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Audit Report Number	2009-FW-1005
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TO: Brian D. Montgomery
Assistant Secretary for Housing—Federal Housing Commissioner, H

Henry S. Czauski, Acting Director, Departmental Enforcement Center, CV
Gerald R. Kirkland

FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: Allied Home Mortgage Capital Corporation, Houston, Texas, Did Not Fully Follow HUD's Branch Office Requirements

HIGHLIGHTS

What We Audited and Why

We reviewed Allied Home Mortgage Capital Corporation (Allied), a nonsupervised loan correspondent. The objective of the review was to determine the validity of a hotline complaint that Allied operated its branches in violation of U. S. Department of Housing and Urban Development (HUD) requirements. Specifically, the complaint alleged that Allied required its branch managers to enter into certain contractual relationships, pay branch operating expenses, and provide indemnification for losses and damages, all of which were prohibited branch arrangements.

What We Found

The complaint was partially valid as Allied did not fully follow HUD's branch office requirements. Allied required branch managers to personally enter into certain contractual agreements, such as office space leases, equipment contracts, and utility arrangements, at all five branches reviewed. Also, Allied did not consistently pay

rental, utility, and telephone expenses at all five branches. Further in one instance, Allied requested that a former employee use personal funds to cover branch operating losses. The allegation that Allied required its employees to indemnify it for loan losses was not valid. In addition, although not alleged in the complaint, testing disclosed that Allied hired an ineligible employee to originate Federal Housing Administration insured single family mortgages.

What We Recommend

We recommend HUD's Assistant Secretary for Single Family Housing

- Require Allied to immediately discontinue its current practices related to leases/agreements for all branch offices; adopt new practices and controls that require it to directly enter into leases and/or agreements; and implement the necessary policies, systems, and controls to ensure that it pays all required branch operating costs.
- Require the Quality Assurance Division to confirm that all Allied branch offices have appropriate agreements and take appropriate actions if compliance does not occur.
- Request the Mortgagee Review Board pursue civil money penalties and/or administrative sanctions as appropriate against Allied Home Mortgage Capital Corporation for the violations cited in this report.

Further, we recommend that the Acting Director of the Departmental Enforcement Center pursue civil money penalties or take administrative action, as appropriate, against the responsible parties for the violations cited in this report.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided a draft to Allied and requested a response by January 15, 2009. Allied provided written comments on January 15, 2009. Allied generally agreed with our report but provided additional comments to explain why the conditions occurred. The complete text of Allied's response, along with our evaluation of that response, can be found in appendix A of this report.

At HUD's request, we made minor changes to the report terminology. We also further clarified the recommendations to better ensure that appropriate corrective actions are taken.

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BACKGROUND AND OBJECTIVE

Allied Home Mortgage Capital Corporation (Allied) was approved on September 26, 1991, as a nonsupervised loan correspondent for single family loans insured by the Federal Housing Administration (FHA). Allied's corporate headquarters is located at 6110 Pinemont in Houston, Texas. According to its website, Allied is the largest U. S. privately held mortgage banker/mortgage broker with hundreds of branch offices throughout the U. S. and the Virgin Islands. According to HUD's Neighborhood Watch system, as of June 9, 2008, Allied had 467 active branches.

The U. S. Department of Housing and Urban Development's (HUD) Office of Inspector General (OIG) received a hotline complaint, alleging that Allied did not follow HUD rules and requirements when operating its branch offices. Specifically, the complaint alleged that Allied required its branch managers to enter into certain contractual relationships, pay branch operating expenses, and provide indemnification for losses and damages, all of which violated HUD requirements.

The objective of the review was to determine the validity of a hotline complaint that Allied operated its branches in violation of HUD requirements.

RESULTS OF AUDIT

Finding 1 Allied Did Not Fully Follow HUD's Branch Office Requirements

Allied did not completely follow HUD's rules, regulations, procedures, and instructions when operating and managing its branch offices. Specifically, for all five branches reviewed, Allied did not ensure that contractual agreements were in its name. It also did not consistently pay rental, utility, and telephone expenses at all five branches. These conditions occurred because Allied did not have a system in place to ensure that it paid all operating expenses and it apparently attempted to maintain a separation between itself and its branches. Further, Allied requested that a former employee use personal funds to cover branch operating losses when the branch's operating account had a negative balance. In addition, it hired an ineligible employee because its president overrode its internal controls. As a result, Allied did not maintain the close supervisory control and oversight of its branches required by HUD and exposed HUD to possible unnecessary insurance risk.

