DEVELOPMENT AND ECONOMIC OPPORTUNITY
HOUSING AND COMMUNITY DEVELOPMENT
MORTGAGE SERVICING
AUDIT 25-11
APRIL 3, 2025

City of Tampa
Jane Castor, Mayor

Internal Audit Department
315 E. Kennedy Boulevard
Tampa, Florida 33602
Office (813) 274-7159

April 3, 2025

Honorable Jane Castor
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Housing – Mortgage Servicing, Audit 25-11

Dear Mayor Castor:

Attached is the Internal Audit Department's report on Mortgage Servicing. The Division of Housing and Community Development has already taken positive actions in response to our recommendations. We thank the management and staff of the Division of Housing and Community Development for their cooperation and assistance during this audit.

Sincerely,

/s/ Christine Glover

Christine Glover
Internal Audit Director

cc: John Bennett, Chief of Staff
Abbye Feeley, Administrator for Development and Economic Opportunity
Dennis Rogero, Chief Financial Officer
Jeff McKittrick, Director of Housing and Community Development
Megan Birnholz-Couture, Assistant City Attorney

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/s/ Jimmy Yu

Senior Auditor

/s/ Vivian Walker

Lead Senior Auditor

/s/ Christine Glover

Audit Director

DEPARTMENT OF DEVELOPMENT AND ECONOMIC OPPORTUNITY
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BACKGROUND

The City of Tampa (City) administers various housing assistance programs through State and Federal funding. It does so through the Housing and Community Development Division (HCD) within the Department of Development and Economic Opportunity. HCD participates with developers and non-profit organizations in the construction and rehabilitation of multi-family apartments while also helping low-income households purchase or rehabilitate single-family homes.

The assistance is often provided as no-interest or low-interest mortgage loans. Repayment of the loan is usually deferred until the end of the term; however, there are some loans that require monthly payments. All loans carry certain borrower stipulations consistent with the goals of the City and the respective State or Federal agencies. The stipulations must be upheld by the borrower during an affordability period as determined by the State or Federal program. Upon expiration of the affordability period or term, the loan is typically forgiven by the City.

As of December 2024, the City had a loan portfolio of over 900 loans with a principal balance of approximately $84.5 million dollars. The City contracts with an outside agency to service the loans and help HCD monitor the borrowers for compliance with loan covenants.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY 2025 Audit Agenda. The objectives of this audit were to ensure that:

1. The system of internal controls related to mortgage servicing is adequate.

2. Monitoring of single-family mortgages for compliance with the owner-occupancy requirement is being performed.

3. The process for promptly recording mortgages is adequate.

4. Mortgaged properties are properly insured and property taxes are promptly paid.

STATEMENT OF SCOPE

We reviewed the servicing and monitoring activity for mortgage loans on the City’s ledger as of December 2024. Our scope included a review of both multi-family and single-family mortgage loans.

The primary source of information reviewed was generated by the mortgage servicer’s software, which has previously been evaluated and deemed reliable. Original records as well as copies were used as evidence and verified through observation and physical examination.

STATEMENT OF METHODOLOGY

To achieve our objectives, we reviewed and evaluated a range of documents related to mortgage servicing, including:

- HCD's policies and procedures for monitoring borrowers.
- Services rendered under the contract with the loan servicer.
- Laws, rules, and regulations governing State and Federal housing programs.
- Mortgage note terms and conditions.

Interviews were conducted with responsible parties in both HCD and the Revenue and Finance Department. After gaining an understanding of internal controls, we extracted a statistical sample of loans and tested the internal controls for our stated objectives.

We reviewed the Tampa.gov website, the Intranet, and researched other materials to determine if there are any relevant performance metrics related to mortgage servicing. There are currently no relevant performance measures for mortgage servicing.

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 mortgage servicing could be improved.

