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

# LENDER INSIGHT

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## Loan Review System

FHA launched the **Loan Review System (LRS)** on May 15, 2017. The new electronic platform streamlines FHA's Single Family quality control processes.

To ensure timely receipt of automated system notifications, lenders should maintain up-to-date administrative contact information in FHA Connection and the Lender Electronic Assessment Portal (LEAP), and review current FHA Connection user access for appropriate roles.

## System Access

Lenders' in-house FHA Connection Application Coordinators have the authority to grant access to, and assign roles within, LRS.



If users are granted the correct roles, then they should be able to access the system from the FHA Connection menu.



Please use a supported browser; Internet Explorer version 11.0 or higher, Google Chrome, or Mozilla Firefox.



Prior to contacting the FHA Resource Center, please capture a screen shot of any error message and be prepared to provide the following: the date and time of attempted log-in, your user ID, lender user ID, and institution name.

The FHA Resource Center accepts both calls, and emails with attachments. Please reference the attachment in the body of the email.

## Material Findings

Lenders are able to view the results of all quality control reviews completed by FHA in LRS.



For any loan with unacceptable findings (i.e. Tier 1 or Tier 2 severity level), lenders are given the opportunity to respond with mitigating documentation to attempt resolution.



Responses should be saved as you address each finding; however you **must** click "Complete Wrap-Up" on the Findings Overview screen to submit your responses to FHA. Instructions on how to respond to unacceptable findings are found in the LRS Lender User Manual Section 1. #B.



Please note that LRS does **not** allow lenders to respond to deficient findings (i.e. Tier 3 and Tier 4).

FHA is focused on ensuring that loans are materially compliant. Using limited resources to address low risk compliance issues is simply not feasible. Lenders may access results of reviews in their "Completed Reviews" tab.

## Reports

LRS was designed with robust reporting capabilities. In future releases, lenders will have the ability to review reports associated with their loan quality (*material defects and details*) as well as request processing time-lines.

Lenders also will be able to download certain LRS data sets to aid in additional analysis.

# LOAN REVIEW SYSTEM

## Self-Reports

Lenders must self-report all underwriting and servicing instances of fraud, misrepresentation, and material violations.



Upon receipt of a self-report, or batch of loans, the Loan Review System will initiate a nightly automated job to request the loan binder from the lender or FHA's record center.



After the binder is received by FHA, it will be assigned to an FHA staff member for review. Once assigned, the self-report will be visible in the lender's LRS Active Reviews tab.



FHA is developing a report that will allow lenders to view all submitted Self-Reports in LRS at the time of submission.

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Please note that if a Home Equity Conversion Mortgage (HECM) case was endorsed more than one year ago, it has been archived and must be restored using the FHA Connection Case Query screen before submitting the self-report in LRS. Restored cases are visible within 2-3 business days.

## QUESTIONS?

Visit our FHA Lender page at:  
[www.hud.gov/lenders](http://www.hud.gov/lenders)  
and our online FAQ site at:  
[www.hud.gov/answers](http://www.hud.gov/answers)

Email:  
[answers@hud.gov](mailto:answers@hud.gov)

Phone:  
1-800-CALL-FHA  
(225-5342) or TTY:  
1-800-877-8339

## Did you know?

LEAP allows for two email addresses to be included for the Administrative Point of Contact.

Lenders are strongly encouraged to add the secondary email for the Administrative Address in LEAP. Instructions on how to maintain the LEAP Administrative Contact are found in the LEAP User Manual Section 5.1.5.

LRS sends review notifications to both the primary and secondary email addresses registered in LEAP.

## LRS User Resources

On June 28, 2017, FHA delivered the "LRS: Best Practices and Common Questions" Industry Webinar. A recorded version this and previous LRS Webinars, is available on the Archived Webinars webpage.

In addition to contacting the FHA Resource Center, lenders are encouraged to access the LRS Information Page on HUD.gov.

The LRS Information Page houses links to the LRS User Manual, Mortgagee Letters, and other resources. LRS Frequently Asked Questions (FAQs) are located on the FHA Resource Center's Online Knowledge Base to further assist users. For the latest and greatest in LRS news, make sure your FHA INFO subscription is up-to-date.

## ELECTRONIC CASE BINDERS

LRS **does not** accept electronic case binders. Instead, when a case binder is requested, LI Lenders with approval to submit electronic case binders must upload the electronic case binder as instructed in the Electronic Case Binder Developer's Guide. FHA review staff will have access to the case binder through LRS.

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Save staff time, shipping costs, and paper-request approval to submit electronic case binders. The Electronic Case Binder Developer's Guide provides information for lenders' software development and maintenance staff regarding the submission of electronic case binders. So, get started today on your way to a paperless case binder process!

# QUARTERLY LOAN REVIEW UPDATE

## Post Endorsement Technical Reviews

These charts provide sample characteristics, ratings, and top mitigated findings between January 1, 2016, and March 31, 2017.

*FHA has conducted 55,149 post endorsement technical reviews between Oct 2014 and March 2017.*

Due to the implementation and launch of LRS, random sampling was not conducted during the review period.

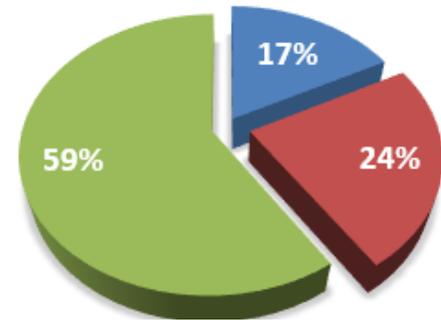
## Loan Sample Characteristics

| Type        | #     | % of Total |
|-------------|-------|------------|
| Purchase    | 971   | 75%        |
| Streamline  | 216   | 17%        |
| Rate & Term | 91    | 7%         |
| HECM        | 11    | 1%         |
| Total       | 1,289 | 100%       |

|            |       |      |
|------------|-------|------|
| Performing | 106   | 8%   |
| EPDs       | 1,183 | 92%  |
| Random     | 0     | 0    |
| Total      | 1,289 | 100% |

## Loan Review Ratings as of March 2017

| Performance Type | Outcome |
|------------------|---------|
| Conforming       | 223     |
| Deficient        | 302     |
| Unacceptable     | 764     |
| Total            | 1,289   |



■ Conforming ■ Deficient ■ Unacceptable

## FINANCIAL REPORTING

The annual recertification package that FHA presents in the LEAP system to a small supervised lender is based on the lender's most recent audited financial statements. When a small supervised lender experiences growth such that their assets exceed \$500M or more, it is important that this information is properly disclosed to FHA.

For example, if on January 1, 2017, you're classified as a small supervised lender, but in April 2017, you acquired assets that caused you to cross the \$500M threshold, you are still considered a small supervised lender—the classification is based on your beginning fiscal year assets. However, when you submit your financials for the fiscal year ending 2017, you must:

1. Update the financial data template (FDT) in LEAP to the whole dollar amount (ex. \$650,000,000) per your call report.
2. Attach supporting documentation (i.e. call report, financial statement).

When FHA completes its evaluation of your 2017 financials, it will designate you as a large supervised lender for the next recertification cycle and you will be assigned a recertification package appropriate to your classification.