



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
SINGLE FAMILY HOUSING



Welcome to...
FHA Quality Assurance Update

Today's webinar begins
at 2:00 PM (Eastern)

We will be underway shortly

Use your computer/smart device to participate in the webinar, OR,
Dial in with a standard telephone:

Dial-in #: 1-(929) 436-2866 Webinar ID: 338 782 741



OFFICE OF SINGLE FAMILY HOUSING



Technical Support

- View the presentation through the Chrome internet browser.
- Technical issues? Please review the *Technology FAQs* document by clicking on **Landing Page** or the link found in the **Chat** icon at the bottom of your screen.
- Need additional tech support? Click on the *Contact Tech Support* icon on the **Landing Page** or the link found in the **Chat** icon at the bottom of your screen.



Q&A Session

- If logged in to the webinar and viewing/listening through computer or smartphone:
 - Click “Raise Hand” icon and follow screen prompts until it is your turn to ask a question.
- If using standard telephone line, press *9 to be placed in queue.
 - Once in queue, follow the automated voice instructions, and when prompted, provide your name and company affiliation, then ask your question.



Contact the FHA Resource Center

- Online at: www.hud.gov/answers
- Via email at: answers@hud.gov
- Via phone at: 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.



Documents/Materials & Training Evaluation

- Documents/Materials:
 - Click on the **Chat** icon or **Landing Page** and select the *Webinar Documents/Materials* link for a copy of today's 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
- 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





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
November 20, 2019

Presented by:
Jack Higgins
Director
Quality Assurance Division

Christina Channing
Single Family Housing Specialist
Quality Assurance Division

Derek Taylor
Management Analyst
Quality Assurance Division

Last Updated: 10/30/2019



OFFICE OF SINGLE FAMILY HOUSING



Agenda

Quarterly Loan Review Results

Common Defects

Compare Ratios

Resources

Q&A



Quarterly Loan Review Results



Loan Review Volume

Selection Reason	# Completed	% Net Material
Early Payment Defaults	5,395	11%
Lender Monitoring	1,335	12%
Lender Self-Reports	1,134	28%
Risk Algorithm	830	5%
Early Claims	213	8%
Test Cases	307	5%
FHA Manual Selections	336	18%
Random Selections	260	7%
Review Location Quality Control (QC)	428	5%
Quarterly Total	10,238	12%

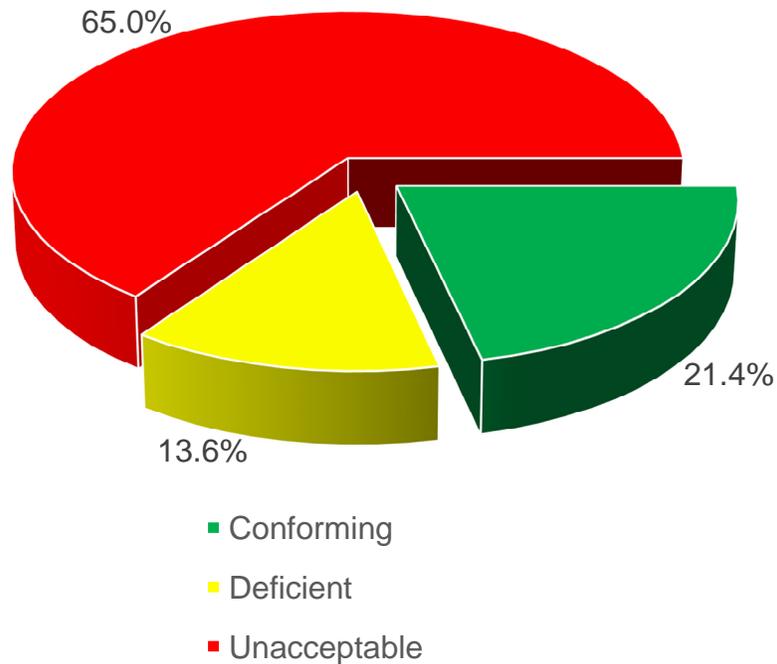
Review Type	# Completed	% Net Material
Underwriting	9,819	12%
Servicing	419	6%
Quarterly Total	10,238	12%

