Provident Bank, Iselin, NJ

Single-Family Housing Servicing Loss Mitigation Program

Office of Audit, Region 2	**Audit Report Number: 2016-NY-1001**
New York - New Jersey	**November 30, 2015**

To: Kathleen Zadareky
Deputy Assistant Secretary for Single Family Housing, HU

//SIGNED//
From: Kimberly Greene, Regional Inspector General for Audit, 2AGA

Subject: Provident Bank, Iselin, NJ, Needs To Improve Controls Over Its Servicing of FHA-Insured Mortgages and Loss Mitigation Efforts

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Provident Bank's servicing of Federal Housing Administration (FHA) insured mortgages. HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 212-264-4174.

Audit Report Number: 2016-NY-1001
Date: November 30, 2015

Audit Report Title Provident Bank, Iselin, NJ, Needs To Improve Controls Over Its Servicing of FHA-insured Mortgages and Loss Mitigation Efforts

Highlights

What We Audited and Why

We reviewed Provident Bank's servicing of Federal Housing Administration (FHA)-insured mortgages and its implementation of the U.S. Department of Housing and Urban Development's (HUD) Loss Mitigation program. We selected Provident Bank based on an Office of Inspector General risk assessment of single-family lenders. The objective of the audit was to determine whether Provident Bank properly serviced FHA-insured mortgages and specifically whether it (1) properly implemented HUD's Loss Mitigation program, (2) accurately reported borrower and loan status data for FHA-insured mortgages it serviced, and (3) implemented an effective quality control plan.

What We Found

Provident Bank did not adequately implement HUD's Loss Mitigation program for loans that went into default. Specifically, Provident Bank did not (1) adequately document its loss mitigation efforts for nine loans with original mortgage amounts of more than $1.9 million (2) accurately report default status data in HUD's Single Family Default Monitoring System, and (3) implement an effective quality control plan.

What We Recommend

We recommend that HUD instruct Provident Bank to provide evidence to support that its servicing practices were acceptable for seven active loans with mortgages insured by HUD that were identified in this audit, which could result in $696,185 in funds to be put to better use. HUD should take appropriate administrative actions to indemnify any of these loans for which it determines that Provident Bank's servicing practices or forbearance procedures were inadequate. In addition, Provident Bank should reimburse the HUD FHA insurance fund $359,514 for two loans for which the required loss mitigation options were not made available to the borrower. Further, Provident Bank should implement verification procedures to ensure that information in HUD data systems is accurately reported. Additionally, Provident Bank should modify its quality control plan to ensure that its loss mitigation policies and procedures are complete and objectively evaluate how its policies are written and applied to FHA borrowers to ensure that they follow HUD FHA regulations and guidelines.

Table of Contents

Background and Objectives

Provident Bank is an approved Federal Housing Administration (FHA) loan servicer located in Iselin, NJ. It services more than 170 active FHA-insured mortgage loans. In 1996, the U.S. Department of Housing and Urban Development (HUD) established the Loss Mitigation program to ensure that distressed FHA-insured borrowers have the opportunity to retain homes and reduce loss to the FHA insurance fund. Loss mitigation is critical to FHA as it helps borrowers in default to retain home ownership while reducing, or mitigating, the economic impact on the insurance fund.

The Loss Mitigation program gave lenders responsibility for managing loan defaults and provided financial incentives for their efforts. The program consists of reinstatement options to allow borrowers to keep their homes and disposition options to assist them to give up their homes under more favorable conditions. Lenders have a responsibility to compare the loss mitigation options and use those with the least amount of financial loss to the government. Before a lender considers a delinquent borrower for one of FHA's loss mitigation home retention options, it must first evaluate the borrower's forbearance plans. Formal and informal forbearance plans are the only options available to delinquent borrowers who do not have a verifiable loss of income or increase in living expenses. Mortgage forbearance is an agreement made between a mortgage lender and delinquent borrower in which the lender agrees to not foreclose on a mortgage and the borrower agrees to a mortgage plan that will, over a certain time period, bring the borrower current on their payments. A forbearance agreement, however, is not a long-term solution for delinquent borrowers. It is designed for borrowers who have temporary financial problems caused by unforeseen problems such as temporary unemployment or health problems.

Once forbearance plans are considered, options under FHA loss mitigation home retention must be considered in the following order: (1) special forbearances, (2) loan modifications, and (3) FHA's Home Affordable Modification Program (HAMP). A special forbearance is a written agreement between a lender and borrower to reduce or suspend mortgage payments. This option is available only to unemployed borrowers. A loan modification is a permanent change to one or more of the terms of a borrower's loan. FHA-HAMP usually involves a combination of loan modification and a partial claim but may also include the loss mitigation options.

There are two disposition options: (1) a preforeclosure sale and (2) deed in lieu of foreclosure. The preforeclosure sale option allows the defaulted borrower to sell their home and use the sales proceeds to satisfy the mortgage debt, although the proceeds may be less than the mortgage balance. A deed in lieu of foreclosure allows the defaulted borrower to sign home ownership over to HUD in exchange for a release from all mortgage obligations.

The objective of this audit was to determine whether Provident Bank properly serviced FHA-insured mortgages. Specifically, we wanted to determine whether (1) the HUD Loss Mitigation program was properly implemented, (2) borrower and loan status data for FHA-insured mortgages were accurately reported, and (3) an effective quality control plan was established and implemented.

Results of Audit

Finding 1: Provident Bank Officials Did Not Adequately Document Implementation of the HUD Loss Mitigation Program

Provident Bank did not adequately document its loss mitigation efforts for nine loans with original mortgage amounts exceeding $1.9 million. Additionally, Provident Bank did not ensure that controls are in place for servicing FHA-insured mortgages and loss mitigation efforts in accordance with Federal guidance. Provident Bank did not adequately document implementation of HUD's Loss Mitigation program. Provident Bank's inadequate implementation of HUD's loss mitigation efforts occurred because it did not comply with Federal regulations and its quality control plan did not ensure that FHA servicing procedures were properly implemented. Deficient loss mitigation practices negatively impacts a homeowner's ability to retain homeownership and, in the case of loans reviewed in this audit, could increase the loss to the FHA insurance fund by $1,055,699, which includes a potential loss of $696,185 for seven loans and actual loss claims of $359,514 paid on two loans reviewed.

Nine Loans Had Significant Loss Mitigation Servicing Deficiencies

Provident Bank did not document specific loss mitigation efforts for nine loans in default (detailed in appendix D). Specifically, it did not

- Provide evidence to support that timely loss mitigation options were given to homeowners.
- Provide evidence of timely loss mitigation evaluation.
- Implement the priority order of loss mitigation options according to FHA regulations.
- Document that the loss mitigation actions were based on financial review evaluations.

Regulations at 24 CFR (Code of Federal Regulations) 203(C) state specific lending practices required of all mortgage lenders insured by HUD. Additionally, HUD Handbook 4330.1, REV-5, provides guidance for lenders when servicing an FHA-insured mortgage (detailed in appendix E).

Loan deficiencies are summarized in the following table:

FHA number	Timely loss mitigation options not provided to homeowners	Evaluation of delinquent loans not conducted within 90 days	Priority order of loss mitigation options not implemented	Loss mitigation actions lacking evaluations of financial reviews
351-4430918	X	X		
352-5091737	X		X	
352-5154843	X	X		X
352-5273294	X		X	
352-5288565	X	X	X	
352-5447273	X	X	X	X
352-5881845	X	X		
352-5201415	X	X		
Totals	**8**	**6**	**4**	**2**

Homeowners Were Not Given Timely Loss Mitigation Options

Provident Bank could not support that it provided the required Federal pamphlets outlining loss mitigation options to eight of nine delinquent borrowers within 60 days of mortgage delinquency. Additionally, it did not thoroughly communicate all loss mitigation options available under FHA guidelines. Delinquent borrowers should receive the following pamphlets from the lender: (1) PA 426-H, How To Avoid Foreclosure, and/or (2) HUD-2008-5-FHA, Save Your Home: Tips To Avoid Foreclosure, which contain important information to prevent mortgage foreclosure. HUD Mortgagee Letter 2000-05, Part C, Early Delinquency Servicing Requirements, requires that within 60 days of their mortgage delinquency, lenders are required to give delinquent borrowers these pamphlets that show loss mitigation options and the availability of housing counseling.

Provident Bank stated that it adequately informed delinquent borrowers of all FHA Loss Mitigation program options and that it included the required HUD publications in its notifications. However, it was unable to provide verification of the original loss mitigation package letters sent to borrowers and, instead, provided copies of its collection system-generated batch letters. This included loss mitigation packages and early intervention and housing counseling letters that were sent to both conventional and FHA delinquent borrowers. We determined that the batch letters did not adequately inform delinquent FHA borrowers of the options available to them for loss mitigation. Although required by HUD Handbook 4330.1, REV-5, paragraph 7-11(A), these letters did not include the FHA-HAMP option or describe alternatives the lender could use in lieu of foreclosure. Additionally, the batch letters did not reference HUD publications that could assist borrowers in making an informed decision about their mortgage delinquency. This insufficient communication of the options available for loss mitigation contributed in the foreclosure of two homes and the unnecessary expenditure of FHA insurance funds by paying two claims in the amount of $359,514.

Evaluation of Delinquent Loans Was Not Conducted Within the Required 90 Days

Provident Bank could not support that it performed timely evaluation for determining the most appropriate loss mitigation option for six of nine delinquent loans within the 90-day period of loan delinquency. The Loss Mitigation program was designed to address serious defaults that continue for 90 days or more. Many of the most effective loss mitigation actions take place in the early stages of collection. All efforts taken by a lender to address delinquent loans contribute to HUD’s goal of home ownership retention and protection of the insurance funds. Mortgagee Letter 2000-05, Part E, General Program Requirements, states that before a defaulted loan has accumulated three full unpaid loan installments, lenders must evaluate all loss mitigation options to determine the most appropriate alternative. Also, Mortgagee Letter 2000-05, Part C, Early Delinquency Servicing Requirements, Default Counseling, states that borrowers who receive counseling early have a greater chance of bringing their mortgage loans current. Without this evaluation, financial information was not obtained in a timely manner to allow for a thorough review of all loss mitigation options. This condition resulted in the loan’s becoming more delinquent over time and increased the risk that HUD would be responsible for paying unnecessary costs in the event of a claim.

The Priority Order of Loss Mitigation Options Was Not Implemented

Provident Bank could not support that it used the correct priority order of loss mitigation options for four of nine loans reviewed. Mortgagee Letters 2013-32 and 2012-22 state that after evaluating a delinquent mortgagor for Informal and Formal Forbearance Plans, HUD FHA's Loss Mitigation Home Retention Options must be considered in the following waterfall order: (1) Special Forbearances; (2) Loan Modifications; and (3) FHA-HAMP. In one instance, the financial records of one borrower verified that their income loss was due to unemployment. However, Provident Bank's financial analysis mistakenly concluded that the borrower was ineligible for special forbearance or a more permanent loss mitigation option. In a separate case, Provident Bank could not support it selected the most appropriate loss mitigation option for the borrower during the early stages of the default in compliance with the priority order of loss mitigation efforts. HUD Mortgage Letter 2000-05, Part F, General Program Requirements, requires that a specific priority order be used for loss mitigation efforts. However, Provident Bank could not support that the best loss mitigation option was selected for the borrower during the early stages of the default. Additionally, Provident Bank could not support that financial information was obtained in a timely manner or that the priority order of loss mitigation options was used as required during the preliminary phases of the borrowers' delinquency. As a result, the borrowers' mortgage became more delinquent over time, which decreased the likelihood that the borrower would receive a loan modification or FHA-HAMP because arrearages were added to the unpaid balances during Provident Bank's financial evaluation. For example, both a partial claim and a special forebearance will prevent a foreclosure and reduce the potential loss to the insurance fund.

Loss Mitigation Actions Lacked Adequate Evaluations of Financial Record

Provident Bank could not support that it adequately evaluated the financial records for three of nine borrowers reviewed. HUD Mortgagee Letter 2000-05, Part D, Special Forbeareance, and HUD Mortgage Letter 2000-05, Part H, General Program Requirements, state that a financial analysis is required by the lender to assess the borrower's ability to repay the default. In all three instances, Provident Bank did not adequately evaluate borrowers' financial information to determine the best loss mitigation option. In one case, financial records supported that the borrower had a loss of income due to unemployment. However, the financial evaluation did not include this information when the borrower's loan modification options were assessed. Provident Bank determined that the borrower was ineligible for a special forebearance or a more permanent loss mitigation option such as the loan modification or FHA-HAMP, for which the unemployment issue could have helped the borrower qualify. In another instance, Provident Bank modified a borrower's payments without first completing a financial analysis to determine whether the payments were realistic. A final instance disclosed that Provident Bank received and accepted an agreement to pay from a borrower without first determining whether the payments were feasible in accordance with HUD according to Mortgagee Letter 2000-05, Part H, General Program Requirements. The borrower, however, continued to be delinquent on mortgage payments, and Provident Bank discussed a repayment agreement with the borrower for payment of the arrearage without first conducting an evaluation of financial records, such as bank statements, employment and tax records.

Conclusion

After reviewing 46 FHA loans serviced by Provident Bank, we found that a sample of nine FHA loans had servicing deficiencies. Specifically, Provident Bank did not adequately document the use of HUD's Loss Mitigation program for 9 FHA loans reviewed that were in a serious default status. Specifically, it did not have support that:

- Provide evidence that timely loss mitigation options were given to homeowners (8 loans).
- Provide evidence of timely loss mitigation evaluation (6 loans).
- Document that the priority order of loss mitigation options were implemented according to FHA regulations (4 loans).
- Document that the loss mitigation actions were based on financial reviews evaluations (2 loans).

These deficiencies occurred because Provident Bank did not adequately implement its loss mitigation efforts in accordance with HUD's regulations and because bank officials believed they were in compliance with the requirements when they were not. As a result, the lender increased the risk to the FHA insurance fund by $1,055,699, which includes a potential loss of $696,185 for seven loans and ineligible loss claims of $359,514 paid on two loans reviewed. The potential estimated loss to HUD is described in appendix C. Inadequate loss mitigation efforts affect the borrower's ability to retain home ownership and have a negative impact on the FHA insurance fund.

