



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



**Welcome to...**  
Office of Lender Activities and Program Compliance  
**FHA Servicing Quality Assurance**

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.



**OFFICE OF SINGLE FAMILY HOUSING**



# Technical Support

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- Recommend Chrome browser.
- Technical issues? Review *Technology FAQs* by clicking **Chat** icon at bottom of screen or **Landing Page**.
- Need additional tech support? Click *Contact Tech Support* icon on **Chat** link or **Landing Page**.

# Questions and Answers

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- 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.
- Test Audio, if asking a question.
- Select one of the two Audio options:
  - Computer/Smartphone
  - Standard Telephone Line
- Send unanswered questions to FHA Resource Center.

# Contact FHA Resource Center

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- Online at: [www.hud.gov/answers](http://www.hud.gov/answers)
- Via email at: [answers@hud.gov](mailto: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

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- 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

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Click **Chat** icon or **Landing Page** – 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/FHAFAQ>
- Single Family Housing Archived Webinars (On Demand) page:  
[https://www.hud.gov/program\\_offices/housing/sfh/events/sfh\\_webinars](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 Servicing Quality Assurance**

April 19, 2023

Last Updated: 4/11/2023

Presented by:

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**Leah Lion**, Management & Program Analyst, Quality Assurance Division



OFFICE OF SINGLE FAMILY HOUSING



# Agenda

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**FHA Servicing Reviews**

**Servicer Quality Control**

**Self-Reporting to FHA**

**Resources**

**Q&A**





# FHA Servicing Reviews



# FHA Servicing Reviews

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- FHA Quality Assurance Divisions review servicers for compliance with all applicable requirements.
- 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 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 of or at the direction of the Holder. (III.A.1.b).

# Servicing Loan Review Volume

Selection Reason	CY22 Q1	CY22 Q2	CY22 Q3	CY22 Q4	# Completed	# Net Material	% Net Material
Lender Self-Reports	80	84	126	221	511	48	9.4%
Lender Monitoring	83	46	77	88	294	27	9.2%
OIG Audit	0	2	9	19	30	4	13.3%
Review Location Quality Control (QC)	1	1	0	5	7	0	0.0%
FHA Manual Selections	3	1	0	1	5	0	0.0%
<b>Total</b>	<b>167</b>	<b>134</b>	<b>212</b>	<b>334</b>	<b>847</b>	<b>79</b>	<b>9.3%</b>

*Loan Review System (LRS) reviews completed from 1/1/2022 to 12/31/2022*



# Top Servicing Findings

Defect Area	% of Findings
Loss Mitigation	58.8%
Delinquent & Default Servicing	32.5%
General Servicing	6.5%
Foreclosure Processing	2.2%

- Data represents servicing findings in LRS reviews completed from 1/1/2022 to 12/31/2022.
- Percentages based on the total number of 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"> <li>→ Stage of loss mitigation review was not reported to FHA using the accurate <i>Delinquency Workout Status Code</i>.</li> <li>→ Servicer initiated foreclosure but did not ensure complete or accurate reporting of <i>Ineligible for Loss Mitigation Code</i>.</li> </ul>
Loss Mitigation Waterfall Options	Unallowable or improperly calculated amounts	<ul style="list-style-type: none"> <li>→ Servicer did not complete review of loss mitigation request to determine whether the borrower qualified for a Loss Mitigation Option as required.</li> <li>→ 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.</li> </ul>
Financial Evaluation	Issues with required documentation	<ul style="list-style-type: none"> <li>→ Determination of eligibility for Home Retention or Home Disposition Option is not supported based on documents retained in the servicing file.</li> <li>→ Borrower was not properly evaluated for loss mitigation in accordance with Presidentially-Declared/COVID-19/National Emergency specific provisions.</li> </ul>

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



# 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*

# Servicing Remedies

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## Purpose

- Mitigate risk to FHA and, to the extent possible, put borrowers in the position they would have been in if no servicing violation had occurred.

