Seneca Mortgage Servicing LLC
Elma, NY

HUD's Loss Mitigation Program

Office of Audit, Region 2
New York, New Jersey

Audit Report Number: 2017-NY-1007
February 17, 2017

To: Robert Mulderig, Acting Deputy Assistant Secretary for Single Family Housing, HU

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From: Frances Ranzie, Acting Regional Inspector General for Audit, 2AGA

Subject: Seneca Mortgage Servicing LLC, Elma, NY, Generally Complied With HUD's Loss Mitigation Program Requirements for Servicing Its Portfolio of FHA-Insured Mortgages

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Seneca Mortgage's Loss Mitigation program.

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: 2017-NY-1007
Date: February 17, 2017

Seneca Mortgage Servicing LLC, Elma, NY, Generally Complied With HUD's Loss Mitigation Program Requirements for Servicing Its Portfolio of FHA-Insured Mortgages

Highlights

What We Audited and Why

We reviewed Seneca Mortgage'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 Seneca Mortgage based on the results of our single-family risk assessment. The objective of the audit was to determine whether Seneca Mortgage complied with HUD's Loss Mitigation program requirements and implemented an effective quality control program.

What We Found

Seneca Mortgage generally complied with HUD's Loss Mitigation program requirements for servicing its portfolio of FHA-insured mortgages. However, it did not always ensure that its servicing data were accurately reported in HUD's systems and did not ensure that properties were conveyed to HUD within 30 days of securing the property. Seneca Mortgage implemented an effective quality control program for mortgages that it serviced but did not have procedures for reviewing loans included in a subservicing agreement with another FHA-approved lender.

What We Recommend

We recommend that HUD instruct Seneca Mortgage to (1) repay $19,136 in ineligible holding costs to the FHA insurance fund; (2) ensure that reimbursement is not requested for holding costs incurred beyond the conveyance deadline related to FHA loan number 281-3493258; (3) instruct the investors and holders for FHA loan numbers 501-7067695, 501-6877136, 061-0982338, and 501-5885504 to transfer these loans to FHA-approved servicers; (4) implement procedures to ensure that FHA loans are transferred only to FHA-approved servicers regardless of investor input; (5) strengthen conveyance procedures to ensure that properties are transferred to HUD within 30 days of securing the property; (6) strengthen program controls and procedures to ensure that servicing efforts are accurately reported in HUD systems; and (7) develop program controls and procedures for FHA-insured loans that are a part of the subservicing agreement with another lender.

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Background and Objective

Seneca Mortgage Servicing LLC is an approved Federal Housing Administration (FHA) loan servicer located in Elma, NY. Seneca Mortgage is a nationally licensed residential mortgage servicer specializing in prime, special, and component servicing. It is a wholly owned subsidiary of Seneca Mortgage Investments LP and acquires and services the mortgage servicing rights for a diverse portfolio of government-sponsored and investor loans. Seneca Mortgage serviced more than 600 active FHA-insured mortgage loans. Seneca Mortgage officials notified their investors of their intent to resign as the servicer on their FHA-insured loan portfolio. In August 2016, Seneca Mortgage entered into a subservicing agreement with another mortgage company to service 236 FHA-insured loans while transferring the remaining loans to other servicers. While HUD regulations permit servicer/subservicer relationships, the FHA-approved servicer is responsible to ensure the subservicer is also approved by FHA to service FHA-insured mortgages. The servicing lender is responsible for the actions of their subservicers.

The U.S. Department of Housing and Urban Development (HUD) established the Loss Mitigation program in 1996 to ensure that distressed FHA-insured borrowers have the opportunity to retain their homes and to reduce loss to the FHA insurance fund. Participation in the Loss Mitigation program is not optional. HUD requires servicers to (1) evaluate all defaulted borrowers for loss mitigation eligibility, (2) quickly activate appropriate loss mitigation options, (3) provide housing counseling availability information, (4) consider all reasonable means to assist the borrower in addressing the delinquency, and (5) retain written documentation of compliance with loss mitigation requirements. The program consists of reinstatement options to promote retention of home ownership and disposition options, which assist borrowers in default in transitioning to lower cost housing.

