



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

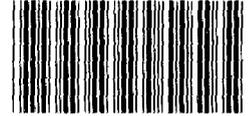
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DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

MARCH 19, 1980

B-114860

The Honorable Moon Landrieu
The Secretary of Housing *23*
and Urban Development



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Dear Mr. Secretary:

Subject: [Housing and Urban Development's Efforts to
Improve its Accounting System for Mortgage
Insurance Premiums] (FGMSD-80-27)

HSE 1507 At the request of the House Subcommittee on Manpower and
Housing, Committee on Government Operations, we reviewed the
action your Department has taken to improve its system for
billing and collecting mortgage insurance premiums. The sys-
tem now controls around \$350 million in annual premiums and,
as of September 1979, was reporting over \$22 million in delin-
quent premiums.

Our review concentrated on the effectiveness of actions
taken to reduce the amount of delinquent premiums. Our find-
ings, which were presented in testimony before the House Sub-
committee on November 8, 1979, are elaborated in enclosure I
and summarized below.

We concluded that your Department had not been suffi-
ciently aggressive in collecting millions of dollars in pre-
miums that mortgage institutions owed. This position was
reached after considering that:

- The September 1979 delinquent balance of \$22 million
was greater than the \$18 million balance that existed
when we last reviewed the system in September 1977.
- Between September 1977 and April 1979, bills for over
\$15 million in delinquent premiums were canceled based
only on claims by mortgage institutions that the related
insurance had been terminated.
- Between March and July 1979, the Department liquidated
an additional \$3.6 million in delinquent premiums with-
out taking any action to establish the propriety of
the liquidation.

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Controls over the delinquent premiums were expected to be drastically improved once a highly automated new system, called HUDMAP, was implemented in September 1979. However, HUDMAP is now being redesigned and its new scheduled implementation date is July 1982. Because of this, the Department has started making long needed improvements to its existing system.

By the time HUDMAP is implemented, the Department plans to have purified the insurance premium data base and substantially reduced the amount of delinquent premiums. A departmental task force was to complete these tasks by September 1979, but its efforts have been hampered by staffing and equipment problems and organizational changes. As a result, the completion date for the tasks has slipped almost a year.

The Department's current billing procedures could be contributing to inaccuracies in the system's data base and to the high level of delinquencies because the Department's bills to mortgagees do not show the total amount past due. This is particularly a problem when mortgages change hands because the Department relies on mortgagees to disseminate this important information. These procedures are inconsistent with those followed in the private sector and could keep some mortgagees from knowing about delinquencies for years.

The Department is also having difficulty collecting from mortgagees the application fees that homeowners actually paid in advance. To illustrate, over \$4 million in such fees were recorded as receivables in July 1979. However, over \$3 million of the amount was delinquent, and \$1.8 million of that amount was 6 months or more past due. The Department could mitigate these problems by requiring the mortgagee to pay the fees when the application is accepted rather than waiting until related documents are processed through the system as is presently done.

To correct the deficiencies noted, we recommend that you

- √ --perform a mortgage reconciliation with each mortgagee,
- √ --revise the billing system to include all delinquent as well as current premiums due on the anniversary date,
- √ --send an acknowledgment to the mortgage holder stating all delinquent premiums owed on the mortgage each time a mortgagee or servicing agent is changed in the master file,
- refrain from canceling current or delinquent premiums until receiving notification that all valid receivables

that were due the Government when the insurance was canceled were in fact collected, and

--aggressively pursue the collection rather than the liquidation of valid delinquent premiums.

We discussed our findings with HUD officials before the November 8, 1979, hearings, and where appropriate, incorporated their views.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Committees mentioned above; and the Chairwoman of the Subcommittee on Manpower and Housing, House Committee on Government Operations.

We appreciate the courtesies extended to our representatives during our review. We would appreciate receiving your comments on any actions you take or plan to take on the matters discussed in the report.

Sincerely yours,



D. L. Scantlebury
Director

Enclosures

ACTIONS TAKEN BY THE DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT TO IMPROVE
THE MORTGAGE INSURANCE ACCOUNTING SYSTEM

At the request of the Chairwoman, Subcommittee on Manpower and Housing, House Committee on Government Operations, we reviewed the effectiveness of the Department of Housing and Urban Development's actions to improve its mortgage insurance accounting system. The following is a summary of our findings and recommendations.

BACKGROUND

The mortgage insurance program was established by the National Housing Act of 1934. As of June 30, 1979, HUD had 4.7 million single family dwellings insured under this program and had collected \$335 million in insurance premiums during the prior 12 months. Each month HUD sends about 389,000 annual billings to mortgagees or their authorized servicing agents for insurance premiums collected during the preceding 12 months.

