

FHA Single Family Housing Policy Handbook

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1 VI. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE

2 A. QUALITY CONTROL

3 1. Quality Control Program Overview

4 a. Purpose of Quality Control Program

5 Quality Control (QC) Programs must be designed to:

- 6 • ensure compliance with FHA and mortgagee policy and guidelines related to FHA
7 Loan Administration;
- 8 • protect FHA, the Borrower, and the mortgagee from unacceptable risk;
- 9 • guard against errors, omissions, negligence, and fraud from those involved in the
10 mortgagee's Loan Administration;
- 11 • determine the root cause of any deficiencies and to identify potential internal and
12 external control weaknesses;
- 13 • alert mortgagee management to patterns of deficiencies with respect to process and
14 personnel;
- 15 • ensure timely and appropriate corrective action;
- 16 • ensure the existence of required documentation (e.g., credit, loan, and appraisal
17 information) that is the basis of underwriting and servicing decisions; and
- 18 • ensure mortgages are secured by properties with values sufficient to support the
19 mortgage.

20 b. Definitions

21 i. Quality Control Program

22 A Quality Control (QC) Program is the process and written procedures through which the
23 mortgagee seeks to ensure that FHA operations and loan quality are in compliance with
24 all applicable requirements.

25 ii. Quality Control Plan

26 A Quality Control (QC) Plan is a written plan that sets forth a mortgagee's procedures for
27 ensuring quality control. A QC Plan is the written element of a mortgagee's QC Program.

28 iii. Loan Administration

29 Loan Administration refers to all aspects of the FHA mortgage lifecycle, including
30 origination, underwriting, closing, endorsement, and servicing of FHA-insured mortgages
31 that are governed by FHA policies and procedures.

1 **c. Standard**

2 The mortgagee must adopt and implement a QC Program that fully complies with the
3 requirements of this *Single Family Housing Policy Handbook (SF Handbook)*, and, where
4 applicable, the additional Multifamily QC requirements outlined in the [Multifamily](#)
5 [Accelerated Processing \(MAP\) Guide, 4430.G](#). The mortgagee must maintain and update its
6 QC Program as needed to ensure it is fully compliant with all applicable FHA requirements
7 at all times.

8 The QC Program must cover the lifecycle of an FHA-insured mortgage, including
9 origination, underwriting, closing, endorsement, and servicing functions that are conducted
10 by the mortgagee.

11 The QC Program must cover all policies and procedures, whether performed by the
12 mortgagee or outsourced to a contractor, to ensure full compliance with FHA requirements
13 for Loan Administration.

14 The QC Program must provide the mortgagee's management with information sufficient to
15 adequately monitor and oversee the mortgagee's compliance and measure performance as it
16 relates to FHA mortgage activity.

17 **d. Required Documentation**

18 The mortgagee must document the existence of its QC Program and evidence of its
19 implementation, including written procedures, QC reports, and corrective action plans.

20 The mortgagee must retain all QC review results, including all selection criteria, review
21 documentation, Findings, and actions taken to mitigate or resolve Findings, for a period of
22 two years. The mortgagee must make all documentation relating to its QC Program available
23 to FHA at any time upon request.

24 **2. Institutional Quality Control Program Requirements**

25 **a. Who May Perform Quality Control**

26 The mortgagee may use employees or contractors to perform QC functions in accordance
27 with the following requirements.

28 **i. Employees**

29 The mortgagee must ensure that employees who perform QC Program functions are, at
30 all times, independent of all Loan Administration processes and do not directly
31 participate in any of the Loan Administration processes represented in the QC Plan. The
32 mortgagee must ensure QC employees are not within any chain of reporting or
33 management that is connected to Loan Administration staff.

1 **ii. Contractors**

2 The mortgagee may contract with outside vendors to perform QC functions if:

- 3 • the mortgagee assumes full responsibility for the contractor's conduct of QC
- 4 reviews in compliance with FHA requirements;
- 5 • the mortgagee and the contractor have a valid contractual agreement in place that
- 6 specifies the roles and responsibilities of each party; and
- 7 • the mortgagee acknowledges that the existence of such contract for the provision
- 8 of QC services does not satisfy the mortgagee's obligation to have a written QC
- 9 Plan that fully complies with FHA requirements.

10 **b. Operational Compliance**

11 The mortgagee must ensure that its QC Plan provides for the following required reviews.

12 **i. Personnel**

13 **(A) Training**

14 **(1) Loan Administration and Quality Control Processes**

15 **(a) Standard**

16 The mortgagee must train all staff involved in FHA Loan Administration and

17 QC processes to ensure that staff know all current FHA requirements for the

18 FHA Loan Administration practices for which the mortgagee is responsible.

19 **(b) Required Documentation**

20 The mortgagee must maintain a list of all trainings provided to staff. For each

21 training, the mortgagee must include a summary of the content covered.

22 **(2) Access to FHA Guidance**

23 **(a) Standard**

24 The mortgagee must provide all Loan Administration and QC staff with

25 access to current FHA guidance including Handbooks, Mortgagee Letters,

26 Frequently Asked Questions (FAQ), and other guidance issued by FHA.

27 **(b) Required Documentation**

28 The mortgagee must confirm that all Loan Administration and QC staff have

29 access to the Internet or to hard copies of current FHA guidance.

1 **(B) Restricted Participation**

2 **(1) Standard**

3 The mortgagee must confirm it verified, through each of the following systems,
4 that all of its employees and Affiliates associated with the Loan Administration
5 process were permitted to participate in FHA programs. Checks to verify
6 employee eligibility must be conducted at least semiannually.

- 7 • [System for Award Management \(SAM\)](#) Excluded Parties List
- 8 • [Limited Denial of Participation \(LDP\)](#)
- 9 • [National Mortgage Licensing System and Registry \(NMLS\)](#) (unless
10 excluded from NMLS requirements by law or regulation)
- 11 • Credit Alert Verification Reporting System (CAIVRS) via [FHA](#)
12 [Connection \(FHAC\)](#) (for branch managers and underwriters only)

13 **(2) Required Documentation**

14 Mortgagees must maintain copies of each employee's eligibility verification print-
15 out with the mortgagee's QC results.

16 **ii. Affiliate Quality Control Reviews**

17 **(A) Standard**

18 The mortgagee must perform QC reviews of its Affiliates in the same manner and
19 under the same conditions as required for the mortgagee's own operations. At a
20 minimum, Affiliate monitoring must include a periodic (semiannual at a minimum)
21 reverification of Affiliates' compliance with all applicable laws related to licensing,
22 qualification, eligibility, or approval to originate home mortgages.

23 **(B) Required Documentation**

24 The mortgagee must document the methodology used to review Affiliates, the results
25 of each review, and any corrective actions taken as a result of review Findings. The
26 procedures used to review and monitor a mortgagee's Affiliates must be included in
27 the mortgagee's QC Plan.

28 **iii. Fair Lending**

29 The mortgagee must verify that its operations comply with applicable state and
30 federal fair lending laws, including the following:

- 31 • Fair Housing Act ([42 U.S.C. 3601 et seq.](#))
- 32 • Equal Credit Opportunity Act ([15 U.S.C. 1691 et seq.](#))
- 33 • Federal Truth in Lending Act ([15 U.S.C. 1601 et seq.](#))

1 **(A) Rejected Borrower Applications**

2 **(1) Standard**

3 The mortgagee must review at least 5 percent of rejected applications, or a
4 statistical random sample that provides a 95 percent confidence level with 2
5 percent precision, within 90 Days from the end of the month in which the decision
6 was made. Reviews must be conducted on a monthly basis and ensure that:

- 7 • the reasons given for rejection were valid;
- 8 • each rejection has the concurrence of an officer or senior staff person of
9 the company, or a committee chaired by a senior staff person or officer;
- 10 • the requirements of the Equal Credit Opportunity Act are met and
11 documented in each file; and
- 12 • no civil rights violations were committed in the rejection of the
13 application.

14 Where possible discrimination is noted, the mortgagee must take immediate
15 corrective action.

16 **(2) Required Documentation**

17 The mortgagee must document the methodology used to review rejected Borrower
18 applications, the results of each review, and any corrective actions taken as a
19 result of review Findings. The procedures used to review rejected Borrower
20 applications must be included in the mortgagee's QC Plan.

21 **(B) Fair Housing Logo**

22 **(1) Standard**

23 The mortgagee must verify that [fair housing and equal opportunity signs and](#)
24 [logos](#) are prominently displayed in the mortgagee's offices and on stationery and
25 documents distributed by the mortgagee to the public.

26 **(2) Required Documentation**

27 The mortgagee must confirm that the fair housing and equal opportunity logo is
28 prominently displayed in the mortgagee's office. The mortgagee must retain
29 copies of any stationery and documents it produces that use the fair housing and
30 equal opportunity logo.

31 **(C) Fair Housing or Discrimination Violations**

32 **(1) Standard**

33 Potential fair housing violations or instances of discrimination must be reported to
34 HUD's Office of Fair Housing and Equal Opportunity (FHEO) as soon as

1 possible, but no later than one year after a potential violation or instance of
2 discrimination has occurred.

3 **(2) Required Documentation**

4 Fair housing violations and complaints may be reported online using the [HUD](#)
5 [Form 903 Online Complaint](#), in hard copy or over the telephone to the appropriate
6 [FHEO Regional Office](#).

7 **iv. Escrow Funds**

8 **(A) Standard**

9 The mortgagee must verify that escrow funds received from Borrowers were used
10 only for the purpose for which they were received, and are in compliance with all
11 [Consumer Financial Protection Bureau \(CFPB\)](#) escrow requirements.

12 **(B) Required Documentation**

13 The mortgagee must retain the results of each review and any corrective actions taken
14 as a result of review Findings.

15 **v. Mortgage Insurance Premiums**

16 **(A) Standard**

17 The mortgagee must verify that FHA Mortgage Insurance Premiums (MIP) were
18 remitted to FHA within the required time period or, if not, that the remittance
19 included late charges and interest penalties. Mortgagees must address any pattern of
20 late submissions and promptly take corrective measures.

21 **(B) Required Documentation**

22 The mortgagee must retain the results of each review and any corrective actions taken
23 as a result of review Findings.

