AUDIT REPORT

Golden First Mortgage Corporation
Nonsupervised Direct Endorsement Lender
Great Neck, New York

2005-NY-1009

September 28, 2005

OFFICE OF AUDIT
New York/New Jersey Region

Issue Date September 28 2005
Audit Report Number 2005-NY-1009

TO: Brian D. Montgomery, Assistant Secretary for Housing - Federal Housing Commissioner, H

Edgar Moore

FROM: Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: Golden First Mortgage Corporation Did Not Always Comply with HUD/Federal Housing Administration Loan Origination Requirements

HIGHLIGHTS

What We Audited and Why

We audited Golden First Mortgage Corporation (Golden First), a nonsupervised direct endorsement lender located in Great Neck, New York, because its default rate for loans originated and underwritten during the period November 1, 2002, through October 31, 2004, was nearly double the New York State average default rate.

The audit objectives were to determine whether Golden First (1) approved insured loans in accordance with U.S. Department of Housing and Urban Development (HUD)/Federal Housing Administration requirements, which include following prudent lending practices, and (2) developed and implemented a quality control plan that complied with HUD/Federal Housing Administration requirements.

What We Found

Golden First did not always follow prudent lending practices and HUD regulations in its loan origination and underwriting processes. Of the 20 loans we reviewed, 5 exhibited material underwriting deficiencies. These deficiencies occurred because Golden First did not adequately verify employment, income, and/or assets. As a result, the HUD/Federal Housing Administration insurance fund incurred a loss associated with one loan and continues to assume a risk with the other four loans.

Golden First did not ensure that its quality control plan was implemented in accordance with HUD/Federal Housing Administration requirements. It did not ensure that (1) loans defaulting within the first six months were reviewed, (2) quality control reviews were conducted in a timely manner, and (3) management responses and planned corrective action were adequately documented. Additionally, Golden First inadequately maintained loan origination files and other information. Consequently, the effectiveness of Golden First's quality control plan was impaired, resulting in a lack of assurance that loan origination problems were identified and appropriate corrective action was taken to prevent similar occurrences.

What We Recommend

We recommend that the assistant secretary for housing - federal housing commissioner require Golden First to (1) indemnify HUD in the amount of $1,118,717 against future losses on the four loans currently insured with material underwriting deficiencies; (2) reimburse HUD $259,154 for the amount of claims and associated fees paid on one loan with a material underwriting deficiency; (3) establish and implement underwriting processing procedures that comply with HUD requirements, and (4) develop and implement quality control, loan documentation and retention procedures in compliance with HUD/Federal Housing Administration requirements.

Auditee Response

Golden First officials disagreed that material deficiencies existed in its origination and/or underwriting processes, and stated that its loan files confirmed its concern and commitment to following HUD's guidelines and prudent lending practices. Golden First officials also disagreed that it was not adhering to HUD guidelines for quality control, and noted that criticism of its quality control program based on a "snapshot in time" does not depict the true nature of its quality control plan. We discussed the contents of the report with Golden First officials on September 1, 2005, at which time they provided written comments.

The complete text of Golden First's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

Golden First Mortgage Corporation (Golden First) was incorporated in the state of New York in March 1979, under the name Citizens Funding Ltd. In August 1994, it adopted the name Golden National Mortgage Banking Corp, which was changed in May 2001 to its current name. Golden First operates in 30 states, and its main office is located in Great Neck, New York.

Golden First was approved in 1980 as a U.S. Department of Housing and Urban Development (HUD)/Federal Housing Administration nonsupervised lender approved to originate Federal Housing Administration-insured single-family mortgage loans.

Between November 1, 2002, and October 31, 2004, Golden First originated 410 loans. During this period, its loan default rate was 6.34 percent. We selected Golden First for audit because this rate was nearly double the New York State average default rate of 3.22 percent.

The objectives of the audit were to determine whether Golden First (1) approved insured loans in accordance with HUD/Federal Housing Administration requirements, which include following prudent lending practices, and (2) developed and implemented a quality control plan that complied with HUD/Federal Housing Administration requirements.

RESULTS OF AUDIT

Finding 1: Golden First Approved Loans That Did Not Qualify for HUD/Federal Housing Administration Insurance

Golden First did not always follow prudent lending practices and HUD regulations in its loan origination and underwriting processes. Of the 20 loans we reviewed, 5 exhibited material deficiencies. These deficiencies occurred because Golden First did not have adequate controls to ensure that loans were processed in accordance with HUD requirements. As a result, the HUD/Federal Housing Administration insurance fund incurred a loss of $259,154 and continues to be at risk for $1,118,717.

Origination and Underwriting Deficiencies

Golden First originated five loans that exhibited material origination and underwriting deficiencies. While the underwriting process involves some subjectivity, these deficiencies occurred because Golden First did not follow HUD regulations in the verification of the borrower's employment and/or sources of funds for the loans. The types of material deficiencies in the five loans are listed in the table below. These deficiencies are not independent of one another as all the loans contained at least one deficiency.

Deficiency	Number of loans
Inadequate verification of funds	4
Inadequate employment verification	1

Inadequate Verification of Funds

Golden First did not always adequately verify the source of borrower or donor funds. HUD requires the lender to verify the source of funds and the deposit amount if the earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's savings history. The lender must also obtain conclusive evidence that funds given to the borrower came from the donor's own funds.

Examples of inadequate verifications of funds are as follows:

(1) Case number 374-4063575 contained a copy of an official bank check for a $5,000 earnest deposit made payable to the seller and a copy of the borrower's bank statement showing a withdrawal for that amount on the same day. However, there was an unexplained $3,916 deposit five days earlier. Since the borrower's previous bank statements reported the highest

average balance as $2,138, Golden First should have obtained an explanation for the source of this deposit to ensure that the funds were those of the borrower.

In case number 374-4221853, there was a gift letter, dated March 25, 2003, for a $10,000 gift to the coborrower. The loan file contained the coborrower's bank statement showing a $10,000 deposit on March 25, 2003, and a copy of the donor's bank statement, reflecting a withdrawal for the same amount. However, the donor's bank statement also disclosed an $8,000 deposit the same day; yet, Golden First did not verify the source of this deposit. Consequently, there is no assurance that the gift funds were those of the donor.

