



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

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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Questions and Answers

- 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.
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- Online at: www.hud.gov/answers
- Via email at: answers@hud.gov
- Via phone at: [1-800-Call-FHA](tel:1-800-225-5342) (1-800-225-5342)

Persons with hearing or speech impairments call Federal Relay Service at 1-800-877-8339.



Documents/Materials & Training Evaluation

- Documents/Materials:
 - Click **Chat** icon or **Landing Page** – select *Webinar Documents/Materials* link for copy of presentation.
- Training Evaluation:
 - Click on **Chat** icon or **Landing Page** – select *Survey* link.



Helpful Links

Click **Chat** icon or **Landing Page** – 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 Webinars (On Demand) page:
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** January 18, 2023

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Agenda

Loan Review Results

Top Underwriting Findings

Top Servicing Findings

Resources

Q&A



Loan Review Results



Loan Review Volume: Underwriting

Selection Reason	CY21 Q4	CY22 Q1	CY22 Q2	CY22 Q3	# Completed	# Net Material	% Net Material
Early Payment Defaults	3,012	1,784	1,599	3,272	9,667	882	9.12%
Random Selections	1,323	2,280	848	1,310	5,761	196	3.40%
Risk Algorithm	61	828	952	1,499	3,340	193	5.78%
Lender Self-Reports	694	1,016	402	1,055	3,167	1,307	41.27%
Lender Monitoring	478	499	543	941	2,461	289	11.74%
Review Location Quality Control (QC)	289	338	282	391	1,300	42	3.23%
Test Cases	216	212	307	333	1,068	42	3.93%
FHA Manual Selections	84	128	60	293	565	126	22.30%
Early Claims	32	11	3	22	68	1	1.47%
OIG Audit	7	1	0	0	8	7	87.50%
Total	6,196	7,097	4,996	9,116	27,405	3,085	11.26%

Loan Review System (LRS) reviews completed from 10/1/2021 to 9/30/2022



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Loan Review Volume: Servicing

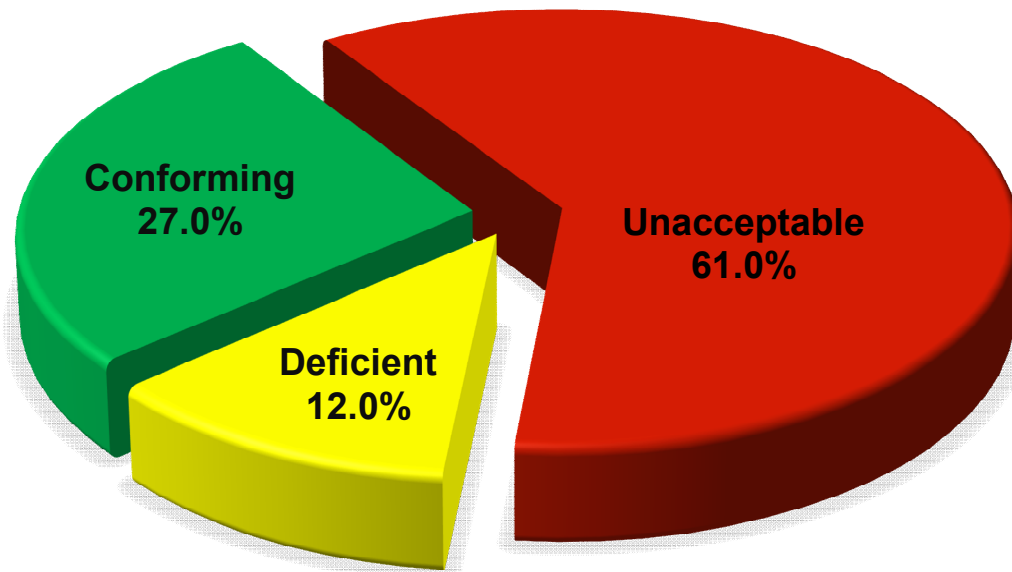
Selection Reason	CY21 Q4	CY22 Q1	CY22 Q2	CY22 Q3	# Completed	# Net Material	% Net Material
Lender Self-Reports	158	80	84	126	448	40	8.93%
Lender Monitoring	149	83	46	77	355	28	7.89%
FHA Manual Selections	43	3	1	0	47	0	0%
OIG Audit	0	0	2	9	11	3	27.27%
Review Location Quality Control (QC)	2	1	1	0	4	0	0%
Total	352	167	134	212	865	71	8.21%