24 **vi. Timely and Accurate Submission for Insurance**

25 **(A) Standard**

26 The mortgagee must verify that mortgages are being submitted to FHA for insurance
27 within the [required timeframes](#).

28 **(B) Required Documentation**

29 The mortgagee must retain the results of each review and any corrective actions taken
30 as a result of review Findings.

1 **vii. Advertising**

2 **(A) Standard**

3 The mortgagee must review all advertisements generated by the mortgagee or on its
4 behalf to verify compliance with HUD/FHA advertising requirements. The mortgagee
5 must take prompt corrective action upon discovering any violation of [advertising](#)
6 [requirements](#) described in this *SF Handbook*.

7 **(B) Required Documentation**

8 The mortgagee must retain copies of any Advertising Device it produces that is
9 related to FHA programs. The mortgagee must retain samples of the advertising
10 reviewed, the results of each review, and any corrective actions taken as a result of
11 review Findings.

12 **c. Identifying Patterns**

13 **i. Standard**

14 The mortgagee must review its loan performance data to identify any patterns of non-
15 compliance.

16 **ii. Required Documentation**

17 The mortgagee must document the methodology used to review patterns of non-
18 compliance, the results of each review, and any corrective actions taken as a result of
19 review Findings. The procedures used to review patterns of non-compliance must be
20 included in the mortgagee's QC Plan.

21 Mortgagees may use HUD's [Neighborhood Watch Early Warning System](#)
22 (Neighborhood Watch) to assist with identifying patterns.

23 **d. Fraud, Misrepresentation, and Other Findings**

24 **i. Standard**

25 The mortgagee must monitor all FHA-insured mortgages it originates, underwrites,
26 services, or purchases, including those mortgages originated by sponsored Third-Party
27 Originators, for potential fraud, material misrepresentations, or other Material Findings.

28 Suspected instances of fraud, material misrepresentations, and other Material Findings
29 must be investigated and documented by the mortgagee's QC team who must determine
30 whether or not fraud or material misrepresentation actually occurred, or whether Material
31 Findings exist.

1 **ii. Definitions**

2 **(A) Findings**

3 A Finding is a final determination of defect by the mortgagee.

4 **(B) Materiality**

5 In the context of mortgage origination and underwriting, a Finding is Material if
6 disclosure of the Finding would have altered the mortgagee's decision to approve the
7 mortgage or to endorse or seek endorsement from FHA for insurance of the mortgage.

8 In the context of mortgage servicing, a Finding is Material if it has a financial impact
9 on the property, the Borrower, and/or FHA.

10 **(C) Mitigated or Resolved**

11 A Finding has been Mitigated or Resolved if the mortgagee has adequately addressed
12 the deficiencies underlying the Finding, and such deficiencies have been remedied so
13 that the mortgage presents an acceptable level of risk to the mortgagee and to FHA.

14 **iii. Required Documentation**

15 The mortgagee must retain all QC review results, including all selection criteria, review
16 documentation, Findings, and actions taken to mitigate or resolve Findings, for a period
17 of two years.

18 **iv. Internal Reporting to Senior Management**

19 The mortgagee's written QC Plan must contain a process for QC staff to report Findings
20 identified through the QC process to senior management that complies with the following
21 requirements.

22 **(A) Timeframe for Reporting**

23 Initial review Findings must be reported to the mortgagee's senior management
24 within 30 Days of completion of the initial Findings report.

25 **(B) Corrective Action Plan**

26 Mortgagee senior management must review and respond to each instance of fraud,
27 material misrepresentation, or other Material Finding. The mortgagee's final report
28 must identify the corrective or curative actions being taken, the timetable for
29 completion, and any planned follow-up activities.

1 **(C) Follow Up**

2 The mortgagee must discuss all Findings with the responsible party(ies) in order to
3 ensure corrective action and to prevent similar Findings from occurring in the future.

4 **v. External Reporting to FHA**

5 **(A) Fraud and Material Misrepresentation**

6 The mortgagee must report to FHA all Findings of fraud and material
7 misrepresentation.

8 **(B) Material Findings**

9 The mortgagee must report any Material Findings concerning the origination,
10 underwriting, or servicing of a mortgage that the mortgagee is unable to mitigate or
11 otherwise resolve.

12 **(C) Mitigated and Resolved Findings**

13 Findings that do not involve fraud or material misrepresentation and were already
14 Mitigated or Resolved by the mortgagee do not have to be reported to FHA.

15 Mortgagees cannot independently resolve or mitigate any Findings involving fraud or
16 material misrepresentation.

17 **(D) Timeframe for Reporting**

18 The mortgagee must report any Findings of fraud or material misrepresentation to
19 FHA immediately.

20 The mortgagee must report all other Material Findings to FHA no later than 30 Days
21 after the mortgagee has completed its own internal evaluation, or within 60 Days of
22 initial discovery, whichever occurs first.

23 **(E) Corrective Action Plan**

24 For all Findings that must be reported, the mortgagee must identify what actions have
25 been taken to attempt to mitigate or resolve each Finding, and report any planned or
26 pending follow-up activities.

27 **(F) Method of Reporting**

28 The mortgagee must use the Lender Reporting feature in [Neighborhood Watch](#) to
29 report Findings to FHA. FHA may request supporting documentation, including the
30 endorsement case binder, the QC report, and any other documentation necessary for
31 FHA to fully evaluate the Finding.

1 **(G) Suspected HUD Involvement**

2 If the mortgagee suspects HUD employees or contractors were involved in fraud or
3 material misrepresentation, the mortgagee must refer the matter directly to HUD's
4 Office of Inspector General (OIG) through the [HUD OIG website](#), by sending a
5 written referral to HUD OIG Hotline at 451 7th Street, SW, Room 8254, Washington,
6 DC 20410, or by fax at (202) 708-4829.

7 **3. Loan Level Quality Control Program Requirements**

8 **a. Loan File Selection**

9 **i. Timeframe for Selection and Review**

10 Mortgagees must perform QC reviews of FHA-insured mortgages it originates,
11 underwrites, or services, on a monthly basis.

12 Mortgages selected for pre-funding review must be *reviewed* not more than seven Days
13 prior to funding.

14 With the exception of Early Payment Defaults (EPD), mortgages selected for post-closing
15 review must be *selected* within 30 Days from the closing date and must be *reviewed*
16 within 60 Days of the closing date.

17 **ii. Scope**

18 The mortgagee's QC Plan must provide for the thorough evaluation of all Loan
19 Administration functions for which the mortgagee is responsible. The mortgagee must
20 expand the scope of the QC review as appropriate when fraud or patterns of deficiencies
21 are uncovered.

22 **iii. Sample Size Standard**

23 The mortgagee's QC Plan must provide for a combination of both pre-funding and post-
24 closing reviews. Pre-funding reviews should not comprise more than 10 percent of the
25 mortgagee's QC sample.

26 The mortgagee's QC Plan must provide for review of an appropriately sized, statistically
27 valid sample that complies with the following:

28 **(A) 3,500 or Fewer FHA-Insured Mortgages Per Year**

29 Mortgagees that originate, underwrite, and/or service 3,500 or fewer FHA-insured
30 mortgages per year must review a minimum of 10 percent of the FHA-insured
31 mortgages the mortgagee originates, underwrites, or services.

1 **(B) More Than 3,500 FHA-Insured Mortgages Per Year**

2 Mortgagees that originate, underwrite, and/or service more than 3,500 FHA
3 mortgages per year must review either 10 percent of the FHA-insured mortgages the
4 mortgagee originates, underwrites, or services, or a stratified random sample that
5 provides a 95 percent confidence level with a 2 percent statistically valid confidence
6 interval. The stratification should be based on mortgage product type and the source
7 of origination.

8 **iv. Required Documentation**

9 The mortgagee must document how the sample size and selections were determined.

10 **v. Sample Composition Standard**

11 The mortgagee's QC Plan must contain provisions to select FHA-insured mortgages for
12 review via random, EPDs, and discretionary sample selection methods that meet the
13 following conditions. Only random and discretionary samples may be included in the
14 [sample size standard](#).

15 **(A) Random**

16 The mortgagee must select FHA-insured mortgages through the use of statistical
17 sampling such that each of the mortgagee's FHA-insured mortgages has an equal
18 chance of being selected. The random sample must be drawn from all of the
19 mortgagee's FHA-insured mortgages, regardless of origination source or program
20 type.

21 **(B) Early Payment Defaults**

22 **(1) Definition**

23 EPDs are all mortgages that become 60 Days Delinquent within the first six
24 payments.

25 **(2) Standard**

26 The mortgagee must review *all* EPDs underwritten by the mortgagee, regardless
27 of which mortgagee services the mortgage. Mortgagees may use [Neighborhood](#)
28 [Watch](#) to assist with identifying EPDs.

29 **(3) Timeframe for Review**

30 Mortgagees must perform reviews of EPDs within 30 Days from the end of the
31 first month in which the mortgage was reported as being 60 Days past due.

1 **(C) Discretionary**

2 The mortgagee must focus discretionary samples on programs, participants, or
3 sources that represent a high level of risk, including disproportionate loan volume,
4 default rates, new relationships, or concentration in soft market areas.

5 **b. Loan Sample Risk Assessment**

6 **i. Standard**

7 Mortgagees are required to establish a system of evaluating loans selected for QC on the
8 basis of the severity of the violations found during QC reviews. At a minimum, the
9 system must include the categories of risk described below.

10 The mortgagee must compare one month's QC sample to previous QC samples in order
11 to conduct trend analysis.

12 **ii. Risk Categories**

13 **(A) Low Risk**

14 No issues or minor variances were identified with the origination, underwriting, or
15 servicing of the mortgage.

16 **(B) Moderate Risk**

17 The records contained significant unresolved questions or missing documentation.
18 Issues were identified pertaining to processing, documentation, or decisions made
19 during Loan Administration, but none were material to the creditworthiness,
20 collateral, security, or insurability of the mortgage. Failure to resolve these issues
21 created a moderate risk to the mortgagee and to FHA.

22 **(C) Material Risk**

23 The issues identified during the review contained Material Findings which represent
24 an unacceptable level of risk.

25 **iii. Required Documentation**

26 The mortgagee must document the methodology used to establish the loan risk
27 assessment system and conduct trend analysis.

