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Information from FHA's Office of Lender Activities and Program Compliance

Lender Insight

Issue No. 1

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Business Transformation >>>

FHA to Transition to New Financial Reporting System

Our office is in the process of implementing a series of system enhancements that will improve our overall capabilities, including our ability to monitor lenders' financial performance. As a part of the initiative, FHA will be converting from the Lender Assessment Sub-System (LASS) to a more efficient financial reporting system known as the Lender Electronic Assessment Portal (LEAP).

LEAP will provide a streamlined annual recertification process by allowing lenders to certify, pay recertification fees, submit financial documents, and respond to FHA requests for information through a single portal. LEAP's financial reporting functionality will include an enhanced Data Collection Form and standardized Financial Data Templates based on the lender's specific financial reporting structure. LEAP will also improve FHA's ability to monitor lenders' financial performance.

The projected release date for LEAP is currently **January 2014**. FHA will continue to update lenders on LEAP and other system enhancements as more information becomes available.

What's Trending

OLAPC Launches New Outreach Efforts

The Office of Lender Activities and Program Compliance (OLAPC) is excited to publish the inaugural edition of our newsletter, **Lender Insight**.

The goal is to offer insight to FHA lenders about what we see behind the scenes in lender approval, recertification, monitoring and compliance, and enforcement actions. Each issue will contain core information designed to help our lenders better understand the trends we are seeing. Our hope is that lenders will be able to use this information to improve quality control and risk management practices and alleviate many of the problems we see early in the process before FHA action is necessary.

We will also strive to provide seasonal information and updates about new policies and initiatives the office is working to develop and implement. Currently, the newsletter will be distributed to readers via FHA's Single Family Housing Industry Email List. If you would like to receive the newsletter, but are not on the list, please visit <http://bit.ly/FHARCPage> to subscribe. Thank you for reading, and we look forward to sharing our work with you in the future.

-The OLAPC Team



Quarterly Loan Review Findings

FHA's Quarterly Loan Review Summary for Quarter ending March 31, 2013



Introduction >>>

The FHA Quarterly Loan Review Findings include all Single Family Post-Endorsement Technical Loan Reviews (PETRs) conducted by FHA between January 1, 2013 and March 31, 2013. FHA uses a three tier rating system: loans are rated as "conforming," "deficient," or "unacceptable." A loan rated unacceptable may change if the lender provides mitigating documentation to FHA. Even if a rating is subsequently mitigated, an initial rating of unacceptable indicates the loan exhibited a material defect at the time of endorsement. **This report reflects the initial rating of each file reviewed during the quarter.** The loans reviewed are selected by a risk targeting methodology and are not representative of the overall FHA portfolio.

Loan Sample Characteristics >>>

Total Loans Reviewed:	6,251	Purchase:	55%
Conforming:	19%	Rate & Term Refinance:	8%
Deficient:	37%	Streamline Refinance:	24%
Initial Unacceptable:	44%	HECM:	13%
		EPDs:	37%

Finding Category	% of Total	% Unacceptable (U)
Program Eligibility	12%	77%
Credit/Underwriting	20%	79%
Collateral/Asset Valuation	7%	63%
Operational Deficiencies	7%	71%
File Documentation	54%	61%
Totals	100%	

Top 5 Findings Ranked by Category

Details >>>

The charts below detail FHA's five main findings categories for PETRs. Each chart lists the top five specific findings in each findings category. The "% of Total" column represents the share of the top five findings within the findings category. The "% of U" column represents a breakdown of the percent of the finding that was unacceptable. For example, in the findings category of Program Eligibility (right), the top finding was *Purchase contract, Real Estate Certificate and/or amendatory clause missing, illegible or incorrect*. This specific finding made up 28% of all Program Eligibility findings. Out of that 28%, 64% of the findings were unacceptable.

