495-6120156	$101,436		X	X	
495-6135614	$58,565				
495-6141212	$47,705				
495-6154399	$102,616				
495-6160228	$125,210				
495-6163014	$66,990		X	X	X
495-6178445	$86,884		X		
495-6243844	$92,656	X	X	X	X
495-6255711	$96,376		X	X	X
495-6292250	$105,555		X	X	X
495-6351727	$96,374		X	X	X
495-6369582	$93,532		X	X	X
495-6376554	$96,272	X	X	X	X
495-6409334	$89,573		X	X	
495-6417846	$93,225	X		X	
495-6424410	$102,768	X	X	X	
495-6425372	$39,380		X	X	
495-6442364	$104,362		X	X	X
495-6045259	$113,943	X	X		
495-6053573	$91,806	X			
495-6110953	$126,976	X			X
495-6130442	$83,027	X			X
495-6147287	$82,937	X			X
Total	$3,454,814				

LOAN PROCESSING DEFICIENCIES

Loan Number	*Mortgage Amount*	*Appraisal*	*Foundation*	*Brokers Advisory Fees Paid to American*
495-5964867	$103,993	X		X
495-6032203	$116,046	X		
495-6033011	$97,643	X		X
495-6037252	$85,666	X	X	X
495-6052170	$94,069		X	
495-6052322	$102,029			
495-6053357	$146,205	X		
495-6053783	$117,456	X		
495-6059626	$72,877		X	
495-6077823	$120,410	X		
495-6098817	$81,707	X	X	X
495-6106370	$109,654	X	X	X
495-6114650	$108,891			
495-6120156	$101,436			
495-6135614	$58,565		X	X
495-6141212	$47,705			X
495-6154399	$102,616	X	X	X
495-6160228	$125,210	X	X	
495-6163014	$66,990			X
495-6178445	$86,884	X		X
495-6243844	$92,656	X		X
495-6255711	$96,376	X		X
495-6292250	$105,555	X		X
495-6351727	$96,374			
495-6369582	$93,532	X	X	X
495-6376554	$96,272	X	X	X
495-6409334	$89,573	X		
495-6417846	$93,225			
495-6424410	$102,768	X		
495-6425372	$39,380			
495-6442364	$104,362			
495-6045259	$113,943	X		
495-6053573	$91,806	X		
495-6110953	$126,976			
495-6130442	$83,027			
495-6147287	$82,937	X		
Total	**$3,454,814**			

APPENDIX D

Narrative Case Summaries

Case Number: 495-5964867

Mortgage Amount: $103,993

Sales Price: $103,776

Appraisal: $114,200

Fees Received:[38] $2,730

Section of Housing Act: 203 (b)

Date of Loan Closing: 1/29/2002

Undisclosed/Unallowed Brokerage Fees: Sellers paid a $520 brokers advisory fee to American. This was listed on HUD-1 Settlement Statement.

Gift Amount: $6,079

Summary:

The appraisal is questionable due to the distance of comparables of manufactured homes to subject property and amount of subject property appraisal is more than the three comparables without proper justification. The appraiser also stated the comparables are within 1 mile of the subject property. The appraisal says the properties are 1.7, 2.2, and 1.6 miles away.

The borrowers were not qualified for the loan. The loan application shows the borrowers owe one debt to FCNB, but the credit report shows a judgment and bankruptcy (discharged in June, 2001), one charge off, and six collection accounts. In addition, the borrowers, with payments of $10 per month, owed a total of $434 dollars. Of the $434, $131 was past due.

Delinquent debts were paid with loan funds of $1,464.

The borrowers' bank account statements showed overdrafts during each of the 3 months reflected in the Home Ownership Center file.

San Antonio Development Assistance provided down payment assistance of $6,078.96 through a loan that is to be repaid in the event the borrowers move before 5 years.

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38 Fees received includes fees for loan origination, loan discounts, yield to spread premium, and identified broker advisory fees paid outside of closing.

Recommendation:

- Reduce the loan amount $1,464.
- Indemnify the loan.

Case Number: 495-6032203

Mortgage Amount: $116,046

Sales Price: $115,942

Appraisal: $129,500

Fees Received: $3,336

Section of Housing Act: 203 (b)

Date of Loan Closing: 2/21/2002

Undisclosed Brokerage Fees: None noted.

Gift Amount: $ 1,048

Summary:

The appraisal was questionable due to the distance of over 4.5 miles for comparables of manufactured homes to subject property. Also, the amount of subject property appraisal was higher than any of the three comparables.

The borrower was not credit worthy and should not have obtained a loan. In addition to the schedule below, we reviewed the HUD files for documents that were not in American files. According to the HUD file, the borrower has 10 payments past 30 days overdue, four writeoffs and four collection accounts. Other than payments for land, the borrower owes $3,748 to creditors with payments terms of $186 per month; however, he is past due on $1,877 or almost half his total debt.

A review of the payoff request for the land the borrower owned noted the balance owed was $29,740, but past due interest totaled $4,112.

The borrower's father gave him a gift of 1,048 for the closing costs at closing.

Also, on the settlement statement, $559 in collection debts was included in the loan.

Recommendation:

- Request indemnification of the loan.

Case Number: 495-6033011

Mortgage Amount: $97,643

Sales Price: $93,314

Appraisal: $119,700

Fees Received: $976

Section of Housing Act: 203 (b)

Date of Loan Closing: 4/8/2002

Undisclosed Brokerage Fees: $1,953

Gift Amount: None noted.