Inadequate Verification of Employment

Golden First inadequately verified employment. For instance, for case number 374-4111483 Golden First obtained a letter from the employer indicating that pay stubs were not issued, and detailing the coborrower's weekly gross earnings and itemized deductions. However, the employee's start date and the employer's telephone number on the letter differed from that obtained via the verification of employment and telephone verification. Further, the verification of employment for the coborrower appeared to be altered. For instance, the year-to-date base pay for the year 2002 was changed from $10,000 to $11,000, and the date of the employer's response was changed from November 4, 2002, to November 2, 2002. Consequently, Golden First should have obtained an explanation for the discrepancies or an independent record of the coborrower's earnings, such as a W-2 form.

Appendix C of this report provides a summary of all loan underwriting deficiencies noted in the loans for which we are recommending indemnification or repayment of a claim, while appendix D provides a detailed description of the deficiencies and the applicable criteria.

Inadequate Underwriting Processing

Golden First did not adequately process verifications forms as per HUD requirements. It did not ensure that verification forms passed directly between the lender and provider without being handled by any third party. As a result, verification forms in 6 of 20 loan files contained fax headers indicating that they were faxed from another mortgage company or an unidentified source. Moreover, the verification forms in ten files were copies rather than originals. Further, although all verification forms received by the lender, whether hand carried or mailed, were required by Golden First procedures to be date stamped, there was no evidence of such in the lender's files.

Recommendations

We recommend that the assistant secretary for housing - federal housing commissioner require Golden First to

1A. Indemnify HUD against future losses on four loans valued at $1,118,717, which are considered funds to be put to better use since indemnification prevents future claims against the Federal Housing Administration insurance fund.

1B. Reimburse HUD the $259,154, representing a claim and associated fees paid on one loan that had material underwriting deficiencies.

1C. Establish and implement procedures that comply with HUD, and its own requirements that files indicate the date of delivery of all verification forms and whether they were hand carried by a lender employee.

Finding 2: Golden First Did Not Implement Its Quality Control Plan in Accordance with HUD Requirements

Golden First did not ensure that its quality control plan was implemented in accordance with HUD requirements. It did not ensure that (1) loans defaulting within the first six months were reviewed, (2) quality control reviews were conducted in a timely manner, and (3) management responses and planned corrective action were adequately documented. Additionally, Golden First inadequately maintained loan origination files and other information. These weaknesses occurred because Golden First did not establish procedures to ensure that its quality control plan was properly implemented. Consequently, the effectiveness of its quality control plan was impaired, resulting in a lack of assurance that loan origination problems were identified and appropriate corrective action was taken to prevent similar occurrences.

During the period November 2002 through February 2004, Golden First developed and implemented its quality control plan in house. However, recognizing the need to improve its quality control process, Golden First outsourced the quality control review function to a contractor in March 2004. Nevertheless, weaknesses in plan implementation continue to exist as described below.

Loans Defaulting within Six Months Were Not Routinely Reviewed

Golden First did not routinely select loans defaulting within six months for review, as required by HUD Handbook 4060.1, REV-1, paragraph 6-1D. A quality control contractor official advised that these loans were not reviewed because Golden First did not provide the contractor information on the defaulted loans. In addition, the lender did not establish procedures to ensure that it was given notice of sold loans that went into default with six or fewer payments. Quality control reviews on early payment default loans can provide valuable information about the causes of default that may indicate inadequate underwriting. Golden First officials acknowledged this weakness and began providing the contractor reports detailing early payment default loans.

Quality Control Reviews Were Not Conducted in a Timely Manner

Of the eight loans for which we obtained and examined quality control reviews, four were not completed within 90 days of the closing of the loan, as required by HUD Handbook 4060.1, REV-1, CHG-1, chapter 6, paragraph 6-6A. This occurred because Golden First did not provide the contractor with a closed loan report in a timely manner.

Management Responses to Quality Reviews Was Inadequately Documented

Golden First did not provide evidence that prompt action was taken to address the deficiencies noted in the contractor's quality control reports we reviewed. Neither a final report nor an addendum to identify the actions being taken, the timetable for their completion, and any planned follow up activities was documented. We attribute this to the fact that the employee responsible for this function was new to the position and had not been properly trained.

Key Documents in Loan Files and Other Information Were Not Available

Golden First did not adequately maintain loan origination files in accordance with HUD's requirements. Key documents were missing in 9 of the 20 files we reviewed. Some of the missing documents included the HUD-1 settlement statement in four cases, the sales contract or an amendment in four cases, the initial loan application in three cases, and bank statements in two cases. Consequently, we relied upon the files from the Homeownership Center to obtain these documents. A Golden First official acknowledged the inadequacy of the files and noted that the employee responsible for filing had been fired due to poor performance.

In addition, Golden First lacked a system to accurately report the number of closed loans during our audit period of November 1, 2002, through October 31, 2004. In addition, the system could not generate a loan origination log, which included the names of the loan officers, sellers, and/or the realtors.

Recommendation

We recommend that the assistant secretary for housing - federal housing commissioner require Golden First to

2A. Develop and institute procedures to ensure that its quality control plan is implemented in accordance with HUD requirements.

2B. Develop and implement procedures to ensure that all documentation supporting its decision to approve mortgage loans is retained in the loan origination files.

2C. Implement a system capable of generating reports regarding closed Federal Housing Administration loans, in addition to loan origination logs, which includes the names of loan officers, sellers, and realtors.

SCOPE AND METHODOLOGY

To accomplish our objectives, we sampled 19 defaulted loans and 1 current loan that were originated and underwritten by Golden First during the period from November 1, 2002, through October 31, 2004. Loan selection criteria included factors such as loans that (1) defaulted after 12 or fewer payments, (2) involved a gift, and (3) were not reviewed or indemnified by HUD.

To achieve our audit objectives, we reviewed documentation from the Homeownership Center's loan endorsement files, as well as case files provided by the auditee. We also reviewed Golden First's quality control procedures to assess whether they were adequate and properly implemented in accordance with HUD requirements.

We reviewed applicable laws, regulations, HUD handbooks, and mortgagee letters. We interviewed Golden First's management and quality control staff, as well as officials of the quality control contractor, to obtain an understanding of the policies and procedures related to the auditee's management controls. We also analyzed HUD's postendorsement technical reviews, quality assurance reports, and independent audit reports.

