U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: June 23, 2026

Mortgagee Letter 2026-09

To: All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All Eligible Submission Sources for Condominium Project Approvals
All FHA Roster Appraisers
All FHA-Approved 203(k) Consultants
All FHA-Approved Title I Lenders
All HUD-Certified Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject	Eliminating Unnecessary Requirements for FHA Mortgagee Approval and Quality Control
Purpose	This Mortgagee Letter (ML) eliminates and updates unnecessary requirements related to FHA Mortgagee approval and quality control.
Effective Date	The provisions of this ML are effective immediately. All updates will be incorporated into a forthcoming update of the HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).
Affected Programs	The provisions of this ML apply to all FHA-insured mortgage programs.
Background	FHA has identified several opportunities to streamline Handbook 4000.1 by eliminating outdated, redundant, or otherwise unnecessary requirements in section I, Doing Business with FHA, and section V, Quality Control, Oversight, and Compliance. These changes align with the Trump Administration's broader goals to reduce costs and unnecessary regulatory burdens as well as foster long-term economic stability.

In section V, FHA is creating a permanent exception to its Sample Composition Standard (V.A.3.a.iv) policy that exempts Early Payment Defaults (EPD) from the required monthly Quality Control (QC) review sample for certain Mortgages impacted by Presidentially-Declared Major Disasters. FHA has repeatedly issued waivers of EPD review requirements for Properties located in specific Presidentially-Declared Major Disaster Areas (PDMDA). Increased EPDs following a major disaster are expected, and many defaults in PDMDAs are likely the result of loss of employment/income, property damage, forced relocation, and other factors unrelated to noncompliance with FHA requirements. A permanent exception eliminates the need for FHA to issue a waiver for each PDMDA.

FHA has removed the outdated policy in Training (V.A.2.b.i(A)) that required Mortgagees to provide their staff with access to the internet or hard copies of current FHA guidance. Internet access is essentially universal for the mortgage industry and all current FHA guidance is available online. Additionally, Mortgagees are responsible for compliance with applicable guidance whether their staff are actively referencing such guidance or not.

FHA has removed redundant and potentially confusing QC requirements related to Identifying Patterns (V.A.2.c) of noncompliance, which described an implicit component of an effective QC Program. Other FHA policy requires Mortgagees to expand the scope of loan-level QC when fraud or patterns of deficiencies are identified in Scope (V.A.3.a.ii) making the previous Identifying Patterns (V.A.2.c) section redundant. The previous section also focused on loan performance even though a focus on loan quality (patterns of Findings) is the most direct way to uncover control weaknesses. Moreover, the expectation that Mortgagees review loan performance data is addressed indirectly by Credit Watch Termination of Title II Mortgagees (V.E.3.a.iii), which describes FHA's continuous monitoring process for loan performance trends.

Finally, FHA has removed the section I requirement for the Mortgagee's Officer in Charge to be a full-time Corporate Officer exclusively employed by the Mortgagee. FHA already allowed an exception to the exclusive employment requirement for Investing Mortgagees without servicing authority, and requirements applicable to all Corporate Officers include specific conditions under which Corporate Officers may represent more than one Mortgagee. Since the Officer in Charge will be subject to the same conditions, the full-time/exclusive employment requirement is unnecessary.

Summary of Changes

This ML:

- updates Officer in Charge – Standard (I.A.3.c.iv(B)(2)(b)) to remove the full-time/exclusive employment requirement and the exception for Investing Mortgagees, which is no longer necessary;

- updates Training (V.A.2.b.i(A)) to renumber the section and remove Access to FHA Guidance (V.A.2.b.i.(A)(2));
- removes Identifying Patterns (V.A.2.c) and renumbers subsequent sections; and
- updates Sample Composition Standard – Early Payment Defaults (V.A.3.a.iv(B)) with an exception to the EPD sampling requirement for certain Mortgages impacted by PDMDAs.

The Handbook 4000.1 sections impacted by this ML are provided in Attachment 1, with changes tracked in redline to help users clearly identify the policy requirements being revised or removed from the Handbook.

FHA Single Family Housing Policy Handbook 4000.1

Doing Business with FHA

The policy changes will be incorporated into Handbook 4000.1 as follows:

Officer in Charge (I.A.3.c.iv(B)(2))

(b) Standard [Text was deleted in this section.]

The Mortgagee must designate as the Officer in Charge a Corporate Officer who is employed by the Mortgagee and has at least three years of experience in the specific Mortgagee functions or activities that the Mortgagee is approved to perform, including:

- originating or servicing Single Family or multifamily Mortgages;
- investing funds in real estate Mortgages; or
- managing other individuals performing these services.

A Corporate Officer's Experience in real estate sales or brokerage does not qualify.