1 **c. Origination and Underwriting Loan File Compliance Review**

2 **i. Minimum Requirements**

3 At a minimum, mortgagees must include the following areas in their QC review to ensure
4 they meet the requirements outlined in [section II.B.1. Origination Through Post-](#)
5 [Closing/Endorsement](#):

- 6 • mortgage application, eligibility, and underwriting documents
- 7 • verifications of employment and deposit
- 8 • self-employed Borrowers
- 9 • credit reports
- 10 • outstanding debt obligations
- 11 • Borrower's source of funds
- 12 • signatures on mortgage documents
- 13 • mortgage origination and closing documents
- 14 • appraisal
- 15 • prohibited restrictive covenants
- 16 • underwriting accuracy and completeness, including compensating factors
- 17 • Settlement Statement or other similar legal document and Good Faith Estimate
- 18 • Qualified Mortgage (QM)
- 19 • condition clearance and closing
- 20 • timely submission for insurance
- 21 • Property Flipping restrictions
- 22 • transfer of property at or soon after closing
- 23 • discrepancies in the loan file

24 **ii. Document Review and Reverification**

25 A mortgagee's QC Plan for origination and underwriting must provide for the review and
26 reverification of the following information on all FHA-insured mortgages selected for
27 review.

28 **(A) Credit Report**

29 Except for non-credit qualifying Streamline Refinances, the mortgagee must obtain a
30 new Residential Mortgage Credit Report (RMCR), a Tri-Merged Credit Report
31 (TRMCR), or, when appropriate, a business credit report for each Borrower whose
32 FHA-insured mortgage is selected for review. The new credit report must comply
33 with the [credit report standards](#) described in this *SF Handbook* for Title II Forward
34 Mortgages. The mortgagee must compare the credit reports obtained and determine
35 whether any discrepancies exist between the reports.

36 The mortgagee must obtain a second, full RMCR from a different credit source when
37 the in-file report reveals discrepancies with the original credit report.

1 **(B) Income, Employment, and Asset Information**

2 **(1) Reverification**

3 **(a) Standard**

4 The mortgagee must analyze the validity and sufficiency of all documents
5 contained in the loan file. The mortgagee must reverify, in writing or
6 electronically if available, the following:

- 7 • employment;
- 8 • income;
- 9 • assets;
- 10 • gift funds;
- 11 • mortgage or rental payments; and
- 12 • source of funds.

13 If a written or electronic reverification request is not returned to the
14 mortgagee, the mortgagee must conduct a telephone reverification.

15 **(b) Required Documentation**

16 The mortgagee must retain evidence of the written or electronic verification.

17 **(2) Discrepancies**

18 **(a) Standard**

19 The mortgagee must evaluate all discrepancies to ensure that the original
20 documents (except blanket verification releases) were completed before being
21 signed, were as represented, were not handled by Interested Parties, and that
22 all corrections were proper and initialed. All conflicting information in the
23 original documentation must be resolved with the underwriter. Discrepancies
24 in documentation discovered during prefunding reviews must be resolved
25 prior to closing.

26 **(b) Required Documentation**

27 The mortgagee must document any discrepancies and retain copies of
28 information used to resolve such discrepancies.

29 **(C) Occupancy**

30 **(1) Standard**

31 The mortgagee must determine whether the Borrower is occupying the property.

1 **(2) Required Documentation**

2 The mortgagee must retain evidence of the written or electronic verification.

3 **(D) Appraisals**

4 **(1) Standard**

5 The mortgagee must conduct a review of the property appraisal for all FHA-
6 insured mortgages chosen for a QC review.

7 At a minimum, mortgagees must include the following areas in their QC review
8 of the property appraisal:

- 9 • the appraisal data;
- 10 • the validity of the comparables;
- 11 • the value conclusion (as required by FHA guidance);
- 12 • any changes made by the underwriter; and
- 13 • the overall quality of the appraisal.

14 **(2) Sample**

15 The mortgagee must perform field reviews on 10 percent of the FHA-insured
16 mortgages selected for the QC sample, as well as on all EPDs. The mortgagee
17 must select mortgages for appraisal reviews based on the factors used for
18 discretionary targeting, as well as the following characteristics:

- 19 • property complaints received from Borrowers;
- 20 • discrepancies found during QC reviews;
- 21 • large adjustments or variances to value;
- 22 • comparable sales more than six months old;
- 23 • excessive distances from comparables to the subject property;
- 24 • repetitive sales activity for the subject property;
- 25 • Investor-sold properties;
- 26 • identity-of-interest conflicts between Borrower and seller;
- 27 • seller identity differs from owner of record; and
- 28 • vacant properties.

29 Field reviews must be performed by licensed appraisers listed on [FHA's Roster of](#)
30 [Appraisers](#).

31 **(3) Exceptions**

32 Property appraisal reviews do not have to be performed for Streamline Refinances
33 without an appraisal, or for HUD Real Estate Owned (REO) sales chosen for QC
34 review.

1 **(4) Required Documentation**

2 The mortgagee must retain all QC review results, including all selection criteria,
3 review documentation, Findings, and actions taken to mitigate or resolve
4 Findings.

5 **d. Quality Control Reviews of Specialized Mortgage Programs**

6 **i. Standard**

7 QC reviews of specialized mortgage programs (e.g., 203(k), Home Equity Conversion
8 Mortgages (HECM), energy efficient mortgages, etc.) must monitor compliance with
9 FHA requirements specific to those programs.

10 **ii. Required Documentation**

11 The mortgagee must retain all QC review results, including all selection criteria, review
12 documentation, Findings, and actions taken to mitigate or resolve Findings.

13 **e. Servicing Loan File Compliance Review**

14 **i. Minimum Requirements**

15 Mortgagees must review all aspects of their servicing operations, including a review of
16 subserviced mortgages and activities as they relate to FHA-insured mortgages, to
17 guarantee that all FHA servicing and loss mitigation requirements are being met. At a
18 minimum, mortgagees must include the following elements in their QC review to ensure
19 they meet the requirements outlined in [HUD Handbooks 4330.1, 4330.2, and 4330.4](#):

- 20 • servicing records
- 21 • transfer of servicing notification and records
- 22 • documentation of purchased or acquired mortgages
- 23 • MIPs
- 24 • Mortgage Record Changes
- 25 • qualifying assumptions
- 26 • Borrower requests, complaints, and escalated cases
- 27 • escrow account functions
- 28 • fees
- 29 • Adjustable Rate Mortgages notifications and calculations
- 30 • force-placed insurance
- 31 • Section 235 recertifications
- 32 • collection activities
- 33 • Single Family Default Monitoring System Reports
- 34 • reporting to credit repositories
- 35 • loss mitigation
- 36 • disaster moratorium requirement
- 37 • Servicemembers Civil Relief Act (SCRA)

- 1 • foreclosure proceedings
- 2 • property preservation and conveyance
- 3 • claims without conveyance of title
- 4 • deficiency judgments
- 5 • claims for insurance benefits
- 6 • prepayments
- 7 • close out procedures
- 8 • document retention and legibility
- 9 • servicing of 203(k) mortgages
- 10 • servicing of HECM

11 **f. Ineligible Participants**

12 **i. Mortgage Transaction**

13 **(A) Standard**

14 The mortgagee must verify that none of the participants in the mortgage transactions
15 reviewed (excluding the seller of a Principal Residence) were debarred, suspended,
16 under an LDP for the FHA program and jurisdiction, or otherwise ineligible to
17 participate in an FHA transaction.

18 **(B) Required Documentation**

19 The mortgagee must confirm that it verified each participant's eligibility.

20 **ii. Assumption of Mortgage**

21 **(A) Standard**

22 The mortgagee must verify that no participants in an assumption transaction
23 (excluding the seller of a Principal Residence) were debarred, suspended, under an
24 LDP for the FHA program and jurisdiction, or otherwise ineligible to participate in an
25 FHA transaction.

26 **(B) Required Documentation**

27 The mortgagee must confirm that it verified each participant's eligibility.

28 **4. Data Integrity**

29 **a. Standard**

30 The mortgagee's QC program must include a review of the completeness and accuracy of the
31 information obtained for each mortgage for all aspects of the Loan Administration process
32 for which a QC sample is selected.

1 **i. Origination and Underwriting Information**

2 For origination and underwriting, the review must validate all data elements submitted
3 through Automated Underwriting System (AUS), Technology Open To Approved
4 Lenders (TOTAL) Mortgage Scorecard, and FHAC, and validate that documentation
5 exists in the loan file to support all data used to underwrite the mortgage.

6 **ii. Servicing Information**

7 For servicing, the review must validate mortgage information submitted to the Single
8 Family Default Monitoring System (SFDMS) or Home Equity Reverse Mortgage
9 Information Technology (HERMIT), as applicable.

10 **b. Required Documentation**

11 The mortgagee must retain the results of each review and any corrective actions taken as a
12 result of review Findings.

13 **B. MORTGAGEE MONITORING**

14 **1. Mortgagee Monitoring Goals**

15 FHA continually monitors mortgagee performance in order to:

- 16 • reduce the risk of defaults and claims to FHA;
- 17 • apply appropriate remedies to non-complying mortgagees; and
- 18 • improve mortgagee performance.

19 **2. Cooperation with HUD Investigations and Reviews**

20 Mortgagees must fully cooperate with any investigation(s) or review(s) undertaken by HUD.
21 Mortgagees must make all Corporate Officers and employees available for interviews and
22 promptly provide information and documents requested by HUD in the format requested. Failure
23 to fully cooperate may result in administrative or civil action being taken against the mortgagee.

24 **3. Institutional Mortgagee Monitoring**

25 **a. Neighborhood Watch**

26 **i. Overview**

27 The [Neighborhood Watch Early Warning System](#) (Neighborhood Watch) is a web-based
28 application that provides comprehensive data querying, reporting, and analytical
29 capabilities for tracking the performance of mortgages originated, underwritten, and
30 serviced by FHA-approved mortgagees. Neighborhood Watch performance data is
31 updated monthly.

1 **ii. Purpose**

2 Mortgagees may use Neighborhood Watch to self-police their performance and analyze
3 weaknesses. The system is designed to highlight exceptions so that potential problems are
4 easily recognized. The system can also be used to locate and analyze mortgage programs
5 and geographic areas that are performing well.