We performed audit fieldwork from January through July 2005. The audit was conducted in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal controls are an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Controls over the loan origination process - Policies and procedures that management has in place to reasonably ensure that the loan origination process complies with HUD program requirements.

- Controls over the quality control plan - Policies and procedures that management has in place to reasonably ensure implementation of HUD quality control requirements.

We assessed the relevant controls identified above. A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, the following items are considered significant weaknesses:

- Golden First did not ensure that certain loans were processed in accordance with all applicable HUD requirements (see finding 1).

- Golden First did not adequately implement its quality control plan to ensure compliance with HUD requirements (see finding 2).

APENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Funds to be put to better use 4/
1A		$1,118,717
1B	$259,154	

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations

2/ "Funds to be put to better use" are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

GOLDEN FIRST
MORTGAGE CORPORATION

September 1, 2005

US Dept of Housing and Urban Development
Office of Inspector General
26 Federal Plaza, Room 3430
New York, NY 10278-0068

Dear Mr. Moore,

I am in receipt of the first draft audit report dated August 16, 2005. I would like to start by thanking your audit team for the courteous manner in which they conducted their review. They were respectful of our daily operation and as such we are grateful.

We have carefully and thoroughly reviewed the findings of the audit team. We do not find that "material deficiencies" exist in our origination and/or underwriting processes and, in actual fact, our loan files confirm our concern and commitment to following HUD's guidelines and prudent lending practices.

We take issue with the assertion that our staff did not adequately verify employment, income and/or assets, as well as your issues regarding our Quality Control procedures.

CASE # 374-4063575 [redacted]
INADEQUATE EARNEST MONEY DEPOSIT DOCUMENTATION
INADEQUATE VERIFICATION OF FUNDS TO CLOSE

Comment 1

Our auditor stated that case number 374-4063575 contained a copy of a *noncancelled* bank check for $5000 earnest money deposit. Attached is that check. It is an **official bank check** which does not get cancelled and returned in any bank statement. To obtain a cancelled check is impossible. It is not a personal check that the bank clears and returns to a maker. The depository is the maker. Furthermore, the bank statement evidencing its withdrawal is attached. The withdrawal was for $5010 instead of $5000 even, since it includes the $10 fee for an official check. The auditor further stated that an unexplained deposit of $3916 was placed into the account five days earlier. They stated that since the highest average balance on the previous statement was $2138, the difference constituted a large deposit. However, the Mortgage Credit Analysis Worksheet stated that the borrower is receiving income due to overtime which was not being used to qualify. The borrower receives documented compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage. The underwriter notated it as a compensating factor for making the loan. Furthermore, the file contained an order of support from the court which evidences receipt of child support/maintenance income. That amount, grossed up, would constitute the difference in the average balance. For the month in question, only one direct deposit for the month was deposited into her account. The $3916 comprised the remainder of her monthly earnings of approximately $1425 as well as overtime

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GOLDEN FIRST MORTGAGE CORPORATION

Comment 2

pay. The auditor also cites unexplained deposits of $420, $800 and $400. These deposits are indeed nominal and can be attributed to support payments. (Copies of the order and checks are attached.)

CASE# 374-4221853
INADEQUATE VERIFICATION OF GIFT

Comment 3

The auditors cited this case due to the presence of three gifts. The first issue was with the $10,000 gift given to the coborrower. The auditors stated that the donor's bank statement had a negative balance after the check cleared on June 12th. The bank statement revealed that after the gift check cleared, the donor's overdraft protection automatically deposited the shortage of $426.28 to cover the check, bringing the balance to $0. The very next day a payroll direct deposit was made which brought the donor to a balance of $238.52 In essence what occurred was the donor borrowed the funds from his overdraft and made up the gap the next day via a payroll deposit. The funds were not borrowed from the borrowers. HUD HANDBOOK 4155.1, Chapter 2, Section 2-3 states that, "***As a rule,*** we are not concerned with how the donor obtains the gift funds provided they are not derived in any manner from a party to the sales transaction. Donors may borrower gift funds from any other acceptable source provided the mortgage borrowers are not obligors to any note to secure money borrowed to give the gift." Since the funds were not borrowed from our borrowers, no guideline violation exists. Please see attached bank statement of donor confirming this.

Comment 4

The auditor cited the donor has an unexplained large deposit into his account. It is not a guideline to have the donor's explain their deposits. The only criterion that exists is that the borrowers are not obligors to any note to secure money borrowed to give the gift. No evidence is present to that effect. Per the gift letter the donor attested that, "no repayment of the gift is expected or implied either in the form of cash or by future services of the recipient. The source of the gift is personal funds."

Comment 5

The third gift was for $5000. The auditors stated that our file did not contain a copy of the cancelled check nor evidence of deposit into the borrower's account. This is incorrect. The gift letter states that the donor would give the gift at closing. The donor, the borrower's son, specified on the gift letter, that the money was coming from his Municipal Credit Union (MCU) account [redacted] The donor's bank statement for that account shows an aggregate balance of $5526. There was indeed a gift check in the file, which is attached. It is an official check which does not come in a "cancelled form." Furthermore, the gift check was made payable directly to the sellers and as such, proof of deposit into the borrower's account would not exist. The gift check shows the remitting account number, which matches exactly to our donor's account at MCU. The account number identifies the withdrawal of the remitting party and as such satisfies the requirement that the donor show a withdrawal document verifying that funds came from the donor's personal account.

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INADEQUATE UNDERWRITING DOCUMENTATION

Comment 6

There was not any inconsistency present in reference to the bank statements. The savings account statement clearly referenced a joint account with two borrowers on it. Attached is the statement from Chase which shows the two names on the savings account. The first is our borrower's name [redacted] and the second is the joint co owner of the account [redacted] The printout from the bank referenced [redacted] social security number. Since it is a joint account, both parties have equal access to the account. There does not appear to be any inadequacies present. I believe you simply looked at the addressee on the statement instead of the account holders.

