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Office of Inspector General
Southeast Region

Audit Report

Single-Family Housing Program In South Carolina

Report No. 04099-340-AT
August 2005



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August 31, 2005

TO: Tee Miller
State Director
Rural Development – South Carolina

FROM: Raymond G. Poland /S/
Regional Inspector General

SUBJECT: Single-Family Housing Program in South Carolina (Audit No. 04099-340-At)

This report presents the results of the subject audit. Your responses, dated August 11, 2005, and August 29, 2005, to the draft report are included as exhibit D, with excerpts and the Office of Inspector General's position incorporated into the relevant Findings and Recommendations section of the report. Based on your responses, we have accepted management decision on all recommendations in the report.

Follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer. Final action on the management decisions should be completed within 1 year of the date of this report to preclude being listed in the Department's Performance and Accountability Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during the audit.

Executive Summary

Single-Family Housing Program In South Carolina (Audit Report No. 04099-340-AT)

Results in Brief

South Carolina's Single-Family Housing (SFH) Section 502 loan program has historically high delinquency rates for its direct and guaranteed loans. However, the State improved its first-year loan delinquency rate by 76 percent from September 1999 to September 2004. Even though the State's first-year loan delinquency rate has dramatically improved, South Carolina continued to have the third highest overall direct loan delinquency rate and the second highest guaranteed loan delinquency rate in the nation.

We examined South Carolina's internal controls over loan delinquency servicing to determine whether they are sufficient to limit the number of delinquencies. We also analyzed the program's loan origination, closing, and servicing processes to determine why South Carolina has historically had one of the highest delinquency rates in the nation. We visited the Rural Development (RD) State Office; four area/field offices; the U.S. Attorney's Office in South Carolina; RD's Centralized Servicing Center in St. Louis, Missouri; the RD State Office in Florida; and the Office of the General Counsel's (OGC) Regional Office in Atlanta, Georgia.

Our audit found that South Carolina's SFH Section 502 loan program lacked sufficient management controls in its loan origination process to limit the number of loan delinquencies. South Carolina RD officials did not always follow existing program policies and procedures or issue supplemental State procedures to address program weaknesses identified in prior internal reviews. As a result, South Carolina's RD loan originators approved loans to borrowers who did not meet eligibility requirements and lacked adequate repayment ability, resulting in a higher number of delinquencies. Some of these improper loan approvals also led to lengthy foreclosure proceedings and bankruptcy filings, which contributed to South Carolina's high delinquency rates.

South Carolina's loan originators did not always calculate annual income correctly and consistently, which led to improper annual income and eligibility determinations for Section 502 loans. SFH program regulations do not provide consistent calculation methods or a standard method for calculating an applicant's income or variable incomes, such as tips, commissions, and bonuses. Loan originators did not use information from employment verifications or obtain these verifications to assist in income calculations. In addition, loan originators did not seek necessary approval or file the appropriate waiver when one borrower's Principal, Interest, Taxes, and Insurance ratio exceeded the maximum allowable limit. Improper income calculations resulted in borrowers being placed in incorrect income categories and not meeting loan eligibility requirements. Furthermore, borrowers lacked

repayment ability, which led to 3 foreclosures, 2 bankruptcies, and 7 delinquent accounts out of the 48 loans tested. The original amount of these 12 loans totaled \$751,150.

South Carolina's loan originators improperly waived borrowers' adverse credit histories that showed indicators of unacceptable credit. We found indicators of unacceptable credit where the loan files did not contain adequate support or justification for waiving borrowers' adverse credit histories. In addition, South Carolina's SFH officials did not always follow existing regulations to document adverse credit history waivers and did not obtain credit reports for all borrowers. As a result, borrowers with adverse credit histories improperly obtained loans and loans were underwritten to borrowers with insufficient repayment ability. Of the 10 loans in our sample with unacceptable credit and lack of credit documentation, 4 are delinquent, 3 are in foreclosure, and 3 are in bankruptcy proceedings. The original amount of these loans totaled \$565,711.

South Carolina's RD State Office did not adhere to its regulations in servicing foreclosure accounts, which caused these loans to be processed in an untimely manner. Furthermore, the State office has not updated its State Servicing Plan in 5 years, which resulted in an ineffective plan to use for servicing delinquent loans. South Carolina State officials did not adequately monitor their foreclosure template (a servicing tool used to monitor the status of foreclosure accounts), nor did they notify OGC and the U.S. Attorney's Office about foreclosure delays to ensure their adherence to the established timeframes for processing foreclosures. These factors contributed to a higher number of delinquent accounts and longer periods of delinquency, which caused South Carolina's overall direct loan delinquency rate to remain high.

South Carolina's RD State Office did not adequately pursue the use of private attorneys to process foreclosures and manage their large number of delinquencies. Currently, South Carolina utilizes its U.S. Attorney's Office for processing foreclosures, since it is a judicial State. Regional OGC attorneys stated private attorneys would speed up the foreclosure process and allow South Carolina to seek deficiency judgments. Florida's RD State Office, which also follows the judicial process for foreclosures, uses private attorneys to foreclose on its Section 502 loans. Florida has realized a cost savings, now obtains deficiency judgments, and has a more timely foreclosure process as a result of utilizing private attorneys.

Recommendations in Brief

We recommend the South Carolina RD State Office:

- (1) establish and implement controls over determining income eligibility, including issuing procedures for ensuring loan originators properly calculate annual income. These statewide procedures should require loan originators to document the method used to calculate an applicant's annual income and provide an explanation for using that method. Also, State officials should conduct statewide reviews to ensure loan originators are properly calculating and documenting their methods of computing annual income;
- (2) establish and implement controls to ensure that loan originators properly justify waivers of adverse credit history and provide adequate documentation to support loan approval decisions. Additional guidance is needed that specifically requires documenting justifications for adverse credit history waivers. State officials should conduct further reviews to ensure all waivers of adverse credit history are completed and contain proper justification for waiving adverse credit history;
- (3) ensure direct and guaranteed loan specialists obtain and use all required documentation to make loan eligibility and approval determinations;
- (4) update the State Servicing Plan on an annual basis to incorporate previously issued administrative and procedural notices related to foreclosure processing and servicing. State officials should ensure the State Servicing Plan includes policies and procedures for monitoring foreclosure accounts by contacting OGC and U.S. attorney officials;
- (5) monitor the foreclosure template for accounts submitted to the U.S. Attorney's Office and timely notify OGC and U.S. Attorney's Office officials about foreclosure delays to ensure established timeframes are met during the foreclosure process. SFH officials should ensure employees document in the loan files when they contact OGC and/or the U.S. Attorney's Office, and include reasons why established foreclosure timeframes are not being met. State officials should also ensure this documentation is kept in a centralized location that is easily accessible; and
- (6) consult with appropriate OGC and U.S. attorney officials and implement the use of private attorneys in processing foreclosure cases and seeking deficiency judgments, if justified by a cost-benefit analysis.

Agency Response In its August 11, 2005, and August 29, 2005, written responses to the draft report, RD State Office officials generally agreed with the recommendations in the report. RD had initiated corrective action on all recommendations in the report. The South Carolina RD State Office responses to the draft report are included as exhibit D of the audit report.

OIG Position We concurred with RD's proposed corrective action and have reached management decision on all of the report's recommendations.

Table of Contents

Executive Summary	i
Background and Objectives	1
Findings and Recommendations	4
Finding 1 Inadequate Management Controls for Loan Origination Process	4
Recommendation 1	10
Recommendation 2	11
Recommendation 3	11
Recommendation 4	12
Recommendation 5	13
Finding 2 Monitoring of Foreclosure Template and Pursuit of Private Attorneys Needed to Ensure Timely Foreclosure Processing	14
Recommendation 6	19
Recommendation 7	20
Recommendation 8	21
General Comments	23
Scope and Methodology	24
Exhibit A – Summary of Monetary Results	27
Exhibit B – Loans Tested and Related Discrepancies	28
Exhibit C – Foreclosure Processing Timeframes for OGC and U.S. Attorney	29
Exhibit D – Agency Response	30

Background and Objectives

Background

The U.S. Department of Agriculture's Rural Development (RD) is committed to increasing economic opportunity and improving the quality of life for people in rural America. The goal of the Rural Housing Service (RHS) is to ensure rural Americans have safe, well-built, affordable homes. RHS' programs help finance new or improved housing for over 65,000 rural families who have moderate, low, and very low incomes and are unable to obtain adequate housing through conventional financing. RHS' loan portfolio consists of over 400,000 loans with an outstanding principal balance of \$15.1 billion.

RHS' Single-Family Housing (SFH) Section 502 program has two major homeownership loans: direct and guaranteed. Section 502 loans enable moderate, low, and very low income households to purchase, build, repair, renovate, or relocate houses. Eligible applicants must meet income requirements, lack adequate housing, be able to afford the mortgage payments, taxes and insurance, be unable to obtain credit elsewhere, and have a reasonable credit history. RHS' funding priorities have recently shifted from a focus on making direct loans to a greater emphasis on guaranteed loans. Guaranteed loans are made by private lenders, but if a borrower defaults, RD will guarantee repayment up to 90 percent of the original loan value.

RHS' National Office sets policy and develops regulations for the SFH program along with performing program oversight. RD State Offices administer SFH programs within a State or multistate area and provide guidance to and perform reviews of area and local field offices. RD area offices provide administrative supervision for local field offices, and process and service loan applications. Local field offices originate and close loans and often serve multiple counties by receiving and processing loan applications and providing counsel to single-family borrowers. Once loans are closed and the final disbursement has been made, they are serviced through the Centralized Servicing Center (CSC) in St. Louis, Missouri. CSC may ask for assistance from field staff when a local presence is needed to facilitate a servicing action. In addition, the field staff has an obligation to report to CSC information that comes to their attention indicating changes in borrower circumstances.

The regulations for SFH's Section 502 loan program are set out in Title 7, part 3550 of the *Code of Federal Regulations* and are supplemented by two handbooks (Handbook-1-3550 entitled, "Dedicated Loan Origination and Servicing System (DLOS) Field Office Handbook," and Handbook-2-3550 entitled, "DLOS Centralized Service Center") that provide procedural

guidance to RD and CSC employees. RD Instruction 1980-D provides regulations pertaining to Section 502 guaranteed loans.

From 1998 to 2004, South Carolina's Section 502 direct loans ranked among the top seven States with the highest delinquency rates, while guaranteed loans had the highest or second highest delinquency rate since 2002. Since 1998, South Carolina has decreased the total number of direct delinquent accounts by 56.9 percent (5,955 to 2,565 delinquencies) and the overall delinquency rate by 23.2 percent (22.9 to 17.6 percent). Even with these improvements, South Carolina's direct loan delinquency rate still ranks among one of the highest nationally, as they did not keep pace with the national average reduction. South Carolina's guaranteed delinquency rate has continued to increase since 2002, ranking as one of the highest nationally. Although South Carolina has high direct and guaranteed loan delinquency rates, the State's new loan delinquency rate (first-year borrowers) for direct loans has improved 76 percent since September 1999 (8.33 to 2.02 percent in September 2004). While South Carolina has improved its new loan delinquency rate for direct loans, the State currently has the third highest direct delinquency rate and the second highest guaranteed delinquency rate in the nation.

We analyzed and compared statistical data for South Carolina's and other States' delinquency trends and found commonalities including the numbers of foreclosures and bankruptcies, percentages of new loans in delinquency, unemployment rates, and per capita incomes. States that ranked high in these categories tended to have some of the highest delinquency rates. In addition, all southeastern States ranked among the top 20 States with the highest delinquency rates. Since 2001, South Carolina has ranked tenth or higher in number of loans in foreclosure and bankruptcy, all foreclosure-aging categories, and percentage of delinquent accounts in foreclosure. Over the last few years, South Carolina has also ranked among the top 10 States with the highest unemployment rate and lowest per capita income.

RD officials and representatives from the U.S. Attorney's Office in South Carolina expressed their concerns about the State's historically high delinquency rates. Their concerns included:

- South Carolina's economic climate (low income and high employment);
- vague regulations and the need for more stringent policies;
- lengthy foreclosure process;
- RD's prior focus on loan volume rather than loan quality;
- number of foreclosure referrals to the U.S. Attorney's Office; and

- borrowers filing for bankruptcy to avoid foreclosure sales and the large number of repeat filers.

Objectives

The objectives of this review were (1) to examine South Carolina's SFH Section 502 loan program and analyze its controls and policies over loan delinquency actions to determine whether they are sufficient to limit the number of delinquencies and (2) to analyze the loan origination, closing, and servicing processes to determine why South Carolina has historically had one of the highest delinquency rates in the nation.

Findings and Recommendations

Finding 1

Inadequate Management Controls for Loan Origination Process

South Carolina's SFH Section 502 loan program lacked sufficient internal controls in its loan origination process to limit the number of loan delinquencies. South Carolina RD officials did not always follow existing regulations for calculating income or waiving adverse credit histories, or issue supplemental State guidance to address program weaknesses identified in prior internal reviews. As a result, South Carolina loan originators approved loans to borrowers who did not meet eligibility requirements and lacked adequate repayment ability, contributing to a higher number of delinquencies. Some of these improper loan approvals also led to lengthy foreclosure proceedings and bankruptcy filings, which contributed to South Carolina's high delinquency rates. Although South Carolina has improved its overall direct and guaranteed delinquency rates and first-year delinquencies, further improvements for the loan origination process are needed to reduce the State's delinquency rate.

