

**FHA Single Family Housing Policy Handbook**

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1 **VI. QUALITY CONTROL, OVERSIGHT AND COMPLIANCE**

2 **B. QUALITY CONTROL OF OTHER PARTICIPANTS**

3 **8. Nonprofits**

4 **a. Quality Control Plan Overview**

5 **i. Definition**

6 A Quality Control (QC) Plan outlines the processes and procedures used by the nonprofit  
7 to monitor its compliance with FHA nonprofit program guidelines.

8 **ii. Standard**

9 The nonprofit must adopt a QC Plan that explains its internal and external audit and  
10 monitoring procedures, and must fully comply with the requirements in the [Doing](#)  
11 [Business with FHA – Nonprofits](#) section of this *FHA Single Family Housing Policy*  
12 *Handbook (SF Handbook)*. The QC Plan must include the nonprofit’s reports, corrective  
13 action plans, and review procedures.

14 The QC Plan must be implemented.

15 The nonprofit must maintain and update its QC Plan as needed to ensure it remains fully  
16 compliant with all applicable FHA requirements.

17 **iii. Required Documentation**

18 The nonprofit must retain all QC review results, including all selection criteria, review  
19 documentation, Findings, and corrective actions taken to mitigate or resolve Findings.  
20 This documentation must be maintained for a minimum of three years. The nonprofit  
21 must make all documentation relating to its QC Plan available to FHA at any time upon  
22 request.

23 A Finding refers to a final determination of defect by the nonprofit agency.

24 **b. Quality Control Plan Findings and Corrective Action**

25 **i. Records of Quality Control Findings**

26 The nonprofit must maintain records of QC Findings and actions, periodic reports, and  
27 review procedures. Reports must identify areas of deficiency, including, the agency’s  
28 policies and procedures, errors and omissions, and unacceptable patterns or trends. All  
29 violations of law or regulation, any known false statement, or fraud or program abuse  
30 must be reported to FHA, the Office of Inspector General (OIG) and the appropriate  
31 federal, state or local law enforcement agency.

1           **ii. Corrective Action**

2           The nonprofit must maintain a copy of the corrective actions taken when Findings are  
3           discovered. Findings that result in changes to managerial staff or expose any deviance to  
4           previously approved processes must be brought to the attention of FHA upon discovery.

5           **c. Fraud, Misrepresentation, and Other Findings**

6           **i. Standard**

7           The nonprofit must take prompt, effective, and corrective measures to investigate and  
8           document suspected instances of fraud, misrepresentation, and other Findings.

9           **ii. Internal Reporting to Senior Management**

10          The nonprofit's QC Plan must contain a process for its QC staff to report Findings to  
11          senior management. Nonprofit staff must report Findings to senior management no more  
12          than 15 business days from the date of discovery.

13          **iii. External Reporting to FHA**

14          The nonprofit must contact the Program Support Division at the Jurisdictional  
15          Homeownership Center (HOC) to submit QC Findings immediately upon discovery and,  
16          if appropriate, must contact the OIG. HUD will review the Findings and determine the  
17          appropriate course of action.

1 **D. MONITORING OF OTHER PARTICIPANTS**

2 **3. 203(k) Consultants**

3 FHA may perform periodic reviews of the work performed by 203(k) Consultants to ensure  
4 compliance with FHA requirements. 203(k) Consultants must provide any additional information  
5 requested by monitors to assist them in properly evaluating the work performed.

6 **8. Nonprofits**

7 **a. Monitoring of Governmental Entities and HUD-approved Nonprofits**

8 FHA monitors Governmental Entities and HUD-approved Nonprofits that participate in  
9 FHA's nonprofit programs as part of its ongoing QC activities to ensure compliance with  
10 FHA requirements. The HOC conducts remote and on-site reviews for monitoring purposes.

11 **i. Notice**

12 FHA will notify Governmental Entities and HUD-approved Nonprofits of its intent to  
13 conduct a review of their housing programs.

14 **ii. Scope**

15 FHA will, in its sole discretion, determine the scope of any monitoring review. These  
16 reviews may include, without limitation, a review of projects under development, the  
17 agency's internal control procedures, and adherence to the goals of the approved program.