Summary:

American billed the seller, Hacienda Manufactured Housing, for $1,953 in a Broker Advisory Fee and $605 for Nonallowable Fees for a total of $2,558. This amount was not reflected on the settlement statement.

Delinquent debts paid totaling $208 were included in mortgage amount.

The comparables for the mobile home were for homes over 21 miles away, but the appraiser stated adjustments for distance were unnecessary because comparables were within 1 mile of subject. The home was not on the lot when the appraisal was completed, but the wording in the appraisal led the reader to believe a home was in place. The appraiser said there were no sales in the last year, but the comparables were approximately 2-3 months old. The appraisal amount was $119,700. American said the appraisal was $105,000 for tax purposes.

The borrowers had 10 accounts 30 days delinquent, one account 60 days delinquent, three chargeoffs, and five collection accounts. They did not have adequate credit for a loan.

The foundation did not meet HUD requirements according to HUD's structural engineer. "Skirting" is not acceptable to prevent vermin and/or water from entering beneath the home.

Recommendations:

- Take appropriate action to have the foundation repaired to HUD requirements.
- Indemnify the loan.

Case Number: 495-6037252

Mortgage Amount: $85,666

Sales Price: $79,711

Appraisal: $96,000

Total Fees Paid to American: $6,363

Section of Housing Act: 203 (b)

Date of Loan Closing: 5/16/2002

Undisclosed Brokerage Fees: $2,413

Gift Amount: $1,780

Summary:

The settlement statement showed a gift of $1,780, but this was not for assistance with the property purchase but to pay debts of the borrowers. Also, the lender did not enter a gift into the HUD database. The borrowers had not accumulated enough funds for a downpayment.

We verified the borrowers were overcharged by $10,812. We noted the signed sale receipt of the manufactured home was not sent to HUD, but another unsigned receipt was substituted with altered amounts.

We verified the foundation did not meet HUD standards.

The appraisal was not correct. The appraiser listed 11.95 acres rather than the 4.7 acres purchased. In addition, the comparables were 12, 12.5, and 6 miles away, but the appraiser stated that the distance was not a factor as comparables were within 1 mile of the property. The first appraisal was for land with no home, but the appraiser's language leads the reader to believe a home was on the property at the time of the appraisal.

Recommendations:

- Reduce the loan amount by the overcharge of $10,812 plus interest.
- Require Braunig Investments to repair the foundation to HUD requirements.
- Take appropriate administrative action regarding the appraisal.
- Take appropriate administrative action for the substituted unsigned sales receipt.
- Indemnify the loan.

Case Number: 495-6052170

Mortgage Amount: $94,069

Sales Price: $95,545

Appraisal: $100,000

Fees Received: $4,057

Section of Housing Act: 203 (b)

Date of Loan Closing: 2/6/2002

Undisclosed Brokerage Fees: None noted in file.

Gift Amount: $10,427

Summary:

The buyers did not have sufficient credit or resources to qualify for the loan. The borrowers had nondisclosed debt on the loan application. They were delinquent 30 days six times, delinquent 60 days twice, and delinquent 90 days five times and had six chargeoffs and five collection accounts. On the credit report, the borrowers had $8,811in amounts past due. The assistance by a Housing Trust gift was not a gift but was passed to the seller to make it appear the borrowers qualified for the loan.

The foundation does not meet Federal Housing Administration requirements. Skirting is not acceptable by HUD regulations. Also, the fee inspector stated onsite improvements were acceptably complete, but the steps with a railing were not in place at doors.

Recommendation:

- Reduce the loan by the amount of the gift plus Housing Trust fee, $11,077.
- Take appropriate action to have the foundation repaired to meet HUD requirements.
- Indemnify the loan.

Case Number: 495-6052322

Mortgage Amount: $102,029

Sales Price: $103,631

Appraisal: $115,400

Fees Received: $4,535

Section of Housing Act: 203 (b)

Date of Loan Closing: 2/12/2002

Undisclosed Brokerage Fees: None noted in file.

Gift Amount: $1,761

Summary:

The buyers were not qualified for the loan based on credit history and undisclosed debt on the loan application. The amount of the debt was added to the loan amount. The seller agreed to pay 6 percent of the closing costs, $7,676, to help the buyers qualify but added this amount to the cost of the home, inflating its cost. Income was overstated by $1,600.

Debts paid on the settlement statement were not listed on the loan application. Gift funds were used to pay $1,761 in delinquent debts. The settlement statement in the American file did not match the one in HUD's Home Ownership Center file. Both settlement statements were signed and dated the same day, February 12, 2002.

Income was overstated by approximately $1,600 per month. We computed current income as $3,755, with debt ratios of 24 and 36.9 percent. The mortgage credit analysis worksheet in the HUD file showed $5,587 in income. HUD also reviewed the file and found the same discrepancy with income of $3,971. No action was taken due to debt ratios at 22 and 35 percent being under HUD guidelines.

Braunig Investments agreed to provide up to 6 percent of closing costs and 2 percent of nonallowable fees. Braunig increased the price of the home to cover these costs, inflating the cost of the home by $7,676.

Sonrise Church gave a $1,761 gift to borrowers for their delinquent debts.

Recommendation:

- Reduce the cost of the property by $1,761.
- Indemnify the loan.