INADEQUATE VERIFICATION PROCESSING

Comment 7

This section cites the fact that the verifications appear to be sent from another company because the fax banner references another institution. The verifications were all signed by Golden First employees. The explanation is quite simple. We solicit loan personnel on an active basis. When we are successful in recruiting experienced employees, some come on board with their laptops, fax machines and other tools that they are accustomed to using. We frequently compensate them and use the machines. In one such case, the fax machine was programmed with the fax banner of their previous employer. We were unaware (since the machines were unplugged for quite some time) that they retained the name of the company in memory. It was not until months later that we realized that it was listing that company. We have since corrected the fax banner to accurately reflect our company name. We addressed the auditors of this fact and we pointed out that all signatures were Golden First employee signatures. We do not do third party originations on HUD insured loans.

CASE # 374-4111483[redacted]

INADEQUATE SUPPORT FOR EMPLOYMENT

Comment 8

This particular case was approved through the automated underwriting system DU (Desktop Underwriter) and signed off as a ZDUN loan. As such, we followed the requirements of the automated underwriting findings. Pursuant to those findings (copy attached), we complied with the guidelines. DU mandated 1) the most recent year-to-date paystub documenting a full months earnings and any one of the following a) written VOE b) verbal VOE or c) electronic VOE. Our file contained all the required documentation since it contained a written VOE for both borrowers as well as paystubs for one and the employer's letter of earnings for the second borrower. The auditor cited that, "while telephone verification was performed, original copies of W-2 forms were not obtained as required." In fact, they are not a requirement per the automated underwriting system.

UNEXPLAINED BANK DEPOSITS

Comment 9

The large deposits cited in this section are not large at all in relation to their monthly earnings. The first borrower's gross monthly earnings total $5416.66 while the second borrower's gross

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monthly earnings total $ 1083.00. Their combined gross monthly earnings total $6499.66. The deposits of $220 on 11/7/02, $220 on 12/9/05, $160 on 12/10, $600 on 12/10/05 and $700 on 12/16/02 are all reasonable payroll deposits. These deposits total $1900 for a borrower that earns over $5400 monthly. Prudent underwriting lending dictates that deposits are large if they exceed customary deposit activity for the borrower's income category. We are aware from the employer's earning letter that they do not utilize a computerized payroll system; therefore it is highly probable that these small deposits are payroll.

Comment 10

LOAN NOT CLOSED IN THE SAME MANNER APPROVED
The HUD auditor stated in this section that the loan was approved with a seller's concession of $13,666 while the HUD 1 credited the borrower with $14,700. This is not entirely accurate. The contract of sale prescribed a seller's concession of $14,700. When the loan was underwritten the total closing costs and prepaids only totaled $13,666.19. Since there was no allowance for the full amount, the underwriter notated that the seller can only pay what the actual closing costs amount to. The HUD 1, however, showed that due to increases in homeowner's insurance, escrows, etc. there was indeed $14,700 in closings costs. The borrower was given the full allowance due to the presence of that allotment in closing costs. This was not an error but ultimately gave the borrower the full benefit of the seller's contribution.

Comment 11

INADEQUATE UNDERWRITING DOCUEMNTATION
INADEQUATE VERIFICATION PROCESSING
This particular section of the report is the most grievous. We wholeheartedly disagree with the findings of the auditors. They stated that Golden First did not adequately verify employment by ascertaining that the verification forms passed directly between it and the employers, and that we did uot address the alterations on the coborrower's verification. Our fax machine does not contain a banner that identifies us as an institution. There is no regulation or guideline that requires this. All of our processing is done from a centralized location. Our processors fax verifications to employer, banks, etc. They sign the verification form stating that the verification was sent directly to the employer and that it has not passed through the hands of the applicant or any other interested party. In this case, the processor, [redacted], who was a long time employee, faxed the document to the employer. She signed the statement as well. We do not understand how the HUD auditors can state that the source was unidentifiable. The verification was faxed out on November 8th. The employer filled in the earnings as of November 1st. He then went on to date the form the same day. This is clearly an error on his part but not substantive in light of the circumstances. To further substantiate this, the employer attached a letter confirming the earnings on the VOE and again stating that the breakdown of earnings was effective as of November 1st.

Comment 12

The auditors stated that the verification for the coborrower appeared to be altered. The document was indeed corrected by alteration, ***but it was done by the employer.*** The employment letter that was attached to the verification confirms the year-to-date income of $11,000. It also confirms the date of November 2nd. Due to the fact that we had written correspondence from the employer on

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its letterhead which substantiated all the data on the verification of employment, we considered the corrections on the form to be valid. The back up correspondence which we solicited from the employer clearly meets HUD's guidelines and requirements. This was confirmed to us by HUD, in writing in 2000.

Comment 13

The file contained an explanation for a large deposit being the sale of a vehicle. That deposit was never credited to their bank account therefore it is irrelevant since those funds were never used for our transaction.

It is quite distressing to me that despite the DU approval and HUD's position on processing and underwriting DU loans, that the auditors are seemingly recanting HUD's position and requiring documentation clearly not required in this case.

CASE# 374-4142002 [redacted]
INADEQUATE VERIFICATION OF CASH GIFT

Comment 14

Comment 15

Comment 16

Our borrower put $4000 down on the signing of the contract. Since the amount is less than two percent it did not require verification. According to the HUD 1, money required at closing totaled an additional $5093.23. At closing, the borrower received two gifts totaling $8000 from the same donor. (Incidentally, there exist reserves in the amount of $2906.77.) One gift was for $7200 and the second for $800 – both were made payable directly to the seller. Pursuant to HUD guideline, if the gift funds are provided at closing via an official check, the donor must provide a withdrawal document along with a copy of the check. Attached are copies of the two official checks and a withdrawal slip from the donor's account for the $7200 gift. The remaining balance in the donor's account after the gift was $20.06. The gift affidavit that the donor signed clearly "certifies that the funds given to the homebuyer were not made available to me, the donor, from any person or entity with an interest in the sale of the property…" HANDBOOK 4155.1, Chapter 2, Section 2-3 states that, "***As a rule,*** we are not concerned with how the donor obtains the gift funds provided they are not derived in any manner from a party to the sales transaction. Donors may borrower gift funds from any other acceptable source provided the mortgage borrowers are not obligors to any note to secure money borrowed to give the gift." Since the funds were not borrowed from our borrowers, the guideline requirements were met. The withdrawal document for the $800 gift was not present in the file but since the borrowers had reserves of over $2900 those funds did not necessarily have to be sourced. The auditor's assertion that the earnest money deposit was gift money is incorrect and unfounded. The gifts were clearly made at closing on 2/05/03 and the earnest money deposit was made on or about January 2003.