18 **iii. Production of Files and Records**

19 Nonprofits must have the files requested by FHA available for review. The HOC may  
20 request documentation regarding the nonprofit's progress in implementing its housing  
21 program.

22 The HOC will make review requests in writing, providing the nonprofit with adequate  
23 time to respond and accommodate such requests.

24 **iv. Findings**

25 Following the monitoring review, FHA will discuss Findings with the Governmental  
26 Entity or HUD-approved Nonprofit. FHA will provide notification of identified Findings,  
27 if any, and specify the remedies and response that is required.

28 **b. Monitoring of HUD Homes Participants**

29 FHA's review and monitoring activity will include a review of the Affordable Housing  
30 Program Plan (AHPP) and verification that HUD Homes purchased at a discount of 10  
31 percent or greater are sold to persons at or below the applicable median income. FHA will  
32 review and monitor the program participant's [Individual Property File](#) (see the Doing  
33 Business with FHA – Nonprofits section) and [Net Development Costs](#) (see the Doing

**VI. Quality Control, Oversight and Compliance**  
**D. Monitoring of Other Participants - Nonprofits**

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1 Business with FHA – Nonprofits section). The Net Development Costs (NDC) are used to  
2 review program compliance and profit margins.

3 FHA will also monitor to ensure that savings under the HUD Homes program are passed on  
4 to Low- to Moderate-Income Borrowers.

5 The HOC may request access to properties under development or otherwise a part of the  
6 nonprofit agency's AHPP.

7 **Additional Documentation Required for Review**

8 The Governmental Entity or HUD-approved Nonprofit must have the Individual Property  
9 File and the following additional documentation available for FHA staff completing a  
10 review:

- 11 • nonprofit bank statements and monthly reconciliations for the last two years;
- 12 • proof of payment documentation for the last two years;
- 13 • current financial statement and evidence of funding sources;
- 14 • rental payment history and evidence of funding sources;
- 15 • general ledger entries for the last two years;
- 16 • contractor licenses and qualifications records;
- 17 • a Marketing Plan and evidence of marketing efforts;
- 18 • an AHPP; and
- 19 • a QC Plan and monitoring reports.

20 **c. Monitoring FHA Mortgagor Participants**

21 FHA reviews the nonprofit's mortgage performance under the program. FHA will monitor  
22 foreclosure rates, default and evidence of fraud.

23 **d. Monitoring of Secondary Financing Program Participants**

24 FHA will review second lien performance. Mortgagees are required to identify [second](#)  
25 [liens](#) and their performance (see Secondary Financing Provided by HUD-Approved  
26 Nonprofits in the Origination through Post-Closing/Endorsement section in this *SF*  
27 *Handbook*).

28 **Additional Documentation Required for Review**

29 Upon request, the Governmental Entity or nonprofit must provide copies of fully executed  
30 Settlement Statements or similar legal documents and recorded secondary financing  
31 documents.

**VI. Quality Control, Oversight and Compliance**

**E. Enforcement - Actions and Sanctions Against Individuals and Other Program Participants**

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1 **E. ENFORCEMENT**

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

3 **e. Specific Program Participants**

4 **iii. 203(k) Consultants**

5 **Removal**

6 **(A) Standard**

7 FHA may remove a Consultant from the Roster for any cause that HUD determines to  
8 be detrimental to HUD or its programs.

9 **(B) Cause**

10 Cause for removal includes:

- 11 • poor performance on a HUD quality control review;
- 12 • failure to comply with applicable regulations or other written instructions or  
13 standards issued by HUD;
- 14 • failure to comply with applicable Civil Rights requirements;
- 15 • misrepresentation or fraudulent statements;
- 16 • failure to retain standing as a state-licensed architect or state-licensed engineer  
17 (unless the consultant can demonstrate the required three years of experience  
18 as a home inspector or remodeling contractor);
- 19 • failure to retain standing as a state-licensed home inspector, if the consultant  
20 is located in a state that requires such licensing; or
- 21 • failure to respond within a reasonable time to HUD inquiries or requests for  
22 documentation.

23 A 203(k) Consultant who is debarred or suspended, or subject to a Limited Denial of  
24 Participation (LDP) will be automatically removed from the Roster.

25 **(C) Notice**

26 HUD will give the Consultant written notice of the proposed removal with reasons for  
27 the proposed removal and instructions for appeal or reinstatement.

