



ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

**Date: September 30, 2021**

**Mortgagee Letter 2021-25**

**To:** All FHA-Approved Mortgagees  
All Direct Endorsement Underwriters  
All Eligible Submission Sources for Condominium Project Approvals  
All FHA Roster Appraisers  
All FHA-Approved 203(k) Consultants  
All HUD-Approved Housing Counselors  
All HUD-Approved Nonprofit Organizations  
All Governmental Entity Participants  
All Real Estate Brokers  
All Closing Agents

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**Subject** Federal Housing Administration's Financial Requirements for Mortgagee Eligibility - Update to Unacceptable Assets

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**Purpose** This Mortgagee Letter addresses the impact changes made to Handbook 2000.04, REV-2, CHG-22 Consolidated Audit Guide for Audits of HUD Programs – Chapter 7, FHA-Approved Lenders Audit Guidance (OIG Audit Guide or Chapter 7) issued on June 25, 2021 will have on FHA-approved Mortgagees and Entities applying for FHA approval.

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**Effective Date** This guidance is effective immediately for all Entities applying for FHA approval. FHA-approved Mortgagees must be in compliance by December 31, 2021.

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**Public Feedback** HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide feedback on this policy document, please send feedback to the FHA Resource Center at [answers@hud.gov](mailto:answers@hud.gov). HUD will consider the feedback in determining the need for future updates.

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**Affected Programs** This guidance applies to all Mortgagees approved for FHA Title I and/or Title II programs and Entities applying for FHA approval.

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### **Background**

The OIG Audit Guide requires that audits are performed in accordance with Generally Accepted Auditing Standards (GAAS). Since a key characteristic of GAAS is auditor independence, the OIG Audit Guide makes a change designed to ensure that all data provided to FHA has been attested to by an Independent Auditor.

The OIG Audit Guide states that an FHA computation of adjusted net worth is required for all Mortgagees, even if there were no loans originated or serviced during the audit period. When the Mortgagee is a parent or a subsidiary of a parent, the adjusted net worth computation must focus on the assets and equities of the individual Mortgagee.

Chapter 7 of the OIG Audit Guide discloses a list of unacceptable assets not to be used in the calculation of the computation of adjusted net worth. The OIG Audit Guide expanded this list to strengthen the adjusted net worth calculation by ensuring Mortgagees only include assets utilized in the daily operations of the business and exclude all assets pledged for future obligations.

Changes to FHA's Unacceptable Assets in the OIG Audit Guide, Chapter 7, 7-5, F.1.j - 1 include:

- Ensuring that a schedule of "other assets" prepared by a lender or issuer is attested to by an Independent Auditor per GAAS guidelines;
- Excluding real property, including all land and any buildings attached to it; other than the home office registered with HUD in accordance with the FHA Single Family Housing Policy Handbook 4000.1, Section I.A.3.c.iii., from the computation of adjusted net worth; and
- Excluding any asset designated to offset future expenses, such as prepaid expenses and deferred tax, from the computation of adjusted net worth.

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### **Summary of Changes**

Mortgagees must continue to be in compliance with the OIG Audit Guide when computing adjusted net worth as required in the Department of Housing and Urban Development (HUD) Single Family Housing Policy Handbook 40001 (Handbook 4000.1), Section I.A.3.c.vii and when preparing annual recertification financial data submission as required in 4000.1, Section I.A.8.d.

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## Mortgagee Letter 2021-25, Continued

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### **Impacted Mortgagees**

Handbook 4000.1, Section I.A.7.g requires a Mortgagee submit a Notice of Material Event to FHA of a change to the information provided by the Mortgagee at application as evidence of approval eligibility. Mortgagees impacted by the changes to FHA's Unacceptable Assets in the OIG Audit Guide must submit a Notice of Material Event in the Lender Electronic Assessment Portal (LEAP) within 30 business days of the deficiency. The Notice of Material Event must include a detailed explanation and supporting documentation of the deficiency and a Corrective Action Plan that outlines the steps taken to mitigate the deficiency and come into compliance by December 31, 2021.

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### **Paperwork Reduction Act**

The information collection requirements contained on this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C 3501 – 3520) and assigned OMB Control Number 2502-0005. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.

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### **Questions**

Any questions regarding this Mortgagee Letter may be directed to the FHA Resource Center at 1-800-CALL-FHA. Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339. For additional information on this Mortgagee Letter, please visit [www.hud.gov/answers](http://www.hud.gov/answers).

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### **Signature**

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Office of Housing – Federal Housing Administration