



December 2, 2020

MEMORANDUM NO:
2021-LA-0802

Memorandum

TO: Susan A. Betts
Deputy Assistant Secretary for Finance and Budget, HW

//SIGNED//

FROM: Tanya E. Schulze
Regional Inspector General for Audit, Los Angeles Region, 9DGA

SUBJECT: Interim Audit Memorandum – The HUD Single Family Insurance Operations Division Should Take Additional Action to Inform Homeowners of Changes to Its FHA Refund Process Resulting From the COVID-19 Pandemic

INTRODUCTION

We started an audit to determine whether the U.S. Department of Housing and Urban Development (HUD) appropriately, effectively, and efficiently tracked, monitored, and issued Federal Housing Administration (FHA) refunds owed to homeowners with terminated loans. During our field work, the Coronavirus 2019 (COVID-19) pandemic began and as a result, we developed a second, more urgent audit objective to determine how COVID-19 has affected policies, procedures, and distribution of FHA refunds and whether HUD's response was appropriate. We determined that COVID-19 generally did not affect the Single Family Insurance Operations Division's (SFIOD) FHA refund policies and procedures; however, SFIOD did not fully notify homeowners of operational changes to its physical mail procedures, which potentially impacted its distribution of refunds. We issued this interim report to ensure HUD was made aware of the issues identified during our review and could act in a timely manner to address them. The audit prompted HUD to take immediate corrective action for all three recommendations, one of which will be closed concurrently with the issuance of this memorandum and two that will be completed during audit resolution.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

SCOPE AND METHODOLOGY

Our COVID-19-related audit work covered the period March to July 2020. We performed our fieldwork remotely from Phoenix, AZ, from May to July 2020. To accomplish our COVID-19 audit objective, we

- reviewed applicable regulations and guidance for FHA refunds,¹
- reviewed the internal policies and procedures implemented by SFIOD and its call center contractor for FHA refunds,
- interviewed management and staff from HUD and its call center contractor, and
- reviewed HUD’s FHA refunds website and the call center contractor’s automated voice message.

Additionally, SFIOD provided data from its Distributive Share and Refund Subsystem (DSRS).² We used the data to determine the number of FHA refund cases that received applications or supporting documents each month from January 1, 2017, to June 16, 2020, for refunds that were not paid as part of HUD’s streamline three process.³ HUD received supporting documentation from homeowners for 4,778 FHA refund cases. We did not verify the data concerning the date HUD received support and noted some inconsistencies in the data; however, we used the data only to determine whether there was an overall trend in supporting documents received and did not rely solely on the data to support our audit conclusions.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

BACKGROUND

HUD’s Office of Single Family Housing’s FHA provides mortgage insurance on loans made by FHA-approved lenders and is one of the largest insurers of mortgages in the world. FHA mortgage insurance provides lenders with protection against losses if a property owner defaults on his or her mortgage.

The monthly mortgage insurance premiums (MIP) it collects from borrowers via lenders are used to operate the program. Most FHA mortgage insurance programs also require the payment of an upfront mortgage insurance premium (UFMIP), which may be financed into the mortgage. When insurance is terminated, eligible homeowners are due an FHA refund for the unearned portion of the UFMIP paid.⁴ Table 1 below details mortgagee letters that further revised FHA refunds guidance.⁵

¹ See appendix B for criteria.

² The Distributive Share and Refund Subsystem is a HUD system that processes terminated and matured refund cases and determines the eligibility for mortgage insurance premium refunds.

³ HUD automatically pays refunds that meet specific criteria without requiring documentation. This is known as a streamline three payment.

⁴ See 24 CFR 203.283 in appendix B.

