Agenda

1. Quarterly Loan Review Results
2. Common Defects
3. Lender Self-Reports
4. Resources
5. Q&A
Quarterly Loan Review Results
# Loan Review Volume

## Selection Reason

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

## Review Type

<table>
<thead>
<tr>
<th>Review Type</th>
<th># Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting</td>
<td>6,159</td>
</tr>
<tr>
<td>Servicing</td>
<td>345</td>
</tr>
<tr>
<td><strong>Quarterly Total</strong></td>
<td><strong>6,504</strong></td>
</tr>
</tbody>
</table>

*Loan Review System (LRS) reviews completed from 1/1/2019 to 3/31/2019*
LRS reviews completed from 1/1/2019 to 3/31/2019 (excluding lender self-reports and internal QC)
Quarterly Loan Review Summary

Completed Quarter(s): 2018 Q2, 2018 Q3, 2018 Q4, 2019 Q1
Location(s): All
Sample: Total

Material Defects

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

Review Ratings #

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

Review Ratings %

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

Gross Rating

- Conforming: 63.4%
- Deficient: 14.3%
- Mitigated: 22.2%

Net Rating

- Conforming: 56.3%
- Deficient: 14.3%
- Mitigated: 22.2%
LRS reviews completed from 5/15/2017 to 3/31/2019 (excluding lender self-reports and internal QC)
Common Defects
## Common Defects

### Mortgage Eligibility

<table>
<thead>
<tr>
<th>Source</th>
<th>Cause</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required forms are missing or not properly executed</td>
<td>Eligibility/qualification not supported by documentation</td>
</tr>
</tbody>
</table>

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

**Ratings & Outcomes**

- 57% Unacceptable
- 43% Deficient
- 96% Mitigated
- 4% Indemnified
## Common Defects

### Mortgage Eligibility

<table>
<thead>
<tr>
<th>Source</th>
<th>Cause</th>
<th>Frequent Examples</th>
</tr>
</thead>
</table>
| Required forms are missing or not properly executed | Eligibility/qualification not supported by documentation | → Missing Initial or Final *URLA* 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, *Direct Endorsement Approval*  
→ 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

<table>
<thead>
<tr>
<th>What to report</th>
<th>When to report it</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Findings of fraud and material misrepresentation</td>
<td>Immediately</td>
</tr>
<tr>
<td>Any Material Findings concerning the origination, underwriting, or servicing of a Mortgage that you are unable to mitigate</td>
<td>No later than 90 Days after the completion of the initial Findings report</td>
</tr>
</tbody>
</table>
**Finding**

A final determination of defect by the lender/Mortgagee

**Material Finding**

- **Origination/Underwriting**: 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
- **Servicing**: The Finding has an adverse impact on the Property and/or FHA

**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.)

- Is it fraud? [Yes/No]
  - No: Is it material? [Yes/No]
    - No: Do not report to FHA
    - Yes: Was it mitigated? [Yes/No]
      - No: Do not report to FHA
      - Yes: Report to FHA
  - Yes: Report to FHA

Document your decision
• 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
Choose the appropriate Defect Type

- **Underwriting** for issues that occurred at loan origination
- **Servicing** for issues related to servicing or loss mitigation
Lender Self-Reports (cont.)

• Submit cases in bulk if reporting them for the same issue
  — FHA will request case-specific details if necessary
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
Lender Self-Reports (cont.)

- Enter details and submit
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
LRS Resources

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

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

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
Helpful Links

- SF Handbook Information

- Upcoming Single Family Housing Events and Training
  https://www.hud.gov/program_offices/housing/sfh/events

- Subscribe to FHA INFO
# FHA Resource Center

<table>
<thead>
<tr>
<th>Option</th>
<th>Point of Contact</th>
<th>Hours Available</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
<td><strong>FHA Knowledge Base – FAQs</strong></td>
<td></td>
<td>24/7/365</td>
</tr>
<tr>
<td></td>
<td><a href="http://www.hud.gov/answers">www.hud.gov/answers</a></td>
<td></td>
<td>Knowledge Base web page includes option to email questions.</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td><strong>Email</strong></td>
<td></td>
<td>24/7/365</td>
</tr>
<tr>
<td></td>
<td><a href="mailto:answers@hud.gov">answers@hud.gov</a></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>3</strong></td>
<td><strong>Telephone</strong></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>
<tr>
<td></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></td>
<td></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
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
Q&A