



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

SINGLE FAMILY HOUSING



Office of Lender Activities and Program Compliance

FHA Quality Assurance Update

December 12, 2018

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Last Updated: 11/21/2018



OFFICE OF SINGLE FAMILY HOUSING



Agenda

2018 Quality Assurance in Review

Loan Review System Guidance and Updates

Resources

Q&A



2018 Quality Assurance in Review



Highlights

- Loan Review System (LRS) first full year
- High volume of Early Payment Defaults (EPDs)
 - Continued to review all EPDs in natural disaster areas
 - EPD selections current as of December 2018
- Incorporated Lender Monitoring and Servicing reviews
- Added downloadable data to reporting
- Focused on continuous improvement

Loan Review Volume

Selection Reason	# Completed
Early Payment Defaults	21,111
Random	4,068
Lender Self-Report	2,794
Risk Algorithm	2,271
Lender Monitoring	2,076
Early Claims	936
FHA Manual	738
Review Location QC	680
Test Case	668
FY 2018 Total	35,342

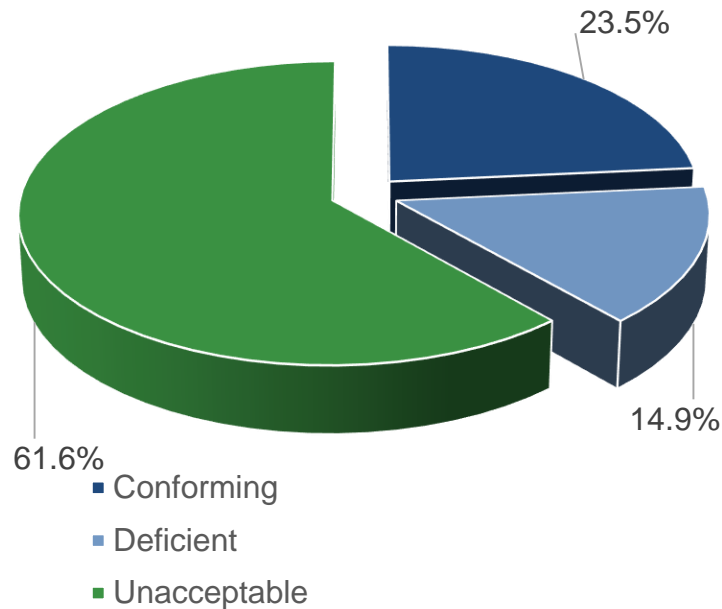
Review Type	# Completed
Underwriting	35,182
Servicing	179
FY 2018 Total	35,361