Prior State internal reviews revealed weaknesses with South Carolina's loan origination process for both direct and guaranteed Section 502 loans. However, South Carolina SFH officials did not always issue or ensure adherence to State supplemental regulations related to the weaknesses noted and recommendations made in prior reviews. Our review found similar inadequacies in the loan origination process that included improper income calculations, lack of adequate justification for waiving adverse credit histories, and insufficient documentation to support loan approvals.

RD Handbooks 1-3550 and 2-3550 provide policies and procedures for originating, closing, and servicing direct loans. RD Instruction 1980-D outlines the guaranteed loan program's regulations for originating, closing, and servicing requirements. Also, South Carolina's State Office may issue supplemental State regulations to provide additional guidelines and procedures not outlined in the program's handbooks.

We used judgmental and systematic random sampling techniques to select 48 of South Carolina's 3,517 delinquent Section 502 loans (see the Scope and Methodology section of this report). Of the 48 loans, 35 were direct loans and 13 were guaranteed loans. During testing, we found discrepancies with 11 direct loans (31 percent) and 6 guaranteed loans (46 percent), (see exhibit B).

Program Weaknesses in Prior Internal Reviews Not Adequately Addressed

Recent South Carolina State internal reviews found loan origination weaknesses at various area/field offices. In December 2001, South Carolina's internal review team found the Aiken Area Office did not always use the required Credit History Worksheet (RD Form 1944-61) to evaluate credit histories, did not properly calculate annual and repayment income, and did not provide adequate documentation to support income calculations. A subsequent review in June 2002 found Aiken's staff corrected past deficiencies and did not note any significant weaknesses. However, in August 2004, another State review of Aiken's loans found rental history was not properly verified for five of six loans (83 percent); waivers of adverse credit history were not properly documented for two of five loans (40 percent) reviewed; and 3 of 12 loans (25 percent) did not have proper annual/repayment income calculations.

An August 2002 State review of the Newberry Field Office found two of nine loans (22 percent) did not use the Credit History Worksheet to evaluate credit reports and annual/repayment income calculations were not properly documented for two of ten loans (20 percent) reviewed.

In November 2003, South Carolina's internal review team found the Williamsburg Field Office's application processing was not consistent and in accordance with SFH regulations. Specifically, reviewers found the Credit History Worksheet was not used to evaluate credit histories for one of six loans (17 percent) reviewed; one of six (17 percent) applicants' rental history was not properly verified; waivers of adverse credit history were not properly documented for one of six loans (17 percent) reviewed; and annual/repayment income calculations were not calculated properly for 2 of 13 loans (15 percent) reviewed.

South Carolina's internal review team discussed these findings and made recommendations during exit conferences with the specific area/field offices and discussed loan origination issues during statewide training in February 2005. However, South Carolina's State officials did not issue written statewide guidance or policies to all area/field offices based on the findings. Therefore, South Carolina's State Office did not sufficiently address statewide weaknesses within the SFH program's loan origination process. Furthermore, our testing results identified the same weaknesses as the State internal reviews and found that South Carolina's SFH program's internal controls over the loan origination process continued to need improvement to limit the number of delinquencies.

Inconsistent/Improper Annual Income Determinations and Principal, Interest, Taxes, and Insurance (PITI) Ratio Exceeded Allowable Limit

South Carolina's loan originators did not always calculate annual income correctly and consistently, which led to improper annual income and eligibility determinations for Section 502 loans. SFH program regulations do not provide a standard method for calculating an applicant's income or variable types of income, such as tips, commissions, and bonuses. In addition, loan originators did not correctly use information from employment verifications to calculate annual income or obtain these verifications to assist in computing annual income. Improper income calculations resulted in borrowers being placed in improper income categories and not meeting loan eligibility requirements. Furthermore, borrowers lacked repayment ability, which led to 3 foreclosures, 2 bankruptcies, and 7 delinquent accounts out of the 48 loans tested (see exhibit B).

Handbook 1-3550 and RD Instruction 1980-D require direct and guaranteed loan originators to obtain written documentation¹, such as VOEs, from third parties to verify applicants' income. Loan originators must verify and document all information used to establish an applicant's eligibility and calculate the amount of the loan.

Direct and guaranteed loan originators must determine an applicant's repayment ability by calculating an applicant's debt ratio and PITI ratio. The maximum total debt ratio for direct and guaranteed loan applicants is 41 percent of income. For direct loans, very low income applicants are allowed to have a maximum PITI ratio of 29 percent of income, while all other direct loan applicants' PITI ratios may not exceed 33 percent of income. Guaranteed program regulations mandate that an applicant's ratio of proposed PITI should not exceed 29 percent of income. If these ratios exceed the allowable limits, guaranteed lenders may request SFH's concurrence to allow for a higher ratio.

Our review found South Carolina's SFH program lacked sufficient internal controls to provide consistent methods for calculating applicants' annual income. Seven direct loans (20 percent) and four guaranteed loans (31 percent) in our sample had improper income calculations or lacked adequate documentation to verify the loan originators' annual income determinations. Also, guaranteed loan originators did not seek necessary approval or file the appropriate waiver when one borrower's PITI ratio exceeded the maximum allowable limit. The original amount of these 12 loans totaled \$751,150 (see exhibits A and B). Examples include:

- Loan originators used random methods to calculate income for seven direct borrowers and four guaranteed borrowers, sometimes establishing

¹ Oral verifications of employment (VOE) may be accepted; however, they must be documented carefully.

average monthly income rates, averaging all historical wages, or using the current year's wages to predict a full year's income. This contributed to seven delinquent loans, three foreclosures, and one bankruptcy proceeding (see exhibit B).

- Loan originators did not use data provided on five direct and guaranteed borrowers' VOEs to compute annual income. In one instance, financial figures provided on a borrower's VOE were not used; instead, income figures from the borrower's budget were used as annual income. Loan originators overstated annual income for three borrowers by using 40 hours per week to calculate income, instead of the applicant's verified weekly hours. Income for one borrower was computed using the incorrect hourly wage. As a result, SFH originators calculated income too high, which understated the applicant's PITI and debt ratios and affected repayment ability. Of these borrowers, three are delinquent, one is in foreclosure, and one has filed bankruptcy (see exhibit B).
- Loan originators calculated one borrower's annual income \$10 below the area's low income limit. Our income computations placed the borrower well above the area's low income limit. Loan originators understated this borrower's annual income, placing the borrower in the area's low income category when he belonged in the moderate income category. Moderate income applicants are not eligible for Section 502 loans unless funding is available. This direct loan is now delinquent.
- Guaranteed loan officials approved a guaranteed loan for one borrower, whose PITI ratio exceeded the maximum allowable ratio of 29 percent. SFH officials did not file a PITI ratio waiver, seek necessary approval, or require the lender to provide an explanation for waiving the borrower's PITI ratio. Guaranteed loan specialists explained in our followup that since the PITI ratio was 29.9 percent (not a whole percentage point over 29 percent), they did not file a PITI ratio waiver or seek the necessary approval. Furthermore, this borrower has filed bankruptcy (see exhibit B).

We conducted followup on these issues and other discrepancies after our initial file review and analysis. Loan originators stated they typically compute annual income by multiplying the applicant's hourly rate by the number of weekly hours by 52 weeks to obtain a yearly income figure. However, the loan files did not support a consistent use of this formula. SFH staff could not provide adequate support for some of the annual income determinations or explain why information on borrowers' VOEs was not used in annual income calculations. They also stated SFH regulations do not provide specific methods for determining variable types of annual income.

Improper Waiving of Adverse Credit History and Inadequate Documentation in Loan Files

South Carolina's SFH loan originators improperly waived borrowers' adverse credit histories that showed indicators of unacceptable credit. We found indicators of unacceptable credit where the loan files did not contain adequate support or justification for waiving borrowers' adverse credit histories. SFH program regulations do not provide specific guidelines for making exceptions when an applicant has an adverse credit history. Adverse credit histories can be waived if they are determined to be beyond the applicant's control and are temporary in nature. However, loan originators made numerous exceptions due to lack of specific guidelines. In addition, South Carolina's SFH officials did not always follow existing regulations to document adverse credit history waivers. As a result, borrowers with adverse credit histories improperly obtained loans and loans were underwritten to borrowers with insufficient repayment ability. Of the 10 loans in our sample with unacceptable credit, 4 are delinquent, 3 are in foreclosure, and 3 are in bankruptcy proceedings (see exhibit B).

Handbook 1-3550 requires loan originators to evaluate the credit history for each applicant who will be a party to the note. Direct loan originators must use the Credit History Worksheet (RD Form 1944-61) to summarize an applicant's credit history and determine whether there are any indicators of unacceptable credit, except for applicants (1) with no outstanding judgments obtained by the United States in a Federal court and (2) having a credit score of 660 or higher. Loan approval officials can make exceptions to indicators of unacceptable credit by documenting the applicant's circumstances and requesting approval when the loan will reduce an applicant's shelter costs, credit problems are a result of a temporary situation, or the loan will benefit the Government. RD Instruction 1980-D requires applicants to have credit histories that indicate a reasonable ability and willingness to meet obligations as they become due.

Our review found discrepancies with South Carolina's SFH loan originators' handling of borrowers with adverse credit histories. Three direct borrowers (9 percent) and five guaranteed borrowers (39 percent) in our sample had adverse credit histories that were improperly waived or lacked appropriate documentation to support the loan originators' approval decisions. In addition, South Carolina's SFH loan originators did not obtain credit reports for two direct borrowers (6 percent). The original amount of these 10 borrowers' loans totaled \$565,711 (see exhibits A and B). Examples include:

- SFH officials did not sufficiently document reasons for waiving adverse credit history for eight direct and guaranteed borrowers. While some applicants provided letters explaining their adverse credit history, loan

approval officials did not adequately document their analysis for waiving adverse credit histories or describe how the situation was beyond the borrower's control and temporary in nature. This contributed to four delinquencies, two foreclosures, and two bankruptcies.

- Guaranteed loan officials inappropriately waived a guaranteed borrower's adverse credit history, even though the borrower was late 19 times on a previous mortgage, late two or more times on a revolving charge account within 12 months before receiving the loan, and paid a collection account in full (\$1,700) at the loan closing. The adverse credit history waiver did not document why SFH originators guaranteed the loan or how the adverse credit history was beyond the applicant's control or temporary in nature, which contributed to the borrower's delinquency.
- SFH officials inappropriately approved a borrower who had a history of late rent payments, which is a main indicator of repayment ability. SFH loan officials agreed with us that this borrower was not eligible for a Section 502 direct loan. This borrower is now delinquent on her loan.
- SFH loan originators did not obtain credit reports for two direct borrowers. Loan officials were not able to evaluate these borrowers' credit histories or fully determine the borrowers' loan eligibility because they did not acquire necessary documentation. Furthermore, one borrower is in foreclosure, while the other has filed bankruptcy.

Overall, South Carolina's SFH program continued to have inadequate internal controls for its loan origination process. Lack of supplemental guidance for calculating annual income, improper waiving of adverse credit histories, and inadequate documentation of loan approval decisions contributed to South Carolina's high direct and guaranteed loan delinquency rates. In addition, South Carolina RD officials did not always follow existing regulations for calculating income and waiving adverse credit. South Carolina officials questioned our results since our sample of direct and guaranteed loans had origination dates from 1981 to 2003. We found loans that were originated from 1997 to 2003 had similar error rates for annual income calculations and adverse credit issues as the older loans tested. In addition, these same issues were identified in recent State internal reviews. Therefore, we concluded South Carolina's internal controls for the SFH program's loan origination process are not sufficient to limit the number of delinquencies.

Recommendation 1

Establish and implement controls over determining income eligibility, including issuing procedures for ensuring loan originators properly calculate annual income. These statewide policies should require loan originators to document the method used to calculate an applicant's annual income and provide an explanation for the methods used for income calculations.

Agency Response. In its August 11, 2005, response, South Carolina RD State Office officials stated:

*A State Administrative Notice (AN) will be written to require South Carolina loan officials to use a standard Income Calculation Worksheet developed by State office officials (see draft AN, Attachment 4 & Attachment 5). The use of this newly developed income calculation worksheet will aid in clearly documenting household and repayment incomes. Loan originators and approval officials will be instructed to note from where the income is derived (i.e., VOE for applicant # 1 and the date of income verification), as well as the method used to calculate an applicant's income and why that method was chosen. It will be required that the income calculation worksheet, income verifications and other documentation related to income be filed as a grouping in position 3 of the case file to assist in the review of income by reviewers and auditors. The [South Carolina] *** AN will also inform loan officials that any changes or updates to income occurring throughout the application process be properly verified and documented. All income changes shall also be entered in the Unifi system. TARGET DATE: By October 1, 2005.*

*A State training manual for loan originators and specialists will also be developed and used as a guide to reviewing income calculations. This training guide will be created for use during the next statewide [SFH] *** training session. Several (minimum of four) case studies will be created to demonstrate a variety of income situations; i.e., bonuses, overtime, year-to-date income greater than or less than an applicant's hourly wage X # of hours X # of wks, etc. The case-study answer guides will provide examples of how to properly document the income calculations, as well as an explanation as to why the loan official has chosen a particular income calculation method. TARGET DATE: January 2006.*

*The [South Carolina] *** AN and the training guide will be reviewed with loan originators and Specialists during a training*

session to be conducted by the SFH State Office staff in January 2006.

OIG Position. We accept management decision for this recommendation.

Recommendation 2

Establish and implement controls for justifying waivers of adverse credit history and providing adequate documentation to support loan approval decisions, including guidance to loan originators that should specifically state requirements for documenting justifications of adverse credit history waivers.

