
CHAPTER 5. MORTGAGEE REMOTE MONITORING PROCEDURES

- 5-1. There are seven main objectives of a program to monitor the servicing practices of multifamily mortgagees:
- a. To establish a forum for providing mortgagees guidance and assistance in the understanding, application, and operation of the statutory, regulatory, and administrative requirements that govern the servicing of HUD-insured mortgages.
 - b. To maintain active, positive, and continual communications and liaison between the mortgage industry and HUD in an effort to obtain mortgagees' questions, comments, and recommendations regarding HUD's policies and procedures.
 - d. To develop solutions to problems at HUD Field Offices where possible.
 - e. To make sure that mortgagee practices comply with pertinent statutory, regulatory, and administrative requirements in the servicing of HUD-insured mortgages.
 - f. To protect HUD's interests by detecting, reporting, and preventing fraud, waste, and mismanagement.
 - g. To identify mortgagees to recommend to HUD's Inspector General for possible audits.
 - h. To ensure the timely and proper servicing of mortgages so that unnecessary claims against HUD's insurance funds do not occur.
- 5-2. The U.S. Department of Housing and Urban Development has had a program for monitoring the performance of approved single-family mortgagees for many years. This program has included the review of origination and servicing practices. Before the issuance of this

handbook, reviews of multifamily mortgagee servicing practices had been intermittent and sporadic. This

chapter describes the procedures HUD is establishing for more systematic remote monitoring of the servicing practices of mortgagees that service or hold multifamily mortgages insured by HUD.

- 5-3. HUD's Field Offices communicate daily with the owners and managing agents of multifamily projects and with the mortgagees servicing the insured mortgages on the properties. The Field Offices also communicate frequently with the mortgagees investing in these mortgages when the servicing mortgagee is not the holding mortgagee. Because of this close involvement, HUD Field Offices are central to the mortgagee review process.
- a. Field Offices are uniquely qualified to identify issues encountered with many of the servicing practices of different mortgagees. Sometimes problems may occur in the HUD-mortgagee relationship, such as missing or low quality mortgagee physical inspections of projects by mortgagees. Sometimes problems arise in mortgagee-mortgagor relationships, such as the propriety of a mortgagee's methods for escrow analyses and disposition of escrowed funds. Perhaps the most common occurrence of this latter problem is the case of the Field Office's explaining to a mortgagor that its mortgagee is correct in not having to refund some excess funds held in escrow directly to the mortgagor and is within its rights under the terms of the mortgage instrument when it does not make this refund.
 - b. Field Offices are usually a Primary source of information for mortgagees, particularly for information about specific projects, project owners, and managing agents. For example, a mortgagee may often need to know the status of HUD's decision about a mortgagor's request for a rent increase, a withdrawal from the Reserve Fund for Replacements, or a TPA (Transfer of Physical Assets).

- 5-4. The primary responsibility of HUD's Field Offices in mortgagee monitoring is limited to remote monitoring from within the HUD Field Office and reporting the results of these reviews to their Regional Offices.

- 5-5. The Loan Management Branch Chiefs of each Field Office should establish and maintain a separate file for each mortgagee that services or holds a mortgage on a multifamily project that is in the Field Office's jurisdiction and whose mortgage is insured under any of the Sections of the Act listed in Chapter 1, Table 1 of this handbook.
- a. To simplify the initial establishment of these files and to assure that all mortgagees are identified, the Headquarters Office of Mortgage Insurance Accounting and Servicing will provide a list of mortgagees holding or servicing finally endorsed project mortgages to each HUD Field Office. Headquarters will send a copy of these lists to the appropriate HUD Regional Offices.
 - b. These lists will contain the following information: (Sample information is shown for an example)
 1. Servicing Mortgagee Name: Escrow-Rite Mortgage
 2. Servicing Mortgagee No.: 12345-6789-0
 3. Mortgagee Mailing Address: P. O. Box 7, Anytown
 4. Project Mortgages Serviced:

| | | |
|-----------|----------------|---------------------------------|
| Proj. No. | Proj. Name | Holding Mortgagee |
| 066-28001 | Shifting Sands | Buy-Rite Mtg. 12346-5789 |
| 022-49123 | Piney Breezes | Buy-Rite Mtg. 12346-5789 |
| 126-75432 | Cliff Heights | Escrow-Rite Mtg., 12345-6789 |