Since the findings do not constitute a material underwriting deficiency, no reimbursement is in order. Moreover, since HUD presently owns this property no actual loss is determinable at this time.

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Case# 374-4199196[redacted]
INELIGIBILITY FOR FHA INSURED LOAN

Comment 17

The borrower is a director of a day care facility in Queens, NY. She currently had an FHA loan which we documented had an LTV of less than 75% pursuant to guideline. Additionally she sought another FHA mortgage due to increase in family size. She came to us since and stated that she frequently has to take children home with her when parents work late or sometimes even forget to pick up their children. She needed the extra room "for her family." She assured us that her current home was being sold. Indeed, upon further research that loan was paid off.

EXCESSIVE DEBT-TO-INCOME RATIOS WITHOUT COMPENSATING FACTORS

Comment 18

The benchmark ratios at the time of this loan were 29 over 41. Our ratios are 29.8 and 42.1. The department itself has recognized (albeit in mortgagee letter 2005-16, after the settlement date of our file) "...the qualifying ratios are raised to 31% and 43%. This change will allow a larger number of deserving families to purchase their first home while not increasing the risk of default." The department is aware that extending the ratios 2% will not increase the risk of default, therefore we ask that since our housing ratio is only in excess by .8 and the debt ratio by 1.18, this finding be stricken from the final draft.

INADEQUATE SUPPORT FOR EMPLOYMENT

Comment 19

The findings indicate that we failed to provide W-2's on the file. They are not required when a Verification of Employment and employer earning letter are obtained. We obtain the employers earning letter in the absence of paystubs as a viable substitute. Please see the attached email from HUD verifying that this letter may be used when paystubs are unavailable.

QUALITY CONTROL

During the last several years our firm has undergone numerous changes. We moved our corporate offices from Melville to Great Neck which resulted in staff turnover. At the time of the move, we changed our Quality Control policy and procedure. We changed our policy of conducting Quality Control in house to outsourcing Quality Control functions and providing an "in house" Quality Control department to act as a liaison between our firm and the Quality Control company. This insures that all Quality Control reports and/or issues are disseminated to appropriate employees, noted deficiencies are addressed and training programs are provided as needed. By successfully tracking trends, we have been able to maintain the highest Quality Control standards as well as a well-trained and professional staff, knowledgeable in all facets of mortgage lending. Similarly, we are adhering to our Quality Control plan in accordance with HUD guidelines.

We take great pride in our present Quality Control policy. We also recognize the importance of ongoing Quality Control program evaluation to insure that our policies and procedures address and correct any and all deficiencies. We became cognizant of the fact that our in house Quality Control plan was not satisfactorily meeting our needs and we altered our program to the present

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Appendix B

Ref to OIG Evaluation | **Auditee Comments**

GOLDEN FIRST
MORTGAGE CORPORATION

plan. I am pleased to attach a copy of the recent letter we received from Magnet Portfolio commending our Quality Control plan and our commitment to it. In particular, in addition to the outsourcing of our Quality Control functions and the delegation of duties to staff members in our liaison in-house Quality Control department, we have:

Comment 20

a) Implemented additional training in policy, procedures, program guidelines and lending practices;
b) Established training programs for new employees and cross trained existing ones;
c) Incorporated software fields to correspond with Quality Control requirements through an integrated IT Department
d) Enhanced our in house training programs including instruction on FHA Total Scorecard, Pricing and Contracting, Loan Entry and Settlement, Data Error & Correction Process, and Loan Prospector. Through Capstone Institute we purchased the Truth in Lending Made Easy / HOEPA program and had the origination staff attend the class. In addition Magnet Portfolio, conducted training on processing which encompassed FHA as well as conventional processing guidelines.

Comment 21

CONCLUSION
In conclusion, we believe it is clear from our response that we are careful, concerned, compliant and prudent in our lending practices and concern for Quality Control review. To criticize a company for a delinquent Quality Control program based on a "snapshot in time" perspective does not depict the true nature of the company, its Quality Control plan or its commitment to the mortgage industry, and in particular to the FHA lending programs.

Based on the discussion above of our underwriting decisions and their compliance with HUD guidelines, we do not believe that any reimbursement or indemnification is appropriate.

We would like to echo the words of the Department in stating that, "underwriting is more of an art than a science and requires the careful weighing of the circumstances that affect the borrower's ability and willingness to make timely mortgage payments." Golden First diligently exercises this art with much assiduousness.

Very truly yours,

David Movtady
President

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Appendix B

OIG Evaluation of Auditee Comments

Comment 1 The check issued for the earnest money deposit was an official check, which would not be cancelled; accordingly, we deleted reference to the need for a cancelled check. However, Golden First should have obtained an explanation of the source of the $3,916 deposit made five days before the $5,000 earnest money deposit was provided. We agree that the Mortgage Credit Analysis Worksheet reports that the borrower receives an average of $600 in overtime pay, and that the file contains evidence of $405 in biweekly child support payments. However, these amounts, totaling $1,478, along with the borrower's $1,425 monthly earnings, equals $2,903 or $1,013 less than the $3,916. Consequently, we do not agree that these amounts constitute the source of the deposit.

Comment 2 Golden First should have obtained an explanation for the source of the funds needed to close. Golden First attributes this to child support payments. However, documentation in the file disclosed that the borrower received $405 in biweekly child support. The three unexplained deposits of $420, $800, and $400 between October 10 and October 21, 2002 do not appear to be directly attributed to the child support payments.

Comment 3 We have removed discussion of the gift letter dated May 21, 2002 because further review of the bank statement disclosed that the donor's overdraft protection deposited the shortage in the account to cover the check.

Comment 4 HUD regulations require conclusive evidence that the funds given to the borrower came from the donor's own funds. A copy of the donor's bank statement reflects a $10,000 withdrawal check for the gift funds. However, the bank statement also reported an $8,000 deposit on the same day of the withdrawal, and the account balance prior to this deposit was $2,780. Accordingly, assurance that the gift funds were those of the donor was not obtained.