## Types

- *Mitigating Documentation* to support compliance or the completion of corrective actions
- *Financial Remediation* to correct specific monetary errors
- *Indemnification* to protect FHA against any actual net loss

# Servicing Remedies (cont.)

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## Financial Remediation

- *Refund* to reimburse unallowable or erroneous charges, fees, or costs to the affected party.
- *Principal Reduction* applied to the unpaid principal balance of the loan. For delinquent/defaulted loans, funds may be applied to the borrower's suspense account.
- *Account Adjustment* applied to the borrower's loan, escrow, or suspense account in the amount necessary to bring the account into compliance with HUD policy.
- *Remittance* of improperly paid claims and/or loss mitigation incentives to HUD.

# Servicing Remedies (cont.)

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## Partial Claim Reimbursements

- *Why?*
  - Miscalculations resulting in overpayment to the servicer.
  - Inclusion of unallowable expenses.
  - Other violations of FHA policy that make the Partial Claim invalid.
- *How Much?*
  - Overpaid amount.
  - Full amount.
- *How?*
  - National Servicing Center.
  - HUD's Loan Servicing Contractor.

# Servicer Quality Control

# Servicer Quality Control

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## 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 (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 (V.A.3)
  - Must include loans originated, underwritten and/or serviced by the Mortgagee and its Affiliates.

# Servicer Quality Control (cont.)

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## 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 (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.



# Servicer Quality Control (cont.)

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## 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 (ML), including ML 2023-03.

# Self-Reporting to FHA

# Self-Reporting to FHA

- Servicers must self-report in accordance with, *Single Family Housing Policy Handbook* 4000.1 V.A.2.d.iv.

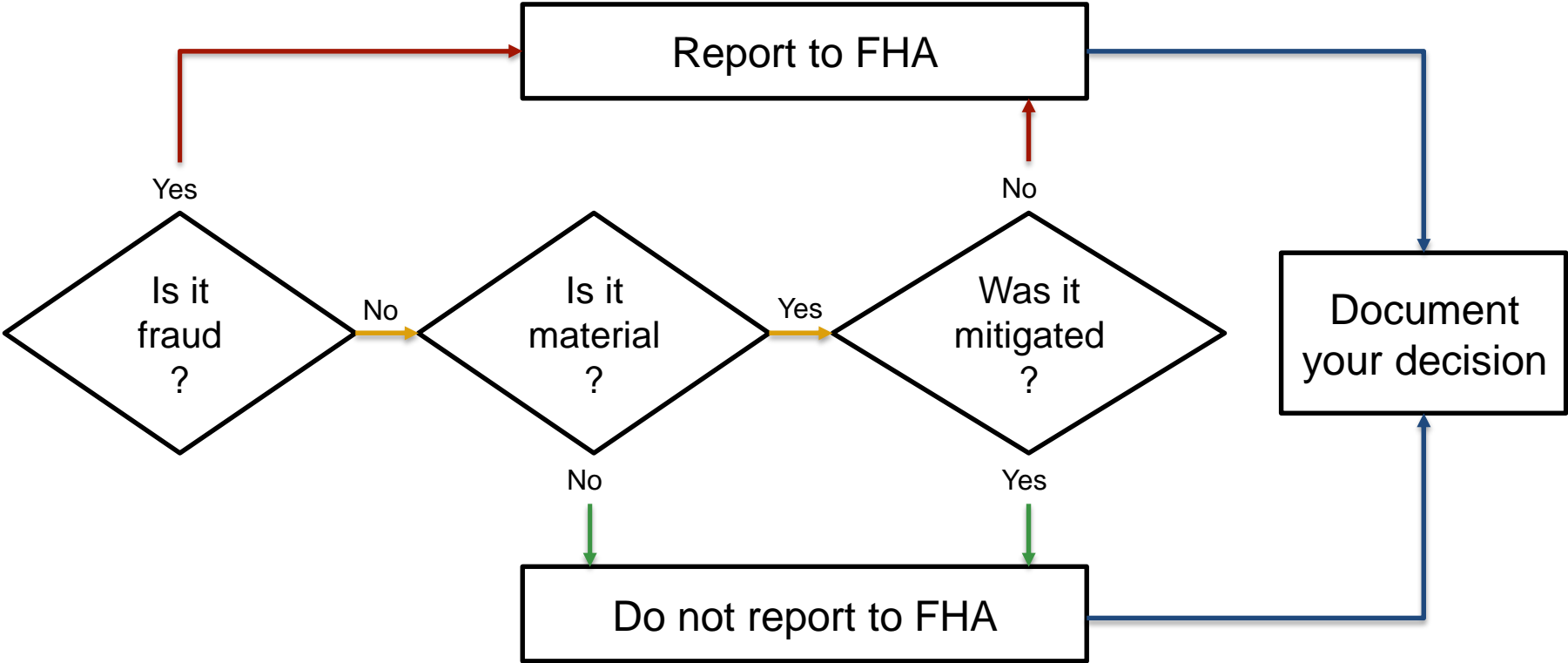
What to report	When to report it
All Findings of fraud and material misrepresentation	Immediately
Any Material Findings that you are unable to mitigate	No later than 90 Days after the completion of the initial Findings report