Allied Did Not Ensure Branch Contractual Agreements Were in Its Name

None of the office space lease agreements for the five branches reviewed were in Allied's name. Instead, the branch managers personally entered into and signed the lease agreements. Four of the five branch managers had signed month-to-month subleases with Allied to show that Allied was paying the operating expenses. However, ultimate responsibility for the lease payments continued to rest with the branch manager if Allied canceled the sublease. The lease for the fifth branch was in the branch manager's name with the designation "d.b.a. Allied Home Mortgage." When Allied closed two of the five branches, one manager became liable for approximately one month on the lease, and the other manager became responsible for the remaining 33 months on that branch's lease.

In two cases, the branch managers submitted equipment leases in Allied's name: one for 36 months and one for 66 months. However, Allied instructed the vendors to remove its name from the equipment leases and required that the leases be put in the branch managers' names. One branch also had a utility bill in the branch manager's name.

According to HUD's requirements, Allied was prohibited from requiring that contractual relationships with vendors be in the name of the employee.¹ According to Allied's audited financial statements, it entered into month-to-month operating leases to minimize its future lease commitments. By not directly entering into

¹ HUD Mortgagee Approval Handbook 4060.1, REV-2, paragraph 2-14, and Mortgagee Letter ML 00-15.

leases, Allied apparently attempted to maintain a separation between itself and its branch offices which was inconsistent with the close supervisory control and oversight of its branches required by HUD.²

Allied Did Not Consistently Pay Rental Expenses

Allied did not consistently pay the monthly rental amounts at all five branches reviewed during the 27 months tested. The following table shows the number of months Allied did not pay rent and the outstanding rent due or credit balance as of March 31, 2008.

Branch number	Number of months rent was not paid	Amount of rent under/(over)paid
2315	15	\$148,090
1785	7	2,626
0835	2*	(2,587)
0173	3	2,081
1886	1**	1,500
Total		\$151,710

*For an additional 5 out of 27 months reviewed, Allied did not pay rent, but the branch had a credit balance due. Also, in addition to the monthly rental payment, the lease agreement required \$6,270 for the lease year, but it was silent as to how or when it was to be paid.

** Although Allied closed the branch on January 17, 2008, it did not pay rent that was due on January 1, 2008.

Allied had a system in place named Auto-Pay that would automatically pay the branches' monthly rental expenses. Allied staff members said that this system allowed them to verify that all monthly rental payments were made. However, Allied did not consistently use the system for all branches during the period reviewed. As shown in the table, Allied's system did not work. Allied could not explain why this condition occurred. HUD's policies required Allied to pay all of the operating expenses of its branches.³ In addition, Allied's written policies stated that Allied should have always paid all branch core expenses including rent.

² HUD Mortgagee Approval Handbook 4060.1, REV-2, paragraphs 2-9 A and D.

³ HUD Mortgagee Approval Handbook 4060.1, REV-2, Paragraph 2-8.

Allied Did Not Consistently Pay Utility and Telephone Expenses

In addition to rental expenses, Allied did not pay the required operating costs of utility and telephone expenses for all five branches for the 27 months reviewed.⁴

Utilities

Allied's records showed that it did not pay any utility expenses at three of the five branches during the 27 months reviewed. At another branch, Allied occasionally paid utility expenses. Allied consistently paid utility expenses at the fifth branch until the month it closed the branch. The following table shows the number of months Allied did not make utility payments.

Branch number	Number of months payments not made
1785	27
0835	19
2315	27
0173	27
1886	1

Telephone Expenses

Allied's records showed that it also did not consistently pay telephone expenses at all five branches. The following table shows the number of months in which Allied did not pay telephone expenses, according to its records, and the range of the payment amounts for the months in which Allied paid telephone expenses as the payment amounts fluctuated.