Comment 5 We have deleted reference to the gift letter dated April 7, 2003 because the gift was provided at closing via an official check. However, we did note that the check issued was for $5,300, while the gift letter specified a gift of $5,000. Golden First did not furnish an adequate explanation for the discrepancy between the gift amounts.

Comment 6 Reference to inadequate underwriting documentation has been deleted.

Comment 7 HUD regulations require that verification forms must pass directly between the lender and the provider without being handled or transmitted by any third party or using any third party's equipment. The existence of other companies' fax headers on the documents does not provide assurance that this requirement was met.

OIG Evaluation of Auditee Comments

Comment 8 Although this loan was approved through an automated underwriting system, Golden First was required to obtain the most recent year-to-date pay stub documenting one full month's earnings. In lieu of this, the employer noted in a letter that it does not issue pay stubs, and provided a letter detailing the coborrower's weekly gross earnings and itemized deductions. However, both the employee's start date and the employer's telephone number on the letter differed from that which was provided via the verification of employment and telephone verification. Golden First should have obtained an explanation for the discrepancies, or alternatively, an independent record of the coborrower's earnings, such as a W-2 form.

Comment 9 Adequate explanation and evidence of the source of funds was not documented. Our review of deposit activity for three months disclosed a general correlation between the date and amount of deposits and the borrower's weekly earnings, except for the five unexplained deposits totaling $1,900. For instance, while the borrower's weekly earnings were $862**,** these five deposits were made for $220 on November 7 and December 9, $160 and $600, both on December 10, and $700 on December 16. In addition, while the coborrower's weekly earnings were $177, three unexplained deposits, totaling $1,321, were made within a week. Accordingly, these deposits do not appear to be reflective of the borrowers' regular savings pattern.

Comment 10 We agree that the contract of sale, which reported a seller's concession of $14,700, was consistent with the HUD-1. Therefore, the difference between the mortgage credit analysis worksheet and the HUD-1 has no material effect, and we have deleted this discussion from the report.

Comment 11 HUD regulations require that verification forms pass directly between the lender and the provider without being handled by any third party. The verification of employment for the borrower's two employers appeared to be faxed to the same location simultaneously on November 8, 2002. Further, the employers erroneously dated both forms as November 1, 2002, which was prior to the lender's request date of November 8, 2002. Consequently, the documentation appears to indicate that the verification forms were faxed to the same entity, and not directly to the individual employers. Thus, it is questionable that the documentation passed directly between the lender and the providers as required.

Comment 12 If the employer had submitted a verification of employment that was altered, the form should have been so noted. Further, the employment letter attached to the verification did not substantiate all the data on the verification of employment because there were discrepancies regarding the employee's start date and the employer's telephone number. As a result, we question the data integrity of the

OIG Evaluation of Auditee Comments

employment letter and maintain that it does not confirm the altered year-to-date income, as well as the date. In addition, the employment letter did not meet HUD's requirements because it did not contain a certified statement that pay stubs were not issued, and it lacked the employer's address.

Comment 13 While the loan file contained an explanation for a large deposit relating to the sale of a vehicle, we question why such documentation was retained in the loan file, particularly since it contained discrepant information. Nevertheless, we have deleted this deficiency because it was not a factor in the underwriting decision.

Comment 14 Documents in the file do not support that the borrower made a $4,000 down payment, and the mortgage credit analysis worksheet did not reflect a $4,000 down payment. Therefore, these funds appear to have been provided as a gift. (see Comment 15).

Comment 15 Regarding the $7,200 gift, while the file contained a copy of the donor's withdrawal slip and an official check for $7,200 presented on the day of closing, the file also documented that the donor made a cash deposit of $7,230 to the account on the same day. Prior to that deposit, the donor had an account balance of six cents. Consequently, there was not conclusive evidence that the funds given to the borrower came from the donor's own funds as required by Mortgagee Letter 00-28.

Comment 16 The auditee agreed that it did not document the source of the $800 gift, but noted that such was not necessary since the borrowers had reserves of over $2,900. However, Mortgagee Letter 00-28 requires that the mortgagee obtain conclusive evidence that the funds given to the borrower came from the donor's own funds. In addition, the mortgage credit analysis worksheet reported cash reserves of $70.

Comment 17 There was no documentation to support the borrower's statement of an increase in family size, which was used as the reason to purchase another principal residence with Federal Housing Administration insurance. Children enrolled in the borrower's day care center would not qualify as family members.

Comment 18 Although the borrower exceeded the 29 and 41 percent ratio guidelines in effect at the time of our audit, we have deleted this deficiency because HUD has subsequently increased the guidelines to 31 and 43 percent.

Comment 19 The auditee provided an email from HUD advising that a certified statement on employer letterhead that pay stubs are not provided, along with documentation showing the employee's gross earning, deductions and net pay, including year-to-date earnings, may be used in lieu of a W-2 form. Therefore, we have removed this deficiency from the report.

Comment 20 The auditee provided a letter from its quality control contractor indicating that implementation of its quality control program has improved. We have noted in the report that the auditee has, or plans to, taken corrective action to improve quality control procedures, as applicable.

Comment 21 While the auditee has made improvements in its quality control process, our review identified weaknesses in the process that, when corrected, will only enhance the auditee's underwriting process.

Appendix C

SUMMARY OF UNDERWRITING DEFICIENCIES

Case #	374-4063575	374-4221853	374-4111483	374-4142002	374-4199196	Total for all cases
Loan amount	$187,064	$392,466	$255,687	$236,292	$283,500	$1,355,009
Payments before first default reported	10	10	7	2	12	
Areas of deficiencies:						
Verifications of funds to close:						
Inadequate verification of cash gift		X		X		
Inadequate bank account documentation/assets			X			
Inadequate earnest money deposit documentation	X					
Inadequate verification of funds to close	X	X				
Subtotal	2	2	1	1	0	4
Inadequate verification of income/ employment						
Inadequate support for employment			X			
Subtotal	0	0	1	0	0	1
Inadequate processing documentation						
Ineligibility for loan					X	
Inadequate underwriting processing		X	X			
Subtotal	0	1	1	0	1	3
Number of deficiencies for each case	2	3	3	1	1	10
Indemnification recommended	Yes	Yes	Yes	1/	Yes	**$1,118,717**

Note: 1/ A $259,154 claim has been paid on this loan.