Program Eligibility	% of Total	% U
1. Purchase contract, Real Estate Certificate and/or amendatory clause missing, illegible or incorrect.	28%	64%
2. Mortgage amount incorrect, loan-to-value limit and/or statutory limit exceeded.	14%	96%
3. Issues related to National Mortgage Licensing System registration requirements.	13%	61%
4. Streamline refinance eligibility criteria not met.	11%	79%
5. Newly constructed home does not meet requirements.	6%	88%
6. All other	28%	85%
	100%	

Credit and Underwriting	% of Total	% U
1. Unacceptable, unsupported or insufficient source of funds.	22%	81%
2. Income improperly documented.	15%	76%
3. Obligations of borrower(s) (non-purchasing spouses included) omitted, inaccurate, not supported, not disclosed, and/or not legible.	14%	80%
4. Concerns related to assets derived from gift(s).	10%	81%
5. Income improperly calculated or from unacceptable source.	10%	77%
6. All other	29%	79%
	100%	

Collateral/Asset Valuation	% of Total	% U
1. Concerns related to the Neighborhood, Site, and/or Improvements section of the appraisal report.	43%	60%
2. Concerns related to Sales Comparison Approach section of the appraisal report.	39%	58%
3. Repairs not acceptably addressed.	8%	86%
4. Property does not meet Minimum Property Requirements or Standards.	4%	96%
5. Concerns related to the Cost Approach of the appraisal report.	3%	63%
6. All other	3%	84%
	100%	

Top 5 Findings Ranked by Category (Continued)

Operational Deficiencies	% of Total	% U	FOCUS File Documentation	% of Total	% U
1. Data integrity deficiencies: File documentation does not support Accept/Approve decision in AUS.	50%	69%	1. Form HUD-92900-A not properly completed or missing.	24%	51%
2. Unallowable, excessive costs/credits to borrower or other HUD-1 and/or Good Faith Estimate inaccuracies.	28%	78%	2. Uniform Residential Loan Application not properly completed or missing.	16%	49%
3. Lender Insured data integrity concerns: Insured loan data entered in FHA connection is not supported by file documents.	17%	60%	3. Form HUD-92800.5B substantially incomplete, incorrect or missing.	12%	57%
4. Sales contract dated less than 91 days from acquisition date by seller.	3%	94%	4. HUD-1, HUD-1 Addendum if applicable, and/or Good Faith Estimate either missing, not the final copy, not complete or not legible.	8%	58%
5. Late Endorsement Certification.	1%	76%	5. HUD-92900-LT FHA Loan Underwriting and Transmittal Summary is missing, illegible or incorrect.	7%	60%
6. All other	1%	93%	6. All other	34%	76%
	100%			100%	

Focus: FILE DOCUMENTATION >>>

Included below are common examples of file documentation issues that may lead to unacceptable ratings. This list is not exhaustive and is meant as an informal resource only.



1. Form HUD-92900-A not properly completed or missing.

- Unacceptable if the HUD-92900-A is missing, the lender or the DE underwriter fails to execute page 3, or the closing is transacted using Power of Attorney (POA) and there is no POA signature on page 4. Information that is commonly missing includes the DE underwriter's CHUMS number, DE underwriter's signature, and the Borrower's Certification, Part V on page 2. Information that is commonly incorrect includes that AUS is checked on page 3, but the loan was manually approved, and vice versa; and the date the approval expires on page 3 is often incorrect or expired. The Final HUD-92900-A is often signed, but not dated, and therefore not properly executed by the lender.

2. Uniform Residential Loan Application (URLA) not properly completed or missing.

- Unacceptable if the URLA is missing, the lender fails to submit copies of the URLA signed by the borrower when the closing is transacted using POA, or the URLA is executed by POA but the borrower did not meet the exceptions (i.e. military personnel, incapacitated borrower). Information that is commonly missing includes the legal description of the property, year built, manner in which title will be held, borrower's years of schooling, borrower's number of dependents and ages, bank account numbers, present housing payment, and the loan originator's signature and/or NMLS ID number.