FHA Single Family Housing Policy Handbook 4000.1

Quality Control, Oversight, and Compliance

Personnel (V.A.2.b.i)

(A) Training [Text was deleted in this section.]

(1) Standard

The Mortgagee must train all staff involved in FHA Loan Administration and QC processes to ensure that staff know all current FHA requirements for the FHA Loan Administration practices for which the Mortgagee is responsible.

(2) Required Documentation

The Mortgagee must maintain a list of all training provided to staff. For each training, the Mortgagee must include a summary of the content covered.

Sample Composition Standard (V.A.3.a.iv)

(B) Early Payment Defaults

(1) Definition

Early Payment Defaults (EPD) are all Mortgages that become 60 Days delinquent within the first six payments.

(2) Standard

The Mortgagee must review *all* EPDs underwritten by the Mortgagee, regardless of which Mortgagee services the Mortgage, unless the EPDs are covered by the exception below.

Title II Mortgagees may use Neighborhood Watch to assist with identifying EPDs.

(3) Exception for Mortgages Impacted by Presidentially-Declared Major Disasters

The Mortgagee is not required to review EPDs that:

- are secured by Properties located in a Presidentially-Declared Major Disaster Area (PDMDA);
- have a mortgage Closing Date before the Incident Period start date (as defined by FEMA); and
- become EPDs after the Incident Period start date.

Paperwork Reduction Act

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0328; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-0610; and 2502-0611. In accordance with the PRA, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

Feedback or Questions

HUD welcomes feedback from interested parties and will consider feedback in determining the need for future updates. Any feedback or questions regarding this ML may be directed to the FHA Resource Center at 1-800-

CALLFHA (1-800-225-5342), answers@hud.gov, or www.hud.gov/answers. The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs.

Signature

Joseph M. Gormley
Performing the Delegable Duties of the Assistant Secretary for Housing - Federal Housing Commissioner

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Attachment 1
Handbook 4000.1 Pages Impacted by this Mortgagee Letter

The Handbook 4000.1 sections impacted by this Mortgagee Letter (ML) are provided in this attachment, with changes tracked in redline, to help users clearly identify the policy requirements being revised or removed from the Handbook.

(b) Standard [Text was deleted in this section.]

The Mortgagee must designate as the Officer in Charge a ~~full-time~~ Corporate Officer who is ~~exclusively~~ employed by the Mortgagee and has at least three years of experience in the specific Mortgagee functions or activities that the Mortgagee is approved to perform, including:

- originating or servicing Single Family or multifamily Mortgages;
- investing funds in real estate Mortgages; or
- managing other individuals performing these services.

A Corporate Officer's experience in real estate sales or brokerage does not qualify.

~~***(i)* Exception for Officer in Charge of an Investing Mortgagee without Servicing Authority**~~

~~An Officer in Charge of an Investing Mortgagee without servicing authority is not required to be exclusively employed by the Mortgagee.~~

(c) Required Documentation

The Mortgagee must designate the Officer in Charge and submit a current resume covering the most recent seven-year period detailing the individual's relevant experience in the online application.

(3) Employees

(a) Definition

Employees are individuals under the direct supervision and control of the Mortgagee.

(b) Standard

***(i)* Eligibility of Employees**

The Mortgagee must not employ any individual who will participate in FHA transactions if the individual is suspended, debarred, under a Limited Denial of Participation (LDP), or otherwise excluded from participation in FHA programs. See Restricted Participation.

***(ii)* Compensation**

The Mortgagee must not compensate employees who perform underwriting or Quality Control (QC) activities on a commission basis.

2. Institutional Quality Control Program Requirements

a. Who May Perform Quality Control (03/14/2016)

The Mortgagee may use employees or contractors to perform QC functions in accordance with the following requirements.

i. Employees

The Mortgagee must ensure that employees who perform QC Program functions are, at all times, independent of all Loan Administration processes and do not directly participate in any of the Loan Administration processes represented in the QC Plan. The Mortgagee must ensure QC employees are not within any chain of reporting or management that is directly connected to Loan Administration staff.

ii. Contractors

The Mortgagee may contract with outside vendors to perform QC functions if:

- the Mortgagee assumes full responsibility for the contractor's conduct of QC reviews in compliance with FHA requirements;
- the Mortgagee and the contractor have a valid contractual agreement in place that specifies the roles and responsibilities of each party; and
- the Mortgagee acknowledges that the existence of such contract for the provision of QC services does not satisfy the Mortgagee's obligation to have a written QC Plan that fully complies with FHA requirements.

The Mortgagee must ensure that contractor employees who perform QC Program functions on behalf of the Mortgagee do not participate in any of the Loan Administration processes represented in the QC Plan.

b. Operational Compliance (12/02/2024)

The Mortgagee must ensure that its QC Plan provides for the following required reviews.

i. Personnel

(A) Training [Text was deleted in this section.]