Recommendations

We recommend that the Deputy Assistant Secretary for Single Family Housing instruct Provident Bank to

1A. Provide HUD evidence that informal, formal, and special forbearance options were implemented for loans identified in appendix D. For any loan for which HUD determines that forbearance procedures were inadequate, HUD should take appropriate actions, including indemnification, which could result in $696,185 in funds put to better use for seven loans.

1B. Reimburse the HUD FHA insurance fund for the claim amounts for two loans totaling $359,514. Specifically, for FHA case number 352-5288565, the required loss mitigation available options were not conducted, a foreclosure sale was held, and a claim in the amount of $109,234 was filed. FHA case number 352-5201415 resulted in a property conveyance to HUD with a claim in the amount of $250,280.

1C. Implement procedures requiring Provident Bank to evaluate monthly delinquent borrowers' financial situations to determine the appropriate loss mitigation option when the mortgage is in default or imminent default. The lender's servicing records should include, at a minimum, monthly notations explaining loss mitigation options analyses and whether the foreclosure option is warranted. If the 90-day loss mitigation evaluation is not documented or the evaluation was not adequate to verify the borrower's ability to pay, HUD should take the appropriate action to include indemnification.

ID. Provide documentation to HUD showing that it has revised its loss mitigation policy to ensure that all mitigation options are adequately communicated to borrowers in a timely manner.

Finding 2: Provident Bank Did Not Accurately Report Default Status Data in HUD's Single Family Default Monitoring System

Provident Bank did not accurately report default status data in HUD's Single Family Default Monitoring System and implement an effective quality control plan. Specifically, Provident Bank did not accurately document the loss mitigation and foreclosure activities for three of nine loans. The lender also reported inaccurate and incomplete borrower and default status data for two other FHA loans. These deficiencies occurred because Provident Bank did not comply with Federal guidelines and its quality control plan was not adequate to ensure that HUD systems were accurately maintained. Specific conditions of Provident Bank's quality control plan are discussed in Finding 3. The lack of proper reporting affected HUD's ability to track significant events that occurred between the beginning of a default episode and its resolution. Correct data are crucial for ensuring that information used in metrics to assess servicer performance, such as tiered ranking, is accurate.

Servicing Actions for FHA Loans Were Inaccurately Reported

Provident Bank entered inaccurate and incomplete borrower and default status data into HUD's Single Family Default Monitoring System for three out of nine loans reviewed and did not perform monthly system updates as required by HUD FHA guidelines. The Single Family Default Monitoring System enables HUD to track the key significant events that occur between the beginning of a default episode and its resolution. This includes whether reinstatement, claim, or prepayment, with or without loss mitigation occur.

Loan deficiencies are summarized in the following table:

FHA Number	Inadequate Reporting in HUD's System
352-5273294	X
352-5276791	X
352-5881845	X
341-4238282	X
352-5779778	X
Totals	5

On March 31, 2006, HUD published the final rule that advised the industry of changes to HUD's delinquency-reporting requirement. The revised regulation requires mortgagees to report all accounts that are 30 days delinquent as of the last day of the month. This is a change to the previous reporting requirement that required mortgagees to wait until the mortgages become 90 days delinquent.

Provident Bank is required to promptly and accurately report default data on its lenders as required by HUD Handbook 4330.1, REV-5, section 7-8, and HUD Mortgagee Letter 2013-15. We identified reporting deficiencies and questionable entries in HUD FHA systems. For example, Provident Bank reported in HUD's system that FHA case number 341-4238282 was a loan refinance, with the original defaulted loan paid in full. As a result, the lender erroneously reported the HUD FHA insurance coverage status for this loan as terminated or discharged because of the refinancing. However, public records indicated that Provident Bank foreclosed on the property on January 6, 2014, and then sold the property "as is" to a contractor for $68,000 on October 21, 2014. The balance on the defaulted FHA loan was $84,628. Therefore, due to the inaccurate reporting, there was no evidence that a claim was paid as a result of this transaction. Also, for FHA case number 352-5779778, Provident Bank listed the wrong address for a borrower in default with 12 missed mortgage payments. As a result, both the servicer and FHA were hindered in their ability to contact the homeowner for various servicing purposes.

Conclusion

Due to noncompliance with Federal guidelines and inadequate quality control plan functions which will be discussed in more detail in Finding 3, Provident Bank collected and reported incomplete and inaccurate key significant data on FHA-serviced loans that were in serious default status. These data included default status, report of FHA-insured mortgages, loss mitigation efforts, and foreclosure activities. Further, the lack of proper reporting affected HUD's ability to collect and track significant events that occurred between the beginning of a default episode and its resolution. Correct data are crucial for ensuring that information used in metrics to assess servicer performance, such as tiered ranking, is accurate.

Recommendations

We recommend that the Deputy Assistant Secretary for Single Family Housing instruct Provident Bank to:

2A. Implement procedures to ensure that information in HUD systems are accurate; the monthly status for delinquent loans throughout the mortgage term is properly reported; and proper documentation of service activities is complete, including date and time notations.

2B. Provide HUD evidence that reporting deficiencies identified in the audit were corrected.

Finding 3: Provident Bank Did Not Implement an Effective Quality Control Plan

Provident Bank did not follow HUD requirements when managing the quality control plan for servicing delinquent FHA loans. Specifically, internal and external quality control reviews did not identify the FHA loans reviewed or did not include FHA servicing loans in their sampling. Also, the quality control review conclusions did not address the objectives and scope of the HUD quality control program. Additionally, Provident Bank's internal policies on its loss mitigation options were incomplete and not specific to FHA homeowners. We attributed this deficiency to Provident Bank not implementing objective internal procedures to identify deficiencies in quality control reviews. As a result, Provident Bank could not ensure that the quality control plan complied with servicing requirements to protect HUD from unacceptable risk.

Implementation of the Quality Control Program Was Ineffective

The Provident Bank internal audit quarterly quality control reviews of the FHA-insured mortgages, dated between January 1, 2013 and June 30, 2014, yielded no findings or reportable conditions. The quality control reviews did not include case numbers or loan numbers to identify which FHA loans were reviewed. Some of the quality control reviews did not include servicing FHA loans in their sample selection.

Provident Bank's audit summary of its quality control review program established the objectives and scope of the review. The goals of the HUD quality control program as it relates to the Bank are: (1) Assure compliance with FHA's and the Bank's servicing requirements throughout the Bank's operations; (2) Protect the Bank and FHA from unacceptable risk; (3) Guard against errors, omissions, and fraud; and (4) Assure swift and appropriate corrective action.

The scope of the HUD quality control program for servicing covers all aspects of the Bank's servicing operations as they relate to FHA-insured mortgages, includes the following areas: (1) Servicing delinquent accounts; (2) Mortgage Insurance Premiums billings; (3) Claims, and claims without conveyance of title; (4) Customer service; (5) Escrow administration; (6) Home equity conversion mortgage disbursement reporting;(7) Assumption processing; (8) Paid-in-full mortgages; (9) Foreclosure processing; (10) Deficiency judgments; (11) New loans, servicing transfers, acquisitions; (12) Fees and charges; (13) ARM adjustments and disclosures; (14) Section 235 recertification's; (15) Handling of payments; and (16) Maintenance of records.

Despite all these objectives, scope, and goals of Provident Bank's Internal Audit Department's quality control program, our review disclosed that the report's conclusion did not address the objectives or goals of the review.

Provident Bank officials attempted to identify any noncompliance areas of their loss mitigation policy by contracting the services of an outside consultant to review the loss mitigation function with a primary objective of evaluating the process and significant control points for effectiveness, adequacy, and efficiency of operations.

The primary area coverage of the review included reviewing bank policies and procedures related to the loss mitigation function and assessed adequacy for compliance with regulatory requirements. Another review objective was to determine if assigned servicer personnel to delinquent borrowers, who are more than 45 days delinquent, provided to borrowers with accurate information, i.e., loss mitigation options available. Despite all these review objectives, the Compliance Review Report identified no compliance issues. The only reportable condition was an issue with Provident Bank's loss mitigation adverse action notice, which contained the incorrect address of the Federal Deposit Insurance Corporation response center, which have nothing to do with the objectives of the quality control review. The outside consultant's compliance report also did not identify which FHA loans were reviewed to determine Provident Bank's compliance with loss mitigation guidelines. Consequently, Provident Bank was not able to identify existing deficiencies in its administration of FHA servicing loans in a timely manner. The review period was from August 1, 2013 through July 31, 2014.

We also observed that Provident Bank's internal policies on loss mitigation options were incomplete and not specific to FHA homeowners. Specifically, Provident Bank's Asset Recovery Loss Mitigation Policy provided at the entrance conference (dated December 2013) and revised on May of 2014 does not have a Partial Claim Loss Mitigation option and the FHA-Home Affordable Modification Program option (FHA-HAMP). Provident Bank's lack of internal policy and control procedures contributes to the deficiency of their quality control program. The incompleteness of Provident Bank's internal policies was not identified by the internal or external reviews. As a result, Provident Bank continued to inadequately communicate to the borrowers all options available under FHA guidelines.

Regulations in HUD Handbook 4330.01, REV-5, paragraph 1-4(C), state that each HUD-approved mortgagee must establish and maintain a formalized, written quality control plan for mortgage servicing system wide, to include branch offices. Under this quality control plan, a lender must use a program of internal and external audit or provide for a knowledgeable independent review by the lender's management or supervisory personnel. The plan must be comprehensive and include all servicing issues, including equity skimming violations and loss mitigation.

Conclusion

Provident Bank did not adequately follow HUD requirements when managing the quality control plan for the servicing of delinquent FHA loans. Its quality control plan reviews did not identify the loans reviewed, conclusions did not address the objectives and scope of the HUD quality control program, had incomplete evaluations of internal policies pertaining to FHA loss mitigation, and inadequate implementation of those policies for FHA borrowers in default. We attributed these deficiencies to Provident Bank's not implementing internal policy and procedures to objectively identify deficiencies in the quality control reviews. As a result, it could not ensure that its quality control plan complied with servicing requirements to protect HUD from unacceptable risk.

Recommendations

We recommend that the HUD Deputy Assistant Secretary for Single Family Housing instruct Provident Bank to:

3A. Modify its quality control plan to ensure that the bank's loss mitigation policies and procedures are complete and objectively evaluate how its policies are written and applied to FHA borrowers to ensure that they follow HUD FHA regulations and guidelines.

Scope and Methodology

We performed our onsite work at the Provident Bank servicing office located at 100 Wood Avenue South, Iselin, NJ, from December 2014 to March 2015. Our audit generally covered the period June 1, 2013, through March 31, 2015, and was extended when necessary to meet our audit objective. We used computer-processed data and verified the data by reviewing hardcopy supporting documentation, reviewing data from a different source, or performing a minimal level of testing. We found the data to be adequate for our purposes.

To accomplish our objective, we reviewed and compared

- Federal regulations, HUD handbooks, and mortgagee letters;
- Applicable Provident Bank policies and procedures relating to its servicing, collections, and quality control programs;
- Provident Bank's servicing files, collection notes, and quality control reviews;
- Data maintained in Provident Bank systems to reported data in HUD systems and New Jersey public property real estate records; and
- Discussions with HUD and Provident Bank officials.

We selected a random sample using Audit Command Language (ACL).[1] However, ACL did not provide a statistical sample that we could project to the population. Provident Bank had a total of 46 loans listed as delinquent in the Neighborhood Watch[2] system. We reviewed Provident Bank's collection and loss mitigation log for its entire population of 46 seriously delinquent loans to obtain our sample. The total universe of FHA loans had no claims at the start of our review.

As of March 10, 2015, Provident Bank had serviced 173 FHA loans, which included the 46 loans in serious default. The 173 FHA loans had original mortgage amounts totaling $32.8 million and an unpaid mortgage balance of $27.7 million. The 46 FHA loans in serious default had an original mortgage balance of $8.6 million and an unpaid mortgage balance of $7.3 million. We selected a random nonstatistical sample of nine loan files to review based on each of the delinquent status and loss mitigation options identified in Neighborhood Watch.

The sample consisted of

- One loan in modification,

---

[1] Audit Command Language (ACL) software is one of the computer assisted audit tools that auditors, accountants, finance executives and other data analysts can use for independent data extraction and analysis for the detection and investigation of frauds in a computerized environment. ACL is an efficient tool to analyze voluminous electronic data to detect exceptions, and is used to view, sample, explore, and analyze data efficiently and cost-effectively.

[2] Neighborhood Watch is a secure Web-based application designed to provide comprehensive data querying, reporting, and analysis capabilities for tracking the performance of loans originated, underwritten, and serviced by FHA-approved lending institutions.

- Three loans that were seriously delinquent but not in loss mitigation,
- Two loans listed as bankruptcy actions,
- Two loans listed as in preforeclosure, and
- One loan listed as sold in foreclosure and conveyance completed.

We also performed a public records search of the addresses of the FHA-insured homes belonging to the 46 seriously delinquent borrowers serviced by Provident Bank to identify possible improprieties and we did not identify any misconduct on the part of Provident Bank or the related borrowers.

We reviewed the quarterly quality control reports of reviews that Provident Bank's internal audit department performed on its FHA-insured mortgages during the period January 1, 2013, through June 30, 2014. The objective of those reviews was to determine whether the internal audit department implemented Provident Bank's HUD quality control plan for its HUD-assisted activities. The goals of the HUD quality control plan included (1) ensuring compliance with FHA's and the bank's servicing requirements throughout the bank's operations; (2) protecting the bank and FHA from unacceptable risk; (3) guarding against errors, omissions, and fraud; and (4) ensuring swift and appropriate corrective action.

We conducted the 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 objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective(s).

