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| 9000.84 HUD Compliance Audit Program – Loan Servicing (Title II Lender) |  |

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| Client: |  | Closing Date: |
| Current Version: 11/2010 | | |

View Document Signoffs

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| Title | Name | Date |
| Prepared by 1 |  |  |
| Prepared by 2 |  |  |
| Prepared by 3 |  |  |
| Reviewed by 1 |  |  |
| Reviewed by 2 |  |  |
| Reviewed by 3 |  |  |
| Reviewed by 4 |  |  |

**Preparer Comments:**

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**Note: The engagement team should use the FI HUD attribute sampling guidance to determine the appropriate sample size for each attribute being tested. For example, if the attribute being tested relates to documents included in a loan file then the engagement team should use the number of loan files related to that attribute as the population for sample selections. This form is also required to be signed-off by the manager and in-charge.**

**Overall Objective**

The objective of this audit program is to document the auditor's tests of compliance related to HUD requirements related to serving HUD-insured loans for Title II lenders.

**Guidance**

Mortgagees are permitted to collect certain fees from the borrowers in accordance with HUD regulations (HUD Handbook 4330.1, chapter 4). Loan servicing procedures are to be followed consistently and should not vary. The lender should develop policies and procedures to identify the payment status of delinquent loans to administer and document collection procedures. The lender should accept partial payments under an executed modification agreement or an acceptable repayment plan (24 CFR 201.41). A modification agreement may be used to increase or reduce monthly payments but not to increase the terms or the interest rate to assure that the delinquent or defaulted loan is brought current before or by the end of the loan term. A modification agreement may also be used to effect a reduction in the interest rate and in the monthly payment for current loans (24 CFR 203.500).

Mortgagees that service insured Home Equity Conversion Mortgages (HECM) with adjustable rate mortgages are responsible for adjusting those rates in accordance with the annual and lifetime caps as established by HUD Handbook 4235.1.

The audit program should be modified to address the audit requirements identified in the guidance referenced above for every applicable requirement identified. 1

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| Identify the person primarily responsible for completion of this section: |
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| Step  No. | SUGGESTED AUDIT PROCEDURES | DATE | W/P  REF | REMARKS |
| 1. | Verify there are no changes to the auditee’s policies and procedures for serving loans from the understanding obtained during the risk assessment process. |  |  |  |
| 2. | Select a sample of delinquent and defaulted loans, including loans in foreclosure, for testing the mortgagee’s loan servicing procedures. |  |  |  |
| 3. | Review the loan file documentation for evidence that the auditee documents its records to reflect its servicing on delinquent and defaulted mortgages.  Perform the following:  a. Determine whether the auditee maintains individual serving records documenting collection (loan servicing) activities.  b. Review the servicing records to determine whether they contain information on collection contacts, attempted or completed. |  |  |  |
| 4. | Review selected loan file documents for evidence that the auditee communicates with the mortgagor or makes a reasonable effort to do so to determine the cause of default.  Perform the following:  a. Review the individual loan servicing records for recorded collection contacts of more than one type (i.e., telephone, letter, face-to-face interview, etc.) if one type of contact effort was unsuccessful.  b. Review the individual loan servicing records for mortgagor explanations of defaults and documented attempts by loan servicing personnel to contact the mortgagors.  c. Based on review of the individual loan servicing records, when the cause of delinquency appears to be temporary (i.e., illness, unemployment, etc.), test whether the auditee offers reasonable repayment plans. |  |  |  |
| 5. | Review selected receipts for evidence that the auditee accepts partial or late mortgage payments offered by mortgagors as provided for in HUD Handbook 4330.1.  Perform the following:  a. Review the auditee’s procedures for the handling of partial payments. Obtain a representation letter for the auditee concerning such procedures.  b. Review the servicing records for the recording of partial payments accepted, held in a pending file, or rejected. (Note: The decision to reject a late or partial payment must be a decision based on the individual circumstances.)  c. Review the payment records of selected mortgagors to determine whether:   1. The amount of the late charge, if any, was computed correctly; and 2. The late charge was assessed after 15 days of delinquency or the 17th day of the month. |  |  |  |
| 6. | Inquire whether the auditee has implemented steps to comply with the provisions of HUD’s Loss Mitigation program. Servicing mortgagees can use the following five tools to mitigate losses to the insurance fund: special forbearance, mortgage modification, partial claim, pre foreclosure sale, and deed in lieu of foreclosure. HUD requires that all loss mitigation tools are considered, and the servicing mortgagee is required to document its loss mitigation efforts. Review selected claims files for evidence that such relief measures were considered (Mortgagee Letter 00-05). |  |  |  |
| 7. | Inquire whether the auditee sends notices to advise the mortgagor about HUD’s foreclosure relief program once it has decided to foreclose. Review the loan files selected for evidence that such letters were sent before the initiation of foreclosure proceedings. |  |  |  |
| 8. | Compare charges assessed to borrowers for servicing activities to allowable amounts. For the loans selected:  a. Review charges to mortgagors for checks returned due to insufficient funds; and  b. Review charges to the mortgagor for attorney’s fees and test whether:   1. The charges were for services performed by someone other than salaried members of the auditee’s staff; and 2. The charges were made only in those cases in which the auditee made a decision to foreclose and referred the loan to an attorney for initiation of foreclosure proceedings. |  |  |  |
| 9. | Obtain an understanding of the auditee’s procedures for paying mortgage insurance premiums to HUD. Determine that the auditee follows one of the two acceptable methods of making mortgage insurance premium payments (electronic payment or bank check) and that its practices comply with HUD regulations. |  |  |  |
| 10. | Review a representative sample of insurance claims submitted to HUD following mortgage defaults. Recalculate the net claim amount on the Single Family Application for Insurance Benefits (Form HUD-27011) and compare the claim amount information to the accounting records. Test the amounts included in the claim for preservation and protection expenses to determine whether they are supported by documentation. |  |  |  |
| 11. | Select a sample of adjustable rate HECM’s and test whether the mortgagee is not exceeding the limitations of the 2 percent annual and 5 percent lifetime caps. |  |  |  |
| 12. | Select a sample of HECM’s and determine that the disbursements have been made in accordance with the mortgage note. |  |  |  |

**Conclusion:**

The objective set forth at the beginning of this audit program section has been achieved and all "findings" identified have been evaluated for appropriate reporting in accordance with the HUD Handbook 4060.1 and Handbook 2000.04, *Consolidated Audit Guide for Audits of HUD Programs.*

Yes \_\_\_\_\_ No \_\_\_\_\_ Signature \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Explanation of "No" conclusion

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1 The principle compliance requirements related to HUD-assisted programs are provided in the HUD Handbook 4060.1 and Handbook 2000.04, *Consolidated Audit Guide for Audits of HUD Programs*. When there have been changes to the compliance requirements and the changes are not yet reflected in the guidance referred to above, the auditor should determine the current compliance requirements and modify the audit procedures accordingly.