

## In this issue >>>

FHA's Quarterly Loan Review Findings:

Initial Findings from Quarter Ending June 30, 2014

Frequently Asked Questions on Loan File Documentation

Need for Working Utilities at Time of Appraisal

Updating Administrative Contacts

Reporting Mergers & Acquisitions



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

# Lender Insight

Issue No. 6  
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## What's Trending

### LEAP System Fixes Implemented

When LEAP 3.0 deployed in May of this year, it was not without some growing pains as users had difficulty executing certain functions immediately following deployment. FHA worked diligently to resolve the issues presented as quickly as possible. As a result, the following fixes have been implemented.

- Lenders may add, edit, and delete branch and regional managers
- Lenders may delete attachments uploaded to LEAP
- Lender edits to cash flow accounts now update properly in the database
- FHA changed the way lenders edit their principal affiliations in LEAP
- Newly approved lenders now have access to LEAP
- The maximum allowable characters when submitting an "unable to certify" explanation during recertification is set to 250 characters
- FHA corrected the Adjusted Net Worth calculation in the Financial Data Template
- FHA corrected the pay.gov agency application ID to resolve payment/ACH confirmation issues

- FHA added Social Security Number validation to allow only 9 digits to be entered when certifying to the recertification statements
- Certifying officers that do not have titles in FHA's legacy data systems are now visible and able to certify when properly logged into LEAP
- The Agreed Upon Procedures page automatically populates with Independent Public Accountant UII (Unique IPA Identifier) information

LEAP 3.0 is part of a multi-year effort to provide an integrated technology system that enables FHA to better identify, mitigate, and manage counterparty risk; automate manual processes; and replace antiquated technology. FHA appreciates the patience of lenders as we worked to implement these important fixes.

**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](mailto:answers@hud.gov)

For more information, please visit our FHA Lender page at

[www.hud.gov/lenders](http://www.hud.gov/lenders)



# Initial Quarterly Loan Review Findings

FHA's Quarterly Loan Review Summary for Quarter ending June 30, 2014

## Introduction >>>

The FHA Quarterly Loan Review Findings include all Single Family Post-Endorsement Technical Loan Reviews (PETRs) conducted by FHA between March 31, 2014, and June 30, 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](http://www.hud.gov/lenders).

## Loan Sample Characteristics >>>

Total Loans Reviewed:	5,217	Purchase:	83%
Conforming:	19%	Rate & Term Refinance:	7%
Deficient:	34%	Streamline Refinance:	10%
Initial Unacceptable:	47%	HECM:	33%
		EPDs:	42%

Finding Category	% of Total	% Unacceptable (U)
Program Eligibility	9%	51%
Credit/Underwriting	26%	67%
Collateral/Asset Valuation	7%	33%
Operational Deficiencies	9%	50%
File Documentation	49%	29%
<b>Totals</b>	<b>100%</b>	

## 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.	29%	24%	1. Unacceptable, unsupported, or insufficient source of funds.	16%	67%
2. Borrower not owner occupant, property not principal residence, possible investor issues and/or eligibility requirements for principal residence not met.	13%	36%	2. Obligations of borrower(s) (non-purchasing spouses included) omitted, inaccurate, not supported, not disclosed, and/or illegible.	14%	68%
3. Issues related to National Mortgage Licensing System registration requirements.	10%	22%	3. Income improperly documented.	13%	64%
4. Mortgage amount incorrect, loan-to-value limit and/or statutory limit exceeded.	10%	96%	4. Concerns related to assets derived from gift(s).	13%	66%
5. Newly constructed home does not meet requirements.	8%	76%	5. CAIVRS, LDP/GSA authorization, and/or delinquent federal debt issues not properly documented or satisfied.	12%	44%
6. All other	31%	72%	6. All other	32%	75%
	<b>100%</b>			<b>100%</b>	

Collateral/Asset Valuation	% of Total	% U	Operational Deficiencies	% of Total	% U
1. Concerns related to Sales Comparison Approach section of the appraisal report.	41%	15%	1. Data integrity deficiencies: File documentation does not support Accept/Approve decision in AUS.	46%	57%
2. Concerns related to the Neighborhood, Site, and/or Improvements section of the appraisal report.	33%	22%	2. Lender Insured data integrity concerns: Insured loan data entered in FHA Connection is not supported by file documents.	25%	28%
3. Property does not meet Minimum Property Requirements or Standards.	12%	83%	3. Unallowable, excessive costs/credits to borrower or other HUD-1 and/or Good Faith Estimate inaccuracies.	14%	74%
4. Repairs not acceptably addressed.	7%	87%	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%	24%
5. Appraisal is missing or expired.	5%	55%	5. Sales contract dated less than 91 days from acquisition date by seller.	2%	100%
6. All other	1%	64%	6. All other	2%	82%
	<b>100%</b>			<b>100%</b>	

**Top 5 Findings Ranked by Category (Continued)**



**Documenting Compensating Factors**

As per Handbook 4155.1, Chapter 4.F.3.a and Mortgagee Letter 2014-02, compensating factors used to justify approval of manually underwritten mortgage loans with ratios exceeding benchmark guidelines must be recorded in the “Underwriter Comments” section of Form HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*. In addition, compensating factors used to justify manually approved loans must be supported by documentation included in the case binder. Failure to thoroughly document all compensating factors on Form HUD-92900-LT, or to include all supporting documentation in the case file, may result in an “Unacceptable” rating during a case file review.