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- Provident Bank did not have adequate controls to ensure that its loss mitigation program met its objectives by not adequately documenting significant aspects of the loss mitigation efforts and properly implementing a quality control program (see findings 1 and 3).
- Provident Bank did not have adequate controls over the reliability of financial data by reconciling information in its systems to data maintained in HUD systems (see finding 2).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A		$696,185
1B	$359,514	
Totals	**$359,514**	**$696,185**

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations. In this instance, we classified $359,514 as ineligible (see appendix A)—the amounts paid to Provident Bank for claim A totaling $109,234, associated with FHA case number 352-5288565, and claims A and B totaling $250,280, paid for FHA case number 352-5201415. We considered this amount ineligible because of Provident Bank's inadequate loss mitigation efforts in assisting the delinquent FHA borrowers.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if HUD determines that the servicing practices were inadequate, it would result in indemnification for $696,185 in estimated losses (appendix C) for seven loans identified in the loan summaries in appendix D. The estimated loss is based on the loss severity rate of 50 percent of the total unpaid principal balance of $1,392,370 as of April 30, 2015.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

Provident BANK
Commitment you can count on.

October 8, 2015

Ms. Kimberly Greene
Regional Inspector General for Audit, 2AGA
26 Federal Plaza
Ste 3430
New York, New York 10278

Re: Provident Bank, Iselin, NJ Draft Audit Report – Bank Responses

Dear Ms. Greene:

Attached to this letter, please find The Provident Bank's responses to the OIG draft audit report on the Bank's Single-Family Housing Servicing Loss Mitigation Program covering the period June 1, 2013 through March 31, 2015. Before discussing some general observations regarding the control deficiencies identified in the report, Management would like to extend its appreciation to you and the audit team for the guidance and insights provided during our discussion of the report held on October 1, 2015. The guidance and insights are sure to be of value as the Bank continues to service FHA-insured loans.

Comment 1

As acknowledged during our discussion, Management has evaluated and understands the nature of the concerns detailed in the draft audit report regarding its loss mitigation servicing of FHA-insured loans. Although Management believes that the loss mitigation practices in place during and prior to the audit report review period were compliant with the spirit and intent of HUD's requirements, policies and procedures, we acknowledge that enhanced documentation of these loss mitigation efforts is warranted. The enhanced documentation of files will afford easier oversight and audit of our loss mitigation efforts. To that end, Management has taken the following immediate actions:

Comment 2

- Revised the Delinquency Notice Cover Letter that accompanies HUD's "Save Your Home: Tips to Avoid Foreclosure" brochure to include a specific reference to the enclosure of the brochure sent with the letter as well as to incorporate all of the required elements discussed in Mortgagee Letter 2014-1. The revised letter was sent to all delinquent mortgagors of FHA-insured loans as of September 30, 2015;
- Revised the Notice to Homeowners of Availability of Housing Counseling Services in accordance with Mortgagee Letter 2015-04. The revised letter was sent to all delinquent mortgagors of FHA-insured loans as of September 30, 2015;
- Conducted a full review of the loans reported to HUD's Single Family Default Monitoring System to ensure the accuracy and completeness of all reported loans and their respective statuses;

Equal Opportunity Lender
Equal Housing Lender
Member FDIC

100 Wood Avenue South · Iselin, NJ 08830-2727 · 732.590.9200 ProvidentNJ.com
MAILING ADDRESS P.O. Box 1001 · Iselin, NJ 08830-1001

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

Comment 2

- Implemented various management oversight processes to ensure HUD requirements are followed throughout the loss mitigation process for all FHA-insured loans; and
- Improved the coordination and retention of electronic and hardcopy records specific to delinquency and loss mitigation effort to ensure the servicing file contains a complete history of each loan in lieu of retaining such records on different databases.

Details (and copies, as applicable) regarding each of the above remediation actions are included in the attached responses.

Comment 3

The responses to the draft audit report include the Bank's action plans related to each recommendation included in the report as well as commentary in response to the auditors' observations regarding each loan as enumerated in the report. Please be reminded that the specific loan commentary and related documentation supporting Management's opinion were previously provided to the auditors. As such, this response does not include that detailed supporting documentation, but instead includes the original individual loan commentary with amendments to reference the additional supporting documentation requested in our October 1 discussion meeting.

Should you have any questions or require further clarification regarding the Bank's response, please do not hesitate to contact me.

Sincerely,

Brian Giovinazzi
EVP & Credit Chief Officer
The Provident Bank

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

Provident BANK
Commitment you can count on.

Provident Bank, Iselin, NJ
Response to Draft Audit Report
Single-Family Housing Servicing Loss Mitigation Program

Finding 1: Provident Bank Officials Did Not Adequately Document Implementation of The HUD Loss Mitigation Program

Comment 4

1A. Provide HUD evidence that informal, formal, and special forbearance options were implemented for loans identified in appendix D. For any loan for which HUD determines that forbearance procedures were inadequate, HUD should take appropriate actions, including indemnification, which could result in $696,185 in funds put to better use for seven loans.

Response:

Evidence that informal, formal, and special forbearance options were implemented for 7 of the 9 loans identified in Appendix D (not applicable for the remaining 2 loans) has been provided to the audit team for consideration. Accordingly, Management believes that the Bank's informal, formal, and special forbearance options (as well as all other loan mitigation options) were adequate and implemented consistent with HUD requirements for the loans identified.

Comment 5

1B. Reimburse the HUD FHA insurance fund for the claim amounts for two loans totaling $359,514. Specifically, for FHA case number 352-5288565, the required loss mitigation available options were not conducted, a foreclosure sale was held, and a claim in the amount of $109,234 was filed. FHA case number 352-5201415 resulted in a property conveyance to HUD with a claim in the amount of $250,280.

Response:

Management maintains that the submission of FHA insurance fund claims for the cases identified in the audit were in accordance with HUD's requirements as loss mitigation processes were properly executed, as follows:

FHA Case Number 352-5288565. The Bank respectfully disagrees with the examiner's finding. As reported in the Bank's response to Appendix D, Case 9 includes evidence that Bank records demonstrate that the borrower was provided a loss mitigation package on February 21, 2012 and informed of the FHA loss mitigation options on many occasions from February through April 2012. Bank records also indicated the borrower chose not to provide the requested financial information. Subsequently the borrower brought the loan current through August 2013. The borrower once again went delinquent from August 2013 through September 2014. It was not until September 2014 that the Bank finally received the requested financial package from the borrower at which time loss mitigation waterfall requirements were addressed. At that time, the Bank's analysis resulted in a reasonable determination that the borrower did not qualify for loss

1 | Page

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

mitigation. As they did not qualify for any of the available waterfall options, Management believes all required loss mitigation actions were taken.

Comment 6

FHA Case Number 352-5201415. The Bank respectfully disagrees with the examiners' finding. As noted in the Bank's response to Appendix D, Case 7, a review of the Bank's records indicates that the borrower was provided a loss mitigation package on October 15, 2013 and informed of the FHA loss mitigation options on many occasions via letters containing HUD's "Save Your Home" pamphlet and telephone conversations from December 2013 through May 2014. Bank records also indicate the borrower chose not to provide the requested financial information, and chose to list the property for sale and seek a deed in lieu loss mitigation option. Accordingly an evaluation of forbearance options was not performed. However, the Bank continued to communicate and work with the borrower throughout the foreclosure process to ensure they were fully aware of all loss mitigation options. As a result of borrower communications, the borrower's election to not pursue any of HUD's other loss mitigation options and their failure to submit financial information, a financial analysis could not be performed as required for each of HUD's loss mitigation options. Accordingly, the Bank believes that its claim and HUD's payment of the claim in the amount of the unpaid principal balance and related expenses for the property was in accordance with established requirements and therefore eligible.

Accordingly, Management asserts that HUD's payment of the claims for these loans was appropriate.

Comment 7

1C. Implement procedures requiring Provident Bank to evaluate monthly delinquent borrowers' financial situations to determine the appropriate loss mitigation option when the mortgage is in default or imminent default. The lender's servicing records should include, at a minimum, monthly notations explaining loss mitigation options analyses and whether the foreclosure option is warranted. If the 90-day loss mitigation evaluation is not documented or the evaluation was not adequate to verify the borrower's ability to pay, HUD should take the appropriate action to include indemnification.

Response:

The Bank acknowledges that some improvement to its record retention of the servicing files is warranted. However, it is the Bank's reasonable assessment that it properly executed HUD's loss mitigation program as required and the evidence of such (including monthly notations explaining loss mitigation options, loss mitigation analyses and whether the foreclosure option is warranted) was and continues to be retained on its electronic records, as demonstrated during the audit and permitted by HUD. As required, the Bank provided loss mitigation options to the borrowers, evaluated delinquent loans within the 90 day period required, followed the priority order of loss mitigation options according to FHA's guidelines and documented the loss mitigation actions based on financial information obtained from the borrowers.

Recognizing that enhancements to its processes is warranted, the Bank has begun the process of updating and enhancing servicing procedures as they pertain to FHA loans. Our Asset Recovery Department is in the process or has implemented the following process enhancements:

2 | Page

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

- Revised the "Delinquency Notice: Cover Letter" to specifically refer to "Save Your Home: Tips to Avoid Foreclosure" brochure which has always accompanied the letter;
- Updated the records storage system to further segregate and store the loss mitigation letters within the master servicing file and implemented a checklist and review process to help ensure compliance;
- Developed and implemented a management oversight checklist outlining loss mitigation procedures and implemented a documented periodic review;

Comment 8

- A management oversight checklist regarding default and loss mitigation reporting into HUD's Single Family Default Monitoring System is being developed to help ensure completeness and accuracy and implementation of a documented periodic review;
- Updating of pertinent policies and procedures to be completed by December 31, 2015; and
- Ongoing training for Asset Recovery Department, Loss Mitigation employees has been/will be provided as policies and procedures were and continue to be revised.

Comment 9

1D. Provide documentation to HUD showing that it has revised its loss mitigation policy to ensure that all mitigation options are adequately communicated to borrowers in a timely manner.

Response:

Revisions to enhance the Bank's loss mitigation policy and procedures are currently scheduled and/or in process and are expected to be fully completed by December 31, 2015. At that time, the documentation will be made available to HUD for review.

Finding 2: Provident Bank Did Not Accurately Report Default Status Data In HUD's Single Family Default Monitoring System

Comment 10

2A. Implement procedures to ensure that information in HUD systems are accurate; the monthly status for delinquent loans throughout the mortgage term is properly reported; and proper documentation of service activities is compete, including date and time notations.

Response:

Recognizing the impact on the FHA insurance fund and the need for complete and accurate information, the Bank has taken a two step approach to implementing changes to improve the accuracy of its reporting to the Single Family Default Monitoring System (SFDMS), as follows:

- Effective with the reporting submitted to the SFDMS as of September 30, 2015, Management has conducted a full validation of data entered in the SFDMS to the Bank's system of records and reporting requirements. This review has been documented and will continue until such time that the automated reporting process discussed below is fully implemented.
- Management has begun the process to implement an automated data transfer from its loan/collections/loss mitigation system to the SFDMS, which when operational, will eliminate the data entry presently conducted by staff members which is subject to

3 | Page

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 11

human input errors. To date, the following steps have been taken in order to facilitate the transition to the automated data transfer:

- Management has worked with its core processor to understand and further develop the internal process to create and submit an automated file that is compatible with by the SFDMS.
- Management has inquired and begun discussions with HUD's EDI Gateway Support Team regarding the initiation of a project to facilitate this transition.
- Management has engaged the services of a third party consultant to help oversee the project so as to help ensure the integrity of the project and accuracy/completeness of the process.

2B. Provide HUD evidence that reporting deficiencies identified in the audit were corrected.

Response:

Comment 12

The Bank respectfully requests clarification and guidance from HUD and/or the OIG on how this recommendation can be accomplished as Management's understanding of the SFDMS is that corrections to the system can only be made in the reporting period in which they occurred or before the next report is made. Mortgagee Letter 2006-15, Section 14, "Correction of a Previously Reported Status Code" states: "If an error has been discovered, Status Code 25 (cancel) should be reported. This status code will advise HUD that the last status code reported was in error and should be preserved as a historical record without having an effect on the default sequence. The correct status code should then be reported to ensure that HUD has the correct status of the loan." It should be noted that Management's understanding is also based on information received at various training sessions sponsored/conducted by HUD and was confirmed by the Program Director, Branch 1 Reporting & Analytics at HUD's National Servicing Center. As the specific errors identified in the draft audit report occurred on loans reported in prior reporting periods and the SFDMS has been updated with subsequent delinquency statuses and/or other delinquency information, Management contends that the retroactive corrections and evidence of same recommended in the draft audit report are not possible.

With regards to the errors identified in the audit report, Management provides the following responses:

FHA Number	Inadequate Reporting in HUD's System	Provident's Assessment of Identified Error	Comment
352-5154843	X	Disagree	See Response to Appendix D
352-5273294	X	Partially Agree	See Response to Appendix D
352-5276791	X	Agree	See Response to Appendix D
352-5881845	X	Agree	See Response to Appendix D
341-4238282	X	Agree	See Below
352-5779778	X	Agree	See Below
Totals	6		

4 | Page

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation | **Auditee Comments**

Comment 12

- FHA Number 341-4238282: As stated in the draft audit report, the Bank foreclosed on the property in January 2014 and that the property was sold in October 2014. Upon review of the foreclosure sale documentation, Management determined that submission of a claim for the unpaid balance on this loan would not be appropriate as all HUD requirements were not satisfied. As such, The Provident Bank absorbed the deficiency balance and foreclosure costs and no claim for reimbursement was made to HUD.
- FHA Number 352-5779778: The Bank is both the lender and servicer on this loan. As such, the servicer was not hindered in its ability to contact the homeowner for various servicing purposes as stated in the draft audit report as it maintained the correct address in its loan system. It should also be recognized that:
  - a review of all loss mitigation, HUD counseling and other collection letters and loss mitigation correspondence for this loan contained the correct property address; and
  - at the borrower's request in response to the Bank's loss mitigation correspondence and discussions, a pre-foreclosure sale (short sale) was completed on this property in February 2015, all in accordance with HUD's loss mitigation program and requirements.

