Welcome to...
FHA Quality Assurance Update: Q1 2021

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

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- Q&A session will follow the presentation.
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- Email: answers@hud.gov
- Phone: 1-800-Call-FHA (1-800-225-5342)

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  – 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/FHAFQA](https://www.hud.gov/FHAFQA)

- **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)
Learning Agenda

- Loan Review Results
- Quality Control Waiver Updates
- Servicing Quality Control – CARES Act
- 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>Underwriting</td>
<td>6,487</td>
<td>13%</td>
</tr>
<tr>
<td>Servicing</td>
<td>368</td>
<td>3%</td>
</tr>
<tr>
<td>Early Payment Defaults</td>
<td>2,791</td>
<td>5%</td>
</tr>
<tr>
<td>Lender Self-Reports</td>
<td>1,442</td>
<td>32%</td>
</tr>
<tr>
<td>Risk Algorithm</td>
<td>1,353</td>
<td>9%</td>
</tr>
<tr>
<td>Lender Monitoring</td>
<td>517</td>
<td>8%</td>
</tr>
<tr>
<td>Review Location Quality Control (QC)</td>
<td>255</td>
<td>5%</td>
</tr>
<tr>
<td>Random Selections</td>
<td>212</td>
<td>4%</td>
</tr>
<tr>
<td>FHA Manual Selections</td>
<td>136</td>
<td>45%</td>
</tr>
<tr>
<td>Test Cases</td>
<td>122</td>
<td>3%</td>
</tr>
<tr>
<td>Early Claims</td>
<td>27</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Quarterly Total</strong></td>
<td><strong>6,855</strong></td>
<td><strong>12%</strong></td>
</tr>
</tbody>
</table>

Loan Review System (LRS) reviews completed from 10/1/2020 to 12/31/2020
Quarterly Ratings and Outcomes

Initial Ratings (Gross)

- Conforming: 20.4%
- Deficient: 15.0%
- Unacceptable: 64.6%

Final Ratings (Net)

- Mitigated: 57.4%
- Conforming: 20.4%
- Deficient: 15.0%
- Remediated: 0.5%
- Indemnified: 5.9%
- Unacceptable: 0.8%

LRS reviews completed from 10/1/2020 to 12/31/2020 (excluding lender self-reports and internal QC)
Quarterly Loan Review Summary

Completed Quarter(s): 2020 Q4, 2020 Q3, 2020 Q2, 2020 Q1
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>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>
<tr>
<td>2020 Q4</td>
<td>5,193</td>
<td>3,357</td>
<td>64.6%</td>
<td>377</td>
<td>7.3%</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>2020 Q1</td>
<td>1,745</td>
<td>1,136</td>
<td>4,490</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>807</td>
<td>3,007</td>
<td>12</td>
<td>339</td>
<td>42</td>
</tr>
<tr>
<td>2020 Q4</td>
<td>1,057</td>
<td>779</td>
<td>2,080</td>
<td>27</td>
<td>305</td>
<td>45</td>
</tr>
<tr>
<td>Total</td>
<td>5,310</td>
<td>3,357</td>
<td>13,192</td>
<td>70</td>
<td>1,832</td>
<td>209</td>
</tr>
</tbody>
</table>

Gross Ratings 63.8%

Net Ratings 55.1%

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>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>2020 Q4</td>
<td>20.4%</td>
<td>15.0%</td>
<td>57.4%</td>
<td>0.5%</td>
<td>5.9%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total</td>
<td>22.2%</td>
<td>14.0%</td>
<td>55.1%</td>
<td>0.3%</td>
<td>7.6%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>
Quality Control Waiver Updates
Quality Control Waiver Updates