Branch number	Number of months payments not made	Range of payment amounts	
		Low	High
1785	27		
0835	10	\$.72	\$1,027
2315	9	275	7,941
0173	6	173	2,188
1886	2*	309	554

* One of the two nonpayment months was the month Allied closed the branch.

⁴ HUD Mortgagee Approval Handbook 4060.1, REV-2, Paragraph 2-8.

Allied's written policies required it to pay all core operating expenses each month, which included both telephone and utility expenses. Allied did not consistently pay these expenses because it did not have a system for determining whether core expenses such as utility and telephone expenses were paid each month. In addition, it did not maintain records showing the amounts due each month or whether the branch managers submitted utility or telephone bills for payment. Instead, Allied allowed its branch managers to decide which operating expenses to submit for payment or reimbursement, rather than requiring that they be turned in monthly for payment.

By not ensuring that it paid all core expenses such as office space rent, telephone and utility expenses, Allied did not maintain the close supervisory control and oversight over its branches as required by HUD and exposed HUD to possible unnecessary insurance risk.

Allied Requested that One Former Branch Manager Pay for Branch Operating Losses

Allied requested a former branch manager use his personal funds to cover operational expenses when one branch had an extremely high operating account deficit. In emails between the former branch manager and the president of Allied, the president told the branch manager that he needed to "bring money to the table." In another email, the former branch manager told the president of Allied that he was in the process of getting funding from an additional source to cover losses at another branch. The branch manager did not provide proof that he ever made a payment to Allied to cover the operating losses. However, HUD's rules prohibit requiring an employee to use personal funds to cover operating expenses if funds are not available from an operating account.⁵

Complaint Concerning Indemnifications was Invalid

The complaint allegation that Allied required its branch managers to indemnify it for losses and damages was invalid. According to HUD's policies, HUD may require FHA approved lenders to enter into indemnification agreements on FHA insured loans when HUD determines that the loans expose HUD to an unacceptable level of risk. An indemnification agreement states that the lender will repay HUD for any losses it incurs on loans covered by the agreement. Allied did not require branches to repay it for losses incurred for loans under an indemnification agreement. Allied did require branches to repay it for premiums earned on defaulted loans, which is an allowed operating expense according to HUD's requirements.

⁵ HUD Mortgagee Approval Handbook 4060.1, REV-2, paragraph 2-14, and Mortgagee Letter ML 00-15.

Allied Hired an Ineligible Employee to Initiate FHA Loans

Allied hired an employee who lived in a different state, more than 300 miles from the HUD approved branch, to initiate loans declined by the employee's husband, who worked at another mortgage company. HUD's policies prohibit taking on an existing, separate mortgage company or broker and allowing it to originate insured mortgages under the approved lender's HUD mortgagee number. In addition, this practice is a violation of HUD's rules prohibiting third-party originations of FHA-insured loans.⁶ The employee also indicated that she would be working for another real estate or mortgage company while working for Allied. However, HUD's rules prohibit staff from having outside employment in mortgage lending, real estate, or a related field.⁷

Allied's staff determined that the employee was ineligible and attempted to stop her from being hired. However, Allied's president overrode internal controls, and she was hired. The employee is no longer employed at Allied and did not originate any FHA loans. However, top management's willingness to override controls and the advice of staff exposed HUD to increased risk that another ineligible employee could also be hired. In addition, this incident supports the contention that Allied did not exercise adequate control and supervision over its branches as required.⁸

Conclusion

Allied did not have effective systems and controls in place to ensure that it fully complied with HUD's rules, regulations, procedures, and instructions when it operated its branches. Allied took steps indicating that it attempted to maintain a separation between itself and its branch offices. This action was inconsistent with the close supervisory control and oversight of its branch employees required by HUD and exposed HUD to increased risk to the FHA insurance fund.

⁶ Mortgage Letter 00-15 and HUD Mortgagee Approval Handbook 4060.1, REV-2, paragraph 2-19.

⁷ HUD Mortgagee Approval Handbook 4060.1, REV-2, paragraph 2-9G.

⁸ HUD Mortgagee Approval Handbook 4060.1, REV-2, paragraphs 2-9 A and D.