6 **iii. Access**

7 There are two ways for a mortgagee to access Neighborhood Watch:

- 8 • through the [public site](#); and
- 9 • through the mortgagee site via [FHAC](#).

10 **(A) Public Site**

11 The public site provides general information and is accessible by anyone in the
12 general public. It does not provide access to loan-level data, and delinquent case
13 details include a limited amount of information.

14 **(B) FHA-Approved Mortgagee Site**

15 The site for FHA-approved mortgagees is accessible via [FHAC](#). The mortgagee site
16 provides granular, loan-level data to mortgagees who originate, sponsor, or service
17 the specific mortgages. Access to this site is limited to employees of the querying
18 mortgagee and requires a user identification and password issued by HUD. Details on
19 obtaining a user identification and password and on using Neighborhood Watch are
20 contained in the Single Family Housing portion of the [FHAC Guide](#).

21 **b. Mortgage Performance Reports**

22 **i. Overview**

23 FHA generates a monthly report that is available to mortgagees with DE approval, which
24 details the performance of each DE mortgagee's underwriting and operations. The report
25 provides:

- 26 • summary information based on Post Endorsement Technical Reviews (PETR);
- 27 • information on the endorsement performance of each branch office within the
28 local jurisdiction; and
- 29 • information on the mortgagee's overall performance, based on the results of the
30 PETRs, both locally and nationally.

31 The report is divided into subsections with information for:

- 32 • the last month;
- 33 • the two months prior to the last reporting month; and
- 34 • the first nine months of the reporting period.

1 **ii. Purpose**

2 Mortgagees with DE approval may use Mortgagee Performance Reports to monitor their
3 performance and analyze weaknesses. Mortgagee Performance Reports are designed to
4 identify underwriting Findings on FHA-insured mortgages selected for PETRs.

5 **iii. Access**

6 Mortgagee Performance Reports can be viewed and downloaded in [FHAC](#). Access to the
7 reports is limited to employees of the querying mortgagee and requires a user
8 identification and password issued by HUD. Details on obtaining a user identification and
9 password and on using Mortgagee Performance Reports are contained in the Single
10 Family Housing portion of the [FHAC Guide](#).

11 **c. Title I Lender Monitoring Reviews**

12

THIS SECTION PENDING – UNDER CONSTRUCTION

13 **d. Title II Mortgagee Monitoring Reviews**

14 The following provides general information about the processes and procedures normally
15 employed by FHA in its monitoring activities. The following is provided for informational
16 purposes only and does not represent any waiver of any authority of FHA, HUD, or the
17 federal government to carry out its oversight responsibilities in connection with FHA's
18 Single Family programs.

19 **i. Notice**

20 Mortgagees are given notice prior to monitoring reviews. Mortgagees must have the files
21 requested by FHA monitors available for review. When loan files are requested by FHA,
22 the mortgagee must provide all files related to the loans selected for review, including
23 any and all files, whether hard copy or stored, in the mortgagee's systems that include
24 data or information on the specific loans identified.

25 **ii. Scope**

26 HUD monitors the performance of a mortgagee's origination, underwriting, and servicing
27 of single family insured mortgages. Monitoring reviews may be conducted on-site or off-
28 site and may consist of:

- 29 • interviews with mortgagee officials and employees regarding the mortgagee's
30 operation and risk mitigation strategies;
- 31 • interviews with mortgage participants, including employers, gift donors,
32 Borrowers, and appraisers;
- 33 • an analysis of the mortgagee's FHA-insured portfolios;
- 34 • an assessment of the mortgagee's origination, underwriting, and/or servicing
35 policies;
- 36 • reviews of individual case files and documentation;

- 1 • reviews of the mortgagee’s QC Program; and
2 • an exit conference.

3 FHA will, in its sole discretion, determine the scope of any monitoring review. FHA may
4 conduct limited reviews or more comprehensive reviews that include not just a
5 mortgagee’s files, records, and practices, but also the mortgagee’s overall operations and
6 policies with respect to mortgagee relationships, quality control and risk management,
7 escrow administration, wholesale mortgages, and certain FHA product lines.

8 **iii. Findings Letters**

9 At the conclusion of a monitoring review, FHA will discuss any Findings with the
10 mortgagee and prepare a letter that:

- 11 • outlines any deficiencies or other Findings;
12 • requires the mortgagee to respond to any identified Findings; and
13 • specifies any mortgages for which remedies are required.

14 **e. Servicer Monitoring/Tier Ranking System II**

15

THIS SECTION PENDING – UNDER CONSTRUCTION

16 **4. Loan Level Monitoring**

17 **a. Title I Loan Level Reviews**

18

THIS SECTION PENDING – UNDER CONSTRUCTION

19 **b. Title II Post Endorsement Technical Reviews**

20 FHA performs PETRs on selected cases in order to evaluate the risk that the selected
21 mortgages represent to FHA’s insurance funds, as well as the mortgagee’s compliance with
22 underwriting and documentation requirements.

23 **i. Scope**

24 PETRs consist of, but are not limited to, the following:

- 25 • an assessment of whether the mortgage represents an unacceptable level of risk to
26 the FHA insurance funds; and
27 • an assessment of how well the underwriter:
28 ○ arrived at their decisions;
29 ○ addressed inconsistencies;
30 ○ made reasonable conclusions, based on the information and documentation in
31 the case file; and
32 ○ complied with FHA guidelines.

1 **ii. Lender Insurance Program Case Binder Reviews**

2 FHA will notify mortgagees daily via email of its intent to review the mortgagee's
3 Lender Insurance (LI) case binders. The mortgagee must provide the requested case
4 binder(s) within 10 business days of FHA's transmittal of a request.

5 Failure to submit five or more requested case binders to the applicable Homeownership
6 Center (HOC) may result in a suspension of the mortgagee's LI authority until the
7 mortgagee submits the case binders in a manner satisfactory to FHA.

8 **iii. Targeting**

9 FHA performs PETRs on selected mortgages underwritten by unconditional Direct
10 Endorsement (DE) mortgagees based on FHA's risk-based criteria.

11 **iv. Ratings**

12 **(A) Definitions**

13 **(1) Conforming**

14 A Conforming Rating means the mortgage presents an acceptable level of risk,
15 and no documentation deficiencies or processing errors were identified. No
16 Findings were identified in FHA's review of the credit, capacity, capital, and
17 collateral in the file. The basic eligibility of the Borrower and/or property for
18 FHA mortgage insurance is not questioned.

19 **(2) Deficient**

20 A Deficient Rating means one or more Findings were identified in FHA's review
21 that do not present a risk to FHA, or may indicate documentation or processing
22 errors, but such Findings and errors did not affect the approval and/or insurability
23 of the mortgage.

24 **(3) Unacceptable**

25 An Unacceptable Rating means Findings were identified in FHA's review that
26 indicated the file should not have been approved and/or insured, and that resulted
27 in a significant increase in mortgage risk to FHA.

28 **(4) Mitigated**

29 A Mitigated Rating means an initial rating of unacceptable was issued, and the
30 mortgagee was subsequently able to provide documentation that mitigated the
31 risk. If more than one risk factor was cited to support the issuance of an
32 Unacceptable Rating, the rating will only be changed to Mitigated if *all* risk
33 factors have been mitigated.

1 **(B) Standard**

2 FHA will initially rate each mortgage reviewed as part of the PETR process as
3 Conforming, Deficient, or Unacceptable. FHA may revise an Unacceptable Rating to
4 Mitigated after follow-up reviews.

5 FHA will post the overall mortgage credit and valuation ratings, Findings codes, and
6 narrative, outlining the results of the review in the Underwriter Review Section of
7 [FHAC](#) for each mortgage reviewed.

8 **v. Findings**

9 **(A) Notice**

10 FHA will issue a notice of Findings for each mortgage that receives an initial rating
11 of Unacceptable; the notice will identify the specific Findings upon which the
12 Unacceptable Rating was based.

13 **(B) Mortgagee Response**

14 The mortgagee may provide a written response to the Findings within the time period
15 specified in the notice and must include any explanations or documentation
16 explaining the mortgagee's decision to approve the mortgage.

17 **(C) FHA Evaluation**

18 FHA will review the mortgagee's response and documentation and take one of the
19 following actions.

20 **(1) Adequate Mortgagee Response**

21 FHA will change the Unacceptable Rating to Mitigated in the Underwriter
22 Review System (URS) if it believes that the mortgagee has adequately addressed
23 the Findings. Mortgagees can view the change in rating in the Underwriter
24 Review Section of [FHAC](#).

25 **(2) Inadequate Mortgagee Response or Failure to Respond**

26 FHA may take enforcement action against a mortgagee where it finds the
27 mortgagee's response to the Findings to be inadequate, or if the mortgagee does
28 not provide a response.

29 **C. MONITORING OF OTHER PARTICIPANTS**

30

THIS SECTION PENDING – UNDER CONSTRUCTION
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1 **D. ENFORCEMENT**

2 The following provides general information about the processes and procedures normally
3 employed by FHA in its enforcement activities. The following is provided for informational
4 purposes only and does not represent a waiver of any authority of FHA, HUD, or the federal
5 government to carry out enforcement activities to the full extent of its authorities in connection
6 with FHA's Single Family programs.

7 **1. Referrals for Non-Compliance**

8 FHA may refer any Finding for administrative action in its discretion. Referrals may be made to
9 any appropriate body, including:

- 10 • HUD's Mortgage Review Board (MRB);
- 11 • HUD's Office of Fair Housing and Equal Opportunity (FHEO) (fair lending issues);
- 12 • HUD's Departmental Enforcement Center (DEC) (suspension or debarment actions);
- 13 • HUD's Office of Inspector General (OIG) (suspected fraud or illegal activities);
- 14 • the Consumer Financial Protection Bureau (CFPB);
- 15 • the Department of Justice; and/or
- 16 • state licensing agencies (e.g., Secretary of State, Real Estate Commissioner, Appraisal
17 Review Board, Department of Banking, Bar Association, etc.).