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5. Holding Mortgagee Name: Buy-Rite Mortgage
6. Holding Mortgagee No.: 12346-5789-0
7. Mortgagee Mailing Address: P. O. Box 13, Anytown
8. Project Mortgages Held:

| | | |
|-----------|----------------|--------------------------------|
| Proj. No. | Proj. Name | Servicing Mortgagee |
| 066-28001 | Shifting Sands | Escrow-Rite Mtg. 12345-6789 |
| 022-49123 | Piney Breezes | Escrow-Rite Mtg. 12345-6789 |
| 116-08004 | Snowy Peaks | Mountain Mtg. Co. |

- c. Field Offices should review these lists upon receipt and verify the information for accuracy. The Mortgage Credit Branch Chief is the designated Mortgagee Approval Specialist; the Mortgage Credit Branch should be able to verify the mortgagee approval number for most of the mortgagees shown on the list provided by Headquarters. The Loan Management Branch should be able to verify the accuracy of the addresses of the mortgagees and the correlations with projects. Obvious discrepancies should be identified and correct information should be obtained when necessary. For instance, if the name of the servicing mortgagee shown on the list is different from the name of the servicing mortgagee shown in the project servicing files, Loan Management staff should confirm which name is correct. If the information on the list provided by Headquarters needs to be changed, the Loan Management Branch Chief should provide the correct information to MIAS by a memorandum or by electronic mail.
- d. Headquarters will provide updated lists to Field and Regional Offices annually for projects whose mortgages are finally endorsed. Field Offices should review these lists and take any necessary corrective actions as indicated above.

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- 5-6. The organization of the multifamily mortgagee files is left to the discretion of the Loan Management Branch Chiefs. The contents of each file are left to the judgement of the Loan Management Branch Chiefs to an extent. The multifamily mortgagee file should be viewed as an "exception" file; it should contain information of an exceptional nature, both favorable and unfavorable, as applicable. The file would normally not contain routine items, such as copies of the Form HUD-9250. Each file is to include at least the following information:
- a. The Headquarters-provided list of projects and cross references to other mortgagees for the subject mortgagee.
 - b. Names, titles, and telephone numbers of the mortgagee's employees with whom the Loan

Management Branch has regular contact.

- c. The geographical (physical) and mailing addresses of the mortgagee.
- d. Correspondence to and from the mortgagee, and records of conversations between the mortgagee and Loan Management staff regarding issues of a relatively important nature. For example:
 - 1. A mortgagee's extreme helpfulness and cooperation in avoiding an assignment of an insured mortgage.
 - 2. A mortgagee's full and voluntary compliance with delinquency alerting.
 - 3. A mortgagee's prompt investment of a mortgagor's reserve funds at nominal (or no) costs to the mortgagor.
 - 4. A mortgagee's low quality (or a complete lack of) physical inspection, particularly if a pattern of low quality inspections is apparent.

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- 5. A mortgagee's refusal to apply funds received to sums due under the mortgage.
- e. Correspondence to and from Regional and Headquarters Offices regarding the actions of the mortgagee.
- f. Copies of documents evincing low quality actions taken by the mortgagee. For instance, a mortgagee's annual Physical Inspection Report (Form [HUD-9822](#)) might portray a project to be in excellent physical condition and HUD's Management Review Report (Form HUD-9834), Physical Inspection Report (Form [HUD-9822](#)), or copies of code-related citations from local government might disclose the existence of deplorable physical conditions at a time near the mortgagee's inspection. Copies of these types of documents should be placed in the mortgagee's file.

5-7. The Primary purpose of the Loan Management Branches' remote monitoring of the servicing practices of

multifamily mortgagees is to obtain corrective actions on the part of the mortgagees as problem areas are identified.

- 5-8. The secondary purpose of the Loan Management Branches' remote monitoring of the servicing practices of multifamily mortgagees is to identify mortgagees that may need to be recommended for sanctions and to provide the bases for such recommendations. Field Office staff are not expected to conduct on-site reviews.
- 5-9. There are five criteria for the Loan Management Branch Chief to use in evaluating the servicing activities of multifamily mortgagees:
- a. Physical inspections of projects by mortgagees.
 - b. Escrow procedures of mortgagees.
 - c. Hazard insurance practices of mortgagees.