Agency Response. In its August 11, 2005, response, South Carolina RD State Office officials stated:

*A State AN will be written and issued to [RD] *** Managers and Specialists. This [South Carolina] *** AN will outline requirements for clearly documenting justifications for adverse credit waivers. (See Attachment 6.) TARGET October 1, 2005.*

In addition, a training manual for loan originators and specialists will be developed to use as a guide in reviewing credit history and determining whether or not the information submitted is sufficient to justify an adverse credit waiver. Several (minimum of four) case studies will be developed to demonstrate specific situations when it would be acceptable (or not acceptable) to waive adverse credit. The case study answer guides will outline examples of how to properly document the justification for waiving the adverse credit. This training guide will be created by January 2006 for review during the next statewide [SFH] training session. TARGET DATE: January 2006.

OIG Position. We accept management decision for this recommendation.

Recommendation 3

Conduct statewide internal reviews to ensure loan originators are properly calculating and documenting their method of computing annual income, and are completing all waivers of adverse credit history that contain proper justification for waiving adverse credit history.

Agency Response. In its August 11, 2005, response, South Carolina RD State Office officials stated:

The State office will develop and implement a plan to conduct reviews in each local office in South Carolina to ensure loan

originators are properly calculating and documenting their method of computing income and that all waivers of adverse credit history contain proper justification for waiving adverse credit.

*Since State internal reviews *** are conducted in each local office every 4 years in South Carolina, a plan to conduct Income and Credit reviews, as described in this recommendation will be conducted every 2 years. A separate review questionnaire will be developed for this purpose using the nationally developed State Internal Review Guide as a reference.*

TARGET DATE: Reviews to begin Fiscal Year [FY] 2006.

* * * * *

OIG Position. We accept management decision for this recommendation.

Recommendation 4

Ensure PITI waivers are adequately documented in loan files for borrowers whose ratios exceed the maximum allowable limits.

Agency Response. In its August 11, 2005, response, South Carolina RD State Office officials stated:

*A [South Carolina] *** AN will be written for the guaranteed loan program in order to communicate the requirement that PITI and Total Debt ratio waivers be adequately documented in loan files for borrowers whose ratios exceed the maximum allowable limits. The [South Carolina] *** AN will include the requirement that Attachment 1, "Ratio Waiver Form" be completed by RD Loan Approval officials and that the original, written approval be provided to the underwriting lender, as is required by procedure. The lender's documentation and compensating factors for the ratio waiver should be attached to the signed copy of the approval and placed in position 3 of the loan file. There will be a quarterly review of selected guaranteed loan files.*

TARGET DATE: October 1, 2005.

* * * * *

OIG Position. We accept management decision for this recommendation.

Recommendation 5

Ensure direct and guaranteed loan specialists obtain and use all required documentation (VOEs and credit reports) to make loan eligibility and approval determinations.

Agency Response. In its August 11, 2005, response, South Carolina RD State Office officials stated:

*As noted in Recommendation #3, a plan to conduct direct loan file reviews in all [South Carolina] local offices will be developed and implemented starting in [FY] *** 2006. Although we cannot explain the reason for the missing documents in two of the direct loan case files tested, the collection and review of income verifications and credit reports certainly has been and continues to be an important component of every Section 502 [SFH] *** loan review and approval. It is noted that the two loan files found to have missing documents during the [Office of Inspector General] OIG Audit were originated on 6/6/88 and 3/15/91.*

*In response to this recommendation, the [South Carolina] *** State Office will incorporate Recommendation #5 in the previously discussed [South Carolina] *** AN concerning Income Calculations and Credit evaluation and waivers, as well as the training manual developed regarding the same topics. All RD housing staff will also be reminded that documentation should not be permanently removed from a case file, no matter what the age of the loan. There will be a quarterly review of selected guaranteed loan files.*

*In regards to guaranteed loan files, a [South Carolina] *** AN will be developed to incorporate the use of a “Risk Layering Worksheet and Checklist”. This will be used to ensure that all necessary documents are received and included in loan eligibility and approval decisions.*

TARGET DATE: October 1, 2005.

* * * * *

OIG Position. We accept management decision for this recommendation.

Finding 2**Monitoring of Foreclosure Template and Pursuit of Private Attorneys Needed to Ensure Timely Foreclosure Processing**

The South Carolina RD State Office did not adequately adhere to its regulations in servicing foreclosure accounts, attributing to the untimely servicing of these accounts. Furthermore, the State office has not updated the foreclosure servicing regulations in its State Servicing Plan for the last 5 years. Specifically, the State office did not adequately monitor its foreclosure template and did not always monitor the Office of the General Counsel (OGC) and the U.S. Attorney's Office actions to ensure their adherence to the established timeframes for processing foreclosures. In addition, South Carolina's RD State Office had not recently pursued other avenues, such as the use of private attorneys, to process foreclosures and manage their large number of delinquencies. These actions contributed to a higher number of delinquent accounts and longer periods of delinquency, which caused South Carolina's overall direct loan delinquency rate to remain high.

Servicing of Foreclosure Accounts Needs Improvement

The 2000 South Carolina State Servicing Plan developed by South Carolina's RD officials provides goals for timely foreclosure processing. It allows 16 days for OGC to refer a foreclosure case to the U.S. Attorney's Office and 270 days for the U.S. Attorney's Office to process foreclosures. In addition, South Carolina's foreclosure template, established by CSC, is a computer-generated report created for a specific account once a loan is accelerated. The template acts as a servicing tool to track the status of foreclosure accounts. The template can be used to review and maintain all tasks assigned to a loan. It contains legal task descriptions that must be completed in order to process the account through foreclosure and the timeframes allotted for the specific tasks. Tasks on the foreclosure template vary by State according to State laws and foreclosure timeframes (i.e., judicial or non-judicial State). South Carolina's foreclosure template allows 369 elapsed days to close a foreclosure case from the date foreclosure action was initiated. It allows 30 days for OGC to refer a case to the U.S. Attorney's Office and 90 days for the U.S. Attorney's Office to file the lis pendens².

South Carolina Procedural Notice 286, dated April 6, 2004, clarifies actions to be utilized in processing accelerated accounts through OGC and the U.S. Attorney's Office and emphasizes RD's responsibility for maintaining the foreclosure template. The local RD office is to monitor and track all foreclosure accounts in the template and maintain a database of all accounts.

² Latin for "a suit pending." A written notice that a lawsuit has been filed, which concerns the title to real property or some interest in it. It gives notice to the defendant who owns real estate that there is a claim on their property and informs the general public that there is a potential claim.

Local offices are to service accounts in accordance with timeframes established by the “schedule date” on the foreclosure template. The local offices are to ensure the foreclosure template is always current and contact OGC and the U.S. Attorney’s Office as appropriate to determine the status of pending foreclosures. RD managers must ensure foreclosure files are processed timely and the template maintained.

In judicial States, mortgage documents contain language granting a power of sale, requiring the lender and borrower to use the judicial process in foreclosure cases. Judicial States have statutes requiring its courts to process foreclosures. The foreclosure process is timelier in non-judicial States than in judicial States, such as South Carolina where courts are involved before the property is sold. States that follow the non-judicial method can process a foreclosure in less than 3 to 6 months after the notice of default is filed. However, in judicial States the foreclosure process can take 9 to 15 months after the lis pendens is filed. In South Carolina, the lender must file a complaint against borrowers and obtain a decree of sale from a court with jurisdiction in the county where the property is located. The U.S. Attorney’s Office is responsible for processing the legal action against borrowers in foreclosure sales. An U.S. attorney official stated that the average foreclosure in South Carolina generally takes around 9 to 12 months. Problems with loan documentation (absence of note or missing documents), title problems, or contests by the defendant will further prolong foreclosure actions until these issues are remedied.

We used judgmental and systematic random sampling techniques to test a sample of 14 of South Carolina’s 504 foreclosures submitted to OGC and the U.S. Attorney’s Office. Of the 14 foreclosures tested, 10 were active cases, while the remaining 4 foreclosures had a sale date scheduled but the property was not yet sold. (See the Scope and Methodology section of this report.)

Our testing results disclosed that an excessive number of days elapsed between the referral dates to OGC and our fieldwork – averages of 823 days for the active foreclosure cases and 1,317 days for accounts where a sale date was scheduled (see exhibit C). These averages well exceed the processing timeframes established by the South Carolina State Office and CSC. Additionally, none of the files for the 14 loans in our sample showed that South Carolina RD officials contacted either OGC or U.S. Attorney’s Office officials in relation to accounts where the established timeframes were not met. OGC officials stated South Carolina’s State Office rarely communicates with their office once it refers a case for foreclosure. We inquired about the lack of documentation in the loan files with a State office official, who acknowledged that documentation was inadequate but stated they do contact appropriate officials and are reminding field offices to document this contact in the loan files. This official agreed the State Servicing Plan needed updating.

We found various explanations for the foreclosure processing delays. For example, some borrowers filed for bankruptcy numerous times. For all four of the foreclosures where a sale date was scheduled, the borrowers filed for bankruptcy to avoid the sale. Based on South Carolina law, an individual can file bankruptcy once every 6 months. Repeat bankruptcy filings delay the foreclosure process because they require the U.S. attorney's time and stop foreclosure proceedings. Examples of delayed cases included:

- One borrower's foreclosure case was submitted to OGC in August 1998. A sale date was scheduled for her property, but it was not sold at the time of our fieldwork (2,146 elapsed days), (see exhibit C). The borrower filed for bankruptcy in November 1999 and the case was dismissed in September 2000 for noncompliance. The borrower filed bankruptcy again, but the case was dismissed the same day. The property went through foreclosure proceedings and a sale date was scheduled in June 2001; however, the borrower filed bankruptcy in May 2001 to stop the foreclosure sale. The Chapter 13 bankruptcy case filed in May 2001 was still pending.
- Another borrower's foreclosure case was submitted to OGC in September 1995. The borrower filed for bankruptcy three times to avoid a foreclosure sale. After the third bankruptcy was dismissed, the borrower deeded her property to her mother, who then filed for bankruptcy to delay foreclosure proceedings. At the time of our fieldwork, the mother's bankruptcy was dismissed and foreclosure proceedings were initiated. This case has been at the U.S. Attorney's Office for 3,354 elapsed days (see exhibit C). U.S. attorney officials stated this borrower is a prime example of South Carolina's legal process and how borrowers try to avoid foreclosure sales. OGC officials stated that attorneys could not stop repeat bankruptcy filings or prevent borrowers from deeding their property to someone else.

South Carolina RD officials need to adequately monitor the foreclosure template and notify OGC and U.S. Attorney's Office officials about foreclosure delays in a timely manner to ensure they meet the established timeframes for servicing foreclosures. Timely contact and inquiry with OGC and U.S. attorney officials to determine the status of accounts would facilitate timely processing of loans in foreclosure. Although RD officials may not have involvement or control over foreclosures once they are in legal proceedings, they can implement their policies for monitoring the foreclosure template and timely contacting officials to inquire into delays or the status of an account.

South Carolina State Office officials stated they issued numerous administrative and procedural notices over the years to provide guidance on processing and servicing foreclosure accounts. However, the South Carolina State Servicing Plan needs to be updated to incorporate all recent policies and procedures (i.e., the notices) relating to processing and servicing foreclosure accounts to provide a central and unified document with all of the State's pertinent policies and procedures relating to foreclosure accounts.

South Carolina State Office officials also provided documentation demonstrating how they monitored foreclosure cases and contacted U.S. attorney officials inquiring about the status of foreclosure cases. We found South Carolina's State Office has improved its monitoring of foreclosure accounts and occasionally contacted officials at the U.S. Attorney's Office about the status of foreclosure accounts. However, there was no documentation to support that the State office monitored the foreclosure template or contacted OGC or U.S. Attorney's Office officials in regards to the 14 foreclosure loans tested during our review. Therefore, further improvements in monitoring foreclosures are still needed. State official officials need to continually monitor their foreclosure cases by contacting OGC and U.S. attorney officials when foreclosure timeframes are not met, and document this contact.

Pursuit of Private Attorneys Needed to Ensure Timely Foreclosure Proceedings

RD State Offices in judicial States may request the use of private attorneys if they can provide justification that these attorneys would be more beneficial in processing foreclosures than U.S. attorneys. For example, Florida is a southeastern judicial State, and they began utilizing private attorneys in FY 1991 to process foreclosures for their Section 502 loans. In order to use private attorneys in judicial States, a State office must seek the approval of OGC and perform a cost-benefit analysis to support the use of private attorneys.

According to OGC officials and an official in Florida's RD State Office, RD had pilot projects in 1989 in several States, including South Carolina and Florida, to determine whether it was more cost effective to use private attorneys to conduct foreclosure proceedings rather than the U.S. Attorney's Office. South Carolina discontinued their use of private attorneys. South Carolina State Office officials stated they explored the idea of using private attorneys again; however, the idea fell through. Florida officials have continued to use private attorneys and have reported a substantial cost savings, as well as a timelier foreclosure process.

The cost-benefit analysis conducted by the Florida RD State Office in 1991 showed that using private attorneys for five county offices provided a cost savings of \$5,696 per case, and the cases closed in 6 months as compared to 19 months if the U.S. attorney had handled the cases. Over the years, Florida has also requested the use of private attorneys in other districts and discovered utilizing private attorneys for foreclosures was more cost effective and timelier than the U.S. Attorney's Office (5.15 months and \$2,872 versus 15 months and \$6,200 in one district; and 9.2 months versus 11.1 plus months in another district).