3. Form HUD-92800.5B substantially incomplete, incorrect or missing.

- Unacceptable if the HUD-92800.5B is missing, or there is no indication in the file that the lender underwrote the appraisal. Information that is commonly missing includes the action date, the DE underwriter's CHUMS number, and the monthly expense estimated. Information that is commonly incorrect includes the commitment issued and commitment expired dates.

4. HUD-1, HUD-1 Addendum if applicable, and/or Good Faith Estimate either missing, not the final copy, not complete or not legible.

- Unacceptable if the Final HUD-1 is missing or illegible, or the Good Faith Estimate (GFE) is out of tolerance with the HUD-1. Information that is commonly missing includes the case number, ADP code, and the GFE. Many times, the HUD-1 reflects a principal reduction at closing, but the binder does not include a payment history as evidence of the reduction. Frequently, copies of these forms are not legible because a photocopier has reimaged them to a size too small to read.

5. HUD-92900-LT FHA Loan Underwriting and Transmittal Summary is missing, illegible or incorrect.

- Unacceptable if the HUD-92900-LT is missing, or if the underwriter approved the loan using the HUD-92900-LT but the documentation in the loan file is significantly different from approval. Information that is commonly missing includes the secondary financing section, gift section, and the loan purpose section; the date of approval on AUS loans; the ADP code, and the seller's contribution. Compensating factors are not listed on the 92900-LT (or an attachment) for manually approved loans that exceed the benchmarking guidelines. If the CAIVRS is listed with an alpha character other than "A" the binder must include proper documentation to justify loan approval; this information is often missing. Information that is commonly incorrect includes that the LDP/GSA box is checked "Yes" but the borrower is not on HUD's Limited Denial of Participation list; the LDP/GSA box should be marked to indicate whether or not the borrower(s) appeared on these lists, not that the lists were actually checked.

3 Policy Changes You Need to Know About

1. New Net Worth Requirements

Effective May 20, 2013, FHA requires all applicants and approved lenders that wish to participate in FHA programs to possess a minimum net worth of **\$1 million plus 1% of the total volume of FHA Single Family insured mortgages in excess of \$25 million that were originated, underwritten, purchased, or serviced during the prior year, up to a maximum required net worth of \$2.5 million.** Lenders are required to hold 20% of this required net worth in liquid assets. These requirements are discussed in Mortgagee Letter 2010-20 and represent the final phase of the new net worth requirements.

2. Proposed Rule Change on Small Supervised Lender Reporting Requirements

On April 18, 2013, FHA published a proposed rule in the Federal Register that would streamline the FHA financial reporting requirements by permanently waiving the requirement for small supervised lenders with less than \$500 million in consolidated assets to submit audited financial statements as a condition of FHA approval or annual renewal. Comments on the proposed rule change were due on or before June 17, 2013. FHA will carefully review all comments submitted before promulgating a final rule.



3. COMING SOON: Consolidation of FHA Lender IDs for Title I & Title II Lenders

OLAPC is currently working on an initiative to consolidate the FHA Lender Identification Numbers for lenders that participate in both FHA's Title I and Title II Programs, provided the lenders have the same Tax ID. As a result, these lenders will no longer have to submit separate recertification packages and will be able to access HUD systems utilizing only one lender ID. FHA anticipates the change will take place within the next calendar year. Relevant guidance will be issued via a Mortgagee Letter.



Lender Self-Reporting Requirements

FHA-Approved Lenders:

3,277

Active Lenders:

1,748

Lenders Who Self-Reported

FY2013 YTD:

88

As a reminder, all FHA-approved lenders are required to report the following findings to HUD immediately: (1) Findings of fraud; (2) Material misrepresentations; and (3) Other material findings concerning the origination, underwriting, and servicing of FHA loans. **Lenders must report findings via the Neighborhood Watch Early Warning System, using the Lender Reporting feature.** Failure of a lender to self-report may result in FHA taking administrative action.