# Self-Reporting to FHA (cont.)

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- Before reporting, ask these questions:
  - Is it fraud?
  - Is the finding material?
  - Was it mitigated within the required timeframe?
- Document your decisions.
- When reporting, be prepared for indemnification or other remedy.

# Self-Reporting to FHA (cont.)



# Self-Reporting to FHA (cont.)

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- Fraud and material misrepresentation categories:
  - Tier 1: Servicer knew or should have known.
  - Tier 4: Servicer did not know and could not have known.
- FHA determines if the servicer knew or should have known based on whether:
  - An employee of the servicer was involved *and/or*
  - Red flags in the loan file should have been questioned by the servicer.
- Both categories are referred to HUD's Office of the Inspector General (OIG).

# Self-Reporting to FHA (cont.)

- Choose the appropriate Review Type:
  - Only use *Underwriting* for issues that occurred at loan origination.
  - Use *Servicing* for any issues related to servicing or loss mitigation.

The screenshot shows the 'Create Self-Report' interface in the LRS system. The top navigation bar includes '★ LRS', 'Active Reviews', 'Search', 'Binder Request', 'Create Self-Report' (highlighted), 'Completed Reviews', and 'Reports'. The main content area has two tabs: '1) Add Case(s) to Self-Report' and '2) Add Case Details:'. Under the first tab, there is a 'Review Type' dropdown menu with a red asterisk indicating it is required. The dropdown is open, showing options: 'Select' (highlighted), 'Underwriting', and 'Servicing'. Below the dropdown is an 'Add' button. At the bottom right of the form, there are 'Clear' and 'Next Step' buttons.



# Self-Reporting to FHA (cont.)

- Submit cases in bulk if reporting them for the same issue.
  - FHA will request case-specific details if necessary.

★LRS

Active Reviews

Search

Binder Request

Create Self-Report

Completed Reviews

Reports

1) Add Case(s) to Self-Report

2) Add Case Details:

Review Type \*

Underwriting

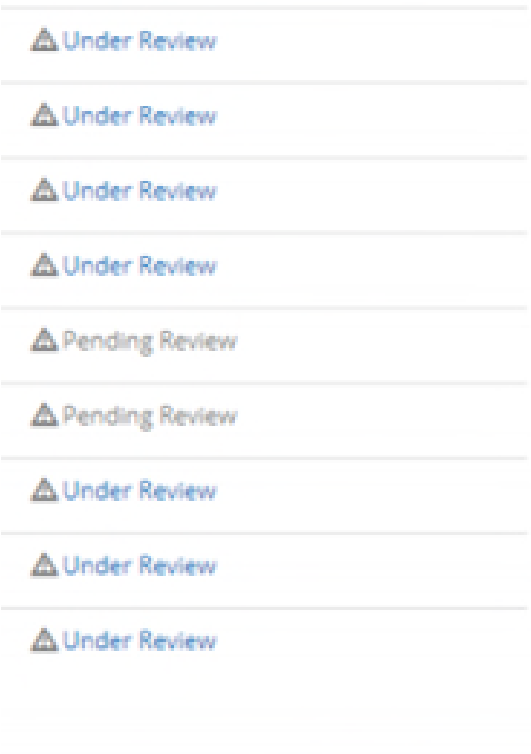
Enter Case Number(s)