The reinstatement options are special forbearance, loan modification, partial claim, and the Home Affordable Modification Program (HAMP). A special forbearance is a written repayment agreement between a lender and borrower, containing a plan to reinstate a delinquent loan. A loan modification is a permanent change in one or more of the terms of a loan, allows the loan to be reinstated, and results in a payment the borrower can afford. A partial claim consists of an interest-free loan to the borrower in the amount needed to reinstate the mortgage, thereby becoming a subordinate mortgage payable to HUD. The FHA-HAMP loss mitigation option, which became effective August 15, 2009, combines the loan modification and partial claim loss mitigation options.

The disposition options are preforeclosure sale and deed in lieu of foreclosure. The preforeclosure sale option allows a borrower in default to sell his or her home and use the sale proceeds to satisfy the mortgage debt, even if the proceeds are less than the amount owed. A deed in lieu of foreclosure allows a borrower to turn over his or her home to HUD in exchange for a release from all mortgage obligations. FHA's loss mitigation home retention options, also known as the loss mitigation waterfall, must be considered in the following order: (1) special forbearances, (2) loan modifications, and (3) FHA-HAMP. A special forbearance is a written agreement between a lender and borrower to reduce or suspend mortgage payments. A special forbearance is available only to borrowers who are unemployed. A loan modification is a permanent change to one or more of the terms of a borrower's loan. A loan modification allows the loan to be reinstated and results in a more affordable payment. FHA-HAMP typically involves the combination of a loan modification and a partial claim. However, FHA-HAMP may involve the use of one or both of the loss mitigation options.

The objective was to determine whether Seneca Mortgage complied with HUD's Loss Mitigation program and implemented an effective quality control program.

Results of Audit

Finding 1: Seneca Mortgage Generally Complied With HUD's Loss Mitigation Program Requirements for FHA-Insured Mortgages

Seneca Mortgage officials generally complied with HUD's Loss Mitigation program requirements for FHA-insured mortgages; however, they did not always ensure that servicing data in HUD systems[1] were accurate and did not always convey properties to HUD within 30 days of securing the property as required. We attributed these deficiencies to errors made by staff responsible for data reporting, failure by officials to ensure that FHA-insured loans were transferred only to FHA-approved servicers, and a lack of oversight by officials during the conveyance process. As a result, HUD did not always have complete and accurate information to effectively monitor Seneca Mortgage's loss mitigation efforts, and HUD paid $19,136 in ineligible holding costs incurred after the deadline to convey properties for two loans.

Seneca Mortgage Generally Complied With HUD's Loss Mitigation Program Requirements

Our review of 13 loans determined that Seneca Mortgage officials generally complied with HUD's Loss Mitigation program requirements. Specifically, they provided documentation to support that they evaluated defaulted borrowers for loss mitigation option eligibility, quickly activated appropriate loss mitigation options, provided housing counseling availability information, considered all reasonable means to assist the borrower in addressing the delinquency, and retained written documentation of compliance with loss mitigation requirements. They also used HUD's loss mitigation options to avoid foreclosure, when feasible, and reevaluated each delinquent mortgage monthly in accordance with HUD requirements.

Properties Were Conveyed to HUD Late

Seneca Mortgage officials did not always convey properties to HUD within 30 days of securing the property as required. Regulations at 24 CFR 203.402 state that HUD will pay for reasonable payments made by the lender for the purpose of protecting, operating, or preserving the property, or removing debris from the property prior to the time of conveyance required by Section 203.359 and 24 CFR 203.359 states that servicers must obtain good and marketable title and transfer the property to HUD within 30 days of securing the property. We reviewed five loans that went to claim. Four were conveyance claims, and one was a nonconveyance claim. A

