



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

SINGLE FAMILY HOUSING



Single Family Housing Loan Quality Assessment Methodology

Defect Taxonomy

Version 2

OFFICE OF LENDER ACTIVITIES & PROGRAM COMPLIANCE
QUALITY ASSURANCE DIVISION

Last Updated: April 2, 2019

For Public Feedback

Background

- FHA must manage a variety of risks in operating its Single Family Insurance Programs. FHA is committed to maintaining the appropriate balance between management of these risks and the continued achievement of its mission as established by the National Housing Act.
- To establish greater clarity on its risk management processes, FHA created the Single Family Housing Loan Quality Assessment Methodology (Defect Taxonomy) and implemented it through the Loan Review System in 2017.
- Version 2 of the Defect Taxonomy includes:
 - Updated severity tier definitions
 - Potential remedies that align with severity tiers
 - Revised sources and causes in certain defect areas
 - Defect areas for servicing loan reviews
 - HUD policy references

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Purpose

What is the Defect Taxonomy?

- It is FHA's method of identifying defects at the loan level.
- It provides useful data and feedback through structured categorization of defects and their sources, causes and severities.
- It balances FHA's risk management and quality assurance business processes.

The Defect Taxonomy Does Not:

- Establish a universal statement on all monitoring or enforcement efforts by FHA.
- Address FHA's response to patterns of loan-level defects, regardless of severity.
- Limit FHA's actions with regard to fraud or misrepresentation.
- Establish standards for administrative or civil enforcement action, which are currently set forth in law.
- Preclude FHA from referring any violation of any severity to HUD's Mortgagee Review Board, the Departmental Enforcement Center, or other HUD offices for defects that, in FHA's judgment, warrant such referral.
- Affect or override FHA's normal process for referral of cases of fraud, waste or abuse to the Office of the Inspector General.

Core Concepts

Defect Areas

- Each review type is categorized into defect areas that represent fundamental characteristics that may impact a loan's insurability, credit quality, and compliance with FHA underwriting and servicing requirements. There are nine underwriting defect areas and four servicing defect areas.

Sources and Causes

- Each defect area includes potential sources and causes that describe each finding in greater detail and may be used for aggregate reporting. An individual finding in FHA's Loan Review System is identified by a specific defect area, source and cause.

Severity Tiers and Remedies

- There are four potential severity tiers, one of which is assigned to each finding based on the size and nature of the deviation from FHA's requirements.
- Severity tiers indicate whether a lender response is required in the Loan Review System. Tier 1 and 2 findings are unacceptable, requiring a lender response. Tier 3 and 4 findings are deficient, and do not require a lender response.

For findings that do not require a response in the Loan Review System, lenders may submit an appeal by contacting the FHA Resource Center at answers@HUD.gov or 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.

Presentation

- Each defect area is presented on two pages that follow a consistent pattern.

The first page displays applicable sources and causes, as well as HUD policy references.

Sources	Causes				
	A	B	C	D	F
1 Salary or Hourly Wages from Primary Employment	Qualifying income amount not supported or not calculated according to policy	History, stability, and/or continuance not supported	Unacceptable source of income	Required documentation or verifications missing, illegible, or incomplete	Evidence of Fraud or Misrepresentation
2 Part-Time (Secondary) or Seasonal Employment					
3 Overtime and Bonus	HUD Policy References				
4 Self-Employment	• Underwriting with an Automated Underwriting System: Handbook 4000.1 Section II.A.4.a				
5 Retirement- Pension, IRA/401(k), or SSI	• Final Underwriting Decision (TOTAL): Handbook 4000.1 Section II.A.4.e				
6 Rental Income from Subject Property	• Income Requirements (TOTAL): Handbook 4000.1 Section II.A.4.c				
7 Disability from SSA, VA, or Public/Private Source	• Income Requirements (Manual): Handbook 4000.1 Section II.A.5.b				
8 Commission	• Final Underwriting Decision (Manual): Handbook 4000.1 Section II.A.5.d				
9 Rental Income from Other Real Estate	• ML 2016-10: HECM Financial Assessment and Property Charge Requirements, Chapter 3, Cash Flow/Residual Income Analysis and Chapter 4, Extenuating Circumstances and Compensating Factors				
10 Other Income Source	*References are subject to change and may not be all-inclusive.				

The second page displays severity tier descriptions and potential remedies for each tier.

Severity Tiers	Remedies
1 <ul style="list-style-type: none"> Evidence of fraudulent or materially misrepresented information about which the lender knew or should have known. 	Unacceptable <ul style="list-style-type: none"> Life-of-Loan Indemnification Documentation of compliance at the time of underwriting OR Forward 5 Year Indemnification HECM Life-of-Loan Indemnification
2 <ul style="list-style-type: none"> FHA is unable to substantiate the minimum income necessary to support loan approval based on documentation in loan file. FHA is able to conclude that Borrower Income is unacceptable by FHA standards based on available information or file documentation. Effective Income not supported or miscalculated AND -Underwritten with TOTAL Scorecard: When corrected, TOTAL risk assessment is a "Refer" and loan does not meet Manual Underwriting guidelines. -Manually Underwritten - Referred/Downgraded: When corrected, debt ratios exceed max allowable for manually underwritten loans, or increase is not supported by sufficient compensating factors. 	
3 <ul style="list-style-type: none"> Required income documentation is out of compliance in some way, however, sufficient information exists to substantiate income necessary to approve the loan. Effective Income not supported or miscalculated AND -Underwritten with TOTAL Scorecard: When corrected, TOTAL risk assessment is a "Refer" but loan meets Manual Underwriting guidelines. -Manually Underwritten - Referred or Downgraded: When corrected, debt ratios do not exceed max allowable and increase is supported by sufficient compensating factors. 	Deficient <ul style="list-style-type: none"> No response required in LRS
4 <ul style="list-style-type: none"> Minor errors which have no impact on borrower's ability to repay. Underwritten with TOTAL Scorecard: Effective income was improperly calculated; when corrected, TOTAL risk assessment remains an "Accept" Evidence of fraudulent or materially misrepresented information about which the lender did not know and could not have known. 	

