



ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: [Publication Date]

Mortgagee Letter 2024-12

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-Certified Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Fraud or Misrepresentation Involving Sponsored Third-Party Originators

Purpose This Mortgagee Letter (ML) updates the Federal Housing Administration (FHA) Defect Taxonomy to clarify that fraud or material misrepresentation involving a sponsored Third-Party Originator (TPO) is a Tier 1 severity defect.

Effective Date The provisions of this ML are effective immediately.

All updates will be incorporated into a forthcoming update of the HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

Affected Programs The provisions of this ML apply to all FHA Title II Single Family mortgage programs.

Background The FHA Defect Taxonomy (Handbook 4000.1, Appendix 8.0) is FHA's quality assurance framework for Title II loan reviews. It provides a consistent method for identifying defects at the loan level, useful data and feedback through structured categorization of defects, and balance between FHA's statutory obligation to mitigate risk to the Mutual Mortgage Insurance Fund (MMIF) and quality assurance business processes.

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The Fraud or Misrepresentation section of the FHA Defect Taxonomy currently states that Findings of fraud or materially misrepresented information can fall into one of two severity tiers:

- Tier 1 (indicating that the Mortgagee knew or should have known), or
- Tier 4 (indicating that the Mortgagee did not know and could not have known).

It further states that FHA determines if the Mortgagee knew or should have known based on whether:

- An employee of the Mortgagee was involved, and/or
- Red flags in the loan file that should have been questioned by the underwriting Mortgagee.

Mortgagees are responsible for the actions of their sponsored TPOs under 24 CFR § 202.8(a)(3) and Handbook 4000.1 Section I.A.5.a.v. To better align the Defect Taxonomy with these existing requirements and mitigate risk to the MMIF, FHA is updating the Defect Taxonomy to include fraud or material misrepresentation involving a sponsored TPO as one of the “knew or should have known” conditions used by FHA to determine whether a Tier 1 severity classification is appropriate.

Based on this update, FHA will seek life-of-loan indemnification from Mortgagees when there is evidence of fraud or material misrepresentation involving a sponsored TPO, regardless of whether FHA identifies specific red flags that should have been questioned at underwriting.

Summary of Changes

This ML:

- updates Handbook 4000.1 Appendix 8.0 – FHA Defect Taxonomy section IV Fraud or Misrepresentation.

FHA Single Family Housing Policy Handbook 4000.1

The policy update will be incorporated into Handbook 4000.1 as follows:

Appendix 8.0 – FHA Defect Taxonomy

IV. Fraud or Misrepresentation

B) FHA determines if the **Mortgagee** knew or should have known based on whether:

- an employee of the **Mortgagee or sponsored Third-Party Originator** was involved *and/or*

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- red flags in the loan file should have been questioned by the underwriting **Mortgagee**.

**Paperwork
Reduction Act**

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-0610; and 2502-0611. In accordance with the PRA, 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.

**Feedback or
Questions**

HUD welcomes feedback from interested parties and will consider feedback in determining the need for future updates. Any feedback or questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342), answers@hud.gov, or www.hud.gov/answers. The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

Signature

Julia R. Gordon
Assistant Secretary for Housing -
FHA Commissioner
