



## **BUSINESS AS USUAL**

Security Atlantic's response to the HUD/OIG Press Conference

**1. Our company has been an approved FHA lender for nearly twenty years.**

Security Atlantic has always been in good standing with HUD, and remains so.

**2. We are NOT under investigation**

During the press conference, Donohue explained that the OIG is not investigating the fifteen lenders that received subpoenas, but instead will use the information received under the subpoenas to determine whether investigation is necessary.

**3. This is merely a HUD fact-finding mission**

The subpoena does not suggest or evidence any wrongdoing by the company, but merely reflects HUD's desire for more information. In a subsequent press release, Donohue went further to clarify that the OIG is not making any accusations against the lenders and has no evidence of wrongdoing; rather, it is endeavoring to determine why the fifteen lenders selected for scrutiny have high default rates and whether any wrongdoing is involved. We do not believe that wrongdoing is the cause of the early defaults/claims in the cases at issue.

**4. The overall quality of our loans cannot accurately be measured by such a small sample set**

The subpoenas request only twenty files, each where the loans defaulted within thirty months. HUD acknowledged that all of the lenders selected underwrote at least 1,000 loans over the past year, which means the sampling being reviewed is generally less than 2% of their underwriting volume. In Security Atlantic's case, we have underwritten over 30,000 loans since the beginning of the sampling period, so the HUD sample represents less than one-tenth of one percent of that number.

**5. The sample set of loans were primarily originated in 2006 and 2007, using underwriting guidelines that are now obsolete**

Fifteen of the twenty loans being reviewed involved the use of down payment assistance programs, which HUD no longer allows. In addition, there were no minimum credit scores at that time. Since that time, the average credit score of Security Atlantic borrowers has increased over 100 points. Over the last fourteen months, our default rate for new loans originated is only 2%, which is far below acceptable norms.

**6. HUD inadvertently stigmatized the fifteen lenders they prematurely identified in their press conference**

HUD potentially did a tremendous disservice to the fifteen recipients of the subpoenas by releasing their names to the public. This is especially true given the small sampling size, the lenders' present good standing with HUD, and Donohue's admission that HUD/OIG is not accusing them of anything and has no evidence of any wrongdoing. Having said that, we certainly agree that the elimination of risk of the mortgage process is a top priority and benefits everyone involved - not just HUD and the consumer, but the mortgage lender as well - and we intend to cooperate fully with HUD and the OIG throughout this process.

**7. Many of our defaults were in HUD-identified "underserved" areas**

Nearly 60% of our defaults are borrowers living in underserved areas. For many reasons, these areas are the hardest hit during a downturn in the economy (for example, a larger percentage of borrowers in these areas are dependent on overtime wages, which were lost in the recession). Of the small sample set being reviewed, HUD's own records reveal that the majority of the defaults were caused by the borrowers' loss of income, illness, death, or marital problems.

**8. The issuance of these subpoenas is not unusual**

The OIG issued over 1,000 subpoenas in the calendar year 2009.