Represents LRS reviews from 10/1/2017 through 9/30/2018

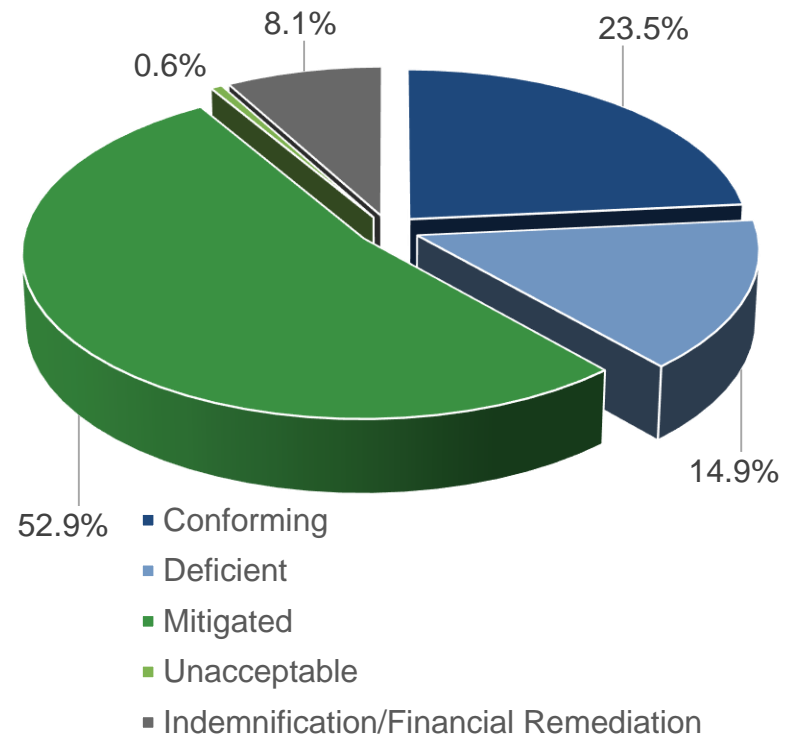


Ratings and Outcomes

Initial Ratings (Gross)



Final Ratings (Net)



Represents LRS reviews from 10/1/2017 through 9/30/2018

Most Common Defects

Defect Area	Source/Cause Examples
Mortgage Eligibility	URLA 1003 and/or HUD-92900-A missing or not properly executed
Lender Operations	Lender compliance issues (e.g., loan binder is missing or contains discrepancies with what has been entered into FHA Connection (FHAC))
Borrower Assets	Minimum required investment is met, but closing costs and other (e.g., reserves, escrows) not supported by documentation
Borrower Income	Standard employment income amount/stability not supported by docs
Property Appraisal	Appraisal report does not meet FHA standards (e.g., missing inspection, low quality appraisal)
Property Eligibility	Minimum property requirements and general acceptability criteria; determinations not supported by docs
Borrower Credit/Liabilities	Issues calculating borrower debt/qualification not supported by documentation

Represents LRS reviews from 10/1/2017 through 9/30/2018



Loan Review System Guidance and Updates



Response Timeframes

- Increasing Mitigation 1 response time to 10 calendar days
 - Double current timeframe
 - Change based on analysis of lender response rates
 - Effective January 1, 2019

Review Level	Under Review by FHA	Response Request
Initial	FHA's initial review	Lender's first opportunity to resolve (15 days)
Mitigation 1	Review of lender's initial response	Lender's second opportunity to resolve (10 days)
Mitigation 2	Review of lender's Mitigation 1 response	N/A
Escalation 1	Confirmation of Mitigation 2 decision	Lender's third opportunity to resolve (10 days)
Escalation 2	Review of lender's Escalation 1 response	N/A
HQ Escalation 1	Confirmation of Escalation 2 decision	Lender's fourth (final) opportunity to resolve (10 days)
HQ Escalation 2	Review of lender's HQ Escalation 1 response	N/A

Lender Self-Reports

- Lenders must self-report in accordance with *Single Family Housing Handbook* 4000.1 (SF Handbook) and Mortgagee Letters 2017-08 and 2017-03
- Lenders with access to LRS can report any endorsed case

The screenshot shows the 'Create Self-Report' page in the LRS system. The navigation bar at the top includes 'LRS', 'Active Reviews', 'Search', 'Binder Request', 'Create Self-Report' (highlighted), 'Completed Reviews', and 'Reports'. The main content area is divided into two steps: '1) Add Case(s) to Self-Report' and '2) Add Case Details:'. Under step 1, there is a 'Review Type' dropdown menu with a 'Select' option highlighted. Below the dropdown is an 'Add' button. At the bottom of the form, there is a message: 'No cases selected. Add individual cases or multiple cases separated by commas.' and two buttons: 'Clear' and 'Next Step'.

Lender Self-Reports (cont.)

- Choose the appropriate Defect Type
 - *Underwriting* for issues that occurred at loan origination
 - *Servicing* for issues related to servicing or loss mitigation
- Submit cases in bulk if reporting them for the same issue
 - The Federal Housing Administration (FHA) will request case-specific details if necessary
- FHA may take any of the following actions
 - Close the review based on information provided
 - Initiate a binder request for underwriting-related issues
 - Reach out directly for servicing-related documentation
 - Refer the issue to the Office of Housing & Urban Development's (HUD) Office of Inspector General

Reporting Functions

- Lenders can access reports to review their own LRS results
 - Quarterly Loan Review Summary
 - Top Findings
 - Self-Reports
 - Indemnifications
 - Data Downloads

- Compare to the national Quarterly Loan Review Summary
https://www.hud.gov/sites/dfiles/SFH/documents/sfh_qtrlyLoanRevSummary.pdf



Reporting Functions (cont.)