Finding 3: Provident Bank Did Not Implement an Effective Quality Control Plan

3A. Modify its quality control plan to ensure that the Bank's loss mitigation policies and procedures are complete and objectively evaluate how its policies are written and applied to FHA borrowers to ensure that they follow HUD FHA regulations and guidelines.

Response:

Comment 13

- Our HUD quality control program for servicing FHA loans is modeled based on the HUD's requirements for such programs, as those requirements are stated in HUD Handbook 4060.1, Rev-2. Please see the enclosed copy of our Quality Control Plan. The conclusions reached in our quality control audit reports address the objectives and scope of the HUD quality control program, as those are stated in HUD Handbook 4060.1, Rev-2. Please see the enclosed copy of a Quality Control Audit Report completed during the review period.
- While our quality control audit reports did not identify the loans we reviewed during an audit by loan or case number, they did identify the number of loans we reviewed during an audit and our related audit work papers recorded the loan number for each loan we reviewed during each quality control audit. Going forward, we will revise our quality control audit reports to identify by loan or case number of the loans we review during a quality control audit.
- The Bank services FHA loans that it has originated and retained in its portfolio, as well as FHA loans that it has originated and sold with servicing rights retained by the Bank. The Bank services FHA loans the same regardless of whether the FHA loan is included in the retained portfolio or the serviced for others portfolio. Our quality control audit sample is drawn from the total population of FHA loans serviced by the Bank, comprising the retained portfolio and the serviced for others portfolio. Because of the small size of the serviced for others portfolio, there were some periods during the review

5 | Page

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

period when our sample did not include a loan from the serviced for others portfolio. As of June 30, 2014, the end of the review period, the Bank's serviced for others FHA loan portfolio totaled 21 loans. Going forward, we will include at least some loans from the serviced for others portfolio in our quality control sample each period.

Comment 14

- The Bank generally has not engaged outside consultants to review the Bank's loss mitigation practices for FHA loans, although the Bank from time to time has engaged outside consultants to review various other aspects of the Bank's lending activities, and certain of those reviews have reached aspects of the Bank's loss mitigation practices for FHA loans, despite being focused primarily on other aspects of the Bank's lending activities. The Bank's loss mitigation practices for FHA loans, rather, are reviewed primarily by the internal audit department when it performs the quality control plan. Please see the enclosed copy of our Quality Control Plan. Please see also the enclosed copy of a Quality Control Audit Report completed during the review period.

Comment 15

- Regarding the Bank's internal loss mitigation policies, the Bank has a loss mitigation policy that is intended to cover all loss mitigation activities, including loss mitigation for FHA loans. We will review the loss mitigation policy and recommend revisions to the policy as necessary for the policy to address those needed FHA-specific loss mitigation requirements not already covered by the policy. We will complete our review and issue our recommendations by December 31, 2015.

6 | Page

OIG Evaluation of Auditee Comments

Comment 1 Provident Bank officials evaluated and understand the nature of the concerns detailed in the draft audit report regarding its loss mitigation servicing of FHA-insured loans. Provident Bank officials believe that the loss mitigation practices in place during and prior to the audit report review period were compliant with the HUD's requirements, policies and procedures. Provident Bank acknowledges that enhanced documentation of its loss mitigation efforts is warranted.

We disagree with Provident Bank's assertion that its loss mitigation practices were compliant with HUD's requirements, policies and procedures. The draft report disclosed the deficiencies with its loss mitigation practices, reporting, and quality control program activities. Also, we observed that the current design of Provident Bank's policies are incomplete and do not mirror HUD's Loss Mitigation program guidelines. We recognize that Provident Bank acknowledges that enhanced documentation of its loss mitigation efforts is warranted.

Comment 2 Provident Bank officials acknowledge that enhanced documentation supporting their loss mitigation efforts is needed to facilitate oversight and audit functions. To that end management stated that it has taken immediate actions to improve its supporting documentation. Specifically, Provident Bank stated it revised its delinquency notice cover letter that accompanies HUD's required "Save Your Home: Tips to Avoid Foreclosure" brochure to include a specific reference to the brochure sent with the letter. In addition, Provident Bank's stated it revised cover letter incorporates all of the required elements discussed in Mortgagee Letter 2014-01. Provident Bank officials stated that the revised letter was sent to all delinquent mortgagors of FHA-insured loans as of September 30, 2015. Provident Bank officials stated that it revised its Availability of Housing Counseling Services Notice to be in accordance with Mortgagee Letter 2015-04. Provident Bank officials stated that it the revised Housing Counseling Services letter was sent to all delinquent mortgagors of FHA-insured loans as of September 30, 2015. Provident Bank officials stated that they conducted a full review of the loans reported to HUD's Single Family Default Monitoring System to ensure the accuracy and completeness of all reported loans and their respective statuses. Provident Bank maintains that it implemented various management oversight processes to ensure HUD requirements are followed throughout the loss mitigation process for ally FHA-insured loans. Provident Bank stated that it improved the coordination and retention of electronic and hardcopy records specific to delinquency and loss mitigation effort to ensure the servicing file contains a complete history of each loan in lieu of retaining such records on different databases.

We agree with Provident Bank's acknowledgement that enhanced documentation supporting their loss mitigation efforts is warranted to facilitate oversight and audit functions. We acknowledge Provident Bank's efforts in taking immediate action to improve its supporting documentation. Provident Bank's revision of its delinquency notice to include a reference to HUD's required brochure "Save your Home: Tips to Avoid Foreclosure" was a necessary corrective action measure. We agree with Provident Bank's planned measures to correct the deficiencies affecting its reporting process by conducting a full review of the loans reported to HUD's Single Family Default Monitoring System to ensure the accuracy and completeness of the data. Moreover, Provident Bank's implementation of various management oversight processes to ensure compliance to HUD requirements is also a warranted corrective action measure. We also agree that Provident Bank needed to implement measures to improve the coordination and retention of records to ensure compliance with HUD requirements throughout the loss mitigation process for all FHA-insured loans. We recommend that Provident Bank share evidence supporting its entire corrective action efforts, once complete, with HUD during the audit resolution process since we were not able to verify whether Provident Bank implemented these measures.

Comment 3 Provident Bank indicated that their responses to the draft audit report include the Bank's action plans related to each HUD OIG audit recommendation in response to each loan discussed in the draft audit report. Provident Bank officials reminded that the specific loan commentary and related documentation supporting its rebuttal of the deficiencies disclosed in Appendix D of the draft report were previously provided to the HUD OIG auditors. Provident Bank officials indicated that their formal written response dated October 8, 2015 includes the original individual loan commentary with amendments and reference the additional supporting documentation requested in our October 1, 2015 exit conference.

We recognize that Provident Bank's responses to the draft audit report dated October 8, 2015 includes the Bank's action plans related to each recommendation in response to each loan discussed in the draft report. We also acknowledge receipt of the specific loan commentary and related documentation submitted by Provident Bank supporting its rebuttal for each of the deficiencies reported in the loans summaries detailed in Appendix D of the draft audit report.

Comment 4 Provident Bank disagrees with HUD OIG Report Recommendation 1A which calls for HUD to indemnify any loan which could amount to $696,185 in funds to be put to better use for seven loans in our sample, if it determines that forbearance procedures were inadequate. Provident Bank states that it provided adequate evidence that it implemented informal, formal, and special forbearance options for seven of the nine loans identified in Appendix D of the HUD OIG audit report. Further, Provident Bank states that the loss mitigation options implemented for the loans in our sample were consistent with HUD requirements.

We acknowledge receipt of the additional documentation previously sent by Provident Bank in response to the deficiencies disclosed in Appendix D of the draft audit report, but we disagree that the documentation represents adequate support of informal, formal, and special forbearance options applied on seven of the nine loans in our sample.

The correspondence and support Provident Bank provided generally contained the same compliance issues noted during fieldwork. For example, the communication letters do not support whether Provident Bank adequately communicated what loss mitigation options were available to its borrowers that are in serious default of their mortgages. Moreover, the letters do not list all of the options available in HUD's loss mitigation program such as the FHA-HAMP and the collection letters do not explain the balances in arrears adequately such as principal and interest breakdowns. Moreover, the letters and the automated collection note system that generates them do not support whether required correspondence such as HUD Loss Mitigation pamphlets were delivered to the borrowers in a timely manner. Provident Bank's collection systems lack an adequate time stamping function for the letters submitted to its borrowers in serious default. Also, Provident Bank's accounts of borrowers declining to participate in the loss mitigation process could not be corroborated with the documentation provided during and after fieldwork.

We disagree with Provident Bank's position of proactively requesting and evaluating the financial position of the borrowers. Provident Bank's collection notes documenting verbal communication with the borrowers indicate that its staff would not discuss any loss mitigation options or encourage them to submit financial data to be considered for any option. In addition, we disagree with Provident Bank's position that their records supports that borrowers chose not to submit their financial records to be evaluated and assisted under HUD's Loss Mitigation program. Instead, Provident Banks collection records support that Provident Bank's staff would question the veracity of the borrower's hardship claims such as in FHA Case number 352-5154843, thus dissuading the borrowers from providing the financial data needed to be considered for the appropriate loss mitigation option. Mortgagee Letter 2000-05 states that the lender must independently verify the financial information by obtaining a credit report and any other forms of verification the lender deems appropriate. Also, the lender must analyze the borrower's current and future ability to meet the monthly mortgage obligation by estimating the borrower's assets and surplus income. In cases where the borrowers submitted financial information for Provident Bank's evaluation, Provident Bank did not prudently apply the best viable option such as in FHA Case number 352-5273294. In this case, Provident Bank decided to modify the mortgage which increased the borrower's current mortgage from $1,038 to $1,450 without conducting a proper budget or financial analysis to determine if the borrower could manage the increased mortgage payment. Provident Bank also did not apply the priority order of loss mitigation options for the borrowers in FHA Case number 352-5273294. Provident Bank's servicing records and the borrowers' employment status documentation indicate that borrowers would have benefitted from a special forbearance as early as February 2006 when their mortgage was four months delinquent. Lastly, we disagree with Provident Bank's position that it is precluded from communicating or considering any loss mitigation option to borrowers who are in bankruptcy protection. Mortgagee Letter 2000-05 Section D states that borrowers who have filed bankruptcy are not eligible for any loss mitigation option except partial claim. Borrowers who have had a bankruptcy discharged or dismissed may be considered for loss mitigation options including pre-foreclosure sale. Mortgagee Letter 2000-05 further clarifies that a lender may consider a mortgagor who has filed a petition in Bankruptcy Court under Chapter 13 for a partial claim, only after the approval of the Bankruptcy Court. If the mortgagor has filed a bankruptcy petition under Chapter 7, the lender must obtain Bankruptcy Court approval, and in addition, the mortgagor must reaffirm the debt. In the FHA case number 352-5881845, Provident Bank's records indicate that it did not make an effort to consider the borrower for the partial claim even though the regulations allowed for it.

Comment 5 Provident Bank disagrees with HUD OIG Recommendation 1B. Provident Bank officials maintain that the submission of FHA insurance fund claims for the cases identified in the audit were in accordance with HUD's requirements. For FHA Case Number 352-5288565, Provident Bank maintains it provided the borrower a loss mitigation package on February 21, 2012 and informed the borrower of the FHA loss mitigation options on many occasions between February and April 2012. Provident Bank officials state that its records indicate that the borrower chose not to provide the requested financial information. The borrower subsequently brought the loan current through August 2013. However, the loan became delinquent again from August 2013 through September 2014. Provident Bank states that it was not until September 2014 that it received requested financial package from the borrower at which time loss mitigation waterfall requirements were addressed. Provident Bank maintains that its analysis resulted in a reasonable determination that the borrower did not qualify for loss mitigation since the borrower did not qualify for any of the available waterfall options. Provident Bank believes that it applied all the required loss mitigation actions for the borrower. Accordingly, Provident Bank believes that it complied with established requirements and submitted an eligible claim to HUD's for the unpaid principal balance and related expenses for the property

We disagree with Provident Bank's position on FHA case number 352-5288565. Provident Bank's collection history notes and letters on FHA case number 352-5288565 support it issued to the loss disclosed that the notification letter communicating the FHA loss mitigation options to the borrowers was issued on August 31, 2013 and not February 21, 2012 as indicated by the Bank. Provident Bank's collection history notes document that the notification letters sent during the period of February 2012 through April 2012 informed the borrower that the mortgage was delinquent and advised the borrower to seek counseling from a list of HUD approved nonprofit organizations. However, the notification letters do not adequately communicate the loss mitigation options available to the borrowers in the priority order established by HUD. Although Provident Bank documented on the collection history notes on March 7, 2012 that the borrower received a loss mitigation package, the notes do not corroborate Provident Bank's position that the borrower chose not to provide the requested financial information. Consequently, Provident Bank did not document its loss mitigation evaluation for the borrowers prior to the 90 days of delinquency. Provident Bank reported to HUD through the Single Family Default Monitoring System that the mortgage was three months delinquent as of March 2012 while documenting in its records that the borrower did not receive any mortgage assistance.

We find that Provident Bank's position concerning FHA Case number #352-5288565 is unsubstantiated since it could not provide a copy of the loss mitigation package letter that was provided to the borrower on February 21, 2012 and could not corroborate that the borrower voluntarily chose not to provide the requested financial information.

Comment 6 Provident Bank disagrees with the report finding's conclusion regarding FHA Case Number 352-5201415. Provident Bank states its records indicate that the borrower was provided a loss mitigation package on October 15, 2013 and informed of the FHA loss mitigation options on many occasions via letters containing HUD's "Save Your Home" pamphlet and telephone conversations from December 2013 through May 2014. Provident Bank also maintained that its records indicate the borrower chose not to provide the requested financial information, and chose to list the property for sale and seek a deed in lieu of any loss mitigation option. As a result, Provident Bank did not perform an evaluation of forbearance options. However, Provident Bank officials maintain that they continued to communicate and work with the borrower throughout the foreclosure process to ensure the borrower was fully aware of all loss mitigation options. Provident Bank maintains that the borrower's election to not pursue any of HUD's loss mitigation options and her failure to submit financial information, a financial analysis could not be performed as required for each of the HUD's loss mitigation options. Accordingly, Provident Bank believes that its claim and HUD's subsequent payment of the claim in the amount of the unpaid principal balance and related expenses for the property was in accordance with established requirements and therefore eligible.