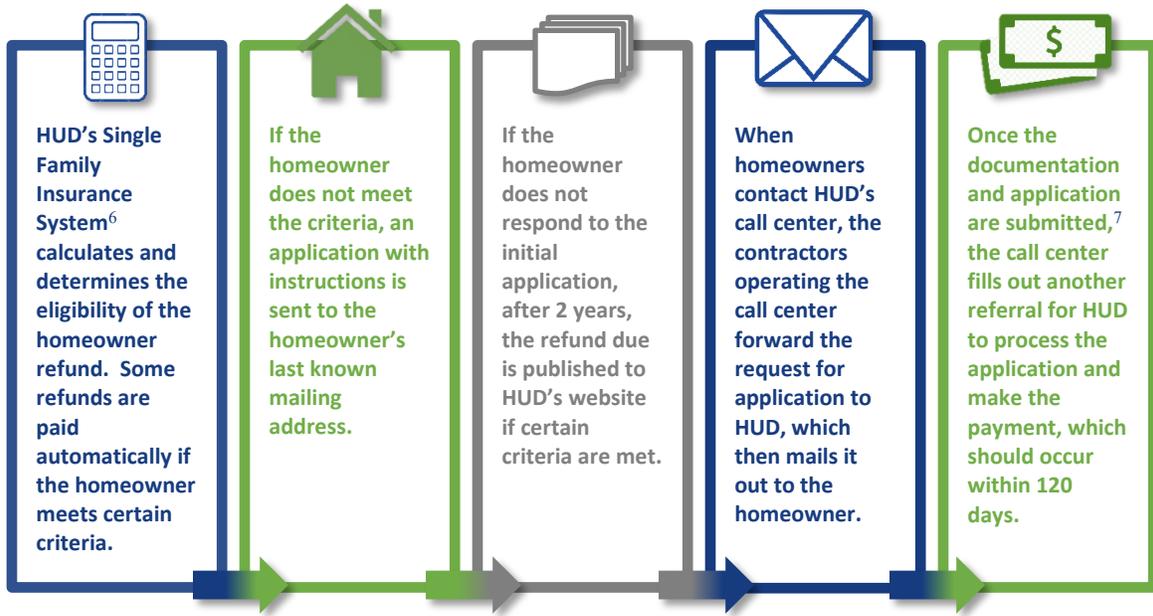
⁵ See appendix B.

Table 1 – FHA refunds Mortgage Letters

1993-36	Changed the procedures calculating the unearned premium from a percentage of the original mortgage amount and the period of insurance to a percentage of the initial MIP paid. Also, established a revised 7 year refund schedule to determine FHA refunds due to homeowners.
2000-46	Shortened the refund schedule period from 7 to 5 years for loans closed on or after January 1, 2001. [Note: On its website, HUD currently states that for any FHA-insured loans with a closing date before January 1, 2001, and endorsed before December 8, 2004, no refund is due to the homeowner after the end of the seventh year of insurance. For any FHA-insured loans closed on or after January 1, 2001, and endorsed before December 8, 2004, no refund is due to the homeowner after the fifth year of insurance.]
2005-03	Eliminated FHA refunds except when a homeowner refinanced to another FHA loan for loans endorsed on or after December 8, 2004. Also, shortened the refund schedule period from 5 to 3 years. [Note: On its website, HUD states that for FHA-insured loans endorsed on or after December 8, 2004, no refund is due to the homeowner unless 1) he or she refinanced to a new FHA-insured loan and 2) the homeowners refinanced within the first three years of insurance.

The process for paying refunds due to homeowners is managed under HUD’s SFIOD. See figure 1 below. HUD hired a call center contractor, which homeowners can contact to get answers to their questions.

Figure 1 – FHA refund process



The President declared a national emergency on March 13, 2020, as the infection rates of COVID-19 rose within the United States and around the world. The Office of Management and Budget (OMB) issued a series of memorandums to Federal agencies addressing increased use of

⁶ The Single Family Insurance System is a HUD application that maintains the insurance-in-force database and contains detailed case information on FHA-insured single-family properties.

⁷ See the Standard Operating Procedures in appendix B.

telework during the pandemic. On March 17, 2020, OMB Memorandum 20-16 directed agencies to maximize telework for the Federal workforce. HUD deployed mandatory telework for its employees nationwide as part of an evacuation order on March 20, 2020. Access to HUD offices nationwide was permitted only when required for mission-critical functions. A survey completed by the HUD Office of Inspector General's (OIG) Office of Evaluation⁸ stated that HUD was generally well prepared for mandatory telework; however, telework severely impeded business processes dependent on paper records or facility access.

Our audit objective was to determine how COVID-19 has affected policies, procedures, and distribution of FHA refunds and whether HUD's response was appropriate.