Loan Review System (LRS) reviews completed from 10/1/2021 to 9/30/2022

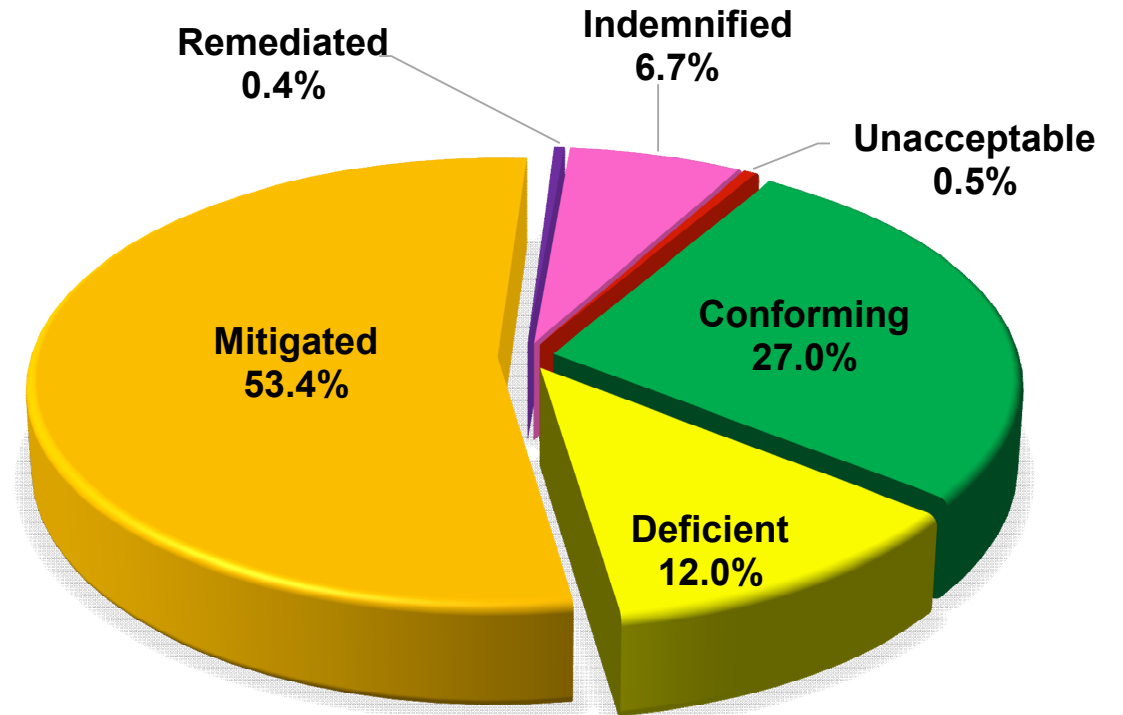


Quarterly Ratings and Outcomes

Initial Ratings (Gross)



Final Ratings (Net)



LRS reviews completed from 10/1/2021 to 9/30/2022 (excluding lender self-reports and internal QC)