We disagree with Provident Bank's position related to FHA case number 352-5201415. Provident Bank's servicing file and collection history notes do not support that it adequately informed the borrower about HUD's Loss Mitigation program thereby limiting the borrower's ability to make an informed decision on selecting a suitable loss mitigation option and providing Provident Bank with the financial data to determine eligibility for the program. Additional documentation provided by Provident Bank in response to the Appendix D loan summary do not support whether required correspondence such as HUD Loss Mitigation pamphlets were delivered to the borrower in a timely manner. Also, the original notification letters sent to the borrower that Provident Bank could not provide us until after the end of our fieldwork; 1) do not list all of the options available under HUD's Loss Mitigation program such as the FHA-HAMP or in the priority order outlined in program guidelines, 2) lacked references to required HUD Loss Mitigation pamphlets, and 3) lacked explanations of balances in arrears with breakdowns of principal, interest, and late fee amounts.

As early as September 2013, the borrower communicated to Provident Bank that she would have difficulty making her mortgage payments because she was on disability and unemployed. Provident Bank's statement that a loss mitigation package was delivered on October 15, 2013 could not be corroborated with the documentation provided by Provident Bank during or after our audit field work.

By December 2013, the borrower was 5 months delinquent on her mortgage without receiving assistance from Provident Bank or under HUD's Loss Mitigation program. The documentation we evaluated during fieldwork and after indicates that Provident Bank did not adequately inform and ultimately did not grant the borrower forbearance (informal, formal, or special) so she could recover from her personal and financial conditions as prescribed in HUD Handbook 4330.1, REV-5, sections 8-1 and 8-3.

Provident Bank indicates that the borrower chose not to provide the requested financial information but instead listed the property for sale, seeking to pursue the deed in lieu loss mitigation option. According to Mortgagee Letter 2000-05 and subsequent guidance, disposition options (pre-foreclosure sales and deeds in lieu of foreclosure) are available immediately upon default, if the cause of the default is incurable, i.e. the borrower has no realistic opportunity to replace the lost income or reduce expenses sufficiently to meet the mortgage obligation. Prior to proceeding to foreclosure, the Mortgagee must re-examine and re-evaluate the borrower's financial condition and confirm that none of FHA's other Loss Mitigation options could assist the mortgagor. In this case, Provident Bank did not make a determination whether the cause of the default was incurable, did not re-evaluate the borrower's financial condition, did not confirm that none of HUD FHA's other Loss Mitigation options could assist the borrower, and continued to pursue foreclosure on the property.

Since Provident Bank did not properly establish HUD FHA priority order, and communicate all loss mitigation options, the borrower could not have chosen the best loss mitigation option available at the time. We, therefore, believe Provident Bank's position on the claims that were paid by HUD is unsupported.

Comment 7 Provident Bank generally agrees with the audit report recommendation 1C. Provident Bank officials acknowledge that some improvement to its record retention of the servicing files is warranted. However, Provident Bank maintains that it properly executed HUD's Loss Mitigation program as required and the evidence includes; 1) monthly notations explaining loss mitigation options, 2) loss mitigation analyses and whether the foreclosure option is warranted, and 3) the retention of electronic records demonstrated during the audit and permitted by HUD.

Also, Provident Bank maintains it provided the loss mitigation options to the borrowers, evaluated delinquent loans within the 90 day period required, followed the priority order of loss mitigation options according to FHA's guidelines and documented the loss mitigation actions based on financial information obtained from the borrowers. Provident Bank also recognizes that enhancement to its record retention process is warranted. Provident Bank indicated that it has begun the process of updating and enhancing servicing procedures pertaining to FHA loans. Provident Bank stated that its Asset Recovery department is in the process or has implemented its process enhancements such as; 1) revising its "delinquency notice cover letter to specifically refer to "Save Your Home: Tips to Avoid Foreclosure" brochure which it claims always accompanied the letter, 2) updating the records storage system to further segregate and store the loss mitigation letters within the master servicing file, 3) implementing a checklist and review process to help ensure compliance, 4) developing and implementing a management oversight checklist outlining loss mitigation procedures and periodic review, 5) developing a management oversight checklist and periodic review for default and loss mitigation reporting into HUD's Single Family Default Monitoring System to ensure completeness and accuracy, 6) updating its pertinent policies and procedures to be completed by December 31, 2015, and 7) providing ongoing training to its Asset Recovery and Loss Mitigation department staff members as policies and procedures continue to be revised.

We agree with Provident Bank's acknowledgement that improvements to its record retention of the servicing files are needed. Presently, Provident Bank's automated collection note system does not provide an adequate record trail supporting that the Bank is effectively communicating the features of HUD's Loss Mitigation program as required by federal regulations. The collection notes do not fully describe whether Provident Bank representatives are adequately communicating the loss mitigation options to its FHA borrowers verbally or through written correspondence.

Provident Bank's collection systems lack an adequate time stamping function substantiating that notification letters were actually submitted and in a timely manner to its FHA borrowers in serious default. Moreover, the notification letters that Provident Bank purportedly sends out to its troubled FHA borrowers; 1) do not list all of the options available in HUD's Loss Mitigation program such as the FHA-HAMP or in the priority order outlined in program guidelines, 2) lacked references to required HUD Loss Mitigation information pamphlets, and 3) lacked explanations of balances in arrears with breakdowns of principle, interest, and late fee amounts. Therefore, we concluded that Provident Bank cannot adequately support that it communicated and provided FHA loss mitigation options to the borrowers, evaluated delinquent loans within the 90 day period required, followed the priority order of loss mitigation options according to FHA's guidelines and documented the loss mitigation actions based on financial information obtained from informed FHA borrowers.

We recommend that Provident Bank share any evidence supporting its corrective action efforts with HUD during the audit resolution process since we were not able to confirm whether these corrective measures and functions were adequately implemented.

Comment 8 Provident Bank agrees audit report recommendation 1D. Provident Bank indicated that revisions to enhance its loss mitigation policy and procedures are currently scheduled and/or in process and are expected to be fully completed by December 31, 2015, which will be made available to HUD for review at that time.

We acknowledge Provident Bank's proactive efforts to implement recommendation 1D of our audit report. Provident Bank currently has an internal loss mitigation policy that is intended to cover all loss mitigation activities of various agency insured loans including FHA loans. We agree that Provident Bank should revise its loss mitigation policy by including FHA-specific loss mitigation requirements that are missing.

Comment 9 Provident Bank agrees with audit report recommendation 2A. Provident Bank recognizes the impact on the FHA insurance fund and the need for complete and accurate information. Provident Bank maintains it has taken a two-step approach to implementing changes to improve the accuracy of its reporting to the Single Family Default Monitoring System (SFDMS). Provident Bank maintains that the first part included conducting a full validation of data entered in the SFDMS as of September 30, 2015 to the Provident Bank's system of records and reporting requirements. Provident Bank maintains that it documented its validation of SFDMS data and will continue until such time that the automated reporting process discussed is fully implemented. Provident Bank maintains that the second part of the approach included implementing an automated data transfer from its loan/collections/loss mitigation system to the SFDM system, which when operational, will eliminate the data entry function presently performed by staff members and subject to human input errors.

We agree with the two-step approach implemented by Provident Bank to improve the accuracy of its reporting to the Single Family Default Monitoring System (SFDMS). Proper and accurate reporting ensures HUD's ability to collect and track significant events that occurred between the beginning of a default episode and its resolution. Correct data are crucial for ensuring that information used in metrics to assess servicer performance, such as tiered ranking, is accurate. We recommend that Provident Bank share any evidence supporting its corrective actions with HUD during the audit resolution process since we were not able to confirm that these corrective measures and functions were implemented.

Comment 10 Provident Bank maintains that it has taken steps to facilitate the transition to the automated data transfer by; 1) working with its core processor to understand and further develop the internal process to create and submit an automated file that is compatible with the SFDMS, 2) inquiring and opening discussions with HUD's

EDI Gateway Support Team regarding the initiation of a project to facilitate this transition, and 3) engaging the services of a third party consultant to help oversee the project so as to help ensure the integrity of the project and accuracy/completeness of the process.

We agree with Provident Bank's efforts in transitioning to an automated data transfer process to reduce the occurrence of reporting errors in the Single Family Default Monitoring (SFDM) system.

Comment 11 Provident Bank requests clarification and guidance on implementing audit report recommendation 2B. Provident Bank indicated that corrections to the data inputted into the SFDM system can only be made in the reporting period in which they occurred or before the next report is made. Provident Bank officials maintain that Mortgagee Letter 2006-15, Section 14, "Correction of a Previously Reported Status Code" states that if error has been discovered, Status Code 25 (cancel) should be reported. The status code will advise HUD that the last status code reported was in error should be preserved as a historical record without having an effect on default sequence. The correct status code should then be reported to ensure that HUD has the correct status of the loan. Provident Bank maintains that its understanding of correcting errors in the Single Family Default Monitoring System is based on information received at various training sessions sponsored/conducted by HUD and was confirmed by a Program Director, Branch 1 Reporting & Analytics at HUD National Servicing Center. Therefore, Provident Bank maintains that retroactive corrections to the specific errors identified in the draft audit report are not possible because the SFDMS does not allow adjustments to data occurring in prior reporting periods.

We acknowledge Provident Bank's position of not being able to retroactively correct data errors in prior reporting periods because of HUD computer system checks and controls currently in place. As previously discussed in the exit conference, we recommend that Provident Bank consult with HUD during the audit resolution process for technical assistance and the best available remedy to address the borrower default data reporting errors identified in the draft audit report.

Comment 12 Provident Bank generally agreed with the draft report's explanation of SFDMS reporting errors for six servicing loans identified during the fieldwork phase with exception of FHA case numbers 352-5154843 and 352-5273294.

For FHA case number 352-5154843, Provident Bank maintains that it correctly reported the loan as 2 months delinquent as of the January 31, 2015 Single Family Default Monitoring system reporting deadline. Specifically, Provident Bank maintains that the loan was 85 days past due as of January 26, 2015. However, the borrower made a mortgage payment on January 26, 2015, thereby making the loan due for its December 1, 2014 payment or 60 days delinquent. For FHA case number 352-5273294, the Provident Bank agrees with incorrect default status observation for October to December 2011 and January 2012. But Provident Bank disagrees with the portion of the finding related to inaccurately reporting in FHA's Single Family Data Management System and Neighborhood Watch that an FHA-HAMP trial modification plan was used before November 1, 2006, when this loss mitigation option was introduced in July 2009. Provident Bank's entry of code 39 in the Single Family Default Monitoring System occurred in June 2012 (for the May 31, 2012 cycle date) due to the borrower being approved for an FHA-HAMP trial modification plan. Also, Provident Bank believes that code 39 had a different definition prior to its reintroduction in 2009. Accordingly, Provident Bank believes that the description for code 39 as shown on the Neighborhood Watch Early Warning system "FHA-HAMP Trial Modification Plan-Prior to 11/1/2006 used for Pre-Claim Enrolled" as reviewed during the audit is a combination of both uses of this code. Provident Bank maintains that it used the available system status codes correctly and therefore the draft report finding is incorrect.

We agree with Provident Bank's position on FHA case numbers 352-5154843, but not with Provident Bank's position with FHA case number 352-5273294. For FHA case file 352-5154843, we acknowledge that the borrower was 2 months delinquent and the bank correctly reported the loan as 2 months delinquent as of the January 31, 2015 Single Family Default Monitoring system reporting deadline. We arrived at this conclusion for FHA case number 352-5154843 after evaluating the additional supporting documentation provided by Provident Bank in response to Appendix D of the draft report. The necessary revisions were made to the report and to the Appendix D loan summary for FHA case number 352-5154843 accordingly. As for FHA case number 352-5273294, we disagree with Provident Bank's claim that it used the available system status codes correctly.

Based on an evaluation of documentation provided by Provident Bank in response to Appendix D and HUD system records, we observed that Provident Bank cannot support that it approved the borrower for a FHA-HAMP trial modification plan that was active during the May 2012 through August 2012 reporting cycles. Consequently, Provident Bank provided documentation indicating that it approved a loan modification that would commence on September 1, 2012, which was reported appropriately by Provident Bank for the September 2012 reporting cycle with status code 98 and a delinquent status definition of "Reinstated after Loss Mitigation Intervention." Therefore, we maintain our opinion that Provident Bank did not accurately report the default status for the borrower associated with FHA Case number 352-5273294.

Comment 13 Provident Bank maintains that its HUD quality control program for servicing FHA loans is modeled based on the HUD's requirements for such programs, as those requirements are stated in HUD Handbook 4060.1, REV-2. Provident Bank also maintains that the conclusions reached in their quality control audit reports address the objectives and scope of the HUD quality control program, as those stated in HUD Handbook 4060.1, REV-2. Provident Bank added that while its quality control audit reports did not identify the loans reviewed during its internal audits by loan or case number, the number of loans reviewed was identified and the workpapers recorded the loan number for each loan its staff reviewed during each quality control audit. Provident Bank stated that moving forward it will revise its quality control audit reports to identify by loan or case number of the loans reviewed during a quality control audit. Provident Bank explained that its quality control audit sample is drawn from the total population of FHA loans serviced by Provident Bank, comprising loans from its retained portfolio and the serviced for others portfolio. Provident Bank acknowledges that there were some periods where the sample did not include loans from the serviced for others portfolio because the population of that category of loans is small. Provident Bank indicated that as of June 30, 2014, its serviced for other FHA loan portfolio totaled 21 loans. Provident Bank indicated that going forward it will include at least some loans from the serviced for others portfolio in the quality control sample each period.