28 **iv. Direct Endorsement Underwriters**

29 DE Underwriters are subject to administrative sanctions, disciplinary actions or  
30 debarment when FHA finds program violations or abuse. Additional information on these  
31 enforcement actions and process can be found in the [Actions and Sanctions Against](#)  
32 [Individuals and Other Program Participants](#) section of this *SF Handbook*.

1           **viii. Nonprofits**

2                   **(A) HUD Homes – Excess Profits**

3           FHA limits the costs that are eligible to be included in the [NDC](#) (see HUD Homes –  
4           Net Development Costs in the Doing Business with FHA – Nonprofits section of the  
5           *SF Handbook*) calculation and prohibits the nonprofit organization or Governmental  
6           Entity from reselling the repaired or improved properties at prices in excess of 110  
7           percent of the allowed NDCs.

8           If the Governmental Entity's or HUD-approved Nonprofit's re-sale price of the HUD  
9           Home exceeds 110 percent of the NDC, or if non-allowable items that are included in  
10          the NDC result in an excessive sales price, the HUD-approved Governmental Entity  
11          or Nonprofit must use the excess profit to pay down the existing mortgage associated  
12          with that particular re-sale.

13                   **(B) Removal from Roster**

14                           **(1) Standard**

15           FHA may remove a nonprofit from the list of [HUD-approved nonprofit agencies](#)  
16           for any cause that HUD determines to be detrimental to FHA or any of its  
17           programs.

18           Nonprofit agencies removed from the approved list must reapply to HUD in  
19           accordance with instructions contained in this *SF Handbook*.

20                           **(2) Cause**

21           Cause for removal includes, but is not limited to, any of the following:

- 22           • failure to comply with applicable Single Family regulations, *this SF*  
23           *Handbook* or other written instructions or standards issued by HUD;
- 24           • failure to comply with applicable civil rights requirements;
- 25           • holding a significant number of FHA-insured mortgages that are in  
26           default, foreclosure, or claim status (in determining the number  
27           considered “significant,” HUD may compare the number of insured  
28           mortgages held by the nonprofit organization against the similar  
29           holdings of other nonprofit organizations);
- 30           • debarment, suspension, being subject to a Limited Denial of  
31           Participation (LDP) or otherwise sanctioned by HUD;
- 32           • failure to further all objectives described in the AHPP;
- 33           • misrepresentation or fraudulent statements; or
- 34           • failure to respond within a reasonable time to FHA inquiries, including  
35           recertification requests or other requests for further documentation.

**VI. Quality Control, Oversight and Compliance**

**E. Enforcement - Actions and Sanctions Against Individuals and Other Program Participants**

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1                   **(3) Notice and Appeal**

2                   A nonprofit organization that is debarred or suspended, or subject to an LDP, will  
3                   be automatically removed from the [HUD Nonprofit Roster](#).

4                   In all other cases, the following procedure for removal applies:

- 5                   • HUD will give the nonprofit organization written notice of the proposed  
6                   removal. The notice will include the reasons for the proposed removal and  
7                   the duration of the proposed removal.
- 8                   • The nonprofit organization will have 20 Days from the date of the notice  
9                   (or longer, if provided in the notice) to submit a written response  
10                  appealing the proposed removal and request a conference. A request for a  
11                  conference must be in writing and must be submitted along with the  
12                  written response.
- 13                • A HUD official will review the appeal and provide an informal conference  
14                  if requested. The HUD official will send a response affirming, modifying,  
15                  or canceling the removal. The HUD official will not have been involved in  
16                  HUD's initial removal decision. HUD will respond with a decision within  
17                  30 Days of receiving the response, or, if the nonprofit organization has  
18                  requested a conference, within 30 Days after the completion of the  
19                  conference. HUD may extend the 30-day period by providing written  
20                  notice to the nonprofit organization.
- 21                • If the nonprofit organization does not submit a timely written response, the  
22                  removal will be effective 20 Days after the date of HUD's initial removal  
23                  notice (or after a longer period provided in the notice). If a written  
24                  response is submitted, and the initial removal decision is affirmed or  
25                  modified, the removal will be effective on the date of HUD's notice  
26                  affirming or modifying the initial removal decision.