



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

SINGLE FAMILY HOUSING



Office of Lender Activities and Program Compliance

FHA Quality Assurance Update

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OFFICE OF SINGLE FAMILY HOUSING



Agenda

Quarterly Loan Review Results

Common Defects

Lender Self-Reports

Resources

Q&A



Quarterly Loan Review Results



Loan Review Volume

Selection Reason	# Completed
Early Payment Defaults	3,614
Lender Monitoring	1,083
Lender Self-Reports	657
Risk Algorithm	441
Test Cases	238
FHA Manual Selections	117
Early Claims	79
Random Selections	54
Review Location Quality Control (QC)	221
Quarterly Total	6,504

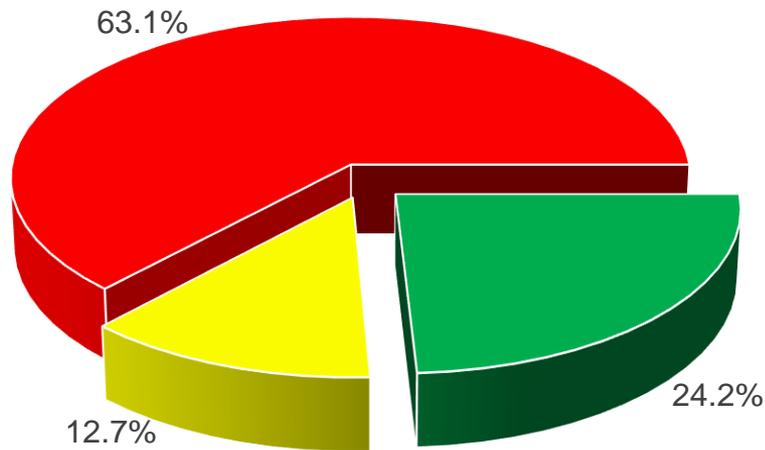
Review Type	# Completed
Underwriting	6,159
Servicing	345
Quarterly Total	6,504

Loan Review System (LRS) reviews completed from 1/1/2019 to 3/31/2019



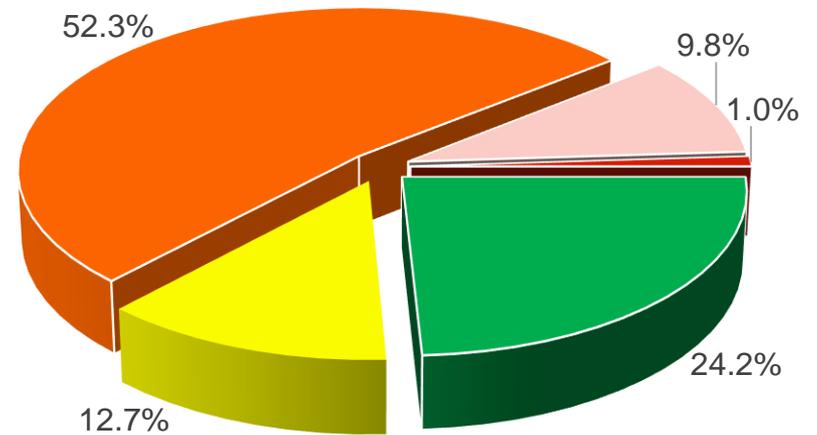
Ratings and Outcomes

Initial Ratings (Gross)



- Conforming
- Deficient
- Unacceptable

Final Ratings (Net)



- Conforming
- Deficient
- Mitigated
- Indemnification/Financial Remediation
- Unacceptable

LRS reviews completed from 1/1/2019 to 3/31/2019 (excluding lender self-reports and internal QC)