18 **2. Employee Improprieties Attributed to the Mortgagee**

19 Criminal, fraudulent, or other seriously improper conduct by an officer, director, shareholder,
20 partner, employee, or other individual associated with a mortgagee may be attributed to the
21 mortgagee with which the individual is connected when the improper conduct occurred in
22 connection to the individual's performance of duties for or on behalf of the mortgagee, or with
23 the mortgagee's knowledge, approval, or acquiescence.

24 **3. Program Office Actions and Sanctions**

25 FHA's Office of Single Family Housing is authorized to take the following enforcement actions
26 against mortgagees that do not comply with FHA requirements.

27 **a. Actions and Sanctions Against Mortgagees**

28 **i. Probation of Direct Endorsement Approval**

29 FHA may place a mortgagee on DE probation for a specified period of time for the
30 purpose of evaluating the mortgagee's compliance with the requirements of the DE
31 Program. The scope of the probation depends upon the seriousness of the problems and
32 deficiencies exhibited by the mortgagee. For additional information on this authority, see
33 [24 CFR § 203.3\(d\)\(1\)](#). This action is separate and apart from probation imposed by the
34 MRB.

1 **(A) Scope**

2 **(1) Training**

3 The mortgagee's underwriter, or other technical staff, may be required to attend
4 training sessions, as appropriate.

5 **(2) Post Endorsement Technical Reviews**

6 FHA may increase the percentage of the mortgagee's cases subject to [PETRs](#).

7 **(3) Mortgagee Audit and Monitoring Review**

8 FHA may require the mortgagee to perform a review or audit of its underwriting
9 processes, or to hire an independent third party to assess the mortgagee's
10 operational controls and systems, and report the results to FHA. FHA may also
11 conduct an on-site monitoring review of the mortgagee.

12 **(4) Quality Control Plan**

13 FHA may require the mortgagee to make changes to its [Quality Control Plan](#).

14 **(5) Pre-Closing Review Status**

15 FHA may place a mortgagee back in pre-closing review status and subject the
16 mortgagee's cases to [technical underwriting reviews and firm commitment](#)
17 [processing prior to endorsement](#).

18 **(a) Timeframe**

19 Pre-closing review status continues until the mortgagee corrects its
20 underwriting deficiencies or until the mortgagee's DE approval is withdrawn.

21 **(b) Mandatory Return to Pre-Closing Review Status**

22 A return to pre-closing status may result from, but is not limited to, the
23 following circumstances:

- 24 • PETR final review results that demonstrate a mortgagee's failure to
25 follow FHA requirements;
- 26 • a pattern of fraud identified by FHA, of which the mortgagee was
27 aware, or should have been aware; or
- 28 • the results of on-site or other reviews of the mortgagee.

29 **(6) Additional Elements**

30 FHA may impose additional elements of probation reasonably related to the
31 mortgagee's underlying violations that allow FHA to monitor the mortgagee and
32 assist FHA with bringing the mortgagee into compliance with FHA regulations.

1 **(B) Notice**

2 FHA will send a written notice of probation to the mortgagee. The probation notice
3 will list the violations that precipitated the probation and explain the elements being
4 applied to the mortgagee's probation.

5 **(C) Effective Date**

6 Probation is effective immediately upon the receipt of the notice of probation by the
7 mortgagee.

8 **ii. Withdrawal of Direct Endorsement Approval**

9 FHA may withdraw the DE approval of any mortgagee that demonstrates a pattern or
10 practice of failing to comply with FHA underwriting guidelines or program requirements.
11 This action is separate and apart from the termination action described in the [Credit](#)
12 [Watch Termination](#) section.

13 **(A) Scope**

14 FHA may terminate a mortgagee's approval to participate in the DE program in a
15 particular jurisdiction or on a nationwide basis.

16 **(B) Notice and Appeal**

17 FHA will provide the mortgagee with written notice of the proposed withdrawal that
18 identifies the grounds for the action and advises the mortgagee of its right to an
19 informal conference.

20 **(1) Informal Conference**

21 FHA will expeditiously arrange for a conference where the mortgagee may
22 present information and argument in opposition to the proposed withdrawal. The
23 mortgagee may be represented by counsel.

24 **(2) Determination**

25 After consideration of the material presented, FHA will issue a decision in writing
26 stating whether the proposed termination is rescinded, modified, or affirmed.

27 **(3) Appeal and Final Agency Action**

28 The mortgagee may appeal the decision to the Deputy Assistant Secretary (DAS)
29 for Single Family Housing or his or her designee. A decision by the DAS for
30 Single Family Housing or his or her designee constitutes final agency action.

1 **iii. Credit Watch Termination**

2 HUD may terminate a mortgagee’s authority to originate or underwrite FHA-insured
3 single family mortgages in any geographic area where the mortgagee has an excessive
4 rate of early defaults and claims in accordance with the Credit Watch Termination
5 regulations at [24 CFR § 202.3\(c\)\(2\)](#). Credit Watch Termination is separate and apart from
6 any action that may be taken by the MRB.

7 **(A) Frequency and Scope**

8 FHA reviews the rate of default and claims of its FHA-insured single family
9 mortgages on a quarterly basis. FHA compares the rate of each participating
10 mortgagee with the rates of other mortgagees in the same geographic area. The
11 review is limited to mortgages with an amortization date within the preceding 24
12 months.

13 **(B) Cause**

14 FHA may terminate the origination or underwriting authority of any mortgagee
15 whose default and claim rate exceeds both the national default and claim rate and 200
16 percent of the default and claim rate within the geographic area served by a HUD
17 field office.

18 **(C) Notice and Appeal**

19 FHA will issue a Proposed Credit Watch Termination Notice to the mortgagee prior
20 to terminating the mortgagee’s approval. The mortgagee may appeal the proposed
21 termination by submitting a written request for an informal conference with the DAS
22 for Single Family Housing or his or her designee within 30 Days of receipt of the
23 Notice.

24 **(1) Informal Conference**

25 The mortgagee or its representative may make an oral and/or written presentation
26 to oppose the proposed termination. FHA will only consider presentations that
27 specifically address relevant mitigating factors and present facts and
28 circumstances to explain the mortgagee’s poor performance.

29 **(2) Mitigating Factors**

30 FHA will consider relevant mitigating factors in deciding whether to terminate a
31 mortgagee’s origination and/or underwriting authority. Mitigating factors may
32 include volume, number of mortgages in Underserved Census Tracts, type of
33 mortgage products, results of FHA QC reviews, historical default and claim
34 patterns, and the mortgagee’s comparative performance by product type.

1 **(3) Determination**

2 After the informal conference, FHA will make a determination whether to sustain
3 or withdraw the termination. FHA will notify the mortgagee of its decision in
4 writing via a Final Notice of Determination. If sustained, the termination will not
5 take effect until the mortgagee receives the Final Notice.

6 **(4) Waiver of Appeal**

7 If a mortgagee does not request an informal conference within 30 Days of
8 receiving the Proposed Credit Watch Termination Notice, the mortgagee has
9 waived its appeal and its authority will be terminated 60 Days from the date of the
10 Proposed Credit Watch Termination Notice without further notice from HUD.

11 **(D) Effect of Termination**

12 A mortgagee whose authority has been terminated under Credit Watch is prohibited
13 from originating or underwriting FHA-insured single family mortgages within the
14 area of the HUD field office(s) listed in the Notice. The mortgagee's general FHA
15 approval and [supplemental authorities](#) remain unaffected.

16 **(1) Case Status**

17 **(a) Definition**

18 An Approved Mortgage is a mortgage underwritten and approved by a DE
19 underwriter, or covered by a firm commitment issued by HUD.

20 **(b) Standard**

21 Mortgages that closed or were approved before the termination became
22 effective may be endorsed. Cases at earlier stages of processing cannot be
23 submitted for insurance by the terminated mortgagee; however, the cases may
24 be transferred for completion of processing and underwriting to another
25 mortgagee authorized to underwrite FHA-insured mortgages in that area.

26 **(2) Public Notice**

27 HUD will publish a list of mortgagees who have had their authority terminated in
28 the Federal Register and on HUD's website with a general explanation of the
29 cause and effect of the termination. This list is published on a regular basis.

30 **(E) Reinstatement**

31 **(1) Waiting Period**

32 A terminated mortgagee may request to have its authority reinstated no earlier
33 than six months after the effective date of the termination.

1 **(2) Independent Review**

2 The mortgagee must obtain an independent review of the terminated area's
3 operation and mortgage origination or underwriting, specifically including the
4 FHA-insured mortgages cited in the termination notice. The analysis must
5 identify the underlying cause for the mortgagee's high default and claim rate. The
6 review must be conducted and issued by an independent Certified Public
7 Accountant (CPA) qualified to perform audits under Government Auditing
8 Standards as set forth by the General Accounting Office.

9 **(3) Corrective Action Plan**

10 The mortgagee must submit a corrective action plan to address each of the issues
11 identified in the CPA's report, along with evidence that the plan has been
12 implemented. FHA reserves the right to impose additional requirements for
13 reinstatement.

14 **(4) Application for Reinstatement**

15 The application for a new authority must be submitted through Lender Electronic
16 Assessment Portal (LEAP), which is accessed through [FHAC](#). The application
17 must be accompanied by the CPA's report and the corrective action plan.

18 **iv. Suspension or Termination of Lender Insurance Authority**

19 **(A) Definition**

20 The LI Compare Ratio is the percentage of mortgages underwritten by the mortgagee
21 that are in claim or default status compared with the percentage of mortgages in claim
22 or default status for all mortgagees operating in the same state(s) over the preceding
23 two-year period.

24 **(B) Frequency and Scope**

25 On a quarterly basis, FHA monitors mortgagees participating in the LI program
26 whose LI Compare Ratios exceed 150 percent. Mortgagees newly approved for LI
27 will be reviewed quarterly starting in the first full quarter following the quarter in
28 which they were approved.

29 **(C) Cause**

30 FHA may terminate or temporarily suspend a mortgagee's LI authority for any cause
31 set forth in [24 CFR § 203.4\(d\)](#) and in accordance with the procedures set forth in that
32 section, which are summarized below.

1 **(D) Notice and Appeal**

2 FHA will provide written notice to any mortgagee whose LI authority has been
3 suspended or terminated. Mortgagees may appeal the suspension or termination by
4 requesting an informal conference with the DAS for Single Family Housing or his or
5 her designee.