Quarterly Loan Review Summary

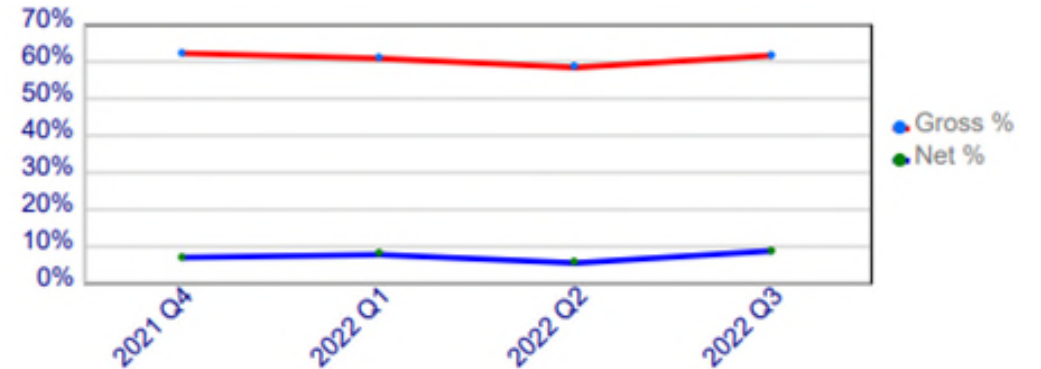
Completed Quarter(s): 2022 Q3, 2022 Q2, 2022 Q1, 2021 Q4 (calendar year)

Location(s): All

Sample: Total (performing and non-performing loans, excluding lender self-reports and internal QC)

Material Defects

Qtr	# of Loans	Gross #	Gross %	Net #	Net%
2021 Q4	5,430	3,381	62.3%	382	7.0%
2022 Q1	5,846	3,559	60.9%	455	7.8%
2022 Q2	4,382	2,560	58.4%	243	5.5%
2022 Q3	7,795	4,809	61.7%	688	8.8%



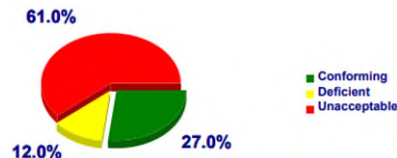
Review Ratings

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2021 Q4	1,400	649	2,999	31	323	28
2022 Q1	1,550	737	3,104	24	387	44
2022 Q2	1,322	500	2,317	13	208	22
2022 Q3	2,066	920	4,121	18	643	27
Total	6,338	2,806	12,541	86	1,561	121

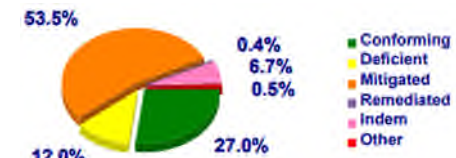
Review Ratings %

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2021 Q4	25.8%	12.0%	55.2%	0.6%	5.9%	0.5%
2022 Q1	26.5%	12.6%	53.1%	0.4%	6.6%	0.8%
2022 Q2	30.2%	11.4%	52.9%	0.3%	4.7%	0.5%
2022 Q3	26.5%	11.8%	52.9%	0.2%	8.2%	0.3%
Total	27.0%	12.0%	53.5%	0.4%	6.7%	0.5%

Gross Ratings



Net Ratings



Top Underwriting Findings

Top Underwriting Findings

Defect Area	% of Net Material
Borrower Income	22.17%
Borrower Credit	19.12%
Borrower Assets	15.91%
Lender Operations	12.73%
Property Eligibility	10.22%
Property Appraisal	6.39%
LTV/Max Mortgage Amount	5.01%
Mortgage Eligibility	4.53%
Borrower Eligibility	3.92%

- Represents underwriting findings in LRS reviews completed from 10/1/2021 to 9/30/2022.
- Percentages based on the total number of net material findings in each defect area.
- Excludes lender self-reports and internal QC.

Borrower Income

Source	Cause	Frequent Examples
Salary or Hourly Wages from Primary Employment	History, stability, and/or continuance not supported	<ul style="list-style-type: none"> → Borrower's most recent two years of employment and income not documented (from current employment and/or and past employment). → Stability of income not supported based on gap in employment of six months or more because borrower was not employed on current job for at least six months at the time of case number assignment and/or two-year work history prior to gap in employment was not documented.
	Effective income improperly calculated or not supported by documentation	<ul style="list-style-type: none"> → Borrower employment income was not averaged over the previous two years as required for hourly employees with variable hours. → Self-employment income was not calculated based on the average gross self-employment income earned over the previous two years.
Self-Employment	Issues concerning required documentation or verifications	<ul style="list-style-type: none"> → Borrower was self-employed for less than two years and was not previously employed in the same line of work or in an occupation related to self-employment. → Documentation reveals self-employment loss that was not subtracted from the borrower's gross monthly qualifying income as required.