CASE SUMMARY NARRATIVES

Appendix D-1

Case number: 374-4063575
Loan amount: $187,064
Settlement date: November 1, 2002
Status: Partial reinstatement

Pertinent Details

A. Inadequate Earnest Money Deposit Documentation

HUD Handbook 4155.1, REV-4, CHG-1, chapter 2, section 3, paragraph 2-10A, provides that if an earnest money deposit exceeds 2 percent of the sales price or appears excessive based on the borrower's saving history, the deposit amount and the source of funds must be verified. Satisfactory documentation would include a copy of the borrower's cancelled check or a certification from the deposit holder, acknowledging receipt of funds, and separate evidence of the source of funds. An earnest money deposit of $5,000, which exceeded 2 percent of the sales price ($190,000 x .02 = $3,800), was listed on the HUD-1 settlement statement. The loan file contained a copy of an official check, dated May 20, 2002, made payable to the seller. While the borrower's bank statement reported a $5,010 withdrawal on May 20, 2002 ($5,000 for the earnest money deposit and $10 for the official check fee), there was an unexplained $3,916 deposit on May 15, 2002. Before this, the borrower's highest average balance was $2,138. Consequently, an explanation should have been obtained for the source of this deposit to ensure that the funds were those of the borrower.

B. Inadequate Verification of Funds to Close

The borrower needed $2,104 to close. A verification of deposit, dated September 3, 2002, reported $1,517 in personal funds. The October 2002 bank statements reflected three unexplained deposits within two weeks that totaled $1,620. These deposits, $420, $800, and $400 on October 10, 2002, October 18, 2002, and October 21, 2002, respectively, were not attributed to either payroll or child support payments and were not reflective of the borrower's routine savings pattern. Because these funds were needed to close, the lender should have obtained an explanation from the borrower regarding their source.

Case number:	374-4221853
Loan amount:	$392,466
Settlement date:	July 15, 2003
Status:	Reinstated by borrower who retains ownership

Pertinent Details

A. Inadequate Verification of Gift

HUD Handbook 4155.1, REV-4, CHG-1, chapter 2, paragraph 2-10C, requires a lender to document the transfer of gift funds from the donor to the borrower by obtaining a copy of the donor’s withdrawal slip or cancelled check, along with the borrower’s deposit slip or bank statement showing the deposit. In addition, Mortgagee Letter 00-28 requires that the donor provide conclusive evidence that the funds given to the borrower came from the donor’s own funds.

A gift letter, dated March 25, 2003, was for a $10,000 gift to the coborrower. The loan file contained the coborrower’s bank statement showing a $10,000 deposit on March 25, 2003, and a copy of the donor’s bank statement, reflecting a withdrawal for the same amount. However, the donor’s bank statement also disclosed an $8,000 deposit on the day of the withdrawal. Before this deposit, the account had a balance of $2,780. Mortgagee Letter 00-28 states if the donor borrowed the gift funds and, thus, cannot provide the documentation from his or her bank or other savings account, the donor must provide evidence that those funds were borrowed from an acceptable source, i.e., not from a party to the transaction including the mortgage lender. "Cash on hand" is not an acceptable source of the donor's gift funds. Consequently, there is no assurance that the gift funds were those of the donor.

B. Inadequate Verification of Funds to Close

HUD Handbook 4155.1, REV-4, CHG 1, paragraph 3-1F, requires that the file include verification of deposit and the most recent bank statement. As an alternative to obtaining a verification of deposit, the borrower’s original bank statements for a three-month period can be obtained. Chapter 2, paragraph 2-10B, further provides that if there is a large increase in a bank account or the bank account was opened recently, the lender must obtain an explanation and evidence of the source of funds. The loan file contained a verification of a $5,875 deposit for the borrower; however, it was illegible, and no recent bank statements were obtained. In addition, there was no verification of deposit for the coborrower. The borrowers required $25,638 to close.

C. Inadequate Underwriting Processing

Verification of gift letters, employment, and deposits appear to have been faxed to Golden First from another mortgage company. HUD Handbook 4155.1, REV-4, CHG-1, chapter 3, paragraph

3-1, provides that verification forms must pass directly between the lender and the provider without being handled by any third party. In addition, Mortgagee Letter 2001-01 states that if income/employment or asset documents are faxed to the lender, the documents must clearly identify the employer or depository/investment firm's name and source of information. Further, HUD Handbook 4060.1 REV-1, CHG-1, chapter 2, paragraph 2-25, states that lenders may not perform only a part of the loan origination process, such as taking the loan application, and routinely transfer the underwriting package (appraisal report and/or mortgage credit package) to another lender. The three gift letters, dated May 21, 2002, March 25, 2003, and April 7, 2003, were faxed from another mortgage company to Golden First on June 20, 2003. In addition, the fax header on the verification of deposit indicated that it was faxed from another mortgage company on June 26, 2003, from the depository on June 28, 2003, and from the other mortgage company again on June 30, 2003. The verifications of employment for both the borrower and coborrower were also faxed from this same mortgage company. Therefore, the verifications were neither sent to the depository by the lender nor received directly from the depository as required.

Case number: 374-4111483
Loan amount: $255,687
Settlement date: January 15, 2003
Status: Foreclosure completed

Pertinent Details

A. Inadequate Support for Employment

HUD Handbook 4155.1, REV-4, CHG-1, chapter 3, paragraph 3-1E, requires that the lender obtain a verification of employment and the most recent pay stub. In lieu of obtaining the verification of employment, the lender may obtain alternative documentation, such as the borrower's original pay stubs covering the most recent 30-day period, and the original Internal Revenue Service W-2 forms from the previous two years. The lender must also verify by telephone all current employers and identify the name, title, and telephone number of the person with whom employment was verified. If an employer does not provide pay stubs to their employees, HUD requires the lender to obtain a certified statement from the employer along with the employer's most recent employee payment ledger showing the borrower's name, social security number and year-to-date earnings. If the payment ledger is unavailable, then the lender must obtain in any format, the employee's gross earning, deductions and net pay, including YTD earnings along with a certified statement that pay stubs are not provided under the employer's letterhead.

