

## APPENDIX 8.0 – FHA DEFECT TAXONOMY (XX/XX/2022)

### I. PURPOSE

The Defect Taxonomy is FHA’s method of identifying defects **at the loan level**.

**A) The Defect Taxonomy provides:**

- useful data and feedback through structured categorization of defects and their sources, causes and severities.
- balance between FHA’s risk management and quality assurance business processes.

**B) 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, Departmental Enforcement Center, Office of Fair Housing and Equal Opportunity, or other HUD offices for findings that, in FHA’s judgment, warrant such referral.
- Affect or override FHA’s normal process for referral of fraud, waste, or abuse to the Office of the Inspector General.

### II. CORE CONCEPTS

**A) Defect Areas**

Defect areas are organized following a consistent pattern of sources, causes, severity tier descriptions and potential remedies. Applicable HUD policies are provided for reference; they are subject to change and may not be all-inclusive.

- Underwriting loan reviews are categorized into nine defect areas that represent fundamental characteristics of a loan’s eligibility for FHA insurance.
- Servicing loan reviews are categorized into six defect areas that represent the fundamental characteristics applicable to FHA-insured mortgage servicing.

**B) Sources and Causes**

Sources and causes describe Findings in greater detail based on HUD policy requirements. An individual Finding is identified in the Loan Review System (LRS) by its specific defect area, source, and cause.

**C) Severity Tiers**

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 requirements. Severity tiers indicate whether a Mortgagee response is required in LRS.

- **Tier 1 and 2** Findings are unacceptable, requiring a Mortgagee response in LRS.
  - Mortgagees may rebut any unacceptable Finding by responding in LRS with supporting documentation.
- **Tier 3 and 4** Findings are deficient and do not require a response. Optional responses can be submitted in LRS.

### III. REMEDIES

FHA has the authority to pursue loan-level actions and remedies reasonably related to a Mortgagee's underlying violations. As an alternative to referral to the Mortgagee Review Board (MRB), applicable remedies are available for tier 1 and tier 2 Findings identified in the Loan Review System (LRS). Potential loan-level remedies are described below.

- When FHA sustains a tier 1 Finding, life-of-loan indemnification is the only remedy available through LRS.
- Alternatives to Indemnification may be available in LRS for tier 2 Findings. They are shown in each defect area as a waterfall based on degree of impact.
- FHA may request a combination of remedies to address the adverse impacts of a single Finding.

#### A) Mitigating Documentation

Findings in any defect area may be mitigated in LRS with the Mortgagee's submission of additional documentation which, in FHA's determination, adequately addresses the source and cause of the Finding or shows the Mortgagee's completion of any corrective actions requested by FHA.

#### B) Financial Remediation

Consistent with FHA rules and requirements, Mortgagees may financially remediate certain loan-level underwriting and servicing Findings by submitting documentation showing completion of the requested action in the amount specified by FHA. Financial remediation may include:

- **Borrower Refund** to reimburse unallowable or erroneous charges, fees, costs, or expenses.
- **Principal Reduction** applied to the unpaid principal balance of the mortgage; or for delinquent/defaulted loans, funds may be applied to the borrower's suspense account.
- **Account Adjustment** applied to the borrower's mortgage, escrow, or suspense account in the amount necessary to bring the account into compliance with FHA policy.
- **Remittance** of improperly paid loss mitigation incentives and/or claim funds to FHA.

#### C) Indemnification

Absent an alternative remedy, or when alternative remedies have been exhausted, Mortgagees may resolve unacceptable Findings by indemnifying HUD against the risk of financial losses.

- The term of the indemnification agreement is specified in LRS as either 5-year or life-of-loan.
- Mortgagees have the opportunity to electronically sign the indemnification agreement in LRS during the standard response timeframe based on the applicable review level.
  - Only users with the "Indemnification Submission" role in FHA Connection may access and sign indemnification agreements in LRS.

#### IV. FRAUD OR MISREPRESENTATION

All Findings of fraud or materially misrepresented information are referred to the Office of the Inspector General (OIG), regardless of LRS severity tier or remedy provided by the lender.