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1 FHA Connection is an Internet-based system that allows FHA-approved lenders to have real-time access to several of FHA's systems over HUD's Internet system for the purpose of originating and servicing FHA loans. Transactions correctly submitted through the FHA Connection are ultimately processed on the Computerized Homes Underwriting Management System, Single Family Premiums Collection Subsystem-Upfront, Single Family Premium Collection Subsystem-Periodic, Single Family Default Monitoring Subsystem, Single Family Insurance System-Claims Subsystem, Single Family Insurance System, Neighborhood Watch, and Single Family Default Reporting System.

conveyance claim occurs when the holder of the mortgage loan transfers the property to HUD and submits a claim for FHA insurance benefits. In nonconveyance claims the holder doesn't transfer the property to HUD, but rather to a third party. The properties for each of the four conveyance claims were not conveyed to HUD within the required 30 days. HUD paid ineligible holding costs (costs for protecting, operating, or preserving the property or removing debris from the property) of $19,136 on two loans that were conveyed to HUD between 4 and 28 months late. Holding costs specific to these loans included costs for inspections, lawn maintenance, debris removal, and hazard insurance. Two additional loans were conveyed to HUD after the deadline, but HUD had yet to pay the part B portion of the claim and, therefore, had not paid for ineligible holding costs at the end of our fieldwork. A part B claim is the second portion of a conveyance claim that HUD pays to the holder of the mortgage for the holding costs, mortgage insurance premiums, and other conveyance costs incurred by the holder. These loans were transferred to another servicer on September 1, 2016 and October, 3, 2016. According to Seneca Mortgage officials, these loans were conveyed late because the properties were not in conveyance condition when the property was secured and the marketable title was acquired. HUD regulations state that at the time of conveyance to HUD, a property must be undamaged by fire, flood, earthquake, hurricane, tornado, or mortgagee neglect. The property must be secured, the lawn maintained, winterized, and interior and exterior debris must be removed with the property's interior maintained in broom-swept condition. Lenders are responsible for the damage to, or destruction of, properties due to their failure to take reasonable action to secure, inspect, preserve and protect such properties. Seneca Mortgage officials stated that for loans with missed conveyance deadlines, their policy was to work closely with the preservation contractor to get the properties in conveyance condition as soon as possible. However, one loan was conveyed 24 months late. The chart below identifies the loans determined to be conveyed late and the ineligible holding costs associated with each late conveyance.

FHA case number	Date the lender acquired marketable title	30-day conveyance deadline date	Date the lender conveyed the property to HUD	Number of months late	Ineligible holding costs paid by HUD
521-7245032	07/03/2012	08/2/2012	08/19/2014	24	$9,854
581-4595865	05/18/2015	06/17/2015	01/24/2016	7	9,282
281-3493258	08/29/2015	09/28/2015	01/21/2016	4	0[2]
501-7612832	01/17/2014	02/16/2014	06/09/2016	28	0[3]
Total					**19,136**

2 HUD had not paid for ineligible holding costs after the conveyance deadline on this loan because neither Seneca Mortgage nor the new servicer had filed the part B portion of the claim with HUD.

3 This loan was transferred to another servicer on October 3, 2016. The new servicer filed the part B claim in December 2016, and HUD paid the part B claim on January 15, 2017. However, we are unable to determine the amount of ineligible holding costs paid by HUD after the conveyance deadline because the part B portion of the claim was filed by and paid to another servicer.

Information Was Inaccurately Reported in HUD's Systems

Seneca Mortgage officials inaccurately reported loan servicing data information in HUD's systems. HUD guidance requires all lenders to ensure that HUD's records accurately reflect the status of the mortgage and accurately report in HUD's system. For two loans that went to claim, Seneca Mortgage officials incorrectly reported an old delinquency status code in HUD's systems, although the delinquency status had changed. One loan was incorrectly reported for 4 months and the other loan for 7 months. For a third loan, Seneca Mortgage officials reported the loan as active in August and September 2016 when a third-party sale of the property had occurred on August 8, 2016, and Seneca Mortgage officials did not process the termination until October 24, 2016, after we brought it to their attention.