Another reason for the servicing delays was OGC and the U.S. Attorney's Office did not meet established timeframes for referring accounts and filing complaints in foreclosure cases. For the sample of 10 active foreclosures, an average of 57 days elapsed for OGC to refer the cases to the U.S. Attorney's Office. It then took the U.S. Attorney's Office an average of 324 elapsed days to file the complaints. For the sample of four foreclosures where a sale date was scheduled, an average of 34 days elapsed for the cases to be referred and an average of 211 days elapsed for the complaints to be filed (see exhibit C). While we recognize that OGC and U.S. attorney officials cannot control certain circumstances, such as bankruptcy filings during the foreclosure process, they can control the timeliness in which they refer accounts and file complaints. OGC officials explained that sometimes South Carolina's RD Offices do not have all appropriate documentation in the files needed to properly review and refer cases. They further stated the delay is sometimes their fault due to lack of resources (i.e., time and staff). South Carolina U.S. Attorney's Office officials explained it took awhile to file complaints because of the large number of cases referred to their office. They further stated they have the second or third highest number of foreclosures in the country, and until 2002, they had more foreclosure cases referred than they could close.

During our fieldwork at CSC, we were provided a list of all South Carolina's foreclosures submitted to the U.S. Attorney's Office. For all South Carolina's active foreclosure cases, an average of 405 days elapsed since they were referred to OGC and the U.S. attorney, whereas 1,246 days elapsed for foreclosures where a sale date was scheduled but the property was not sold. These days exceeded the timeframes established in South Carolina's foreclosure template.

OGC officials stated South Carolina could use private attorneys to speed up its foreclosure process as long as they developed the cost-benefit analysis and obtained approval from the U.S. Attorney's Office. U.S. attorney officials in South Carolina stated they would not mind if RD's State Office used private attorneys because it would reduce their workload. OGC officials further stated RD's National Office encourages the use of private attorneys.

In addition to timelier foreclosure processing, OGC officials stated private attorneys would allow South Carolina's RD State Office to file for deficiency judgments. A legal liaison with CSC stated that South Carolina's RD State Office previously sought deficiency judgments on foreclosure cases but stopped in 2002 due to the potential of a class action case being filed by several borrowers. The State office decided that they would use the U.S. Attorney's Office to preserve the right to seek and collect deficiency judgments in foreclosure cases. However, the U.S. attorney refused to seek deficiency judgments for the RD State Office and did not think a meeting with OGC to discuss the issue was necessary. The CSC legal liaison stated in 2002 South Carolina collected around \$3 million in deficiency judgments. In 2004, South Carolina collected less than \$1 million in deficiency judgments. Therefore, South Carolina's RD State Office should perform a cost-benefit analysis and, if appropriate, seek OGC officials' approval to use private attorneys to collect deficiency judgments.

South Carolina's RD State Office needs to consult with OGC and U.S. Attorney's Office officials about exploring the possibility of utilizing private attorneys to process foreclosure cases and collect deficiency judgments. Adequate monitoring of the foreclosure template, properly notifying appropriate officials about foreclosure timeframes, and pursuing other venues to process foreclosures will help minimize the length of loan delinquency.

Recommendation 6

Update the State Servicing Plan annually to incorporate previously issued administrative and procedural notices related to foreclosure processing and servicing. State officials should ensure the State Servicing Plan includes policies and procedures for monitoring foreclosure accounts by contacting OGC and U.S. Attorney's Office officials.

Agency Response. In its August 11, 2005, response, South Carolina RD State Office officials stated:

*In 2000, [South Carolina] *** and CSC entered into an agreement to increase emphasis on processing accelerated accounts due to [South Carolina's] *** high delinquency and increased volume of accelerations. The [South Carolina] *** State Servicing Plan was developed establishing specific goals that would assist [South Carolina] *** in expediting the foreclosure process.*

*Additionally, [South Carolina] *** issued [South Carolina] *** Procedure Notice (PN) 286 on April 6, 2004, which outlines specific instructions needed to process [South Carolina's] *** foreclosures in accordance with judicial State laws. It contains*

directives and guidelines to ensure consistency in processing foreclosures on a statewide basis.

*In accordance with the OIG recommendation, the 2000 State Servicing Plan and [South Carolina] *** PN 286 will be consolidated into one PN which will be updated to include timeframes established in all previously issued [ANs] ***. State officials will ensure that the State Servicing Plan includes policies and procedures for monitoring foreclosure processing and servicing. The plan will specifically include procedures for contacting the OGC and U.S. Attorney's offices when established timeframes have not been met. The reasons for the delay in processing will be obtained and documented in each case file and on the [mortgageserv] *** system.*

- 1. The State Servicing Plan and [South Carolina] *** PN 286 will be updated to incorporate the following steps in the foreclosure process:
 - a) established timeframes;*
 - b) procedures for contacting OGC and U.S. Attorney regarding reasons for delays when established timeframes have not been met;*
 - c) procedural or State administrative instructions from previously issued notices; [and]*
 - d) to be updated annually.**

TARGET DATE: December 2005.

OIG Position. We accept management decision for this recommendation.

Recommendation 7

Monitor the foreclosure template for accounts submitted to the U.S. Attorney's Office and timely notify OGC and U.S. Attorney's Office officials about foreclosure delays to ensure established timeframes are met during the foreclosure process. SFH officials should document in the loan files when they contact OGC and/or the U.S. Attorney's Office and include reasons why established foreclosure timeframes are not being met. State officials should ensure this documentation is kept in a centralized location that is easily accessible.

Agency Response. In its August 11, 2005, response, South Carolina RD State Office officials stated:

RD field office officials will contact OGC and U.S. Attorney officials on a quarterly basis regarding delays in the foreclosure

process particularly when established timeframes have not been met on specific cases. The mortgageserv system and borrower files will be documented stating reasons provided for delays.

*As discussed in response to Recommendation 6 of this report, the State Servicing Plan and [South Carolina] *** PN 286 will provide directives for field offices to process and monitor foreclosure accounts to ensure that [South Carolina] *** meets established foreclosure timeframes. The Servicing Plan will be updated to require that Area Directors review foreclosure processing in their respective field offices on a quarterly basis with a copy of the results provided to State officials.*

State office officials will develop a plan to review each office's foreclosures monthly after the first 90 days from acceleration until the conclusion of the foreclosure sale or the closure of the acceleration. The State office will also visit each office annually to ensure that foreclosure processing is current and established timeframes are being met. A separate review questionnaire will be developed for this purpose using the nationally developed State Internal Review Guide as a reference. (To be developed by October 1, 2005) State officials will maintain servicing documentation in a centralized location to ensure accessibility.

State officials also plan to visit the Florida State office in calendar year 2005 to discuss their private attorney contract and the monitoring of Florida's foreclosure accounts.

* * * * *

OIG Position. We accept management decision for this recommendation.

Recommendation 8

Consult with appropriate OGC and U.S. attorney officials and implement the use of private attorneys in processing foreclosure cases and seeking deficiency judgments, if justified by a cost-benefit analysis.

Agency Response. In its August 11, 2005, response, South Carolina RD State Office officials stated:

*[South Carolina] *** will consult with [U.S. Department of Agriculture] USDA OGC in order to initiate a cost benefit analysis regarding implementation of a private attorney contract in processing foreclosure cases and seeking deficiency judgments.*

*[South Carolina] *** State officials plan to visit the Florida USDA-RD State Office before the end [of] the 2005 calendar year to obtain information on the implementation and use of a private attorney contract in processing foreclosures and seeking deficiency judgments. It is our hope that a visit to the Florida State office will also provide us with the opportunity to review their system for monitoring foreclosure cases. The objective will be to collect ideas from Florida to use in implementing an improved method of monitoring and processing of foreclosure cases in South Carolina. The end goal is to reduce the timeframe for foreclosure processing.*

TARGET DATE: December 31, 2005.

OIG Position. We accept management decision for this recommendation.

General Comments

We tested a sample of 10 previously delinquent loans that are now current to determine what servicing actions were performed to bring these accounts current and how these actions reduced South Carolina's number of delinquent direct loans during FYs 1998 to 2004. Seven of the 10 borrowers (70 percent) paid their accounts current after going into foreclosure proceedings; one borrower re-amortized his loan after making late payments on his delinquency workout agreement; one borrower was placed on a delinquency workout agreement; and one borrower's delinquency was an error in CSC's servicing records. We found RD properly used all available servicing options to bring these borrowers' accounts current.

Scope and Methodology

We judgmentally selected and visited 3 of the 15 RD area/field offices in South Carolina for our review of direct loans and 2 offices for our review of guaranteed loans. For direct loans, selection criteria used to determine fieldwork sites included each office's (1) delinquency rate, (2) number of delinquent loans, (3) number of foreclosures and bankruptcies, (4) unemployment rate, (5) per capita income, and (6) comments from RD State Office officials. We judgmentally selected area/field offices that ranked high in these areas. For guaranteed loans, we judgmentally selected and visited the two area offices with the highest number of delinquent guaranteed loans.

At the beginning of October 2004, South Carolina's SFH program had 2,900 delinquent direct loans and 617 delinquent guaranteed loans. Auditors used systematic random sampling techniques³ to select 10 delinquent direct loans and 5 delinquent guaranteed loans. In addition, we judgmentally selected one or two additional loans with a high number of delinquent months or amount owed at each of the four offices. Also, we used systematic random sampling techniques to select a sample of 10 loans that were previously delinquent but now current and a sample of 14 loans submitted to the U.S. Attorney's Office for foreclosure. In total, we reviewed and tested 66 delinquent loans. For some of the loans in our sample, more than one test was conducted.

The audit was conducted in accordance with generally accepted government auditing standards. We performed data reliability testing and determined RD's computer data was valid, reliable, and could be used to support the audit's objectives. We performed site visits from September through December 2004. This review covered South Carolina's RD and CSC's controls and policies for the loan origination, closing, and servicing processes for the Section 502 loan program from FY 2003 to December 2004, and other periods as required.

We performed audit work at the South Carolina RD State Office; four South Carolina RD area/field offices; CSC in St. Louis, Missouri; the U.S. Attorney's Office in Columbia, South Carolina; OGC in Atlanta, Georgia; and the Florida RD State Office. Our fieldwork sites and loan samples included:

- Aiken Area Office (12 direct and 6 guaranteed);

³ Random sampling with a system. From the sampling frame, a starting point is chosen at random, and thereafter at regular intervals. In order to achieve a systematic random sample, the population, sample, and interval sizes are needed. For our samples, we took the sample size and divided by the number of loans we wanted in our sample to get the interval size. We then used a random number table to obtain a number that fell between one and the interval size. This random number was then used to select every nth loan.

- Spartanburg Area Office (7 guaranteed);
- Newberry Field Office (12 direct);
- Williamsburg Field Office (11 direct);
- CSC (35 direct along with the FY 2004 payment history for 12 direct);
- South Carolina State Office and CSC (10 loans that were previously delinquent but now current); and
- U.S. Attorney's Office (14 foreclosures and 4 bankruptcies).

To accomplish the audit objectives, our review consisted of the following steps and procedures:

- reviewed laws, regulations, instructions, policies, and procedures applicable to the controls for South Carolina's SFH loan program;
- interviewed RD, RHS, CSC, U.S. Attorney's Office, OGC, and other officials;
- reviewed and analyzed RD's and CSC's internal controls pertaining to the requirements for originating, closing, and servicing Section 502 loans;
- conducted tests to determine whether RD and CSC properly implemented internal controls and complied with the policies and procedures to limit the number of delinquencies;
- used proformas to document whether SFH's and CSC's controls were implemented in the loan origination, closing, and servicing processes;
- tested a sample of delinquent direct and guaranteed loans originated by South Carolina's RD Offices to explain the reason for the State's historically high delinquency rates;
- tested a sample of loans to determine if CSC accurately posted all payments received to borrowers' accounts;
- tested a sample of previously delinquent loans that are now current to determine how South Carolina reduced the number of delinquent direct loans since 1998;

- tested a sample of delinquent loans submitted to South Carolina's U.S. Attorney's Office to explain how the foreclosure and bankruptcy process affects the State's delinquency rates;
- conducted followup meetings with RD officials to discuss issues and discrepancies identified in the testing and loan file review; and
- interviewed officials at Florida's RD State Office about their use of private attorneys for processing foreclosure cases and reviewed their cost-benefit analysis that supported their justification for using private attorneys.

Exhibit A – Summary of Monetary Results

Exhibit A – Page 1 of 1

FINDING NUMBER	RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	1,3	Improper Annual Income Calculations for Direct Loans	\$313,250	QCLNR
1	2,4	Improper Waiving of Credit History for Direct Loans	\$84,275	QCLNR
1	3,4,5	Lack of Adequate Documentation for Direct Loans	\$51,236	QCLNR
1	1,3	Improper Annual Income Calculations for Guaranteed Loans	\$437,900	QCLNR
1	2,4	Improper Waiving of Credit History for Guaranteed Loans	\$430,200	QCLNR
		TOTAL	\$931,861¹	

QCLNR – Questioned Costs/Loans, No Recovery

¹ The total amount does not equal the amount of the five categories added together due to a number of loans having more than one discrepancy. See exhibit B for an individual breakdown of the loans with discrepancies to determine the original loan amounts and which loans have more than one discrepancy.