RESULTS OF REVIEW

SFIOD did not take sufficient action to notify homeowners who might be eligible for an UFMIP refund of the operational changes made to its refund process in response to the COVID-19 pandemic. In response to HUD's deployment of mandatory telework, SFIOD's Disbursements and Customer Service Branch switched its branch staff and call center staff to full-time telework. As a result, SFIOD has not been able to pick up mail sent to its Single Family Premium Post Office (PO) Box, the primary method by which it receives refund applications and supporting documentation. To accommodate for this change, SFIOD started accepting FHA refund applications (form HUD-27050-B) and other supporting documents electronically (email). On April 15, 2020, SFIOD instructed the call center to notify homeowners they should submit FHA refund applications and other supporting documents electronically (email). However, SFIOD did not clearly notify homeowners that it was no longer able to retrieve physical mail from its PO Box and that refund applications and other supporting documents should be submitted electronically to avoid a delay in processing. Specifically, SFIOD did not

- update instructions mailed to the homeowners with the application for refund;
- adequately update its FHA refund websites;
- ensure that the link on its Does HUD Owe You a Refund webpage sent the user to the updated FHA Homeowners Fact Sheet webpage for refunds;
- ensure that its call center contractor adequately and correctly updated its automated voice message, which included an incorrect email address; or
- ensure that its call center had developed a written script for initial and followup calls to ensure that all homeowners were notified of the change to the process in the same manner.

In addition, SFIOD did not perform a privacy impact assessment for the operational change that resulted in the inclusion of personally identifiable information (PII) via email.

The issues occurred because the onset of COVID-19 resulted in rapid changes to HUD's operations and SFIOD did not develop a long-term contingency plan for responding to emergency situations, including procedures if staff could not return to the office. As a result, homeowners may have been submitting applications through the mail, creating a backlog of

⁸ See HUD OIG memorandum report [2020-OE-0006](#).

refund requests and delaying the processing of refunds during a time when homeowners may have had greater need for the money owed.

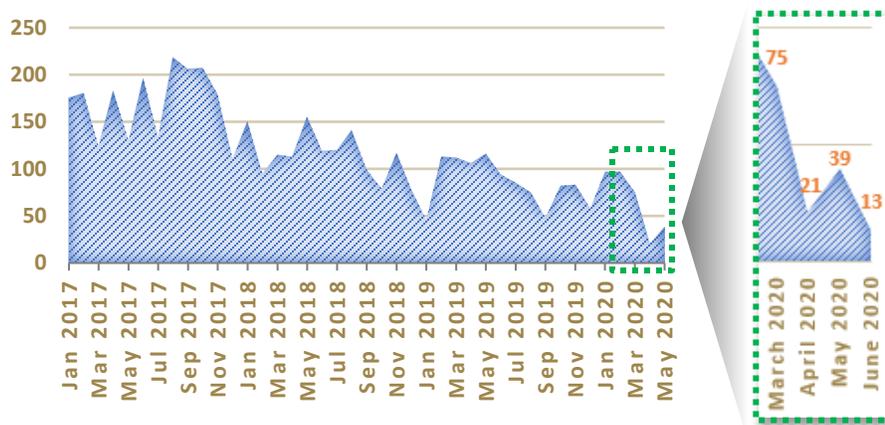
In response to the audit and before this audit memorandum was issued, SFIOD took steps to address most of the deficiencies and recommendations identified. Specifically, SFIOD informed homeowners that in response to COVID-19, documentation may be submitted by email or fax by 1) including correspondence with the refund applications, 2) updating the FHA refund website, 3) having the call center update its automated voice message, and 4) having the call center develop a written script. SFIOD also updated the call center automated voice message with the accurate email address to email documents, developed written policies and procedures to quickly respond to emergency situations, and created a website for homeowners to upload documents. Therefore, recommendation 1A has been addressed and will be closed with the issuance of this audit memorandum.

SFIOD Mailed Outdated Instructions

Applications for UFMIP refunds must be sent from SFIOD directly to the homeowner and cannot be obtained online. When SFIOD mails out the application, the instructions are included on the back of the form. The instructions on the back of the form instruct the homeowner to mail the application to its PO Box.