- A) Findings of fraud or materially misrepresented information can fall into one of two severity tiers:
  - **Tier 1:** the lender knew or should have known.
  - **Tier 4:** the lender did not know and could not have known.
- B) FHA determines if the lender knew or should have known based on whether:
  - an employee of the lender was involved *and/or*
  - red flags in the loan file should have been questioned by the underwriting lender.
- C) FHA’s loan review determinations regarding Findings of fraud or misrepresentation do not affect or override any separate determinations of the Office of the Inspector General through any audit or investigative process.

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**V. UNDERWRITING LOAN REVIEW**

Effective for Loan Reviews as of 01/01/20

*[Placeholder – No changes to existing Section V published in Handbook 4000.1]*

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**VI. SERVICING LOAN REVIEW**

*Defect Area 1*

**Servicer Operations (SO)**

Standards and procedures applicable to the servicing of all FHA-insured Single Family mortgages, including Mortgagee responsibility for records management, required actions and various processing functions in the course of mortgage servicing regardless of loan performance.

<b>HUD Policy References</b>	
<b>Single Family Housing Handbook 4000.1</b>	<b>HECM</b>
III.A.1.a Servicing Roles and Responsibilities III.A.1.b Responsibility for Servicing Actions III.A.1.c Providing Information to HUD III.A.1.d Communication with Borrowers and Authorized Third Parties III.A.1.j Post-Endorsement Mortgage Amendments III.A.1.m Disclosures III.A.1.n Record Retention – Servicing File III.A.2.n Presidentially-Declared Major Disaster Areas III.A.3 Programs and Products III.A.3.b Assumptions ( <i>See also</i> II.A.8.n)	Handbook 4330.1 <i>Chapter 13</i> – Home Equity Conversion Mortgages (HECMs) <a href="#">HECM Mortgagee Letters</a> 24 CFR Part 206 Home Equity Conversion Mortgage Insurance <i>Subpart C</i> – Contract Rights and Obligations § 206.101 Sale, assignment and pledge of insured mortgages § 206.107 Mortgagee election of assignment option § 206.131 Contract rights and obligations for condominium units § 206.134 Partial release, addition or substitution of security  <i>Subpart D</i> – Servicing Responsibilities § 206.201 Mortgage servicing generally; sanctions § 206.203 Providing information § 206.211 Determination of principal residence and contact
<p><b>Sources</b></p> <ol style="list-style-type: none"> <li>1. Servicing File</li> <li>2. Sale of Mortgage</li> <li>3. Servicing Transfer</li> <li>4. Borrower Communications and Requests</li> <li>5. Consumer Credit or IRS Reporting</li> <li>6. Partial Release or Modification of Security</li> <li>7. Assumption Processing</li> <li>8. Property in Presidentially-Declared Major Disaster Area</li> <li>9. 203(k) Rehabilitation Mortgage Program</li> <li>10. HECM Assignment Option</li> <li>11. HECM Certifications and Determinations</li> <li>12. Other Servicing Responsibility or Obligation</li> </ol> <p><b>Causes</b></p> <ol style="list-style-type: none"> <li>A. Records and/or documentation missing, incomplete, or illegible</li> <li>B. Servicing action or activity not completed as required</li> <li>C. FHA reporting requirements not met for changes and updates to the mortgage record</li> <li>D. Requirements related to the completion of property repairs or rehabilitation not met</li> <li>E. Non-compliance with program or product specific criteria or procedures</li> <li>F. Evidence of fraud or misrepresentation</li> </ol>	