Add

	Case #	Borrower Name	Property Address	Errors/Warnings
				Pending Review
				Pending Review

# Self-Reporting to FHA (cont.)

- LRS error message *Case Not Found* means the case number is invalid or the case is not endorsed.
  - Reporting to FHA is not required.
- *Under Review* or *Pending Review* means there is an active review in LRS.
  - Submit the case number and findings to the FHA Resource Center.
  - Periodically re-check and attempt to submit the self-report in LRS.



The screenshot displays a vertical list of cases. Each case entry consists of a small triangle icon followed by a status label. The statuses shown are 'Under Review' (appearing five times) and 'Pending Review' (appearing twice). At the bottom of the list, there are two buttons: a light blue 'Clear' button and a dark blue 'Next Step' button.

Status
Under Review
Under Review
Under Review
Under Review
Pending Review
Pending Review
Under Review
Under Review
Under Review

Clear Next Step

# Self-Reporting to FHA (cont.)

- Enter details and submit.

The screenshot shows the 'Create Self-Report' form in the LRS system. The top navigation bar includes '★LRS', 'Active Reviews', 'Search', 'Binder Request', 'Create Self-Report' (highlighted), 'Completed Reviews', and 'Reports'. The form is divided into two main sections: '1) Add Case(s) to Self-Report' and '2) Add Case Details: 2 Cases Selected'. Under '2) Add Case Details', there are two main areas: 'DEFECT AREAS' and 'FRAUD'. The 'DEFECT AREAS' section contains a list of checkboxes for various defect types: Borrower Income (BI), Borrower Credit/Liabilities (BC), LTV/Max Mortgage Amount (LM), Borrower Assets (BA), Property Eligibility (PE), Property Appraisal (PA), Borrower Eligibility/Qualification (BE), Mortgage Eligibility (ME), and Lender Operations (LO). The 'FRAUD' section includes a checkbox for 'Fraud has been detected for selected cases(s)', a 'Types of Fraud' dropdown menu (showing 'Dual Transa...' and 'Employment'), a 'Fraud Participants' dropdown menu (showing 'Select', 'Appraiser', and 'Borrower'), and a checkbox for 'Loan Covered Under Settlement with HUD'. The 'FINDINGS AND CORRECTIVE ACTIONS' section contains two text input fields: 'Describe the findings that led to this Self-Report:' and 'Describe any corrective actions that have been taken:'. Both fields contain sample text. At the bottom right, there are 'Clear' and 'Submit' buttons.

★LRS Active Reviews Search Binder Request **Create Self-Report** Completed Reviews Reports

1) Add Case(s) to Self-Report 2) Add Case Details: 2 Cases Selected

**DEFECT AREAS**

- ☒ Borrower Income (BI)
- ☒ Borrower Credit/Liabilities (BC)
- ☒ LTV/Max Mortgage Amount (LM)
- ☒ Borrower Assets (BA)
- ☒ Property Eligibility (PE)
- ☐ Property Appraisal (PA)
- ☐ Borrower Eligibility/Qualification (BE)
- ☐ Mortgage Eligibility (ME)
- ☐ Lender Operations (LO)

**FRAUD**

- ☒ Fraud has been detected for selected cases(s)

Types of Fraud

✖ Dual Transa... ✖ Employment

Fraud Participants

Select

Appraiser

Borrower

**FINDINGS AND CORRECTIVE ACTIONS**

Describe the findings that led to this Self-Report:

This is sample text where a Lender could describe any findings that led to the Self-Report.