HUD was notified that offices were mandated to be closed on March 20, 2020, preventing SFIOD from picking up mail; however, it did not provide updated correspondence to homeowners when the application was mailed to inform the homeowners that they should mail the applications electronically to prevent a delay in processing the refund during COVID-19. SFIOD stated that this condition occurred because the process to update its correspondence required the Disbursements and Customer Service Branch to go through its administration department, which then had to work with the contractor to obtain approval. Figure 2 below shows the number of FHA refund cases each month for which SFIOD received applications or supporting documents from homeowners.⁹ Although it indicates a gradual decline since January 2017, it shows a significant decline after March 2020. The decline supports that homeowners may not have been adequately instructed to send the application electronically.

Figure 2 – Refunds for which HUD received supporting documents¹⁰



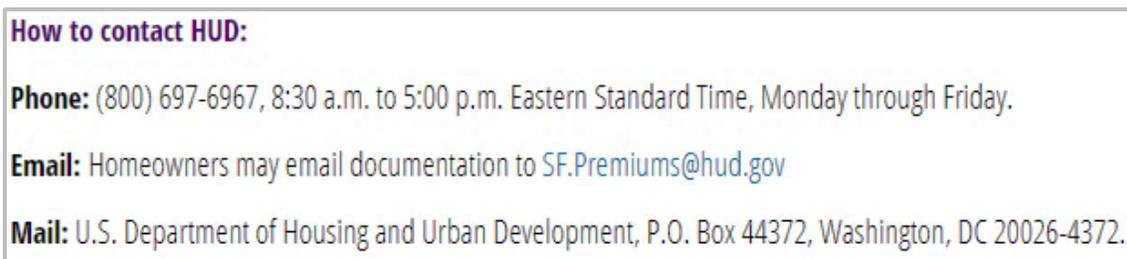
⁹ The graph was developed using data obtained from HUD’s DSRS.

¹⁰ The data included information through June 16, 2020.

SFIOD's Website Did Not Notify Homeowners of Operational Changes

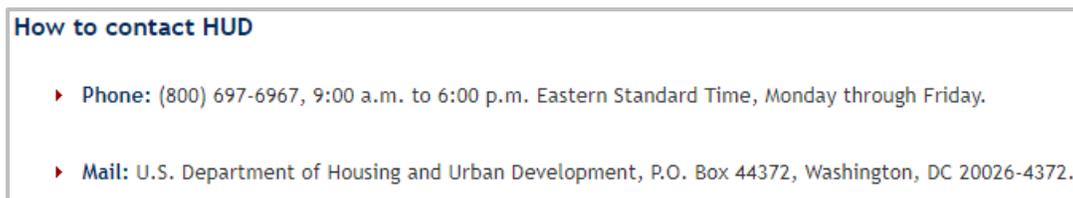
SFIOD did not update its FHA refund websites and ensure that the link on its Does HUD Owe You a Refund website sent the user to the updated FHA Homeowners Fact Sheet website for refunds. SFIOD explained that it had updated its website to inform homeowners of the changes in how it accepts applications and supporting documents. Although SFIOD did update its FHA Homeowners Fact Sheet¹¹ to include its email as a method of providing documentation and contacting HUD, it still listed its PO Box, without notifying homeowners that email was the preferred method for document submission while mail was no longer being collected during the COVID-19 pandemic. See figure 3 below.

Figure 3 – Excerpt from updated FHA Homeowners Fact Sheet



In addition, HUD's website,¹² entitled Does HUD Owe You a Refund, where homeowners can search if they are due a refund, contains a link to an outdated FHA website,¹³ which includes only two methods for contacting HUD, by phone and mail. See figure 4 below.

Figure 4 – Excerpt from outdated FHA Homeowners Fact Sheet



The Call Center Automated Voice Message Was Inadequate

SFIOD used its call center to inform homeowners of the operational changes made as a result of COVID-19. SFIOD informed the call center on April 15, 2020, nearly a month after it was no longer able to collect mail applications and supporting documents, that it needed to change the automated voice message on its phone system to inform homeowners to email their applications to the Single-Family Premium email address box (SF.Premiums@hud.gov). Figure 5 below details the automated voice message, as of June 3, 2020.