File Documentation	% of Total	% U
1. Form HUD-92900-A not properly completed or missing.	23%	9%
2. Form HUD-92900-LT FHA Loan Underwriting and Transmittal Summary is missing, illegible or incorrect.	11%	12%
3. Form HUD-92800.5B substantially incomplete, incorrect or missing.	11%	7%
4. Uniform Residential Loan Application not properly completed or missing.	11%	7%
5. HUD-1, HUD-1 Addendum if applicable, and/or Good Faith Estimate either missing, not the final copy, not complete, or illegible.	8%	16%
6. All other	36%	62%
	<b>100%</b>	

**FILE DOCUMENTATION: Frequently Asked Questions >>>**



**Q: How does the lender complete the LDP/GSA box on the Form HUD-92900-LT?**

A: The LDP/GSA box should be marked to indicate whether or not the borrower(s) *appeared* on the LDP or GSA lists. If a borrower or co-borrower is on the LDP/GSA list, check yes. If a borrower or co-borrower is not on the LDP/GSA list, check no.

**Q: What flood zone documentation is required in the FHA Case Binder?**

A: The appropriate flood zone documentation identified below must be submitted with the case binder for endorsement:

- Flood zone determination certificate for all properties,
- Life of loan certification, and if applicable,
  - LOMA (Letter of Map Amendment), or
  - LOMR (Letter of Map Revision), or
  - FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 81-31).

The flood zone documentation must follow the appraisal report in the stacking order for paper case binders and should be indexed in the appraisal package for electronic case binders. For more information on FHA flood insurance requirements, see Mortgagee Letter 2012-28.

**Q: When should the final Form HUD-92900-A be signed?**

A: The borrower may sign Form HUD-92900-A prior to or at closing. The Lender Certification section on page 4 must be completed by the lender post-closing. For more information on Form HUD-92900-A signature requirements, see HUD Handbook 4155.1, Chapter 1.B.3.b. and 3.c.

**Q: Is a NMLS ID required on Form HUD-92900-A?**

A: Yes. Form HUD-92900-A must include the legal name, Tax ID (Employer Identification Number), and NMLS ID of the originating lender, including sponsored third-party originators (TPOs). The NMLS ID of the originating loan officer is not required. For more information related to NMLS requirements on Form HUD-92900-A, see HUD Handbook 4155.1, Chapter 1.B.3.b and Mortgagee Letter 2010-33.

**Q: Where can I get the most recent list of FHA’s findings codes?**

A: The link to the list of underwriting findings codes used by HUD staff for Post-Endorsement Technical Reviews (PETRs) is available on HUD’s Lender page at [www.hud.gov/lenders](http://www.hud.gov/lenders) under the Performance Tab. The link can also be found on HUD’s Frequently Asked Question page at <http://bitly.com/FHFAQ> by conducting a keyword search for “findings codes.”

## Appraisals >>>

### Utilities Must Be in Working Order at Time of Appraisal

Under FHA guidelines, all utilities in a property must be in proper working order at the time the appraisal is being performed. The appraiser must examine the mechanical, plumbing, and electrical systems of the subject property to ensure they are in proper working order. This includes turning on the applicable systems and observing performance.

Electrical, plumbing, and/or heating certifications may be called for by the appraiser when the appraiser cannot determine if these systems are working properly; however an appraiser should not arbitrarily request such certifications. If any of the systems are non-operational at the time of appraisal, the non-operational utilities must be re-inspected and cleared for certification prior to the date of the prospective homebuyer's closing.

Only an FHA appraiser in good standing on the FHA Appraiser Roster may complete the required Certification of Completion portion of the Fannie Mae Form 1004d/ Freddie Mac Form 442, in accordance with the instructions in Mortgagee Letter 2009-51.



## Recertification >>>

### Attention Lenders:

Lenders who are overdue in completing their annual recertification packages, including one or more of the following:

- the submission of required financial reports
- the execution of FHA's annual recertification statements, or
- the payment of annual renewal fees

will begin to receive Notices of Deficiency from FHA. Failure to timely correct the deficiencies cited will result in a Notice of Violation (NOV) from FHA's Mortgagee Review Board. All notices will be directed to the lender's administrative contact.

## Communications >>>



### Updating Administrative Contacts

Lenders must ensure their administrative contact information in LEAP is complete and up-to-date, including a current business address, phone number, and email address. The designated administrative contact must be an individual that FHA may contact directly, not a general lender phone number or email inbox. Lenders may designate a secondary administrative contact. However, only the primary administrative contact will receive direct communications from FHA. The secondary administrative contact will only be contacted in matters of escalation.

*For step-by-step instructions on how to:*

- *Change your administrative contact information*
- *Report mergers, acquisitions, and purchases*

*And more, check out FHA's detailed LEAP Manual on our Lender page at:*

[http://portal.hud.gov/hudportal/documents/huddoc?id=SFH\\_LEAP\\_user\\_manual.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=SFH_LEAP_user_manual.pdf)

## Mergers & Acquisitions >>>

### Reporting Mergers & Acquisitions

Lenders are required to report all proposed mergers, acquisitions, and purchases to FHA before they occur. Mergers, acquisitions, and purchases must be reported in LEAP by an approved user from the surviving entity. If the surviving entity is not FHA-approved, it may submit an Ad-Hoc request in LEAP.

FHA approval is not transferrable to a new entity. If the surviving entity is not FHA-approved, it must apply for and receive FHA approval prior to the merger, acquisition, or purchase taking place. If the surviving entity is FHA-approved, but its Tax ID number will change after the merger, acquisition, or purchase, new FHA approval is required.

FHA will work with the surviving entity to determine if new approval is needed, and to transfer any outstanding branches from the non-surviving entity. Branches may only be transferred after FHA has validated the merger, acquisition, or purchase.