Additionally, our review found no current delinquency servicing data reported in HUD's systems for three loans that Seneca Mortgage officials transferred to unapproved FHA mortgage servicers. These loans were both inaccurately reported in HUD's systems and transferred to unapproved FHA mortgage servicers. According to Seneca Mortgage officials, the transfers were at the direction of the investors in these loans. However, HUD's Neighborhood Watch system[4] and Single Family Insurance System[5] showed Seneca Mortgage as the holder of these loans. Seneca Mortgage officials transferred a fourth loan to an unapproved FHA mortgage servicer but had reported current delinquency servicing data in HUD's systems for this loan. However, Seneca Mortgage remained responsible for the servicing of these loans until a proper transfer of servicing rights occurred. HUD requirements state that the servicing of FHA-insured mortgages must be performed by FHA-approved lenders and that the holders must ensure FHA-insured mortgages are serviced by a servicer in accordance with FHA requirements and all applicable laws.

Conclusion

Seneca Mortgage officials generally complied with HUD's Loss Mitigation program requirements for FHA-insured mortgages. However, they did not always ensure that servicing data reported in HUD's systems were accurate and did not always comply with HUD's conveyance requirements. We attributed these deficiencies to errors made by staff responsible for data reporting, failure by officials to ensure that FHA-insured loans were transferred only to FHA-approved servicers, and a lack of oversight by officials during the conveyance process. As a result, HUD did not always have complete and accurate information to effectively monitor Seneca Mortgage's loss mitigation efforts, and HUD paid $19,136 in ineligible holding costs.

Recommendations

We recommend that the Acting Deputy Assistant Secretary for Single Family Housing instruct Seneca Mortgage to

1A. Repay the $19,136 in ineligible holding costs to the FHA insurance fund.

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4 The Neighborhood Watch Early Warning System 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.

5 The Single Family Insurance System is the FHA repository of single-family-insured mortgages and is the system of record for all FHA-insured single-family loans and case records.

1B. Ensure that reimbursement is not requested for holding costs incurred beyond the conveyance deadline related to FHA loan number 281-3493258.

1C. Instruct the investors or holders for FHA loan numbers 501-7067695, 501-6877136, 061-0982338, and 501-5885504 to transfer these loans to FHA-approved servicers.

1D. Implement procedures to ensure that FHA loans are transferred only to FHA-approved servicers regardless of investor input.

1E. Strengthen conveyance procedures to ensure that properties are transferred to HUD within 30 days of securing the property, thereby ensuring that ineligible costs are not paid by HUD on future loans submitted for claim.

1F. Strengthen program controls and procedures to ensure that servicing efforts are accurately reported in HUD systems, thereby complying with HUD's loss mitigation requirements.

We recommend that the Acting Deputy Assistant Secretary for Single Family Housing

1G. Review the part B claim paid for FHA loan number 501-7612832, determine the amount of holding costs paid after the conveyance deadline, and require the relevant servicer to repay the ineligible holding costs to the FHA insurance fund.

Finding 2: Seneca Mortgage Implemented an Effective Quality Control Program for Mortgages It Serviced

Seneca Mortgage implemented an effective quality control program for mortgages it serviced but did not have procedures for reviewing loans included in a subservicing agreement with another lender. We attributed this deficiency to Seneca Mortgage officials' lack of knowledge related to HUD's servicer-subservicer relationship requirements. As a result, they did not adequately oversee 236 FHA-insured loans with a total unpaid principal balance of more than $26 million included in a subservicing agreement with another lender.

Seneca Mortgage Implemented an Effective Quality Control Program for Mortgages It Serviced

Seneca Mortgage implemented an effective quality control program for mortgages it serviced. We reviewed 100 percent of the servicing quality control reviews that Seneca Mortgage performed on its FHA-insured mortgages between July 2014 and May 2016. Seneca Mortgage officials adopted a quality control program that covered the life cycle of an FHA-insured mortgage, including origination, underwriting, closing, endorsement, and servicing functions. The quality control program also provided Seneca Mortgage's management with information sufficient to adequately monitor and oversee its compliance with HUD regulations and measure performance related to Seneca Mortgage's FHA mortgage activity.