Case Number: 495-6053357

Mortgage Amount: $146,205

Sales Price: $148,500

Appraisal: $164,800

Fees Received: $6,009

Section of Housing Act: 203 (b)

Date of Loan Closing: 5/9/2002

Undisclosed Brokerage Fees: None noted in file.

Gift Amount: $14,564 ($10,085 from Housing Trust and $4,479 from Sonrise Church)

Summary:

The borrowers should not have been approved for a Federal Housing Administration loan due to debt and delinquent accounts. On their credit report, borrowers had a total of $101,707 in debt with payments of $2,039. They had delinquent debt of $3,480 and eight accounts delinquent 30 days, three accounts delinquent 60 days, and 43 accounts delinquent 90 days. The borrowers had five chargeoffs and five collection accounts. The seller inflated the purchase price of the property to pay delinquent debts with the assistance of the loan officer. To qualify for the loan, the American loan officer requested delinquent debts be included in the loan amount. The seller paid unallowable debts for the borrower.

Home Express apparently altered the sales price of the manufactured home to include the delinquent debts. The receipt showed a manufactured home of $85,387, including improvements for a total of $99,387 (no land). We found a sales receipt, dated April 3, 2002, for the home for $85,387, improvements at $14,000, and land at $38,381, for a total price of $137,619. We suspect the contract was written at an earlier date due to an altered base price of the manufactured home and the fax date of March 18, 2002.

One sales receipt, dated April 2, 2002, with an altered sales price of $96,118, improvements for $14,000, and land for $38,381, for a total price of $148,500 (also an altered amount). Another sales receipt dated April 3, 2002 for the home at $97,569, improvements at $14,000 and land at $38,381 for a total price of $149,951.

The appraiser changed his appraisal, but it was unknown know how it was changed since a copy of the first appraisal was not in the file. In addition, the appraiser listed an incorrect address; 3260 County Road 104, was on the appraisal, but the address on the sales receipt and in HUD files was 3297 County Road 104.

Recommendations:

- Reduce the loan amount by $14,564.
- Request the sponsor indemnify the loan.

Case Number: 495-6053783

Mortgage Amount: $117,456

Sales Price: $119,300

Appraisal: $119,300

Fees Received: $4,680

Section of Housing Act: 203 (b)

Date of Loan Closing: 3/21/2002

Undisclosed Brokerage Fees: None noted in file.

Gift Amount: $25,660 ($17,351 from Sonrise Church, $8,309 from San Antonio Development Agency)

Summary:

The buyer did not have the resources or the credit to purchase the home. The settlement statement showed $17,899 of collection debts rolled into the mortgage.

The sales receipts showed a serious overcharge for the manufactured home. The buyer was charged $81,800 (without land and improvements) for a 28-foot by 68-foot home when most other homes reviewed cost approximately $59,000 or less.

The mortgagor received $8,309 in gift funds from the San Antonio Development Agency and a $581 credit for prepaids by the seller according to the settlement statement. According to the gift letter, Sonrise Church paid $17,351 in gift funds, which was used to pay the debts.

Recommendation:

- Reduce the loan by $25,660.
- Indemnify the loan.

Case Number: 495-6059626

Mortgage Amount: $72,877

Sales Price: $73,500

Appraisal: $74,400

Fees Received: $3,345

Section of Housing Act: 203 (b)

Date of Loan Closing: 6/26/2002

Undisclosed Brokerage Fees: None noted in file.

Gift Amount: $3,085 from City, $1,000 from seller

Summary:

The seller gave $1,000 toward the downpayment on the home according to line 201 on page 1 of the settlement statement. We noted the buyer and her daughter had sufficient funds ($3,410) to contribute 3 percent ($2,205) toward the purchase price of the property ($73,500).

The American loan officer advised the seller, Home Express, to roll delinquent debts of $2,224 into the mortgage loan. We concluded the amount of the loan was adjusted to accommodate the delinquent debts. A good faith estimate with a loan amount of $64,452 that was signed in March 2002, but the contract in American's files was not dated when signed by borrowers but the closing date was requested for May 5, 2002.

Gift funds were in the form of a loan from the City of Laredo's Department of Community Development; however, nothing in the American or HUD files to determine the details of the loan or whether the money was actually paid by the City of Laredo. Although the letter of intent from the City was for $6,000, the actual amount, according to the settlement statement, was $3,085.

The survey was the correct address, but for a different buyer. The buyer should not be charged for a survey that was not completed for his loan; therefore, the $324.75 charge on the settlement statement was not justified and should be refunded to the borrower.

The foundation did not meet HUD requirements for a permanent foundation. Skirting is not considered adequate for a Federal Housing Administration loan.

Recommendation:

- Reduce the loan amount by $3,549 (the delinquent debts, the $1,000 the seller paid, and the survey charge).
- Indemnify the loan should it go into default.
- The foundation should be inspected and repaired to meet HUD requirements.

Case Number: 495-6077823

Mortgage Amount: $120,410

Sales Price: $122,300

Appraisal: $123,100

Fees Received: $5,869

Section of Housing Act: 203 (b)

Date of Loan Closing: 2/26/2002

Undisclosed Brokerage Fees: $416

Gift Amount: $11,679 from Housing Trust and $1,172 from seller

Summary:

The mortgage amount included $11,679 of debt. This was paid with a Housing Trust gift that was paid by the seller, plus $950, for a total of $12,629. The seller also contributed $1,172 to pay a debt for the buyer for a total of $13,801.