6 **(1) Informal Conference**

7 The suspension or termination letter will provide the address to which the request
8 for an informal conference may be sent and the timeframe for the informal
9 conference. The informal conference must be requested in writing within 30 Days
10 of the notice of suspension or termination.

11 **(2) Determination**

12 The DAS or the designee will issue a decision in writing after the informal
13 conference to either affirm the suspension or termination, or reinstate the
14 mortgagee's LI authority. This decision represents a final agency action pursuant
15 to section 256(d) of the National Housing Act ([12 U.S.C. § 1715z-21\(d\)](#)) and is
16 not subject to further appeal or judicial review.

17 **(3) Waiver of Appeal**

18 If a mortgagee does not request an informal conference within 30 Days of
19 receiving the suspension or termination letter, the mortgagee has waived its right
20 to appeal.

21 **(E) Effect of Suspension or Termination**

22 A mortgagee's DE authority is not affected by the suspension or termination of its LI
23 authority. Mortgagees who have had their LI authority suspended or terminated may
24 continue to underwrite and close FHA mortgages without prior review by HUD.

25 **(F) Reinstatement**

26 **(1) Waiting Period**

27 A mortgagee whose LI authority has been terminated is prohibited from applying
28 for reinstatement of its LI authority for six months from the date of termination.

29 **(2) Claim and Default Rate**

30 At the time of the application for reinstatement, the mortgagee must have
31 unconditional DE approval and a two-year claim and default rate that does not
32 exceed 150 percent of the aggregate claim and default rate for the states in which
33 it underwrote mortgages.

1 **(3) Application for Reinstatement**

2 Applications for reinstatement of LI authority must be submitted to FHA through
3 LEAP, which is accessed through [FHAC](#). The application must include:

- 4 • a copy of the *Acknowledgment of Terms and Conditions for LI* page from
5 FHAC signed by an authorized official registered with HUD;
- 6 • a corrective action plan identifying the changes in internal policies and
7 procedures that address the issues that resulted in the termination of LI
8 authority; and
- 9 • documentation evidencing that the mortgagee has implemented the
10 corrective action plan.

11 **b. Loan Level Actions and Sanctions**

12 **i. Indemnification Agreements**

13 **(A) Scope**

14 When fraud, misrepresentation, or other serious violations of FHA policies and
15 procedures are uncovered during the course of mortgagee monitoring, FHA may
16 demand indemnification from a mortgagee with LI authority or request
17 indemnification from a mortgagee without such authority.

18 **(1) Serious and Material Violations**

19 FHA will pursue indemnification from any mortgagee who knew or should have
20 known of a serious and material violation of HUD requirements in connection
21 with an FHA-insured mortgage. The mortgagee indemnifying HUD will be
22 responsible for any loss associated with the mortgage that occurs within a
23 proscribed period of time from the mortgage insurance endorsement date.

24 **(2) Fraud or Misrepresentation**

25 FHA will pursue indemnification from any mortgagee who knew or should have
26 known of fraud or misrepresentation in connection with an FHA-insured
27 mortgage. The mortgagee indemnifying HUD will be responsible for any loss
28 associated with the mortgage that occurs within a proscribed period of time from
29 the mortgage insurance endorsement date.

30 **(B) No Causation Requirement**

31 Indemnification may be required regardless of the risk recommendation provided by
32 the TOTAL Mortgage Scorecard and/or whether or not the violation actually leads to
33 default.

1 **(C) Notice**

2 Notices demanding indemnification are issued to mortgagees that are part of FHA's
3 LI program in accordance with the provisions of [24 CFR § 203.255\(g\)](#). The notice is
4 mandatory and LI mortgagees must comply.

5 **ii. Principal Reductions**

6 FHA may request a principal reduction where the [mortgagee's response to certain](#)
7 [Findings is inadequate, or if the mortgagee does not provide a response.](#)

8 **iii. Refunds**

9 FHA may request a refund of unallowable fees or charges where the [mortgagee's](#)
10 [response to certain Findings is inadequate, or if the mortgagee does not provide a](#)
11 [response.](#)

12 **4. Mortgagee Review Board Actions and Sanctions**

13 The MRB is authorized to impose civil money penalties and take administrative action against
14 any FHA-approved mortgagee that does not comply with HUD and FHA statutory, regulatory,
15 and Handbook requirements, Real Estate Settlement Procedure Act (RESPA), or the non-
16 discrimination requirements of the Equal Credit Opportunity Act, the Fair Housing Act, or
17 Executive Order 11063 on Equal Opportunity in Housing.

18 **a. Actions and Sanctions**

19 The following actions and sanctions may be imposed by the MRB:

- 20 • a letter of reprimand;
- 21 • probation;
- 22 • suspension;
- 23 • withdrawal of FHA approval; and
- 24 • civil money penalties.

25 The MRB may also enter into settlement agreements with non-complying mortgagees.

26 The following are general descriptions of the types of actions and sanctions that may be
27 taken by the MRB and are for informational purposes only. The specific requirements for and
28 procedures applicable to these actions are set forth in sections 202(c) and 536 of the National
29 Housing Act ([12 U.S.C. §§ 1708\(c\) and 1735f-14](#)), and Parts 25 and 30 of Title 24 of the
30 [Code of Federal Regulations](#).

31 **i. Letter of Reprimand**

32 The MRB may issue a letter of reprimand to inform a mortgagee of its violation of FHA
33 requirements. A letter of reprimand is effective upon receipt of the letter by the
34 mortgagee.

1 **(A) Case Status**

2 A letter of reprimand has no impact on the lender’s authority to originate or service
3 FHA-insured mortgages.

4 **(B) Duration**

5 There is no time duration associated with a letter of reprimand.

6 **(C) Appeal**

7 The mortgagee has no right to appeal a letter of reprimand within HUD.

8 **ii. Probation**

9 The MRB may place a mortgagee on probation for violation of FHA requirements. The
10 MRB will specify the scope, terms, and conditions of the probation, which are designed
11 to allow FHA to monitor the mortgagee and assist FHA with bringing the mortgagee into
12 compliance with FHA regulations.

13 **(A) Case Status**

14 Unless specified in the terms of the probation, a mortgagee on probation retains its
15 origination and servicing authorities, as applicable.

16 **(B) Duration**

17 The MRB may place a mortgagee on probation for a period of up to six months.

18 **(C) Appeal**

19 The mortgagee has the right to appeal a probation action in accordance with the
20 provisions of [24 CFR Parts 25 and 26](#).

21 **iii. Suspension**

22 Suspension is a temporary measure that is applied to a mortgagee when there is adequate
23 evidence that the interests of the Department or the public would not be served by
24 continuing to allow the mortgagee to participate in FHA programs, pending the
25 completion of any investigation, other review, or legal or administrative proceedings the
26 mortgagee is involved in.

27 **(A) Effective Date**

28 If the MRB determines there is adequate evidence that immediate action is required to
29 protect the financial interests of the Department or the public, the MRB is authorized
30 to suspend a mortgagee’s FHA approval immediately upon issuance of the notice of

1 suspension and without prior issuance of a [Notice of Violation](#) as set forth in [24 CFR](#)
2 [§ 25.7\(d\)](#).

3 Any other suspension is effective upon the mortgagee's receipt of the notice of
4 suspension as set forth in [24 CFR § 25.5\(d\)](#).

5 **(B) Case Status**

6 During the period of suspension, HUD will not endorse any mortgage originated by
7 the suspended mortgagee unless it was an Approved Mortgage prior to the date of
8 suspension.

9 The mortgagee must transfer all other applications in process to another FHA-
10 approved mortgagee for completion of processing, submission, and endorsement.

11 **(C) Duration**

12 Suspension is generally imposed for a period of six months to one year, but may be
13 extended for an additional six months in accordance with the provisions of [24 CFR](#)
14 [Part 25](#).

15 **(D) Appeal**

16 The mortgagee has the right to appeal a suspension in accordance with the provisions
17 of [24 CFR Parts 25 and 26](#).

18 **iv. Withdrawal of FHA Approval**

19 Only the MRB may withdraw a mortgagee's FHA approval. Withdrawal of FHA
20 approval applies to all offices of the mortgagee.

21 **(A) Effective Date**

22 If the MRB determines there is adequate evidence that immediate action is required to
23 protect the financial interests of the Department or the public, the MRB is authorized
24 to withdraw a mortgagee's FHA approval immediately; in this case, the withdrawal is
25 effective upon the mortgagee's receipt of the notice of withdrawal.

26 Any other withdrawal is effective upon either:

- 27
- 28 • the expiration of the 30-day appeal period, if the mortgagee does not request a
hearing; or
 - 29 • the receipt of the Administrative Law Judge's final decision, if the mortgagee
30 does request a hearing within the 30-day appeal period.

1 **(B) Case Status**

2 HUD will not endorse any mortgage originated by the withdrawn mortgagee unless it
3 was an Approved Mortgage prior to the date of withdrawal.

4 Withdrawn FHA approval means that the mortgagee may not originate, underwrite,
5 service, or purchase any FHA-insured mortgages.

6 **(C) Duration**

7 The MRB's withdrawal of a mortgagee's FHA approval will be for a reasonable,
8 specified period of time, but not less than one year. The MRB may permanently
9 withdraw a mortgagee's FHA approval if it finds the mortgagee's violations to be
10 egregious or willful.

11 A withdrawn mortgagee's approval is not reinstated at the end of the period of
12 withdrawal. The mortgagee may reapply for FHA approval after the period of
13 withdrawal has expired.

14 **(D) Appeal**

15 The mortgagee has the right to appeal a withdrawal of its FHA approval by the MRB
16 in accordance with the provisions of [24 CFR Parts 25 and 26](#).

17 **v. Civil Money Penalties**

18 The MRB may impose civil money penalties against any FHA-approved mortgagee who
19 knowingly and materially violates FHA requirements as set forth in [24 CFR § 30.35](#).

20 **(A) Complaint**

21 If the MRB elects to seek civil money penalties against a mortgagee, the Department
22 will file a complaint to initiate legal action. A civil money penalty may be imposed
23 against a mortgagee in addition to any other administrative action taken by the MRB.