Seneca Mortgage Entered Into a Subservicing Agreement

Seneca Mortgage officials stated that management made a business decision to resign as the servicer on its portfolio of FHA-insured loans and notified all of its investors. Seneca Mortgage's FHA-insured loan portfolio included 611 loans as of August 31, 2016, which were to be transferred to other servicers at the direction of the investors. Seneca Mortgage transferred a majority of its loan portfolio to other servicers; however, it entered into a subservicing agreement with another lender for 236 Federal National Mortgage Association investor loans. On June 14, 2016, Seneca Mortgage officials executed a transaction agreement with this lender, which stated that the lender would assume the corporate assets and liabilities of Seneca Mortgage's servicing business. On August 1, 2016, Seneca Mortgage officials executed a subservicing agreement, stating that this lender would subservice 236 FHA-insured loans on behalf of Seneca Mortgage.

Seneca Mortgage Did Not Have Procedures for Overseeing Loans Included in a Subservicing Agreement With Another Lender

Seneca Mortgage implemented an effective quality control program for mortgages that it serviced but did not implement procedures for actions related to FHA-insured loans being subserviced by another lender. While HUD requirements permit servicer-subservicer relationships, the servicing lender is responsible for the actions of its subservicers and must ensure that each of its subservicers follows FHA requirements when performing activities related to the lender's FHA business. We reviewed Seneca Mortgage's internal procedures pertaining to loans it serviced, but Seneca Mortgage officials were unable to provide procedures pertaining to the 236 loans included in the subservicing agreement with another lender. Further, they did not conduct quality control reviews of the loans included in the subservicing agreement. The unpaid principal balance of these 236 FHA-insured loans that Seneca Mortgage officials did not adequately oversee amounted to more than $26 million.[6] We attributed this deficiency to Seneca Mortgage officials' lack of knowledge related to HUD's servicer-subservicer relationship requirements.

Conclusion

Seneca Mortgage implemented an effective quality control program for mortgages it serviced but did not have procedures for reviewing loans included in a subservicing agreement with another lender. We attributed this deficiency to Seneca Mortgage officials' lack of knowledge related to HUD's servicer-subservicer relationship requirements. As a result, they did not adequately oversee 236 FHA-insured loans with a total unpaid principal balance of more than $26 million included in a subservicing agreement with another lender.

Recommendations

We recommend that the Acting Deputy Assistant Secretary for Single Family Housing instruct Seneca Mortgage officials to

2A. Develop and implement program controls and procedures for FHA-insured loans being subserviced by another lender, including procedures for conducting quality control reviews of the subservicer's actions.

[6] The more than $26 million in unpaid principal balance was not considered questioned costs but, rather, was identified to show the potential impact to the FHA insurance fund as a result of the 236 loans in the subservicing agreement that Seneca Mortgage officials did not adequately oversee.

Scope and Methodology

We performed our onsite work at Seneca Mortgage offices located at 611 Jamison Road, Elma, NY, from September to November 2016. The audit scope covered the period October 1, 2014, through September 30, 2016, and was extended as necessary. 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 Federal regulations, HUD handbooks, and mortgagee letters.
- Reviewed applicable Seneca Mortgage policies and procedures relating to its servicing, collections, and quality control programs.
- Reviewed Seneca Mortgage's servicing and claim files, collection notes, and quality control reviews.
- Reviewed and compared data maintained in Seneca Mortgage systems to data reported in HUD systems.
- Interviewed HUD and Seneca Mortgage officials.

As of August 7, 2016, Seneca Mortgage had a total of 168 loans listed as seriously delinquent and 94 claim loans listed in the Neighborhood Watch system. The unpaid principal balance on the 168 seriously delinquent loans was more than $23 million. The unpaid principal balance on the 94 loans that went to claim was more than $14 million. We selected a representative nonstatistical sample of a total of 13 loan files using Audit Command Language (ACL).[7] Specifically, we used the random number generator in ACL to select the 13 loans. Eight loans were from the seriously delinquent universe, and five loans were from the claim loan universe. The total unpaid principal balance on the 13 loans selected was more than $1.1 million. The sample could not be projected to the population.