Borrower Income (cont.)

HUD Policy References

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

- 1.b.ii(A)** General Borrower Eligibility Requirements
 - 4.a** Underwriting with an Automated Underwriting System
 - 4.c** Income Requirements (TOTAL)
 - 4.e** Final Underwriting Decision (TOTAL)
 - 5.b** Income Requirements (Manual)
 - 5.d** Final Underwriting Decision (Manual)

References are not all-inclusive



Borrower Credit

Source	Cause	Frequent Examples
Monthly Obligations	Required documentation not included in loan file.	→ Account or payment history not included in borrower's credit report.
	Amount not supported or improperly calculated.	→ Unresolved discrepancies or conflicting information related to liabilities or debt.
		→ Insufficient compensating factors or debt ratio exceeds the FHA maximum for manually underwritten borrowers.
Mortgage Payment History	FHA standards not met.	→ Borrower approval and eligibility for FHA refinance not supported based on insufficient or unacceptable payment history.
		→ FHA is unable to determine eligibility/underwriting compliance or cannot calculate monthly debts/obligations based on loan documentation.

Borrower Credit (cont.)

HUD Policy References

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

- 1.b.ii(A)** General Borrower Eligibility Requirements
 - 4.a** Underwriting with an Automated Underwriting System
 - 4.b** Credit Requirements (TOTAL)
 - 4.e** Final Underwriting Decision (TOTAL)
 - 5.a** Credit Requirements (Manual)
 - 5.d** Final Underwriting Decision (Manual)

References are not all-inclusive



Borrower Assets

Source	Cause	Frequent Examples
Gift Funds	Required documentation missing or incomplete.	→ Evidence of Gift transfer from the donor to the Borrower was not provided. → Missing donor's bank statement showing sufficient funds for the Gift amount when funds were received by escrow or settlement agent. → Insufficient documentation to establish that the Governmental Entity incurred an enforceable legal obligation to fund the Borrower's Minimum Required Investment prior to or at closing.
Large Deposits	Improperly verified or unacceptable source of funds. Asset amount used to support approval not supported.	→ Individual deposits exceeded 1% of the Adjusted Value, but documentation was insufficient to support that funds came from an acceptable source. → Unverified funds used for the purpose of qualifying for the loan, including those to satisfy debt, pay costs outside of closing, or submitted to AUS as reserves.

Borrower Assets (cont.)

HUD Policy References

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

- 1.b.ii(A)** General Borrower Eligibility Requirements
 - 4.a** Underwriting with an Automated Underwriting System
 - 4.d** Asset Requirements (TOTAL)
 - 4.e** Final Underwriting Decision (TOTAL)
 - 5.c** Asset Requirements (Manual)
 - 5.d** Final Underwriting Decision (Manual)

References are not all-inclusive



Top Servicing Findings

Top Servicing Findings

Defect Area	% of Net Material
Loss Mitigation	67.47%
Delinquent & Default Servicing	16.87%
General Servicing	11.65%
Foreclosure Processing	4.02%

- Represents servicing findings in LRS reviews completed from 10/1/2021 to 9/30/2022.
- Percentages based on the total number of net material findings in each defect area.
- Excludes lender self-reports and internal QC.

Loss Mitigation

Source	Cause	Frequent Examples
Loss Mitigation Status	Reporting requirements not met	<ul style="list-style-type: none"> → Stage of loss mitigation review was not reported to FHA using the accurate <i>Delinquency Workout Status Code</i>. → Servicer initiated foreclosure but did not ensure complete or accurate reporting of <i>Ineligible for Loss Mitigation Code</i>.
Loss Mitigation Waterfall Options	Unallowable or improperly calculated amounts	<ul style="list-style-type: none"> → Servicer did not complete review of loss mitigation request to determine whether the borrower qualified for a Loss Mitigation Option as required. → Unallowable or improperly calculated amount included in total outstanding debt to be resolved or capitalized and/or loan was not brought current for the month due through completion of loan modification and/or partial claim.
Financial Evaluation	Issues with required documentation	<ul style="list-style-type: none"> → Determination of eligibility for Home Retention or Home Disposition Option is not supported based on documents retained in the servicing file. → Borrower was not properly evaluated for loss mitigation in accordance with Presidentially-Declared COVID-19 National Emergency specific provisions.