Describe any corrective actions that have been taken:

This is sample text where a Lender could describe any corrective actions that led to the Self-Report.

☒ Loan Covered Under Settlement with HUD

Clear Submit

# Self-Reporting to FHA (cont.)

- LRS automatically directs the review to the current servicer of record.
- FHA may take any of the following actions:
  - Close the review based on information provided.
  - Reach out directly for servicing-related documentation.
  - Refer the issue to HUD's Office of Inspector General.

The screenshot displays the 'Create Self-Report' interface in the LRS system. The top navigation bar includes '★ LRS', 'Active Reviews', 'Search', 'Binder Request', 'Create Self-Report' (highlighted), 'Completed Reviews', and 'Reports'. Below the navigation bar, the main content area shows two steps: '1) Add Case(s) to Self-Report' and '2) Add Case Details: 2 Cases Selected'. A 'DEFECT AREAS' section on the left lists various categories with checkboxes: Borrower Income (BI), Borrower Credit/Liabilities (BC), LTV/Max Mortgage Amount (LM), Borrower Assets (BA), Property Eligibility (PE), Property Appraisal (PA), Borrower Eligibility/Qualification (BE), Mortgage Eligibility (ME), and Lender Operations (LO). A blue 'SUBMISSION SUCCESSFUL' dialog box is centered on the screen, containing the text 'The selected cases have been submitted for review.' and an 'OK' button. The background of the dialog box is semi-transparent, showing the underlying interface elements.