The total number of loans serviced by Seneca Mortgage was 611 as of August 31, 2016. For the 236 included in the subservicing agreement with another lender, we performed a 100 percent match of these FHA-insured loans to ensure that the information in HUD systems was recorded accurately. We matched these loans from Seneca Mortgages' system to the Single Family Data Warehouse[8] in HUD's system.

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[7] 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 fraud in a computerized environment. ACL is an efficient tool to analyze sizable electronic data to detect exceptions and is used to view, sample, explore, and analyze data efficiently and cost effectively.

[8] Single Family Data Warehouse is an internal HUD database that contains information regarding FHA-insured borrowers, such as names, addresses, Social Security numbers, and other personal financial data.

We reviewed 100 percent of the servicing quality control reviews that Seneca Mortgage performed on its FHA-insured mortgages between July 2014 and May 2016. The reviews consisted of the quarterly FHA servicing reports and the monthly FHA servicing delinquent quality control reviews, including management’s response to those reports.

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.

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 objective:

- 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.
- Laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

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.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Seneca Mortgage's internal controls.

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/
1A	$19,136
Total	**19,136**

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.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

seneca MORTGAGE

February 2, 2017

U.S Department of Housing and Urban Development
Office of Inspector General
Karen A. Campbell-Lawrence
Acting Regional Inspector General for Audit
26 Federal Plaza - Room 3430
New York, NY 10278

Dear Ms. Campbell-Lawrence:

This letter is in response to the HUD OIG Draft Audit Report on Seneca Mortgage Servicing LLC. ("Seneca") HUD Loss Mitigation Program, dated January 6, 2017.

Your draft report found that "Seneca generally complied with HUD's Loss Mitigation program requirements for servicing its portfolio of FHA-insured loans."

Comment 1

Prior to addressing the specific recommendations put forth in said draft report, please take note and be reminded that on June 15, 2016 Seneca announced that it selected Nationstar Mortgage Holdings ("Nationstar") as the subservicer for its existing servicing rights portfolio, and that as a part of the transaction Nationstar would acquire Seneca's existing servicing platform. Seneca presently owns and will continue to own and acquire mortgage servicing rights. However, Seneca does not and will no longer be servicing mortgage loans. All servicing rights owned by Seneca are now subserviced by independent subservicers, most specifically, Nationstar. Enclosed for your reference is a copy of the press release. Please note that that Seneca and Nationstar previously apprised HUD of this change in business operations.

Also, take note that Seneca, as of December 31, 2016, maintains servicing rights to 230 FHA insured loans via Fannie Mae securitizations. All such loans are now being serviced by Nationstar, a HUD approved servicer and originator.

The HUD OIG Loss Mitigation Audit began as of September 8, 2016 (population review period October 1, 2014 - September 30, 2016) during the midst of Seneca's business model transition, as well as during the formal servicing transfer of our FNMA and FHLMC portfolios to Nationstar.

Beyond the foregoing, Seneca has reviewed the findings and recommendations identified within the HUD OIG draft report. In response, we re-emphasize the above information as it relates to the status of both current and future loan servicing, which ultimately impacts a multitude of your respective recommendations. We in turn are providing additional information for your review and consideration. In turn, Seneca formally requests that HUD OIG fully review this information and further adjust and/or eliminate many of the conclusions and recommendations prior to issuing your final report.

Seneca Mortgage Servicing LLC
611 Jamison Rd. · Elma, NY 14059-9566

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	**Auditee Comments**

![seneca MORTGAGE]

Finding 1: Seneca Mortgage generally complied with HUD's Loss Mitigation Requirements for FHA-Insured Mortgages

1A: Repay $21,922 in ineligible holding costs to the FHA insurance fund.