Underwriting Loan Review

Underwriting Defect Areas

Borrower Income (BI)	Source, documentation, and verification requirements for employment and non-employment sources of income used to qualify.
Borrower Credit (BC)	Requirements for documenting and evaluating credit reports, credit history, liabilities, and debts.
Loan to Value & Maximum Mortgage Amount (LM)	Allowable Mortgage Parameters for Purchase and Refinance transactions, including program and product-specific requirements that impact the maximum insurable loan amount.
Borrower Assets (BA)	Guidelines and source requirements for the borrower's Minimum Required Investment (MRI) and verification of other funds at underwriting.
Property Eligibility (PE)	Minimum property acceptability and eligibility standards for FHA insurance, including program and product-specific variations.
Property Appraisal (PA)	Appraiser requirements, acceptable reporting forms, valuation and reporting protocols, and property type-specific requirements that impact collateral.
Borrower Eligibility (BE)	General eligibility criteria for borrowers, including program and product-specific variations.
Mortgage Eligibility (ME)	Compliance standards for valid and enforceable FHA-insured Mortgages, including program and product-specific variations.
Lender Operations (LO)	Standard loan-level requirements for lender origination, processing, underwriting, closing, and pre/post endorsement, including data integrity.

Borrower Income (BI)

Sources		Causes				
		A	B	C	D	F
1	Salary or Hourly Wages from Primary Employment	Qualifying income amount not supported or not calculated according to policy	History, stability, and/or continuance not supported	Unacceptable source of income	Required documentation or verifications missing, illegible, or incomplete	Evidence of Fraud or Misrepresentation
2	Part-Time (Secondary) or Seasonal Employment					
3	Overtime and Bonus	<div style="background-color: #0070C0; color: white; padding: 5px; border-radius: 5px; margin-bottom: 10px;"> <h3 style="margin: 0;">HUD Policy References</h3> <ul style="list-style-type: none"> Underwriting with an Automated Underwriting System: Handbook 4000.1 Section II.A.4.a Final Underwriting Decision (TOTAL): Handbook 4000.1 Section II.A.4.e Income Requirements (TOTAL): Handbook 4000.1 Section II.A.4.c Income Requirements (Manual): Handbook 4000.1 Section II.A.5.b Final Underwriting Decision (Manual): Handbook 4000.1 Section II.A.5.d ML 2016-10: HECM Financial Assessment and Property Charge Requirements, Chapter 3, Cash Flow/Residual Income Analysis and Chapter 4, Extenuating Circumstances and Compensating Factors <p style="font-size: small; margin-top: 10px;">*References are subject to change and may not be all-inclusive.</p> </div>				
4	Self-Employment					
5	Retirement- Pension, IRA/401(k), or SSI					
6	Rental Income from Subject Property					
7	Disability from SSA, VA, or Public/Private Source					
8	Commission					
9	Rental Income from Other Real Estate					
10	Other Income Source					

Borrower Income (BI)

Severity Tiers

Remedies

Severity Tiers		Remedies	
1	<ul style="list-style-type: none"> Evidence of fraudulent or materially misrepresented information about which the lender knew or should have known. 	Unacceptable	<ul style="list-style-type: none"> Life-of-Loan Indemnification
2	<ul style="list-style-type: none"> FHA is unable to substantiate the minimum income necessary to support loan approval based on documentation in loan file. FHA is able to conclude that Borrower Income is unacceptable by FHA standards based on available information or file documentation. Effective Income not supported or miscalculated AND <ul style="list-style-type: none"> <i>-Underwritten with TOTAL Scorecard:</i> When corrected, TOTAL risk assessment is a "Refer" and loan does not meet Manual Underwriting guidelines. <i>-Manually Underwritten – Referred/Downgraded:</i> When corrected, debt ratios exceed max allowed for manually underwritten loans, or increase is not supported by sufficient compensating factors. 		<ul style="list-style-type: none"> Documentation of compliance at the time of underwriting <p style="text-align: center; font-weight: bold; font-size: 1.2em;">OR</p> <p><i>Forward</i></p> <ul style="list-style-type: none"> 5 Year Indemnification <p><i>HECM</i></p> <ul style="list-style-type: none"> Life-of-Loan Indemnification
3	<ul style="list-style-type: none"> Required income documentation is out of compliance in some way, however, sufficient information exists to substantiate income necessary to approve the loan. Effective Income not supported or miscalculated AND <ul style="list-style-type: none"> <i>-Underwritten with TOTAL Scorecard:</i> When corrected, TOTAL risk assessment is a "Refer" but loan meets Manual Underwriting guidelines. <i>-Manually Underwritten – Referred or Downgraded:</i> When corrected, debt ratios do not exceed max allowable and increase is supported by sufficient compensating factors. 	Deficient	<ul style="list-style-type: none"> No response required in LRS
4	<ul style="list-style-type: none"> Minor errors which have no impact on borrower's ability to repay. <i>Underwritten with TOTAL Scorecard:</i> Effective income was improperly calculated; when corrected, TOTAL risk assessment remains an "Accept" Evidence of fraudulent or materially misrepresented information about which the lender did not know and could not have known. 		