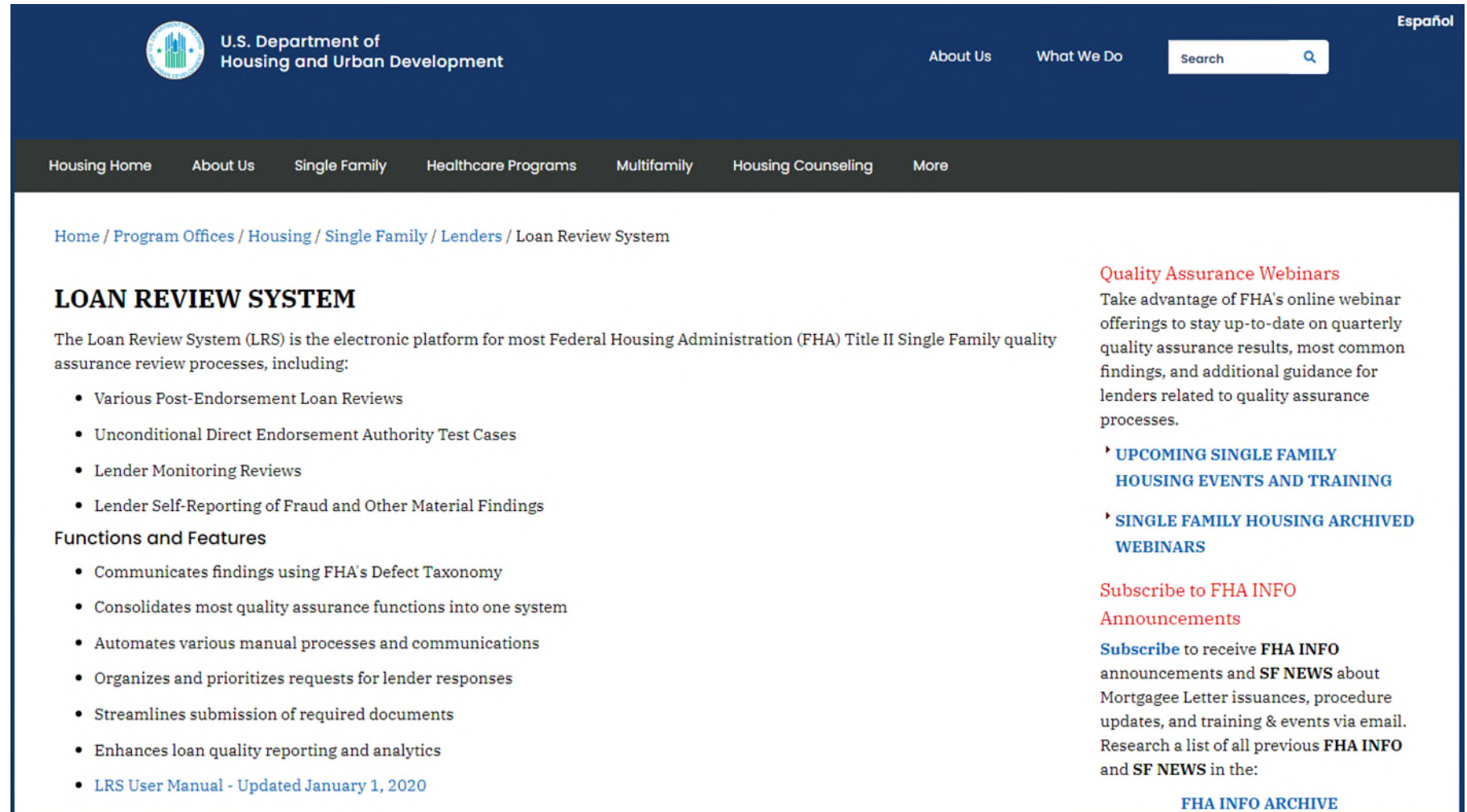
# Resources

# Resources

## LRS Information Page

[https://www.hud.gov/program/offices/housing/sfh/lender/loan\\_review\\_system](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 page has a dark blue header with the U.S. Department of Housing and Urban Development logo and name. Navigation links include "About Us", "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 in bold. Below it, a paragraph describes the LRS as 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

Below this list is the section "Functions and Features" with a bulleted list:

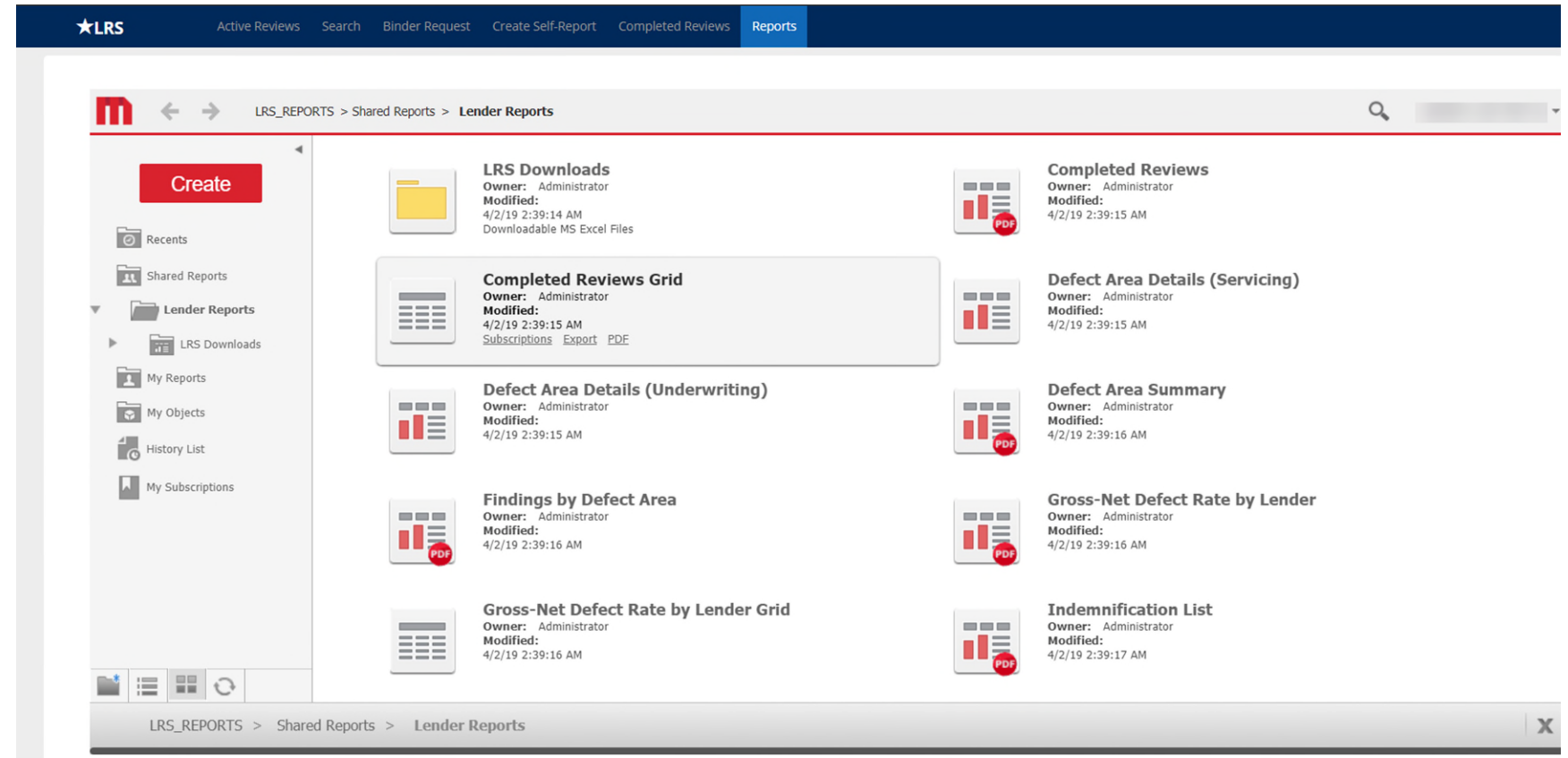
- Communicates findings using FHA's Defect Taxonomy
- Consolidates most quality assurance functions into one system
- Automates various manual processes and communications
- Organizes and prioritizes requests for lender responses
- Streamlines submission of required documents
- Enhances loan quality reporting and analytics
- LRS User Manual - Updated January 1, 2020

On the right side of the page, there are two sections: "Quality Assurance Webinars" with a paragraph about staying up-to-date on quarterly quality assurance results, and "UPCOMING SINGLE FAMILY HOUSING EVENTS AND TRAINING" and "SINGLE FAMILY HOUSING ARCHIVED WEBINARS". Below these is a section "Subscribe to FHA INFO Announcements" with a paragraph about receiving FHA INFO announcements and SF NEWS about Mortgagee Letter issuances, procedure updates, and training & events via email. It also mentions researching a list of all previous FHA INFO and SF NEWS in the "FHA INFO ARCHIVE".



# Resources (cont.)

- Access LRS reports to review your own results
  - Top Findings
  - Self-Reports
  - Indemnifications
  - Data Downloads