Loan Review System (LRS) reviews completed from 7/1/2019 to 9/30/2019

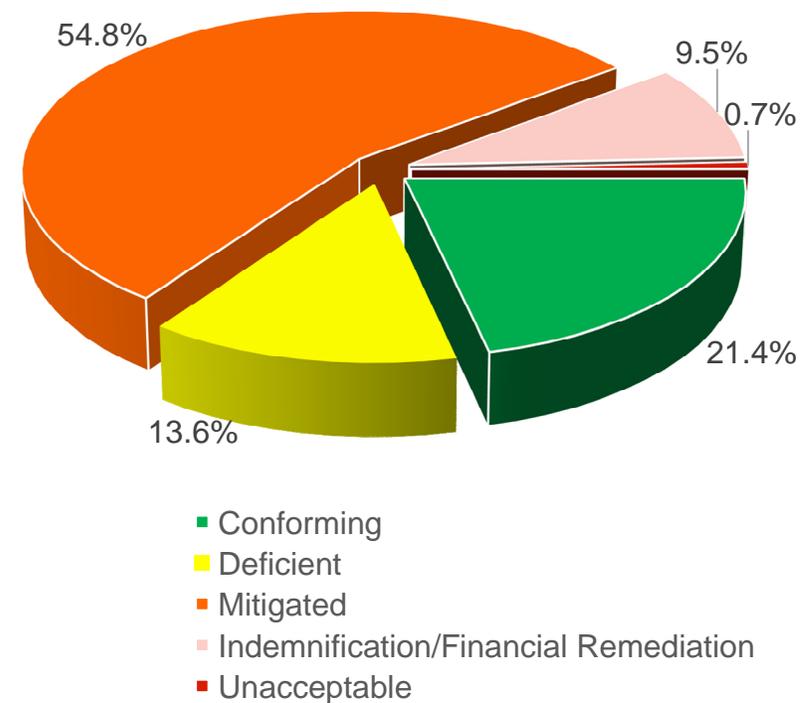


Ratings and Outcomes

Initial Ratings (Gross)



Final Ratings (Net)



LRS reviews completed from 7/1/2019 to 9/30/2019 (excluding lender self-reports and internal QC)

Quarterly Loan Review Summary

Quarterly Loan Review Summary

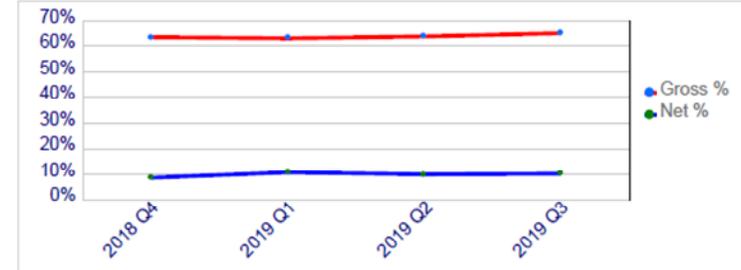
Completed Quarter(s): 2018 Q4, 2019 Q1, 2019 Q2, 2019 Q3

Location(s): All

Sample: Total

Material Defects

Qtr	# of Loans	Gross #	Gross %	Net #	Net%
2018 Q4	7,817	4,961	63.5%	672	8.6%
2019 Q1	5,625	3,545	63.0%	606	10.8%
2019 Q2	8,892	5,669	63.8%	887	10.0%
2019 Q3	8,846	5,752	65.0%	905	10.2%

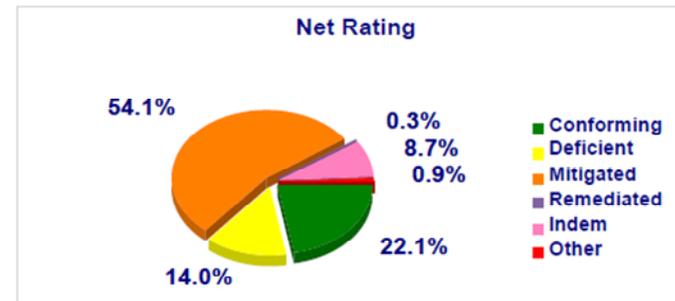
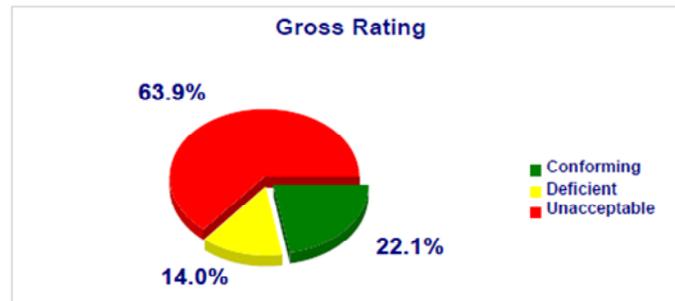