Loss Mitigation (cont.)

HUD Policy References

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

- 2.i** Loss Mitigation Review Process
- 2.j** HUD's Loss Mitigation Program
- 2.m** Loss Mitigation Incentives
- 2.n** Presidentially-Declared Major Disaster Areas
- 2.o** Presidentially-Declared COVID-19 National Emergency
- 3.** Programs and Products

References are not all-inclusive



Delinquent and Default Servicing

Source	Cause	Frequent Examples
Delinquency or Default Status	FHA reporting requirements not met	<ul style="list-style-type: none">→ Reason for default, default status date, or oldest unpaid installment date not accurately reported to FHA.→ Occupancy status and/or date of occupancy determination inaccurately reported.→ Presidentially-Declared COVID-19 National Emergency related reporting errors.
Servicing File	Record retention requirements not met	<ul style="list-style-type: none">→ FHA is unable to determine delinquent and default servicing compliance due to missing or incomplete individual servicing account records.→ Original loan documents, individual account history, or servicing records not maintained or preserved as required during servicing transfer.

Delinquent and Default Servicing (cont.)

HUD Policy References

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

- 2.a** Mortgages in Delinquency or Default
- 2.b** HUD Default Servicing Contact
- 2.c** Reporting to Consumer Reporting Agencies and the IRS
- 2.d** Late Charges
- 2.e** Partial Payments for Mortgages in Default
- 2.f** Lien Status
- 2.o** Presidentially-Declared COVID-19 National Emergency
- 3.** Programs and Products