~~(1) Loan Administration and Quality Control Processes~~

~~(a)~~(1) Standard

The Mortgagee must train all staff involved in FHA Loan Administration and QC processes to ensure that staff know all current FHA requirements for the FHA Loan Administration practices for which the Mortgagee is responsible.

~~(b)~~(2) Required Documentation

The Mortgagee must maintain a list of all training provided to staff. For each training, the Mortgagee must include a summary of the content covered.

~~**(2) Access to FHA Guidance**~~

~~**(a) Standard**~~

~~The Mortgagee must provide all Loan Administration and QC staff with access to current FHA guidance including Handbooks, Mortgagee Letters (ML), Title I Letters (TI), Frequently Asked Questions (FAQ), and other guidance issued by FHA.~~

~~**(b) Required Documentation**~~

~~The Mortgagee must confirm that all Loan Administration and QC staff have access to the internet or to hard copies of current FHA guidance.~~

(B) Restricted Participation

(1) Standard

The Mortgagee must confirm it verified, through each of the following systems, that the designated employees and/or Affiliates listed below were permitted to participate in FHA programs. If any of the designated employees and/or Affiliates are found to be ineligible, they are restricted from participating in FHA programs.

Checks to verify employee eligibility must be conducted at least semiannually.

(a) Excluded Parties List

The Mortgagee must verify employee eligibility for all officers, partners, directors, principals, managers, supervisors, loan processors, loan underwriters, loan originators, and all other employees and Affiliates participating in U.S. Department of Housing and Urban Development (HUD) programs for or on behalf of the Mortgagee, using the System for Award Management (SAM) Excluded Parties List.

(b) Limited Denial of Participation

The Mortgagee must verify employee eligibility for all officers, partners, directors, principals, managers, supervisors, loan processors, loan underwriters, loan originators, and all other employees and Affiliates participating in HUD programs for or on behalf of the Mortgagee, using the Limited Denial of Participation (LDP) List.

(5) description of the current status of the Mortgagee's Cyber Incident response, including whether law enforcement has been notified.

~~**c. Identifying Patterns (05/09/2022)**~~

~~**i. Standard**~~

~~The Mortgagee must review its loan performance data to identify any patterns of noncompliance.~~

~~**ii. Required Documentation**~~

~~The Mortgagee must document the methodology used to review patterns of noncompliance, the results of each review, and any corrective actions taken as a result of review Findings. The procedures used to review patterns of noncompliance must be included in the Mortgagee's QC Plan.~~

~~Title II Mortgagees may use HUD's Neighborhood Watch Early Warning System (Neighborhood Watch) to assist with identifying patterns.~~

~~d~~c. Fraud, Misrepresentation, and Other Findings (04/10/2025)

i. Definitions

(A) Finding

A Finding is a determination of defect by the Mortgagee.

(B) Material Finding

In the context of mortgage origination and underwriting, a Finding is Material if 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 of the Mortgage.

In the context of mortgage servicing, a Finding is Material if it has an adverse impact on the Property and/or FHA.

(C) Mitigated Finding

In the context of mortgage origination and underwriting, a Finding has been Mitigated if 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.

In the context of mortgage servicing, a Finding has been Mitigated if the Mortgagee has adequately addressed the deficiencies underlying the Finding, and such

chance of being selected. The random sample must be drawn from all of the Mortgagee's FHA-insured Mortgages, regardless of origination source or program type.

(B) Early Payment Defaults

(1) Definition

Early Payment Defaults (EPD) are all Mortgages that become 60 Days delinquent within the first six payments.

(2) Standard

The Mortgagee must review *all* EPDs underwritten by the Mortgagee, regardless of which Mortgagee services the Mortgage, unless the EPDs are covered by the exception below.

Title II Mortgagees may use Neighborhood Watch to assist with identifying EPDs.

(3) Exception for Mortgages Impacted by Presidentially-Declared Major Disasters

The Mortgagee is not required to review EPDs that:

- are secured by Properties located in a Presidentially-Declared Major Disaster Area (PDMDA);
- have a mortgage Closing Date before the Incident Period start date (as defined by FEMA); and
- become EPDs after the Incident Period start date.

(C) Discretionary

The Mortgagee must focus discretionary samples on programs, participants, or sources that represent a high level of risk, which may include disproportionate loan volume, default rates, new relationships, or concentration in soft market areas.

v. Required Documentation

The Mortgagee must document how the sample size and selections were determined.

b. Loan Sample Risk Assessment (09/14/2015)

i. Definition

A Loan Sample Risk Assessment is a method of evaluating loans selected for QC on the basis of the severity of the violations found during QC reviews.