Exhibit B – Loans Tested and Related Discrepancies

Exhibit B – Page 1 of 1

Direct Loan Discrepancies

Borrower ID	Annual Income Discrepancies	Credit History Discrepancies	Missing Loan Documentation	Original Loan Amount	Loan Status
A	X			\$54,280	Delinquent
B		X		73,695	Foreclosure
C	X			44,500	Foreclosure
D	X			60,470	Delinquent
E	X			41,000	Delinquent
F		X		5,580	Delinquent
G			X	21,236	Bankruptcy
H	X			48,000	Foreclosure
I	X			35,000	Delinquent
J		X		5,000	Delinquent
K	X		X	30,000	Foreclosure
Totals	7	3	2	\$418,761	
Percentage of Loan Sample	20%	8.57%	5.71%		

Percentage of Sample with Discrepancies 31.43%
Total of 35 Loans Tested – 11 loans with discrepancies

Guaranteed Loan Discrepancies

Borrower ID	Annual Income Discrepancies	Credit History Discrepancies	Approval Ratios Exceed Limits	Original Loan Amount	Loan Status
L	X	X		\$132,450	Delinquent
M		X	X	79,900	Bankruptcy
N	X	X		85,750	Delinquent
O	X			82,900	Delinquent
P	X	X		56,900	Bankruptcy
Q		X		75,200	Foreclosure
Totals	4	5	1	\$513,100	
Percentage of Loan Sample	30.77%	38.46%	7.69%		

Percentage of Sample with Discrepancies 46.15%
Total of 13 Loans Tested – 6 with discrepancies

Exhibit D – Agency Response

Exhibit D – Page 1 of 33



United States Department of Agriculture
Rural Development
State Office
Columbia, South Carolina

August 11, 2005

TO: Raymond G. Pollard
Regional Inspector General
Atlanta, Ga.

SUBJECT: Single Family Housing Audit (04099-340-At)
South Carolina

Attached is the Agency's response to the official audit draft dated July 15, 2005.

Please contact my office should you have questions or need to discuss this further. I can be reached at (803) 765-5163.

A handwritten signature in cursive script that reads "Tee Miller".

TEE MILLER
State Director

Attachment

cc: Single Family Housing, Program Director, SC
w/ attachment

Strom Thurmond Federal Building • 1835 Assembly Street • Suite 1007 • Columbia, SC 29201
Phone: (803) 765-5163 • Fax: (803) 765-5633 • TDD: (803) 765-5697 • Web: <http://www.rurdev.usda.gov/sc>

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**Response to the Office of Inspector General Audit Report (No. 04099-340-AT) on
“Single Family Housing Program in South Carolina”**

General Comments:

New loan success is the industry standard for success, failure and credit quality in mortgage loan programs. South Carolina’s first year delinquency has steadily improved over the last five years and consistently ranks among the best in the country. (See **Attachment 1, “Fiscal Delinquency for the State of South Carolina”** and **Attachment 2, 1st Yr Del. in SC as compared to National Average 5/04 to 5/05**)

It is very important to note that the majority of loans reviewed for this audit were originated in the 1980’s and 1990’s. According to Exhibit B of this report, Loans Tested and Related Discrepancies, 11 Direct Loans were reviewed for underwriting purposes. Over 90% of the direct loans reviewed were approved prior to 1997. In our judgment, this sample does not accurately represent South Carolina’s current practices, standards and overall credit quality. It is our opinion that the report conclusions concerning underwriting standards understate the current status of the Single Family Housing program in South Carolina (See **Attachment 3, List of loans and year originated**)

Two other factors that are significant in the audit are foreclosure processing and a high rate of initial and multiple bankruptcy filings.

Being a judicial state, SC has limited control over the U.S. Attorney’s processing of foreclosure accounts and no control over borrowers who file bankruptcy. While pursuing a private attorney contract for processing foreclosures will improve the time frame for processing foreclosures, it will have little impact on the number of bankruptcy filers, as this is a State law issue.

SC has a history and high rate of borrowers who file bankruptcy (some with multiple filings) to avoid foreclosure action as noted in the OIG report. Of 14 cases reviewed, 4 borrowers filed bankruptcy which resulted in SC not meeting established foreclosure time frames. Since foreclosure processing is held in abeyance after a borrower files bankruptcy, SC has “no control” over meeting established foreclosure time frames in these cases.

The review concluded that the monitoring of foreclosure accounts currently held at the U.S. Attorney’s office has been only “occasional” and the documentation of our communications was found to be insufficient. We are prepared to issue guidance and training on the processes and policies in our contacts and documentation with the U. S. Attorney’s Office. State Office officials did provide samples of monitoring and oversight reviews completed over the past few years to reflect the emphasis SC has placed on expediting the foreclosure process. While the documentation did not reflect “specific” reasons for delays, the emphasis placed on monitoring foreclosures did contribute to a significant reduction in the number of accelerated accounts in South Carolina.

Finding 1

Recommendation No. 1

Establish and implement controls over determining income eligibility, including issuing procedures for ensuring loan originators properly calculate annual income. These statewide policies should require loan originators to document the method used to calculate an applicant's annual income and provide an explanation for the methods used for income calculations.

Agency Response:

A State Administrative Notice (AN) will be written to require South Carolina loan officials to use a standard Income Calculation Worksheet developed by State Office officials. (see draft AN, Attachments 4 & Attachment 5) The use of this newly developed income calculation worksheet will aid in clearly documenting household and repayment incomes. Loan originators and approval officials will be instructed to note from where the income is derived (i.e. VOE for applicant # 1 and the date of income verification), as well as, the method used to calculate an applicant's income and why that method was chosen. It will be required that the income calculation worksheet, income verifications and other documentation related to income be filed as a grouping in position 3 of the case file to assist in the review of income by reviewers and auditors. The SC AN will also inform loan officials that any changes or updates to income occurring throughout the application process be properly verified and documented. All income changes shall also be entered in the Unifi system. TARGET DATE: By October 1, 2005

A state training manual for loan originators and specialists will also be developed and used as a guide to reviewing income calculations. This training guide will be created for use during the next statewide Single Family Housing training session. Several (minimum of 4) case studies will be created to demonstrate a variety of income situations; i.e. bonuses, overtime, year to date income greater than or less than an applicant's hourly wage X # of hours X # of wks, etc. The case-study answer guides will provide examples of how to properly document the income calculations, as well as an explanation as to why the loan official has chosen a particular income calculation method. TARGET DATE: January 2006

The SC AN and the training guide will be reviewed with loan originators and Specialists during a training session to be conducted by the SFH State Office staff in January 2006.

Recommendation No. 2

Establish and implement controls for justifying waivers of adverse credit history and providing adequate documentation to support loan approval decisions, including guidance to loan originators that should specifically state requirements for documenting justifications of adverse credit waivers.

Agency Response

A State AN will be written and issued to Rural Development Managers and Specialists. This SC AN will outline requirements for clearly documenting justifications for adverse credit waivers. **(See Attachment 6.)**
TARGET October 1, 2005.

In addition, a training manual for loan originators and specialists will be developed to use as a guide in reviewing credit history and determining whether or not the information submitted is sufficient to justify an adverse credit waiver. Several (minimum of 4) case studies will be developed to demonstrate specific situations when it would be acceptable (or not acceptable) to waive adverse credit. The case study answer guides will outline examples of how to properly document the justification for waiving the adverse credit. This training guide will be created by January 2006 for review during the next statewide Single Family Housing training session.

TARGET DATE: January 2006.

Recommendation No. 3

Conduct Statewide internal reviews to ensure loan originators are properly calculating and documenting their method of computing annual income, and are completing all waivers of adverse credit history that contain proper justification for waiving adverse credit history.

Agency Response

The State Office will develop and implement a plan to conduct reviews in each local office in South Carolina to ensure loan originators are properly calculating and documenting their method of computing income and that all waivers of adverse credit history contain proper justification for waiving adverse credit.

Since State Internal Reviews (SIR) are conducted in each local office every four years in South Carolina, a plan to conduct Income and Credit reviews, as described in this recommendation will be conducted every two years. A separate review questionnaire will be developed for this purpose using the nationally developed State Internal Review Guide as a reference.

TARGET DATE: Reviews to begin Fiscal Year 2006.

See Attachments:

- 7. Calendar for completing Income Calculation and Credit Waiver Reviews.**
- 8. Guide for Completing Income and Credit Reviews.**

Recommendation No. 4

Ensure PITI waivers are adequately documented in loan files for borrowers whose ratios exceed the maximum allowable limits.

Agency Response:

A SC AN will be written for the guaranteed loan program in order to communicate the requirement that PITI and Total Debt ratio waivers be adequately documented in loan files for borrowers whose ratios exceed the maximum allowable limits. The SC AN will include the requirement that Attachment 1, “Ratio Waiver Form” be completed by RD Loan Approval officials and that the original, written approval be provided to the underwriting lender, as is required by procedure. The lender’s documentation and compensating factors for the ratio waiver should be attached to the signed copy of the approval and placed in position 3 of the loan file. There will be a quarterly review of selected guaranteed loan files.

TARGET DATE: October 1, 2005.

Note: This discrepancy was found in one of the 13 guaranteed loan files tested. This discrepancy was not found in any of the 35 direct loan files tested.

See Attachments:

- 9. SC AN, Approval of Ratio Waivers
- 10. Attachment 1, Ratio Waiver Form

Recommendation No. 5

Ensure direct and guaranteed loan specialists obtain and use all required documentation (VOEs and credit reports) to make loan eligibility and approval determinations.

Agency Response

As noted in Recommendation #3, a plan to conduct direct loan file reviews in all SC local offices will be developed and implemented starting in Fiscal Year 2006. Although we can not explain the reason for the missing documents in 2 of the direct loan case files tested, the collection and review of income verifications and credit reports certainly has been and continues to be an important component of every Section 502 Single Family Housing loan review and approval. It is noted that the two loan files found to have missing documents during the OIG Audit were originated on 6/6/88 and 3/15/91.

In response to this recommendation the SC State Office will incorporate recommendation #5 in the previously discussed SC AN concerning Income Calculations and Credit evaluation and waivers, as well as the training manual developed regarding the same topics. All RD housing staff will also be reminded that documentation should not be permanently removed from a case file, no matter what the age of the loan. There will be a quarterly review of selected guaranteed loan files.

In regards to guaranteed loan files, a SC AN will be developed to incorporate the use of a “Risk Layering Worksheet and Checklist”. This will be used to ensure that all necessary documents are received and included in loan eligibility and approval decisions.

TARGET DATE: October 1, 2005.

See Attachments:

- 11. SC AN, “Underwriting Guidelines**
- 12. RD GRH Program- Risk Layering Review – SC**
- 13. SFH Guaranteed Loan Processing Checklist**

Finding 2

Recommendation No. 6

Update the State Servicing Plan annually to incorporate previously issued administrative and procedural notices related to foreclosure processing and servicing. State officials should ensure the State Servicing Plan includes policies and procedures for monitoring foreclosure accounts by contacting OGC and U.S. Attorney's Office officials.

Agency Response

In 2000, SC and CSC entered into an agreement to increase emphasis on processing accelerated accounts due to SC's high delinquency and increased volume of accelerations. The SC State Servicing Plan was developed establishing specific goals that would assist SC in expediting the foreclosure process

Additionally, SC issued SC Procedure Notice (PN) 286 on April 6, 2004, which outlines specific instructions needed to process SC's foreclosures in accordance with judicial state laws. It contains directives and guidelines to ensure consistency in processing foreclosures on a state-wide basis.

In accordance with the OIG recommendation, the 2000 State Servicing Plan and SC PN 286 will be consolidated into one PN which will be updated to include time frames established in all previously issued administrative notices. State officials will ensure that the State Servicing Plan includes policies and procedures for monitoring foreclosure processing and servicing. The plan will specifically include procedures for contacting the OGC and U.S. Attorney's offices when established time frames have not been met. The reasons for the delay in processing will be obtained and documented in each case file and on the mortgagserv system.

1. The State Servicing Plan and SC PN 286 will be updated to incorporate the following steps in the foreclosure process:
 - a) established time frames;
 - b) procedures for contacting OGC and U.S. Attorney regarding reasons for delays when established time frames have not been met;
 - c) procedural or state administrative instructions from previously issued notices.
 - d) to be updated annually.

TARGET DATE: December 2005.

Recommendation No. 7

Monitor the foreclosure template for accounts submitted to the U.S. Attorney's Office and timely notify OGC and U.S. Attorney's Office officials about foreclosure delays to ensure established timeframes are met during the foreclosure process. SFH officials should document in the loan files when they contact OGC and/or the U.S. Attorney's Office and include reasons why the established foreclosure timeframes are not being met. State officials should ensure this documentation is kept in a centralized location that is easily accessible.

Agency Response

RD field office officials will contact OGC and U.S. Attorney officials on a quarterly basis regarding delays in the foreclosure process particularly when established time frames have not been met on specific cases. The mortgageserv system and borrower files will be documented stating reasons provided for delays.

As discussed in response to recommendation 6 of this report, the State Servicing Plan and SC PN 286 will provide directives for field offices to process and monitor foreclosure accounts to ensure that SC meets established foreclosure time frames. The Servicing Plan will be updated to require that Area Directors review foreclosure processing in their respective field offices on a quarterly basis with a copy of the results provided to State officials.

State Office officials will develop a plan to review each office's foreclosures monthly after the first 90 days from acceleration until the conclusion of the foreclosure sale or the closure of the acceleration. The State Office will also visit each office annually to ensure that foreclosure processing is current and established time frames are being met. A separate review questionnaire will be developed for this purpose using the nationally developed State Internal Review Guide as a reference. (To be developed by October 1, 2005) State officials will maintain servicing documentation in a centralized location to ensure accessibility.