References are not all-inclusive



Resources

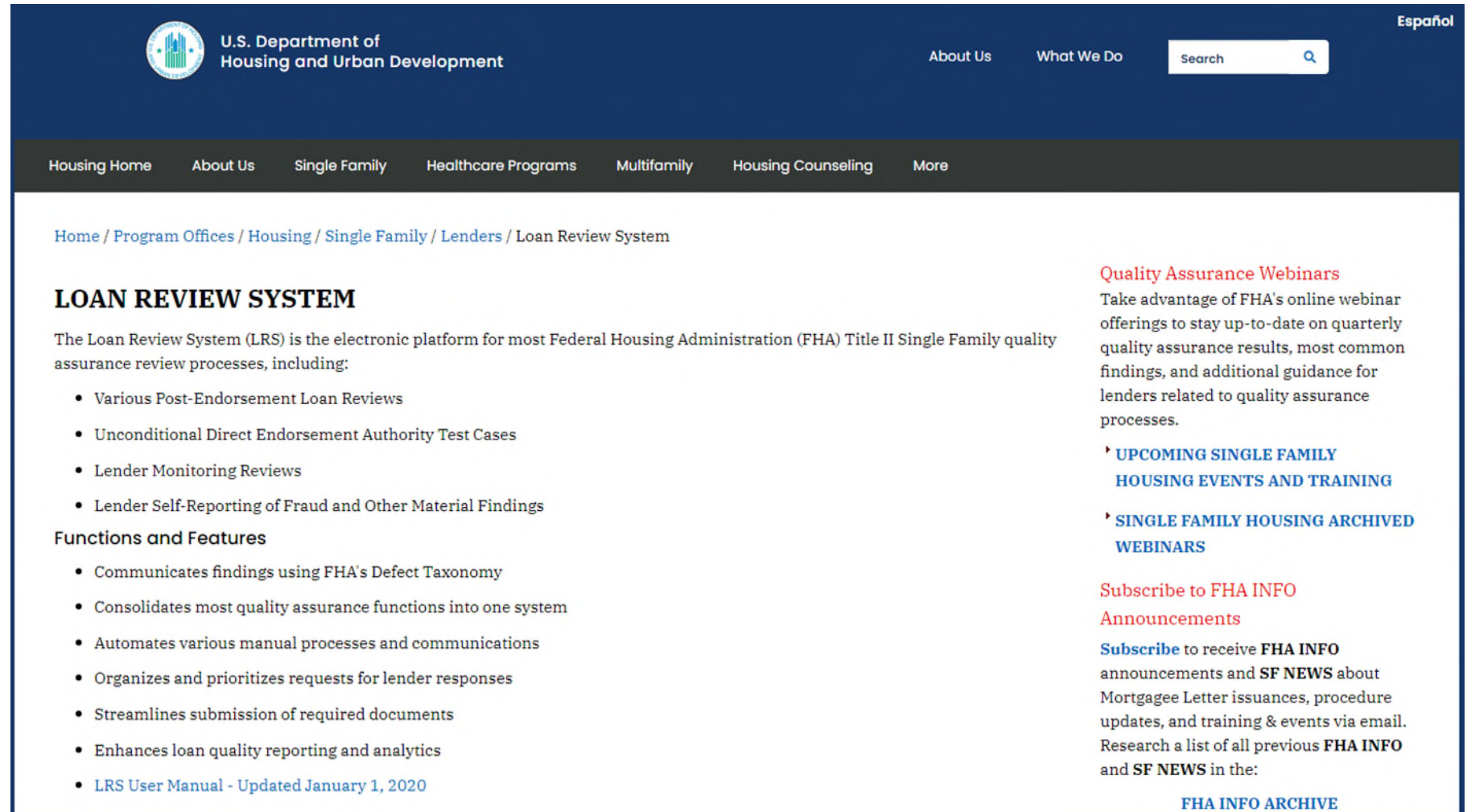


Resources

LRS Information Page

https://www.hud.gov/program/offices/housing/sfh/lender/loan_review_system

- LRS User Manual
- FHA Defect Taxonomy
- Archived Webinars



The screenshot shows the LRS Information Page on the HUD website. The header includes the U.S. Department of Housing and Urban Development logo and name, with links for 'About Us' and 'What We Do', and a search bar. A secondary navigation bar lists 'Housing Home', 'About Us', 'Single Family', 'Healthcare Programs', 'Multifamily', 'Housing Counseling', and 'More'. The main content area has a breadcrumb trail: 'Home / Program Offices / Housing / Single Family / Lenders / Loan Review System'. The title 'LOAN REVIEW SYSTEM' is prominently displayed. Below it, a paragraph explains that the 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

Under the heading 'Functions and Features', the following points are listed:

- 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
- Enhances loan quality reporting and analytics
- LRS User Manual - Updated January 1, 2020

On the right side of the page, there are three sections:

- Quality Assurance Webinars**: A paragraph encouraging users to 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**: A link to upcoming events and training.
- SINGLE FAMILY HOUSING ARCHIVED WEBINARS**: A link to archived webinars.

