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Information from FHA's Office of Lender Activities and Program Compliance

Lender Insight

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What's Trending

New Sections of Single Family Handbook to Post for Feedback

FHA is in the process of developing a consolidated Single Family Handbook, which will serve as a single, authoritative source for all Single Family policies. The Handbook is being developed using a 3-step approach.

1. **Post** - FHA will post the links to each Handbook section or subsection for review and feedback.
2. **Publish** - After the "Posted for Feedback" period ends, FHA will assess the feedback received and subsequently publish the final Handbook section or subsection on HUD Clips.
3. **Effective** - FHA will provide a future effective date on which published Handbook content becomes policy and supersedes all other existing policy documentation on that topic.

FHA expects to post the following Handbook sections for feedback shortly:

- Doing Business With FHA—FHA Lenders and Mortgagees
- Quality Control, Oversight and Compliance
- Appraisals
- 203(k)
- Condos

Your input is important. Please follow the instructions for reviewing and providing feedback shown on each content page, and submit your voluntary feedback to FHA by the respective due dates.

Business Transformation >>>

FHA Launches LEAP 3.0

LEAP 3.0 was deployed on May 27, 2014. LEAP 3.0 is one component of FHA's larger business transformation initiative designed to make it easier to do business with FHA by increasing operational efficiencies, replacing a legacy infrastructure, and enhancing processes and tools for stakeholders. The culmination of several years' work to provide an integrated technology system that enables FHA to better identify, mitigate, and manage counterparty risk; automate manual processes; and replace antiquated technology, LEAP 3.0 will enable mortgagees to complete all required FHA recertification submissions in one system. LEAP also provides enhanced metrics for predictive analysis of lender financial stability, streamlines workflows, and delivers event-driven communications to staff, mortgagees and auditors.

While FHA is enthusiastic about the long term business transformation impact of LEAP 3.0, we are aware that users are having difficulty executing some functions in LEAP 3.0. We are working diligently to resolve these issues and hope to have LEAP operating at its full capacity as quickly as possible.

One-Year Look Back:

Happy Anniversary to Lender Insight and our Quarterly Loan Review Findings Report

It has been one year since the initial publication of *Lender Insight* and our Quarterly Loan Review Findings Report. *Lender Insight* was started in June 2013 with the goal of offering FHA lenders behind the scenes information in the areas of lender approval, recertification, monitoring and compliance, and enforcement.

Since June 2013, FHA's Office of Lender Activities and Program Compliance (OLAPC) has published four (now five) quarterly issues, covering topics from our Business Transformation Initiative and the deployment of LEAP 3.0, to proper data entry for borrowers' source of funds and Mortgage Insurance Certificates, to FHA'S Post-Endorsement Technical Review (PETR) escalation process.

The Quarterly Loan Review Findings Report, which aggregates the initial findings of all Single Family PETRs conducted by FHA within a particular quarter, also first appeared in *Lender Insight* one year ago.

To assist with the mitigation process, each edition of *Lender Insight* has featured one of the five findings categories that make up the Quarterly Loan Review Findings Report. These features have highlighted common sources of findings in each category and alerted lenders regarding ways to mitigate initial unacceptable findings. This issue features the final cohort to be highlighted—Collateral/Asset Valuation findings.

Readers may access past issues of *Lender Insight* and Quarterly Loan Review Findings Reports on our Lender Page at www.hud.gov/lenders. We appreciate the efforts of our lender partners to improve compliance and performance and we look forward to a great year of responsible lending.

-The OLAPC Team



Mortgage Review Board Statistics

Total Civil Money Penalties (CMPs):	\$575,745
Lenders Sanctioned:	66
Settlement Agreements:	7
Lenders Who Entered Into Indemnification Agreements:	2
Loans Covered by Indemnification Agreements:	5
Lenders Withdrawn:	57

**Statistics cover the period October 1, 2013, through March 31, 2014, and refer to actions taken by the Mortgage Review Board only.*

Quality Control >>>

Continued Use of Expired Forms

HUD recognizes that Form 92800.5B, "Conditional Commitment Direct Endorsement Statement of Appraised Value" shows as expired in HUD Clips (expired as of 3/31/2014). HUD has submitted a renewal package for this form to the Office of Management and Budget (OMB). In the interim, OMB has granted HUD and its lenders permission to continue using the expired Form 92800.5B. As soon as the updated form is approved by OMB, it will be posted in the "Forms Library" on HUD Clips at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips.