Borrower Credit (BC)

Sources		Causes				
		A	B	C	D	F
1	Credit Report and/or Non-Traditional Credit Verification	Required documentation missing, illegible, insufficient, and/or contains unresolved inaccuracies or issues	FHA standards not met – credit approval not supported/borrower ineligible	Amount of qualifying debt not supported, omitted, undisclosed, or not calculated according to policy	Other Policy Violation	Evidence of Fraud or Misrepresentation
2	Minimum Decision Credit Score					
3	Monthly Obligations – Liabilities and Debts					
4	Housing and/or Mortgage Payment History					
5	Non-Purchasing Spouse SSN, Credit Report, and/or Liabilities in Community Property State					
6	Bankruptcy, Foreclosure, Deed-in-Lieu, Short Sale, and/or Credit Counseling/Payment Plan					
7	Delinquent Federal Debt					
8	Collections, Charge-Offs, Accounts with Late Payment History, Judgements, and/or Disputed Derogatory Accounts					
9	FHA Maximum Debt Ratios and/or required Compensating Factors					
10	Other Credit or Liability Issue					

HUD Policy References

- General Borrower Eligibility Requirements: Handbook 4000.1 Section II.A.1.b.ii.(A)
- Underwriting with an Automated Underwriting System: Handbook 4000.1 Section II.A.4.a
- Final Underwriting Decision (TOTAL): Handbook 4000.1 Section II.A.4.e
- Final Underwriting Decision (Manual): Handbook 4000.1 Section II.A.5.d
- Credit Requirements (TOTAL): Handbook 4000.1 Section II.A.4.b
- Credit Requirements (Manual): Handbook 4000.1 Section II.A.5.a
- ML 2016-10: HECM Financial Assessment and Property Charge Requirements, Chapter 2, Credit History and Property Charge Payment History Analysis; and Chapter 4, Extenuating Circumstances and Compensating Factors

*References are subject to change and may not be all-inclusive.

Borrower Credit (BC)

Severity Tiers

Remedies

Severity Tiers			Remedies
1	<ul style="list-style-type: none"> Evidence of fraudulent or materially misrepresented information about which the lender knew or should have known. 	Unacceptable	<ul style="list-style-type: none"> Life-of-Loan Indemnification
2	<ul style="list-style-type: none"> FHA is unable to determine acceptability, eligibility, underwriting compliance, and/or cannot calculate DTI based on loan file documentation. FHA is able to conclude that Borrower Credit is unacceptable by FHA standards based on available information or file documentation. Amount of qualifying debt not supported, omitted, or miscalculated AND <ul style="list-style-type: none"> <i>-Underwritten with TOTAL Scorecard:</i> When corrected, TOTAL risk assessment is a "Refer" and loan does not meet Manual Underwriting guidelines. <i>-Manually Underwritten – Referred/Downgraded:</i> When corrected, debt ratios exceed max allowed for manually underwritten loans, or increase is not supported by sufficient compensating factors. 		<p style="text-align: center;">OR</p> <p><i>Forward</i></p> <ul style="list-style-type: none"> 5 Year Indemnification <p><i>HECM</i></p> <ul style="list-style-type: none"> Life-of-Loan Indemnification
3	<ul style="list-style-type: none"> Required credit documentation is out of compliance in some way, however, sufficient documentation or information exists to substantiate loan approval. Amount of qualifying debt not supported, omitted, miscalculated AND <ul style="list-style-type: none"> <i>-Underwritten with TOTAL Scorecard:</i> When corrected, TOTAL risk assessment is a "Refer" but loan meets Manual Underwriting guidelines. <i>-Manually Underwritten – Referred or Downgraded:</i> When corrected, debt ratios do not exceed max allowable and increase is supported by sufficient compensating factors. 	Deficient	<ul style="list-style-type: none"> No response required in LRS
4	<ul style="list-style-type: none"> Minor errors/inconsistencies which have no impact on borrower's ability to repay. <i>Underwritten with TOTAL Scorecard:</i> Qualifying debt/ratios were improperly calculated; TOTAL risk assessment remains an "Accept" when corrected. Evidence of fraudulent or materially misrepresented information about which the lender did not know and could not have known. 		

Loan to Value and Maximum Mortgage Amount (LM)

Sources		Causes					
		A	B	C	D	E	F
1	Purchase	Required documentation missing, illegible, or insufficient	Maximum Mortgage Amount improperly calculated or over-insured	LTV/CLTV Limit Violation	Principal Limit, Max Claim Amount, & Life Expectancy Set-Aside violation	Minimum Required Investment not met	Evidence of Fraud or Misrepresentation
2	Rate/Term or Simple Refinance						
3	Streamline Refinance						
4	Cash-Out Refinance						

HUD Policy References

5	HECM	<ul style="list-style-type: none"> • Maximum Mortgage Amounts: Handbook 4000.1 Section II.A.2.a • Loan-to-Value Limits: Handbook 4000.1 Section II.A.2.b • Required Investment: Handbook 4000.1 Section II.A.2.c • Interested Party Contributions (TOTAL): Handbook 4000.1 Section II.A.4.d.iii.(G) • Interested Party Contributions (Manual): Handbook 4000.1 Section II.A.5.c.iii.(G) • Inducements to Purchase (TOTAL): Handbook 4000.1 Section II.A.4.d.iii.(H) • Inducements to Purchase Manual): Handbook 4000.1 Section II.A.5.c.iii.(H) • Programs and Products: Handbook 4000.1 Section II.A.8 • HECM Handbook 4235.1; ML 2016-10: HECM Financial Assessment and Property Charge Guide, Chapter 1 and Chapter 5
6	203(k)	
7	New Construction – Proposed, Under Construction, or Existing <1 Year	
8	Build-on-Own Land or Construction to Permanent	
9	HUD REO	
10	Other Program/ Product or Property Type Violation	

*References are subject to change and may not be all-inclusive.