¹¹ https://www.hud.gov/program_offices/housing/comp/refunds/fhafact

¹² <https://entp.hud.gov/dsrs/refunds/>

¹³ <https://entp.hud.gov/dsrs/help/fhafacts.cfm>

Figure 5 – Automated voice message to homeowners



Thank you for calling the Housing and Urban Development Mortgage Insurance Premium Refund Support Service Center. As the impact of the coronavirus grows, we are doing our part to ensure employees' safety with minimal interruptions. Rest assured, we are committed to maintaining the same level of service and security for this time. Our office hours are 8:30 a.m. to 5 p.m. Eastern, Monday through Friday. We are still processing mortgage insurance premium refunds. You can email your documents to SF.Premiums@hud.govenor.

The automated voice message did not adequately inform homeowners of SFIOD's operational changes. The voice message did not include a statement to inform the homeowners that they should submit refund applications electronically to prevent a delay in processing. The voice message also incorrectly identified the email address with an incorrect domain name; instead of "hud.gov," it was stated as "hud.govenor."

The Call Center Did Not Have an Updated Script

SFIOD did not immediately notify its call center to update homeowners regarding COVID-19 operational changes. SFIOD's call center was informed on April 15, 2020, that its analysts needed to update callers on the change in the process due to COVID-19 when they called about their applications. The call center stated that it was informing callers of the change in the application and supporting document submission process due to COVID-19 and that it was also in the process of following up with homeowners that had already been sent applications. Although this was an appropriate step, the call center did not have a written script for the initial contact with the homeowner or for followup calls. The call center had written scripts for most situations it would encounter, but it did not develop one specifically for COVID-19 to ensure that all homeowners would be made aware of the operational changes in a consistent manner.

SFIOD Did Not Perform a Privacy Impact Assessment for the Operational Changes

HUD's refund application (form HUD-27050-B) requires the homeowner to submit PII, such as his or her name, Social Security number, property address, and current mailing address. SFIOD did not perform a privacy impact assessment concerning PII before modifying its procedures to accept refund applications and supporting documents electronically from homeowners. SFIOD started accepting refund applications and supporting documentation electronically out of necessity due to the COVID-19 pandemic and the uncertainty surrounding the amount of time HUD's mandatory telework would affect SFIOD's ability to physically pick up mail from its PO Box. Although it was necessary for SFIOD to make the changes quickly, after implementing the changes, it should have performed a privacy impact assessment to identify potential privacy risks and develop plans to mitigate those risks due to the uncertain timeframe during which COVID-19 will prevent SFIOD from physically picking up mail.

CONCLUSION

As HUD's response to the COVID-19 pandemic continues and SFIOD did not have access to physically retrieve its mail, including refund applications and supporting documents, it needed to promptly take action to reduce the impact to processing homeowners' FHA refunds. SFIOD should have performed a privacy impact assessment for accepting PII electronically and more

clearly notified homeowners of changes to the way it receives applications and supporting documents. This condition occurred because COVID-19 resulted in rapid changes to HUD's operations and SFIOD did not develop a long-term contingency plan for responding to emergency situations to address issues, such as (1) expediting changes in correspondence to homeowners, (2) adequately updating its website and call center automated voice message, and (3) ensuring that call center analysts informed homeowners in a consistent manner. As a result, homeowners may have been submitting applications through the mail, creating a backlog of refund requests and delaying the processing of refunds at a time when homeowners may have had a greater need for the money owed.

RECOMMENDATIONS

We recommend that the Deputy Assistant Secretary for Finance and Budget

- 1A. Adequately notify homeowners that, due to COVID-19, all FHA refund applications and supporting documents should be sent electronically to avoid delay in processing. This process should include (1) developing and expediting implementation of correspondence sent to homeowners with the application, (2) a notice of operational changes on HUD's FHA refunds websites, (3) ensuring that HUD's Does HUD Owe You a Refund website is updated to the most recent FHA Homeowners Fact Sheet, (4) an updated voice message from the call center including an accurate email, and (5) developing an updated script for call center agents for the initial contact with the homeowner, follow up, and contact with homeowners who already submitted their application by mail.
- 1B. Conduct a privacy impact assessment for accepting homeowner FHA refund applications and supporting documentation that contain PII electronically to identify potential risks and develop and implement plans to mitigate those risks.
- 1C. Develop and implement written policies and procedures for SFIOD to quickly respond to emergency situations when staff cannot return to the office. Procedures should include steps to quickly notify homeowners of any changes made to the FHA refund process.

