



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

SINGLE FAMILY HOUSING



**Welcome to...**  
**FHA Quality Assurance Update:Q4 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.



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# Technical Support

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- 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

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- 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

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- Online: [www.hud.gov/answers](http://www.hud.gov/answers)
- Email: [answers@hud.gov](mailto:answers@hud.gov)
- Phone: [1-800-Call-FHA](tel: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 & Training Evaluation

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- 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

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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>
- 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)





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Office of Lender Activities and Program Compliance

## FHA Quality Assurance Update: Q4 2020

December 2, 2020

Presented by:

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Last Updated: 11/2/2020



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# Agenda

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Loan Review Results

Binder Request and Delivery

Credit Watch Termination Initiative

Resources

Q&A



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# Loan Review Results



# Quarterly Volume

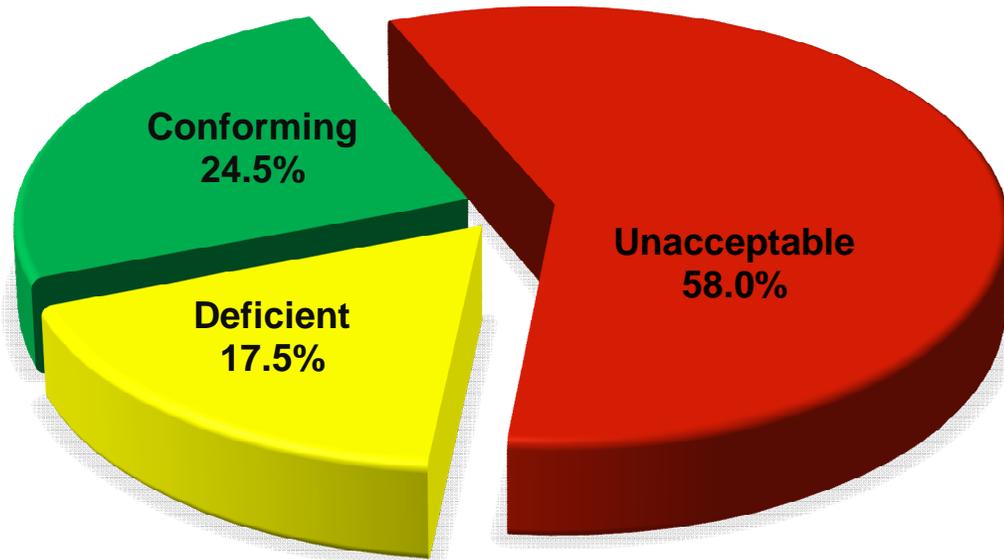
Review Type	# Completed	% Net Material	
Underwriting	5,865	8%	
Servicing	510	2%	
<b>SELECTION REASON</b>	Risk Algorithm	2,372	7%
	Early Payment Defaults	2,043	5%
	Lender Monitoring	746	10%
	Lender Self-Reports	448	17%
	Random Selections	277	6%
	Review Location Quality Control (QC)	283	3%
	Test Cases	134	4%
	FHA Manual Selections	62	39%
	Early Claims	36	8%
	OIG Audit	1	100%
<b>Quarterly Total</b>	<b>6,402</b>	<b>7%</b>	