State officials also plan to visit the Florida state office in calendar year 2005 to discuss their private attorney contract and the monitoring of Florida's foreclosure accounts.

Attachment 14:

- **Calendar for completing Annual Review of Foreclosure Processing.**

Recommendation No. 8

Consult with appropriate OGC and U.S. Attorney officials and implement the use of private attorneys in processing foreclosure cases and seeking deficiency judgments, if justified by a cost-benefit analysis.

Agency Response

SC will consult with USDA OGC in order to initiate a cost benefit analysis regarding implementation of a private attorney contract in processing foreclosure cases and seeking deficiency judgments.

SC State officials plan to visit the Florida USDA-RD State Office before the end the 2005 calendar year to obtain information on the implementation and use of a private attorney contract in processing foreclosures and seeking deficiency judgments. It is our hope that a visit to the Florida State Office will also provide us with the opportunity to review their system for monitoring foreclosure cases. The objective will be to collect ideas from Florida to use in implementing an improved method of monitoring and processing of foreclosure cases in South Carolina. The end goal is to reduce the time frame for foreclosure processing.

TARGET DATE: December 31, 2005

Exhibit D – Agency Response

ATTACHMENT # 1

FISCAL YEAR DELINQUENCY FOR THE STATE OF SOUTH CAROLINA

	MONTHLY DELQ	NEW LOAN DELQ
FY99	20.03%	8.87%
FY00	20.75%	2.97%
FY01	19.50%	3.64%
FY02	18.92%	1.43%
FY03	19.78%	4.23%
FY04	19.48%	2.01%
MAY 20,2005	18.25%	1.65%

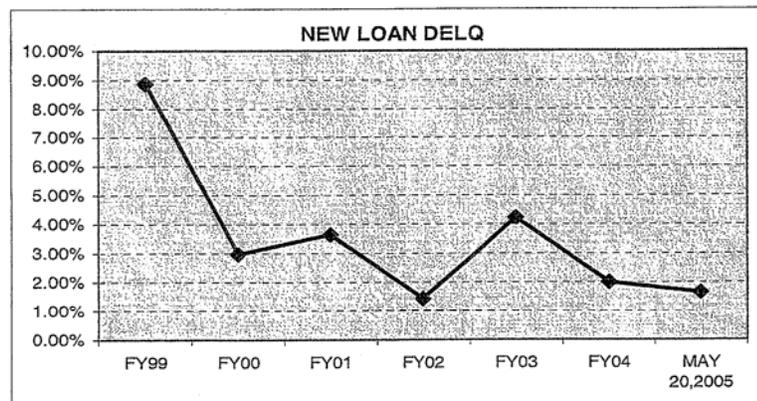
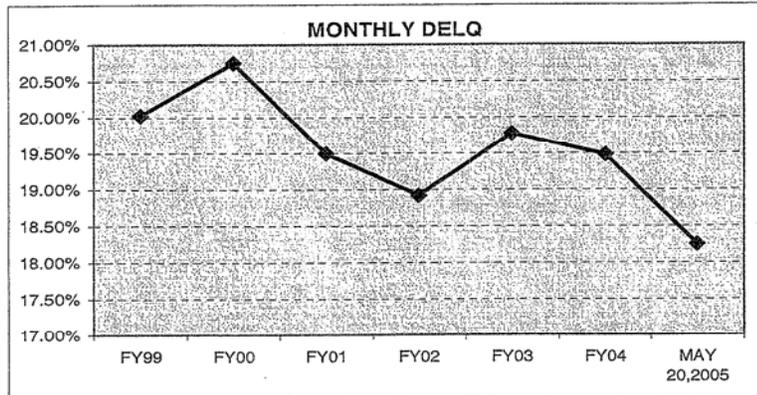


Exhibit D – Agency Response

ATTACHMENT # 2.

1st YEAR DELINQUENCY IN SOUTH CAROLINA AS COMPARED TO THE NATIONAL PERCENTAGE BETWEEN MAY 2004 AND MAY 2005

	SOUTH CAROLINA	NATIONAL	SUMMARY
May 2004	1.65%	2.48%	-.83%
June 2004	3.27%	2.75%	+.52%
July 2004	2.28%	2.66%	-.38%
August 2004	2.04%	2.76%	-.74%
September 2004	2.02%	2.82%	-.80%
October 2004	3.85%	2.7%	+1.15%
November 2004	4.31%	2.9%	+1.41%
December 2004	3.8%	3.13%	+.67%
January 2005	2.6%	3.11%	-.51%
February 2005	1.8%	2.27%	-.47%
March 2005	2.04%	2.03%	+.01%
April 2005	1.63%	2.35%	-.72%
May 2005	1.92%	2.4%	-.48%

Conclusions:

- 13 months reviewed
- 8 out of the 13 months the 1st year delinquency in SC was lower than the national average.
- 4 out of the 13 months the 1st year delinquency in SC was higher than the national average.
- 1 month out of 13 the 1st year delinquency in SC was virtually the same as the national average. ((March 2005)

Exhibit D – Agency Response

ATTACHMENT #: 3.

DIRECT LOANS REVIEWED
 • TOTAL = 35 files
 • Underwriting = 11 files
 • foreclosure 14 files

guarantee LOANS REVIEWED
 • TOTAL = 13 files
 • Underwriting = 6 files

Exhibit B-Loans Tested and Related Discrepancies

Borrower ID	RD Account Number	Borrower Name	Annual Income Discrepancies	Credit History Discrepancies	Missing Documentation	Original Loan Amount	Loan Status	LOAN ORIGINATION DATE
A	6221727	Gloria Holmes	X					
B	17662003	Renee Simmons		X		\$54,280	Delinquent	7-22-1994
C	6120776	Nadia Schofield	X			73,695	Foreclosure	9-27-1997
D	17665479	Connor Pugh	X			44,500	Foreclosure	1-19-1990
E	6339169	Vivian Gibson	X			60,470	Delinquent	5-15-2001
F	6373413	Mary Jennings		X		41,000	Delinquent	10-13-1987
G	6403930	Milton Moore			X	5,580	Delinquent	2-28-1996
H	6402261	Marilyn Wilson	X			21,236	Bankruptcy	6-6-1988
I	6238794	Perry Funnie	X			48,000	Foreclosure	7-4-1994
J	6398757	Luddie Cooper		X		35,000	Delinquent	7-19-1995
K	6408168	Shawnder Graham	X			5,000	Delinquent	
L	495625589	John Stahl	X		X	30,000	Foreclosure	10-25-1996
M	24833537	Phyllis Lyles		X		\$132,450	Delinquent	3-15-1991
N	247738596	Stacy Atkins	X	X	X	79,900	Bankruptcy	
O	249578203	Regina Grant	X	X		85,750	Delinquent	
P	249276705	Dennis Ingram	X	X		82,900	Delinquent	
Q	247060828	Elizabeth Houston		X		56,900	Bankruptcy	
						75,200	Foreclosure	

DIRECT LOANS

guarantee

1987-1 1994-2
 1988-1 1995-1
 1989- 1996-2
 1990-1 1997-1
 1991-1 1998-
 1992- 1999-
 1993- 2000-
 2001-1

Exhibit D – Agency Response

D
R
A
F
T



**United States Department of Agriculture
Rural Development**
State Office
Columbia, South Carolina

ATTACHMENT #: 4.

SC AN No. _____
August 5, 2005

SUBJECT: Standard Method for Income Calculations
All SFH Programs

TO: Rural Development Employees
South Carolina

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) is issued to supplement RD Instruction HB-1-3550 Section 4.2 Evaluating Borrower Income and Guarantee Instruction 1980.347 and 348 Annual Income and Adjusted Income. This also supplements nationally issued AN's to provide a uniform manner of reviewing and calculating annual and repayment income for 504 and both 502 programs direct and guarantee. It is also issued in response to findings reported in a recently completed OIG audit and an early payment default review.

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued on this subject.

IMPLEMENTATION RESPONSIBILITIES:

Effective upon receipt of this AN, loan originators for Direct and Guaranteed programs in South Carolina will complete Attachment 1 to (A) help determine whether an applicant is eligible for a loan; (B) calculate the applicant's ability to repay a loan; and (C) determine the amount of the loan and the amount of the payment subsidy the household can obtain. When reviewing an applicant's repayment income, the Loan Originator must determine whether the income of stable and dependable. The completed worksheet should be signed by the Direct/GRH loan approval official and placed in position 3 of the loan file.

Place the completed worksheet in position 3 of the loan file. You are also reminded to use all required documents necessary to make loan approval and loan closing decisions. These documents must be anchored to the loan file at all times. If you have any questions, please contact George H. Randolph, Jr. for Direct or Eva L. Franklin, for Guarantee, at (803) 253-3094 or 765-5884.

TEE MILLER
State Director

Attachments

EXPIRATION DATE:
August 30, 2006

FILING INSTRUCTIONS:
Preceding HB-1-3550 Appendix 7
File Preceding RD Inst. 1980-D

Suite 1007 Strom Thurmond Federal Building • 1835 Assembly Street • Columbia, South Carolina 29201
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Exhibit D – Agency Response

ATTACHMENT #: 5.

DOCUMENTATION OF ANNUAL HOUSEHOLD INCOME & REPAYMENT INCOME

I. TOTAL GROSS ANNUAL HOUSEHOLD INCOME (Include income of ALL adults living in the dwelling.) As appropriate, refer to HB-3350-1, Chapter 4, Sect. 2 or Inst. 1980-D, Sect. 1980.347(d)(3)(iii) to evaluate ASSET income.

_____ Type of Employment: Full-time Self-employed
APPLICANT-NAME (SEE BELOW)

Total income from previous 2 years: _____ and _____

Employer: _____

Date of VOE/verbal verification & pay Stubs: _____

Wages/Salary \$ _____ per _____ x _____ = \$ _____

PLUS: overtime bonus commission tips other
 \$ _____ per _____ x _____ = \$ _____

TOTAL = \$ _____ (A)

COMPARE TOTAL TO:
 YEAR-TO-DATE \$ _____ / _____ x _____ = \$ _____ (B)

draft

FOR SELF-EMPLOYED APPLICANT: Attach documentation of calculation of income in accordance with HB-1-3550, Attachment 4-F OR RD Inst. 1980-D, Section 1980.347

OTHER INCOME: Part-Time Job, if applicable

Employer: _____

Date of VOE/verbal verification & pay Stubs: _____

Wages/Salary \$ _____ per _____ x _____ = \$ _____

PLUS: overtime bonus commission tips other
 \$ _____ per _____ x _____ = \$ _____

TOTAL = \$ _____ (C)

COMPARE TOTAL TO:
 YEAR-TO-DATE \$ _____ / _____ x _____ = \$ _____ (D)

OTHER INCOME: SS/SSI PENSION/RETIREMENT UNEMPLOYMENT/DISABILITY
CHILD SUPPORT ASSET INCOME/OTHER ALIMONY
 \$ _____ per _____ x _____ = \$ _____ (E)

APPLICANT'S TOTAL ANNUAL INCOME = \$ _____ (1)
 {total of (A or B) + (C or D) + E}

PROVIDE EXPLANATION OF INCOME DETERMINATION USED FOR TOTAL (i.e. hourly wages vs. year-to-date, etc.) Attached additional sheets if needed.

Exhibit D – Agency Response

_____ Type of Employment: _____ Full-time _____ Self-employed
CO-APPLICANT-NAME (SEE BELOW)

Total income from previous 2 years: _____ and _____

Employer: _____
 Date of VOE/verbal verification & pay Stubs: _____
 Wages/Salary \$ _____ per _____ x _____ = \$ _____
 PLUS: _____ overtime _____ bonus _____ commission _____ tips _____ other
 \$ _____ per _____ x _____ = \$ _____
 TOTAL = \$ _____ (a)
 COMPARE TOTAL TO:
 YEAR-TO-DATE \$ _____ / _____ x _____ = \$ _____ (b)

FOR SELF-EMPLOYED CO-APPLICANT: Attach documentation of calculation of income in accordance with HB-1-3550, Attachment 4-F OR RD Inst. 1980-D, Section 1980.347

OTHER INCOME: _____ Part-Time Job, if applicable

Employer: _____
 Date of VOE/verbal verification & pay Stubs: _____
 Wages/Salary \$ _____ per _____ x _____ = \$ _____
 PLUS: _____ overtime _____ bonus _____ commission _____ tips _____ other
 \$ _____ per _____ x _____ = \$ _____
 TOTAL = \$ _____ (c)
 COMPARE TOTAL TO:
 YEAR-TO-DATE \$ _____ / _____ x _____ = \$ _____ (d)

OTHER INCOME: _____ SS/SSI _____ PENSION/RETIREMENT _____ UNEMPLOYMENT/DISABILITY
 _____ CHILD SUPPORT _____ ASSET INCOME/OTHER _____ ALIMONY
 \$ _____ per _____ x _____ = \$ _____ (e)

CO-APPLICANT'S TOTAL ANNUAL INCOME = \$ _____ (2)
 {total (a or b) + (c or d) + e}

PROVIDE EXPLANATION OF INCOME DETERMINATION USED FOR TOTAL (i.e. hourly wages vs. year-to-date, etc.) Attach additional sheets if needed.