24 **(B) Maximum Civil Money Penalties**

25 The MRB is authorized to impose a civil money penalty, in accordance with the
26 provisions of [24 CFR Part 30](#), against a party that knowingly and materially violates
27 FHA program regulations or requirements. A civil money penalty may be imposed
28 with respect to each insured mortgage or other separate occurrence of a violation up
29 to the maximum permitted under Part 30.

30 **(C) Mitigating and Aggravating Factors**

31 In determining the amount of a civil money penalty, the MRB will consider the
32 following factors:

- 33 • the seriousness and extent of the violations;

- the degree of the mortgagee’s responsibility for the occurrences;
- whether the violations were egregious or willful;
- the mortgagee’s history of prior offenses;
- the mortgagee’s ability to pay the penalty;
- the injury to the public;
- the benefits received by the mortgagee and by others from the violation;
- deterrence of future violations; and
- other mitigating or aggravating factors that may exist.

vi. Settlement Agreements

The MRB is authorized to enter into settlement agreements with non-complying mortgagees at any time in order to resolve grounds for an administrative sanction or civil money penalty, as set forth in [12 U.S.C. § 1708\(c\)\(3\)\(E\)](#) and [24 CFR § 25.5\(a\)](#). Failure by the mortgagee to comply with the terms of a settlement agreement may result in a suspension or withdrawal of the mortgagee’s FHA approval.

b. Procedures

The following is a brief summary of the procedures of the MRB under [24 CFR Parts 25, 26, and 30](#).

i. Notice of Violation

The MRB will send the mortgagee a Notice of Violation (NOV) detailing the mortgagee’s alleged violations.

(A) Mortgagee Response

The mortgagee may provide the MRB with a written response within 30 Days of receiving the NOV. The MRB will consider the mortgagee’s response, as well as other relevant material, when deciding which administrative action to take, if any, and whether to seek civil money penalties against the mortgagee.

If the mortgagee fails to respond to the NOV within 30 Days, the MRB will make a final determination based upon the information available to it.

(B) Preservation of Documents

Upon receipt of the NOV, the mortgagee is required to preserve and maintain all documents and data, including electronically stored data, within the mortgagee’s possession or control that may relate to the violations alleged in the NOV.

1 **ii. Notice of Administrative Action**

2 If the MRB decides to take administrative action against the mortgagee, the MRB will
3 issue a Notice of Administrative Action to the mortgagee describing the nature and
4 duration of the action and setting forth the basis for the action being taken.

5 **iii. Appeal**

6 **(A) Request for Hearing**

7 Mortgagees may appeal a probation, suspension or withdrawal action by the MRB by
8 submitting a written request for a hearing within 30 Days of receipt of the Notice of
9 Administrative Action. The mortgagee's request for a hearing must specifically
10 respond to the violations set forth in the Notice of Administrative Action.

11 **(B) Hearing Process and Procedures**

12 Hearings are conducted before an impartial administrative law judge in accordance
13 with the procedures set forth in [24 CFR Part 26, Subpart B](#).

14 **(C) Waiver of Appeal**

15 If a mortgagee fails to request a hearing within the 30-day period, the MRB action
16 becomes final.

17 **iv. Public Notice**

18 **(A) Federal Register**

19 Pursuant to the National Housing Act ([12 U.S.C. § 1708\(c\)\(5\)](#)), HUD publishes a
20 description of and the cause for each administrative action against an FHA-approved
21 mortgagee in the [Federal Register](#). The Federal Register notices include details on
22 any MRB action, including letters of reprimand, probations, suspensions, withdrawals
23 of FHA approval, settlement agreements, and civil money penalties.

24 **(B) Agency Notifications**

25 If the MRB suspends or withdraws the approval of a mortgagee, FHA is required to
26 notify certain state, federal, and other interested agencies that interact with the
27 mortgagee, including:

- 28 • Conference of State Bank Supervisors/NMLS
- 29 • CFPB
- 30 • Fannie Mae
- 31 • Federal Deposit Insurance Corporation
- 32 • Federal Reserve
- 33 • Freddie Mac
- 34 • Ginnie Mae

- 1 • National Credit Union Administration
- 2 • Office of the Comptroller of the Currency
- 3 • U.S. Department of Agriculture Rural Development Housing Authority; and
- 4 • U.S. Department of Veterans Affairs.

5 **5. Actions and Sanctions Against Individuals and Other Program Participants**

6 HUD may also impose civil money penalties and take administrative action against individuals
7 and other program participants for violations of FHA mortgage insurance program requirements.

8 **a. Limited Denial of Participation**

9 **i. Definition**

10 An LDP is an action that excludes a party from further participation in a specified HUD
11 program area for a period of up to one year based on the participant's failure to comply
12 with HUD program standards.

13 LDPs are issued under the authority of [2 CFR § 2424.1100](#) and are effective immediately
14 upon issuance.

15 **ii. Cause**

16 An LDP may be issued against an individual or other program participant based upon
17 adequate evidence of any of the causes listed in [2 CFR § 2424.1110](#).

18 **iii. Effective Date**

19 An LDP is effective immediately upon issuance of the notice by the authorizing official.

20 **iv. Duration**

21 The LDP sanction may be imposed for a period not to exceed 12 months.

22 **v. Processing and Appeals**

23 An individual or other program participant may appeal the LDP by requesting an
24 informal conference with the authorizing official or a hearing before the Departmental
25 Hearing Officer within 30 Days of receipt of the notice of LDP. LDP processing and
26 appeal procedures are set forth in [2 CFR §§ 2424.1100 through 2424.1165](#).

27 **vi. Public Notice**

28 A list of individuals and other program participants who have received LDPs is available
29 publicly on the [HUD website](#), as well as through [FHAC](#).

1 **b. Suspension**

2 Violations of statutes or serious or repeated violations of FHA requirements may lead to the
3 suspension of an individual or other FHA program participant.

4 **i. Definition**

5 Suspension is a government-wide action that temporarily renders an individual ineligible
6 to participate in most federal government programs pending the completion of an
7 investigation or legal proceedings.

8 **ii. Cause**

9 FHA may suspend an individual for the reasons listed in [2 CFR § 180.700](#), including:

- 10 • the existence of an indictment for, or other adequate evidence to suspect, an
11 offense listed under [24 CFR § 180.800\(a\)](#); or
- 12 • the existence of adequate evidence to suspect any other cause for debarment listed
13 under [§ 180.800\(b\) through \(d\)](#); and
- 14 • the suspending official makes a determination that immediate action is necessary
15 to protect the public interest.

16 **iii. Effective Date**

17 A suspension is effective when the suspending official signs the decision to suspend.

18 **iv. Duration**

19 If legal or debarment proceedings are initiated at the time of, or during a suspension, the
20 suspension may continue until the conclusion of those proceedings. If proceedings are not
21 initiated, a suspension may not exceed 12 months. The suspending official may extend
22 the 12-month limit for an additional six months under limited circumstances described in
23 [2 CFR § 180.760](#). In no event may a suspension exceed 18 months without initiating
24 legal or debarment proceedings.

25 **v. Processing and Appeals**

26 An individual may appeal a proposed suspension by providing the suspending official
27 with information in opposition to the suspension within 30 Days of receipt of the notice
28 of suspension. Information may be provided orally or in writing; important information
29 provided orally must also be submitted in writing for the official record.

30 Suspension processing and appeal procedures are set forth in [2 CFR §§ 180.700 through](#)
31 [180.760](#).

1 **c. Debarment**

2 Violations of statutes or serious or repeated violations of FHA requirements may lead to the
3 debarment of an individual or other FHA program participant.

4 **i. Definition**

5 Debarment is a final determination by an authorizing official that the individual has
6 engaged in prohibited conduct and is not presently responsible. Debarment excludes an
7 individual from participating in most federal government programs for a specified period
8 of time.

9 **ii. Cause**

10 FHA may debar an individual for the reasons listed in [2 CFR § 180.800](#), including, but
11 not limited to:

- 12 • criminal conviction or civil judgment for commission of fraud in connection with
13 obtaining, attempting to obtain, or performing a public or private agreement or
14 transaction;
- 15 • criminal conviction or civil judgment for commission of embezzlement, theft,
16 forgery, bribery, falsification or destruction of records, making false statements,
17 tax evasion, receiving stolen property, making false claims, or obstruction of
18 justice;
- 19 • criminal conviction or civil judgment for violation of federal or state antitrust
20 statutes;
- 21 • criminal conviction or civil judgment for the commission of any other offense
22 indicating a lack of business integrity or business honesty that seriously and
23 directly affects the individual's present responsibilities;
- 24 • violation of the terms of a public agreement or transaction so serious as to affect
25 the integrity of an agency program;
- 26 • knowingly doing business with an ineligible person;
- 27 • failure to pay a single substantial debt, or a number of outstanding debts owed to
28 any federal agency or instrumentality; or
- 29 • any other serious or compelling cause that affects the present responsibility of the
30 individual.

31 **iii. Effective Date**

32 A debarment is not effective until the individual has received a notice of proposed
33 debarment and has had an opportunity to contest the proposed debarment. After the
34 debaring official issues a decision, the debarment is effective immediately.

35 **iv. Duration**

36 The period of debarment is based on the seriousness of the cause(s) upon which the
37 debarment is based. Generally, the period of debarment should not exceed three years.

1 However, if circumstances warrant, the debarring official may impose a longer period of
2 debarment.

3 **v. Processing and Appeals**

4 An individual may appeal a proposed debarment by providing the debarring official with
5 information in opposition to the debarment within 30 Days of receipt of the notice of
6 debarment. Information may be provided orally or in writing; important information
7 provided orally must also be submitted in writing for the official record.

8 Debarment processing and appeal procedures are set forth in [2 CFR §§ 180.800 through](#)
9 [180.885](#).

10 **d. Civil Money Penalties**

11 The Assistant Secretary for Housing - Federal Housing Commissioner or his or her designee
12 is authorized to pursue civil money penalties against any principal, officer, or employee of a
13 mortgagee, or other participants in a mortgage insured by FHA, including, but not limited to:

- 14 • sellers
- 15 • Borrowers
- 16 • closing agents
- 17 • title companies
- 18 • real estate agents
- 19 • mortgage brokers
- 20 • appraisers
- 21 • sponsored Third-Party Originators
- 22 • dealers
- 23 • consultants
- 24 • contractors
- 25 • subcontractors
- 26 • inspectors

27 The Assistant Secretary for Housing - Federal Housing Commissioner or his or her designee
28 is authorized to pursue civil money penalties against program participants who knowingly
29 and materially violate FHA requirements as set forth in [24 CFR § 30.36](#).