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- d. Collection efforts of mortgagees.
 - e. Reporting of defaulted loans by mortgagees.
- 5-10. The first criterion for the Loan Management Branch Chief to use involves the physical inspections that mortgagees are required to make. The standards for application of this criterion are established in three phases.
- a. Phase One was implemented with the issuance of Notice H 91-3 (HUD), "Field Office Control and Monitoring of Mortgagee Physical Inspections of HUD-Insured Projects," on January 15, 1991. This Notice required Field Offices to establish and implement a system for tracking the receipt and review of mortgagees' physical inspection reports.
 - b. Phase Two is being implemented with the issuance of this handbook in its present form.
 - c. Phase Three will be described in a future handbook change. A greater degree of detail about this criterion and additional software are

contemplated in Phase Three.

5-11. Phase Two Implementation.

- a. The Loan Management Branch Chiefs of each Field Office with multifamily project servicing responsibility are to provide an annual report directly to the Headquarters Office of Multifamily Housing Management, Planning and Procedures Division. The Loan Management Branch Chiefs will use computer software provided by Headquarters in preparing this report. These reports will be issued under the authority of the Loan Management Branch Chiefs; the reports will contain the following information:

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1. The total number of projects (within the jurisdiction of the Field Office) for which mortgagees' physical inspections were due in the previous calendar year.
 2. The total number of projects for which the mortgagees, physical inspections that were due in the previous calendar year were received.
 3. The total number of projects for which the mortgagees' physical inspections that were due in the previous calendar year were fully acceptable. "Fully Acceptable" is defined as including all of the following characteristics:
 - (a) The report is provided on Form [HUD-9822](#), "Physical Inspection Report," and is dated and signed by the mortgagee.
 - (b) The report was mailed to the mortgagor and HUD within thirty days after the inspection was conducted.
 - (c) The report describes the physical condition of the project in sufficient detail to enable a person who is not familiar with the project to form a fair and accurate opinion of the condition of the project.

- (d) The report is reasonably consistent with other information known by the Field Office about the project.
4. The total number of projects for which the mortgagees, physical inspections that were due in the previous calendar year were marginally unacceptable. "Marginally Unacceptable" is defined as having any of the following characteristics:

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- (a) The report is provided on Form [HUD-9822](#) and is signed by the mortgagee, but has some errors or omissions.
- (b) The report was mailed to the mortgagor and HUD within forty five days but after thirty days from the date of inspection.
- (c) The report does not contain enough detail for a person unfamiliar with the project to form a fair opinion of its condition, but it does enable a person who is familiar with the project to use the report for a reasonable description of the physical condition of the project.
- (d) The report is substantively inconsistent with other information known by the Field Office about the project.
5. The total number of projects for which the mortgagees, physical inspections that were due in the previous calendar year were unacceptable. "Unacceptable" is defined as having any of the following characteristics:
- (a) The report was not provided on Form [HUD-9822](#).
- (b) The report was mailed to the mortgagor or to HUD more than forty five days from the date of inspection.

- (c) The report is completely lacking in detail, e.g., it could have been prepared on the basis of a "drive-by."

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- (d) The report is very inconsistent with other information known by the Field Office about the project. For example, if the report were to imply that the project is decent, safe, or sanitary when in fact HUD has evidence to the contrary, the report would be unacceptable.
- (e) The report contains other major deficiencies not specifically mentioned above. For example, if a report which otherwise might have just been "marginally unacceptable" because of its low quality also indicates that there was little or no attempt by the inspector to contact the project's management to arrange for full and proper access to the project, the report may be considered unacceptable.
- b. Loan Management Branch Chiefs of the Field Offices should use the following guidelines in deciding which mortgagees to recommend for the imposition of sanctions. If the combined total of one mortgagee's physical inspection reports falls into any of the following categories, that mortgagee should be considered for referral. If more than one condition is met, a degree of urgency may exist, depending on the severity of the discrepancy. The percentages shown below are representative of a mortgagee that services a relatively large number of multifamily project mortgages in the jurisdiction of the Field Office, say, twenty or more; the Loan Management Branch Chiefs should exercise customary good judgment in applying these factors to a mortgagee that services a smaller number of project mortgages. For example, a particular mortgagee might service only three project mortgages and might have sent one of its three physical inspection reports to the mortgagor and HUD more than forty five days after the date of

the inspection. In this example, assume these reports were exemplary in every other respect.