Loan to Value and Maximum Mortgage Amount (LM)

Severity Tiers

Remedies

Severity Tiers			Remedies
1	<ul style="list-style-type: none"> Evidence of fraudulent or materially misrepresented information about which the lender knew or should have known. 	Unacceptable	<ul style="list-style-type: none"> Life-of-Loan Indemnification
2	<ul style="list-style-type: none"> FHA is unable to determine compliance with applicable policies for maximum mortgage amount and/or LTV/CLTV requirements (or HECM Principal Limit/Maximum Claim Amount) based on available information and loan file documentation. FHA is able to conclude that the maximum mortgage amount and/or LTV (or HECM Principal Limit/Maximum Claim Amount) exceeds allowable limits or was not calculated according to applicable FHA policies and the loan is over-insured as a result. The borrower did not make the full Minimum Required Investment (MRI) at closing in compliance with statutory requirements. 		<ul style="list-style-type: none"> Documentation of compliance at the time of endorsement <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> Principal Reduction <i>Allowed for all Tier 2 violations EXCEPT</i> <ul style="list-style-type: none"> Loan amount/combined total exceeds Statutory National Loan Limit Purchase where MRI was not met AND shortage was greater than 5% of MRI HECM <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> Life-of-Loan Indemnification
3	<ul style="list-style-type: none"> Violations exist; however, FHA is able to conclude that the mortgage amount and/or LTV (or HECM Principal Limit/Maximum Claim Amount) does not exceed allowable limits and the loan is not over-insured. According to documentation in the loan file, the lender identified a violation or error in the maximum mortgage amount or LTV post-endorsement and made an appropriate principal reduction prior to loan review. 	Deficient	<ul style="list-style-type: none"> No response required in LRS
4	<ul style="list-style-type: none"> Evidence of fraudulent or materially misrepresented information about which the lender did not know and could not have known. 		

Borrower Assets (BA)

Sources		Causes				
		A	B	C	D	F
1	Checking/Savings Accounts	Asset not sourced, input improperly, or required documentation missing, illegible, or insufficient	Minimum Required Investment (MRI) amount not verified at underwriting or from an unacceptable source	Required Cash to Close (non-MRI) not verified at underwriting or from an unacceptable source	Required/input amount of Reserves or Funds to Payoff Debts not supported	Evidence of Fraud or Misrepresentation
2	Gifts					
3	Secondary Financing					
4	Earnest Money or Other Deposits on sale					
5	Large Deposits					
<h3>HUD Policy References</h3> <ul style="list-style-type: none"> • Underwriting with an Automated Underwriting System: Handbook 4000.1 Section II.A.4.a • Asset Requirements (TOTAL): Handbook 4000.1 Section II.A.4.d • Asset Requirements (Manual): Handbook 4000.1 Section II.A.5.c • Final Underwriting Decision (TOTAL): Handbook 4000.1 Section II.A.4.e • Final Underwriting Decision (Manual): Handbook 4000.1 Section II.A.5.d • ML 2009-11: Final HECM for Purchase Program; ML 2016-10: HECM Financial Assessment and Property Charge Requirements, Chapter 3, Cash Flow/Residual Income 						
6	Collateralized Loans or Unsecured Borrowed Funds					
7	Retirement Accounts					
8	Sale of Personal Property					
9	Sale of Real Estate					
10	Other Asset Type					

*References are subject to change and may not be all-inclusive.

Borrower Assets (BA)

Severity Tiers

Remedies

1

- Evidence of fraudulent or materially misrepresented information about which the lender **knew or should have known**.

2

- The amount of the borrower's full MRI and/or Cash to Close (non-MRI) was not fully **verified at the time of underwriting**; and/or
- Funds to payoff debts, reserves required for 3-4 unit properties and Manually Underwritten loans, or funds supporting the amount entered to TOTAL were not verified at the time of underwriting; **AND**
- FHA determines the borrower **was not likely** to accumulate sufficient funds by the closing date, there is a strong indication the funds were from an unacceptable source, and/or the borrower would not have otherwise qualified.

Unacceptable

- Life-of-Loan Indemnification
- OR**
- Forward*
- 5 Year Indemnification
- HECM*
- Life-of-Loan Indemnification

3

- The amount of the borrower's full MRI and/or Cash to Close (non-MRI) was not fully **verified at the time of underwriting**; and/or
- Funds to payoff debts, reserves required for 3-4 unit properties and Manually Underwritten loans, or funds supporting the amount entered to TOTAL were not verified at the time of underwriting; **BUT**
- FHA determines that the borrower **was likely** to have accumulated sufficient funds from an acceptable source by the closing date, or would have otherwise qualified.

