

**PLANNING AND DEVELOPMENT
HOUSING DIVISION
HOUSING – MORTGAGE SERVICING
AUDIT 17-07
NOVEMBER 1, 2017**



CITY OF TAMPA

Bob Buckhorn, Mayor

Internal Audit Department

Christine Glover, Internal Audit Director

November 1, 2017

Honorable Bob Buckhorn
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Housing – Mortgage Servicing, Audit 17-07

Dear Mayor Buckhorn:

Attached is the Internal Audit Department's report on Housing-Mortgage Servicing.

The Housing Division of Planning and Development has already taken positive actions in response to our recommendations. We thank the management and staff of the Housing Division for their cooperation and assistance during this audit.

Sincerely,

/s/ Christine Glover

Christine Glover
Internal Audit Director

cc: Dennis Rogero, Chief of Staff
Sonya Little, Chief Financial Officer
Ernest Mueller, Chief Assistant City Attorney
Bob McDonough, Administrator for Economic Opportunity
Thomas Snelling, Director of Planning and Development
Vanessa McCleary, Housing Manager

**PLANNING AND DEVELOPMENT
HOUSING DIVISION
HOUSING – MORTGAGE SERVICING
AUDIT 17-07
NOVEMBER 1, 2017**

/s/ Kat Estelle

Auditor

/s/ Vivian N Walker

Auditor

/s/ Christine Glover

Audit Director

**PLANNING AND DEVELOPMENT
HOUSING DIVISION
HOUSING – MORTGAGE SERVICING
AUDIT 17-07**

BACKGROUND

The Housing and Community Development Division -- through its Residential Services section -- assists homeowners by providing funding for various mortgage and owner occupied rehabilitation assistance. Upon obtaining funding, the homeowner's loan is assigned to, and serviced by, a contracted third party vendor. As of March 31, 2017, the City of Tampa's portfolio included 1,235 accounts with outstanding principal balances of more than \$64 million.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY2017 Audit Agenda. The objectives of this audit were to ensure that:

1. The system of internal controls related to the setup and recording of mortgage loans is adequate.
2. The mortgage servicer complied with the contract by ensuring adequate insurance coverage of property and timely payment of taxes and insurance premiums for calendar year 2016.
3. The mortgage servicer complied with the contract related to annual verification that the borrower and resident of property are still the same.
4. New/modified loans were properly documented and accurately set-up with the mortgage servicer.

STATEMENT OF SCOPE

The audit period covered Mortgage Servicing activity that occurred from January 2016 to February 2017. Tests were performed to determine whether the Mortgage Servicing Division of Housing personnel were fulfilling their stated duties and responsibilities in an effective and efficient manner. Tests were also performed to determine the level of compliance with the contract by the mortgage servicing vendor. Original records as well as copies were used as evidence and verified through observation and physical examination.

STATEMENT OF METHODOLOGY

The objectives for this audit were accomplished through the following methods:

- Reviewing active and closed mortgage files to determine if the required documents are being obtained prior to mortgage issuance.
- Sending confirmation letters to active mortgagees for verification that they are still the primary resident.

- Obtaining documentation from the contracted mortgage servicing vendor (vendor) that sampled property had current property insurance with the City of Tampa as a loss payee.
- Reviewing the Hillsborough County's Tax Collector's website to ensure property taxes were current.

An internally developed Excel spreadsheet was the source of information used to obtain the sampled records tested. This data was for information only and was not evaluated for reliability. Both random and judgmental sampling was used. For the random samples selected 90% confidence and 10% error rate were used. In order to ensure all types of transactions were reviewed, the sample was adjusted and the following types were judgmentally selected:

- Assumptions
- Subordinations
- Short Sales
- Satisfactions
- Releases

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. The system of internal controls related to the setup and recording of mortgage loans is adequate.
2. The mortgage servicer is not always complying with the contract by ensuring adequate insurance coverage of property and timely payment of taxes and insurance premiums.
3. The mortgage servicer is not complying with the contract related to annual verification that the borrower and current resident of the mortgaged property are still the same.
4. New/modified loans are properly documented and accurately set-up with the mortgage servicer.

MORTGAGE SERVICING CONTRACT

STATEMENT OF CONDITION: The monthly fee being retained by the mortgage servicer is not adequately detailed by the vendor. Monthly, the City of Tampa (City) receives a check from the vendor awarded the bid to provide mortgage and portfolio management services. The check represents City loan payments made by mortgagees to the vendor, but then reduced by the vendor's fee.

The "contract" documents are not clear on the fee(s). Specifically, the vendor's compensation document provided with the bid response identified various amounts for fees depending on whether or not a loan was amortizing or deferred. However, the Request For Proposal (RFP) only states the vendor will be paid a fee.

CRITERIA: RFP Sections 3.1 and 3.5 establish that there is to be a servicing fee, not fees, which should be deducted from any payments received. However, Sections 5.9 and 5.11 indicate the City will remit payment to the vendor after being properly invoiced.

CAUSE: Management has not required the vendor to submit an invoice or provide details to support the fee being retained from the mortgage payments.

EFFECT OF CONDITION: The City could be losing revenue from loan proceeds if the vendor is retaining an amount that exceeds the allowed fee.