If the standards were applied rigidly, one of the reports would be classified "Unacceptable" because it was mailed late; this might have the effect of triggering a mortgagee referral under Guideline No. 2 in subparagraph "c" below. A Field Office's recommendation for sanctions against the mortgagee in these or similar circumstances is not the intent of these standards and guidelines.

- c. The Loan Management Branch Chiefs should generally recommend that administrative sanctions should be imposed when one or more of the following conditions remains uncorrected in the calendar year cycle for inspections by mortgagees and when the mortgagee is not making significant improvements despite Field Office efforts to help the mortgagee cure its deficiencies.
 - 1. More than 5% of the reports were not provided at all.
 - 2. More than 10% of the provided reports were provided later than 45 days from the date of inspection ("Unacceptable" for time).
 - 3. More than 10% of the provided reports were unacceptable because of lack of quality.
 - 4. More than 30% of the provided reports were marginally unacceptable (or worse).

5-12. The second criterion for the Loan Management Branch Chiefs to use in evaluating a mortgagee's servicing practices involves their perceptions of the adequacy of a mortgagee's escrow procedures.

- a. Asset Managers (Loan Specialists) frequently learn about inadequate escrows from project mortgagors who complain about sudden, unexpected, and large escrow billings from their mortgagees.

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1. Mortgagees sometimes create and report a "default" by applying a normal mortgage payment to a lump sum escrow shortage that was calculated when the mortgagee revised the escrow requirements. In actuality, a default would occur in this circumstance only when a mortgagor has not remitted sufficient amounts to be placed in escrow to pay the item before its due date;
 2. If a mortgagee shows a pattern (over several years or for several projects) of any of the following practices, the Loan Management Branch Chief should consider recommending a mortgagee for sanctions:
 - (a) Frequent or chronic escrow shortages.
 - (b) Improper reporting of a "default" caused by an increase in escrow requirements.
- b. Asset Managers (Loan Specialists) frequently learn about seemingly excessive escrow requirements either from a mortgagor who complains to HUD that too much money is held in escrow or from the Asset Manager's analysis of the annual audited financial statements of a mortgagor.
1. The general rule is that a mortgagee can require an escrow amount up to one-sixth in excess of the current estimated total annual requirement. Larger amounts are not to be held in escrow without the express request of the mortgagor that a larger amount be held.
 2. If the amount being escrowed appears to be excessively large by applying the above standard, the mortgagee should provide HUD or the mortgagor, or both, a justification for holding the larger sum in escrow if asked to do so by either party.

3. The Loan Management Branch Chiefs should determine the reasonableness and financial soundness of the mortgagee's justification for holding apparently large sums in escrow with the understanding and knowledge that the mortgagee may not charge the mortgagor penalties for late payments of items due from escrow unless the penalty was the direct result of the mortgagor's error or omission. In other words, the mortgagee might often have to pay the penalties if there are insufficient funds on hand in an escrow account to pay the items due by the dates due.
- c. Asset Managers (Loan Specialists) are often told by project owners that the tax bills of projects were not paid in time to take advantage of available discounts even when the mortgagee had sufficient funds in escrow to pay these bills and obtain the discounts. Sometimes this information is stated in or confirmed by a Certified Public Accountant's Notes to the Financial Statements portion of the annual audit of the mortgagor.
1. When an Asset Manager (Loan Specialist) discovers that discounts were not obtained when they could or should have been, the Asset Manager should bring this information to the attention of the Loan Management Branch Chief. The Asset Manager should document the Mortgagee's File and the Project Servicing Files of the Field Office to reflect the amount(s) of the lost discount(s).
 2. This information should be reflected in any recommendation for sanctions against a mortgagee that the Loan Management Branch Chief might make.

practices lies in the area of a mortgagee's compliance with HUD's hazard insurance requirements. These requirements are highlighted in Paragraph 2-16 of this handbook.

