Office of Lender Activities and Program Compliance

FHA Approval and Recertification Requirements

September 20, 2018

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Last Updated: September 20, 2018
Agenda

- Newly Approved Lenders
- Lender Recertification Process and Requirements
- Common Deficiencies
- Notice of Material Event
- Mortgagee Review Board Referral
Newly Approved Lenders
Audit Period
A Mortgagee’s audited financial statements must cover 12 months of operation. For companies operating for fewer than 12 months, the audited financial statements must cover all months of operation.

The end date of the audited financial statements must align with the applicant’s fiscal year end period at the time of application.

Adjusted Net Worth
The Mortgagee must have a minimum adjusted net worth of $1,000,000 plus one percent of the total volume in excess of $25,000,000 of FHA Single Family Mortgages originated, underwritten, serviced, and/or purchased during the prior fiscal year, up to a maximum required adjusted net worth of $2,500,000.

Liquidity
The Mortgagee must hold no less than 20 percent of its required adjusted net worth in liquid assets.
Before accessing HUD systems, lenders and auditors must obtain the necessary user IDs:

- **FHA-Approved Lender (Application Coordinator)** – grants or revokes roles/authorizations for the Lender Electronic Assessment Portal (LEAP) and other FHA Connection applications to all users associated with the institution.

- **FHA-Approved Lender (Standard User)** – has access rights to LEAP and other FHA Connection applications that must be granted by an Application Coordinator.

- **Auditor/Independent Public Accountant** – has an “Independent User” ID with specific access rights that must be granted by an Application Coordinator; may be authorized to access financials for multiple FHA-Approved Lenders (separate registration process).

LEAP USER Roles

Certifying Official:
Completes Certification Statements, submits recertification package

Recertification Data Entry:
Completes Lender Data Verification, Audit-Related Questions, Financial Data Template

Recertification Payment:
User can submit payment and complete extension requests

Authorization for Lender Electronic Assessment Portal Applications. Please Note: These roles apply to both Title I and Title II Lender IDs.

- Institution View Only
- Notice of Material Events
- Certifying Official
- Institution Data Entry
- Recertification Data Entry
- Branch Data Entry
- Recertification Payment
- Cash Flow Account Setup
When to Recertify

The period covered by the renewal audit cannot exceed 18 months

<table>
<thead>
<tr>
<th>Date of audited financial statements provided at approval</th>
<th>Fiscal Year End Month</th>
<th>Date of Approval</th>
<th>Next Financial Report Date (recertification due within 90 days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/2017</td>
<td>December</td>
<td>2/1/2019</td>
<td>12/31/2018</td>
</tr>
<tr>
<td>06/30/2018</td>
<td>December</td>
<td>11/30/2018</td>
<td>12/31/2019</td>
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</table>

Audited Financial Statements for the first recertification reporting period must cover the period from the date of the audit used for approval to the end of the current fiscal year end.
Lender Recertification Process and Requirements
# Lender Recertification Requirements

<table>
<thead>
<tr>
<th>Segment</th>
<th>Recertification Steps</th>
<th>Financial Reporting Requirements</th>
</tr>
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</table>
| **Small Supervised**     | □ Lender Data Verification  
□ Certification  
□ Financial Data Entry  
□ Payment  
□ Submit to HUD as Final | □ Signed Unaudited Regulatory Report                                                  |
| **(Total net assets less than $600 million)** |                                                                                         |                                                                                  |
| **Large Supervised**     | □ Lender Data Verification  
□ Certification  
□ Audit Related Questions  
□ Financial Data Entry  
□ Payment  
□ Submit to Independent Public Accountant for Review  
□ Submit to HUD as Final | □ Audited Financial Statements  
□ Signed Independent Auditor’s Report on Supplementary Info.  
□ Computation of Adjusted Net Worth  
□ Report on Internal Control  
□ Report on Compliance  
□ Unaudited Regulatory Report or Consolidated Schedules, if applicable |
| **Non-Supervised Lenders** |                                                                                         |                                                                                  |
| **Investing**            | □ Lender Data Verification  
□ Certification  
□ Financial Data Entry  
□ Payment  
□ Submit to HUD as Final |                                                                                   |
| **Government**           | □ Lender Data Verification  
□ Certification  
□ Submit to HUD as Final |                                                                                   |
Audit-Related Questions

Responses to Audit-Related Questions should be supported by the financial statements.
Audit-Related Questions (Common Errors)

• Small supervised lenders failing to include “SIGNED” call report.

• Audited consolidating schedules or call reports are not included when submitting consolidated financial statements.

• Omitting entire set of audited financial statements and other required reports.

• All required test areas are not listed in the Compliance Report.
Compliance Report Requirements

<table>
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<th>Areas Tested</th>
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<tr>
<td><strong>Title I and Title II Lenders</strong></td>
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<td>□ Quality Control Plan</td>
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<tr>
<td>□ Sponsor Responsibilities for Third Party Originators</td>
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<tr>
<td>□ Branch Office Operations</td>
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<tr>
<td>□ Loan Origination</td>
</tr>
<tr>
<td>□ Loan Servicing</td>
</tr>
<tr>
<td>□ Federal Financial and Activity Reports</td>
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<tr>
<td>□ Lender Annual Recertification</td>
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<td>□ Adjusted Net Worth</td>
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<tr>
<td>□ Liquidity</td>
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<tr>
<td>□ Licensing</td>
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<tr>
<td><strong>Title I</strong></td>
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<tr>
<td>□ Loan Disbursements</td>
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<tr>
<td>□ Eligible Fees and Charges</td>
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<tr>
<td><strong>Title II</strong></td>
</tr>
<tr>
<td>□ Loan Settlement</td>
</tr>
<tr>
<td>□ Escrow Accounts</td>
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<tr>
<td>□ Kickbacks</td>
</tr>
</tbody>
</table>
Lender Recertification Process