*Loan Review System (LRS) reviews completed from 7/1/2020 to 9/30/2020*

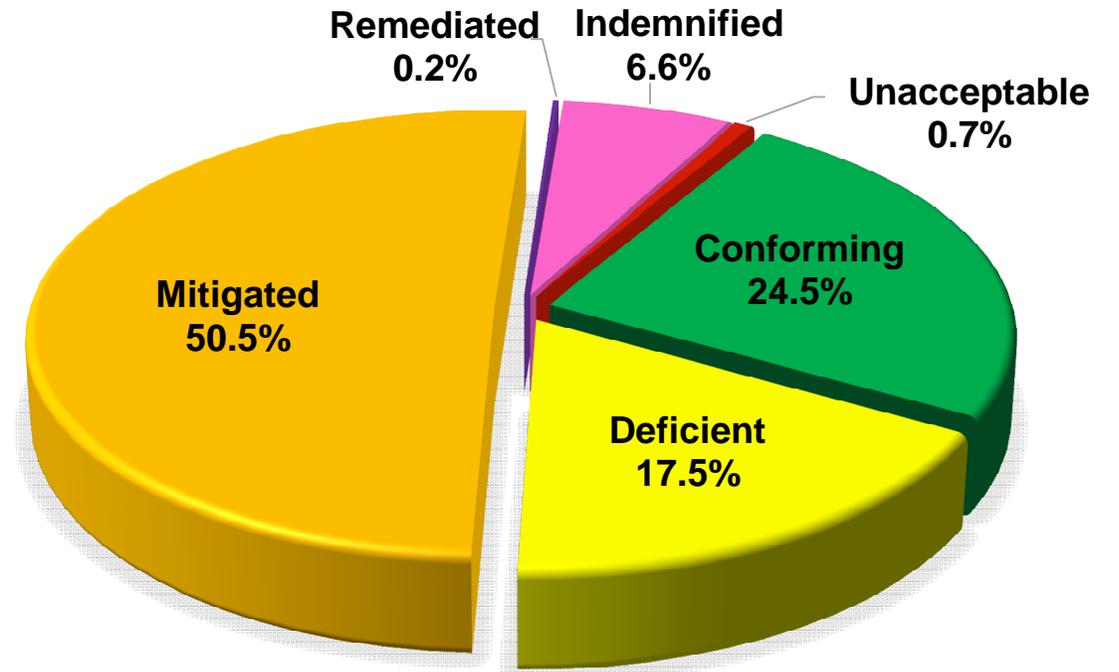


# Quarterly Ratings and Outcomes

## Initial Ratings (Gross)



## Final Ratings (Net)



LRS reviews completed from 7/1/2020 to 9/30/2020 (excluding lender self-reports and internal QC)

# Quarterly Loan Review Summary

## Quarterly Loan Review Summary

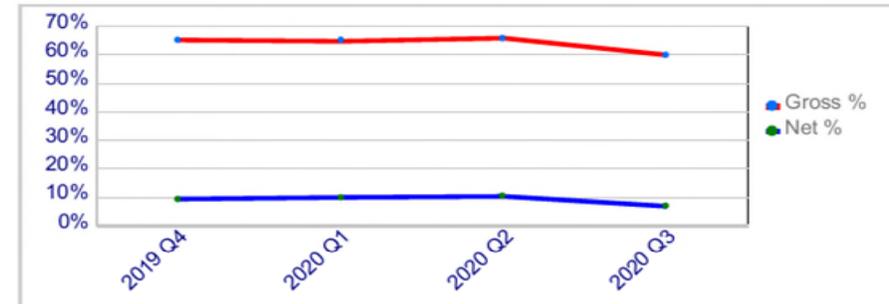
Completed Quarter(s): 2019 Q4, 2020 Q1, 2020 Q2, 2020 Q3

Location(s): All

Sample: Total

### Material Defects

Qtr	# of Loans	Gross #	Gross %	Net #	Net%
2019 Q4	8,198	5,346	65.2%	774	9.4%
2020 Q1	8,185	5,301	64.8%	821	10.0%
2020 Q2	4,913	3,236	65.9%	511	10.4%
2020 Q3	5,670	3,400	60.0%	393	6.9%

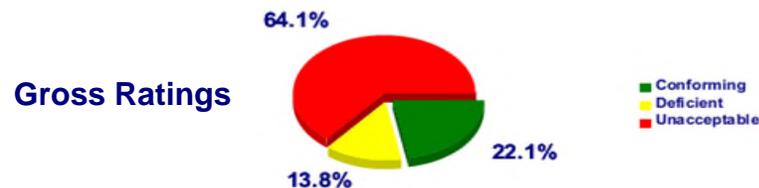


### Review Ratings #

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2019 Q4	1,711	1,141	4,572	12	719	43
2020 Q1	1,745	1,139	4,480	25	712	84
2020 Q2	1,105	572	2,725	6	476	29
2020 Q3	1,403	867	3,007	12	339	42
<b>Total</b>	<b>5,964</b>	<b>3,719</b>	<b>14,784</b>	<b>55</b>	<b>2,246</b>	<b>198</b>

### Review Ratings %

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2019 Q4	20.9%	13.9%	55.8%	0.1%	8.8%	0.5%
2020 Q1	21.3%	13.9%	54.7%	0.3%	8.7%	1.0%
2020 Q2	22.5%	11.6%	55.5%	0.1%	9.7%	0.6%
2020 Q3	24.7%	15.3%	53.0%	0.2%	6.0%	0.7%
<b>Total</b>	<b>22.1%</b>	<b>13.8%</b>	<b>54.8%</b>	<b>0.2%</b>	<b>8.3%</b>	<b>0.7%</b>



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# Binder Request and Delivery



# Binder Request and Delivery

## Loan Review System (LRS) Binder Requests

- Lender Insurance Contact receives FHA Connection automated email notification when a binder is requested.
  - FHA Connection *Binder Selection – Binders Requested* function displays all binder requests for a lender.
  - LRS *Binder Request* function shows the subset of cases specifically requested for review in LRS.

## FHA Catalyst: Case Binder Module

- For electronic delivery of case binders selected for post-endorsement review in LRS.
- Lenders designated for paper binder delivery **must** submit requested binders in electronic format.
- Required for FHA lenders seeking Direct Endorsement (DE) Authority for Test Case submission.
- LI Lenders approved to submit electronic Case Binders (eCBs) to FHAC **must not** use FHA Catalyst.