Quarterly Loan Review Summary

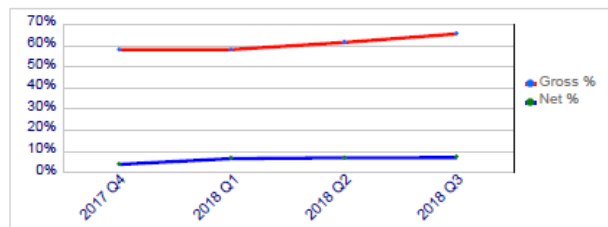
Completed Quarter(s): 2017 Q4, 2018 Q1, 2018 Q2, 2018 Q3

Location(s): All

Sample: Total

Material Defects

Qtr	# of Loans	Gross #	Gross %	Net #	Net%
2017 Q4	5,972	3,471	58.1%	238	4.0%
2018 Q1	10,552	6,142	58.2%	709	6.7%
2018 Q2	9,147	5,631	61.6%	651	7.1%
2018 Q3	8,946	5,870	65.6%	641	7.2%

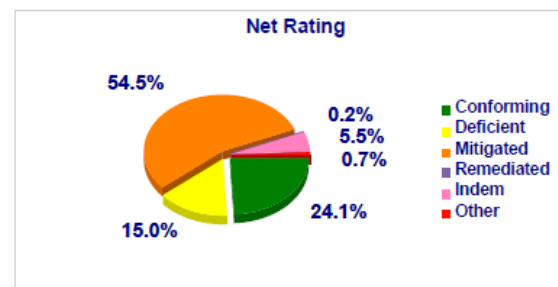
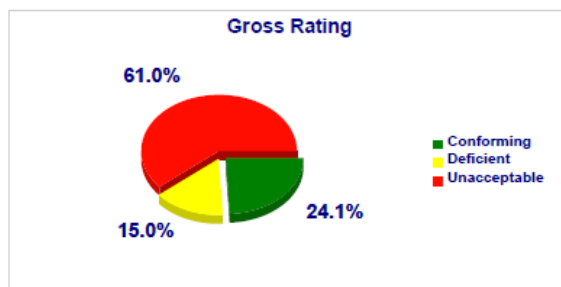


Review Ratings

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2017 Q4	1,488	1,013	3,233	18	218	4
2018 Q1	2,917	1,493	5,433	24	561	124
2018 Q2	2,034	1,482	4,980	15	584	72
2018 Q3	1,887	1,189	5,229	19	577	45
Total	8,326	5,177	18,875	74	1,920	245

Review Ratings %

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2017 Q4	24.9%	17.0%	54.1%	0.3%	3.7%	0.1%
2018 Q1	27.6%	14.1%	51.5%	0.2%	5.3%	1.2%
2018 Q2	22.2%	16.2%	54.4%	0.2%	6.2%	0.8%
2018 Q3	21.1%	13.3%	58.5%	0.2%	6.4%	0.5%
Total	24.1%	15.0%	54.5%	0.2%	5.5%	0.7%



10/02/2018

Contact Information

- Must keep contact information up-to-date
 - Lenders approved for the Lender Insurance (LI) program must maintain LI contact information in FHAC for binder requests.
 - All lenders must maintain Administrative Contact information in Lender Electronic Assessment Portal (LEAP) for LRS email notifications.
 - Lenders are strongly encouraged to add a secondary email address.