Quarterly Loan Review Summary

Quarterly Loan Review Summary

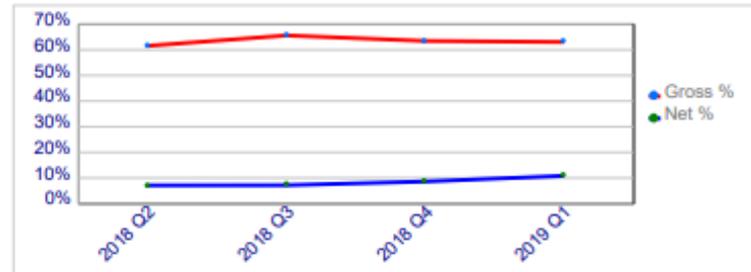
Completed Quarter(s): 2018 Q2, 2018 Q3, 2018 Q4, 2019 Q1

Location(s): All

Sample: Total

Material Defects

Qtr	# of Loans	Gross #	Gross %	Net #	Net%
2018 Q2	9,147	5,631	61.6%	651	7.1%
2018 Q3	8,944	5,868	65.6%	641	7.2%
2018 Q4	7,818	4,962	63.5%	673	8.6%
2019 Q1	5,629	3,549	63.0%	610	10.8%

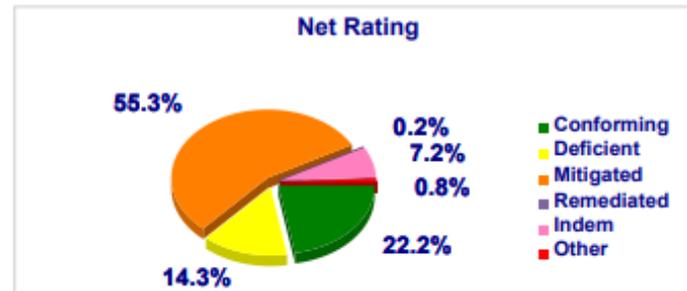
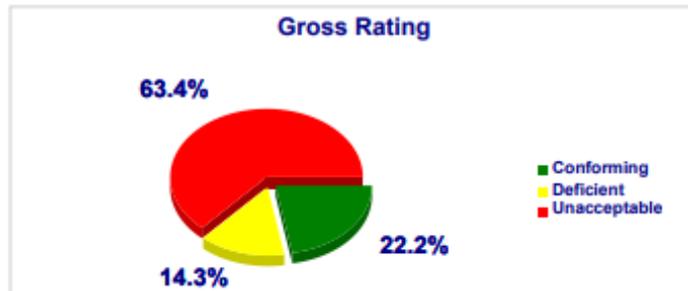