30 **e. Specific Program Participants**

31 **i. Appraisers**

32 **THIS SECTION PENDING – UNDER CONSTRUCTION**

33 **ii. Consultants**

34 **THIS SECTION PENDING – UNDER CONSTRUCTION**

1 **iii. Real Estate Brokers**

2 **THIS SECTION PENDING – UNDER CONSTRUCTION**

3 **iv. Nonprofits**

4 **THIS SECTION PENDING – UNDER CONSTRUCTION**

5

1 **FHA Single Family Housing Policy Handbook**

2 **GLOSSARY**

3 **Adjustable Rate Mortgage**

4 An Adjustable Rate Mortgage (ARM) refers to a mortgage in which the interest rate can change
5 annually based on an index plus a margin.

6
7 **Advertising Device**

8 An Advertising Device is a channel or instrument used to solicit, promote or advertise FHA
9 products or programs. Advertising Devices are present in the entire range of electronic and print
10 media utilized by FHA-approved mortgagees, including, but not limited to, websites, website
11 addresses, business names, aliases, DBA names, domain names, email addresses, direct mail
12 advertisements, solicitations, promotional materials and correspondence.

13
14 **Affiliate**

15 An Affiliate is a contractor, agent, vendor, subservicer, or sponsored Third-Party Originator that
16 participates in FHA programs on behalf of an FHA-approved mortgagee.

17
18 **Approved Mortgages**

19 An Approved Mortgage is a mortgage underwritten and approved by a DE underwriter, or
20 covered by a firm commitment issued by HUD.

21
22 **Conforming Rating**

23 A Conforming Rating means the mortgage presents an acceptable level of risk, and no
24 documentation deficiencies or processing errors were identified. No Findings were identified in
25 FHA's review of the credit, capacity, capital, and collateral in the file. The basic eligibility of the
26 Borrower and/or property for FHA mortgage insurance is not questioned.

27
28 **Corporate Officer**

29 Corporate Officer refers to a natural person who is an Owner, President, Vice President, Chief
30 Operating Officer, Chief Financial Officer, Director, Corporate Secretary, Chief Executive
31 Officer, Chairman of the Board, or Member or Manager of a limited liability company.

32
33 **Deficient Rating**

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

37
38 **Early Payment Defaults (EPD)**

39 Early Payment Defaults refer to mortgages that become 60 Days delinquent within the first six
40 payments.

1 **Excluded Parties**

2 Excluded Parties refers to business parties that have been suspended and/or debarred from
3 further participation in HUD and other federal government programs due to unethical business
4 practice.

5
6 **Finding**

7 Finding refers to a final determination of defect by the mortgagee.
8

9 **Interested Parties**

10 Interested Parties include, but are not limited to, sellers, real estate agents, builders, and
11 developers.

12
13 **Investor**

14 Investor refers to a borrower(s) that will not occupy the home as a principal or secondary
15 residence (non-owner occupant).
16

17 **Judgment**

18 Judgment refers to any debt or monetary liability of the borrower, and the borrower's spouse in a
19 community property state unless excluded by state law, created by a court, or other adjudicating
20 body.
21

22 **Lender Electronic Assessment Portal (LEAP)**

23 The Lender Electronic Assessment Portal (LEAP) is an FHA system created to facilitate
24 automated lender approval application.
25

26 **Lender Insurance (LI) Compare Ratio**

27 The LI Compare (LI) Ratio is the percentage of mortgages underwritten by the mortgagee that
28 are in claim or default status compared with the percentage of mortgages in claim or default
29 status for all mortgagees operating in the same state(s) over the preceding two-year period.
30

31 **Loan Administration**

32 All aspects of the FHA mortgage lifecycle, including origination, underwriting, closing,
33 endorsement, and servicing of FHA-insured mortgages that are governed by FHA policies and
34 procedures.
35

36 **Material Finding**

37 In the context of mortgage origination and underwriting, a Finding is Material if disclosure of the
38 Finding would have altered the mortgagee's decision to approve the mortgage or to endorse or
39 seek endorsement from FHA for insurance of the mortgage. In the context of mortgage servicing,
40 a Finding is Material if it has a clear financial impact on the property, the Borrower, and/or FHA.
41

42 **Mitigated or Resolved Finding**

43 A Finding has been Mitigated or Resolved if the mortgagee has adequately addressed the
44 deficiencies underlying the Finding, and such deficiencies have been remedied through updated
45 and accurate documentation, calculations, or other actions taken by the mortgagee so that the
46 mortgage presents an acceptable level of risk to the mortgagee and to FHA.

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Mitigated Rating

A Mitigated Rating means an initial rating of Unacceptable was issued, and the mortgagee 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.

Mortgages Delinquent within the First Two Years

Mortgages Delinquent within the First Two Years are mortgages that were reported to HUD as 90 Days or more delinquent in the 24-month period; this delinquent status includes mortgages that went into default but have subsequently cured.

Principal Residence

Principal Residence refers to a dwelling where the borrower maintains or will maintain his or her permanent place of abode and typically spends or will live in the home the majority of the calendar year. A person may have only one principal residence at any one time. A person in military service must meet the requirements of 24 CFR 203.31.

Property Flipping

Property Flipping refers to a practice whereby recently acquired property is resold for a considerable profit with an artificially inflated value, often abetted by a mortgagee’s collusion with an appraiser.

Quality Control (QC) Plan

A Quality Control (QC) Plan is a written plan that sets forth a mortgagee’s procedures for ensuring quality control. A QC Plan is the written element of a mortgagee’s QC Program.

Quality Control (QC) Program

A Quality Control (QC) Program is the process and written procedures through which the mortgagee seeks to ensure that FHA operations and loan quality are in compliance with all applicable requirements.

Residential Mortgage Credit Report (RMCR)

RMCR refers to a credit report that provides details on items that have been flagged in a merged report as a result of combining reports from the three credit repositories (Equifax, Trans Union, and Experian).

Streamline Refinance

Streamline refinance refers to the refinance of an existing FHA mortgage requiring limited borrower credit documentation and underwriting. There are two different streamline options available.

Third-Party Originator (TPO)

A Third-Party Originator (TPO) is an entity that originates FHA mortgages for an FHA-approved mortgagee. A TPO may be an FHA-approved entity or a non-FHA-approved entity.

1 **TOTAL**

2 TOTAL refers to “Technology Open To Approved Lenders.” FHA’s TOTAL Mortgage
3 Scorecard evaluates the overall creditworthiness of the borrower, based on a number of credit
4 variables and, when combined with the functionalities of the Automated Underwriting System
5 (AUS), indicates a recommended level of underwriting and documentation to determine a loan’s
6 eligibility for insurance by the FHA.

7
8 **Tri-merged Credit Report (TRMCR)**

9 TRMCR refers to a credit report that contains the data from all three credit repositories into one
10 report.

11
12 **Unacceptable Rating**

13 An Unacceptable Rating means Findings were identified in FHA’s review that indicated the file
14 should not have been approved and/or insured, and that resulted in a significant increase in
15 mortgage risk to FHA.

16
17 **Underserved Census Tracts**

18 Underserved Census Tracts are those areas identified by HUD as meeting the definition found at
19 24 CFR § 81.2. Underserved Census Tract areas are: 1) tracts in metropolitan areas a) having a
20 median income of no more than 90 percent of the area as a whole, or b) having a median income
21 of no more than 120 percent and minorities comprise at least 30 percent of the tract’s population;
22 2) all tracts in any nonmetropolitan area which a) have a median income of no more than 95
23 percent of the nonmetropolitan part of the state or nation, whichever is greater, or b) have a
24 median income of no more than 120 percent and minorities comprise at least 30 percent of the
25 area’s population.

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ACRONYMS

- 1
- 2 **ARM** - Adjustable Rate Mortgage
- 3 **AUS** - Automated Underwriting System
- 4 **CAIVRS** - [Credit Alert Verification Reporting System](#)
- 5 **CFPB** - [Consumer Financial Protection Bureau](#)
- 6 **CFR** - Code of Federal Regulations
- 7 **CPA** - Certified Public Accountant
- 8 **DAS** - Deputy Assistant Secretary
- 9 **DE** - Direct Endorsement
- 10 **DEC** - Departmental Enforcement Center
- 11 **EPD** - Early Payment Default
- 12 **FAQ** - Frequently Asked Questions
- 13 **FHAC** - [Federal Housing Administration Connection](#)
- 14 **FHEO** - Office of Fair Housing and Equal Opportunity
- 15 **HECM** - Home Equity Conversion Mortgage
- 16 **HERMIT** - Home Equity Reverse Mortgage Information Technology
- 17 **HOC** - Homeownership Center
- 18 **LEAP** - Lender Electronic Assessment Portal
- 19 **LDP** - Limited Denial of Participation
- 20 **LI** - Lender Insurance
- 21 **MAP** - Multifamily Accelerated Processing
- 22 **MIP** - Mortgage Insurance Premium
- 23 **MRB** - Mortgage Review Board
- 24 **NMLS** - National Mortgage Licensing System and Registry
- 25 **NOV** - Notice of Violation
- 26 **OIG** - Office of Inspector General
- 27 **PETR** - Post Endorsement Technical Review
- 28 **QC** - Quality Control
- 29 **QM** - Qualified Mortgage
- 30 **REO** - Real Estate Owned
- 31 **RESPA** - Real Estate Settlement Procedure Act
- 32 **RMCR** - Residential Mortgage Credit Report
- 33 **SAM** - System for Award Management
- 34 **SCRA** - Servicemembers Civil Relief Act
- 35 **SFDMS** - Single Family Default Monitoring System
- 36 **TOTAL** - Technology Open To Approved Lenders
- 37 **TRMCR** - Tri-Merged Credit Report
- 38 **URS** - Underwriter Review System
- 39 **U.S.C.** - United States Code