Recommendations

We recommend that HUD's Assistant Secretary for Single Family Housing

- 1A. Require Allied to immediately discontinue its current practices related to office space, utility, and equipment leases/agreements for all branch offices, and adopt new practices and controls that require Allied to directly enter into those leases and/or agreements.
- 1B. Require Allied to implement the necessary policies, systems, and controls to ensure that it pays all branch operating costs, including rental, utility, and telephone expenses.
- 1C. Require HUD's Quality Assurance Division to confirm that all Allied branch offices have appropriate agreements. For those branches that do not comply, take appropriate action to ensure compliance including but not limited to prohibiting the branch office from originating FHA insured loans, and/or referring Allied to the Mortgage Review Board.
- 1D. Request the Mortgage Review Board pursue civil money penalties and/or administrative sanctions as appropriate against Allied Home Mortgage Capital Corporation for the violations cited in this report.

We also recommend that the Acting Director of HUD's Departmental Enforcement Center

- 1E. Pursue civil money penalties and administrative sanctions, as appropriate, against the responsible parties for the violations cited in this report.

SCOPE AND METHODOLOGY

Our objective was to determine the validity of a hotline complaint that Allied operated its branches in violation of HUD requirements. To accomplish our objectives, we

- Reviewed background information and HUD criteria that control branching arrangements.
- Reviewed the hotline complaint and documentation supplied.
- Reviewed various reports, databases, and documents to determine existing conditions at Allied. The documents included Allied's Branch Training Manual and HUD's Quality Assurance Division's most recent review of Allied.
- Reviewed Allied's fiscal year 2006 and 2007 audited financial statements for information related to Allied's branching operations and for indications of questionable activities.
- Selected a nonrepresentative sample⁹ of 5 of 548 (467 active and 81 terminated) Allied branch offices for review including branch 0173 in Kingwood, Texas; branch 0835 in Fairview Park, Ohio; branch 1785 in Houston, Texas; branch 1873 in Grove, Oklahoma; and branch 2315 in Kansas City, Missouri. We selected a nonrepresentative sample instead of a representative sample to review specific items of interest (branches) which were alleged to have specific violations of HUD's branching requirements. We selected three branches which were listed in the documentation supporting the hotline complaint. We also selected two branches at random which were not listed in the complaint and which were located in the Houston area.
- For each branch selected, obtained and reviewed data in Allied's files, including office space leases and other contractual agreements; performed limited testing of expenses; and reviewed employee files to test employment agreements and pay status.
- Made site visits to two Allied branches.
- Interviewed former branch managers, Allied officials, and staff from HUD's Quality Assurance Division and Program Enforcement Division.
- Performed certain tests on the computer-processed financial data obtained from Allied. We determined the data to be sufficiently reliable to meet our objectives.

We also used data maintained by HUD in the Neighborhood Watch system for background information and in selecting our sample of loans. We did not rely on the data to base our conclusions. Therefore, we did not assess the reliability of the data.

Our review covered the period January 1, 2006, through March 31, 2008. We performed our audit from June through November 2008. We conducted the review at the corporate headquarters of Allied located in Houston, Texas; two of Allied's area branch offices located in Houston and Kingwood, Texas; and the HUD office located in Houston, Texas. The scope of our review was generally limited to issues raised in the complaint regarding prohibited branch arrangements.

⁹ A nonrepresentative sample selection is appropriate when enough is known about the population to identify a relatively small number of items of interest.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Policies and procedures that management has implemented to reasonably ensure that its operations meet HUD's requirements in an effective and efficient manner.

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, we believe that the following items are significant weaknesses:

- Allied did not ensure that branch contractual agreements were in its name.
- Allied did not consistently pay the required core operating costs of rental, utility, and telephone expenses for the five branch offices reviewed.
- Allied's president overrode its internal controls to hire an ineligible employee.