Enforcement Actions >>>



During the period from January through March 2013, cases heard by the Mortgagee Review Board (MRB) involved infractions consisting of the following types of fact-based violations:

- Failure to implement and maintain a Quality Control Plan
- Failure to review early payment default loans
- Submitting a false certification on the annual yearly verification report
- Problems with construction to permanent programs, involving the co-mingling of escrow funds with operating accounts
- Failing to enter the NMLS ID for the Loan Officer in HUD systems and loan documentation
- Allowing a debarred employee to originate loans

Total Civil Money Penalties (CMPs):	\$749,800
Average CMP per violation:	\$7,500
Lenders Sanctioned:	8
Settlement Agreements:	4
Lenders Who Entered Indemnification Agreements:	4
Loans Covered by Indemnification Agreements:	28
Lenders Withdrawn:	1

Lender actions that appear before the MRB are published quarterly in the Federal Register. The most recent MRB Federal Register publication can be found at: <http://www.gpo.gov/fdsys/pkg/FR-2013-04-11/pdf/2013-08520.pdf>

Frequently Asked Questions >>>



Q: Where can I get the most recent list of FHA's findings codes?

A: The link to the list of underwriting findings codes used by HUD staff for Post-Endorsement Technical Reviews (PETRs) is available on HUD's Frequently Asked Question website at <http://bitly.com/FHAFAQ> or at http://portal.hud.gov/hudportal/documents/huddoc?id=sf_post_end_review_codes.pdf.

Q: How does FHA define the rating scale for PETRs?

A: Conforming means no findings were identified in FHA's review of the credit, capacity, capital, and collateral in the file.

Deficient means one or more findings were identified in FHA's review that do not present a risk to FHA or may indicate documentation or processing errors, but such findings and errors did not affect the approval and/or insurability of the loan.

Unacceptable means findings were identified in FHA's review that indicated the file should not have been approved and/or insured, and that resulted in a significant increase in mortgage risk.

Mitigated means an initial rating of unacceptable was issued and the lender was subsequently able to provide documentation that mitigated the risk. If more than one risk factor was cited to support the issuance of an unacceptable rating, the rating will only be changed to mitigated if *all* risk factors have been mitigated.

For more information on the PETRs rating scale, please see Mortgagee Letter 2007-02.

Q: Will FHA's Processing & Underwriting Division notify me in writing of the rating for each loan selected for a PETR?

A: No. FHA only notifies the underwriting lender in writing for each loan that is assigned an initial rating of unacceptable. The underwriting lender can view all rating results of FHA's initial review, including conforming, deficient, and unacceptable ratings, by accessing the Underwriting Report (by FHA Case Number or Underwriter ID) in the FHA Connection Underwriting Review Functions module.

Q: What are the requirements for a lender when responding to a findings letter received from FHA as a result of a PETR?

A: Lenders must respond to an initial findings letter within 45 days. All responses must include a detailed description and appropriate documentation to mitigate the findings cited in the letter. Failure to respond within the specified timeframe or a failure to include mitigating documentation will result in a referral to FHA's Quality Assurance Division for administrative action. In order to ensure that all correspondence related to post PETR findings reaches the intended recipient(s), lenders are reminded to update the Administrative Address and Administrative Contact Information in the Lender Approval section of FHA Connection on a regular basis.

The FHA Resource Center is here to help! Contact us at:

Phone: **1-800-CALL-FHA (225-5342)**

TTY: **1-800-877-8339**

Email: answers@hud.gov



Coming soon >>>

In the Next Issue...

Focus: Credit & Underwriting Findings

Reducing Unacceptable Ratings Prior to Initial Review

Anticipating Fiscal Year End: How to Get Ready for Recertification Early

...and more updates on OLAPC initiatives and policy changes. Stay tuned!