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

OFFICE OF HOUSING

MEMORANDUM FOR: Tanya E. Shulze, Regional Inspector General for Audit, 9DGA
SUSAN BETTS

FROM: Susan A. Betts, Deputy Assistant Secretary for Finance and Budget, HW

SUBJECT: Draft Interim Audit Memorandum – The HUD Single Family Insurance Operations Division Should Take Additional Action To Inform Homeowners of Changes to Its FHA Refund Process Resulting From the COVID-19 Pandemic

Thank you for providing the Office of Finance and Budget the opportunity to comment on the Office of Inspector General's (OIG) draft audit report entitled "The HUD Single Family Insurance Operations Division Should Take Additional Action To Inform Homeowners of Changes to Its FHA Refund Process Resulting From the COVID-19 Pandemic." Please find our comments below:

Recommendation 1A:

Adequately notify homeowners that, due to COVID-19, all FHA refund applications and supporting documents should be sent electronically to avoid delay in processing. This process should include (1) developing and expediting implementation of correspondence sent to homeowners with the application, (2) a notice of operational changes on HUD's FHA refunds website, (3) ensuring that HUD's Does HUD Owe You a Refund website is updated to the most recent FHA Homeowners Fact Sheet, (4) an updated voice message from the call center including an accurate email, and (5) developing an updated script for call center agents for the initial contact with the homeowner, follow up, and contact with homeowners who already submitted their application by mail.

Response:

The Single Family Insurance Operations Division (SFIOD) agrees with these recommendations, and has completed the recommended actions as they relate to COVID-19.

- 1) SFIOD has developed and implemented the correspondence sent to homeowners
- 2) SFIOD has updated the operational changes on the HUD's FHA refunds website.
- 3) SFIOD has updated HUD's Does HUD Owe You a Refund website
- 4) SFIOD has updated the voice message for the call center to include the accurate email
- 5) SFIOD has developed and implemented an updated script for call center agents

Recommendation 1B:

Conduct a privacy impact assessment for accepting homeowner FHA refund applications and supporting documentation that contain PII electronically to identify potential risks and develop and implement plans to mitigate those risks.

www.hud.gov espano.hud.gov

Comment 1

Comment 2

**Ref to OIG
Evaluation**

2

Comment 2

Response:

SFIOD agrees with this recommendation and are currently working with the Office of the Chief Privacy Officer and Housing Office of Systems and Technology to address this item.

Recommendation 1C:

Develop and implement written policies and procedures for SFIOD to quickly respond to emergency situations when staff cannot return to the office. Procedures should include steps to quickly notify homeowners of any changes made to the FHA refund process.

Response:

SFIOD agrees with this recommendation and has created procedures that will enable SFIOD to quickly respond to emergency situations when staff cannot return to the office.

Comment 2

SFIOD appreciates OIG's recommendations. We have taken the required actions, provided the support to the OIG and request that the OIG close recommendations 1A and 1C concurrently.

OIG Evaluation of Auditee Comments

- Comment 1 We reviewed documentation provided by SFIOD and determined recommendation 1A was adequately implemented. As such, the recommendation will be closed concurrent with the issuance of the audit memorandum.
- Comment 2 We appreciate SFIOD's cooperation during the audit and the timely action taken to address the recommendations in the audit memorandum. However, we cannot concurrently close recommendation 1C as the policies and procedures have been developed but not yet implemented. We look forward to working with SFIOD on resolving recommendations 1B and 1C.

Appendix B

Criteria

Mortgagee Letter 1993-36 – Changes in Premium Refund Computations (issued October 22, 1993)

- This letter transmits changes to the current method used to calculate the amount of the unearned premium.
- The current procedure calculates the premium refund as a percentage of the original mortgage amount and the period of insurance. In contrast, the new procedure calculates the amount of the premium refund as a percentage of the initial MIP paid on the mortgage being terminated or refinanced and the period of insurance. It is important to note that no premium refund remains at the end of the 7th year of amortization.
- These changes will be in effect for all terminations and refinances closed on or after January 1, 1994.

Mortgagee Letter 2000-38 – Further Reduction in UFMIP and Other Mortgage Insurance Premium Changes (issued October 27, 2000)

Currently, borrower spaying off (or refinancing) their FHA loans within seven years from the date of closing, are entitled to a partial refund of UFMIP paid at closing. The refund schedule is now being shortened for loans closed on or after January 1, 2001, to a five year time period.