Edit Address

Address

Address Type: Administrative

Attention:

* Street Address: 111 Sample Street

* City: Example

* State: Nebraska

* Zip Code: 68154 5247

Point Of Contact

* First Name: Sample

Middle Initial:

* Last Name: Contact

* Phone Number:

* Fax Number:

* Email Address:

Secondary Email:

CANCEL OK

Code	POC First
598	
154-5247	
154-5247	
154-5247	Sample
154-5247	
154-5247	
154-5247	

FHA Resource Center Inquiries

- Lenders must provide case number and review location
 - Review location is shown on the LRS Search screen, Binder Request screen, or Review Data tab for a specific LRS review

The screenshot displays the LRS Search interface. On the left, there are search fields and filters. The search fields include a dropdown for 'Case Number(s)' and a search button. The filters are categorized into Product Type, Selection Reason, and Selection Status. The main area shows 'SEARCH RESULTS (106)' with a table of results. A red arrow points to the 'Review Location' column in the table.

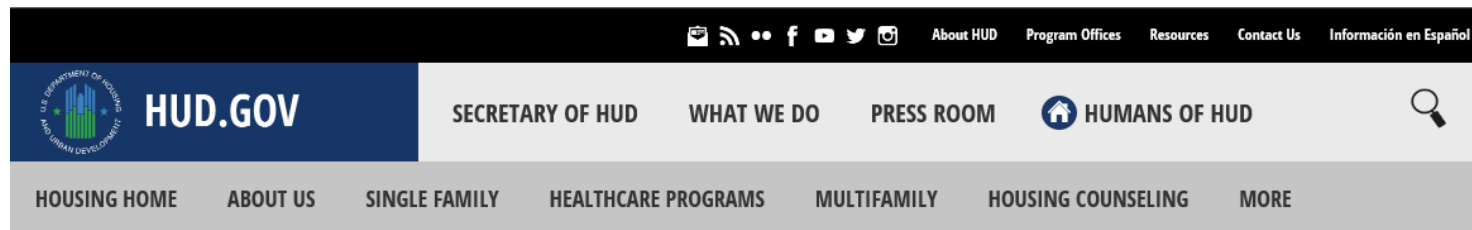
Case Number	Batch	Product Type	Selection Date	Selection Reason	Selection Status	Review Type	Review Level	Review Status	Review Location
		Refinance		Early Claims	Received	Underwriting	Initial	Assigned	SNA-QAD
		Refinance		Lender Self-Report	Received	Underwriting	Initial	Assigned	SNA-QAD
		Purchase		Early Payment Defaults	Received	Underwriting	Initial	Completed	SNA-PUD
		Purchase		Early Payment Defaults	Received	Underwriting	Initial	Completed	DEN-PUD
		Purchase		Lender Self-Report	Received	Underwriting	Mitigation 2	Assigned	PHI-QAD
		Purchase		Early Payment Defaults	Received	Underwriting	Initial	Assigned	SNA-PUD
		Refinance		Lender Self-Report	Received	Underwriting	Escalation 2	Assigned	DEN-QAD

Resources



LRS Resources

- LRS Information Page on HUD.gov (https://www.hud.gov/program_offices/housing/sfh/lender/loan_review_system)
- Lender User Manual
- Webinars



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LOAN REVIEW SYSTEM

The Loan Review System (LRS) is the electronic platform for Federal Housing Administration (FHA) Title II Single Family quality control processes.

Functions and Processes

Lenders use LRS to interact with FHA on the majority of Title II Single Family quality control processes, including:

- Various Post-Endorsement Loan Reviews
- Unconditional Direct Endorsement Authority Test Cases
- Lender Monitoring Reviews

LRS Policy and Information

- March 23, 2017, **Mortgagee Letter 2017-08** – LRS May 15th effective date; change to effective date for Mortgagee Letter 2016-21.
- January 11, 2017, **Mortgagee Letter 2017-03** – process change details.
- December 14, 2016, **Mortgagee Letter 2016-21** – Unconditional Direct Endorsement Authority test case phase



FHA Resource Center

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

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



Q&A