We agree that Provident Bank's written policy models the HUD requirements for FHA servicing. However, we find that Provident Bank's needs to improve the implementation of its quality control program to increase its effectiveness in administrating HUD's Loss Mitigation program. Adequate implementation of Provident Bank's quality control program can improve the Bank's likelihood of identifying and correcting program deficiencies. We disagree with Provident Bank's assertion that its quality control review conclusions adequately address the review objectives.

Although the objectives and scope of Provident Bank's quality control reviews are outlined, the reports do not disclose or conclude whether these objectives were met. We agree with Provident Bank's plans of changing its practice of not disclosing the FHA case numbers of the loans sampled in the quality control program reviews. Disclosing the FHA Case numbers provides a competent level of objectivity and authenticity to the quality control program reviews completed by Provident Bank's internal audit division. We agree with Provident Bank's plans to include at least some servicing loans from its portfolios in the quality control program review sample.

Comment 14 Provident Bank maintains that it has generally not engaged outside consultants to review its loss mitigation practices for FHA loans. However, Provident Bank occasionally engages outside consultants to review various other aspects of the Bank's lending activities, and certain reviews reached aspects of Provident Bank's loss mitigation practices for FHA loans despite the primary focus being on other aspects of Provident Bank's lending activities. Provident Bank maintains that its internal audit department reviews the Bank's loss mitigation practices for FHA loans when it performs the quality control plan.

We disagree with Provident Bank's assertion that it generally does not engage outside consultants to review its loss mitigation practices for FHA loans. Provident Bank officials provided the HUD OIG audit team a copy of a compliance review report dated September 2014 on Provident Bank's home mortgage lending compliance for its entire loss mitigation function. The compliance review report was prepared by an outside consultant and the objectives and scope includes a comprehensive listing of the compliance areas that would be reviewed such as the policies and procedures related to the loss mitigation function and assessed adequacy for compliance with regulatory requirements. The outside consultant also outlines in the scope of the review that it determined whether Provident Bank's collection procedures are established to ensure early intervention with delinquent customers and compliance with regulatory guidelines.

Comment 15 Provident Bank acknowledges that its written internal loss mitigation policy is not specific to the FHA loans it administers. Provident Bank indicated that its current policy is intended to cover all loss mitigation activities including for FHA loans. Provident Bank added that it would review its current loss mitigation policy and recommend revisions to the policy as necessary for the policy to address those need FHA-specific loss mitigation requirements not already covered by its existing policy. Provident Bank indicated that it would complete its review and issue recommendations by December 31, 2015.

We agree with Provident Bank's acknowledgement that its written internal loss mitigation policy is not specific to FHA loans. We agree with Provident Bank's decision to review its current loss mitigation policy and revise the policy as necessary to include FHA-specific loss mitigation requirements. It is our opinion that Provident Bank's current policy is missing pertinent compliance elements that require adequate communication and application of the available loss mitigation options to FHA borrowers in serious default.

Appendix C

Schedule of Potential and Actual Loss to HUD

FHA number	Original mortgage amount	Unpaid principal balance	Potential Loss to HUD[3]	Actual Loss to HUD[4]	Loan status as of April 30, 2015
351-4430918	$194,400	$150,895	$75,447		Delinquent
352-5091737	$312,400	$253,888	$126,944		Chapter 13 bankruptcy
352-5154843	$249,950	$198,671	$99,335		Delinquent
352-5273294	$108,300	$149,318	$74,659		First legal action to commence foreclosure
352-5276791	$175,550	$150,694	$75,347		Foreclosure sale held
352-5288565	$119,700			$109,234	Foreclosure sale held
352-5447273	$151,500	$127,663	$63,832		Reinstatement by borrower without loss mitigation claim
352-5881845	$371,185	$361,241	$180,621		Chapter 13 bankruptcy
352-5201415	$262,850			$250,280	Property conveyed to insurer - claims A and B paid
Totals	**$1,945,835**	**$1,392,370**	**$696,185**	**$359,514**	

[3] We classified $696,185 as funds to be put to better use (see appendix A). This amount is 50 percent of the $1,392,370 in unpaid principal balances for the 7 loans as of April 30, 2015. The 50 percent is the estimated percentage of loss HUD would incur when the FHA property is foreclosed upon and resold as supported by the HUD Single Family Acquired Asset Management for the third quarter of fiscal year 2015 based on actual sales.

[4] We classified $359,514 as ineligible (see appendix A)—the amounts paid to Provident Bank for claim A totaling $109,234, associated with FHA case number 352-5288565, and claims A and B totaling $250,280, paid for FHA case number 352-5201415.

Appendix D

Loan Summaries

FHA case number:	351-4430918
Lender loan number:	0055143510
Loan amount:	$194,400
Unpaid principal balance:	$150,895
Months delinquent:	2
Status as of 04/30/2015:	Delinquent

Servicing deficiencies:

- Lack of evidence to support that timely loss mitigation options were given to homeowners.
- Lack of evaluation of delinquent loan before the fourth missed installment.

For FHA case number 351-4430918, Provident Bank could not provide documentation supporting that it adequately informed the borrower of all available loss mitigation options as required by Mortgagee Letter 2000-05. Provident Bank's servicing file and collection history notes did not support that it provided the homeowners with the required HUD PA 426-H Pamphlet "How to Avoid Foreclosure" by the second month of delinquency as required by 24 CFR 203.602. Further, Provident Bank's servicing files did not support that it had evaluated the homeowners' financials and loan status to determine what best mitigation options to apply.

Mortgagee Letter 2000-05 also states that lenders are required to inform borrowers of available loss mitigation options and the availability of housing counseling within the second month of delinquency. Provident Bank stated that it adequately informed the borrowers of HUD FHA's Loss Mitigation program, but it could not provide copies of the original loss mitigation package letters sent to support their position. Provident Bank instead provided copies of its collection system-generated batch letters, such as the loss mitigation package, early intervention, and housing counseling letters that were sent to both conventional and FHA borrowers who were delinquent on their mortgages. These batch letters did not adequately inform FHA borrowers who were delinquent on their mortgages of the complete listing of available loss mitigation options and did not allow the lender and borrower to find an alternative to foreclosure as required by HUD Handbook 4330.1, REV-5, paragraph 7-11(A). Provident Bank stated that it included the "Save Your Home" pamphlet required by Mortgagee Letter 2014-01 dated January 10, 2014 and previously applicable pamphlets with the loss mitigation package letter, but the letter did not reference following the advice in the pamphlet.

Part N of Mortgagee Letter 2000-05's Loss Mitigation program overview section requires the lender to maintain in the claim review file evidence of compliance with all requirements of the Loss Mitigation program as well as supporting documentation. The lender's regular servicing files should also contain evidence of compliance with the counseling, 90-day review, and other requirements of the program for those loans that do not result in a claim.

HUD Handbook 4330.1, REV-5, paragraph 1-4(E), also requires that all servicing files be retained for a minimum of the life of the mortgage plus 3 years, including cases resulting in a claim filed with HUD. As of April 2015, the loan was 2 months delinquent. Due to the incomplete communication of available loss mitigation options, the borrower's mortgage will be more delinquent over time, thus increasing the risk of potential unnecessary costs to be paid by HUD in the event of a claim. The unpaid principal balance of the loan was $150,895.

FHA case number: 352-5091737

Lender loan number: 0055144844

Loan amount: $312,400

Unpaid principal balance: $253,888

Months delinquent: 7

Status as of 04/30/2015: Chapter 13 bankruptcy

Servicing deficiencies:

- Lack of evidence to support that timely loss mitigation options were given to homeowners.
- Lack of documentation showing that FHA's loss mitigation priority order (special forbearance, loan modification, FHA-HAMP) was followed.
- Lack of documentation showing that financial information was evaluated for further consideration of the loss mitigation option.

For FHA case number 352-5091737, Provident Bank could not support that it adequately informed the borrower about available FHA loss mitigation options. Provident Bank maintained that it adequately informed the borrower of FHA's Loss Mitigation program, but it could not provide copies of the original loss mitigation package letters sent to the borrower to verify its claim. Provident Bank's servicing file and collection history notes did not support that it provided the homeowners with the required HUD PA 426-H Pamphlet "How to Avoid Foreclosure" by the second month of delinquency as required by 24 CFR 203.602. Further, Provident Bank's servicing files did not support that it had evaluated the homeowners' financials and loan status to determine what best mitigation options to apply. Provident Bank instead provided copies of its collection system-generated batch letters, such as the loss mitigation package, early intervention, and housing counseling letters that were sent to both conventional and FHA borrowers who were delinquent on their mortgages. These batch letters did not adequately inform FHA borrowers who were delinquent on their mortgages of the complete listing of available loss mitigation options and did not allow the lender and borrower to find an alternative to foreclosure as required by HUD Handbook 4330.1, REV-5, paragraph 7-11(A). Provident Bank stated that it included the Save Your Home pamphlet required by Mortgagee Letter 2014-01 dated January 10, 2014 and previously applicable pamphlets with the loss mitigation package letter, but the letter did not reference following the advice in the pamphlet.

Mortgagee Letter 2000-05's Loss Mitigation program overview section states that lenders are required to inform borrowers of available loss mitigation options and the availability of housing counseling within the second month of delinquency.

The servicing file also indicated that Provident Bank did not adequately evaluate the financial information obtained from the borrower to determine the best loss mitigation option as required by HUD Handbook 4330.1, REV-5, section 7-11. Specifically, Provident Bank rejected the borrower's request for a loan modification option on June 27, 2013, because the borrower's husband, the coborrower, was unemployed and the borrower's employment income was low. The loan file also indicated that at one point, the borrower and coborrower were both unemployed. This condition would allow the borrower a special forbearance option. Part D of the Mortgagee Letter 2000-05 special forbearance section requires lenders to exercise good judgment to determine the borrower's capacity to resume full monthly payments and reinstate the loan.

Mortgagee Letters 2013-32 and 2012-22 state that after evaluating a delinquent mortgagor for Informal and Formal Forbearance Plans, FHA's Loss Mitigation Home Retention Options must be considered in the following waterfall order: (1) Special Forbearances; (2) Loan Modifications; and (3) FHA-HAMP. Although, the borrower's financial records supported that she had a verifiable loss of income due to unemployment, Provident Bank's financial analysis concluded that the borrower was ineligible for a special forbearance or a more permanent loss mitigation option, such as a loan modification or FHA-HAMP as described in Mortgagee Letter 2012-22. The borrower reapplied for loss mitigation at the beginning of 2014 and Provident Bank rejected them on March 13, 2014 for submitting an incomplete loss mitigation package. The credit denial letter did not specify why the loss mitigation package was incomplete. The borrower was under Chapter 13 bankruptcy protection. Mortgagee Letter 2013-32 states that borrowers with an active Chapter 7 or Chapter 13 bankruptcy case are eligible for FHA loss mitigation options to the extent that such loss mitigation does not violate Federal bankruptcy laws or orders. The borrower had a tenant living in her FHA-insured multifamily home, which would complicate Provident Bank's ability to convey the property to HUD after foreclosure and submission of a claim to HUD. As of April 2015, the loan was 7 months delinquent. The unpaid principal balance of the loan was $253,888.

FHA case number:	352-5154843
Lender loan number:	0055145575
Loan amount:	$249,950
Unpaid principal balance:	$198,671
Months delinquent:	1
Status as of 04/30/2015:	Delinquent

Servicing deficiencies:

- Lack of evidence to support that timely loss mitigation options were given to homeowners.
- Lack of evaluation of loss mitigation options before the fourth missed installment.
- Lack of documentation showing that financial information was evaluated for further consideration of the loss mitigation option.

For FHA case number 352-5154843, Provident Bank's servicing file and collection history notes did not support that it provided the homeowners with the required HUD PA 426-H Pamphlet "How to Avoid Foreclosure" by the second month of delinquency as required by 24 CFR 203.602. Further, Provident Bank's servicing files did not support that it had evaluated the homeowners' financials and loan status to determine what best mitigation options to apply. Provident Bank instead provided copies of its collection system-generated batch letters, such as the loss mitigation package, early intervention, and housing counseling letters that were sent to both conventional and FHA borrowers who were delinquent on their mortgages. These batch letters did not adequately inform FHA borrowers who were delinquent on their mortgages of the complete listing of available loss mitigation options and did not allow the lender and borrower to find an alternative to foreclosure as required by HUD Handbook 4330.1, REV-5, paragraph 7-11(A). Provident Bank stated that it included the Save Your Home pamphlet required by Mortgagee Letter 2014-01 dated January 10, 2014 and previously applicable pamphlets with the loss mitigation package letter, but the letter did not reference following the advice in the pamphlet. Provident Bank did not obtain financial information in a timely manner for further consideration of loss mitigation options as required by part H of Mortgagee Letter 00-05's Loss Mitigation program overview section, allowing the mortgage to become even more delinquent over time, thus increasing the risk of potential unnecessary costs to be paid by HUD in the event of a claim. The borrower was 85 days past due, or delinquent, on his mortgage as of January 2015 without a loss mitigation option offer, which could lead to a partial or foreclosure claim paid by HUD. Part E of this section states that when no more than three full monthly installments are due and unpaid, lenders must evaluate each defaulted loan and consider all loss mitigation techniques to determine the most appropriate option.

In addition, Provident Bank did not provide support that it sent required notification letters to the borrower. Part C, Default Counseling, of Mortgagee letter 2000-05's early delinquency servicing requirements section states that borrowers who receive counseling early are much more likely to bring loans current. Part N, File Documentation, of Mortgagee Letter 2000-05's general program requirements section requires the lender to maintain in the claim review file evidence of compliance with all requirements of the Loss Mitigation program as well as supporting documentation, including all communication with any HUD office. The lender's regular servicing files should also contain evidence of compliance with the counseling, 90-day review, and other requirements of the program for those loans that do not result in a claim. Many of the documents referred to in the file notes were not contained in the files provided for review. HUD Handbook 4330.1, REV-5, paragraph 1-4(E), requires that all servicing files be retained for a minimum of the life of the mortgage plus 3 years, including cases resulting in a claim filed with HUD. Additionally, Provident Bank established promised payments without completing a financial analysis to determine whether the payment arrangements were realistic.