4

- Errors/inconsistencies exist which have no impact on qualification; or Assets used for reserves were not supported or improperly input to TOTAL, but when reduced, the TOTAL risk assessment remains an "Accept"
- Evidence of fraudulent or materially misrepresented information about which the lender **did not know and could not have known**.

Deficient

- No response required

Property Eligibility (PE)

Sources		Causes				
		A	B	C	D	F
1	Property Acceptability and/or Eligibility	Missing, illegible, or incomplete documentation to support acceptability or eligibility	Unallowable Property Type, Use, and/or Zoning	Repairs or Rehabilitation not complete and/or inspections not properly documented	Restrictions on Resales/Flipping and/or owner of record requirements not met	Evidence of Fraud or Misrepresentation
2	Minimum Property Requirements / Minimum Property Standards					
3	Flood Certification and/or Special Flood Hazard Area Requirements					
4	Manufactured Housing					
5	Legal Restrictions on Conveyance (Free Assumability)					
6	Property Ownership and/or Transfer History					
7	Condo – Project Approval or Loan Level Certifications					
8	Program & Product Specific Property Eligibility Requirements					
9	Presidentially Declared Major Disaster Area Requirements					
10	Other Property Eligibility Issues					

HUD Policy References

- Property Eligibility and Acceptability Criteria: Handbook 4000.1 Section II.A.1.b.iv
- Property Acceptability Criteria: Handbook 4000.1 Section II.A.3.a,
- Legal Restrictions on Conveyance (Free Assumability): Handbook 4000.1 Section II.A.1.b.v
- Appraiser and Property Requirements for Title II Forward and Reverse Mortgages: Handbook 4000.1 Section II.D,
- Mortgage Closing Requirements: Handbook 4000.1 Section II.A.6.a.
- Inspection and Repair Escrow Requirements for Mortgages Pending Closing or Endorsement in Presidentially-Declared Major Disaster Areas: Handbook 4000.1 Section II.A.7.c
- Programs and Products: Handbook 4000.1 Section II.A.8
- HECM Handbook 4235.1: Chapter 3, Property Analysis

*References are subject to change and may not be all-inclusive.

Property Eligibility (PE)

Severity Tiers

Remedies

1

- Evidence of fraudulent or materially misrepresented information about which the lender **knew or should have known**.

- Life-of-Loan Indemnification

2

- FHA is unable to determine acceptability, eligibility, or compliance with applicable policies for Property Eligibility due to absence of required documentation.
- FHA is able to conclude that the property did not meet Property Eligibility requirements based on documentation in the loan file.

Unacceptable

- Documentation of compliance at the time of underwriting

OR

- Life-of-Loan Indemnification

3

- Compliance errors, inconsistencies, or missing information identified within the Property Eligibility documentation, but FHA is able to conclude that the property is eligible.

Deficient

- No response required

4

- Evidence of fraudulent or materially misrepresented information about which the lender **did not know and could not have known**.

Property Appraisal (PA)

Sources		Causes				
		A	B	C	D	F
1	Appraiser	Form(s) missing, expired, invalid, illegible, contains errors, or incorrect form used	Valuation & Reporting Protocols not met (Appraiser Responsibilities)	Appraised Value is not supported	Other Policy Violation	Evidence of Fraud or Misrepresentation
2	Appraisal Report – including all required forms/exhibits/addendums					
3	Comparable Sales	<div style="background-color: #0070C0; color: white; padding: 5px; border-radius: 5px;"> <h3>HUD Policy References</h3> <ul style="list-style-type: none"> Appraiser and Property Requirements for Title II Forward and Reverse Mortgages: Handbook 4000.1 Section II.D Programs and Products: Handbook 4000.1 Section II.A.8 HECM Handbook 4235.1: Chapter 3, Property Analysis </div>				
4	New Construction Documentation					
5	Second Appraisal					
6	Appraisal Update					
7	Other Appraisal, Collateral, or Valuation Issue					

*References are subject to change and may not be all-inclusive.

Property Appraisal (PA)

Severity Tiers

Remedies

Severity Tiers		Remedies	
1	<ul style="list-style-type: none"> Evidence of fraudulent or materially misrepresented information about which the lender knew or should have known. 	Unacceptable	<ul style="list-style-type: none"> Life-of-Loan Indemnification
2	<ul style="list-style-type: none"> FHA is unable to determine appraiser and/or underwriter compliance with applicable policies for the appraisal, collateral valuation, or property acceptability due to absence of valid documentation. FHA is able to conclude that the property was not appraised and/or underwritten in compliance with applicable policies and the appraised value is not supported or the property is not acceptable as a result. Documentation required for specific property types, programs/products, or by construction status was not obtained to support FHA max insurable loan amount. 		<ul style="list-style-type: none"> Documentation of compliance at the time of underwriting <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> Life-of-Loan Indemnification
3	<ul style="list-style-type: none"> Compliance errors, inconsistencies, or missing information identified within the Property Appraisal documentation, but FHA is able to conclude that there is no impact on the valuation or property acceptability. 	Deficient	<ul style="list-style-type: none"> No response required
4	<ul style="list-style-type: none"> Evidence of fraudulent or materially misrepresented information about which the lender did not know and could not have known. 		