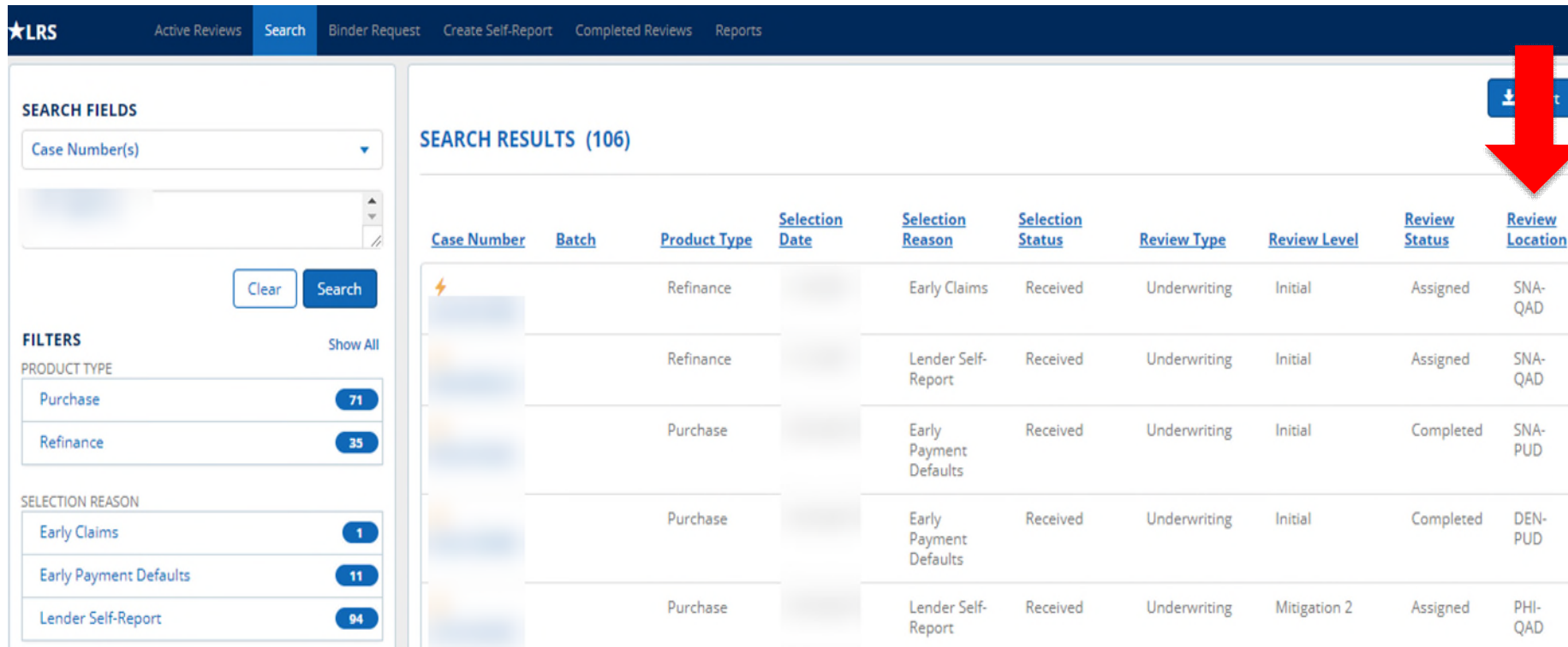
At the bottom right, there is a section for **Subscribe to FHA INFO Announcements**, which includes a link to 'Subscribe' to receive FHA INFO announcements and SF NEWS about Mortgagee Letter issuances, procedure updates, and training & events via email. It also includes a link to 'Research a list of all previous FHA INFO and SF NEWS in the: FHA INFO ARCHIVE'.



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 (Loan Review System) Search interface. The top navigation bar includes links for Active Reviews, Search, Binder Request, Create Self-Report, Completed Reviews, and Reports. The Search section is active, showing search fields and filters.

SEARCH FIELDS

Case Number(s) [dropdown menu]

[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 header 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				

Helpful Links

- FHA Single Family Information Page
https://www.hud.gov/program_offices/housing/sfh
- Single Family Housing Policy Handbook 4000.1
https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1
- Single Family Drafting Table
https://www.hud.gov/program_offices/housing/sfh/sfh_policy_drafts
- FHA National Servicing Center
https://www.hud.gov/program_offices/housing/sfh/nsc
- FHA Servicing and Loss Mitigation Training
https://www.hud.gov/program_offices/housing/sfh/nsc/training
- Subscribe to FHA INFO Notices
https://www.hud.gov/program_offices/housing/sfh/FHA_INFO_subscribe



Q&A

Q&A Protocol

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Option A: Computer or smartphone

- If viewing webinar through computer or smartphone, click *Raise Hand* icon. You will receive onscreen message to unmute yourself - click *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 an automated voice message stating *You Are Unmuted*. When prompted by moderator, provide your name, company affiliation, then ask your question.

Thank you for joining us today!