**Appendix 8.0 – FHA Defect Taxonomy**

*Defect Area 1 (continued)*

**Servicer Operations (SO)**

<b>Severity Tiers</b>		<b>Remedies</b>
<b>Unacceptable</b>		
<b>1</b>	Evidence of fraudulent or materially misrepresented information about which the <b>servicer knew or should have known.</b>	<b>Indemnification</b> - Life-of-Loan
<b>2</b>	<p>FHA is unable to determine servicing compliance due to missing or incomplete records, individual account information or related data.</p> <p>Unfulfilled servicing obligations or non-compliance with the laws, regulations, and/or FHA policy standards and procedures applicable to FHA-insured mortgage servicing which, in FHA’s determination, results in adverse impacts on the property or FHA.</p> <p>Servicing records or reporting shows material inaccuracies, errors, or data integrity issues which must be brought into compliance or require other corrective servicing action.</p> <p><b>HECM</b> Non-compliance with HECM-specific servicing policy requirements that present an adverse impact on the property or FHA and must be resolved by documentation showing compliance with the laws, regulations, and/or FHA policy standards and procedures applicable to FHA-insured HECM servicing and/or corrective servicing action.</p>	<p><b>Mitigating Documentation</b></p> <p><b>Financial Remediation</b> - Principal Reduction <b>Note:</b> <i>Allowed for Tier 2 Findings related to incomplete property repairs or rehab. If property does not meet FHA MPR/MPS, the alternative remedy would be principal reduction made <b>before, and in addition to,</b> indemnification.</i></p> <p><b>Indemnification</b> - Life-of-Loan</p>
<b>Deficient</b>		
<b>3</b>	<p>Missing required records or documentation but FHA is able to determine compliance with the laws, regulations, and/or FHA policy standards and procedures applicable for FHA-insured mortgage servicing based on other information contained in the servicing file.</p> <p>Servicing was not conducted in accordance with specific FHA requirements, but documentation or information in the servicing file supports compliance with all applicable laws and rules which govern the servicing activity generally.</p> <p>Inaccuracies, errors, or data integrity issues revealed in servicing file or reports which are inconsequential to the property and FHA and do not otherwise require corrective servicing action.</p>	
<b>4</b>	Evidence of fraudulent or materially misrepresented information about which the <b>servicer did not know and could not have known.</b>	

**Appendix 8.0 – FHA Defect Taxonomy**

**Defect Area 2**

**Account Administration (AA)**

Standards and procedures specific to the accounting and administrative functions in connection with the servicing of performing FHA-insured Single Family mortgages, including various routine activities and related reporting, disclosures, and documentation requirements.

<b>HUD Policy References</b>	
<b>Single Family Housing Handbook 4000.1</b>	<b>HECM</b>
III.A.1.e Payment Administration III.A.1.f Servicing Fees and Charges III.A.1.g Escrow III.A.1.h Insurance Coverage Administration III.A.1.i Mortgage Insurance Premium Remittance III.A.1.k Mortgage Insurance Premium Cancellation III.A.1.l Mortgage Insurance Termination III.A.3.a Adjustable Rate Mortgages	Handbook 4235.1 <i>Chapter 7 – Payment of Mortgage Insurance Premiums</i>  Handbook 4330.1 <i>Chapter 13 – Home Equity Conversion Mortgages (HECMs)</i> <a href="#">HECM Mortgagee Letters</a>  24 CFR Part 206 Home Equity Conversion Mortgage Insurance Subpart C – Contract Rights and Obligations § 206.103 Payment of MIP § 206.133 Termination of insurance contract  Subpart D – Servicing Responsibilities § 206.205 Property charges § 206.207 Allowable charges and fees after endorsement § 206.209 Prepayment
<p><b>Sources</b></p> <ol style="list-style-type: none"> <li>1. Payment Administration</li> <li>2. Pre-Payment</li> <li>3. Costs, Fees and Charges</li> <li>4. Escrow Management and Property Charge Disbursements</li> <li>5. Annual Escrow Analysis</li> <li>6. Adjustable Rate Mortgage (ARM) Annual Review</li> <li>7. Insurance Coverage Administration</li> <li>8. Mortgage Insurance Premium Remittance</li> <li>9. Mortgage Payoff</li> <li>10. Cancellation or Termination of Mortgage Insurance</li> <li>11. HECM Life-Expectancy Set-Aside Administration</li> <li>12. HECM Disbursements and Account Analysis</li> </ol> <p><b>Causes</b></p> <ol style="list-style-type: none"> <li>A. Records and/or documentation missing, incomplete, or illegible</li> <li>B. Servicing action or activity not completed as required</li> <li>C. FHA reporting requirements not met for changes and updates to the mortgage record</li> <li>D. Requirements related to repair or rehabilitation escrow account not met</li> <li>E. Non-compliance with program or product specific criteria or procedures</li> <li>F. Evidence of fraud or misrepresentation</li> </ol>	

