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Lender Insight

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What’s Trending
Focus on FHA Lender and Loan Reviews

Some of the questions we hear most often at FHA have to do with our lender and loan review processes. Lenders want to know how FHA targets, who we target, the types of reviews we conduct, and our processes for mitigation and resolution of findings. This issue of Lender Insight contains all that and more. Read on for the answers you’ve been looking for!

FHA Quality Control Reviews:

The majority of FHA’s counterparty quality control resources are distributed into the following review processes:

- **Lender Monitoring Reviews.** FHA selects institutions to review using its lender targeting methodology. Targeting factors may include, but are not limited to, loan volume, default/claim rate, participation in specific FHA loan programs, and servicer loss mitigation performance. As part of each lender monitoring review, loans are selected to determine compliance with FHA requirements. Reviews are conducted by the Quality Assurance Divisions (QAD) in the Single Family Homeownership Centers and focus on origination, underwriting, and servicing issues for both forward and HECM loans.

- **Non-Performing Loan Reviews.** QAD selects a sample of non-performing loans as a part of each lender monitoring review. The sample excludes reviews of early payment defaults and early claims, which are analyzed separately.

- **Post Endorsement Technical Reviews—Performing Loans.** These loan reviews focus on underwriting and are performed by Processing and Underwriting Division staff shortly after endorsement. Loans are selected using rules-based algorithms for forward and HECM loans. Staff also review recently endorsed loans due to complaints as a result of borrower, lender, or public inquiries.

- **Post Endorsement Technical Reviews—Early Payment Defaults.** Reviews of early payment defaults are conducted by Processing and Underwriting Division staff on all loans (including streamline refinances) that become 60 or more days past due within the first 6 payments. Additionally, for early payment defaults of streamline refinances, staff also conduct a review of the initially fully underwritten loan if endorsed within the past two years.

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Early Cohort Claim Reviews.
As part of its ongoing commitment to enhance loan targeting methodologies and counterparty risk measurements, QAD has committed to reviewing 100% of loans that go to claim within 24 months of the beginning amortization date. Early cohort claims reviews are conducted by QAD staff in Headquarters to determine compliance with FHA’s origination and underwriting requirements.

Lender Self Reports. Loans are self-reported by lenders when identified through the lender’s internal quality control process as having potential violations of fraud, material misrepresentations, or other material deficiencies involving the origination, underwriting, or servicing of the loan.

Review Escalation Processes >>>
If FHA uncovers findings during the course of its review processes, FHA issues a notice to the lender describing the findings and requests the lender submit additional documentation to mitigate all findings cited in the notice. Lenders that fail to submit documentation to mitigate the finding(s), or lenders that fail to respond, are referred to either the Quality Assurance Division or the Office of Lender Activities and Program Compliance in Headquarters for resolution. These lenders may be sent a request to sign an indemnification agreement based on the materiality of findings or to implement another remedy acceptable to FHA (e.g., principal reduction, refund of fees to the borrower, etc.). Cases that are unable to be resolved are referred to the Mortgagee Review Board (MRB). Once a case is referred to the MRB, further review of the lender will occur.

CORRECTION >>>
Below is a correction to the FAQs that appeared in the September 2014 issue of Lender Insight:

Q: Is a NMLS ID required on Form HUD-92900-A?
A: A NMLS ID is only required on Form HUD-92900-A for sponsored third-party originators (TPOs). Form HUD-92900-A, page 3, must include the legal name, Tax ID (Employer Identification Number), and NMLS ID of the TPO.

The FHA Resource Center is here to help!
Contact us at:
Phone: 1-800-CALL-FHA (225-5342)
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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