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# Credit Watch Termination Initiative



# Credit Watch Termination Initiative

## FHA Evaluation

Compare Ratios are used to evaluate the rates of each Direct Endorsement (DE) mortgagee with other participants in the same geographic area.

- Quarterly analysis of the early default and claim rate of all FHA-insured mortgages
  - Includes amortization dates within the preceding 24-month period
- DE origination or underwriting authority may be terminated for any mortgagee whose:
  - Compare Ratio exceeds 200% of the default and claim rate within an area served by a HUD field office
  - Default and claim rate exceeds HUD's national default and claim rate



# Credit Watch Termination Initiative

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## Notice and Appeal

- Proposed Credit Watch Termination Notice sent prior to termination
- Informal conference request must be submitted in writing within 30 days of receipt of Notice
- Mortgagee appeal is waived when a written request is not submitted in the 30-day timeframe
  - Mortgagee authority terminates 60 days from date of Notice without further HUD outreach



# Credit Watch Termination Initiative

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## Informal Conference and Mitigating Factors

- Opportunity for mortgagee to address Compare Ratio impacts
- Present facts and circumstances related to excessive default and claim rates
- FHA considers relevant mitigating factors for Credit Watch Termination determination

# Credit Watch Termination Initiative

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## Final Notice of Determination

- Decision to sustain or withdraw the Proposed Credit Watch Termination Notice
  - If sustained, termination is effective upon mortgagee receipt of Final Notice
- Termination prohibits FHA mortgage origination or underwriting in specified HUD field office jurisdiction(s)
  - Authority can be reinstated no earlier than six months after termination effective date



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# Resources



# Resources

## LRS Information Page

[https://www.hud.gov/program\\_offices/housing/sfh/lender/loan\\_review\\_system](https://www.hud.gov/program_offices/housing/sfh/lender/loan_review_system)

- LRS User Manual
- FHA Defect Taxonomy
- Webinars



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### LOAN REVIEW SYSTEM

The Loan Review System (LRS) is the electronic platform for most Federal Housing Administration (FHA) Title II Single Family quality assurance review processes, including:

- Various Post-Endorsement Loan Reviews
- Unconditional Direct Endorsement Authority Test Cases
- Lender Monitoring Reviews
- Lender Self-Reporting of Fraud and Other Material Findings

#### Functions and Features

- Communicates findings using FHA's Defect Taxonomy
- Consolidates most quality assurance functions into one system
- Automates various manual processes and communications
- Organizes and prioritizes requests for lender responses
- Streamlines submission of required documents

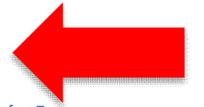
#### Loan Review Resources

- [LRS User Manual](#)
  - [Appendix 7.0 – FHA Defect Taxonomy](#)
- Discontinued December 31, 2019
- [Defect Taxonomy Version 1](#)

#### Quality Assurance Webinars

Take advantage of FHA's online webinar offerings to stay up-to-date on quarterly quality assurance results, most common findings, and additional guidance for lenders related to quality assurance processes.

- [UPCOMING SINGLE FAMILY HOUSING EVENTS AND TRAINING](#)
- [SINGLE FAMILY HOUSING ARCHIVED WEBINARS](#)



# Resources (cont.)

## FHA Resource Center

- 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 tab.

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 by Product Type and Selection Reason.

**SEARCH FIELDS**

Case Number(s) [dropdown]

Clear Search

**FILTERS** Show All

**PRODUCT TYPE**

- Purchase 71
- Refinance 35

**SELECTION REASON**

- Early Claims 1
- Early Payment Defaults 11
- Lender Self-Report 94

**SEARCH RESULTS (106)**

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

A red arrow points to the 'Review Location' column in the search results table.

# Resources (cont.)

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](https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe)



# Helpful Links

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- FHA Single Family Information Page  
[https://www.hud.gov/program\\_offices/housing/sfh](https://www.hud.gov/program_offices/housing/sfh)
- FHA Catalyst: Case Binder Module  
[https://www.hud.gov/program\\_offices/housing/FHACatalyst/casebinder](https://www.hud.gov/program_offices/housing/FHACatalyst/casebinder)
- Single Family Housing Policy Handbook 4000.1  
[https://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/handbook\\_4000-1](https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1)  
[FHA Single Family Housing Policy Handbook \(PDF\)](#)
- Upcoming Events and Training  
[https://www.hud.gov/program\\_offices/housing/sfh/events](https://www.hud.gov/program_offices/housing/sfh/events)
- Subscribe to FHA INFO Notices  
[https://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/FHA\\_INFO\\_subscribe](https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe)



# Q&A



# 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!**