**Appendix 8.0 – FHA Defect Taxonomy**

*Defect Area 2 (continued)*

**Account Administration (AA)**

<b>Severity Tiers</b>		<b>Remedies</b>
<b>Unacceptable</b>		
<b>1</b>	Evidence of fraudulent or materially misrepresented information about which the <b>servicer knew or should have known.</b>	<b>Indemnification</b> - Life-of-Loan
<b>2</b>	FHA is unable to determine compliance with its accounting and administrative requirements due to missing or incomplete records, individual account information or related data.  Administrative functions or routine account activities were not conducted in compliance with the laws, regulations, and/or FHA policy standards and procedures applicable for FHA-insured mortgages and corrective servicing action is required to prevent adverse impacts on the property or FHA.  Individual account, servicing record or reporting reveals material inaccuracies, errors, or data integrity issues which require account reconciliation or other corrective servicing action.  <b>HECM</b> Non-compliance with HECM-specific servicing policy requirements which, in FHA’s determination, result in an adverse impact on the property or FHA and must be resolved, including life-expectancy set-aside (LESA) administration, account analysis, payments or disbursements, and mortgage insurance premiums.	<b>Mitigating Documentation</b>  <b>Financial Remediation</b> - Borrower Refund - Principal Reduction - Account Adjustment  <b>Indemnification</b> - Life-of-Loan
<b>Deficient</b>		
<b>3</b>	Missing servicing record, individual account information or reporting data but FHA is able to determine compliance based on other information contained in the servicing file.  Individual accounting or administrative activity was not conducted in accordance with specific FHA requirements, but documentation or information in the servicing file supports compliance with all applicable laws and rules which govern the servicing activity generally.  Inaccuracies, errors, or data integrity issues revealed in the individual account record or reporting data which are inconsequential to the property and FHA, and do not require corrective servicing action.	
<b>4</b>	Evidence of fraudulent or materially misrepresented information about which the <b>servicer did not know and could not have known.</b>	



**Appendix 8.0 – FHA Defect Taxonomy**

**Defect Area 3**

**Delinquent and Default Servicing (DS)**

Standards and procedures applicable to the servicing of non-performing FHA-insured Single Family mortgages, including Mortgagee responsibility for records management, accounting and administrative functions, required actions and various processing functions in the course of delinquent and default mortgage servicing.