Part D, Financial Analysis, of Mortgage Letter 2000-05's special forbearance section requires the lender to assess the borrower's ability to repay the default as described in part H of the general program requirements section. In Provident Bank's contact sheet notes for the month of October 2014, the borrower stated that he had a financial hardship but he would pay the mortgage anyway. There were more entries in the collection notes indicating payment arrangements but no indication that the borrower attempted to make the payments. The pattern of late payments, contacts made by Provident Bank, and payment agreements continued for the next 3 months without Provident Bank obtaining financial information from the borrower, which violated the 90-day review requirements in part E of Mortgagee Letter 2000-05's Loss Mitigation program overview section.

As of April 2015, the loan was 1 month delinquent. The unpaid principal balance on this loan was $198,671.

FHA case number:	352-5273294
Lender loan number:	0055146040
Loan amount:	$108,300
Unpaid principal balance:	$149,318
Months delinquent:	21
Status as of 04/30/2015:	First legal action to commence foreclosure

Servicing deficiencies:

- Lack of evidence to support that timely loss mitigation options were given to homeowners.
- Lack of documentation showing that FHA's loss mitigation priority order (special forbearance, loan modification, FHA-HAMP) was followed.
- Inadequate reporting in the Single Family Default Monitoring System.

For FHA case number 352-5273294, Provident Bank's servicing file and collection history notes did not support that it provided the homeowners with the required HUD PA 426-H Pamphlet "How to Avoid Foreclosure" by the second month of delinquency as required by 24 CFR 203.602. Further, Provident Bank's servicing files did not support that it had evaluated the homeowners' financials and loan status to determine what best mitigation options to apply. Provident Bank instead provided copies of its collection system-generated batch letters, such as the loss mitigation package, early intervention, and housing counseling letters that were sent to both conventional and FHA borrowers who were delinquent on their mortgages. These batch letters did not adequately inform FHA borrowers who were delinquent on their mortgages of the complete listing of available loss mitigation options and did not allow the lender and borrower to find an alternative to foreclosure as required by HUD Handbook 4330.1, REV-5, paragraph 7-11(A). Provident Bank stated that it included the Save Your Home pamphlet required by Mortgagee Letter 2014-01 dated January 10, 2014 and previously applicable pamphlets with the loss mitigation package letter, but the letter did not reference following the advice in the pamphlet.

Also, Provident Bank could not support that it followed the required loss mitigation priority order (special forbearance, mortgage modification, partial claim, FHA-HAMP) or selected the best loss mitigation option for the borrowers as required by part F of Mortgagee Letter 2000-05's early delinquency servicing requirements section during the early stages of the borrowers' default, which went back to July 2007. Additionally, the original letters sent to the borrowers informing them of the available loss mitigation options could not be provided. Provident Bank instead provided copies of batch letters generated and sent automatically to both conventional and FHA borrowers that did not provide a complete list of the available loss mitigation options available under FHA. Part N of Mortgagee Letter 2000-05's general program requirements section requires the lender to maintain in the claim review file evidence of compliance with all requirements of the HUD’s Loss Mitigation program as well as supporting documentation, including all communication with any HUD office.

The lender is also required to inform borrowers of the loss mitigation options available and the availability of housing counseling within the second month of delinquency to prevent foreclosure of their FHA-insured home. Provident Bank inaccurately reported in HUD’s Single Family Default Monitoring System on October 2011, November 2011, December 2011, and January 2012 that a foreclosure sale was held for the subject property. However, public records indicated that the borrower still lived in the property. A foreclosure sale on the property was scheduled for May 19, 2015. Provident Bank is required to promptly and accurately report default data of its borrowers in accordance with HUD Handbook 4330.1, REV-5, paragraph 7-8(A), and Mortgagee Letter 2013-15. As of April 2015, the loan was 21 months delinquent. Provident Bank also inaccurately reported in FHA’s Single Family Data Management System and Neighborhood Watch that an FHA-HAMP trial modification plan was used before November 1, 2006, when this loss mitigation option was introduced in July 2009 with Mortgagee Letter 2009-23. The unpaid principal balance on this loan was $149,318.

FHA case number:	352-5276791
Lender loan number:	0055146810
Loan amount:	$175,550
Unpaid principal balance:	$150,694
Months delinquent:	28
Status as of 04/30/2015:	Foreclosure sale held

Servicing deficiency:

- Inadequate reporting in the Single Family Default Monitoring System.

For FHA case number 352-5276791, Provident Bank reported no delinquent status updates between October 2010 and May 2012 in HUD FHA's Single Family Default Monitoring System. It also inaccurately reported for May 2012 that the borrower had missed 20 mortgage payments and his FHA loan was reinstated without a loss mitigation claim. Its records did not support that the borrower missed 20 mortgage payments. Provident Bank is required to promptly and accurately report default data of its borrowers in accordance with HUD Handbook 4330.1, REV-5, Section 7-8. As of April 2015, the loan was 28 months delinquent. The unpaid principal balance on this loan was $150,694.

FHA case number:	352-5288565
Lender loan number:	0055147044
Loan amount:	$119,700
Unpaid principal balance:	$104,846
Months delinquent:	20
Status as of 04/30/2015:	Foreclosure sale held

Servicing deficiencies:

- Lack of evidence to support that timely loss mitigation options were given to homeowners.
- Lack of evaluation of loss mitigation options before the fourth missed installment.
- Lack of documentation showing that FHA's loss mitigation priority order (special forbearance, loan modification, FHA-HAMP) was followed.

For FHA case number 352-5288565, Provident Bank's servicing file and collection history notes did not support that it provided the homeowners with the required HUD PA 426-H Pamphlet "How to Avoid Foreclosure" by the second month of delinquency as required by 24 CFR 203.602. Further, Provident Bank's servicing files did not support that it had evaluated the homeowners' financials and loan status to determine what best mitigation options to apply. Provident Bank instead provided copies of its collection system-generated batch letters, such as the loss mitigation package, early intervention, and housing counseling letters that were sent to both conventional and FHA borrowers who were delinquent on their mortgages. These batch letters did not adequately inform FHA borrowers who were delinquent on their mortgages of the complete listing of available loss mitigation options and did not allow the lender and borrower to find an alternative to foreclosure as required by HUD Handbook 4330.1, REV-5, paragraph 7-11(A). Provident Bank stated that it included the Save Your Home pamphlet required by Mortgagee Letter 2014-01 dated January 10, 2014 and previously applicable pamphlets with the loss mitigation package letter, but the letter did not reference following the advice in the pamphlet.

Provident Bank did not obtain financial information in a timely manner and did not adequately inform the borrower of all FHA loss mitigation options available. Provident Bank reported through FHA Connection in March 2012 that the borrower was 3 months delinquent on her mortgage without providing her with a loss mitigation option, such as special forbearance. The borrower contacted Provident Bank on January 27, 2012, and March 20, 2012, and reported that she had lost her job and her unemployment benefits had run out. Provident Bank's collection notes documented that on March 23, 2012, and June 21, 2012, it sent loss mitigation letters to the borrower. However, it could not provide copies of the original loss mitigation package letters sent to the borrower, and the collection history notes did not indicate that a special forbearance option was communicated or made available to the borrower.

Mortgagee Letter 2000-05's Loss Mitigation program overview section states that lenders are required to inform borrowers of available loss mitigation options and evaluate each delinquent loan no later than the 90 days after delinquency to determine which loss mitigation option is appropriate. Additionally, part N of this section requires the lender to maintain in the claim review file evidence of compliance with all requirements of the Loss Mitigation program as well as supporting documentation, including all communication with any HUD office. The lender's regular servicing files should also contain evidence of compliance with the counseling, 90-day review, and other requirements of the program for those loans that do not result in a claim. As a result of the noncompliance, the borrower's mortgage became more delinquent over time, thus decreasing the likelihood that the borrower would receive a loan modification or FHA-HAMP, since arrearages were added to the unpaid balances during Provident Bank's evaluation, and increasing the risk of potential unnecessary costs to be paid by HUD in the event of a claim. Part E of Mortgagee Letter 2000-05's general program requirements section states that when no more than three full monthly installments are due and unpaid, lenders must evaluate each defaulted loan and consider all loss mitigation techniques to determine the most appropriate option. Due to the lack of communication of available loss mitigation options, as of April 2015, the loan was 20 months delinquent.

As a result, the borrower had submitted her financial information for review, and Provident Bank had initiated foreclosure proceedings. Provident Bank rejected the borrower's application on September 12, 2014, on the basis that she did not qualify for a loss mitigation option and that Provident Bank would continue with the foreclosure process. Provident Bank reported that a foreclosure sale was held on January 2015 on the borrower's FHA-insured home and submitted a "claim A," which included principal and interest until May 6, 2015. The claim was processed by HUD through FHA Connection on May 7, 2015. HUD FHA paid Providence Bank's claim A of $109,234 on May 10, 2015. We considered this amount to be ineligible because a special forbearance option was not considered or made available to the borrower and Provident Bank could not support that it adequately attempted to assist the borrower with the most appropriate loss mitigation option.

FHA case number: 352-5447273

Lender loan number: 0055148709

Loan amount: $151,500

Unpaid principal balance: $127,663

Months delinquent: 0

Status as of 04/30/2015: Reinstated by borrower without loss mitigation claim

Servicing deficiencies:

- Lack of evidence to support that timely loss mitigation options were given to homeowners.
- Lack of evaluation of loss mitigation options before the fourth missed installment.
- Lack of documentation showing that FHA's loss mitigation priority order (special forbearance, loan modification, FHA-HAMP) was followed.
- Lack documentation that the loss mitigation action was based on financial reviews evaluation.

For FHA case number 352-5447273, Provident Bank's servicing file and collection history notes did not support that it provided the homeowners with the required HUD PA 426-H Pamphlet "How to Avoid Foreclosure" by the second month of delinquency as required by 24 CFR 203.602. Provident Bank could not provide copies of the original letters it claimed were sent to the borrower informing her of all available options. Provident Bank instead provided copies of its collection system-generated batch letters, such as the loss mitigation package, early intervention, and housing counseling letters that were sent to both conventional and FHA borrowers who were delinquent on their mortgages. These batch letters do not adequately inform FHA borrowers who were delinquent on their mortgages of the complete listing of available loss mitigation options and did not allow the lender and borrower to find an alternative to foreclosure as required by HUD Handbook 4330.1, REV-5, paragraph 7-11(A). Provident Bank claimed that it included the Save Your Home pamphlet required by Mortgagee Letter 2014-01 dated January 10, 2014 and previously applicable pamphlets with the loss mitigation package letter, but the letter did not reference following the advice in the pamphlet.

The borrower was 210 days, or 7 months, delinquent before the automated collection history notes indicated that a notification letter was sent to the borrower. Loss mitigation options were not offered or communicated within 2 months of the borrower's delinquency as required by part C of Mortgagee Letter 2000-05's early delinquency servicing requirements section. This section states that lenders are required to inform borrowers of available loss mitigation options and the availability of housing counseling within the second month of delinquency. HUD Handbook 4330.1, REV-5, paragraph 1-4(E), requires that all servicing files be retained for a minimum of the life of the mortgage plus 3 years, including cases resulting in a claim filed with HUD. Sample letters provided by Provident Bank did not include the complete HUD loss mitigation priority order (special forbearance, mortgage modification, partial claim, and FHA-HAMP) applicable to the borrower at the time.

Part N of Mortgagee Letter 2000-05's Loss Mitigation program overview section requires the lender to maintain in the claim review file evidence of compliance with all requirements of the Loss Mitigation program as well as supporting documentation. Provident Bank obtained an agreement to pay from the borrower without determining whether the payments were feasible as required by part H of Mortgagee Letter 2000-05's general program requirements section. Loss mitigation documents indicated that the borrower contacted Provident Bank on April 14, 2011, and inquired about a loan modification. Three months later on July 13, 2011, Provident Bank returned borrower's call regarding the loan modification. The borrower continued to be delinquent on her mortgage, and Provident Bank and the borrower discussed an agreement to pay the arrearage without financial documentation.

Part D, Financial Analysis, of Mortgagee Letter 2000-05's special forbearance section also requires the lender to assess the borrower's ability to repay the default as described in part H above. The borrower did not comply with the agreement, and there was no evidence that a financial analysis was performed. Provident Bank's collection history note entries indicated that Provident Bank did not implement adequate loss mitigation actions and procedures. Part H of Mortgagee Letter 2000-05's general program requirements section states that regardless of how the borrower's financial information was secured, the lender must independently verify the financial information by obtaining a credit report and any other form of verification the lender deems appropriate. Also, the lender must analyze the borrower's current and future ability to meet the monthly mortgage obligations. As of April 2015, the loan had been reinstated without a loss mitigation option for a third time in the last 3 years. The unpaid balance on this loan was $127,663.

FHA case number: 352-5881845

Lender loan number: 0055151199

Loan amount: $371,185

Unpaid principal balance: $361,241

Months delinquent: 48

Status as of 04/30/2015: Chapter 13 bankruptcy

Servicing deficiencies:

- Lack of evidence to support that timely loss mitigation options were given to homeowners.
- Lack of evaluation of loss mitigation options before the fourth missed installment.
- Inadequate reporting to the Single Family Default Monitoring System.

For FHA case number 352-5881845, Provident Bank's servicing file and collection history notes did not support that it provided the homeowners with the required HUD PA 426-H Pamphlet "How to Avoid Foreclosure" by the second month of delinquency as required by 24 CFR 203.602. Provident Bank could not provide copies of the original letters it claimed were sent to the borrower informing her of all available options. Provident Bank instead provided copies of its collection system-generated batch letters, such as the loss mitigation package, early intervention, and housing counseling letters that were sent to both conventional and FHA borrowers who were delinquent on their mortgages. These batch letters did not adequately inform FHA borrowers who were delinquent on their mortgages of the complete listing of available loss mitigation options and did not allow the lender and borrower to find an alternative to foreclosure as required by HUD Handbook 4330.1, REV-5, paragraph 7-11(A). Provident Bank claimed that it included the Save Your Home pamphlet required by Mortgagee Letter 2014-01 dated January 10, 2014 and previously applicable pamphlets with the loss mitigation package letter, but the letter did not reference following the advice in the pamphlet.