2. Monitoring of single-family mortgages for compliance with the owner-occupancy requirement is not being performed.

3. The process for promptly recording mortgages is adequate.

4. Mortgaged properties are not being monitored for proper insurance and prompt payment of property taxes.

MONITORING FOR OWNER-OCCUPANCY (REPEAT FINDING)

STATEMENT OF CONDITION: HCD provides mortgage assistance and owner-occupied rehabilitation loans to qualified applicants. The City contracts with an independent loan servicer to collect mortgage payments and provide portfolio management services.

An audit conducted in 2017 noted that HCD had suspended its process of verifying that borrowers continue to occupy the mortgaged property as their primary residence. Our current review noted that these policies and procedures have not been finalized and documented verification of this requirement has not occurred since prior to the 2017 audit. This is a repeat finding.

CRITERIA: The deferred payment loan promissory note stipulates that "if the borrower does not remain owner-occupant, or if all or any part of the property or 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 mortgage to be immediately due and payable".

Section 2-46 of the City Code of Ordinances requires departments to create and maintain all records with adequate and proper documentation of the organization, together with the functions, policies, decisions, procedures, and essential transactions of the department.

CAUSE: The City renewed its contract with the same loan servicer in fiscal year 2019. The contract allows the loan servicer to verify on a yearly basis that the mortgagor is still using the home as their primary residence. The fee for this service is stated in the contract as $13.00 per loan. HCD indicated that this fee was cost prohibitive for the City and is in the process of developing its own process to verify owner occupancy.

EFFECT OF CONDITION: Without periodic monitoring to ensure compliance with the owner occupancy requirement, HCD cannot be sure it is achieving the program goals it intended. Furthermore, the City could lose program income by not enforcing the collectability of the loan when warranted.

RECOMMENDATION 1: Either through the contract with the loan servicer or internally, HCD should verify owner occupancy for all applicable loans to ensure it is achieving its program goals and mitigating any potential loss.

MANAGEMENT RESPONSE: We agree with the above recommendation. This recommendation will be implemented through the current loan servicer to begin by June 1, 2025.

TARGET IMPLEMENTATION DATE: 6/1/2025 - Process will be finalized with the loan servicer and notices sent out to all current owners for verification of occupancy, taxes, and insurance.

MONITORING FOR TAXES AND INSURANCE (REPEAT FINDING)

STATEMENT OF CONDITION: HCD provides mortgage assistance and owner-occupied rehabilitation loans to qualified applicants. The City contracts with an independent loan servicer to collect mortgage payments and provide portfolio management services.

A 2017 audit indicated that documentation for current property insurance and tax payments could not be provided.

Our current audit testing of another sample of 24 accounts identified 8 properties for which documentation for current property insurance could not be provided and one borrower had not paid their 2023 property taxes resulting in a tax lien on the property. The unpaid property taxes account was not reported by the servicer to HCD.

Furthermore, we reviewed the insurance delinquency report provided by the loan servicer. It revealed over 300 accounts for which documentation of current insurance coverage was not on file.

HCD has not finalized policies and procedures to address delinquencies in renewing property insurance and late or non-payment of property taxes. HCD has yet to address this issue since our recommendation provided in the 2017 audit report. This is a repeat finding.

CRITERIA: The deferred payment loan promissory note requires borrowers to promptly pay property taxes when due and maintain adequate property insurance coverage. Borrowers are also required under the note to submit proof of payment of taxes and insurance premiums to the loan servicer when due. Non-compliance with these requirements is an event of default under the loan giving the City the option to take action to protect its collateral.

Under the current contract with the loan servicer, the servicer is required to work with HCD to ensure property taxes are promptly paid and the mortgaged property is insured.

Section 2-46 of the City Code of Ordinances require departments create and maintain all records with adequate and proper documentation of the organization, together with the functions, policies, decisions, procedures, and essential transactions of the department.

CAUSE: HCD indicated that letters sent out by the loan servicer requesting proof of insurance and/or property taxes have largely been ignored by borrowers.

According to their current procedure, HCD is required to send out a second notice to non-compliant borrowers on City letterhead. HCD delayed sending out these letters because they are developing a better process with the loan servicer to ensure collection of the documentation and actions to be taken for loan agreement violations.