<b>HUD Policy References</b>	
<b>Single Family Housing Handbook 4000.1</b>	<b>HECM</b>
III.A.2.a Mortgages in Delinquency or Default III.A.2.b HUD Default Servicing Contact III.A.2.c Reporting to Consumer Reporting Agencies and the IRS III.A.2.d Late Charges III.A.2.e Partial Payments for Mortgages in Default III.A.2.f Lien Status III.A.2.g Imminent Default III.A.2.h Early Default Intervention III.A.2.s Reinstatement III.A.3 Programs and Products III.A.3.n Presidentially-Declared Major Disaster Areas III.A.3.o Presidentially-Declared COVID-19 National Emergency II.A.8.a Delinquent and Defaulted 203(k) Rehabilitation Mortgages	Handbook 4330.1 Chapter 13 – Home Equity Conversion Mortgages (HECMs) <a href="#">HECM Mortgagee Letters</a> 24 CFR Part 206 Home Equity Conversion Mortgage Insurance Subpart C – Contract Rights and Obligations § 206.113 Late charge and interest § 206.123 Claim procedures in general § 206.51 Deferral of Due and Payable Status of Non-Borrowing Spouses § 206.57 Cure provision enabling reinstatement of Deferral Period
<p><b>Sources</b></p> <ol style="list-style-type: none"> <li>1. Delinquency or Default Status</li> <li>2. Partial Payments or Suspense Account</li> <li>3. Late charges and fees</li> <li>4. Collection notices and communications</li> <li>5. Early Default Intervention</li> <li>6. Non-Monetary Default</li> <li>7. Imminent Default</li> <li>8. Bankruptcy</li> <li>9. Mortgage Reinstatement</li> <li>10. Delinquent 203(k) Mortgages</li> <li>11. Property Occupancy Status or Condition</li> <li>12. Other Delinquent and Default Servicing Requirement</li> </ol> <p><b>Causes</b></p> <ol style="list-style-type: none"> <li>A. Records and/or documentation missing, incomplete, or illegible</li> <li>B. Servicing action or activity not completed as required</li> <li>C. FHA delinquency and default reporting requirements not met</li> <li>D. Requirements related to property inspections, repairs or preservation not met</li> <li>E. Non-compliance with program or product specific criteria or procedures</li> <li>F. Evidence of fraud or misrepresentation</li> </ol>	

**Appendix 8.0 – FHA Defect Taxonomy**

**Defect Area 3 (continued)**

**Delinquent and Default Servicing (DS)**

<b>Severity Tiers</b>		<b>Remedies</b>
<b>Unacceptable</b>		
<b>1</b>	Evidence of fraudulent or materially misrepresented information about which the <b>servicer knew or should have known.</b>	<b>Indemnification</b> - Life-of-Loan
<b>2</b>	FHA is unable to determine delinquent and default servicing compliance due to missing or incomplete records, individual account information or related data.  Unfulfilled delinquent and default servicing obligations or non-compliance with the laws, regulations, and/or FHA policy standards and procedures applicable to FHA-insured mortgage servicing which, in FHA’s determination, results in adverse impacts on the property or FHA.  Servicing records or reporting shows material inaccuracies, errors, or data integrity issues which must be brought into compliance or require other corrective servicing action.  <u><b>HECM</b></u> Non-compliance with HECM-specific default servicing policy requirements, including due and payable policies, and default due to unpaid property charges, which present an adverse impact on the property or FHA and must be resolved by documentation showing compliance and/or corrective servicing action.	<b>Mitigating Documentation</b>  <b>Financial Remediation</b> - Borrower Refund - Account Adjustment - Remittance to FHA  <b>Indemnification</b> - Life-of-Loan
<b>Deficient</b>		
<b>3</b>	Missing required records or documentation but FHA is able to determine delinquent and default servicing compliance based on other information contained in the servicing file.  Delinquent and default servicing was not conducted in accordance with specific FHA requirements, but documentation or information in the servicing file supports compliance with all applicable laws and rules which govern the servicing activity generally.  Inaccuracies, errors, or data integrity issues revealed in servicing file or reports which are inconsequential to the property and FHA and do not otherwise require corrective servicing action.	
<b>4</b>	Evidence of fraudulent or materially misrepresented information about which the <b>servicer did not know and could not have known.</b>	

**Appendix 8.0 – FHA Defect Taxonomy**

**Defect Area 4**

**Loss Mitigation Processing (LP)**

Servicing standards and procedures specific to FHA-insured mortgage loss mitigation processing, including various review activities and required reporting, disclosures and documentation.