- a. The "acid test" for the Loan Management Branch Chiefs to use for this criterion is the amount of any losses actually suffered by the mortgagor or HUD because of a mortgagee's failure to meet the hazard insurance requirements of the Department.
 1. The dates, amounts, and circumstances surrounding any such losses should be documented in the Mortgagee's File and in the project servicing files of the Field office.
 2. This information should be highlighted in any recommendation for sanctions against a mortgagee that the Loan Management Branch Chief might make.
- b. Other considerations for application of this criterion include:
 1. Sufficient amounts of coverage, including reasonable deductibles.
 2. Adequate and timely processing of property insurance loss drafts by the mortgagee. Responsibility for restoration of property damage rests on the mortgagee and the mortgagor. The receipt of any loss draft settlement bearing the mortgagee's endorsement is considered to be sufficient evidence that the mortgagee is satisfied with the restoration. Reminder: The mortgagee is not permitted to charge the mortgagor for processing a property insurance loss draft, including any

physical inspections of the property the mortgagee might make in connection with its processing practices.

3. The mortgagee's prompt notification of HUD of unavailability of insurance.

4. The relative cost of insurance premiums when the insurance coverage is obtained by the mortgagee rather than by the mortgagor. This may be particularly important if a relationship that is less than arms-length exists between the mortgagee and the insurer or the insurance agent. If the existence of a related interest is known by the Field Office, this fact should be documented in the Mortgagee's File.

5-14. The fourth criterion for the Loan Management Branch Chiefs to use in evaluating a mortgagee's servicing practices involves their perceptions of the adequacy of the mortgagee's collection efforts. This criterion is more judgmental than the first three criteria. Information about a mortgagee's collection efforts is frequently gained, informally, through conversations between the staff of the mortgagee and the staff of the Loan Management Branch. Many of these conversations are about the causes of default shown by a mortgagee when a mortgagee reports a default on Form HUD-92426, "Multifamily Default Status Report."

- a. Asset Managers (Loan Specialists) should document carefully the major aspects of their conversations with mortgagees when these discussions concern a mortgagor's delinquent loan.
- b. When Asset Managers (Loan Specialists) have reason to believe that a mortgagee has not adequately explored the causes of or remedies for a delinquency, the Asset Managers should bring their concerns to the attention of the Branch Chief.

- c. It is often necessary for Loan Management Branch Chiefs themselves to discuss delinquent loans with mortgagees. These discussions are frequently, held when a loan is in default in order to explore means of effecting reinstatement and avoiding an assignment of a mortgage.
- d. If it becomes apparent to the Loan Management Branch Chiefs that a mortgagee's collection efforts are inadequate, they should document the

basis for reaching this conclusion in the Mortgagee's File. This information should be noted in any recommendation for sanctions against the mortgagee that the Loan Management Branch Chiefs might make.

- e. CAUTION: HUD occasionally asks mortgagees to ask HUD to extend the mortgagee's deadline for electing to assign the mortgage to HUD; these extensions, when made, can provide an opportunity for HUD, the mortgagee, and the mortgagor to find a way to work the loan out of a default as well as to find longer term solutions to the underlying problems which led to the default. Refusal by a mortgagee to honor HUD's request to ask for an extension of the assignment deadline is not a reason to recommend that mortgagee for sanctions.
- f. HUD will consider cooperation on the part of a mortgagee in acceding to such a request to be a mitigating factor if HUD imposes sanctions against the mortgagee when sanctions are warranted. Incidents of a mortgagee's cooperation in working out delinquent loans need to be documented in that mortgagee's file so that the mortgagee's cooperation can be brought to the attention of the appropriate HUD staff by the Loan Management Branch Chiefs.

5-15. The fifth criterion for the Loan Management Branch Chiefs to use in evaluating a mortgagee's servicing practices is the accuracy shown by the mortgagee in

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preparing Form HUD 92426, "Multifamily Default Status Report." Mortgagees must prepare this report diligently and accurately. The mortgagee's file should be documented when these reports contain inaccurate information of any nature. All significant inaccuracies should be noted in any recommendations for sanctions the Loan Management Branch Chief might make.