Comment 2

After performing loan level, FHA guideline and HUD Claims Audit reviews, Seneca believes this finding to be inaccurate. Associated interest curtailments, as applicable to each given case were enacted by HUD via the 27011A and B settlement process as appropriate (see supporting HUD Advise of Payment forms). Fees and costs - such as Real Estate Taxes, Forced Placed Hazard Insurance and Property Preservation - incurred by Seneca to properly service each loan and preserve each respective property per FHA guidelines were necessary to protect and maintain each FHA mortgage loan and ensure that all were conveyed to HUD in required marketable condition. In both cited cases, HUD Management and Marketing Contractors approved certain property preservation costs. Additional costs associated with each loan pertain to other required property preservation actions, inclusive of monthly inspections, securing/lock-changes, lawn cuts, applicable utilities, real estate taxes and monthly forced-placed insurance (24CFR 203.402 A., C. – ML 2016.03), all necessary to properly preserve and protect the respective property.

Comment 2

FHA 581-4595865 SENECA 5041094 $9282 HUD OIG Finding

Additional time was required in order to convey the property to HUD in marketable condition. The property required excessive property preservation actions – i.e., 45 yards of interior debris removal, sump-pump installation, tree removal, mold abatement et al. HUD's M&M contractor approved $5389.05 (see attached) of the $6729.05 Property Preservation costs cited by the auditors – whereas the remainder stems from securing, winterization, property inspections and lawn cuts etc.

Foreclosure Sale	02/17/15
Confirmation of Sale	03/26/15
First Time Vacant	05/18/15
M&M Approved Prop Pres Overallowables:	$5389.05

Comments 2 and 3

FHA 521-7245032 SENECA 7000173 $9925 HUD OIG Finding

Additional time was required to convey the property to HUD in marketable condition. The property required additional property preservation actions – i.e., interior and exterior health hazard removal, graffiti removal, capping of sewer lines et al. HUD's M&M contractor approved $463 (see attached) of the $1633.75 Property Preservation costs cited by the auditors – whereas the remainder stems from securing, winterization, property inspections and lawn cuts etc.

Seneca Mortgage Servicing LLC
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Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

seneca MORTGAGE

Foreclosure Sale	06/26/12
Confirmation of Sale	07/03/12
First Time Vacant	01/03/11
M&M Approved Prop Pres Overallowables:	$463.00

FHA 281-3493258 SENECA 5130362 $2715 HUD OIG Finding

Comment 4

Seneca's review of the case and related Claim payments from HUD revealed that the 27011B was not paid by HUD to Seneca. The claim was filed on 08/08/16, however, the payment – per FHA Connections, was not perfected – due in part to the loan transfer to Nationstar. This was communicated to OIG Agent [redacted], who in turn advised the Audit findings would be revised to reflect such as well as negate the amount from the proposed ineligible holding costs estimate. Please see the enclosed support documentation which reflects such.

As such, we request that HUD OIG please re-review the draft findings and revamp its recommendation for payment regarding these three referenced cases.

Comment 5

In furtherance to HUD OIG Finding #1, while Seneca maintains a contractual Subservicing relationship with Nationstar - which requires servicing of all loans per specific investor guidelines inclusive of standard operational policies/procedures and Quality Control and Testing programs – we also maintain our own independent Subservicing Oversight Management (SOM) Program that includes key loan level servicing Quality Control reviews and testing.

FHA loans require monthly testing of Collection, Loss Mitigation, Foreclosure and Claims actions combined with quarterly reviews of other loan servicing areas/actions. Seneca has partnered with Phoenix Collateral Advisors to perform the majority of our Quality Control program monitoring and testing. More information on this matter is enclosed within and further referenced below.

<u>Finding 2: Seneca Mortgage Implemented an Effective Quality Control Program for Mortgages It Services</u>

Comment 5

Seneca disagrees with this finding, specifically the applied verbiage and believes such to be highly inaccurate. The reference to Seneca's "lack of knowledge related to HUD's servicer-subservicer relationship requirements" is incorrect. As communicated above, Seneca entered into a Subservicing Agreement with Nationstar. In preparation for such, Seneca management was well prepared and versed on the necessary subservicing requirements related to all applicable Investors. Thus, Seneca now employs an even stronger "two-pronged" loan servicing oversight and quality control program, one that includes both Nationstar's and Seneca's quality control processes/ procedures and over-arching programs.

