Welcome to...
FHA Quality Assurance Update: Q3 2020

Today’s webinar begins at 2:00 PM (Eastern).
We will be underway shortly.

Please test your speakers and choose Audio source (computer/smartphone or telephone) by selecting desired option in Audio Settings – see left side of toolbar at bottom of screen.
Technical Support

• Recommend Chrome browser.
• Technical issues? Review *Technology FAQs* by clicking the **Chat** icon at the bottom of screen or **Landing Page**.
• Need additional tech support? Click *Contact Tech Support* icon on the **Chat** link or **Landing Page**.
Q&A Session

• Q&A session will follow the presentation.
• Follow instructions in *Q&A Instructions* link found in the **Chat** icon/**Landing Page** and **Q&A Instructions** slide at end of the presentation.
• Test Audio, if asking a question.
• Select one of the two Audio options:
  – Computer/Smartphone
  – Standard Telephone Line
• Send unanswered questions to FHA Resource Center.
Contact the FHA Resource Center

- Online: [www.hud.gov/answers](http://www.hud.gov/answers)
- Email: answers@hud.gov
- Phone: 1-800-Call-FHA (1-800-225-5342)

*Persons with hearing or speech impairments should call the Federal Relay Service at 1-800-877-8339.*
• Documents/Materials:
  – Click Chat icon or Landing Page
  – Select the Webinar Documents/Materials link for a copy of the presentation.

• Training Evaluation:
  – Click on the Chat icon or Landing Page and select the Survey link.
Helpful Links

Click on the **Chat** icon or **Landing Page** and select links to bookmark:

- FHA Lenders page:  
  [https://www.hud.gov/program_offices/housing/sfh/lender](https://www.hud.gov/program_offices/housing/sfh/lender)

- FHA FAQ page:  
  [https://www.hud.gov/FHAFaq](https://www.hud.gov/FHAFaq)

- Single Family Housing Archived (On Demand) Webinars page: 
  [https://www.hud.gov/program_offices/housing/sfh/events/sfh_webinars](https://www.hud.gov/program_offices/housing/sfh/events/sfh_webinars)
Agenda

- Loan Review Results
- COVID-19 National Emergency Updates
- Resources
- Q&A
Loan Review Results
## Quarterly Volume

<table>
<thead>
<tr>
<th>Selection Reason</th>
<th># Completed</th>
<th>% Net Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Algorithm</td>
<td>2,387</td>
<td>7%</td>
</tr>
<tr>
<td>Early Payment Defaults</td>
<td>963</td>
<td>19%</td>
</tr>
<tr>
<td>Lender Monitoring</td>
<td>897</td>
<td>10%</td>
</tr>
<tr>
<td>Lender Self-Reports</td>
<td>621</td>
<td>28%</td>
</tr>
<tr>
<td>Random Selections</td>
<td>290</td>
<td>8%</td>
</tr>
<tr>
<td>Review Location Quality Control (QC)</td>
<td>282</td>
<td>5%</td>
</tr>
<tr>
<td>Test Cases</td>
<td>177</td>
<td>5%</td>
</tr>
<tr>
<td>FHA Manual Selections</td>
<td>85</td>
<td>42%</td>
</tr>
<tr>
<td>Early Claims</td>
<td>78</td>
<td>9%</td>
</tr>
<tr>
<td>OIG Audit</td>
<td>19</td>
<td>58%</td>
</tr>
<tr>
<td><strong>Quarterly Total</strong></td>
<td><strong>5,799</strong></td>
<td><strong>12%</strong></td>
</tr>
</tbody>
</table>

Loan Review System (LRS) reviews completed from 4/1/2020 to 6/30/2020
Quarterly Ratings and Outcomes

Initial Ratings (Gross)

- Conforming: 22.5%
- Deficient: 11.6%
- Unacceptable: 65.9%

Final Ratings (Net)

- Conforming: 22.5%
- Mitigated: 55.5%
- Deficient: 11.6%
- Indemnified: 9.7%
- Remediated: 0.1%
- Unacceptable: 0.6%

LRS reviews completed from 4/1/2020 to 6/30/2020 (excluding lender self-reports and internal QC)
Quarterly Loan Review Summary

Completed Quarter(s): 2020 Q2, 2020 Q1, 2019 Q4, 2019 Q3
Location(s): All
Sample: Total