5-16. The Loan Management Branch Chiefs in HUD Field Offices are able to identify many of the strengths and weaknesses in multifamily mortgagees, servicing practices in five primary areas:

- a. Physical inspections of projects.

- b. Escrows.
- c. Hazard insurance.
- d. Collection efforts.
- e. Default reporting.

5-17. HUD Field Office Loan Management staff have gained an enormous amount of "hands-on" experience in two particular areas through their direct servicing of mortgages held by HUD: Physical inspections and collection efforts. HUD's Asset Managers (Loan Specialists) also have gained experience in analyzing tax and insurance escrow requirements of projects whose mortgages are HUD-held. When Asset Managers identify problem areas in the servicing practices of multifamily mortgagees, Asset Managers are expected to bring these problems to the attention of the Loan Management Branch Chief. The Branch Chief will thereby remain informed about the overall extent, nature, and severity of problem areas for mortgagees servicing project mortgages in the jurisdiction of the Field Office.

5-18. The Loan Management Branch Chiefs of the Field Offices shall endeavor to develop local solutions to local problems that they have identified. The Branch

Chiefs should, except in instances of particularly flagrant and serious infractions, afford a mortgagee a reasonable opportunity to comply with HUD's requirements before recommending the mortgagee for the imposition of civil money penalties or other sanctions.

- a. If a number of mortgagees appear to have the same or closely related problems, the Loan Management Branch Chiefs might offer to participate in training workshops or conferences for mortgagees on particular topics. For example, if a group of mortgagees expresses an interest in holding a training session about physical inspections, the specifics of what staff from the Field Office would participate in the meeting can be worked out at the local level. While it remains the industry's role to train its mortgage servicing personnel, in some

instances HUD may be able to offer technical assistance as part of these training efforts.

- b. Loan Management Branch Chiefs should consider providing written guidance and instructions to mortgagees when this method of solving a problem might be appropriate. For instance, if a number of mortgagees have difficulty in establishing appropriate escrows, or if they are not reporting defaults accurately, a Field Office Letter to the mortgagees might be a more cost effective way to render assistance than would a workshop. Some Loan Management Branch Chiefs might want to start a "Mortgagee Newsletter" for mortgagees. A newsletter for mortgagees is just one way of establishing a forum for explaining the requirements that govern the servicing of HUD-insured project mortgages.
- c. Problems often may need to be addressed on a case-by-case basis. For example, if a mortgagee provides a physical inspection report which is not satisfactory, the Asset Manager (Loan Specialist) could call the mortgagee, discuss the problems, and request a corrected report.

If this action is not successful in obtaining a corrected report, the Loan Management Branch Chief should write the mortgagee and ask for a revised report that makes all necessary corrections. Under no circumstances should the original (first) physical inspection report be returned to the mortgagee. If and when the mortgagee provides an acceptable report, a copy of the unacceptable report should be placed in the Mortgagee's File together with a copy of the report that is acceptable. When taken together, these kinds of discrepancies provide the documentation that supports the Loan Management Branch Chiefs' recommendations for the imposition of sanctions.

- d. Asset Managers (Loan Specialists) shall examine Forms HUD-92426, "Multifamily Default Status Report," on the same day they are received. If the form reports a default (rather than a reinstatement), the Asset Manager shall confirm the accuracy of all data elements within one business day. If any discrepancies are found,

the Asset Manager shall bring these to the immediate attention of the Loan Management Branch Chief, who should then call the mortgagee and ask that a corrected Notice of Default be provided within three business days (sooner if possible). Copies of the incorrect and corrected Notices of Default should be filed in the Mortgagee's File. Errors contained on the Form HUD-92426 when reinstatement is being reported should not be ignored, but these errors do not have the priority for correction that exists when a mortgagee is reporting a default.

- 5-19. CAVEAT: Nothing in this handbook supersedes or revises the responsibilities of all HUD employees as those responsibilities are set forth in Chapter 3 of HUD Handbook 2000.3, Office of Inspector General Activities.
- a. Within the limits of their authority and duties, all employees of the Department are responsible

for: (1) taking appropriate action to foster the enforcement of laws, executive orders, regulations, and other applicable directives; (2) maintaining high standards of ethical conduct; and (3) promoting efficiency and effectiveness in the administration of the Department's programs and activities.