OMB recently approved updates to Forms 92900-A, "HUD/VA Addendum to Uniform Residential Loan Application" and 92900-LT, "FHA Loan Underwriting and Transmittal Summary," which now have revised expiration dates of April 30, 2017. Updated copies of these forms are available on HUD Clips.

Enforcement Actions >>>

During the period from January through March 2014, cases heard by the Mortgagee Review Board (MRB) involved infractions consisting of the following types of fact-based violations:

- Failure to implement and maintain a Quality Control Plan
- Failure to review delinquent loans on a monthly basis to determine which loss mitigation technique, if any, was appropriate
- Failure to report a merger between two FHA-approved lenders to HUD
- Failure to timely notify HUD of a change in a lender's corporate officers
- Failure to honor the terms of outstanding indemnification agreements

Initial Quarterly Loan Review Findings

FHA's Quarterly Loan Review Summary for Quarter ending March 31, 2014

Introduction >>>

The FHA Quarterly Loan Review Findings include all Single Family Post-Endorsement Technical Loan Reviews (PETRs) conducted by FHA between December 31, 2013, and March 31, 2014. **This report reflects the initial rating of each file reviewed during the quarter.** A loan rating of unacceptable may change if the lender provides mitigating documentation to FHA. Even if a rating is subsequently mitigated, an initial rating of unacceptable indicates the loan endorsement file exhibited a material defect at the time of endorsement. For additional details on the Report, please visit the "Quarterly Loan Review Findings Report" tab on our lender page at www.hud.gov/lenders.

Loan Sample Characteristics >>>

Total Loans Reviewed:	6,645	Purchase:	77%
Conforming:	16%	Rate & Term Refinance:	6%
Deficient:	36%	Streamline Refinance:	17%
Initial Unacceptable:	48%	HECM:	0%
		EPDs:	43%

Finding Category	% of Total	% Unacceptable (U)
Program Eligibility	10%	49%
Credit/Underwriting	28%	61%
Collateral/Asset Valuation	6%	33%
Operational Deficiencies	9%	44%
File Documentation	47%	29%
Totals	100%	

Top 5 Findings Ranked by Category

Program Eligibility	% of Total	% U	Credit and Underwriting	% of Total	% U
1. Purchase contract, Real Estate Certificate and/or Amendatory Clause missing, illegible or incorrect.	21%	22%	1. CAIVRS, LDP/GSA authorization, and/or delinquent federal debt issues not properly documented or satisfied.	17%	43%
2. Streamline refinance eligibility criteria not met.	14%	67%	2. Unacceptable, unsupported, or insufficient source of funds.	15%	62%
3. Mortgage amount incorrect, loan-to-value limit and/or statutory limit exceeded.	12%	82%	3. Concerns related to assets derived from gift(s).	12%	64%
4. Borrower not owner occupant, property not principal residence, possible investor issues and/or eligibility requirements for principal residence not met.	11%	30%	4. Obligations of borrower(s) (non-purchasing spouses included) omitted, inaccurate, not supported, not disclosed, and/or illegible.	12%	67%
5. Issues related to National Mortgage Licensing System registration requirements.	11%	26%	5. Income improperly documented.	12%	61%
6. All other	31%	63%	6. All other	31%	67%
	100%			100%	

Operational Deficiencies	% of Total	% U	File Documentation	% of Total	% U
1. Data integrity deficiencies: File documentation does not support Accept/Approve decision in AUS.	42%	53%	1. Form HUD-92900-A not properly completed or missing.	22%	10%
2. Lender Insured data integrity concerns: Insured loan data entered in FHA Connection is not supported by file documents.	26%	25%	2. Uniform Residential Loan Application not properly completed or missing.	12%	8%
3. Unallowable, excessive costs/credits to borrower or other HUD-1 and/or Good Faith Estimate inaccuracies.	16%	63%	3. HUD-92900-LT FHA Loan Underwriting and Transmittal Summary is missing, illegible or incorrect.	11%	10%
4. Non-Lender Insured data discrepancies exist between information entered in FHA Connection and the case binder, but do not affect loan approval or insurability.	11%	21%	4. Form HUD-92800.5B substantially incomplete, incorrect or missing.	9%	8%
5. Sales contract dated less than 91 days from acquisition date by seller.	2%	71%	5. Existing construction in Special Flood Hazard Area (A or V Zone) without evidence of flood insurance.	8%	66%
6. All other	3%	63%	6. All other	37%	49%
	100%			100%	