RECOMMENDATION 1: Housing and Community Development should require the vendor to submit an invoice or provide a detail printout of their fee for each loan as required by the RFP. Additionally, future contracts with mortgage servicing vendors should be specific on the method of payment and the fee(s) to be paid.

MANAGEMENT RESPONSE: Agree

TARGET IMPLEMENTATION DATE: December 2017

ANNUAL VERIFICATIONS

STATEMENT OF CONDITION: There is no documentation to support mortgage restrictions related to primary residency are being properly monitored to ensure compliance by the borrower. A sample, of 24 loans, was selected to confirm that the original borrower is still the primary resident. The 24 loans were reduced to 21 because two of the loans had reached the 20 year age limit and not subject to the mortgage restriction and one loan had been recently subordinated to a different borrower. For 14 of the 21 loans applicable, a review of the Hillsborough County Property Appraiser's website and the City of Tampa's utility services database identified the name on the account was the same as the original borrower. Therefore, for the remaining seven loans, confirmation letters were mailed to the borrower, requesting documentation to support that they are still the primary occupant. Only two confirmations were returned with supporting documentation of compliance by the original borrower. Although all confirmations were not returned, based on the initial review of the Hillsborough County Property Appraiser's website it was identified that at least two of the five properties were listed in the name of someone other than the original borrower.

CRITERIA: The deferred payment loan promissory note has a stipulation that “if the borrower does not remain owner-occupant, or if all or any part of the property or an interest therein is rented, leased, sold, or transferred by borrower without lender's prior written consent, lender may at lender's option declare all the sums secured by this note to be immediately due and payable.”

The request for proposal Section 3.5 Remittances and Handling of Funds indicates that the servicer will also "when applicable, verify on a yearly basis that the mortgagee or homeowner is still using the home as his/her primary residence." Additionally, Section 3.11 Vacancies and Sales state that "the servicer shall promptly notify the City of any vacancies in any of the mortgaged premises, which come to its attention.”

CAUSE: The Housing Division previously performed verifications; however, due to inaccurate portfolio data they suspended the verifications until accurate records could be established.

EFFECT OF CONDITION: Potential for loss of revenue if the original borrower is no longer the primary resident.

RECOMMENDATION 2: Management should require that the loan servicer provide documentation to support compliance with an annual verification. If the loan servicer has been noncompliant, Management should implement an alternative method for confirming residency to ensure the City's interest is protected.

MANAGEMENT RESPONSE: Agree

City staff has found that existing information provided by vendor is inaccurate and staff has been working to properly document and update information pertaining to the City’s mortgage portfolio. Once the portfolio information has been corrected, staff will resume loan verifications.

TARGET IMPLEMENTATION DATE: It is expected that HCD will complete the research and begin verifications by December 2017.

TAX AND INSURANCE MONITORING

STATEMENT OF CONDITION: The loan servicer was not complying with the agreement to ensure mortgaged properties maintained adequate insurance coverage and current property taxes. A sample of 24 active loans in the City of Tampa's portfolio was selected to review for current property taxes and that the property had adequate insurance coverage. A review of the website for the Hillsborough County's Tax Collector provided support that the 2016 property taxes were current for 20 properties - 3 properties were showing as delinquent. In order to confirm insurance coverage, a request had to be submitted to the loan servicer. Information for current and adequate insurance coverage could not be provided for 20 properties - 3 properties were identified as being insured. However, no rating could be determined for one of the three insurance companies identified as insuring the property - which is a requirement of the agreement.

The loan servicer submits a monthly report that lists accounts without insurance coverage. However, there is no documentation that the applicable Housing Management was contacted for the action to be taken to ensure the property(ies) are properly covered against any potential loss.

CRITERIA: The current agreement requires the loan servicer to ensure all mortgaged properties maintain current property taxes and insurance coverage of at least the loan value. The request for proposal Section 3.4 Payment of Charges provides for the servicer to "discharge all of the obligations of the mortgages, as well as every obligation arising hereunder. . . discharging obligation for a delinquent account, Servicer shall obtain written authorization from the City. The Servicer . . . shall forward to the City for examination all receipted bills or other satisfactory evidence of such payments, when so requested by the City."

Also, the request for proposal Section 3.9 Delinquency of Mortgagor requires the loan servicer to provide the City of Tampa with a report of any delinquent items, including what efforts were taken "to cause such delinquency to be cured, together with a recommendation as to the future action to be taken in respect thereto."

CAUSE: The Housing Division recently reorganized the Mortgage Servicing section with new staff. Additionally, the request for proposal did not address what action to be taken if a loan became delinquent with their property taxes or insurance coverage lapsed.

EFFECT OF CONDITION: Noncompliance by loan servicer has resulted in exposure for the City to potential property loss.

RECOMMENDATION 3: Management should develop a policy and procedure that identifies the action to be taken by the loan servicer if a property becomes delinquent with their property taxes and / or insurance coverage lapses.

MANAGEMENT RESPONSE: Agree
Management is developing a policy pertaining to tax and insurance monitoring which will be included in the contract of the vendor selected for servicing the City of Tampa's loan portfolio.

TARGET IMPLEMENTATION DATE: December 2017