The borrowers had a good payment history with only one chargeoff and one collection. The concern with the borrowers was the amount of debt and the lack of the HUD required downpayment. The credit report showed $1,174 in monthly car payments, installments, and revolving credit account payments. With these debts, the ratio of mortgage debt ($1,139) to income ($3,878), using the total income and proposed housing expense on the loan application, was 29.37 percent. The total debt ratio (mortgage debt of $1,139 + installment debt of $1,174) would have been 59 percent (($1,139 + $1,174)/$3,878).

The appraisal was for land with no home but the appraisal stated: "the home is in good condition with few upgrades" and "the subject property is functionally designed and suffers from no unusual element of depreciation." The square footage of the home floor plan attached to the appraisal (1,698 square feet) did not match the square footage on the appraisal (1,702 square feet). No explanation of the difference was found in the file. The three comparables are all 19.5 miles from the subject property. Comparables #2 and #3 were not valid addresses.

Recommendation:

- Reduce the loan by $13,801.
- Indemnify the loan.

Case Number: 495-6098817

Mortgage Amount: $81,707

Sales Price: $71,885

Appraisal: $124,000

Fees Received: $6,859

Section of Housing Act: 203 (b)

Date of Loan Closing: 4/19/2002

Undisclosed Brokerage Fees: $3,027

Gift Amount: $4,863

Summary:

A memorandum from American's loan processor to the loan officer stated the appraisal was too low at $84,000. The loan officer wrote he would have someone call the original appraiser. This supports our suspicions that the appraiser appraised property at an amount requested rather than fair market value. The second appraisal, prepared by another appraiser, valued the property at $124,000.

American received a payment of $3,027 from Braunig Investments outside of closing.

The borrower's credit history was poor. Delinquent debts totaled $4,863, and the gift funds from Sonrise Church total $4,863. The price of the home was changed to accommodate the financing. The purchase price was $71,885 (no date). The purchase price changed to $80,261 on September 14, 2001, and then changed again to $75,445 on April 19, 2002, at closing.

The foundation specifications were neither in the American nor in the HUD file. In the final inspection, the inspector stated skirting was in place. Skirting does not meet HUD requirements according to HUD's structural engineer.

A memorandum in the file says the appraisal came in at $84,000. The loan officer said he would refer the seller to the appraiser. Comparables were all 2 miles away in the same development as samples 2, 4, and 10. The borrower owned the land so it was not included in price of mobile home.

Recommendation:

- Reduce the loan by $4,863.
- Indemnify the loan.
- The foundation should be inspected and repaired to meet HUD requirements.

Case Number: 495-6106370

Mortgage Amount: $109,654

Sales Price: $111,376

Appraisal: $125,000

Fees Received: $7,248

Section of Housing Act: 203 (b)

Date of Loan Closing: 5/7/2002

Undisclosed Brokerage Fees: $2,326

Gift Amount: $5,252 from Housing Trust and $5,117 from Sonrise Church

Summary:

The mortgage credit analysis worksheet showed the borrower was well above the acceptable total fixed payment to income ratio of 41 percent at 49 percent. We did not find justification for exceeding the ratio in the files.

The HUD-1 Settlement Statement shows gift funds of $10,369, with $5,117 from Sonrise Church and $5,252 from Housing Trust. The gift funds from Sonrise Church were used to pay off $5,117 in debts that were added to the loan amount. The seller repaid Housing Trust, plus $950, for a total of $6,202. The Housing Trust funds were to make it appear the borrower had enough resources to close the loan. This was in addition to the seller's payment of $8,146 in settlement charges.

The borrowers had much more credit than they could manage. Most of the past-due amounts were annotated "non-purchasing spouse," but the file did not have any documentation to support this statement. Due to the bad debt of the "non-purchasing spouse," the husband applied as an individual. He already owned a manufactured home and land that was to be leased. The total amount of payments for a property already owned was $887 according to American's letter to the underwriter at the Broker's Wholesaler (Synergy Mortgage, Inc.). We could not reconcile the loan agreement with American's letter to Synergy Mortgage, Inc., for submission of the loan. For instance, on the loan application, the current amount for housing expenses did not agree with American's submission to its sponsor or the payment amounts reported on the loan application.

The property already owned by the borrower was supposed to be leased according to a lease agreement in the file, but we could not confirm the mailing address of the leased property. We found no proof of payment for the lease in the file.

Recommendations:

- Reduce the loan amount by $11,319.
- Indemnify the loan.

Case Number: 495-6114650

Mortgage Amount: $108,891

Sales Price: $110,600

Appraisal: $112,000

Fees Received: $4,203

Section of Housing Act: 203 (b)

Date of Loan Closing: 4/8/2002

Undisclosed Brokerage Fees: None noted in file.

Gift Amount: $2,644 from Sonrise Church and $7,997 from San Antonio Development Agency

Summary:

The loan application did not include $228 monthly tuition expense taken out of the co-borrower's paycheck. Delinquent debts of $2,644 were paid off with gift funds but were included in the loan amount. Sonrise Church paid the debts through its gift shown on the settlement statement. The San Antonio Development Agency provided $7,997 through its low-income assistance.

The borrowers did not have the resources for a downpayment. The bank account shows six overdrafts for the period October 18, 2001, to January 17, 2002. The borrowers had a savings account with a balance of $16.

Recommendations:

- Reduce the loan amount by $10,640.
- Indemnify the loan.