Material Defects

<table>
<thead>
<tr>
<th>Qtr</th>
<th># of Loans</th>
<th>Gross #</th>
<th>Gross %</th>
<th>Net #</th>
<th>Net%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Q3</td>
<td>8,844</td>
<td>5,750</td>
<td>65.0%</td>
<td>903</td>
<td>10.2%</td>
</tr>
<tr>
<td>2019 Q4</td>
<td>8,198</td>
<td>5,346</td>
<td>65.2%</td>
<td>774</td>
<td>9.4%</td>
</tr>
<tr>
<td>2020 Q1</td>
<td>8,185</td>
<td>5,301</td>
<td>64.8%</td>
<td>821</td>
<td>10.0%</td>
</tr>
<tr>
<td>2020 Q2</td>
<td>4,913</td>
<td>3,236</td>
<td>65.9%</td>
<td>511</td>
<td>10.4%</td>
</tr>
</tbody>
</table>

Review Ratings #

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Conforming</th>
<th>Deficient</th>
<th>Mitigated</th>
<th>Remediated</th>
<th>Inemd</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Q3</td>
<td>1,859</td>
<td>1,205</td>
<td>4,647</td>
<td>27</td>
<td>619</td>
<td>57</td>
</tr>
<tr>
<td>2019 Q4</td>
<td>1,711</td>
<td>1,141</td>
<td>4,572</td>
<td>12</td>
<td>719</td>
<td>43</td>
</tr>
<tr>
<td>2020 Q1</td>
<td>1,745</td>
<td>1,139</td>
<td>4,490</td>
<td>25</td>
<td>712</td>
<td>84</td>
</tr>
<tr>
<td>2020 Q2</td>
<td>1,106</td>
<td>673</td>
<td>2,736</td>
<td>6</td>
<td>476</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>5,450</td>
<td>4,057/</td>
<td>15,624</td>
<td>/0</td>
<td>2,262</td>
<td>213</td>
</tr>
</tbody>
</table>

Review Ratings %

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Conforming</th>
<th>Deficient</th>
<th>Mitigated</th>
<th>Remediated</th>
<th>Inemd</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Q3</td>
<td>21.4%</td>
<td>13.6%</td>
<td>54.8%</td>
<td>0.3%</td>
<td>9.3%</td>
<td>0.6%</td>
</tr>
<tr>
<td>2019 Q4</td>
<td>20.9%</td>
<td>13.9%</td>
<td>55.8%</td>
<td>0.1%</td>
<td>8.8%</td>
<td>0.5%</td>
</tr>
<tr>
<td>2020 Q1</td>
<td>21.3%</td>
<td>13.9%</td>
<td>54.7%</td>
<td>0.3%</td>
<td>8.7%</td>
<td>1.0%</td>
</tr>
<tr>
<td>2020 Q2</td>
<td>22.5%</td>
<td>11.6%</td>
<td>55.5%</td>
<td>0.1%</td>
<td>9.7%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Total</td>
<td>21.4%</td>
<td>13.3%</td>
<td>55.2%</td>
<td>0.2%</td>
<td>9.0%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Gross Ratings

- Conforming: 65.1%
- Deficient: 13.5%
- Mitigated: 21.4%

Net Ratings

- Conforming: 55.2%
- Deficient: 13.5%
- Mitigated: 21.4%
Outcome Trends by Endorsement Date

LRS reviews completed from 5/15/2017 to 6/30/2020 (excluding lender self-reports, test cases and internal QC)

*Calendar Year Quarters

Gross Material Defect Rate

Net Material Defect Rate
COVID-19 National Emergency Updates
COVID-19 National Emergency Updates

Temporary Waivers of Quality Control (QC) Requirements

• Early Payment Default (EPD) Review Flexibility
  – Temporary waiver of Handbook 4000.1 Sections V.A.3.a.i(C) and V.A.3.a.iv(B)(2)
  – QC review not required for EPDs that would have been May, June, or July 2020 QC selections.
  – Review of FHA loans from random and discretionary samples must continue and may include EPDs.

• Alternatives to Field Review of Appraisals
  – Temporary partial waiver of Handbook 4000.1 Section V.A.3.c.ii(C)(1)(b)
  – Third-party valuation tools may be used as an alternative to field reviews.
  – Applicable for reviews in process and cases selected as May, June, or July 2020 QC selections.
  – Must continue to meet all other appraisal QC requirements, including desk reviews of appraisals.
COVID-19 National Emergency Updates

Compare Ratio Impacts

• Significant increase in default and claim rates impacts Compare Ratios.

• FHA is unable to remove loans in forbearance from Neighborhood Watch.

• FHA will consider the impact of the COVID-19 National Emergency as a relevant mitigating factor for Credit Watch Termination and Lender Insurance (LI) Program monitoring processes.