Review Ratings

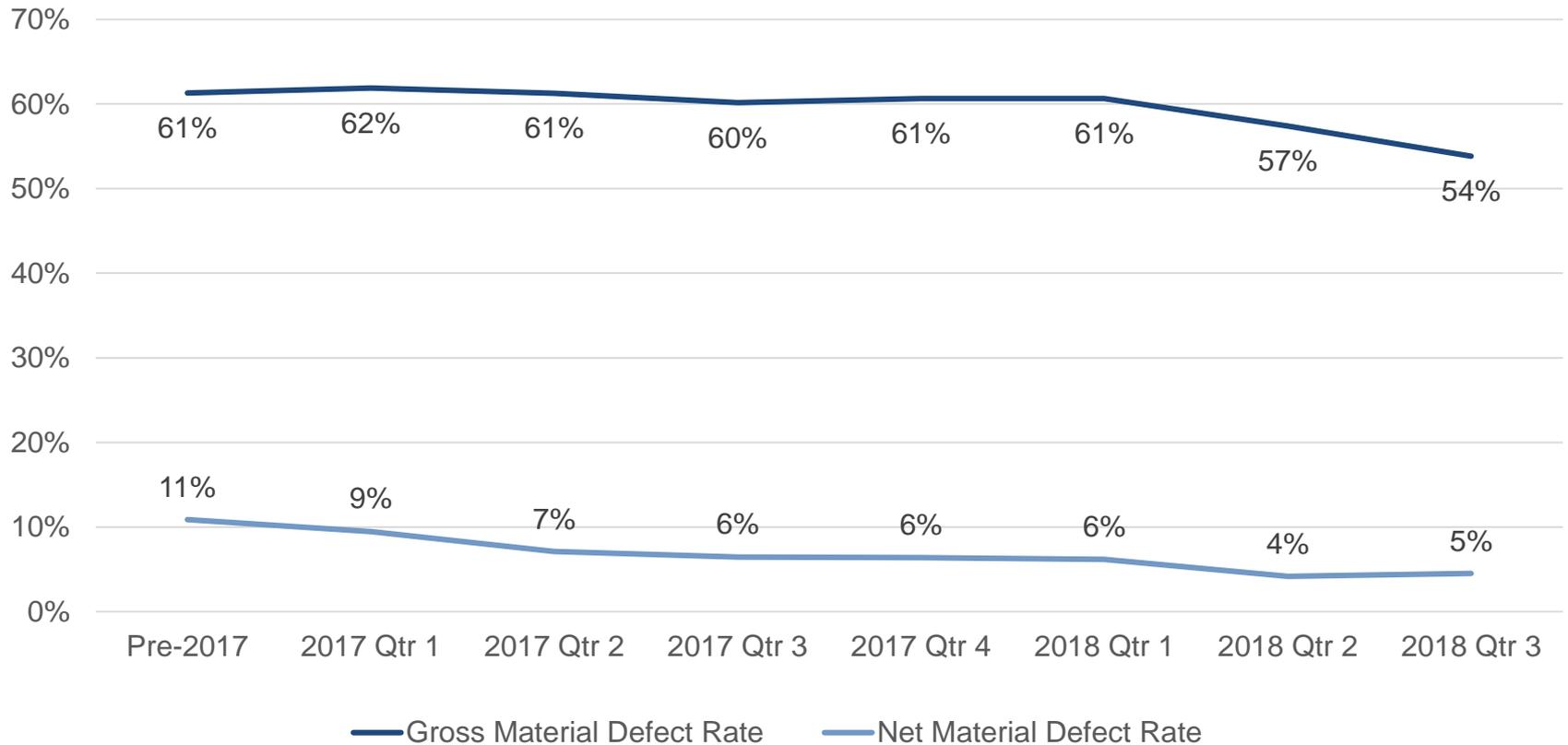
Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2018 Q2	2,034	1,482	4,980	15	564	72
2018 Q3	1,887	1,189	5,227	19	577	45
2018 Q4	1,729	1,127	4,289	25	579	69
2019 Q1	1,364	716	2,939	13	540	57
Total	7,014	4,514	17,435	72	2,260	243

Review Ratings %

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2018 Q2	22.2%	16.2%	54.4%	0.2%	6.2%	0.8%
2018 Q3	21.1%	13.3%	58.4%	0.2%	6.5%	0.5%
2018 Q4	22.1%	14.4%	54.9%	0.3%	7.4%	0.9%
2019 Q1	24.2%	12.7%	52.2%	0.2%	9.6%	1.0%
Total	22.2%	14.3%	55.3%	0.2%	7.2%	0.8%



Outcome Trends: Endorsement Date



LRS reviews completed from 5/15/2017 to 3/31/2019 (excluding lender self-reports and internal QC)