Case Number: 495-6120156

Mortgage Amount: $101,436

Sales Price: $102,500

Appraisal: $104,000

Fees Received: $2,013

Section of Housing Act: 203 (b)

Date of Loan Closing: 5/1/2002

Undisclosed Brokerage Fees: None noted in file.

Gift Amount: $0

Summary:

The borrower's credit report showed $50,004 in debt in addition to the new mortgage. Of the trade accounts, 24 were over 30 days old, 11 were over 60 days old, and 6 were over 90 days old. There was one collection account that was paid several years ago by the borrower.

The delinquencies were primarily from the previous year, 2001, which showed the borrower had not established good payment habits.

An initial application to another lender, before Synergy Mortgage, Inc., supported our conclusion and denied the loan based on the delinquent payments.

Recommendation:

- Indemnify the loan.

Case Number: 495-6135614

Mortgage Amount: $58,565

Sales Price: $59,500

Appraisal: $63,000

Fees Received: $3,675

Section of Housing Act: 203 (b)

Date of Loan Closing: 6/25/2002

Undisclosed Brokerage Fees: $898

Gift Amount: None noted in file.

Summary:

According to the borrowers' credit report, the borrowers appeared to be a poor risk: however, the dates of the delinquencies, chargeoff, and collection were 1996 and 1997 with the exception of one paid account in 2001. The borrower had a credit report rating of 662.

The foundation did not meet HUD requirements. According to the HUD structural engineer, skirting is not acceptable to enclose the crawl space.

Recommendation:

- Inspect and repair the foundation to meet HUD requirements.
- Indemnify the loan.

Case Number: 495-6141212

Mortgage Amount: $47,705

Sales Price: $57,000

Appraisal: $63,000

Fees Received: $2,497

Section of Housing Act: 203 (b)

Date of Loan Closing: 6/20/2002

Undisclosed Brokerage Fees: $954

Gift Amount: $9,000

Summary:

The borrowers' credit was poor, and they did not have the required downpayment by HUD regulations. One $227 collection account was paid and added into the loan amount. Although not significant, it should not have been included in the mortgage.

American charged Braunig Investments (Home Express) a $954 broker fee outside of closing. A response from Home Express on an invoice for the broker's fee indicates a standing percentage of sales prices on loans processed by American. Home Express paid $4,275 toward closing costs. Six percent of the sales price of $57,000 is $3,420. The difference is $855.

Recommendation:

- Reduce the loan amount by $1,082.
- Indemnify the loan.

Case Number: 495-6154399

Mortgage Amount: $102,616

Sales Price: $104,244

Appraisal: $105,000

Fees Received: $5,885

Section of Housing Act: 203 (b)

Date of Loan Closing: 6/28/2002

Undisclosed Brokerage Fees: $929

Gift Amount: $2,000

Summary:

The buyers rebuilt their credit to purchase the home and land. Although, they did not have the resources for the downpayment, they obtained a gift from relatives.

No home was on-site for the appraisal, but verbiage in the appraisal leads the reader to believe one was onsite. Also, the appraiser stated there had been no sales of the property or comparable properties within the last year (from April 15, 2002), but dates of sales in the upper part of the sales comparison analysis showed sale dates of February 15, 2002, October 29, 2001, and March 8, 2002, for the comparables. All are within 1 year, but no sales price is shown.

The buyers completed bankruptcy requirements on May 17, 2001.

The buyers had one collection account on their credit report, but it was supposed to have been included in the bankruptcy and was reported in error. Since the bankruptcy, the buyers had accumulated 16 credit accounts for a total of $1,512 in payments. All accounts had been paid in a timely manner.

The buyers did not have the resources to purchase the property, but their mother gave them a gift of $2,000 for the purchase.

The foundation does not meet Federal Housing Administration regulations. The specifications allowed cement blocks for support. This is not allowed by HUD.

Recommendation:

- The foundation should be inspected and repaired to meet HUD requirements.
- Indemnify the loan.

Case Number: 495-6160228

Mortgage Amount: $125,210

Sales Price: $122,226

Appraisal: $126,200

Fees Received: $6,868

Section of Housing Act: 203 (b)

Date of Loan Closing: 9/12/2002

Undisclosed Brokerage Fees: $670

Gift Amount: None noted in files.

Summary:

The borrowers' paid $32,200 to Fleetwood for the manufactured home. Fleetwood submitted a $36,541 cost invoice for the home. American invoiced Fleetwood for a broker's advisory fee of $670. The sales price of the home increased from $93,069 to $126,469 for the same property. We also noted the appraised amount increased from $106,000 to $126,200. The contract for land was for $34,600, dated April 8, 2002, and the total cost of the home was $36,541 (Fleetwood invoice). We reviewed the sales receipt and found $27,107 in improvements to the property. The loan officer noted on the sales receipt that the numbers needed to be adjusted for the new figures. The sales price should have been computed as follows:

Land	$34,600
Home	$36,541
Improvements	$27,107
	$98,248

The appraisal from HUD files used comparables 23, 0.68, and 30 miles away. The appraisal was completed without a home on the property. The appraiser certified the foundation, home, and improvements met Federal and local building codes. He also stated the expected physical life of the home was 85 years. Pictures of the property taken after the appraisal show skirting around the home. According to the HUD structural engineer, skirting is not sufficient for an approved HUD foundation.

Recommendations:

- Indemnify the loan.
- The foundation should be inspected and repaired to meet HUD requirements.