Exhibit D – Agency Response

OTHER HOUSEHOLD MEMBER-NAME

Employer: _____ Date of pay Stubs: _____
 Wages/Salary \$ _____ per _____ x _____ = \$ _____
 PLUS: _____ overtime _____ bonus _____ commission _____ tips _____ other
 \$ _____ per _____ x _____ = \$ _____
 TOTAL = \$ _____ (i)
 COMPARE TOTAL TO:
 YEAR-TO-DATE \$ _____ / _____ x _____ = \$ _____ (ii)

OTHER INCOME: _____ SS/SSI _____ PENSION/RETIREMENT _____ UNEMPLOYMENT/DISABILITY
 _____ CHILD SUPPORT _____ ASSET INCOME/OTHER _____ ALIMONY
 \$ _____ per _____ x _____ = \$ _____ (iii)
 OTHER HOUSEHOLD MEMBER'S TOTAL ANNUAL INCOME = \$ _____ (3)
 {total of (i or ii) + iii}

PROVIDE EXPLANATION OF INCOME DETERMINATION USED FOR TOTAL (i.e. hourly wages vs. year-to-date, etc.) Attach additional sheets if needed.

TOTAL ANNUAL HOUSEHOLD INCOME (1+2+3) \$ _____ (A)

II. DEDUCTIONS TO TOTAL HOUSEHOLD INCOME (Refer to HB-3550-1, Chapter 4, Sect. 1 or Inst. 1980-D, Sect. 1980.348 for explanation of allowable deductions.)

A. Number of family members(excluding parties to the note) under 18, disabled, or full-time students # _____ x \$480 = \$ _____ (a)
 B. Planned child care(12 yrs old/or under)\$ _____ (per _____) x _____ = \$ _____ (b)
 C. Elderly family (\$400) = \$ _____ (c)
 D. (i) Disability assistance expenses = \$ _____ (d)
 (ii) Medical expenses in excess of insurance reimbursement(elderly households only)= \$ _____ (e)
 (iii) 3% of ANNUAL income = \$ _____ (f)
 ALLOWABLE DISABILITY ASSISTANCE/MEDICAL EXPENSES (d+e-f) = \$ _____ (g)
 TOTAL DEDUCTIONS TO ANNUAL HOUSEHOLD INCOME (a+b+c+g) = \$ _____
 TOTAL ADJUSTED ANNUAL HOUSEHOLD INCOME = \$ _____
 COUNTY: _____ Number in Household: _____ VERY LOW INCOME MAX: _____
 LOW INCOME MAX: _____ MODERATE INCOME MAX: _____

Exhibit D – Agency Response

III. ANNUAL REPAYMENT INCOME (include ONLY income of parties to the note) (As appropriate, refer to HB-3550-1, Chapter 4, Sect. 1 or Inst. 1980-D, Sect. 1980.347(e) for eligible repayment income.)

Applicant's annual income (#1 above) = \$ _____

PLUS ANNUAL amount of:

____ Earned Income Credit = \$ _____

____ Section 8/Housing Authority
Payment = \$ _____

____ Value of Food Stamp allotment = \$ _____

____ Other = \$ _____

APPLICANT'S TOTAL ANNUAL REPAYMENT INCOME = \$ _____

Co-applicant's annual income (#2 above) = \$ _____

PLUS ANNUAL amount of:

____ Earned Income Credit = \$ _____

____ Section 8/Housing Authority
Payment = \$ _____

____ Value of Food Stamp allotment = \$ _____

____ Other = \$ _____

CO-APPLICANT'S TOTAL ANNUAL REPAYMENT INCOME = \$ _____

TOTAL ANNUAL REPAYMENT INCOME = \$ _____

COMPLETED BY: _____ DATE: _____
Name and Title

CONCURRENCE BY LOAN APPROVAL OFFICIAL: _____ DATE: _____
(If different from above) Name and Title

(Attach income verification documents and place in position 3 of loan file.)

COMMENTS/FINDINGS: _____

REVIEWED BY: _____ DATE: _____
Name and Title

Exhibit D – Agency Response

ATTACHMENT #: 6.



United States Department of Agriculture
Rural Development
State Office
Columbia, South Carolina

Draft

SC AN No. _____ (3550)
August 8, 2005

SUBJECT: Adverse Credit Waiver Justification and Documentation

T0: Rural Development Managers and Area Directors

PURPOSE / INTENDED OUTCOME:

This issuance is developed in direct response to recommendations made in the recent OIG Audit of South Carolina's Single Family Housing Programs. The purpose of this Administrative Notice (AN) is to implement guidance on approving a waiver of adverse credit and the Loan Approval Official's (LAO) responsibility for documenting justifications for a credit waiver. Additionally, this AN will implement the use of the attached form, "Waiver of Adverse Credit History", as part of every loan eligibility determination in which the LAO has approved an "exception" to an applicant's adverse credit. Lastly, this AN serves to inform Rural Development Managers and Area Directors of the implementation of regular Credit Waiver Reviews by State Office officials.

COMPARISON TO PREVIOUS AN:

No previous AN has been issued on this subject.

IMPLEMENTATION RESPONSIBILITIES:

I. In accordance with Handbook-1-3550, loan approval officials must evaluate the credit history for each applicant who will be a party to the note. Applicant's must demonstrate they are reasonably willing and able to repay a loan. Exhibit 4-3 outlines the indicators of unacceptable credit that should be used to evaluate an applicant's credit history. These indicators must be followed consistently but loan approval officials can make exceptions in limited circumstances as described in Paragraph 4.15 of the Handbook. All exceptions must be accompanied by the necessary justifications and supporting documentation.

EXPIRATION DATE:
September 30, 2006

FILING INSTRUCTIONS:
HB-1-3550, Appendix 7

Strom Thurmond Federal Building • 1835 Assembly Street • Suite 1007 • Columbia, SC 29201
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SC AN No. _____ (3550)

Page 2.

Prior to granting an exception, a stringent evaluation of an applicant's credit history should take place. A credit history analysis is more than simply checking boxes on the "Credit History Worksheet". Decision makers should carefully analyze and evaluate credit reports, and other related information to detect patterns and trends. If the applicant is requesting an exception for existing adverse credit, does the information presented by the applicant match what is reported on the credit report, landlord reference, verifications of income, etc? For example, if the applicant states they were unable to pay a particular debt in 2004 because of a temporary lay off, is that information supported by documentation from the employer? Or, if an applicant went through a messy separation and/or divorce in 2003, creating the temporary expense of moving into a new apartment and subsequent late payments on some bills, do the late pays match the time frame of the separation and or divorce.

The LAO must subjectively judge the circumstances that resulted in the blemished debts. If the applicant is claiming that the debt resulted from a situation that was temporary in nature and beyond their control, the applicant must provide the LAO with adequate documentation to support their claim. As was recently advised by the National Office in an unnumbered letter regarding handling medical collections, an exception can not be granted on the applicant's assertion that they were unaware of the blemished debt or that the blemished debt is not theirs. Supporting documentation must be furnished before a LAO considers granting an exception.

To ensure a comprehensive evaluation of credit and that each applicant has been afforded an opportunity to present their case, the applicant's written statement addressing his/her credit issues should be placed in the case file. The decision maker should also document in running record, all information regarding the applicant's credit history used in the decision making process.

Applicants with no credit history will also be closely scrutinized however; they should not be automatically disqualified. The applicant may be able to document a willingness to pay debts through the submission of third party verifications, i.e. copies of canceled checks, credit reference letters, or other acceptable documentation for monthly rent, utilities, phone bills or other recurring debt payments.

Decision makers are reminded that quality credit worthy decisions cannot be simplified to a mechanized or automated function. Sound judgment and careful evaluation of the applicant's credit circumstances must be justified and documented as part of the underwriting review. Lastly, consistent standards and procedures should be used when evaluating credit qualifications to ensure equity and fairness.

Exhibit D – Agency Response

II. To assist in presenting the facts surrounding a credit waiver decision, Attachment 1 to this SC AN, “Waiver of Adverse Credit History” will be used by all offices to document the LAO’s justification for an Adverse Credit Waiver and to document the LAO’s approval of the exception to adverse credit. It is by no means intended to be the sole document in the case file to justify a credit waiver. Appropriate supporting documentation from the applicant should be attached to this waiver and filed in the case file.

III. In response to OIG’s recommendation that the State Office provide additional oversight to field offices on the subject of credit analysis and waivers, the SFH Division will begin conducting Credit Evaluation Reviews in each local office every two years. These reviews will commence Fiscal Year 2006 using Attachment 2 to this SC AN. A copy of the review will be placed in the borrower loan file and the original to be maintained at the State Office. Since State Internal Reviews (SIR) are completed on a four year cycle, Credit Reviews will be completed approximately two years from the date of each SIR. These reviews will be included in the State Annual Calendar.

USDA, Rural Development employees will consider the guidance provided in this AN in the loan underwriting process as it relates to the credit history review..

If you have any questions regarding this memorandum, please contact Leona Lavallee or George Randolph in the State Office.

TEE MILLER
State Director

Attachments

Exhibit D – Agency Response

ATTACHMENT 1

SC AN No. _____ (HB-1-3550)

Waiver of Adverse Credit History Rural Development, South Carolina

draft

Applicant/Co-applicant Name(s): _____

Date of credit report/credit references: _____

The credit report/references obtained in connection with the application for a Rural Development (*select one of the following loan types*) Section 502 Direct loan or Section 504 loan contain instances of unacceptable credit history.

I have reviewed the credit information and discussed the adverse items with the applicant(s) and have determined that the circumstances were of a temporary nature, were beyond the applicant's control, **and** the circumstances causing the delinquency have been removed. Justify and document **specific** reasons for approving this credit waiver: _____

Attach documentation/explanations provided by the applicant(s).

As a loan approval official for Rural Development, I approve this waiver of adverse credit history as authorized in HB-1-3550, Chapter 4, Section 4.15.

Name and Title of Loan Approval Official

Date

Place signed original in loan file in position 3 attached to credit report/references, credit history worksheet and explanations from the applicant(s).

Exhibit D – Agency Response

ATTACHMENT 2

SC AN No. _____ (HB-1-3550)

**SINGLE FAMILY HOUSING DIRECT
SOUTH CAROLINA CREDIT REVIEW GUIDE**

#	Question	Yes	No	N/A	Comments
1.	Were the proper credit reports (infile and RMCR) ordered and used in reviewing the applicant’s credit history?				DRAFT
2.	If the applicant’s credit history as reported on the RMCR and third party verifications (i.e Landlord’s verification) indicated unacceptable credit handling, is there documentation in the case file to indicate that the loan originator discussed the adverse credit history with the applicant and were the circumstances properly documented.				
4.	Did the decision maker document all information regarding the adverse credit in running record? Was the applicant afforded the opportunity to present a written statement or other information addressing his/her credit issues? i.e running record, written statement from applicant other submitted info from applicant, etc				
3.	For applicants with a credit score less than 660, was form RD 1944-61, Credit History Worksheet completed?				
4.	Did the Loan Approval Official adequately support and document the justifications for waiving a borrower’s adverse credit histories?				
5.	Was an exception approved by the Loan Approval Official, when/if appropriate?				

Reviewer’s Name and Title

Date

Exhibit D – Agency Response

ATTACHMENT #: 7.

**Schedule for Income Calculation and Adverse Credit Reviews
15 South Carolina Field Offices
Fiscal Years 2006 & 2007**

- | | | |
|-----|---------------|-------------------|
| 1. | Sumter: | October 19, 2005 |
| 2. | Horry: | November 16, 2005 |
| 3. | Williamsburg: | December 7, 2005 |
| 4. | Florence | February 22, 2006 |
| 5. | Anderson | March 8, 2006 |
| 6. | Orangeburg: | April 5, 2006 |
| 7. | Charleston: | May 17, 2006 |
| 8. | Chester: | June 14, 2006 |
| 9. | Aiken: | August 16, 2006 |
| 10. | Spartanburg: | October 2006 |
| 11. | Marlboro: | February 2007 |
| 12. | Bamberg: | April 2007 |
| 13. | Newberry: | June 2007 |
| 14. | Greenwood: | August 2007 |
| 15. | Colleton: | September 2007 |

Exhibit D – Agency Response

ATTACHMENT #: 8.

ATTACHMENT 2

SC AN No. _____ (HB-1-3550)

**SINGLE FAMILY HOUSING DIRECT
SOUTH CAROLINA CREDIT REVIEW GUIDE**

#	Question	Yes	No	N/A	Comments
1.	Were the proper credit reports (infile and RMCR) ordered and used in reviewing the applicant’s credit history?				DRAFT
2.	If the applicant’s credit history as reported on the RMCR and third party verifications (i.e Landlord’s verification) indicated unacceptable credit handling, is there documentation in the case file to indicate that the loan originator discussed the adverse credit history with the applicant and were the circumstances properly documented.				
4.	Did the decision maker document all information regarding the adverse credit in running record? Was the applicant afforded the opportunity to present a written statement or other information addressing his/her credit issues? i.e running record, written statement from applicant other submitted info from applicant, etc				
3.	For applicants with a credit score less than 660, was form RD 1944-61, Credit History Worksheet completed?				
4.	Did the Loan Approval Official adequately support and document the justifications for waiving a borrower’s adverse credit histories?				
5.	Was an exception approved by the Loan Approval Official, when/if appropriate?				

Reviewer’s Name and Title

Date

Exhibit D – Agency Response

Exhibit D – Page 26 of 33

ATTACHMENT #: 9.