In our September 8, 1977, report to the Congress and in our May 1977 testimony before the Subcommittee on Manpower and Housing, we reported that HUD needed to

- collect millions of dollars in delinquent mortgage insurance premiums due from mortgagees,
- improve its collection procedures, and
- improve its accounting system and supporting ADP system.

We first reported on weaknesses in HUD's system of accounting in 1975 when we examined the payment of taxes on HUD-owned property. At that time, HUD informed us of its plans for a highly automated system, called "HUDMAP," which was to be the solution to most of its system problems. Over the years, HUD has continued to cite the forthcoming HUDMAP system as the answer to many problems we have identified and as a reason for not improving the present system.

Because of the continued slippage in the implementation date for HUDMAP, HUD has finally taken interim action to perform long needed improvements in the present system. However, we learned recently that HUDMAP is being redesigned and the implementation date has slipped from September 1979 to July 1982.

We have observed HUD's efforts, including the Data Purification Project efforts, to correct the billing and collection problems. HUD's present system cannot always

- promptly establish and terminate mortgages in the master file,
- identify and bill the correct mortgagee or servicing agent,
- reconcile and properly credit all collections received, and
- aggressively pursue the collection of delinquent premiums.

Without a tight system which clearly identifies and properly bills the correct mortgagee or servicing agent, HUD will continue to be plagued with collection problems.

HUD recognized the significance of these problems and attempted to improve the system through program enhancements and procedural changes. In addition, in August 1979, HUD contracted with a management consulting firm to assess the effect of changes in mortgage accounting processes and controls on correcting deficiencies noted in our prior audits. We believe that proper implementation of these enhancements and changes could help alleviate many of the current system problems. However, based on performance to date with HUDMAP and the Data Purification Project, we are concerned about proper and timely implementation of these enhancements and changes. Also, some of the enhancements require long leadtimes and additional staffing; and several are not scheduled for implementation until 1980.

In March 1978, HUD implemented the A-10 mortgage insurance premium liquidation system to replace the previous Mohawk tabulating system. The A-10 system was to improve productivity, timeliness of processing, and accuracy of mortgagee billings as well as to reduce error levels. The system was also to improve the quality of the data base to facilitate the ultimate conversion to HUDMAP.

The A-10 system encountered numerous start-up problems including its inability to liquidate receivables from the system for which payment had been received. As a result, outstanding delinquent premiums reached \$49 million in July 1978, which was 270 percent over what we had reported in our September 1977 report to the Congress (FGMSD-77-33). Consequently, HUD officials decided to give top priority to purifying the existing data in the computer files and implementing

corrective action so that all new data entries would be as accurate and as current as possible. To this end, HUD established a task force in September 1978, to purify the mortgage insurance premium data base and reduce the outstanding delinquent premium balance before implementing HUDMAP, which was then scheduled for September 1979 but has since slipped to July 1982.

MILLIONS OF DOLLARS IN PREMIUMS NOT COLLECTED

HUD did not take aggressive action to collect millions of dollars in premiums owed by mortgagees. As a result, HUD's delinquent premium in September 1979 (\$22 million), was greater than during our prior review (\$18 million). In some instances, current premiums billed to mortgagees have been canceled without adequate justification. In other instances, valid delinquent premiums were liquidated without any collection effort.

Cancellation of current premiums

Between September 1977 and April 1979, about \$15.9 million in current premium billings were canceled because the mortgagees that were billed claimed that the mortgage insurance had been terminated. However, during this period, only about 3-1/2 percent of these termination claims were verified by HUD. We believe that canceling current premiums without positive verification of termination is imprudent. In June 1979, HUD attempted to verify the remaining termination claims and found that over 20 percent of the cases with premiums valued at \$3.6 million were still in the master file. HUD has notified the responsible mortgagees to justify their termination claims but has not returned the \$3.6 million to the delinquent premium inventory, even though it appears to account for potentially valid receivables.

Liquidation of delinquent premiums

Between March and July 1979, HUD liquidated an additional \$3.6 million in delinquent premiums because the cases on which the premiums were owed were no longer in the master file. HUD justified this action by saying that all amounts owed the Government should have been collected at termination. We examined 22 cases involving the liquidation of \$9,000 in delinquent premiums and found that 27 percent appeared to be valid delinquent receivables which were not brought to the mortgagees' attention at the time of termination.

We subsequently evaluated HUD's termination practices by reviewing an additional 131 cases. Using HUD's termination procedures, we found that 39 mortgagees overpaid a total of

\$642, which should have been refunded at termination, while 20 mortgagees underpaid a total of \$1,802, which should have been collected at termination. If similar errors are being made on about 26,000 cases terminated monthly, then both HUD and some mortgagees are losing hundreds of thousands of dollars monthly. This situation occurred because HUD accepts the mortgagee's computation rather than verifying the amount owed the Government at time of termination.