Case Number: 495-6163014

Mortgage Amount: $66,990

Sales Price: $69,000

Appraisal: $69,000

Fees Received: $3,814

Section of Housing Act: 203 (b)

Date of Loan Closing: 5/31/2002

Undisclosed Brokerage Fees: $1,088

Gift Amount: $2,066

Summary:

American billed Home Express $1,088 to process the loan in addition to fees reported on the settlement statement.

The borrowers did not list any checking accounts on their loan application; however, tax returns for fiscal years 2000 and 2001 showed a tax refund being deposited into a checking account. The credit report showed the buyers had 20 trade accounts with four over 30 days delinquent, two over 90 days delinquent, three chargeoffs, and two collection accounts. Bad debts totaling $566 was included in the loan.

The borrowers attempted to borrow from Falcon International Bank in February 2002, but the loan did not go through.

Alternate credit was not documented with proof of payments. The borrowers said they paid cash for everything, but tax refunds went into a checking account. One installment payment of $86 per month on the credit report was not included in fixed payment to income ratio. The amount would increase total debt to income ratio from 42.8 to 46 percent. Both exceed HUD-recommended 41 percent for all debt. The sponsor suspended the loan for insufficient documentation, and American protested by letter. The sponsor did fund the loan.

Recommendation:

- Indemnify the loan.

Case Number: 495-6178445

Mortgage Amount: $86,884

Sales Price: $79,757

Appraisal: $110,100

Fees Received: $6,382

Section of Housing Act: 203 (b)

Date of Loan Closing: 7/11/2002

Undisclosed Brokerage Fees: $2,268

Gift Amount: None noted.

Summary:

The borrowers listed $100,000 in personal property on the loan application. Because he was discharged from bankruptcy on October 31, 2001, we looked for an explanation in the file but could find none. Recent credit history was current.

The appraisal used comparables 4.1, 4.3, and 5 miles away. The appraiser said none had been sold in the last year, but the properties were new with the age listed as 4 months or less for each property.

According to the file, American routinely charged Braunig Investments an additional 2-3 percent for each loan. Braunig Investments indicated that they would not pay 3 percent for this loan to be processed. In American's response to Braunig Investment, American disclosed representatives of American and Braunig Investment had a verbal agreement that American would process all of Braunig Investment's loans exclusively for 2 percent of the loan.

The fees charged to Braunig Investment were not voluntary and did not appear to be for any service other than processing the loan, which other loan companies would have done without fees in excess of normal discount and origination fees routinely paid by the borrower and any yield spread premium paid by the sponsoring lender. In its letter, American made it clear to Braunig Investment that the loan would not be processed without payment of these fees.

Case Number: 495-6243844

Mortgage Amount: $92,656

Sales Price: $93,170

Appraisal: $99,600

Fees Received: $4,735

Section of Housing Act: 203 (b)

Date of Loan Closing: 10/9/2002

Undisclosed Brokerage Fees: $447

Gift Amount: $6,185 from Sonrise Church and $7,343 from Housing Trust, plus a fee of $650

Summary:

The borrowers did not have the minimum required downpayment. Their checking account was overdrawn.

Delinquent debts totaling $6,185 were paid. The loan was initially denied twice by Synergy Mortgage Inc.

Comparables were 12.5, 11.5, and 12 miles away from the subject property. The Multiple Listing Service listings and appraisal district were used, not sales.

Recommendation:

- Reduce the loan amount by $14,178.
- Indemnify the loan.

Case Number: 495-6255711

Mortgage Amount: $96,376

Sales Price: $97,889

Appraisal: $100,200

Fees Received: $5,279

Section of Housing Act: 203 (b)

Date of Loan Closing: 9/20/2002

Undisclosed Brokerage Fees: $964

Gift Amount: None noted in files.

Summary:

The loan officer informed the seller that $4,473 in bad debts would have to be paid off or rolled into the mortgage. The loan officer had the borrowers sign a blank addendum to the loan.

The appraisal was for a vacant lot, but all questions regarding working mechanical systems, structural conditions, and other standard appraisal concerns were answered as if the home was there. Comparables were 17 miles away. The ages of the comparables are 6, 10, and 5 months, but the appraiser said none of the comparables have been sold in the last 12 months. We cannot tell how he obtained his sales prices.

Recommendation:

- Reduce the loan by $4,473.
- Indemnify the loan.

Case Number: 495-6292250

Mortgage Amount: $105,555

Sales Price: $107,213

Appraisal: $125,700

Fees Received: $5,191

Section of Housing Act: 203 (b)

Date of Loan Closing: 10/18/2002

Undisclosed Brokerage Fees: None noted in files.

Gift Amount: $9,450 from Housing Trust, including fee of $650 and $1,523 from parent

Summary:

The borrowers did not have the required downpayment for the property. Verification of their bank account showed it was overdrawn.

Palm Harbor gave the buyers two $500 checks for a total of $1,000. This appears to be an incentive to purchase the home. In addition, Fleetwood Homes (seller) paid Housing Trust for a "gift." The buyers' bad debts also appear to be rolled into the loan. The broker's advisory fee was received by American from Fleetwood Homes for $1,040.

All three comparables were 16.1 miles away. The home was not on the land at the time of the appraisal. The appraiser said the appraisal was made "subject to completion per builder plans and specifications." However, the scope of the appraisal included "a physical inspection" and "calculation of square footage." Also, the appraiser certified that the building had "an FHA [Federal Housing Administration] approved pier and beam foundation," but no foundation existed. With the exception of the statement that the appraisal was made "subject to completion," the document leads the reader to believe the home was complete and on the property when, in fact, it was not.