Borrower Eligibility (BE)

Sources		Causes				
		A	B	C	D	F
1	Borrower SSN and/or Identity	Documentation of eligibility missing, illegible, improperly documented, or not validated	Ownership and/or Occupancy Requirements not met	Borrower is ineligible for FHA insurance	Other Policy Violation	Evidence of Fraud or Misrepresentation
2	Borrower citizenship, lawful residency status, or Employment Authorization Document (EAD)					

HUD Policy References

3	Borrower Age Restrictions
4	Borrower has another property already under HECM rule
5	Program/Product Specific Borrower Eligibility Requirement
6	Borrower on Exclusionary List(s)
7	Multiple FHA Loans/Exceptions
8	Non-owner Occupant or Co-Signer
9	General Borrower Eligibility

- General Borrower Insurance Eligibility: Handbook 4000.1 Section II.A.1.b.ii(A)
- Occupancy Types: Handbook 4000.1 Section II.A.1.b.iii
- Programs and Products: Handbook 4000.1 Section II.A.8
- HECM Handbook 4235.1: Chapter 1, General Information
- HECM Handbook: Chapter 2, Borrower Counseling

*References are subject to change and may not be all-inclusive.

Borrower Eligibility (BE)

Severity Tiers			Remedies
1	<ul style="list-style-type: none"> Evidence of fraudulent or materially misrepresented information about which the lender knew or should have known. 	Unacceptable	<ul style="list-style-type: none"> Life-of-Loan Indemnification
2	<ul style="list-style-type: none"> FHA is unable to determine acceptability, eligibility, or compliance with applicable borrower-specific eligibility policies due to absence of required documentation, authorizations, and/or validations. FHA is able to conclude that borrower(s) are ineligible based on loan file documentation or other available information. Borrower ownership and/or occupancy requirements, including program and policy specific policies, were not met. 		<ul style="list-style-type: none"> Documentation of compliance at the time of underwriting <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> Life-of-Loan Indemnification
3	<ul style="list-style-type: none"> Compliance errors, inconsistencies, or missing information identified within the documentation, but FHA is able to conclude that the borrower was eligible based on other loan file documentation or validating information. 	Deficient	<ul style="list-style-type: none"> No response required
4	<ul style="list-style-type: none"> Evidence of fraudulent or materially misrepresented information about which the lender did not know and could not have known. 		

Mortgage Eligibility (ME)

Sources		Causes			
		A	B	C	F
1	Mortgage Term	Acceptability/Eligibility not supported – documentation missing, illegible, improperly completed/incomplete, or incorrect form used	Improper Application of FHA Policy	Other Mortgage Eligibility Issue	Evidence of Fraud or Misrepresentation
2	Mortgage Insurance Premiums				
3	Program & Product Specific Requirements	HUD Policy References			
4	Mortgage Purpose	<ul style="list-style-type: none"> • General Mortgage Insurance Eligibility: Handbook 4000.1 Section II.A.1.b 			
5	Concerns with Title Conditions or Valid First Lien position	<ul style="list-style-type: none"> • Valid First Liens: Handbook 4000.1 Section II.A.1.b.ii(A)(13) • Maximum Mortgage Term: Handbook 4000.1 Section II.A.2.d 			
6	Additional requirements for Non-Profits, Government Agencies, Living Trusts, or Power of Attorney	<ul style="list-style-type: none"> • Mortgage Insurance Premiums: Handbook 4000.1 Section II.A.2.e • Closing Requirements: Handbook 4000.1 Section II.A.6 • Programs and Products: Handbook 4000.1 Section II.A.8 			
7	Mortgage, Note, Riders, or Allonges	<ul style="list-style-type: none"> • 203(k) Consultant Requirements: Handbook 4000.1 Section II.A.9 • HECM Handbook 4235.1: Chapter 1, General Information; Chapter 6, Closing and Endorsement; and Chapter 7, Payment of Mortgage Insurance Premiums 			

*References are subject to change and may not be all-inclusive.

Mortgage Eligibility (ME)

Severity Tiers

Remedies

Severity Tiers			Remedies
1	<ul style="list-style-type: none"> Evidence of fraudulent or materially misrepresented information about which the lender knew or should have known. 	Unacceptable	<ul style="list-style-type: none"> Life-of-Loan Indemnification
2	<ul style="list-style-type: none"> FHA is unable to determine mortgage acceptability or compliance with applicable policies due to absence of required documentation. FHA is able to conclude that the mortgage is not in compliance with applicable policies based on loan file documentation or other available information. Mortgage does not comply with the program/product specific requirements for which it was approved and would not have been eligible under any other FHA program/product. 		<ul style="list-style-type: none"> Documentation of compliance at the time of underwriting <p style="text-align: center;">OR</p> <p><i>Forward</i></p> <ul style="list-style-type: none"> 5 Year Indemnification <p><i>HECM</i></p> <ul style="list-style-type: none"> Life-of-Loan Indemnification
3	<ul style="list-style-type: none"> Compliance errors, inconsistencies, or missing information identified within the documentation, but FHA is able to conclude that the mortgage was eligible based on other loan file documentation or validating information. Mortgage does not comply with the program/product specific requirements for which it was approved but it would have been eligible under another FHA program/product. 	Deficient	<ul style="list-style-type: none"> No response required
4	<ul style="list-style-type: none"> Evidence of fraudulent or materially misrepresented information about which the lender did not know and could not have known. 		