Top 5 Findings Ranked by Category (Continued)

Collateral/Asset Valuation	% of Total	% U
1. Concerns related to Sales Comparison Approach section of the appraisal report.	38%	13%
2. Concerns related to the Neighborhood, Site, and/or Improvements section of the appraisal report.	35%	27%
3. Property does not meet Minimum Property Requirements or Standards.	13%	73%
4. Repairs not acceptably addressed.	7%	86%
5. Appraisal is missing or expired.	5%	50%
6. All other	2%	56%
	100%	



Timeframe for Lender Responses to Findings Letters

Lenders are reminded that they must adhere to prescribed timeframes for responding to Quality Control (QC) finding letters from FHA. Lender responses to findings letters issued in response to FHA's Post Endorsement Technical Reviews (PETRs) are due within **45 days** from the letter issuance date. All other responses to FHA QC findings letters are due within **30 days** from the letter issuance date. Failure to timely respond may result in administrative action.

 **Focus: COLLATERAL/ASSET VALUATION >>>**

Included below are common examples of collateral/asset valuation issues that may lead to unacceptable ratings. This list is not exhaustive and is meant as an informal resource only.

1. Concerns related to Sales Comparison Approach section of the appraisal report.

- Unacceptable if one or more of the following apply without sufficient explanation in the appraisal report: one or more of the first three comparables used are unacceptable based on physical characteristics or type of transaction; one or more of the first three comparables are not closed as of the date of the appraisal; overall adjustments are excessive without explanation from the appraiser; adjustments made are not supported using data from subject's immediate market area; sales are not sufficiently comparable to the subject property; one or more of the first three comparable sales (in order on sales grid) are over one year old; the value is not supported by the totality of the information relied on by the appraiser.

2. Concerns related to the Neighborhood, Site, and/or Improvements section of the appraisal report.

- Unacceptable if there are issues related to these sections of the appraisal report that affect the property's safety, security, and/or soundness that impact the functionality and/or marketability of the subject property. For example, if adverse conditions exist, such as proximity to a gas station or landfill, and they are not adequately addressed in the appraisal report.

3. Property does not meet Minimum Property Requirements or Standards.

- Unacceptable if the property does not meet minimum property requirements or standards such that the health and safety, ability of the property to serve as collateral, and/or the structural soundness of the property are in question. For example, if defective construction conditions exist that have not been remedied, or if the appraiser failed to report on the availability of connection to public and/or community water or sewer systems.

4. Repairs not acceptably addressed.

- Unacceptable if the lender did not address repairs cited on the appraisal report that affect the eligibility of the property. Unacceptable if the lender escrowed funds for repairs that go beyond minor items affected by weather conditions, and there is no documentation in the file evidencing the repairs have been successfully completed. Unacceptable if the completion date for repairs or a reasonable amount of time has passed since repair escrow set-up and there is no evidence in the file that the repairs have been completed and the escrow funds released.

5. Appraisal is missing or expired.

- Unacceptable if the appraisal is more than 150 days old (120 day validity period plus 30 day extension) at loan closing. For HUD REO sales financed with an FHA-insured mortgage, a valid HUD REO sales contract must be ratified within 120 days of the appraisal effective date. Unacceptable if *Form 1004D, Appraisal Update* is missing or was not completed within 120 days of the effective date of the original appraisal. Unacceptable if the original appraisal, plus the Appraisal Update, is more than 240 days old at loan closing.

The FHA Resource Center is here to help! Contact us at:

Phone: **1-800-CALL-FHA (225-5342)**

TTY: **1-800-877-8339**

Email: **answers@hud.gov**

For more information, please visit our FHA Lender page at **www.hud.gov/lenders**
and our online FAQ site at **www.hud.gov/answers**