Recommendations:

- Reduce the amount of the loan by $9,450.
- Indemnify the loan.

Case Number: 495-6351727

Mortgage Amount: $96,374

Sales Price: $93,000

Appraisal: $97,900

Fees Received: $3,610

Section of Housing Act: 203 (b)

Date of Loan Closing: 11/6/2002

Undisclosed Brokerage Fees: None noted in file.

Gift Amount: $7,285 from Housing Trust

Summary:

The borrower had bankruptcy discharged July 8, 2002. A credit report, dated July 1, 2002, showed 13 trade accounts with an amount past due of $565. This was reduced to $140 as of the credit report completed on October 17, 2002. Verification of bank accounts shows the buyer was overdrawn by $384 on April 24, 2002, by $894 on September 3, 2002, and by $334 on September 4, 2002, with an average daily checking deficit of $237. The buyer did not have funds available for his 3-percent contribution to the cost of the home.

The loan officer asked the realtor to raise the price from $88,000 to $93,500.

The appraisal request reflects a sales price of $88,000 as well as unsigned mortgage credit analysis worksheet in the file. The signed loan application, dated August 13, 2002, was for $38,000 and listed personal property of $100,000 as an asset. The borrower was not qualified to obtain the loan.

Recommendations:

- Reduce the loan amount by $7,285.
- Indemnify the loan.

Case Number: 495-6369582

Mortgage Amount: $93,532

Sales Price: $95,000

Appraisal: $100,500

Fees Received: $7,191

Section of Housing Act: 203 (b)

Date of Loan Closing: 11/21/2002

Undisclosed Brokerage Fees: None noted.

Gift Amount: $6,901 + $650 from Housing Trust, $11,133 from non-purchasing spouse, and $2,091 from friend

Summary:

The borrowers were not qualified to purchase the property. The borrowers owed a balance of $53,249 with terms of $1,529 and an amount past due of $9,408. Ten payments were over 30 days old, four over 60 days old, and nine over 90 days old. The borrowers' credit report also shows ten chargeoffs, five collections and two public records. The borrowers did not have the resources for the downpayment. The bank statements also show consistent overdrafts of their account.

The loan processor told the loan officer the buyers had more debt than was on the loan application. The loan officer said the seller would pay the buyers' debts. The loan officer also provided what needed to be done to dispute credit report accounts. The debts included in the loan totaled $12,966. Some of the amount, $6,901, was paid by a Housing Trust. The seller repaid the $6,901plus a fee of $650.

The underwriter, Synergy Mortgage, was not willing to approve the loan, but the loan officer pleaded with him.

The foundation does not appear to meet HUD requirements as it has a skirting around the home. The foundation inspector found the blocks under the foundation insufficient to meet HUD requirements. He required permanent poured piers at the four corners of the home. Although this is a great improvement over other foundations noted in this audit, because of the skirting, it still does not meet HUD requirements.

Recommendations:

- Reduce the loan amount by $12,966.
- The foundation should be inspected and repaired to meet HUD requirements.
- Indemnify the loan.

Case Number: 495-6376554

Mortgage Amount: $96,272

Sales Price: $97,813

Appraisal: $107,200

Fees Received: $5,281

Section of Housing Act: 203 (b)

Date of Loan Closing: 1/31/2003

Undisclosed Brokerage Fees: $642

Gift Amount: $2,935

Summary:

The borrower moved from Brockton, MA, and purchased a manufactured home from Fleetwood Home. The borrower did not have sufficient credit, resources, or job stability to purchase the home. The credit report in American's files showed four trade accounts with one collection account of $823. This account was settled for $563. The Credit Bureau did not issue a credit score due to insufficient credit. Synergy Mortgage Inc.'s, credit report found in the HUD file showed the borrower did not meet the standards for a residential mortgage credit report.

The borrower did not have sufficient resources to purchase the property. The borrower's bank verification showed the borrower had $36 in savings with an average balance of $110 for the previous 2 months. Even though a gift may have been received from the borrower's girlfriend, it did not help the buyer in making property payments. Also, there was no verification that the gift was made for the purchase of the property.

The bank statement had a different address than that on the loan application. American told the seller (Fleetwood Home) the maximum payment the buyer could qualify for was 29 percent of income or $673. Actual payments were 33.18 percent of the buyer's income or $837 according to the mortgage credit analysis worksheet in the HUD file. Income from prior employment was $600 per week on the employment verification; however, because the verification was only for 4 days, the stability of the employment should have been questioned. In addition, copies of paychecks for the employment did not appear to be cashed.

The home did not have a permanent foundation but was set on blocks. This is not acceptable by HUD requirements. Comparables for the appraisal are 1 mile, .1 mile, and 16.2 miles away.

Recommendations:

- The foundation should be inspected and repaired to meet HUD requirements.
- Indemnify the loan.

Case Number: 495-6409334

Mortgage Amount: $89,573

Sales Price: $88,000

Appraisal: $106,600

Fees Received: $3,681

Section of Housing Act: 203 (b)

Date of Loan Closing: 1/30/2003

Undisclosed Brokerage Fees: None noted in file.