Lender Operations (LO)

Sources		Causes				
		A	B	C	D	F
1	NMLS Registration Issues	Required documentation missing, illegible, improperly completed, or incorrect form used	Unallowable, undisclosed, or excess Closing Costs and/or Fees	Loan closed out of compliance with underwriting approval	Other Policy Violation	Evidence of Fraud or Misrepresentation
2	Loan Estimate(s), Closing Disclosure, and/or Certifications					
3	Escrow accounts not properly established					
4	Late Endorsement or Pre-Endorsement Delinquency					
5	Unresolved Data Integrity Issues					
6	Application & Underwriting Forms – URLA/1003, 92900a, 92800.5b, 92900LT					
7	Parties to the transaction are on Exclusionary List(s)					
8	TOTAL Scorecard/AUS Feedback Certificate					
9	Loan Review Case Binder Submission					
10	Other Lender Compliance Issue					

HUD Policy References

- Applications and Disclosures: Handbook 4000.1 Section II.A.1.a
- Underwriting the Property: Handbook 4000.1 Section II.A.3
- Appraiser and Property Requirements for Title II Forward and Reverse Mortgages: Handbook 4000.1 Section II.D
- Underwriting with an Automated Underwriting System: Handbook 4000.1 Section II.A.4.a
- Final Underwriting Decision (TOTAL): Handbook 4000.1 Section II.A.4.e
- Final Underwriting Decision (Manual): Handbook 4000.1 Section II.A.5.d
- Closing Requirements: Handbook 4000.1 Section II.A.6
- Post-Closing and Endorsement: Handbook 4000.1 Section II.A.7
- HECM Handbook 4235.1; ML 2016-10: HECM Financial Assessment and Property Charge Guide

*References are subject to change and may not be all-inclusive.

Lender Operations (LO)

Severity Tiers			Remedies
1	<ul style="list-style-type: none"> Evidence of fraudulent or materially misrepresented information about which the lender knew or should have known. 	Unacceptable	<ul style="list-style-type: none"> Life-of-Loan Indemnification
2	<ul style="list-style-type: none"> FHA is unable to determine loan-level compliance with operational policies and procedures due to absence of required information/documentation. FHA is able to conclude that the loan is uninsurable due to non-compliance with operational policies and procedures based on documentation in the loan file. 		<ul style="list-style-type: none"> Documentation of compliance <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> Refund to borrower/FHA/other (when policy does not specifically prohibit post-endorsement refunds) <p style="text-align: center;">OR</p> <p><i>Forward</i></p> <ul style="list-style-type: none"> 5 Year Indemnification <p><i>HECM</i></p> <ul style="list-style-type: none"> Life-of-Loan Indemnification
3	<ul style="list-style-type: none"> Compliance errors, inconsistencies, or missing information related to operational policies and procedures, but sufficient documentation/information exists to substantiate approval. 	Deficient	
4	<ul style="list-style-type: none"> Minor data integrity issues, errors, or inconsistencies exist which have no impact on TOTAL "Accept"/do not invalidate approval. Evidence of fraudulent or materially misrepresented information about which the lender did not know and could not have known. 		<ul style="list-style-type: none"> No response required

Servicing Loan Review

Servicing Defect Areas

General Servicing (GS)

Standard processing requirements for servicing current FHA-Insured Mortgages.

Delinquent Servicing (DS)

Specific protocol required for servicing delinquent FHA-Insured Mortgages.

Loss Mitigation (LS)

Eligibility, financial evaluation, review, and reporting requirements for loss mitigation, including program and product specific variations.

Foreclosure Processing (FC)

Standard processing requirements for end-to-end foreclosure actions.

General Servicing (GS)

Sources		Causes			
		A	B	C	F
1	Payment Application	Failure to complete required action	Failure to maintain records/reporting	Calculation errors	Evidence of Fraud or Misrepresentation
2	Escrow Analysis				
3	Adjustable Rate Mortgage Administration	<div style="background-color: #0070C0; color: white; padding: 5px; border-radius: 5px;"> HUD Policy References </div> <ul style="list-style-type: none"> Payment Application: Handbook 4000.1 Section III.A.1.e Escrow Analysis: Handbook 4000.1 Section III.A.1.g ARM Administration: Handbook 4000.1 Section III.A.3.a Assumption Processing: Handbook 4000.1 Section III.A.3.b 203(k) Transactions: Handbook 4000.1 Section II.8.a.xx 			
4	Assumption Processing				
5	203(k) Transaction				
6	Other				

*References are subject to change and may not be all-inclusive.

General Servicing (GS)

Severity Tiers

Remedies

1

- Evidence of fraudulent or materially misrepresented information about which **the lender knew or should have known.**

2

- FHA is unable to determine acceptability, eligibility, or compliance with applicable policies due to absence of required documentation.
- General servicing processes failed to comply with guidelines by a large degree based on tolerance determined by FHA.

Unacceptable

- Life-of-Loan Indemnification

- Documentation of compliance or recalculation of escrow analysis and adjustments
- Refund of erroneous fees

OR

- Life-of-Loan Indemnification *when*
 - Conveyance or non-conveyance claim has already been submitted
- OR**
 - FHA determines that a claim is likely based on delinquency/foreclosure status

3

- General servicing processes failed to comply with guidelines by a small degree based on tolerance determined by FHA.