• Lenders should continue monitoring Compare Ratios closely.
Using FHA Catalyst for LRS Binder Requests

• FHA Catalyst: Case Binder Module
  – Expanding to allow electronic delivery of case binders selected for post-endorsement review in LRS.
  – Lenders that would have submitted paper binders must use FHA Catalyst for electronic delivery.
  – Lenders approved for electronic Case Binder (eCB) submission must continue to submit eCBs through FHA Connection.

• LRS Binder Requests through FHA Connection
  – Each lender’s LI Contact will continue to receive automated email notifications.
  – FHA Connection Binder Selection screen shows all requested cases.
  – LRS Binder Request function shows subset of cases requested for review in LRS.
Resources
Resources

FHA Catalyst: Case Binder Module Information Page
https://www.hud.gov/program_offices/housing/FHACatalyst/casebinder

- User Guide
- Webinar Training
- Q&A

To submit case binders through the FHA Catalyst: Case Binder Module, Mortgagees must request access by contacting the FHA Resource Center at answers@hud.gov or 1-800-CALL FHA (1-800-225-5342)

Part of FHA’s multi-year IT Modernization initiative, the case binder module is one component of FHA Catalyst, FHA’s new, flexible cloud-based platform. This module enables lenders to electronically deliver case binders instead of mailing paper binders for single family forward mortgages and Home Equity Conversion Mortgage insurance endorsements. This state of the art automation eliminates manual paper-based processes, provides error checks and enhances data integrity, leading to more accurate and efficient submissions. The platform also provides real-time access to case binder submission status, and other information, which offers new tracking and analysis capabilities for lenders and FHA.

Module Technology Enhancements
FHA-approved mortgagees can submit single family forward and HECM loan origination case binder documents electronically for FHA endorsement.

Who Can Use the Case Binder Submission module:
- All FHA-approved lenders who were previously required to submit paper case binders to FHA’s Homeownership Centers for an initial submission to re-submit case binders for reconsideration after a Notice of Return;
- Lenders without FHA Lender Insurance authority who are not approved for electronic Case Binder (eCB) submission through FHA Connection, may use the FHA Catalyst Case Binder delivery module for submission of case binders for Severe Case Warnings;
- Lenders seeking Direct Endorsement Authority who are required to submit Test Cases.
Resources (cont.)

LRS Information Page
https://www.hud.gov/program_offices/housing/sfh/lender/loan_review_system

- LRS User Manual
- Defect Taxonomy
- Webinars
Resources (cont.)

Helpful Links

- FHA Single Family Information Page
  https://www.hud.gov/program_offices/housing/sfh

- Single Family Housing Policy Handbook 4000.1

- Upcoming Events and Training
  https://www.hud.gov/program_offices/housing/sfh/events

- Subscribe to FHA INFO Notices
## Resources (cont.)

<table>
<thead>
<tr>
<th>Option</th>
<th>Point of Contact</th>
<th>Hours Available</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHA Knowledge Base – FAQs</td>
<td><a href="http://www.hud.gov/answers">www.hud.gov/answers</a></td>
<td>24/7/365</td>
<td>Knowledge Base web page includes option to email questions.</td>
</tr>
<tr>
<td>Email</td>
<td><a href="mailto:answers@hud.gov">answers@hud.gov</a></td>
<td>24/7/365</td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td>1-800-CALL-FHA (1-800-225-5342)</td>
<td>8:00 AM to 8:00 PM Eastern M-F</td>
<td>Voicemail is available after hours or during extended wait periods.</td>
</tr>
<tr>
<td></td>
<td>Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*FHA INFO emails: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at:  
https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe*
When inquiring about a specific LRS review, lenders must provide FHA case number and review location.
  — Review location is shown on the LRS Search screen, the Binder Request screen, or the Review Data Data tab.
Q&A Instructions

Check your audio to ensure it’s working correctly:

• Click *Test Speaker & Microphone* option or Microphone icon if image is crossed out.
• Test/change audio settings on computer/smartphone/telephone by selecting *Audio Settings* on toolbar.

Access audio using one of the following options:

Option A: Computer or smartphone

• If viewing webinar through computer or smartphone, click *Raise Hand* icon.
• You will receive an onscreen message to unmute yourself, **single-click the Unmute Myself button.**
• When prompted by moderator, provide your name, company affiliation, then ask your question.

Option B: Standard telephone line

• To ask a question, press *9 to be placed in queue.
• Webinar moderator will unmute your phone and you will hear the following automated message, “*You Are Unmuted*” which allows you to begin speaking.
• When prompted by moderator, provide your name, company affiliation, then ask your question.
Thank you for joining us today!

We’d appreciate your feedback. Please take a few moments to complete our survey.