Review Ratings

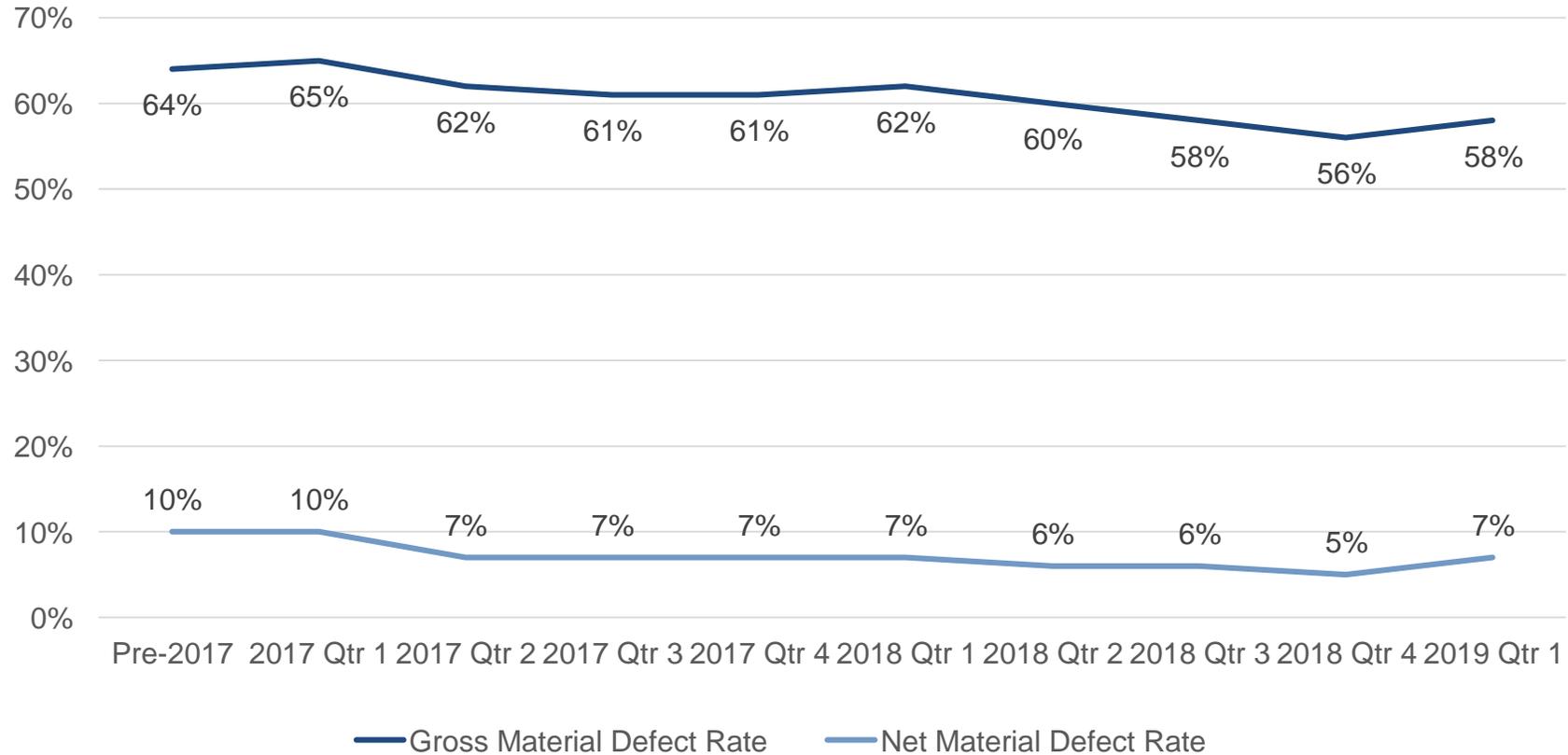
Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2018 Q4	1,729	1,127	4,289	25	579	68
2019 Q1	1,364	716	2,939	13	540	53
2019 Q2	1,906	1,317	4,782	19	765	103
2019 Q3	1,889	1,205	4,847	27	820	58
Total	6,888	4,365	16,857	84	2,704	282