DATA PURIFICATION PROJECT

HUD's data purification task force has been hampered by staffing problems, personnel and management turnover, equipment problems, and organizational changes. The task force has also changed its direction and basic objective. More emphasis is now placed on reducing the effects of the billing and collection problems than on correcting the cause of the problem, which is primarily the extent of errors in the insurance-in-force file.

As a result of errors in that file, HUD does not always know who to bill for a premium because some mortgages were never recorded in the file, some are recorded under the wrong mortgagee, and others were not removed from the file even though the insurance was terminated. Without promptly correcting the insurance-in-force file, collecting or canceling a delinquent premium will not solve the problem.

Because of all these factors, the task force has not been able to meet its scheduled goals, so authorized strength has been increased from 50 to 65 temporary employees and the projected completion date has slipped from September 1979 to August 1980.

We believe that HUD should perform a mortgage reconciliation with each mortgagee to purify the master file. The Federal Housing Administration Servicing Committee of the Mortgage Bankers Association has offered to cooperate in such a project but HUD has not acted on the proposal. We further believe that failure to promptly purify the insurance-in-force file will allow the billing errors and the problem of substantial delinquent premiums to continue.

UNDERLYING CAUSE

Under the most basic billing practices in private industry, any delinquency is included on the current billing. However, under HUD's present billing procedure, mortgagees are not notified of the total amount of delinquent premiums receivable or the total amount of unapplied cash being carried on HUD's records in their name.

Over the 30-year life of a typical mortgage, ownership or servicing responsibility could conceivably change many times. HUD estimates that 20 percent of the mortgages change ownership each year. Since unpaid premium liability accrues to the current mortgage holder, the buying mortgagee must rely on the integrity of the selling mortgagee or his authorized servicing agent to pass along all collected but unpaid premiums at the time of sale. Presently, it is not until the final holder of the mortgage attempts to terminate the insurance, that he is made aware of any prior unpaid premiums still owed. At that late date, it may not be possible to resolve whether the delinquent premium was actually valid or which previous mortgagee or servicing agent retained the funds.

In its annual billing to the servicer, we believe that HUD should include all delinquent premiums owned on the mortgage. We further believe that in addition to pursuing collection from the servicer, HUD should contact the mortgagee when the servicer does not respond to the 30-day delinquent notice. Also, HUD should send an acknowledgment to the buying mortgagee each time an ownership or servicer changes. This acknowledgment should also identify all delinquent premiums owed on the mortgage.

ADDITIONAL PROBLEM NOTED

During the course of this review, we noted that HUD also has difficulty collecting insurance application fees from mortgagees. Although the mortgagee collects the fee in advance from the homeowner, HUD does not bill the mortgagee until the fee-related documents have been processed through its fee billing and collection system. As a result, the earliest that HUD can collect the fees is about 6 weeks after the insurance application documents are received in the HUD field office. HUD bills mortgagees for about \$3 million in fees monthly and, as of July 1979, fees receivable amounting to \$4.7 million were on HUD records; about \$3 million was delinquent, and \$1.8 million of that amount was 6 or more months past due.

We believe that HUD should consider collecting the fee when the mortgagee submits the insurance application form to the field office. We briefed the Assistant Secretary for Administration on this matter in June 1979, but no action has been taken to collect the fees at the field office level.

RECOMMENDATIONS

To correct the deficiencies we have discussed here, the Secretary of Housing and Urban Development should

- perform a mortgage reconciliation with each mortgagee,
- consider revising the billing system to include all delinquent as well as current premiums due on the anniversary date,
- send an acknowledgment to the mortgage holder stating all delinquent premiums owed on the mortgage each time a mortgagee or servicing agent is changed in the master file,
- refrain from canceling current or delinquent premiums until receiving notification that all valid receivables that were due the Government when the insurance was canceled were in fact collected, and
- aggressively pursue the collection rather than the liquidation of valid delinquent premiums.

SCHEDULE OF DELINQUENT PREMIUM
AND UNAPPLIED CASH BALANCES
SEPTEMBER 1978 THROUGH SEPTEMBER 1979

	<u>Total delinquent premiums</u>	<u>Unapplied cash relating to delinquent premiums</u>	<u>Total unapplied cash</u>
	----- (millions) -----		
September 1978	\$22.7	\$ (a)	\$14.0
October 1978	23.4	(a)	9.4
November 1978	23.1	(a)	7.2
December 1978	25.9	6.7	8.2
January 1979	25.2	6.3	7.4
February 1979	23.9	5.5	5.9
March 1979	22.2	5.3	6.1
April 1979	20.0	4.3	5.4
May 1979	19.3	5.8	7.1
June 1979	17.9	5.2	6.8
July 1979	18.4	6.1	7.6
August 1979	21.7	7.0	9.6
September 1979	22.0	8.7	11.7

a/Data not available.