Mortgagee Letter 2000-46 – Additional Details about the Further Reduction in UFMIP and Other Mortgage Insurance Premium Changes (issued December 20, 2000)

- This mortgagee letter provides additional information, including details on the mortgage insurance premium charges for refinances, and issues the new refund schedule.
- As stated in Mortgagee Letter 00-38, for loans closed on or after January 1, 2001, the unearned premium refund schedule is shortened to a five year period. This applies to refinances as well as loans paid in full. The new refund schedule is attached to this mortgagee letter.

Mortgagee Letter 2005-03 – Elimination of Refunds of UFMIP (issued January 6, 2005)

- Section 223 of the Consolidated Appropriations Act 2005 amended Section 203(c)(2)(A) of the National Housing Act to eliminate refunds of the FHA UFMIP except when the borrower refinances to another mortgage to be insured by FHA.
- This elimination of refunds is effective for those mortgages endorsed for insurance on or after December 8, 2004, the day the President signed the act.
- Also effective with those mortgages endorsed for insurance on or after December 8th, the refund schedule for those borrowers who refinance to another FHA-insured mortgage is modified to a three-year time period.

24 Code of Federal Regulations 203.283 - Refund of one-time MIP

- a) The Commissioner shall provide for the refund to the mortgagor [homeowner] of a portion of the unearned MIP paid pursuant to §203.280 if the contract of insurance covering the mortgage is terminated:

- 1) By conveyance to one other than the Commissioner and a claim for the insurance benefits is not presented for payment (§203.315),
 - 2) By prepayment of the mortgage (§203.316), or
 - 3) By voluntary agreement with the approval of the Commissioner (§203.317).
- b) The Commissioner shall determine the amount of the premium refund by multiplying the amount the premium paid at the time the mortgage was insured by the applicable premium refund percentage for mortgages insured in the year the mortgage was endorsed for insurance. The Commissioner shall determine the applicable premium refund percentage for each year in an equitable manner and in accordance with sound financial and actuarial practice, taking into account:
- 1) projected salaries and expenses,
 - 2) prospective losses generated by insurance claims, and
 - 3) expected future payments of premium refunds

Standard Operating Procedures for A80D/Distributive Shares and Refund Subsystem (DSRS) Processing Homeowner Refunds

When the [form HUD-] 27050-B [Application for Premium Refund or Distributive Share Payment] is received by the applicant, all sections should be filled out completely. The 27050-B should be signed and notarized along with proof of ownership and mailed to the P.O. Box provided on the 27050-B or faxed to 301-572-8079.

Public Law 107-347 – E-Government Act of 2002 – Section 208

- (A) An agency shall take actions described under subparagraph (B) before initiating a new collection of information that
- Will be collected, maintained, or disseminated using information technology; and
 - Includes any information in an identifiable form permitting the physical or online contacting of a specific individual, if identical questions have been posed to, or identical reporting requirements imposed on, 10 or more persons, other than agencies, instrumentalities, or employees of the Federal Government.
- (B) To the extent required under subparagraph (A), each agency shall
- Conduct a privacy impact assessment;
 - Ensure the review of the privacy impact assessment by the Chief Information Officer, or equivalent official, as determined by the head of the agency; and
 - If practicable, after completion of the review under clause (ii), make the privacy impact assessment publicly available through the website of the agency, publication in the Federal Register, or other means.

OMB Memorandum M-03-22 – OMB Guidance for Implementing the Privacy Provisions of the E-Government Act of 2002 (issued September 26, 2003)

- Agencies are required to conduct privacy impact assessments for electronic information systems and collections and, in general, make them publicly available.
- A privacy impact assessment is analysis of how information is handled: 1) to ensure handling conforms to applicable legal, regulatory, and policy requirements regarding privacy, 2) to determine the risks and effects of collecting, maintaining and disseminating information in identifiable form in an electronic information system, and 3) to examine

and evaluate protections and alternative processes for handling information to mitigate potential privacy risks.

- In general, privacy impact assessments are required to be performed and updated as necessary where a system change creates new privacy risk. For example, when new uses of an existing information technology system, including application of new technologies, significantly change how information in identifiable form is managed in the system.