Common Defects



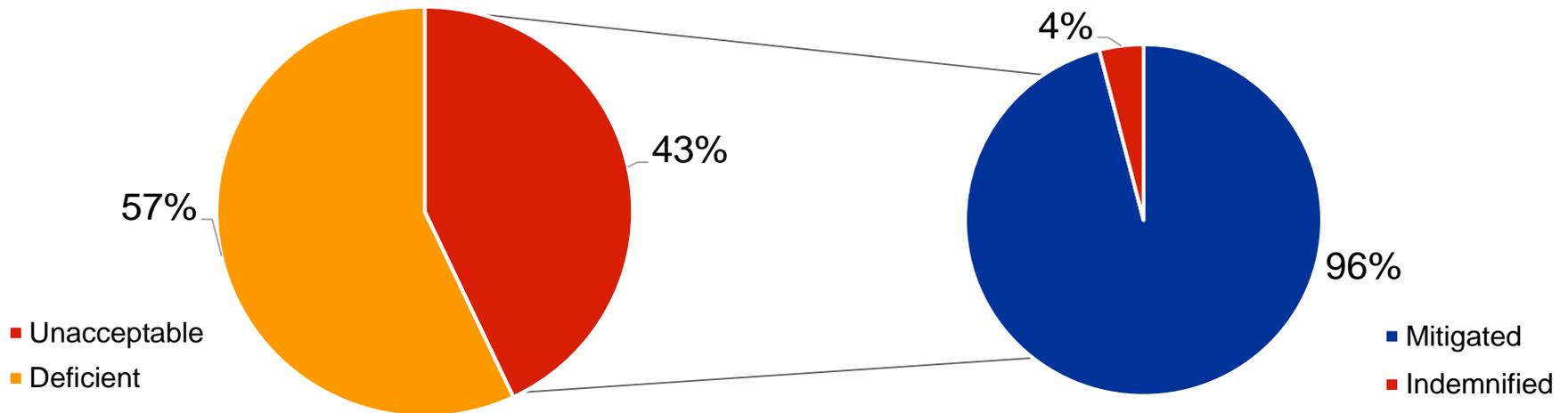
Common Defects

Mortgage Eligibility

Source	Cause
Required forms are missing or not properly executed	Eligibility/qualification not supported by documentation

- Cited 250% more than any other finding
- Makes up 15% of all underwriting defects
- 96% of unacceptable findings are mitigated

Ratings & Outcomes



Common Defects

Mortgage Eligibility

Source	Cause	Frequent Examples
Required forms are missing or not properly executed	Eligibility/qualification not supported by documentation	<ul style="list-style-type: none"> → Missing Initial or Final <i>URLA</i> and/or 92900-A → FHA case number assignment date prior to loan application → Borrower or Loan Originator signature requirements not met → Issues with Page 3 of 92900-A, <i>Direct Endorsement Approval</i> → 92900-LT not properly completed

HUD Policy References

- Handbook 4000.1 II.A.**
- 1.b.** General Mortgage Insurance Eligibility
 - 4.e.** Final Underwriting Decision (TOTAL)
 - 5.d.** Final Underwriting Decision (Manual)
 - 7.b.** Mortgagee Pre-Endorsement Review Requirements
 - 7.d.** Procedures for Endorsement

**References are not all-inclusive.*



Lender Self-Reports



Lender Self-Reports

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

What to report	When to report it
All Findings of fraud and material misrepresentation	Immediately
Any Material Findings concerning the origination, underwriting, or servicing of a Mortgage that you are unable to mitigate	No later than 90 Days after the completion of the initial Findings report

Lender Self-Reports (cont.)