Review Ratings %

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2018 Q4	22.1%	14.4%	54.9%	0.3%	7.4%	0.9%
2019 Q1	24.2%	12.7%	52.2%	0.2%	9.6%	0.9%
2019 Q2	21.4%	14.8%	53.8%	0.2%	8.6%	1.2%
2019 Q3	21.4%	13.6%	54.8%	0.3%	9.3%	0.7%
Total	22.1%	14.0%	54.1%	0.3%	8.7%	0.9%



Outcome Trends: Endorsement Date



LRS reviews completed from 5/15/2017 to 9/30/2019 (excluding lender self-reports, test cases and internal QC)



Common Defects

Common Defects

Lender Operations

Source	Cause	Frequent Examples
Lender Compliance	Violation of FHA Policy	<ul style="list-style-type: none"> → Origination processing requirements not met or improperly completed. → Unresolved data integrity issues between FHA systems and loan documentation. → Case binder or required documentation not submitted for review.
Underwriting using TOTAL Mortgage Scorecard		<ul style="list-style-type: none"> → TOTAL Accept was not downgraded to manual underwriting as required. → Automated Underwriting System (AUS) data entry errors or omissions. → Borrower or Mortgage data change outside of tolerances and TOTAL not rescored.
Other		<ul style="list-style-type: none"> → Final underwriting decision not completed and/or documented as required. → Loan closed or endorsed out of compliance with conditional underwriting approval. → Pre/post endorsement insurability obligation not met.

Common Defects (cont.)

Lender Operations

HUD Policy References

Single Family Housing Policy Handbook 4000.1, Section II.A.

- 1.a. Origination Processing - Applications and Disclosures
- 4.a. Underwriting with an Automated Underwriting System
- 4.e. Final Underwriting Decision (TOTAL)
- 5.d. Final Underwriting Decision (Manual)
- 6. Closing Requirements
- 7. Post-Closing and Endorsement

*References are not all-inclusive

Compare Ratios

Compare Ratios

- Available to lenders and the general public through the Neighborhood Watch Early Warning System (Neighborhood Watch)
- Various Compare Ratios based on different timeframes, geographic areas, product types and other factors
- Each compares seriously delinquent and claim rates for a lender or other subgroup to FHA's overall book of business
- Helps FHA and lenders manage performance and risk through benchmarks and triggers for more detailed analysis

Compare Ratios (cont.)

- One or two-year timeframe based on beginning amortization date, with or without streamline refinances
- Comparison of a specific
 - Direct Endorsement (DE) lender
 - Originating lender or branch
 - Geographic area
- To FHA's book of business nationwide or by
 - HUD field office jurisdiction
 - State, county, city or zip code
 - Homeownership Center
 - Metropolitan statistical area

Compare Ratios (cont.)

EARLY WARNINGS -- ALL LENDERS/AREAS Submit

Mortgagee/Area Selections:

- Originator by Institution
- Originator by Branch
- Brokers/Sponsors
- Direct Endorsement Lenders
- Principals/Agents
- Areas

Loan Portfolio: 2 Year FHA

United States

HUD Office: AK, ANCHORAGE

State: ALABAMA

- County: AUTAUGA
- City: ABBEVILLE
- Zip Code & City: 35004 MOODY

MSA: ABERDEEN, SD MICROPOLITAN STATISTICAL AREA

HOC: ATLANTA

Compare Ratios (cont.)

Neighborhood Watch EARLY WARNING SYSTEM US Department of Housing and Urban Development

Early Warnings Servicing Analysis Details Help/About Home

EARLY WARNINGS – ALL LENDERS/AREAS

Focus Area: [United States](#)

Mortgagee/Area Selections: **Delinquent Choices:** **2 Year Performance Period:**

Originator by Branch Seriously Delinquent Data as of 09/30/2019
Brokers/Sponsors Seriously Delinquent within the first year Data as of All Quarter End Dates
Direct Endorsement Lenders Data as of 2019Q2

Compare Lenders to Area Submit

Output Options: Show: All Loans

Show only records between 100 and 9999999 total loans underwritten
between 1 and 9999999 total seriously delinquent and claims
between 0 and 9999999 compare ratio

Show Data For: Direct Endorsement Lenders Nationwide

Direct Endorsement Lender Choices: *(Only Applies to Direct Endorsement Lender Output)*

Direct Endorsement Lender FHA Approval Status: Active Terminated Merged

Sort By: Total Loans Underwritten Descending



Compare Ratios (cont.)