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



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January 15, 2009

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U.S. Department of Housing and Urban Development
Office of Inspector General, Region IV
819 Taylor Street, Suite 13A09
Fort Worth, Texas 76102

Re: Audit Report Number 2009-FW-100X
Allied Home Mortgage Capital Corporation

Dear Ms. Wilson, Ms. Carroll and Mr. Kirkland:

Allied Home Mortgage Capital Corporation ("Allied" or the "Company") appreciates the opportunity to respond to the HUD Office of Inspector General Report on Net-Branching Requirements, as referenced ("Report"). The Company understands and appreciates its responsibilities as a HUD mortgagee, and considers all such matters seriously. In responding to the Report we will attempt to be brief.

It is Allied's belief that the origin of the hotline complaint received by the HUD Inspector General is a former branch manager currently involved in litigation with the Company. During the last year of this individual's tenure with Allied there was significant conflict, which eventually resulted in a severance of the relationship by the corporate office. A lawsuit between the parties is currently pending in Federal Court in Massachusetts regarding various claims of impropriety on the part of the former branch manager. The Inspector General has been provided with a copy of relevant pleadings in the case.

The foregoing is offered to demonstrate that the complaint was made to aid the former manager in his litigation as opposed to a good faith effort to protect the interests of the government.

Additionally, while the factual basis for the Report is correct in all material respects, the stated facts alone do not give a complete picture of the operation of Company branch operations during the audit period. Allied operated an average of approximately 500 branches during the audit period. The audit reviewed records associated with 5 branch offices, which represents 1% of operations. Also during the audit period there was significant staff turnover in key positions within the company that had responsibility to oversee the functions that were the subject of the audit report.

Comment 1

Specifically, two Chief Financial Officers served during this time and the director of compliance was absent during most of the audit period due to serious family medical issues that eventually caused her to resign her employment with the company.

Comment 2

At various times prior to and during the audit period, Allied received on site examinations by program officials and administrators with the U S Department of HUD office of single family who reviewed Allied's retail operation including its sublease arrangement with landlords. None of the reviews found a concern with Allied's sublease arrangement.

Comment 1

There are suggestions in the Report that some of the former practices of Allied exposed the government to undue risk. The facts are that neither the government nor any private party incurred any loss for such practices. All lease, utility and other branch expenses were timely paid or resolved to the satisfaction of the landlord and Allied.

Finding 1: Allied Did Not Fully Follow HUD's Net-Branching Requirements

Allied Did Not Ensure Branch Contractual Agreements Were In Its Name

Response - Allied must rely upon the disclosures made to its corporate office by individuals that it hires as branch managers concerning the extent of their operation prior to and at the time of their employment. In some instances individuals have pre-existing relationships with vendors that are not fully disclosed to Allied after a branch manager is hired. All known lease agreements are confirmed and a sublease is then executed and a monthly debit account is established to pay rent. In the past there were occasions when Allied relied upon the manager to submit monthly invoices to pay the rent but that process was discontinued several months ago.

Comment 2

Company policy requires that equipment lease agreements be approved at the corporate office only. A branch manager does not have the authority to bind the Company to any such agreement. On occasion the Company becomes aware that a manager has exceeded his or her authority and entered into an agreement that the Company would not otherwise have approved. In those instances Allied notifies the vendor that the transaction was unauthorized, having determined that the Company will not further ratify manager actions outside the scope of permissible authority.

Allied Did Not Consistently Pay Rental Expenses

Comment 3

Response - Allied incorporates its response contained in the foregoing paragraphs. In addition, during the period of the audit, Allied experienced turnover in the positions of Chief Financial Officer and Director of Compliance which had responsibility to establish, implement and supervise the accounting function to ensure that procedures were consistent with all applicable governmental policies and regulations. During the audit period, Allied was experiencing a conversion of the process that relied upon the manual submission of invoices by branch managers to an automated system. This took a

significant period for software installation and the staff, including branch managers, to be trained so that the system would work effectively.

Comment 3

Additionally, the rental expense chart in the Report references five (5) branch offices. The first listed branch, 2315, is subject matter in the litigation previously referenced. The other four branch offices are cited as missing 13 rental payments from a combined total of 108 (27 months x 4 offices), with a combined stated underpayment of rent in the sum of \$3,620, a de minimus amount.

Allied Did Not Consistently Pay Utility and Telephone Expenses

Comment 4

Allied incorporates its responses contained in the foregoing paragraphs. In addition, some utility payments were included in the monthly lease rental payment and were not billed as separate items. After conversions to the automatic pay system, all utility payments have been timely.