<b>HUD Policy References</b>	
<p><b>Single Family Housing Handbook 4000.1</b></p> <p>III.A.2.i Loss Mitigation Review Process                      III.A.2.j HUD’s Loss Mitigation Program                      III.A.2.m Loss Mitigation Incentives                      III.A.2.n Presidentially-Declared Major Disaster Areas                      III.A.2.o Presidentially-Declared COVID-19 National Emergency                      III.A.3 Programs and Products</p>	<p><b>HECM</b></p> <p>Handbook 4330.1  <i>Chapter 13 – Home Equity Conversion Mortgages (HECMs)</i>  <a href="#">HECM Mortgage Letters</a>                      24 CFR Part 206 Home Equity Conversion Mortgage Insurance  <i>Subpart C – Contract Rights and Obligations</i>                      § 206.123 Claim procedures in general</p>
<p><b>Sources</b></p> <ol style="list-style-type: none"> <li>1. Loss Mitigation Reviews</li> <li>2. Loss Mitigation Request</li> <li>3. Financial Evaluation</li> <li>4. Delinquency workout status</li> <li>5. Communications and Notices</li> <li>6. Loss Mitigation During Bankruptcy</li> <li>7. Loss Mitigation Agreements</li> <li>8. Loss Mitigation Incentive</li> <li>9. Loss Mitigation Option Priority Waterfall</li> <li>10. Program or Product Specific Requirement</li> <li>11. Other Loss Mitigation Processing Requirement</li> </ol> <p><b>Causes</b></p> <ol style="list-style-type: none"> <li>A. Records and/or documentation missing, incomplete, or illegible</li> <li>B. Servicing action or activity not completed as required</li> <li>C. Unallowable or improperly calculated amounts related to loss mitigation or financial evaluation</li> <li>D. FHA loss mitigation reporting requirements not met</li> <li>E. Requirements related to borrower eligibility, ownership, or occupancy not met</li> <li>F. Evidence of fraud or misrepresentation</li> </ol>	

**Appendix 8.0 – FHA Defect Taxonomy**

*Defect Area 4 (continued)*

**Loss Mitigation Processing (LP)**

<b>Severity Tiers</b>		<b>Remedies</b>
<b>Unacceptable</b>		
<b>1</b>	Evidence of fraudulent or materially misrepresented information about which the <b>servicer knew or should have known.</b>	<b>Indemnification</b> - Life-of-Loan
<b>2</b>	<p>FHA is unable to determine compliance with loss mitigation processing requirements due to missing or incomplete borrower financial documentation, information or other records.</p> <p>Loss mitigation processing or related routine activities were not conducted in compliance with the laws, regulations, and/or FHA policy standards and procedures applicable for FHA-insured mortgages and corrective servicing action is required to prevent adverse impacts on the property or FHA.</p> <p>Individual account, servicing record or reporting reveals material inaccuracies, errors, or data integrity issues which require reconciliation or other corrective servicing action.</p> <p><b>HECM</b> Non-compliance with loss mitigation requirements for HECMs related to repayment plans, and permissible loss mitigation options.</p>	<b>Mitigating Documentation</b>  <b>Financial Remediation</b> - Borrower Refund - Account Adjustment - Remittance to FHA  <b>Indemnification</b> - Life-of-Loan
<b>Deficient</b>		
<b>3</b>	<p>Missing required records or documentation but FHA is able to determine loss mitigation compliance based on other information contained in the servicing file.</p> <p>Loss mitigation was not processed in accordance with specific FHA requirements, but documentation or information in the servicing file supports compliance with all applicable laws and rules which govern loss mitigation activities generally; or financial evaluation or other loss mitigation was improperly reviewed but it did not result in payment failure and does not adversely impact the property or FHA.</p> <p>Inaccuracies, errors, or data integrity issues revealed in servicing file or reports which are inconsequential to the property and FHA and do not otherwise require corrective servicing action.</p>	
<b>4</b>	Evidence of fraudulent or materially misrepresented information about which the <b>servicer did not know and could not have known.</b>	

**Appendix 8.0 – FHA Defect Taxonomy**

**Defect Area 5**

**Home Retention (HR)**

Compliance with standards and requirements for various Home Retention Options from processing through completion of related servicing activities. Minimum property acceptability and eligibility standards for FHA insurance, including program and product-specific variations.