4

- General servicing processing errors are present, but do not rise to the level of non-compliance with FHA guidelines.
- Evidence of fraudulent or materially misrepresented information about which the lender **did not know and could not have known.**

Deficient

- No response required

Default Servicing (DS)

Sources		Causes			
		A	B	C	F
1	Collection Communication	Failure to complete required action	Failure to maintain records/reporting	Calculation errors	Evidence of Fraud or Misrepresentation
2	Mortgagor Notices	<div style="background-color: #0070C0; color: white; padding: 5px; border-radius: 5px;"> HUD Policy References </div> <ul style="list-style-type: none"> Collection Communication: Handbook 4000.1 Section III.A.2.h.iii Mortgagor Notices: Handbook 4000.1 Section III.A.2.h. ix and x Face-to-Face Interview: Handbook 4000.1 Section III.A.2.h.xii Occupancy Inspections: Handbook 4000.1 Section III.A.2.h.xi Delinquency Reporting: Handbook 4000.1 Section III.A.2.h.ii 			
3	Face-to-Face Interview				
4	Occupancy Inspections				
5	Delinquency Reporting				
6	Other				

*References are subject to change and may not be all-inclusive.

Default Servicing (DS)

Severity Tiers

Remedies

1

- Evidence of fraudulent or materially misrepresented information about which **the lender knew or should have known.**

2

- FHA is unable to determine acceptability, eligibility, or compliance with applicable policies due to absence of required documentation.
- Delinquent servicing processes failed to comply with guidelines by a large degree based on tolerance determined by FHA.

3

- Delinquent servicing processes failed to comply with guidelines by a small degree based on tolerance determined by FHA.

4

- Delinquent servicing processing errors are present, but do not rise to the level of non-compliance with FHA guidelines.
- Evidence of fraudulent or materially misrepresented information about which the lender **did not know and could not have known.**

Unacceptable

Deficient

- Life-of-Loan Indemnification

- Documentation of compliance
- Refund of erroneous fees

OR

- Life-of-Loan Indemnification *when*
 - Conveyance or non-conveyance claim has already been submitted
- OR**
- FHA determines that a claim is likely based on delinquency/foreclosure status

- No response required

Loss Mitigation (LS)

Sources		Causes			
		A	B	C	F
1	Financial Evaluation	Failure to complete required action	Failure to maintain records/reporting	Calculation errors	Evidence of Fraud or Misrepresentation
2	Mortgagor Eligibility	<div style="background-color: #0070C0; color: white; padding: 5px; border-radius: 5px;"> HUD Policy References </div> <ul style="list-style-type: none"> Financial Evaluation: Handbook 4000.1 Section III.A.2.i and j Mortgagor Eligibility: Handbook 4000.1 Section III.A.2.k and l Property Eligibility: Handbook 4000.1 Section III.A.2.k and l Review: Handbook 4000.1 Section III.A.2.i Reporting: Handbook 4000.1 Section III.A.2.i.vii 			
3	Property Eligibility				
4	Review				
5	Reporting				
6	Other				

*References are subject to change and may not be all-inclusive.

Loss Mitigation (LS)

Severity Tiers

Remedies

1

- Evidence of fraudulent or materially misrepresented information about which **the lender knew or should have known.**

2

- FHA is unable to determine acceptability, eligibility, or compliance with applicable policies due to absence of required documentation.
- Loss Mitigation processes failed to comply with guidelines by a large degree based on tolerance determined by FHA.

Unacceptable

- Life-of-Loan Indemnification

- Documentation of compliance (includes suspension of foreclosure to complete loss mitigation re-evaluation)
- Refund of incentive fees or partial claim amounts

OR

- Life-of-Loan Indemnification *when*
 - Conveyance or non-conveyance claim has already been submitted
- OR
 - FHA determines that a claim is likely based on delinquency/foreclosure status

3

- Loss Mitigation processes failed to comply with guidelines by a small degree based on tolerance determined by FHA.

4

- Loss Mitigation processing errors are present, but do not rise to the level of non-compliance with FHA guidelines.
- Evidence of fraudulent or materially misrepresented information about which the lender **did not know and could not have known.**

Deficient

- No response required

Foreclosure Processing (FC)

Sources		Causes			
		A	B	C	F
1	Pre-initiation	Failure to complete required action	Failure to maintain records/reporting	Calculation errors	Evidence of Fraud or Misrepresentation

HUD Policy References

2	Management Review
3	Conduct of Foreclosure
4	Loss Mitigation During Foreclosure
5	Completion
6	Other

- Pre-Initiation: Handbook 4000.1 Section III.A.2.r.i
- Management Review: Handbook 4000.1 Section III.A.2.r.(F)
- Conduct of Foreclosure: Handbook 4000.1 Section III.A.2.r.ii
- Loss Mitigation During Foreclosure: Handbook 4000.1 Section III.A.2.r.ii.(C)
- Completion: Handbook 4000.1 Section III.A.2.r.ii

*References are subject to change and may not be all-inclusive.

Foreclosure Processing (FC)

Severity Tiers

Remedies

1

- Evidence of fraudulent or materially misrepresented information about which **the lender knew or should have known.**

2

- FHA is unable to determine acceptability, eligibility, or compliance with applicable policies due to absence of required documentation.
- Foreclosure processes failed to comply with guidelines by a large degree based on tolerance determined by FHA.

Unacceptable

- Life-of-Loan Indemnification

- Documentation of compliance
- Refund of erroneous fees
- Self-curtailment of interest and property expenses

OR

- Life-of-Loan Indemnification *when*
 - Conveyance or non-conveyance claim has already been submitted
- OR**
 - FHA determines that a claim is likely based on delinquency/foreclosure status

3

- Foreclosure processes failed to comply with guidelines by a small degree based on tolerance determined by FHA.

4

- Foreclosure processing errors are present, but do not rise to the level of non-compliance with FHA guidelines.
- Evidence of fraudulent or materially misrepresented information about which the lender **did not know and could not have known.**

Deficient

- No response required