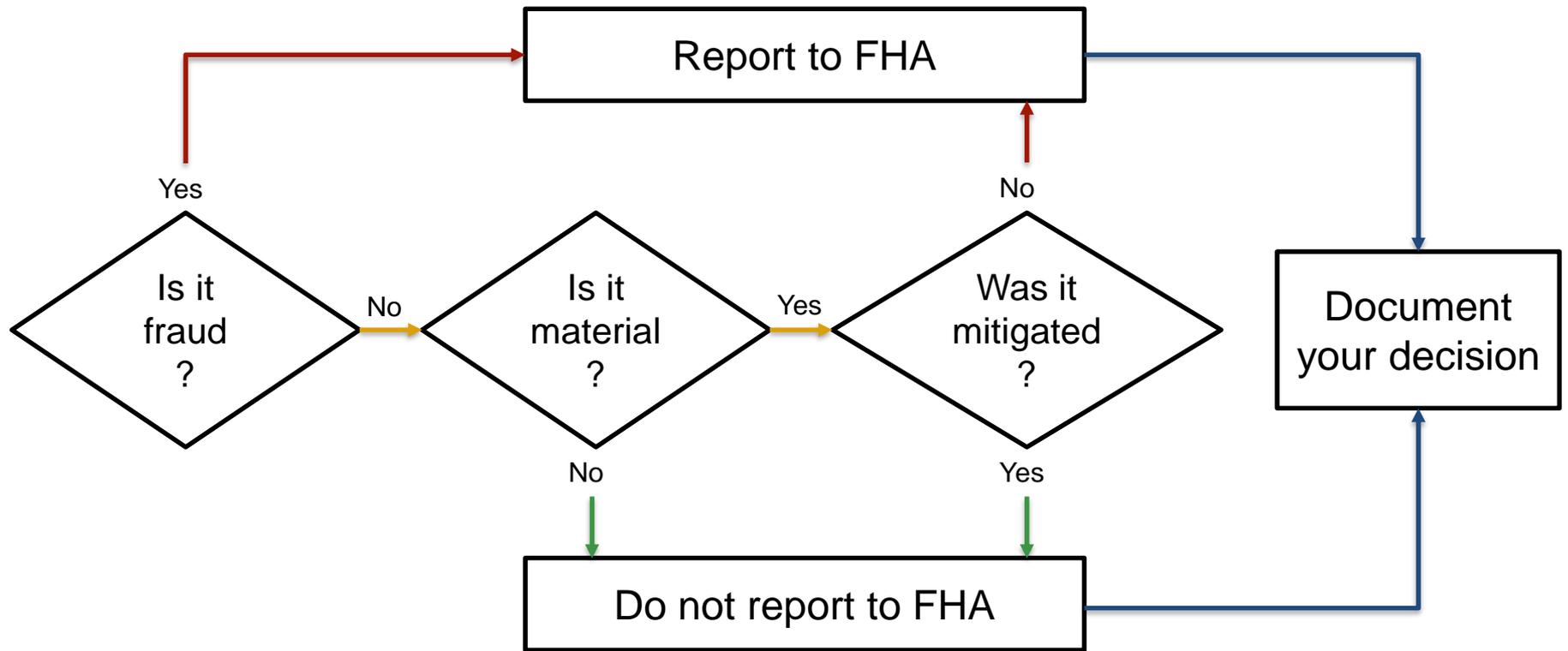
Term	Definition
Finding	A final determination of defect by the lender/Mortgagee
Material Finding	<p><u>Origination/Underwriting</u>: Disclosure of the Finding would have altered the Mortgagee's decision to approve the Mortgage or to endorse or seek endorsement from FHA for insurance</p> <p><u>Servicing</u>: The Finding has an adverse impact on the Property and/or FHA</p>
Mitigated Finding	The Mortgagee has adequately addressed the deficiencies underlying the Finding, and such deficiencies have been remedied so that the Mortgagee's decision to approve the Mortgage or to endorse or seek endorsement from FHA for insurance of the Mortgage is acceptable to FHA

Lender Self-Reports (cont.)

- Before reporting, ask these questions
 - Is it fraud?
 - Is the finding material?
 - Was it mitigated within the required timeframe?
- Refer to FHA's defect taxonomy for guidance
- Document your decisions
- When you do report, be prepared for indemnification or other remedy



Lender Self-Reports (cont.)



Lender Self-Reports (cont.)

- Fraud and material misrepresentation categories
 - Lender knew/should have known
 - Lender did not know/could not have known
- FHA bases this determination on whether
 - An employee of the lender was involved and/or
 - Red flags in the loan file should have been questioned by the underwriter
- FHA requests life-of-loan indemnification when it determines that the lender knew or should have known
- Both categories are referred to HUD's Office of the Inspector General (OIG)

Lender Self-Reports (cont.)

- Lenders with access to LRS can report any endorsed case
- Lenders should report material findings identified through QC of correspondent channels
- LRS automatically directs the review to responsible party
 - Original DE lender for Underwriting issues
 - Current servicer of record for Servicing issues
- FHA may contact the reporting lender outside of LRS for additional information



Lender Self-Reports (cont.)