Seneca Mortgage Servicing LLC
611 Jamison Rd. · Elma, NY 14059-9566

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments
Comment 5	

seneca MORTGAGE

Kindly see the enclosed Seneca Oversight Management Quality Control Program overview (proprietary and confidential), which places the program and its design into clear perspective. This program, as communicated to OIG Auditors, was in the process of being implemented at the time of their review and in motion prior to our entering into a subservicing agreement with Nationstar. The program is both vital and necessary to ensure quality loan servicing as well as full compliance with Investor/Agency guidelines and Federal/State requirements. As such, Seneca hereby requests that this finding be fully amended or stricken altogether.

Please note that Seneca takes this matter and the report very seriously. Seneca is committed to compliance with all Investor Guidelines and requirements to ensure satisfactory servicing and that all borrowers are treated fairly and with respect. Please contact me should you have any questions or need additional information.

Sincerely,

Geoffrey White
Senior Vice President
Seneca Mortgage Servicing LLC
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cc: E. Lindblom - SMS

Seneca Mortgage Servicing LLC
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OIG Evaluation of Auditee Comments

Comment 1 Seneca Mortgage provided information about its changing business model. We included this information in the background section of the report, along with details on the subservicing agreement with another lender. However, at the time of our review, Seneca Mortgage did not have procedures for overseeing loans included in this subservicing agreement, contrary to HUD requirements.

Comment 2 Seneca Mortgage disagreed with the ineligible holding costs identified in finding 1 and stated that the fees and costs incurred were necessary to protect and maintain each respective property per FHA guidelines and to ensure that the properties were conveyed to HUD in required marketable condition. It further stated that HUD's Management and Marketing contractor approved a portion of the property preservation costs in question. However, our review is independent of any analysis that may have been performed by the Management and Marketing contractor. HUD regulations state that HUD will pay for reasonable payments made by the lender for the purpose of protecting, operating, or preserving the property prior to the time of conveyance as long as servicers obtain good and marketable title and transfer the property to HUD with 30 days of securing the property. Therefore, because Seneca Mortgage did not convey the properties to HUD within the required conveyance timeframe, these costs were ineligible.

Comment 3 As a result of our final reporting review procedures, we adjusted the total ineligible cost associated with this loan from the $9,925 cited in the draft report down to $9,854. This was due to a calculation error identified after the release of the discussion draft report to Seneca Mortgage officials.

Comment 4 Seneca Mortgage stated that the part B claim related to FHA loan number 281-3493258 was not paid by HUD. We agree that the part B claim was not paid and adjusted the $2,715 in ineligible costs cited in the draft down to $0. However, because Seneca Mortgage did not convey the property to HUD by the deadline, it should ensure that reimbursement is not requested for holding costs incurred beyond the conveyance deadline.

Comment 5 Seneca Mortgage stated that it has partnered with a company to perform the majority of its quality control program monitoring and testing. Seneca Mortgage also disagreed that its officials lacked knowledge related to HUD's servicer-subservicer relationship requirements and stated that it now employs a two-pronged loan servicing oversight and qualify control program. However, at the time of our review, Seneca Mortgage did not provide any information or documentation for monitoring loans included in the subservicing agreement, and it did not have procedures for overseeing loans included in a subservicing agreement with another lender, including procedures to conduct quality control reviews of the loans included in the subservicing agreement. On the fourth page of its comments, Seneca Mortgage acknowledged that its quality control program was in the process of being implemented at the time of our review. Therefore, as part of the audit resolution process, HUD will need to determine whether the documentation that Seneca Mortgage provided showed that it had developed and implemented program controls and procedures for FHA-insured loans being subserviced by another lender, including procedures for conducting quality control reviews of the subservicer's actions.