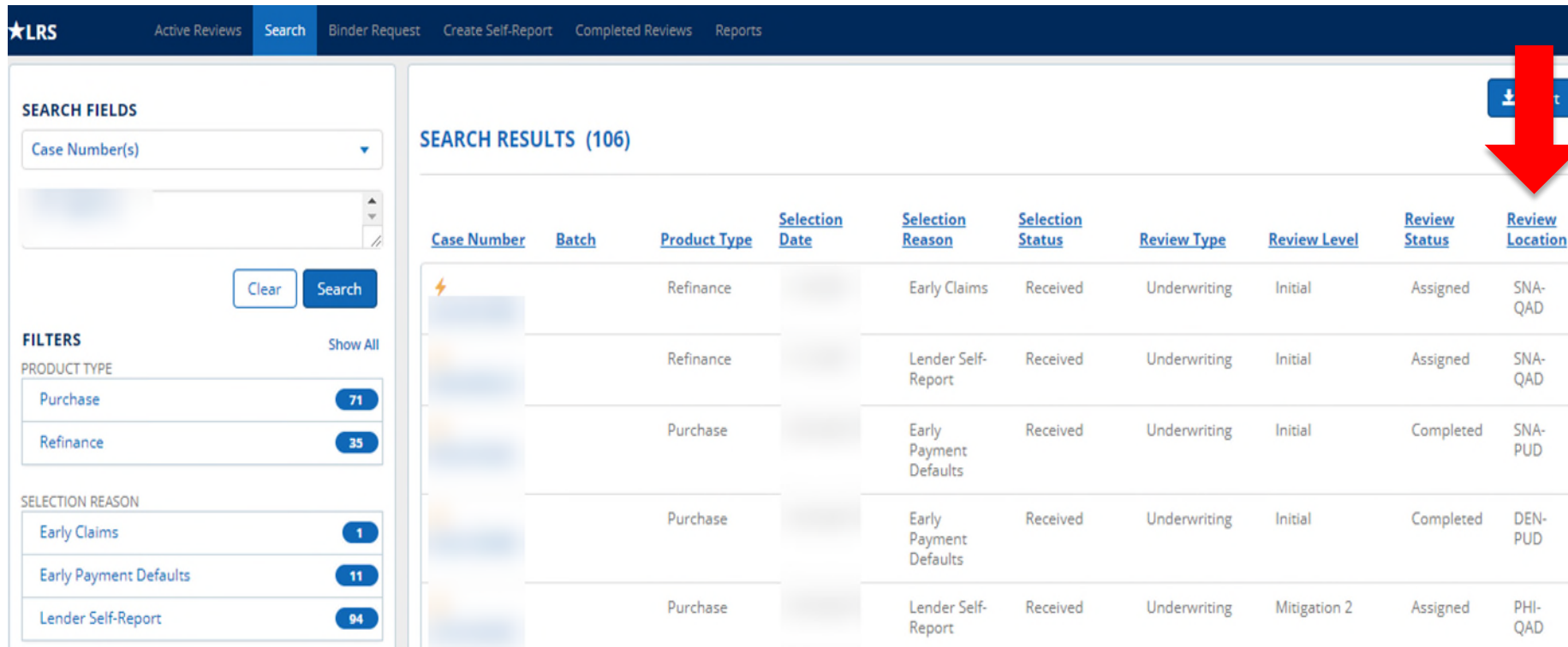




# Resources (cont.)

## 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 'LRS', 'Active Reviews', 'Search' (highlighted), 'Binder Request', 'Create Self-Report', 'Completed Reviews', and 'Reports'. The left sidebar contains 'SEARCH FIELDS' with a 'Case Number(s)' input and a 'Search' button, and 'FILTERS' for 'PRODUCT TYPE' (Purchase: 71, Refinance: 35) and 'SELECTION REASON' (Early Claims: 1, Early Payment Defaults: 11, Lender Self-Report: 94). The main area shows 'SEARCH RESULTS (106)' with a table of results. A red arrow points to the 'Review Location' column in the table.

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

# 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.
<b>FHA INFO</b> emails: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at: <a href="https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe">https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe</a>				

# Helpful Links

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- FHA Single Family Information Page  
[https://www.hud.gov/program\\_offices/housing/sfh](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](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](https://www.hud.gov/program_offices/housing/sfh/sfh_policy_drafts)
- FHA National Servicing Center  
[https://www.hud.gov/program\\_offices/housing/sfh/nsc](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](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](https://www.hud.gov/program_offices/housing/sfh/FHA_INFO_subscribe)



# Q&A

# Q&A Instructions

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## Check your audio to ensure it's working correctly:

- Click *Test Speaker & Microphone* option or Microphone icon if image is crossed out.
- Test/change audio settings on computer/smartphone/telephone by selecting *Audio Settings* on toolbar.

## Access audio using one of the following options:

### 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!**