- Choose the appropriate Defect Type
 - *Underwriting* for issues that occurred at loan origination
 - *Servicing* for issues related to servicing or loss mitigation

The screenshot shows the 'Create Self-Report' page in the LRS system. The navigation bar includes 'LRS', 'Active Reviews', 'Search', 'Binder Request', 'Create Self-Report' (highlighted), 'Completed Reviews', and 'Reports'. The main content area has two steps: '1) Add Case(s) to Self-Report' and '2) Add Case Details:'. Under 'Review Type', there is a dropdown menu with 'Select' at the top, an empty input field, and a list of options: 'Select', 'Underwriting', and 'Servicing'. An 'Add' button is located below the dropdown. At the bottom of the form, it says 'No cases selected. Add individual cases or multiple cases separated by commas.' There are 'Clear' and 'Next Step' buttons at the bottom right.

Lender Self-Reports (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

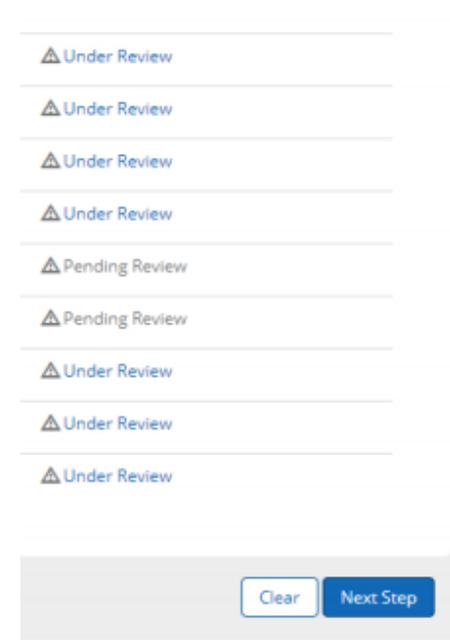
Enter Case Number(s)

Add

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

Lender Self-Reports (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
 - Process a Mortgage Credit Reject in FHAC when appropriate
- *Under Review or Pending Review* means there is an active review in LRS
 - Submit the case number and self-report info to the FHA Resource Center
 - Periodically re-check and attempt to submit the self-report in LRS



A screenshot of a web interface showing a list of items. Each item is represented by a horizontal line with a small triangle icon and a status label. The status labels are: Under Review, Under Review, Under Review, Under Review, Pending Review, Pending Review, Under Review, Under Review, and Under Review. At the bottom right of the list, there are two buttons: 'Clear' and 'Next Step'.

Lender Self-Reports (cont.)

- Enter details and submit

The screenshot shows the 'Create Self-Report' page in the LRS system. The page is divided into two main sections: 'DEFFECT AREAS' and 'FINDINGS AND CORRECTIVE ACTIONS'.

DEFFECT 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 case(s)

Types of Fraud

Fraud Participants

- TPO Broker
- Real Estate Agent
- Loan Officer
- Title Agent**
- 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

Loan Covered Under Settlement with HUD

Clear Submit

Lender Self-Reports (cont.)

- FHA may take any of the following actions
 - Close the review based on information provided
 - Initiate a binder request for underwriting-related issues
 - Reach out directly for servicing-related documentation
 - Refer the issue to HUD's Office of Inspector General