Provident Bank could not support that it informed the borrower of all available loss mitigation options in a timely manner during 2010 when the borrower initially defaulted on three mortgage payments. Mortgagee Letter 2000-05's Loss Mitigation program overview section states that lenders are required to inform borrowers of available loss mitigation options and the availability of housing counseling within the second month of delinquency. Also, the lender must evaluate each delinquent loan no later than 90 days after delinquency to determine which loss mitigation option is appropriate. Part N of Mortgagee Letter 2000-05's Loss Mitigation program overview section requires the lender to maintain in the claim review file evidence of compliance with all requirements of the Loss Mitigation program as well as supporting documentation, including all communication with any HUD office. The lender's regular servicing files should also contain evidence of compliance with the counseling, 90-day review, and other requirements of the program for those loans that do not result in a claim.

HUD Handbook 4330.1, REV-5, paragraph 1-4(E), also requires that all servicing files be retained for a minimum of the life of the mortgage plus 3 years, including cases resulting in a claim filed with HUD. The borrower filed for Chapter 13 bankruptcy protection and had missed 10 additional mortgage payments by October 2011. Provident Bank allowed the mortgage to fall deeper into default without actively pursuing loss mitigation efforts in accordance with FHA guidelines. Provident Bank did not evaluate the borrower's financial records for loss mitigation until early 2013. As a result, it rejected the borrower's application because of the borrower's insufficient income and an additional FHA mortgage, which was also in default. Provident Bank's automated collection history records indicated that the bank's foreclosure efforts were delayed because of U.S. Bankruptcy Court proceedings. The borrower reapplied for loss mitigation during 2014. On September 15, 2014, Provident Bank once again rejected the borrower's application because the loss mitigation package submitted to the bank was incomplete. The letter did not specify why the loss mitigation package was incomplete. At this point, the borrower had missed 44 mortgage payments.

To further delay Provident Bank's ability to foreclose on the borrower's FHA-insured home, the borrower filed for Chapter 7 bankruptcy protection in October 2014 and then Chapter 13 for the second time. Mortgagee Letter 2013-32 states that borrowers with an active Chapter 7 or Chapter 13 bankruptcy case are eligible for FHA loss mitigation options to the extent that such loss mitigation does not violate Federal bankruptcy laws or orders. Provident Bank also did not report monthly default status updates for the borrower from January to October 2011 in the Single Family Default Monitoring System. This timeframe was especially important to report since the borrower's missed mortgage payments accelerated from 3 to 13 missed payments during this period. Provident Bank is required to promptly and accurately report default data on its lenders by HUD Handbook 4330.1, REV-5, Section 7-8. As of April 2015, the loan was 48 months delinquent. The unpaid mortgage balance for this loan was $361,241.

FHA case number:	352-5201415
Lender loan number:	0055143510
Loan amount:	$262,850
Unpaid principal balance:	$219,955
Months delinquent:	17
Status as of 04/30/2015:	Property conveyed to insurer

Servicing deficiencies:

- Lack of evidence to support that timely loss mitigation options were given to homeowners.
- Lack of evaluation of loss mitigation options before the fourth missed installment.

For FHA case number 352-5201415, Provident Bank's servicing file and collection history notes did not support that it provided the homeowners with the required HUD PA 426-H Pamphlet "How to Avoid Foreclosure" by the second month of delinquency as required by 24 CFR 203.602. Provident Bank could not provide copies of the original letters it stated were sent to the borrower informing her of all available options. Provident Bank instead provided copies of its collection system-generated batch letters, such as the loss mitigation package, early intervention, and housing counseling letters that were sent to both conventional and FHA borrowers who were delinquent on their mortgages. These batch letters did not adequately inform FHA borrowers who were delinquent on their mortgages of the complete listing of available loss mitigation options and did not allow the lender and borrower to find an alternative to foreclosure as required by HUD Handbook 4330.1, REV-5, paragraph 7-11(A). Provident Bank stated that it included the Save Your Home pamphlet required by Mortgagee Letter 2014-01 dated January 10, 2014 and previously applicable pamphlets with the loss mitigation package letter, but the letter did not reference following the advice in the pamphlet.

Provident Bank could not support that it adequately informed the borrower about available FHA loss mitigation options. Mortgagee Letter 2000-05's Loss Mitigation program overview section states that lenders are required to inform borrowers of available loss mitigation options and the availability of housing counseling within the second month of delinquency. Provident Bank could not provide the original letters submitted to the borrower to inform her of the loss mitigation options available to prevent foreclosure of her home. HUD Handbook 4330.1, REV-5, paragraph 1-4(E), requires that all servicing files be retained for a minimum of the life of the mortgage plus 3 years, including cases resulting in a claim filed with HUD. As early as September 2013, the borrower communicated to Provident Bank that she was on disability and would have difficulty making her mortgage payments and she had no earned income. By December 2013, the borrower was 5 months delinquent on her mortgage without receiving assistance from Provident Bank. The documentation indicated that Provident Bank did not grant the borrower a forbearance (informal, formal, or special) so she could recover from her personal and financial conditions as required by HUD Handbook 4330.1, REV-5, sections 8-1 and 8-3.

Also, part E of Mortgagee Letter 2000-05's general program requirements section states that when no more than three full monthly installments are due and unpaid, lenders must evaluate each defaulted loan and consider all loss mitigation techniques to determine the most appropriate option. At the beginning of August 2014, the borrower vacated or abandoned the property, and Provident Bank continued with foreclosure proceedings.

Provident Bank reported that the foreclosure sale was held during November 2014.   It submitted a claim for the unpaid principal of the loan plus the interest, on December 26, 2014   The claim was processed by HUD through FHA Connection on December 30, 2014. Provident Bank submitted a second claim for escrow items such as property taxes, insurance, and other fees on May 8, 2015, which was processed through FHA Connection on May 11, 2015.

HUD FHA paid Provident Bank's insurance claim of $250,280. We considered this amount to be ineligible because Provident Bank could not support that it adequately assisted the borrower with loss mitigation options.

Appendix E

Criteria

Finding 1 Including Appendix D	
Loss mitigation general documentation	**Regulations at 24 CFR 203.605(a)** state, "Documentation must be maintained for the initial and all subsequent evaluations and resulting loss mitigation actions."
	HUD Handbook 4330.1, REV-5, section 7-12, states, "Mortgagees must assure that servicing files fully document that all servicing requirements have been followed and steps have been taken to save a mortgage prior to making a decision to foreclose. All actions taken with respect to collection, forbearance, or other actions alternative to foreclosure must be fully documented."
	Mortgagee Letters 2013-32 and 2012-22 state that the lender's servicing records should include monthly notations explaining the lender's analysis used to determine the appropriate loss mitigation option. If there has been no change in the borrower's circumstances, the lender may notate this information in its records.
	Mortgagee Letter 2000-05 requires the lender to maintain in the claim review file evidence of compliance with all requirements of the Loss Mitigation program as well as supporting documentation, including all communication with any HUD office.
	HUD Handbook 4330.1, REV-5, paragraph 1-4(E), requires that all servicing files be retained for a minimum of the life of the mortgage plus 3 years, including cases resulting in a claim filed with HUD.
Early delinquency servicing requirements	**Mortgagee Letter 2000-05** states that at a minimum, the lender must provide the borrower with a copy of the HUD pamphlet PA 426-H, May 19, 1997, How To Avoid Foreclosure, no later than the end of the second month of delinquency (24 CFR 203.602). Note: As of February 10, 2014, the PA-426-H pamphlet is obsolete.
	Mortgagee Letter 2014-01. The purpose of this mortgagee letter is to notify lenders that the How To Avoid Foreclosure brochure, HUD-PA-426, has been replaced. The new brochure is Save Your Home: Tips To Avoid Foreclosure, HUD-2008-5-FHA, which is to be sent with a cover letter to delinquent borrowers no earlier than the 32nd day of a delinquency but no later than the 60th day according to 24 CFR 203.602. This brochure includes information on the revised loss mitigation tools available for delinquent homeowners with FHA-insured loans.

Loss mitigation priority order (waterfall) home retention	**Mortgagee Letters 2013-32 and 2012-22** state that after evaluating a delinquent borrower for informal and formal forbearance plans, FHA's loss mitigation home retention options must be considered in the following order: (1) special forbearances, (2) loan modifications, and (3) FHA-HAMP.
Loss mitigation qualification – formal forbearance	**Mortgagee Letter 2013-32** states, "Formal Forbearance plans are written agreements with a period of greater than three months but, not more than six months. If the mortgagee determines that 85 percent of the mortgagor's surplus income is sufficient to bring the mortgage current within six months, the only available loss mitigation option is a Formal Forbearance plan that provides for repayment within the six months."
Evaluate for loss mitigation on a timely basis	**Regulations at 24 CFR 203.605(a)** state, "Before four full monthly installments due on the mortgage have become unpaid, the mortgagee shall evaluate on a monthly basis all of the loss mitigation techniques." Based upon such evaluations, the lender must take the appropriate loss mitigation action.
	Mortgagee Letter 2000-05 requires that no later than when three full monthly installments are due and unpaid, lenders must evaluate each defaulted loan and consider all loss mitigation techniques to determine which, if any, are appropriate (24 CFR 203.605).
Evaluation of financial information	**Mortgagee Letter 2000-05** states that regardless of how the borrower's financial information was secured, the lender must independently verify the financial information by obtaining a credit report and any other forms of verification the lender deems appropriate. The lender must analyze the borrower's current and future ability to meet the monthly mortgage obligation by estimating the borrower's assets and surplus income.
Loss mitigation options considered	**HUD Handbook 4330.1, REV-5, paragraph 9-3,** states, "Foreclosure should be considered only as a last resort and shall not be initiated until all other relief options have been exhausted."
Loss mitigation property disposition	**Regulations at 24 CFR 203.501(a)** state, "Mortgagees must consider the comparative effects of their elective servicing actions, and must take those appropriate actions which can reasonably be expected to generate the smallest financial loss to the Department. Such actions include, but are not limited to, deeds in lieu of foreclosure under §203.357, pre-foreclosure sales under § 203.370."
	Mortgagee Letter 2000-05 states that when the cause of the default is not curable or the borrower is not committed to remaining in the home, HUD expects lenders to consider disposition options in the following order: preforeclosure sale, deed-in-lieu.

Finding 2	
Verification of data	**Mortgagee Letter 2003-17** states that the data contained in HUD's Single Family Insurance System regarding a lender's FHA-insured portfolio must be accurate. To assist lenders in verifying and updating the data in HUD's systems, this letter reviews several of the data submission requirements and processes, restates requirements for timely and accurate data reporting, and identifies the consequences of a lender's failure to comply with these requirements.
	Mortgagee Letter 2005-42 states that all lenders were cautioned that they must complete a reconciliation of their FHA-insured portfolio.
	Explanation of Portfolio Data Reconciliation, National Servicing Center Letter, dated 5/12/14, states that starting with Mortgagee Letter 2003-17 and continuing with Mortgagee Letters 2004-34, 2005-11, and 2005-42, lenders have been on notice to reconcile their portfolios. Portfolio data reconciliations consist of comparing a list of FHA cases in a lender's servicing system with a list from HUD's system of record.
Single Family Default Monitoring System data entry	**HUD Handbook 4330.1, REV-5, paragraph 7-8(A),** states, "Prompt and accurate reporting by mortgagees is extremely important in providing HUD with an up-to-date account of the status and trends of HUD-insured mortgages. This reporting serves as an indicator of the effectiveness of origination and servicing activities, and the potential risk to the insurance funds."
	Mortgagee Letter 2013-15 states that lenders are reminded that they are required to report their servicing efforts to HUD, maintain accurate data in HUD's system(s) of record, report the monthly status of a delinquent loan throughout the term of the mortgage, and ensure proper documentation of servicing activities, including date and time notations.
Assessment of loss mitigation performance	**Regulations at 24 CFR 203.605(b)** state, "HUD will measure and advise mortgagees of their loss mitigation performance through the Tier Ranking System (TRS). Under the TRS, HUD will analyze each mortgagee's loss mitigation efforts portfolio wide on a quarterly basis, based on 12 months of performance, by computing ratios involving loss mitigation attempts, defaults, and claims. Based on the ratios, HUD will group mortgagees in four tiers (Tiers 1, 2, 3, and 4), with Tier 1 representing the highest or best ranking mortgagees and Tier 4 representing the lowest or least satisfactory ranking mortgagees."

Finding 3	
Quality control	**HUD Handbook 4060.1, REV-2, paragraph 7-2,** states, "The following are the overriding goals of Quality Control. Mortgagees must design programs that meet these basic goals: * Assure compliance with FHAs and the mortgagees own origination or servicing requirements throughout its operations; * Protect the mortgagee and FHA from unacceptable risk; * Guard against errors, omissions and fraud; and * Assure swift and appropriate corrective action."
	HUD Handbook 4060.1, REV-2, paragraph 7-3(D), states, "Mortgagees must ensure that quality control reviews are performed on a regular and timely basis. Depending on a mortgagee's production volume, origination reviews may be performed weekly, monthly, or quarterly. The review of a specific mortgage should be completed within 90 days of closing. Reviews of different aspects of servicing will vary in frequency; however, delinquent servicing and loss mitigation activities should be reviewed monthly."
	HUD Handbook 4060.1, REV-2, paragraph 7-3(F), states, "The Quality Control reviews must thoroughly evaluate the mortgagees origination and/or servicing functions to determine the root cause of deficiencies. The mortgagee must expand the scope of the Quality Control review when fraud or patterns of deficiencies are uncovered; scope means both an increased number of files as well as more in-depth review."
	HUD Handbook 4060.1, REV-2, paragraph 7-10(B), states, "Quality Control of servicing must be an ongoing function. Due to the importance of these aspects of servicing, mortgagees must perform monthly reviews of delinquent loan servicing, claims, and foreclosures."