Allied Requested That One Former Branch Manager Pay for Branch Operating Losses

Comment 5

This is a situation where there was an apparent deviation from HUD procedures as opposed to an actual deviation. The mere discussion of a potential variation should not be the basis for an actual finding or the establishment of an actual deviation. The mere discussion in this one instance that never was consummated does not establish that the event, even if it had occurred, was universal or company wide. The circumstances discussed in the email were unique.

Complaint Concerning Indemnification Was Invalid

Allied accepts this finding without further comment.

Allied Hired an Ineligible Employee to Initiate FHA Loans

Comment 6

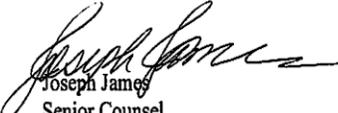
Even though the emails seem to indicate otherwise, the President of the company was under the impression that the individual employed would relocate within a reasonable time to her new place of employment, obtain proper certification in the new location and would cease operation with her former employer. The emails do not fully disclose the complete oral discussions and circumstances surrounding the decision to extend employment to the subject employee. This was a one-time event and has not and will not reoccur again.

Conclusion

Allied has carefully considered the findings and recommendations set forth in the Report and is committed to taking appropriate action to address any deficiencies. The Company is further committed to serving the needs of consumers and complying with all HUD regulations. The Company appreciates the opportunity to respond and looks forward to a continued dialogue with HUD. If you have any questions, comments, or

require any additional information, please do not hesitate to contact the undersigned at 713.684.0732.

Very truly yours



Joseph James
Senior Counsel

OIG Evaluation of Auditee Comments

Comment 1 Allied agreed with the facts disclosed in the report but offered additional comments to explain the conditions reported. Allied also said that neither the government nor any private party incurred any loss as a result of its practices. We disagree that no private parties incurred a loss resulting from Allied's practices. When Allied terminated three of the five branches reviewed, the branch manager became personally responsible for expenses.

Comment 2 Allied's response did not address the fact that the branches' rental leases were not in its name. HUD's policies require branch contractual agreements to be in the name of the HUD/FHA approved mortgagee, not in the name of the branch manager.

Allied further stated that its policy required equipment lease agreements to be approved at the corporate office only. We disagree. Allied's written policies that we obtained, dated from 2005 through March 2008, do not state this. Instead they required signed equipment subleases in Allied's name.

Comment 3 Allied said staff turnover and new computer software were the reasons for rental expenses not being paid. HUD policy required it to pay all operating expenses of its branches, including rent. Since Allied did not have effective systems and controls in place, these expenses were not paid.

Allied also considered the missing rental payments from four of the branches reviewed to be a de minimus amount. We disagree. The 13 missed payments actually totaled \$17,307, not \$3,620 as stated by Allied. Further, all five branches reviewed had at least one month where Allied did not make a rental payment.

Comment 4 In addition to its previous comments, Allied said that some utility payments were included in lease payments. Our review did disclose that three of the five branches had leases that contained references to utility costs. However, one lease included only partial utilities and Allied did make a few utility payments for this branch, but did not pay those utilities every month. For another, the lease included statements that indicated utility costs were covered but also stated that the landlord could adjust for excess utilities and bill the lessee for costs in excess of calculated annual costs which indicated utility payments may have occurred and not been paid. For the third lease, our testing included only one month where utility costs were included in the lease which indicated that utility costs should have been paid by Allied for the other months. In addition, telephone expenses are not normally included in lease payments and we did not observe that telephone expenses were included in any of the lease agreements reviewed.

Comment 5 Allied stated that the deviation from HUD policies is apparent, rather than actual. We disagree. Allied's emails provided enough discussion to determine that the branch manager was asked to provide personal funding to cover branch operating losses which is prohibited by HUD's rules.

Comment 6 Allied stated that the emails do not fully disclose the complete discussions and circumstances surrounding the hiring of the ineligible employee. We agree that the emails do not reflect oral discussions, but they do show warnings by staff to Allied's president that this employee should not have been hired which were disregarded.