EFFECT OF CONDITION: The delay in developing policies and procedures have resulted in many accounts without proof of insurance. Without knowing that the mortgaged properties are properly insured and that property taxes have been paid, HCD cannot address the unknown

risk. The homeowner may be at risk of losing their home and HCD may be at risk of not achieving its program goals.

RECOMMENDATION 2: Firstly, HCD should work with the servicer to collect the missing insurance documentation. Secondly, HCD should develop policies and procedures that identifies actions to be taken by the loan servicer should a borrower become delinquent in payment of property taxes, or when insurance coverage lapses.

MANAGEMENT RESPONSE: We agree with this recommendation. In addition to occupancy verification, a new process for documentation of insurance and tax verification will be implemented through the loan servicer. When identified by the loan servicer that the property owner is not in compliance, HCD staff will contact the homeowner by certified mail to inform them they are in violation of terms of their mortgage and have sixty (60) days to provide proof of insurance or payment of taxes as applicable.

TARGET IMPLEMENTATION DATE: 6/1/2025 - Notices to be sent to all owners for verification.

MULTI-FAMILY PROJECT MONITORING

STATEMENT OF CONDITION: The City's HCD administers and awards funds to sponsors of multi-family housing projects. The funds come from State and Federal housing agencies and are awarded to subrecipients and sponsors as mortgage loans.

A review of HCD's multi-family housing monitoring list indicated that 27 projects in the mortgage loan portfolio had not been monitored for annual compliance. The last date documented for monitoring compliance with State and Federal housing program requirements was in September of 2023.

HCD is in the process of procuring monitoring services from an external agency and redeveloping their policies and procedures to include the additional resource.

CRITERIA: Florida Administrative Code 67-37.007(15) states: "Rental units constructed, rehabilitated or otherwise assisted from the local housing assistance trust fund must be monitored **annually** by the local government, or to the extent another government entity or Corporation program provides periodic monitoring, the local government may rely on that entity's monitoring for 15 years or the term of assistance, whichever is longer, for compliance with tenant income and affordability requirements, except as referenced in Section 420.9075(4)(e), F.S."

Title 24 Subtitle A Part 92 Subpart K Section 92.504(a) of the Code of Federal Regulation states: "The participating jurisdiction is responsible for managing the day-to-day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of State recipients, subrecipients, or contractors does not relieve the participating jurisdiction of this responsibility. The performance and compliance of each contractor, State recipient, and subrecipient must be reviewed **at least annually**. The participating jurisdiction must have and follow written policies, procedures, and systems, including a system for assessing risk of activities and projects and a system for monitoring entities consistent with this section, to ensure that the requirements of this part are met."

CAUSE: As a result of additional multi-family projects coming online and lack of human resources, HCD allowed the annual monitoring requirement to lapse.

EFFECT OF CONDITION: Extensive delays in monitoring sponsor or subrecipient compliance is a violation of State and Federal regulations. Furthermore, it could result in undue liability to the City.

RECOMMENDATION 3: HCD should notify the respective State and Federal agencies of the violation and present a corrective action plan satisfactory to the agencies or obtain a waiver of the requirements for fiscal year 2024.

MANAGEMENT RESPONSE: Given the federal and state agencies monitoring requirements there is no obligation for HCD to provide notification at this time. The City includes reporting

of its monitoring efforts in its annual reporting to the State and to the United States Department of Housing and Urban Development. The City is not considered in violation of the regulations as the monitoring that will occur by the third party will include all properties with monitoring periods outstanding. Multi-Family Monitoring generally covers the previous 12-month period (or Fiscal Year) of activities, or the period since the last monitoring.

HCD was aware of the need to monitor multi-family properties, and initiated a Request For Proposal for an outside agency to perform all multi-family monitoring. The RFP was released on August 1, 2024, and two responses were received. One agency has been selected to perform the required monitoring on an annual basis for each property. The funding agreement was approved by the City Council on February 20, 2025, and this process is moving forward at this time.

TARGET IMPLEMENTATION DATE: Monitoring will commence by June 1, 2025. All monitoring will be completed by December 31, 2025.