- b. These responsibilities require that all employees: (1) promptly report to their supervisors or directly to the OIG, instances of, and information on, any known Or suspected violations of law, rules, or regulations, gross mismanagement, waste of funds, abuse of authority or substantial and specific danger to the public health and safety; and (2) assist the OIG, when requested, in any subsequent audit, investigation, or other review of such matters.

- 5-20. Types of recommendations for sanctions. The Loan Management Branch Chiefs may make one of two types of recommendations for the imposition of sanctions: (1) critical; or (2) routine. All recommendations shall be in writing. Recommendations for sanctions against mortgagees generally should be made only after local efforts to resolve issues of a mortgagee's lack of compliance with HUD requirements have not been

successful.

- a. Loan Management Branch Chiefs may recommend sanctions against a mortgagee at any time when, in their judgement, there is an urgent need for a sanction. This condition would exist if there is an immediate risk of loss to the insurance funds or a clear and present danger of a loss of subsidized housing because of a mortgagee's servicing practices. This condition also could exist if a mortgagee appears to have a complete and utter disregard for HUD's mortgage servicing requirements and is unwilling or unable to take corrective action. The first page of any recommendation that is deemed critical shall be marked with the word, "URGENT," in lettering of a prominent size.

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- b. Recommendations for sanctions that are routine in nature should be made quarterly as described below.

5-21. Quarterly Summary Report. Loan Management Branch Chiefs shall prepare a summary report about those mortgagees they are recommending for sanctions. These reports should be received by the Regional Office within thirty days after the end of each quarter.

5-22. Contents of the Quarterly Summary Report. The Loan Management Branch Chiefs must describe the servicing activities and practices of any mortgagee they are recommending for sanctions in enough detail to permit an informed decision about imposing sanctions.

- a. The Quarterly Summary Report has a cover sheet showing the following information:
 1. The number of mortgagees being recommended for sanctions.
 2. The names of each mortgagee.
 3. Each mortgagee's Mortgage Number (from the Institutional Master File).
 4. The total number of project mortgages (in the jurisdiction of the Field Office) serviced by each mortgagee.

5. The number of subsidized mortgages (in the jurisdiction of the Field Office) serviced by each mortgagee.
6. The number of unsubsidized multifamily mortgages (in the jurisdiction of the Field Office) serviced by each mortgagee.
7. The city and state in which each mortgagee is located.

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8. Whether the office of the mortgagee is a branch office or the main office of the mortgagee.
- b. For each mortgagee being referred, the Loan Management Branch Chiefs should prepare a separate narrative description of the reasons for recommending sanctions. This narrative must describe the major problems encountered with the mortgagee, corrective actions requested of the mortgagee by the Field Office, and the extent of the mortgagee's cooperation or lack thereof in taking corrective action; the narrative must cite the specific regulation, handbook requirement, or other HUD issuance that has been violated. The narrative also should state whether the mortgagee is a servicing mortgagee only, an investing mortgagee only, or both a servicer and an investor. Any defaults or assignments involving the mortgagee within the preceding calendar year should be listed, together with a brief description of the circumstances surrounding the default(s) and assignment(s). The narrative should describe the mortgagee's voluntary compliance with HUD's Delinquency Alert request; it should describe the mortgagee's acceptance or denial of any requests from HUD to the mortgagee for the mortgagee to ask HUD to extend election decision deadlines. The narrative also should mention instances of the mortgagee's cooperation. A complete, objective description is necessary.
 - c. For each mortgagee being referred, the Loan Management Branch Chiefs must provide copies of documents supporting the referral. If the documentation is voluminous, a representative

sample of the documents may be sufficient. Field Office Counsels should be consulted when deciding the appropriate level and kinds of documentation.