<b>HUD Policy References</b>	
<b>Single Family Housing Handbook 4000.1</b>	<b>HECM</b>
III.A.2.k Loss Mitigation Home Retention Options III.A.2.n Presidentially-Declared Major Disaster Areas III.A.2.o Presidentially-Declared COVID-19 National Emergency III.A.3 Programs and Products	<a href="#">HECM Mortgagee Letters</a>  24 CFR Part 206 Home Equity Conversion Mortgage Insurance <i>Subpart D – Servicing Responsibilities</i> §206.51 Deferral of Due and Payable Status for Non-Borrowing Spouses
<b>Sources</b> <ol style="list-style-type: none"><li>1. Postponement of Service Member Payments</li><li>2. Forbearance Plan</li><li>3. FHA-HAMP Standalone Loan Modification</li><li>4. FHA-HAMP Standalone Partial Claim</li><li>5. FHA-HAMP Combination Loan Modification and Partial Claim</li><li>6. Trial Payment Plan</li><li>7. Escrow Analysis, Shortages or Advances</li><li>8. Communications and Notices</li><li>9. Other Home Retention Requirement</li></ol>	
<b>Causes</b> <ol style="list-style-type: none"><li>A. Records and/or documentation missing, incomplete, or illegible</li><li>B. Servicing action or activity not completed as required</li><li>C. Unallowable or improperly calculated amount included in total outstanding debt to be resolved or capitalized</li><li>D. FHA reporting requirements related to Home Retention Option not met</li><li>E. Program or product specific provisions or eligibility requirements not met</li><li>F. Evidence of fraud or misrepresentation</li></ol>	

**Appendix 8.0 – FHA Defect Taxonomy**

**Defect Area 5 (continued)**

**Home Retention (HR)**

<b>Severity Tiers</b>		<b>Remedies</b>
<b>Unacceptable</b>		
<b>1</b>	Evidence of fraudulent or materially misrepresented information about which the <b>servicer knew or should have known.</b>	<b>Indemnification</b> - Life-of-Loan
<b>2</b>	<p>FHA is unable to determine compliance with Home Retention Option requirements due to missing or incomplete borrower financial documentation, information or other records.</p> <p>Home Retention Option or related servicing activities were not conducted in compliance with the laws, regulations, and/or FHA policy standards and procedures applicable for FHA-insured mortgages and corrective servicing action is required to prevent adverse impacts on the property or FHA.</p> <p>Individual account, servicing record or reporting related to Home Retention Option reveals material inaccuracies, errors, or data integrity issues which require reconciliation or other corrective servicing action.</p> <p><b>HECM</b> Non-compliance with deferral requirements for HECMs, including eligible non-borrowing spouse deferral period and cure policies.</p>	<p><b>Mitigating Documentation</b></p> <p><b>Financial Remediation</b></p> <ul style="list-style-type: none"> <li>- Borrower Refund</li> <li>- Account Adjustment</li> <li>- Remittance to FHA</li> </ul> <p><b>Indemnification</b></p> <ul style="list-style-type: none"> <li>- Life-of-Loan</li> </ul>
<b>Deficient</b>		
<b>3</b>	<p>Missing required records or documentation but FHA is able to determine compliance with requirements applicable for the Home Retention Option compliance based on other information contained in the servicing file.</p> <p>Home Retention Option not processed in accordance with specific FHA requirements, but documentation or information in the servicing file supports compliance with all applicable laws and rules which govern actions applicable for the Home Retention Option generally and does not adversely impact the property or FHA.</p> <p>Inaccuracies, errors, or data integrity issues revealed in servicing file or reports related to the Home Retention Option which are inconsequential to the property and FHA and do not otherwise require corrective servicing action.</p>	
<b>4</b>	Evidence of fraudulent or materially misrepresented information about which the <b>servicer did not know and could not have known.</b>	

**Appendix 8.0 – FHA Defect Taxonomy**

**Defect Area 6**

**Home Disposition (HD)**

Compliance with standards and requirements for various Home Disposition Options and includes foreclosure processing through property conveyance, claims, and other related matters.