United States Department of Agriculture
Rural Development
State Office
Columbia, South Carolina

SC AN No. 1237 (1980)
August 5, 2005

SUBJECT: Approval of Ratio Waivers
Guaranteed Housing Loan Program

TO: Rural Development Employees
South Carolina

PURPOSE/INTENDED OUTCOME:

RD Instruction 1980-D requires debt ratio waivers be issued in writing by the Agency to the lender. This Administrative Notice (AN) is issued to supplement RD Instruction 1980-D and nationally issued ANs to provide a uniform manner of approving ratio waiver requests in South Carolina. It is also issued in response to findings reported in a recently completed OIG audit.

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued on this subject.

IMPLEMENTATION RESPONSIBILITIES:

Effective upon receipt of this AN, loan approval officials for Guaranteed housing loans in South Carolina will complete Attachment 1 to approve ratio waiver requests submitted by an underwriting lender. The original will be sent to the underwriting lender. The lender's documentation and compensating factors supporting the request should be attached to a signed copy of the approval and placed in position 3 of the loan file. If you have any questions, please contact Eva L. Franklin, GRH Specialist, at (803) 765-5884.

A handwritten signature in black ink, appearing to read "Tee Miller".

TEE MILLER
State Director

Attachment

EXPIRATION DATE:
August 30, 2006

FILING INSTRUCTIONS:
File preceding RD Inst. 1980-D

Suite 1007 Strom Thurmond Federal Building • 1835 Assembly Street • Columbia, South Carolina 29201
(803) 765-5163 • FAX: (803) 765-5633 • TTY (803) 765-5697 • Web: <http://www.rurdev.usda.gov/sc>

Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD).

Exhibit D – Agency Response

ATTACHMENT #: 10.

ATTACHMENT 1

SC AN No. 1237 (1980-D)

Rural Development GRH Program Approval of Ratio Waiver South Carolina

Applicant/Co-applicant Name(s): _____

Loan Amount: \$ _____ Monthly Repayment Income: \$ _____

PITI Amount: \$ _____ Total Debt Amount: \$ _____

Ratios: PITI _____ TD _____

Underwriting Lender: _____

Underwriter's Name: _____

Submitting Lender: _____

Compensating Factors Provided by the Lender:

Attach any additional documentation, comments, and/or recommendations.

As a Guaranteed loan approval official for Rural Development, I've reviewed this loan file and concur with the Lender's request for a ratio waiver as authorized in RD Inst. 1980-D, Section 1980.345(c)(5).

Name and Title

Date

Original to Lender. Signed copy in loan file attached to Lender's supporting documentation.

Exhibit D – Agency Response

Exhibit D – Page 28 of 33

ATTACHMENT #: 11.



United States Department of Agriculture
Rural Development
State Office
Columbia, South Carolina

SC AN No. 1236 (1980)
August 5, 2005

SUBJECT: Guaranteed Housing Loan Program
Underwriting Guidelines

TO: Rural Development Employees
South Carolina

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) is issued to supplement RD Instruction 1980-D and nationally issued ANs to provide a uniform manner of reviewing loan approval decisions made by underwriting lenders. It is also issued in response to findings reported in a recently completed OIG audit and an early payment default review.

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued on this subject.

IMPLEMENTATION RESPONSIBILITIES:

Effective upon receipt of this AN, loan approval officials for Guaranteed housing loans in South Carolina will complete Attachment 1 to ensure the underwriting lender has provided all required documentation and compensating factors, if applicable. The completed worksheet should be signed by the GRH loan approval official and placed in position 3 of the loan file.

Attachment 2 should be used to ensure the underwriting lender has submitted all documents necessary to determine loan approval by Rural Development. Place the completed checklist in position 3 of the loan file. If you have any questions, please contact Eva L. Franklin, GRH Specialist, at (803) 765-5884.

A handwritten signature in black ink that reads "Tee Miller".

TEE MILLER
State Director

Attachments

EXPIRATION DATE:
August 30, 2006

FILING INSTRUCTIONS:
File preceding RD Inst. 1980-D

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Exhibit D – Agency Response

ATTACHMENT 1

ATTACHMENT #: 12.

SC AN No. 1236(1980-D)

Rural Development GRH Program -- Risk Layering Review -- SC			
Borrower			
Co-Borrower			
Loan Amount	\$ _____		
Names of Underwriter & Lender			
RISK LAYER	YES	NO	COMMENTS (required for ALL "yes" answers)
payment shock over 100% (AN No. 4051)			current expense
			PITI amount
			Actual Percentage
If payment shock is 100% or higher <u>OR</u> applicant did not have previous housing expense, NO additional risk layering should be allowed without <u>STRONG</u> compensating factors. See AN No. 4051.			
ratio waiver: PITI _____ (over 29.0%) TD _____ (over 41.0%) <i>Must show compensating factors. RD to approve in writing. (AN No. 4053)</i>			
If ratio waiver(s) requested, there should be NO additional and significant layers of risk. See AN No. 4053.			
Is the house in fair or poor condition?			
Appraiser's name	actual age of dwelling:	market value:\$	
Is the credit score < 660? (AN No. 4067)			Actual Score: Borrower: _____ Co-Borrower: _____
Did the lender grant a credit waiver?			
3rd party buydown (max 2/1) <i>compensating factors must be provided</i>			
Are there collections/charge-offs with balances? (1980.345(d) & AN No. 4080)			
no history of dependable/available income (If on present job < 2 years, provide 2-yr history with explanation of any gaps)			
Are estimated cash reserves after closing < \$500?			Actual Amount = \$ _____
other risks			
FINAL ANALYSIS--Strong compensating factors should be listed or attached: (not required if there are ZERO layers of risk)			
DATE OF RD REVIEW			
RD REVIEWER'S SIGNATURE			

Exhibit D – Agency Response

ATTACHMENT 2

ATTACHMENT #: 13. SC AN No. 1236 (1980-D)

SFH GUARANTEED LOAN PROCESSING CHECKLIST (revised 8/1/05)

Name of Applicant(s): _____ Date Received: _____

____ CAIVRS Authorization # for applicant _____; for co-applicant _____

____ COMPLETED Form 1980-21, "Request for SFH Loan Obligation" REVISED 01/03, SIGNED by the Lender and the applicant(s). ******SERVES AS UNDERWRITER'S APPROVAL/CREDIT WAIVER**

____ Compensating factors for ratio waiver, if applicable

____ Compensating factors for buydown {max 2/1 not funded by applicant(s)}, if applicable

____ Environmental Review with all attachments. Date if requested by RD: _____

____ ACCEPTABLE verification of credit history-- CREDIT SCORE(s) _____

____ For applicant and co-applicant, Verification of Employment (VOE) and the most recent paycheck stubs completed within 120 days of loan approval or 180 days for new construction

OR Paycheck stubs/payroll earnings statement covering most recent 30 day period AND W-2 forms for previous 2 years AND telephone verification of employment (documented attempt, if unable to obtain verbal)

____ Verification of ALL other household income

____ COMPLETE Appraisal Report: VALUE: _____ TECHNICAL TO SO _____

____ Application: LOAN AMOUNT: _____ INTEREST RATE: _____

If the dwelling is a new manufactured unit:

____ Copy of the dealer-contractor's approval letter, (if the dwelling is a new manufactured unit).

____ Evidence the new manufactured unit meets HUD Uo zone 2 or 3 requirements.

(IF ANY OF THE ABOVE ITEMS ARE MISSING, PROCESSING WILL BE DEFERRED)

____ Appraisal accepted by RD Approved Technical Review rec'vd from SO _____

____ Written analysis of loan feasibility (Fannie Mae Transmittal Summary, etc.)

____ If credit score is UNDER 660--statement of applicant(s) present housing circumstances (VOR, etc.), if not on credit report.

____ Current housing expense \$ _____

____ Copy of PURCHASE AGREEMENT/SALES CONTRACT

____ Form 1980-86, "Reservation of Funds" Number: _____

____ Form AD-1048 signed by applicant(s).

____ Copy of certification of completion of a Home Buyer's Education course, if first-time home buyer

____ Standard Flood Hazard Determination FEMA Form 81-93

____ Copy of Funded Buydown Agreement, if applicable. Applicant(s) cannot fund the Buydown.

____ Other: _____

Exhibit D – Agency Response

ATTACHMENT 2

SC AN No. 1236 (1980-D)

FOR NEW CONSTRUCTION OR DWELLINGS LESS THAN 1 YEAR OLD

- _____ If needed, final certification of value from the appraiser with clear photos of completed dwelling.
- _____ Lender's certification that construction has been completed in accordance with RD Instruction 1980-D (CERTIFICATION to state the lender has copies of the following in its loan file: Completed Builder's Warranty for at least 1 year; Form AD-1048 signed by the contractor; Copy of certification of soil treatment for termites with 1-year transferable warranty as required by SC Pesticide Control Act; copy of the building permit and Certificate of Occupancy or equivalent from local building inspector. (If there is no local building inspector, the Lender must obtain the foundation, framing and final inspections from a fee inspector and a properly completed plan certification.)

FOR EXISTING DWELLINGS OVER 1 YEAR OLD

- _____ Lender's certification that the existing dwelling meets the requirements of RD Instruction 1980-D. (CERTIFICATION to state the lender has copies of the following in its loan file: Copy of Lead Based Paint Disclosure signed by applicant(s) for dwellings built PRIOR to 1978; Certification that dwelling meets RD's Thermal Requirements if built before 1993 in SC; Certification that the dwelling meets HUD Handbooks 4150.2 and 4905.1 AND has adequate heating, electrical, plumbing, water and waste disposal systems, is structurally sound and functionally adequate; Certification of completion of any repairs noted in sales contract, appraisal, adequacy certification, or pest inspection, if applicable; Acceptable water test if property has individual well; Certification dwelling is free from termites and/or other wood destroying organisms.

FOR NEW MANUFACTURED HOUSING UNITS ONLY

- _____ RD to receive proof that the Federal Manufactured Home Construction & Safety Standards Label property affixed on the unit.
- _____ RD to receive a signed by the dealer-contractor that this is the full price of the unit and all development, and if furniture is being purchased by the applicants, that a lien will NOT be filed against the security property.
- _____ RD to receive a statement signed by the dealer-contractor that any cash payment or rebate as a result of the purchase of the manufactured home will be deducted from the price of the unit and NOT paid to the applicant(s).
- _____ The dealer-contractor must provide a warranty in accordance with the provisions of 1924.9 (d) Subpart A of Part 1924. The warranty must identify the unit(s) by serial number(s). The dealer-contractor must certify that the manufactured home substantially complies with the plans and specifications and the manufactured home sustained no hidden damages during transportation; and, if manufactured in separate sections, that the sections were properly joined and sealed according to the manufacturer's specifications. The dealer-contractor will also furnish the applicant with a copy of all manufacturer warranties.
- _____ RD to receive properly completed plan certification for foundation development.
- _____ If needed, final certification of value from the appraiser with clear photos of completed dwelling.
- _____ Lender's certification that construction has been completed in accordance with RD Instruction 1980-D (CERTIFICATION to state the lender has copies of the following in its loan file: Completed Builder's Warranty for at least 1 year; Form AD-1048 signed by the contractor; Copy of certification of soil treatment for termites with 1-year transferable warranty as required by SC Pesticide Control Act; copy of the building permit and Certificate of Occupancy or equivalent from local building inspector. (If there is no local building inspector, the Lender must obtain the foundation, framing and final inspections from a fee inspector and a properly completed plan certification.)

Exhibit D – Agency Response

ATTACHMENT #: 14.

Subject: Plan for Completing Annual Reviews of Foreclosure Processing

To: Area Directors, Rural Development Managers, and Field Offices
South Carolina

The following is a plan for conducting Annual Reviews of Foreclosure Processing in South Carolina for Fiscal Year 2006. Offices will be contacted with a specific day for the review. Additional reviews may become necessary when major trends and weaknesses are noted. The plan will be revised when needed with a copy to your office.

OFFICE	DATE OF REVIEW
Chester	October
Williamsburg	November
Florence	December
Aiken	January
Spartanburg	February
Charleston	March
Marlboro	April
Newberry	April
Orangeburg	May
Conway	May
Anderson	June
Greenwood	June
Colleton	July
Sumter	August
Bamberg	September

Please contact the SFH Division if you have any questions,

TEE MILLER
State Director

CC: SFH Program Director

Exhibit D – Agency Response



United States Department of Agriculture
Rural Development
State Office
Columbia, South Carolina

August 29, 2005

Raymond G. Poland
Regional Inspector General
Atlanta, Ga.

Re: Single Family Housing Audit (04099-340-At)
South Carolina

Dear Mr. Poland:

We are providing this supplemental response to the referenced audit to clarify our intentions regarding the issuance of Administrative Notices (AN's). It is our intention to either re-issue these notices annually, and/or to replace them with permanent Procedural Notices (PN's). These issuances will continue to be a part of our internal processes until the results of our field reviews indicate little or no discrepancies with the income calculations process or credit history reviews/waivers.

Thank you, and contact me should you have questions.


TEE MILLER
State Director

cc: file

Sirom Thurmond Federal Building • 1835 Assembly Street • Suite 1007 • Columbia, SC 29201
Phone: (803) 765-6183 • Fax: (803) 765-5633 • TDD: (803) 765-5697 • Web: <http://www.rurdev.usda.gov/sc>

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Washington, DC 20260-9410 or call (800)795-3272 (voice) or (202)720-6392 (TDD).

Informational copies of this report have been distributed to:

State Director, RD-SC (2)

Agency Liaison Officer (4)

Government Accountability Office (1)

Office of Management and Budget (1)

Office of the Chief Financial Officer (1)

Director, Planning and Accountability Division