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# United States Senate

COMMITTEE ON  
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

WASHINGTON, DC 20510-6250

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July 7, 2014

The Honorable Carol Galante  
Federal Housing Administration (FHA) Commissioner  
Assistant Secretary for Housing  
U.S. Department of Housing and Urban Development  
451 7<sup>th</sup> St. S.W.  
Washington DC 20410

Dear Ms. Galante:

I am writing to request information regarding the Federal Housing Administration's (FHA) Real Estate-Owned (REO) properties program.

FHA's holdings of foreclosed properties, known as REO properties, increased dramatically during the subprime mortgage crisis and subsequent recession. Recent news reports of billion-dollar settlements and negotiations between the Department of Housing and Urban Development (HUD), the Department of Justice, and major mortgage banks have highlighted the volume of foreclosed properties that FHA has been forced to maintain and sell.<sup>1</sup> The failure of these banks to properly originate, underwrite, and certify mortgages in accordance with FHA requirements has forced the FHA to deal with the challenges of historic levels of foreclosed properties.<sup>2</sup>

According to a recent report by the Government Accountability Office (GAO), the FHA's divided property custody approach between mortgage services and REO contractors has jeopardized billions of dollars in potential savings. GAO found that if FHA would alter their

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<sup>1</sup> *U.S. Reaches \$968 Million Mortgage Settlement With SunTrust*, Wall Street Journal (June 17, 2014); *SunTrust Will Pay \$968 Million To Resolve Mortgage Probes*, Bloomberg News (June 17, 2014); *Bank of America Mortgage Settlement Said To Be Deadlocked*, New York Times (June 10, 2014); *U.S. Tells Citi To Raise Mortgage Settlement Offer*, Wall Street Journal (June 13, 2014); *Wells Fargo Loses Bid to Block FHA Mortgage-Fraud Suit*, Bloomberg News (June 10, 2014).

<sup>2</sup> Department of Justice, *Federal Government and State Attorneys General Reach Nearly \$1 Billion Agreement with SunTrust to Address Mortgage Loan Origination as Well as Servicing and Foreclosure Abuses* (June 17, 2014).

execution rates and disposition time frames to mirror those of other federal entities, FHA could have increased its proceeds and reduced its costs for a total of \$1 billion in a single year.<sup>3</sup>

FHA also lacked adequate management and oversight of its Field Service Managers and Asset Managers, the contractors who are responsible for the maintenance, marketing and disposition of properties in the REO inventory. For example, FHA has not updated its REO disposition handbook since 1994, leading to inconsistent contract oversight between FHA's four regional homeownership centers.<sup>4</sup> FHA changed its contract structure in 2010 to assess whether contractors were meeting contract requirements but GAO found that "these reviews have not been occurring."<sup>5</sup> In 2012, the Inspector General of HUD found that Field Service Managers were not following the terms of their contracts regarding inspections of REO properties and as a result sale prices for these homes could have been negatively affected.<sup>6</sup>

To assist the subcommittee in performing oversight of the REO program, I am seeking information related to Field Service Managers, Asset Managers, and REO disposition practices. Specifically, I request that you provide the following information and documents:

- (1) A list of current Field Service Manager Contracts with Contract Awardee, Contract Number, Date of Award, Total Amount of Award, Contract End Date and areas/location the contract serves;
- (2) A list of current Asset Manager Contracts with Contract Awardee, Contract Number, Date of Award, Total Amount of Award, Contract End Date, and areas/location the contract serves;
- (3) A description of FHA's current process for evaluating contractor performance to include percentage of homes that are inspected each month and year to verify performance by Field Service Managers and who is responsible for those inspections;
- (4) Any policies and procedures for REO disposition as required by GAO internal control standards, including the REO Disposition Handbook;

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<sup>3</sup> Government Accountability Office, *Federal Housing Administration: Improving Disposition and Oversight Practices May Increase Returns on Foreclosed Property Sales* (June 2013) (GAO-13-542).

<sup>4</sup> Briefing by Government Accountability Office to Senate Subcommittee on Financial and Contracting Oversight (May 22, 2014).

<sup>5</sup> Government Accountability Office, *Federal Housing Administration: Improving Disposition and Oversight Practices May Increase Returns on Foreclosed Property Sales* (June 2013) (GAO-13-542).

<sup>6</sup> U.S. Department of Housing and Urban Development Office of Inspector General, *Evaluation of HUD's Management of Real Estate-Owned Properties* (April 19, 2012) (IED-12-001R).

- (5) The approved marketing plans created for each geographic marketing contract areas, which describe how contractors intend to market and sell FHA properties, including scheduled price reductions;
- (6) Any policies and procedures ensuring that REO properties are assigned to listing brokers close enough to properties to have adequate knowledge of the local market;
- (7) Any inspections, determinations and reports from 2008 to date that an REO property was not secure;
- (8) The total annual number of REO properties managed and the total annual number of REO properties disposed from 2008 to date;
- (9) FHA's budgets from 2010 to date;
- (10) Year-end balances of the reserve fund for each of the last 10 years;
- (11) Projected year-end balances of the reserve fund estimated by FHA for each of the last 10 years;
- (12) An explanation for why the FHA insures reverse mortgages and what FHA is doing to restructure the program to minimize future losses;
- (13) An explanation of FHA's process for auditing claims paid to lenders and the process for recouping overpayments to lenders;
- (14) A briefing to the Subcommittee staff to explain how FHA is working to resolve these issues, implement GAO's recommendations and improve oversight of its contractors.

I request that you provide these documents, information and briefings as soon as possible, but no later than **Thursday, July 24, 2014**. An attachment to this letter provides additional information about how to respond to the Subcommittee's request.

The jurisdiction of the Subcommittee on Financial and Contracting Oversight is set forth in Senate Rule XXV clause 1(k); Senate Resolution 445 section 101 (108th Congress); and Senate Resolution 64 (113th Congress).

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I appreciate your assistance. Please contact Jackson Eaton with the Subcommittee at (202) 224-6579 with any questions. Please send any official correspondence relating to this request to [Kelsey\\_Stroud@hsgac.senate.gov](mailto:Kelsey_Stroud@hsgac.senate.gov).

Sincerely,



Claire McCaskill  
Chairman  
Subcommittee on Financial and Contracting  
Oversight

cc: Ron Johnson  
Ranking Member  
Subcommittee on Financial and Contracting Oversight

Attachment