



High Impact Audits – Delayed Conveyances of FHA Mortgages

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Topics

- What program does this involve?
- What is a delayed conveyance?
- Why does this matter?
- What were our audit results?



What program does this involve?

- The U.S. Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) provides mortgage insurance on home loans
- In FY 2016, FHA endorsed 1.25 million single family forward mortgages totaling \$245 billion
- FHA's market share is approximately 20 percent



What is a delayed conveyance? Part 1

- Regulations require lenders to exercise reasonable diligence in prosecuting the foreclosure proceedings to completion and in acquiring title to and possession of the property (24 CFR 203.356(b)).
- A delayed conveyance occurs when the lender misses its deadlines to complete foreclosure and convey the property to HUD.
- When a borrower defaults on his FHA insured mortgage, the lender must provide loss mitigation options to the borrower. If these efforts are unsuccessful, the lender must initiate the foreclosure process within 6 months of the borrower's date of default. (24 CFR 203.355)



What is a delayed conveyance? Part 2

- The lender must then exercise reasonable diligence in finalizing foreclosure and obtaining title to property. (24 CFR 203.356)
- And finally, the lender must convey the property to HUD within 30 days from the time it obtains title. (24 CFR 203.359)
- During this entire timeline, the lender is incurring legal, property acquisition, taxes, ground rents, utility, insurance, operating, protection, preservation, inspection, forgone mortgage interest, and debris removal costs associated with the property. (24 CFR 203.402)
- The lender includes these costs along with its unpaid mortgage principal in its claim to HUD. A delayed conveyance will result in a higher claim to the FHA.



Why does this matter? Part 1

- Delayed conveyances cause HUD to pay for expenses that could have been avoided if the lender foreclosed and conveyed on time.
- Many lenders delay for years before they convey long vacant properties to HUD. This has a negative impact on surrounding neighborhoods and communities as many properties sit for extended periods.
- And the public is becoming more concerned with this issue...



Why does it matter? Part 2

Foreclosure to Home Free, as 5-Year Clock Expires - The New York ...

www.nytimes.com/.../foreclosure-to-home-free-as-5-year-clock-... ▼ The New York Times

\$382B Shadow Inventory Weighs on U.S. Housing - Bloomberg

www.bloomberg.com/.../ed9077c4-1c48-4b5d-9c8a-bd9e052bd137 ▼ Bloomberg I

Courts Add To Foreclosure Delay - WSJ

www.wsj.com/.../SB10001424052748703358504575



So who's keeping Florida's more than 350,000 pending foreclosures in court? Judges largely blame the banks. State court data show banks regularly delay cases so long that judges drop them for lack of action.

Bank of America completed the foreclosure of this home on Sidway Street last week. The home had been targeted by the "shame campaign." John Hickey/News file photo



What were our audit results? Part 1

- We initiated an internal audit with an objective of determining whether HUD paid claims for properties that lenders did not foreclose upon or convey on time.
- OIG identified a universe of 246,000 claims from 2010 to 2015 with indications of delays and statistically selected a sample of 90 to review.
- We issued our audit report number 2017-KC-0001 on October 14, 2016.



What were our audit results? Part 2

- HUD paid claims for an estimated 239,000 properties that lenders did not foreclose upon or convey on time.

Missed deadline	Number of loans	Percentage of sample	Average # days late	Longest # days late
Deadline to initiate foreclosure	56	62	419	1,862
Deadline to finalize foreclosure and secure the property	68	76	523	1,779
Deadline to convey the property to HUD	87	97	495	1,896
Loans that missed any deadline of the 90 samples	89	99		



What were our audit results? Part 3

- We found HUD did not have adequate controls to ensure that servicers complied with Federal Regulations
 - Regulations at 24 CFR 203 do not establish a maximum timeframe to convey with associated penalties. Also, regulations place no limit on certain claimed expenses such as taxes and insurance even when the lender has missed a deadline.
 - HUD does not monitor all claims to ensure lenders convey on time.



What were our audit results? Part 4

- HUD paid an estimated \$141.9 million for lenders' claims for debenture interest that was incurred after the missed foreclosure or conveyance deadline and an estimated \$2.09 billion for lenders' claims that were incurred after the conveyance deadline.

Sample results summarized by how late the property was conveyed	Number of loans	Average holding costs after conveyance deadline
Within 6 months	26	\$ 2,864.38
After 6 months but within 12 months	19	7,899.68
After 12 months but within 18 months	7	11,694.80
After 18 months but within 24 months	11	13,163.55
After 24 months	24	17,052.50
Total	87	



What were our audit results? Part 5

CASE STUDY



The lender conveyed this property to HUD 731 days late.

This property was vacant for 891 days before the lender conveyed it to HUD

HUD paid more than \$140,000 to settle the servicer's unpaid mortgage loan balance plus more than \$17,000 in holding costs that occurred after the date on which it should have conveyed the property under the regulations.



What were our audit results? Part 6

CASE STUDY cont.



HUD had to put an additional \$11,000 into the property for repairs, maintenance, holding costs, and selling costs.

HUD ultimately sold this property for \$20,000.



What were our audit results? Part 7

Recommendations

- 1A. Issue a change to regulations at 24 CFR Part 203, which corrects deficiencies that allowed an estimated \$2.23 billion in unreasonable and unnecessary costs to the FHA insurance fund. These changes include (1) a maximum period for filing insurance claims and (2) disallowance of expenses incurred beyond established timeframes.
- 1B. Develop a strategic information technology plan to make significant operational changes to HUD's monitoring of single-family conveyance claims to ensure that servicers comply with foreclosure and conveyance timeframes.
- 1C. Develop and implement controls to identify noncompliance with current regulations at 24 CFR 203.402.



HUD watchdog: Servicer foreclosure delays cost FHA \$2.23 billion

Report finds FHA overpaid servicers due to foreclosure, conveyance delays

October 19, 2016 Ben Lane 7 Comments

KEYWORDS CONVEYANCE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT FEDERAL HOUSING ADMINISTRATION FHA FHA INSURED LOAN
FHA'S MUTUAL MORTGAGE INSURANCE FUND FORECLOSURE FORECLOSURE TIMELINES HUD HUD-OIG MORTGAGE SERVICER MORTGAGE SERVICING



A new report from a government watchdog shows that mortgage servicers' delays in foreclosing on properties and subsequent delays in the conveyance of those properties to the **Federal Housing Administration** may have cost the FHA as much as \$2.23 billion in unnecessary payouts.

Outcome

- HUD agrees with recommendations and plans to make changes
- Audit picked up in the news media

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