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- 5-23. Distribution of recommendations for sanctions. The Loan Management Branch Chief shall send the original memorandum, together with the supporting documentation, recommending administrative sanctions against a mortgagee directly to the Regional Director of Housing. Copies of the request, without the supporting documentation, are to be sent to all of the following:
- a. The Housing Management Division Director of the Field Office, for information.
 - b. The Manager or Director of the Field Office, for information.
 - c. The Chief, Mortgage Credit Branch, of the Field Office, for information and inclusion in the annual review and comment processes described in HUD Handbook 4060.1, Mortgagee Approval Handbook, paragraph 4-4.
 - d. The Director, Operations Division, office of Multifamily Housing Management, in HUD Headquarters.
- 5-24. Positive Control and Null Reports. As a control for the submission and receipt of the Quarterly Summary Reports from the Field Offices, the Loan Management Branch Chiefs shall submit a "Null" or "Negative" Report if they are not recommending any mortgagees for sanctions through the mechanism of the Quarterly Summary Report. The Null Report is a one-sentence memorandum: "The 'XYZ' Field Office is not recommending any multifamily mortgagees for sanctions at this time." The Null Report is due within thirty (30) days after the end of each quarter and is to be distributed as shown in the preceding paragraph.
- 5-25. The primary responsibility for Regional participation in the multifamily mortgagee monitoring process is vested in the Regional Directors of Housing. The Regional Offices have five main activities:
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- a. Analyze the Field Office recommendations for sanctions.
- b. Forward recommendations which are deemed to have sufficient merit to the Operations Division, Office of Multifamily Housing Management, in Headquarters.
- c. Ensure that the Field Offices are in compliance with the requirements of this handbook.
- d. Coordinate or sponsor region-wide training workshops or newsletters as a need for or interest in these kinds of programs develops.
- e. Provide technical assistance and advice to the Loan Management Branch Chiefs.

5-26. The Regional Directors of Housing should review the Quarterly Summary Reports and special requests for sanctions provided by the Field Offices. These reports should be analyzed for patterns of weaknesses in the servicing activities of multifamily mortgagees. Some mortgagees service multifamily and single-family mortgages. Some mortgagees service mortgages that are under the jurisdiction of more than one Field Office. If a mortgagee shows a pattern of servicing deficiencies in the two different kinds of mortgages or across several Field Offices, the Regional Directors of Housing should ordinarily notify the Office of Multifamily Housing Management of their conclusions.

- a. For example, if one mortgagee is reported by several Field Offices to have a weakness in escrow analysis in multifamily and single-family loan programs, the Regional Director of Housing should write a memorandum to the Office of Multifamily Housing Management describing the extent of the problem. If necessary, the memorandum could mention a need to assign a high priority for imposing sanctions against the mortgagee.

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- b. On the other hand, one mortgagee may be servicing a relatively large number of multifamily mortgages in all or nearly all the Field Offices in the Region. In this example, perhaps only one Field Office recommended the mortgagee for sanctions while the other Field Offices did not make such recommendations. Here the Regional Director of Housing should determine the reasons for the discrepancies within the Region and take appropriate actions.
- 5-27. Regional offices conduct periodic on-site reviews of Field Offices. Regional staff shall ensure Field Office compliance with the practices and procedures described in this handbook during the course of these reviews.
- 5-28. Regional Directors of Housing can help coordinate training programs for mortgagees if an interest in this activity develops in the industry. Similarly, the Regional Directors of Housing could sponsor a newsletter if mortgagees express an interest in this forum.
- 5-29. Regional Offices can provide guidance and assistance to the Loan Management Branch Chiefs. This support could, for instance, be in the form of helping develop software applications for tracking and reporting requirements. Regional Directors of Housing also may help Loan Management Branch Chiefs resolve problems with mortgagees at local or regional levels.
- 5-30. The Office of Lender Activities is responsible for processing recommendations for administrative sanctions against mortgagees. It serves as the staff to the Mortgagee Review Board (MRB) and the Housing Civil Penalties Panel (HCCP). OLA may request the assistance of HUD's Inspector General when this help is deemed necessary.
- 5-31. The Office of Lender Activities receives and reviews information about imposing sanctions against multifamily mortgagees from the Office of Multifamily

Housing Civil Penalties Panel; the Office of Lender Activities may take such other actions it deems necessary. The Office of Lender Activities will conduct on-site reviews of multifamily mortgagees based on referrals from the Office of Multifamily Housing management.