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.
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](mailto:answers@hud.gov)
- Phone: [1-800-Call-FHA](tel:1-800-225-5342) (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

- **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.
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

- 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
Agenda

- Loan Review Results
- Binder Request and Delivery
- Credit Watch Termination Initiative
- Resources
- Q&A
Loan Review Results
## Quarterly Volume

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

**Quarterly Total**: 6,402 7%

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

Initial Ratings (Gross)

- Conforming: 24.5%
- Deficient: 17.5%
- Unacceptable: 58.0%

Final Ratings (Net)

- Mitigated: 50.5%
- Remediated: 0.2%
- Indemnified: 6.6%
- Conforming: 24.5%
- Deficient: 17.5%
- Unacceptable: 0.7%

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

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

Location(s): All

Sample: Total

Material Defects

<table>
<thead>
<tr>
<th>Quarter</th>
<th># of Loans</th>
<th>Gross #</th>
<th>Gross %</th>
<th>Net #</th>
<th>Net %</th>
</tr>
</thead>
<tbody>
<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>
<tr>
<td>2020 Q3</td>
<td>5,670</td>
<td>3,400</td>
<td>60.0%</td>
<td>393</td>
<td>6.9%</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>Indem</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<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>4,480</td>
<td>25</td>
<td>712</td>
<td>84</td>
</tr>
<tr>
<td>2020 Q2</td>
<td>1,105</td>
<td>572</td>
<td>2,725</td>
<td>6</td>
<td>476</td>
<td>29</td>
</tr>
<tr>
<td>2020 Q3</td>
<td>1,403</td>
<td>867</td>
<td>3,007</td>
<td>17</td>
<td>336</td>
<td>42</td>
</tr>
<tr>
<td>Total</td>
<td>5,864</td>
<td>3,719</td>
<td>14,704</td>
<td>55</td>
<td>2,246</td>
<td>190</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>Indem</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 Q4</td>
<td>20.9%</td>
<td>13.9%</td>
<td>55.0%</td>
<td>0.1%</td>
<td>6.0%</td>
<td>0.2%</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>2020 Q3</td>
<td>24.7%</td>
<td>15.3%</td>
<td>53.0%</td>
<td>0.2%</td>
<td>6.0%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Total</td>
<td>22.1%</td>
<td>13.8%</td>
<td>54.8%</td>
<td>0.2%</td>
<td>8.3%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Gross Ratings

- Conforming: 64.1%
- Deficient: 13.8%
- Mitigated: 22.1%

Net Ratings

- Conforming: 54.8%
- Deficient: 13.8%
- Mitigated: 22.1%
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.
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

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

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

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
Resources
Resources

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

- LRS User Manual
- FHA Defect Taxonomy
- 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.
## 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) Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.</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>
</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*
Helpful Links

- FHA Single Family Information Page
  https://www.hud.gov/program_offices/housing/sfh
- FHA Catalyst: Case Binder Module
  https://www.hud.gov/program_offices/housing/FHACatalyst/casebinder
- Single Family Housing Policy Handbook 4000.1
  FHA Single Family Housing Policy Handbook (PDF)
- Upcoming Events and Training
  https://www.hud.gov/program_offices/housing/sfh/events
- Subscribe to FHA INFO Notices
Q&A
Q&A Instructions

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**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!