Financial Data Template

[Image of Financial Data Template from LEAP portal]
Common Financial Data Entry Errors

• Entering truncated numbers in the financial data template.
• Supervised lenders entering pledged assets in the financial data template.
• Supervised lenders failing to include total assets in the financial data template.
Lender Recertification Process

IPA Review

- If the IPA selects “Does Not Agree” to any procedure, LEAP sends the administrative contact an e-mail notifying the lender that the IPA did not attest to the submission.
Submit to HUD as Final

Submit Recertification Package as Final

By selecting “Submit”, I certify that to the best of my knowledge and belief, the information contained in this submission is accurate and complete for the specified period. This includes, but is not limited to: the Financial Data Entry items, Audit Related Questions (if applicable), Audited Financial Statements and Supplemental Information or unaudited regulatory report.

Select 'OK' to continue or 'Cancel' to return to the previous page.

Payment

Submit to HUD as Final
Rejected Recertification Packages

• If FHA rejects a recertification package the administrative contact will receive a **RECERTIFICATION REJECTION NOTICE** email.

• Lenders are required to complete a new financial data template.

• Non-Supervised, Large Supervised, or Investing lenders must complete the audit-related questions and resubmit recertification package to the Independent Public Accountant for attestation.
Common Deficiencies
• Adjusted net worth computation does not include total FHA activity.

• Adjusted net worth computation is based on financials of consolidated entity instead of the FHA approved entity.

• Adjusted net worth computation fails to exclude assets that are unacceptable in accordance with Handbook 2000.04, REV-2 Change 21, October 2016, Chapter 7, Sections 7-23.
Computation of Adjusted Net Worth

Title II Single Family Program Lenders’ Adjusted Net Worth Computation

FHA servicing portfolio* at (end of fiscal year under audit) _________ (a)
*HUD FHA-insured single-family mortgages only. Include HECMs at maximum claim amount.

FHA originations – FHA-insured Title II loan originations during the fiscal year _________ (b)

FHA purchases – FHA-insured Title II third-party originator purchases during the fiscal year _________ (c)

Total FHA loan activity [(d) = (a)+(b)+(c)] _________ (d)

FHA-insured Title II loan originations retained at the fiscal yearend _________ (e)

FHA-insured Title II third-party originator purchases retained at the end of fiscal year _________ (f)

Adjustments [(g) = (e)+(f)] _________ (g)

Total adjusted FHA loan activity [(h) = (d)-(g)] _________ (h)
Unacceptable Assets

- Pledged Assets (except supervised institutions)
- An asset due from an officer, stockholder, or related entity
- An investment in a related entity
- Any intangible asset
- Portion of marketable security in excess of lower of cost or market
- Any asset principally used for the personal enjoyment or benefit of an officer, director, or stockholder
- The portion of contributed property in excess of the value as of the date of the contribution (The value of contributed property must be reduced by any obligations)
Notice of Material Event
Notice of Material Event

A Notice of Material Event is the method of notifying FHA of a change to the information provided at approval, or a change that affects the lender’s FHA-approval status, and is submitted via LEAP.

- Bankruptcy
- Business Form Change
- Change In Partnership
- Change in Fidelity Bond or Errors & Omissions Insurance
- Lending License(s) Surrender
- Liquid Assets Deficiency
- Net Worth Deficiency
- Operating Loss
- Principal Activity Change
- Change of Principal Owners
- Supervision Change
- Unresolved Findings/Sanctions
Net Worth or Liquidity Deficiencies

• If at any time during the fiscal year the lender falls below the net worth or liquidity requirements
• Must report within 30 business days of the deficiency
• Must include evidence of actions taken to cure the deficiency
Operating Loss

• The lender experiences an operating loss of 20 percent or greater of its adjusted net worth within a quarter.
  — Submit financial statements every quarter until lender shows an operating profit for two consecutive quarters, or until lender submits financial reports as part of its annual recertification.
Mortgagee Review Board Referral
Common Mortgagee Review Board Referral Reasons

- Failure to maintain adjusted net worth during the fiscal year
- Failure to maintain liquidity requirements during the fiscal year
- Failure to timely submit acceptable financial statements
- Failure to notify HUD of an operating loss in excess of 20 percent of adjusted net worth
- Failure to meet principal activity
- Failure to submit Notice of Material Events timely
Helpful References

- FHA Connection user registration details:  https://entp.hud.gov/clas/reginfo.cfm


- The HUD-OIG Consolidated Audit Guide is available at: http://www.hudoig.gov/reports-publications/audit-guides/consolidated-audit-guides

# FHA Resource Center

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<th>Point of Contact</th>
<th>Hours Available</th>
<th>Comments</th>
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</thead>
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<tr>
<td>1. FHA Knowledge Base – FAQs</td>
<td><a href="http://www.hud.gov/answers">www.hud.gov/answers</a></td>
<td>24/7/365</td>
<td>Knowledge Base web page includes option to email questions.</td>
</tr>
<tr>
<td>2. Email</td>
<td><a href="mailto:answers@hud.gov">answers@hud.gov</a></td>
<td>24/7/365</td>
<td></td>
</tr>
<tr>
<td>3. Telephone</td>
<td>1-800-CALL-FHA (1-800-225-5342) Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.</td>
<td>8:00 AM to 8:00 PM Eastern M-F</td>
<td>Voicemail is available after hours or during extended wait periods.</td>
</tr>
</tbody>
</table>

*FHA INFO emails: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at: https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe*
Questions?
Thank You!

For joining us today