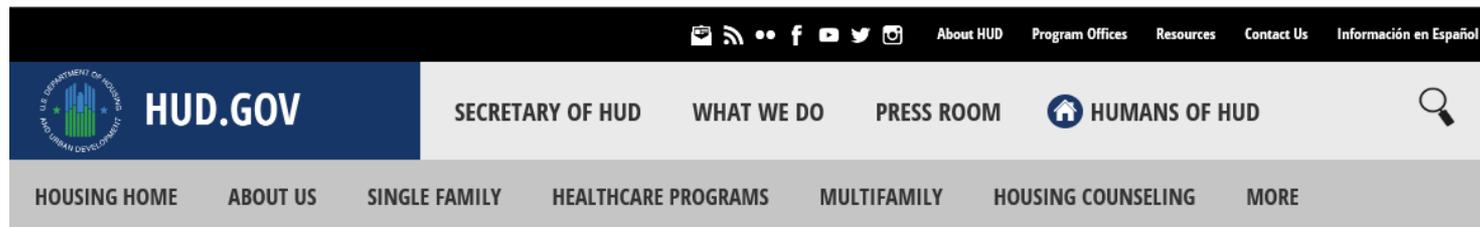
The screenshot displays the 'Create Self-Report' interface in the LRS system. A blue modal box with the title 'SUBMISSION SUCCESSFUL' is centered on the screen, containing the text 'The selected cases have been submitted for review.' and an 'OK' button. In the background, the 'DETECT AREAS' section is visible, listing 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). The 'FRAUD' section is also partially visible, with a checkbox for 'Fraud has been detected for selected cases(s)'. The top navigation bar includes 'LRS', 'Active Reviews', 'Search', 'Binder Request', 'Create Self-Report', 'Completed Reviews', and 'Reports'. The breadcrumb trail shows '1) Add Case(s) to Self-Report' and '2) Add Case Details: 2 Cases Selected'.

Resources



LRS Resources

- LRS Information Page on HUD.gov (https://www.hud.gov/program_offices/housing/sfh/lender/loan_review_system)
- Lender User Manual
- Webinars



[Home](#) / [Program Offices](#) / [Housing](#) / [Single Family](#) / [Lenders](#) / Loan Review System

LOAN REVIEW SYSTEM

The Loan Review System (LRS) is the electronic platform for Federal Housing Administration (FHA) Title II Single Family quality control processes.

Functions and Processes

Lenders use LRS to interact with FHA on the majority of Title II Single Family quality control processes, including:

- Various Post-Endorsement Loan Reviews
- Unconditional Direct Endorsement Authority Test Cases
- Lender Monitoring Reviews

LRS Policy and Information

- March 23, 2017, [Mortgagee Letter 2017-08](#) – LRS May 15th effective date; change to effective date for Mortgagee Letter 2016-21.
- January 11, 2017, [Mortgagee Letter 2017-03](#) – process change details.
- December 14, 2016, [Mortgagee Letter 2016-21](#) – Unconditional Direct Endorsement Authority test case phase



LRS Resources (cont.)

- Lenders can access reports to review their own LRS results
 - Quarterly Loan Review Summary
 - Top Findings
 - Self-Reports
 - Indemnifications
 - Data Downloads

- Compare to the national Quarterly Loan Review Summary
https://www.hud.gov/sites/dfiles/SFH/documents/sfh_qtrlyLoanRevSummary.pdf



Helpful Links

- SF Handbook Information

https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/handbook_4000-1

- Upcoming Single Family Housing Events and Training

https://www.hud.gov/program_offices/housing/sfh/events

- Subscribe to FHA INFO

https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe



FHA Resource Center

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

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



FHA Resource Center (cont.)

- When submitting questions 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 Search interface. On the left, there are search fields and filters. The search field is labeled 'Case Number(s)'. Below it are filter sections for 'PRODUCT TYPE' (Purchase: 71, Refinance: 35), 'SELECTION REASON' (Early Claims: 1, Early Payment Defaults: 11, Lender Self-Report: 94), and 'SELECTION STATUS' (Received: 105, Requested: 1). The main area shows 'SEARCH RESULTS (106)' with a table of results. A red arrow points to a 'Report' button in the top right corner of the results area.

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
		Purchase		Early Payment Defaults	Received	Underwriting	Initial	Assigned	SNA-PUD
		Refinance		Lender Self-Report	Received	Underwriting	Escalation 2	Assigned	DEN-QAD

Q&A