Gift Amount: $6,648 from Housing Trust

Summary:

The gift from Housing Trust did not appear to be for debts; however, the loan should be reduced by the gift amount because it was added to the loan amount, increasing perceived sales value for other loan comparisons.

The borrower rented the manufactured home and then purchased from the landlord the next month.

The borrower owed $10,781, with $9,501 being past due.

Comparables are 0.1, 14.2, and 16.4 miles away from the subject property. Comparables are from a "data base" and not from actual property sales.

Recommendation:

- Reduce the loan by $6,448.
- Indemnify the loan.

Case Number: 495-6417846

Mortgage Amount: $93,225

Sales Price: $75,000

Appraisal: $107,200

Fees Received: $4,182.70

Section of Housing Act: 203 (b)

Date of Loan Closing: 1/13/2003

Undisclosed Brokerage Fees: None noted.

Gift Amount: $7,296, plus seller paid fee of $650 for a total of $7,946 from Housing Trust.

Summary:

The new home contract indicates a sales price of $75,000; however, the sales price on the settlement statement is $94,716. Several documents were in the file indicating the sales price changed. We could not determine why.

A review of the borrower's bank accounts showed she did not have the required minimum downpayment for the property.

The Housing Trust gift was added to the amount of the loan and repaid by the seller, plus a fee of $650.

Recommendations:

- Reduce the loan amount by $7,946.
- Indemnify the loan.

Case Number: 495-6424410

Mortgage Amount: $102,768

Sales Price: $104,400 (currently listed for $64,000 as a foreclosure.)

Appraisal: $104,400

Fees Received: $5,533

Section of Housing Act: 203 (b)

Date of Loan Closing: 1/30/2003

Undisclosed Brokerage Fees: $554

Gift Amount: $6,768 from Housing Trust

Summary:

The buyers did not have the resources to purchase the property. The mortgage credit analysis worksheet showed a downpayment needed of $6,019, plus $1,486 for prepaid items for at total of $7,506. The gift funds from Housing Trust were not a gift but were paid by the seller to make it appear the buyers could raise enough for the closing costs. Gift funds were inputted by the lender as from relatives but were from Housing Trust. Income could not be verified. Two identical employment verification forms were in the American files. One had commissions and bonuses, and one had blanks for the two items. It appears these were filled in after the employer returned them.

The borrower's income would make the mortgage payment to income ratio 33 percent and the total fixed payment to income ratio 46 percent, which would prevent the borrowers from qualifying for the loan. We reviewed loan applications for $84,143, $90,000, and $106,922. We reviewed sales agreements for $104,400, $105,800 and $106,922, with the amounts altered but not initialed by the borrowers. We computed the total cost for land, home, and improvements as $92,600. The amount to charge the seller appears to have been increased to recoup the costs of repaying Housing Trust funds, seller closing costs, and a brokerage fee payable to American as follows:

Total cost from above:	$ 92,600
Repayment of Housing Trust	6,768
Seller's closing costs	4,013
1 percent for brokerage advisory fee to American	926
	$104,307

vs. final on settlement statement of $104,400

The appraiser provided for no adjustment for acreage. Comparables were 3.7, 0.2, and 2.2 miles away from the subject property. The appraiser said the homes had not been sold in the last 36 months, but all the homes were 1 year old or less. The appraiser gave the most weight to comparable #3, but he had appraised it the previous month. The foundation specifications called for concrete blocks under the home. This does not meet HUD requirements of a permanent foundation.

Recommendation:

- Reduce the loan amount by $6,768.
- Indemnify the loan.

Case Number: 495-6425372

Mortgage Amount: $39,380

Sales Price: $39,990

Appraisal: $40,000

Fees Received: $1,957

Section of Housing Act: 203 (b)

Date of Loan Closing: 5/8/2003

Undisclosed Brokerage Fees: None noted in file.

Gift Amount: $5,413 from Housing Trust. This includes $650 paid by seller.

Summary:

The buyer did not have enough resources to pay the minimum $5,274 downpayment.

The borrower did not have credit to purchase the property. Alternate credit was used from the City Department of Public Service, San Antonio, dated December 11, 2002, that reflected eight on-time payments, three delinquency notices, and one cutoff notice. The San Antonio City Department of Public Service letter, dated January 17, 2003, said the borrower had perfect credit with the agency.

The borrower received and the seller repaid Housing Trust funds as gift funds even though Housing Trust gift documentation was signed that said the gift funds did not come from any party of the sales transaction.

We noted the loan submission to Synergy Mortgage, Inc., said the borrower has been employed with the same employer for 8 years. No confirmation of this statement was made. Three employer names and addresses were found on the income tax forms with no explanation as to why.

Initially the loan was returned by HUD with a notice of nonendorsement. An individual at HUD overruled this decision, and it appears no other action was taken.

Recommendations:

- Reduce the loan by $5,413.
- Indemnify the loan.

Case Number: 495-6442364

Mortgage Amount: $104,362

Sales Price: $106,000

Appraisal: $106,000

Fees Received: $4,681

Section of Housing Act: 203 (b)

Date of Loan Closing: 1/4/2003

Undisclosed Brokerage Fees: None noted.

Gift Amount: $11,503

Summary:

The borrowers had collection debts of $3,699 paid for by a gift from their parents.

Housing Trust funds were given but repaid by the seller with a $650 fee for a total of $7,803. The American loan officer raised sales price to accommodate bad debts.

Recommendation:

- Reduce the loan by $11,503.
- Indemnify the loan.