The most recent pay stubs were obtained for only one of the borrower's two employers, and the one that was obtained was questionable (see C below). Golden First conducted a telephone verification of employment for the coborrower and obtained a letter from the coborrower's employer indicating that the employer did not issue pay stubs. In addition, the letter detailed weekly gross earnings and itemized deductions. However, this letter from the employer was not deemed an acceptable substitute for a pay stub, because it did not contain a certified statement. Further, the employer's letterhead did not appear to be official, given that it contained neither an address nor a telephone number. In addition, the employee's start date and the employer's telephone number reflected in the letter did not agree with the verification of employment. As a result, we question the data integrity of the employment letter and maintain that the lender should have obtained the original copies of W-2 forms. Further, the verification of employment for the coborrower appeared to be altered. The year-to-date base pay for 2002 was changed from $10,000 to $11,000, and the date of the employer's response was changed from November 4, 2002, to November 2, 2002. These alterations should have been explained.

B. Unexplained Bank Deposits

HUD Handbook 4155.1 REV-4, CHG-1, chapter 2, paragraph 2-10B, provides that if there is a large increase in a bank account, the lender must obtain an explanation and evidence of the source of funds from the borrower. Our review of bank statements relating to the borrower and coborrower for the period November through December 2002, disclosed numerous unexplained deposits totaling $3,221 that did not appear to be payroll deposits as follows:

Date	Amount	Bank statement
Nov. 7, 2002	$220	Borrower
Dec. 9, 2002	$220	Borrower
Dec. 10, 2002	$160	Borrower
Dec. 10, 2002	$600	Borrower
Dec. 16, 2002	$700	Borrower
Borrower total	$1,900	
Dec. 9, 2002	$250	Coborrower
Dec. 10, 2002	$400	Coborrower
Dec. 16, 2002	$671	Coborrower
Coborrower total	$1,321	
Grand total	$3,221	

The borrower provided a letter, dated November 2002, stating that a large deposit resulted from the sale of a vehicle to a friend for $1,000 and the remaining was "cash that I have to deposit." However, there was no evidence of this deposit in the borrower's bank account.

C. Inadequate Underwriting Processing

HUD Handbook 4155.1, REV-4, CHG-1, chapter 3, paragraph 3-1, states verification forms must pass directly between the lender and the provider without being handled by any third party. In addition, Mortgagee Letter 2001-01 states that if income/employment or asset documents are faxed to the lender, the documents must clearly identify the employer or depository/investment firm's name and source of information.

Verification of employment for two current jobs of the borrower were faxed simultaneously from an unidentified source and dated November 1, 2002, which was before the lender's request of November 8, 2002. Consequently, we cannot conclude that these verifications passed directly between the lender and the borrower's employers. In addition, the four pay stubs obtained in support of one of the borrower's jobs listed inconsistent employer names and contained fax headers indicating that they were faxed on November 21, 2002, from a bank. This shows that the stubs did not pass directly between the lender and the provider as required.

Case number: 374-4142002
Loan amount: $236,292
Settlement date: February 5, 2003
Status: Property conveyed to insurer

Pertinent Details

A. Inadequate Verification of Cash Gift

HUD Handbook 4155.1, REV-4, CHG-1, chapter 2, paragraph 2-10C, requires that the transfer of any gift funds from the donor to the borrower be documented by obtaining a copy of the donor's withdrawal slip or cancelled check, along with the borrower's deposit slip or bank statement showing the deposit. Further, Mortgagee Letter 00-28 states that if the gift funds are to be provided at closing and the donor purchased a cashier's check or any other type of bank check as a means of transferring the gift funds, the donor must provide evidence that the funds came from the donor's personal account. This could include a withdrawal document or canceled check for the amount of the gift. If the donor borrowed the gift funds and, thus, cannot provide bank documentation, the donor must provide evidence that those funds were borrowed from an acceptable source.

Golden First did not adequately document the source of two gifts totaling $8,000. The donor issued two official checks to the seller on the day of closing. The lender's file contained two gift letters for $7,200 and $800 dated February 5, 2003, the same day as the closing. With regard to the $7,200 gift, the file contained a copy of the donor's withdrawal slip for $7,200 and the face of the official check. However, the file further documented that on the date of closing, the donor made a cash deposit of $7,230 to the same account. Before that deposit, the donor had an account balance of six cents. Accordingly, without an additional explanation, it is uncertain that the gift funds were those of the donor, and there was no evidence that the funds were borrowed from an acceptable source. In addition, the account number identified as the source of the $7,200 gift in the gift letter differed from the account number reflected on the donor's deposit slip, withdrawal slip, and the face of the gift check. Regarding the $800 gift check issued to the seller at closing, the file documented the face of the check but did not document a copy of the donor's withdrawal slip or cancelled check as required. Accordingly, the lender should have obtained an explanation to ensure that the source of the funds was that of the donor. Without these gift funds, the borrower would not have met the 3 percent minimum cash investment requirement of $7,200, nor would she have had sufficient funds to close on the loan.

Case number: 374-4199196
Loan amount: $283,500
Settlement date: May 29, 2003
Status: Current

Pertinent Details

A. Ineligibility for Federal Housing Administration-Insured Loan

HUD Handbook 4155.1, REV-4, CHG-1, chapter 1, paragraph 1-2, provides that an individual or couple owning a Federal Housing Administration-insured home may not purchase another principal residence with Federal Housing Administration insurance except under the following circumstances: (1) relocations, (2) increase in family size, (3) vacating a jointly owned property, and (4) a nonoccupying coborrower. The borrower was in violation of this regulation. On March 18, 2003, the borrower refinanced a Federal Housing Administration-insured mortgage with Golden First on a property that had been the owner's occupied principal residence, and the borrower certified on the occupancy agreement the intention to occupy the property as a primary residence during the 12-month period immediately following the loan closing. However, on March 26, 2003, the borrower used some of the proceeds from this refinance "cash-out" transaction as an earnest money deposit on a second Federal Housing Administration-insured property with Golden First as the lender, which closed on May 29, 2003. As part of the underwriting process for this loan, the borrower provided written documentation of the intention to (1) reside in this property and (2) lease the previous property. The file also documented that the second home was being acquired because the "family is growing." However, there was documentation showing that the family size had not changed and no documentation showing that the property failed to meet the family's need.