- Example using two-year loan portfolio without streamlines

	United States		Cincinnati Field Office	
	SDQ Rate	Compare Ratio	SDQ Rate	Compare Ratio
FHA Portfolio	1.7	–	1.6	–
Lender ABC	0.85	50%	1.6	100%
Lender XYZ	2.55	150%	3.2	200%

Compare Ratios (cont.)

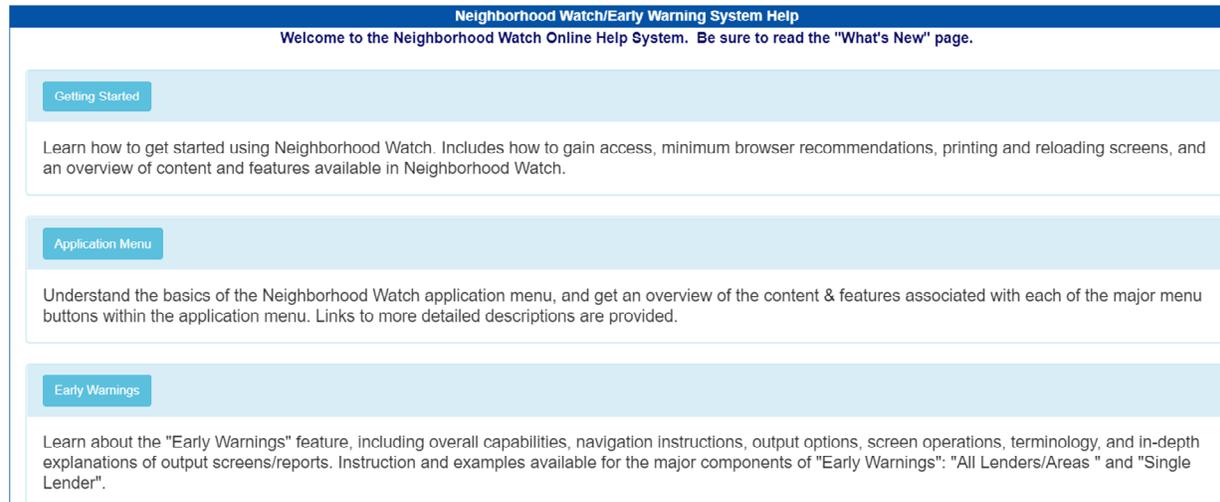
- FHA conducts quarterly analysis of all FHA-approved lenders for the Credit Watch Termination Initiative and Lender Insurance (LI) authority monitoring
- Credit Watch Termination
 - Detailed in SF Handbook 4000.1, Section V.E.3.a.iii.
 - Focuses on Compare Ratios by HUD field office jurisdiction
- LI Authority Eligibility and Monitoring
 - Detailed in SF Handbook 4000.1, Sections I.A.5.b.ii. and V.E.3.a.iv.
 - Focuses on LI Compare Ratio, which compares each lender's performance to FHA's book of business in the states where the lender has done business in the past two years

Resources



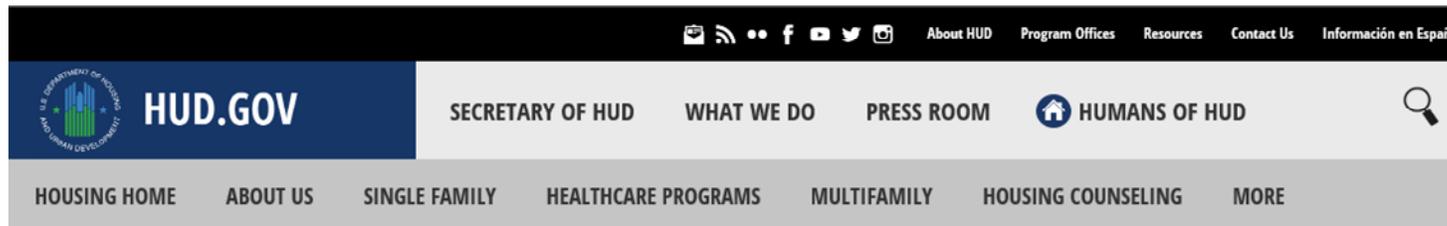
Neighborhood Watch Resources

- Neighborhood Watch Information Page on HUD.gov (https://www.hud.gov/program_offices/housing/sfh/lender/nw_home)
- Supplemental Performance Metric Fact Sheet (https://www.hud.gov/sites/documents/SF_SPMFACTSHEET.PDF)
- Neighborhood Watch Help Feature



LRS Resources

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



[Home](#) / [Program Offices](#) / [Housing](#) / [Single Family](#) / [Lenders](#) / Loan Review System

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



LRS Resources (cont.)