<b>HUD Policy References</b>	
<b>Single Family Housing Handbook 4000.1</b>	<b>HECM</b>
III.A.2.l Home Disposition Options III.A.2.n Presidentially-Declared Major Disaster Areas III.A.2.o Presidentially-Declared COVID-19 National Emergency III.A.3 Programs and Products	<a href="#">HECM Mortgagee Letters</a> 24 CFR Part 206 Home Equity Conversion Mortgage Insurance <i>Subpart C – Contract Rights and Obligations</i> § 206.123 Claim procedures in general § 206.125 Acquisition and sale of the property § 206.129 Payment of claim § 206.135 Application for insurance benefits and fiscal data § 206.136 Conditions for assignment § 206.138 Mortgagee's liability for certain expenditures § 206.140 Inspection and preservation of properties § 206.141 Property condition § 206.142 Adjustment for damage or neglect § 206.144 Final payment § 206.145 Items deducted from payment § 206.146 Debenture interest rate
<p><b>Sources</b></p> <ol style="list-style-type: none"> <li>1. Pre-foreclosure Sale</li> <li>2. Deed-in-Lieu of Foreclosure</li> <li>3. Foreclosure Review and Activities</li> <li>4. Fees and Costs</li> <li>5. Home Disposition Incentive</li> <li>6. Communications and Notices</li> <li>7. Partial Claims</li> <li>8. Foreclosure during 203(k) Rehabilitation Period</li> <li>9. Foreclosure Processing</li> <li>10. Property Acquisition</li> <li>11. Conveyance and Payment of Claim</li> <li>12. Claims without Conveyance of Title</li> <li>13. Other Home Disposition Requirement</li> </ol> <p><b>Causes</b></p> <ol style="list-style-type: none"> <li>A. Records and/or documentation missing, incomplete, or illegible</li> <li>B. Servicing action or activity not completed as required</li> <li>C. FHA insurance termination reporting requirements not met</li> <li>D. Requirements related to property preservation, condition, valuation or title not met</li> <li>E. Non-compliance with program or product specific criteria or procedures</li> <li>F. Evidence of fraud or misrepresentation</li> </ol>	

**Appendix 8.0 – FHA Defect Taxonomy**

*Defect Area 6 (continued)*

**Home Disposition (HD)**

<b>Severity Tiers</b>		<b>Remedies</b>
<b>Unacceptable</b>		
<b>1</b>	Evidence of fraudulent or materially misrepresented information about which the <b>servicer knew or should have known.</b>	<b>Indemnification</b> - Life-of-Loan
<b>2</b>	<p>FHA is unable to determine compliance with Home Disposition Option requirements due to missing or incomplete borrower financial documentation, information or other records.</p> <p>Home Disposition Option or related servicing activities were not conducted in compliance with the laws, regulations, and/or FHA policy standards and procedures applicable for FHA-insured mortgages and corrective servicing action is required to prevent adverse impacts on the property or FHA.</p> <p>Individual account, servicing record or reporting related to Home Disposition Option reveals material inaccuracies, errors, or data integrity issues which require reconciliation or other corrective servicing action.</p> <p><b>HECM</b> Non-compliance with disposition requirements for HECMs, including property acquisition, claims, and other cure policies.</p>	<b>Mitigating Documentation</b>  <b>Financial Remediation</b> - Borrower Refund - Remittance to FHA  <b>Indemnification</b> - Life-of-Loan
<b>Deficient</b>		
<b>3</b>	<p>Missing required records or documentation but FHA is able to determine compliance with requirements applicable for the Home Disposition Option compliance based on other information contained in the servicing file.</p> <p>Home Disposition Option not processed in accordance with specific FHA requirements, but documentation or information in the servicing file supports compliance with all applicable laws and rules which govern actions applicable for the Home Disposition Options generally and does not adversely impact the property or FHA.</p> <p>Inaccuracies, errors, or data integrity issues revealed in servicing file or reports related to the Home Disposition Option which are inconsequential to the property and FHA and do not otherwise require corrective servicing action.</p>	
<b>4</b>	Evidence of fraudulent or materially misrepresented information about which the <b>servicer did not know and could not have known.</b>	