COVID-19 Temporary Partial Waivers of Quality Control (QC) Requirements

• Expired Waiver of QC Review of Early Payment Defaults (EPDs)
  – FHA requirements for QC selection and review of all EPDs are in full force as of September 2020.
  – Previous waiver of the *Single Family Housing Policy Handbook* 4000.1 (Handbook 4000.1) Sections V.A.3.a.i(C) and V.A.3.a.iv(B)(2) for applicable loans.
    ▪ QC review not required for EPDs that would have been selected as part of May, June, or July 2020 selections.
    ▪ Extended for EPDs that would have been selected in August 2020, provided the loan was reported to FHA with Single Family Default Monitoring System (SFDMS) Delinquency and Default Reason Code 055 – *Related to National Emergency Declaration*. 
COVID-19 Temporary Partial Waivers of Quality Control (QC) Requirements

- Alternatives to Field Reviews of Appraisals
  - Waiver of Handbook 4000.1 Section V.A.3.c.ii(C)(1)(b) provides flexibility to use third-party valuation tools as an alternative to field reviews.
  - Effective December 4, 2020 for QC reviews in process and for new selections until further notice.
    - Applicable for all post-closing QC selection types, including EPDs.
    - Related to June 18, 2020 waiver for loans selected for QC review as part of May, June, or July 2020 selections.
  - All other QC requirements for appraisals in Handbook 4000.1 Section V.A.3.c.ii(C) remain in force.
Servicing Quality Control
Servicing Quality Control

General Quality Control (QC) Requirements

• QC Program Standards (Handbook 4000.1 V.A.1.c)
  – Each Mortgagee must maintain and update its QC program to ensure it fully complies with all applicable FHA requirements at all times.

• Personnel Training and Access to FHA Guidance (Handbook 4000.1 V.A.2.b.i)
  – All FHA Loan Administration and QC staff must have access to current FHA guidance and be adequately trained.

• Loan Level QC Review Types (Handbook 4000.1 V.A.3)
  – Must include loans originated, underwritten and/or serviced by the Mortgagee and its Affiliates.
Loan Level QC Requirements for Servicing

• Frequency and Sampling (Handbook 4000.1 V.A.3.a.i(D))
  – Mortgagees must select loans for servicing QC on a monthly basis.
  – Must be reviewed within 60 calendar days from the end of the month in which they were selected.
  – Sample size depends on the volume of loans in the Mortgagee’s servicing portfolio.

• Review Scope (Handbook 4000.1 V.A.3.e)
  – Mortgagees must review all aspects of their servicing operations to ensure that all FHA servicing and loss mitigation requirements are being met.
Servicing Quality Control (cont.)

Compliance with COVID-19 Policy

• Servicing QC must cover specific requirements related to the COVID-19 National Emergency (Handbook 4000.1 III.A.3.d), including:
  – Loss Mitigation for Borrowers Affected by COVID-19
  – COVID-19 Forbearance
  – COVID-19 Home Retention/Disposition Options
  – SFDMS Reporting Requirements

• Must review for compliance with foreclosure moratoriums, extensions and other policy updates from all applicable Mortgagee Letters.
Servicing Quality Control (cont.)

Servicer Monitoring by FHA

• Monitoring reviews are directed to the current servicer of record in FHA systems.
  – FHA defines Servicer as the Entity responsible for performing servicing actions on FHA-insured
    Mortgages on its behalf or on behalf of or at the direction of another FHA-approved Mortgagee.
    (Handbook 4000.1 III.A.1.a.i)
  – Servicers are responsible for their actions in servicing FHA-insured Mortgages, including actions
    taken on behalf or at the direction of the Holder. (III.A.1.b)

• Quality Assurance Divisions will continue to review servicers for compliance with all
  applicable requirements, including COVID-19 servicing policy.
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><strong>FHA Knowledge Base – FAQs</strong></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><strong>Email</strong></td>
<td><a href="mailto:answers@hud.gov">answers@hud.gov</a></td>
<td>24/7/365</td>
<td></td>
</tr>
<tr>
<td><strong>Telephone</strong></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>
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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
  https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1

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

• Subscribe to FHA INFO Notices
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Q&A
Q&A Protocol

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