- 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

Helpful Links

- SF Handbook Information

https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1

- Upcoming Single Family Housing Events and Training

https://www.hud.gov/program_offices/housing/sfh/events

- Subscribe to FHA INFO

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



FHA Resource Center

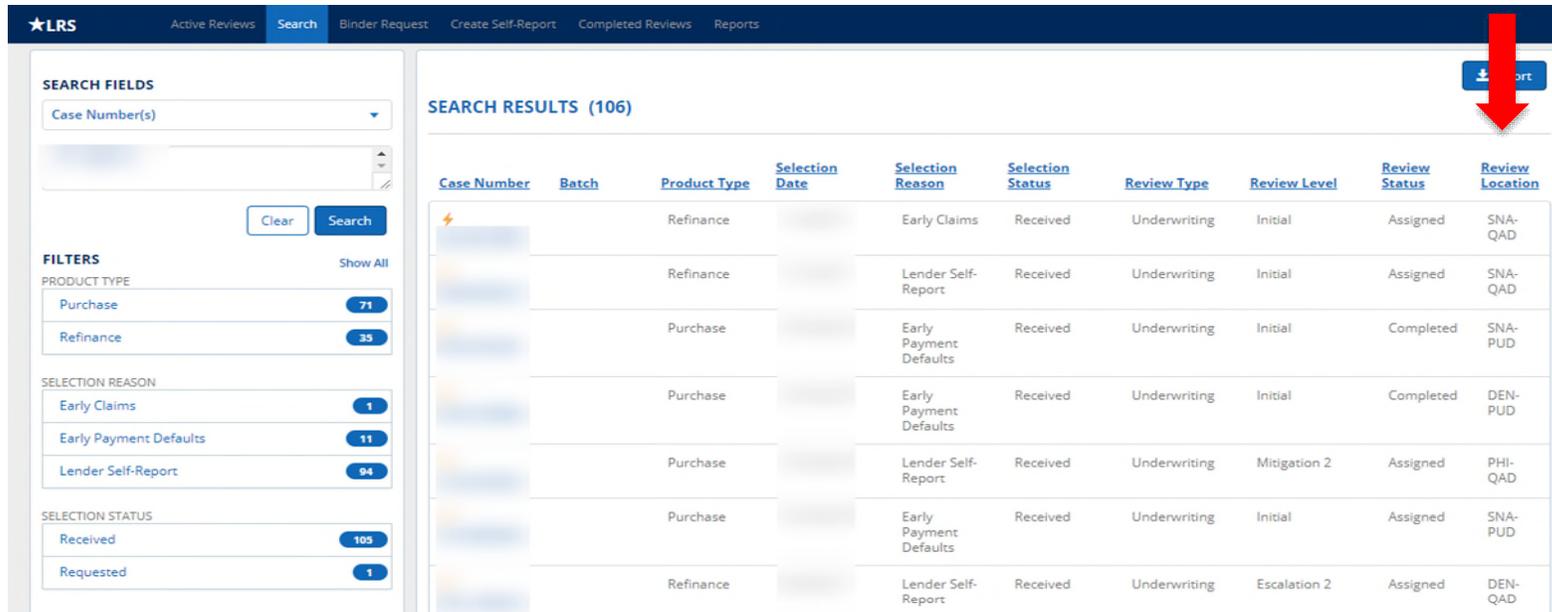
Option	Point of Contact	Hours Available	Comments
1 FHA Knowledge Base – FAQs	www.hud.gov/answers	24/7/365	Knowledge Base web page includes option to email questions.
2 Email	answers@hud.gov	24/7/365	
3 Telephone	1-800-CALL-FHA (1-800-225-5342) Persons with hearing or speech impairments may reach this 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



FHA Resource Center (cont.)

- When submitting questions 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 for 'Case Number(s)' and a 'Search' button. Below this are filter sections for 'PRODUCT TYPE' (Purchase: 71, Refinance: 35), 'SELECTION REASON' (Early Claims: 1, Early Payment Defaults: 11, Lender Self-Report: 94), and 'SELECTION STATUS' (Received: 105, Requested: 1). The main area shows 'SEARCH RESULTS (106)' with a table of results. A red arrow points to the 'Export' button in the top right corner of the results area.

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

Q&A