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

Lender Insight

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What's Trending Recertification Process Changes

FHA's business transformation effort will implement a series of system enhancements, including replacement of the Lender Assessment Sub-System (LASS) by the Lender Electronic Assessment Portal (LEAP), effective April 2014.

LEAP

LEAP will improve overall capabilities and streamline the recertification process for FHA-approved lenders. As part of this process, lenders will be able to use LEAP to manage institution and branch information and lender profile functions, as well as to complete their annual recertification.

LEAP will replace the current "Lender Approval" and "Cash Flow Account System" web pages on FHA Connection. FHA Connection will remain lenders' point of access to LEAP.

LEAP will provide a more efficient recertification process, encompassing the annual certification, payment, and financial data submission. Where traditionally lenders were required to access both FHA Connection and LASS to complete the annual recertification process, LEAP will enable lenders to

complete all required recertification submissions in one system.

Changes to Recertification

The transition to LEAP will trigger a series of changes to the annual recertification process including changes to:

- certification
- recertification fee
- financial reporting segments
- attestation
- financial data entry

Transition Period

In order to execute changes, FHA Connection will enter a two-week transition period during April 2014. The transition period will **not** affect loan origination, servicing, or reporting functions in FHA Connection or in Neighborhood Watch.

For more information, please visit our lender page at www.hud.gov/lenders to view an expanded slide presentation from our recent LEAP Webinar held November 20, 2013.

Recertification Filing Deadlines >>>

Lenders with October and November 2013 FYE Must Timely File Recertification



FHA lenders with a fiscal year end of October 31, and November 30, 2013, must complete the annual recertification by the deadlines associated with their fiscal year end (January 31, and February 28, 2014, respectively). These lenders will complete the annual recertification process using the current system. Financial submissions must be accepted by FHA for recertification to be considered “complete.”

Any lenders that have already made their financial submissions, but have not cured all deficiencies noted by FHA’s auditors must submit all cures for review and acceptance as soon as possible. Final LASS submissions must be completed by February 28, 2014.

Any lenders whose submissions are not complete at that time may be referred to the Mortgagee Review Board for administrative action.

Recertification Filing Deadlines >>>

FHA Grants Filing Extension to Lenders with a FYE of December 31, 2013



FHA lenders with a fiscal year end of December 31, 2013 must complete the annual recertification process, including submission of financial information and payment of fees, using LEAP. *The FHA Commissioner has extended the filing deadline for lenders with a December 31, 2013 fiscal year end until 30 days after the deployment of LEAP.* This is a temporary waiver and applies only to lenders with a fiscal year end of December 31, 2013. The extension allows lenders and their Independent Public Accountants additional time to prepare financial information. For more information, please see Mortgagee Letter 2013-42.

Annual Renewal

Fees

Lenders may not remit annual renewal fees until their Electronic Annual Certification has been submitted and accepted. All fee payments must be made electronically. HUD does not accept checks for the payment of renewal fees. The renewal fee is non-refundable and the fee cannot be prorated.

To ensure that lenders are paying the correct recertification fees, FHA made changes to its internal systems to calculate recertification fees based on the number of FHA-approved branch offices as of the first business day of the lender’s annual reporting period. **Lenders that wish to terminate branches and thereby not pay a recertification fee for the next annual period must do so on or before the last business day of the annual reporting period.** Lenders attempting to terminate branches after the last day of their annual reporting period will not be permitted to do so until the annual recertification fees have been paid in full. For more information, please see Mortgagee Letter 2012-27.



Lender Self-Reporting Requirements >>>

On November 13, 2013, FHA published Mortgagee Letter 2013-41, “Lender Self-Reporting Requirements.” This Mortgagee Letter clarifies and updates guidelines on self-reporting findings of fraud, misrepresentation, and other material findings. The Mortgagee Letter provides definitions and examples of what constitutes a material finding and delineates what types of findings must be reported; provides guidelines on timeframes and procedures for reporting findings to the lender’s senior management, taking corrective action, and notifying FHA; outlines FHA’s internal review processes; and describes repercussions for failing to report findings to FHA. ML 2013-41 is available at <http://portal.hud.gov/huddoc/13-41ml.pdf>.

Changes to Recertification >>>



The upcoming transition to LEAP will trigger a series of changes to the annual recertification process:

Certification

- There will be a maximum of three corporate officers allowed to hold annual certification authority.
- The online certification has been enhanced to make “Unable to Certify” process easier.
- Lenders will be able to specify which portion of the certification is applicable to the information being reported.

Recertification Fee

- As a result of the lender ID consolidation, annual renewal fees have been combined. There has been no change in the fee *amount*. The fee schedule is as follows:

	Title I	Title II	Consolidated
Initial Approval	\$1,000	\$1,000	\$1,000
Branch	\$300	\$300	\$600
Home Office Renewal	\$150	\$500	\$650
Branch Office Renewal	\$50	\$200	\$250

Financial Reporting Segments

- Lenders are segmented by Non-Supervised, Large Supervised, Small Supervised, and Investing. The reporting requirements for each lender segment are outlined in Chapter 7 of the OIG Audit Guide, available at <http://www.hudoig.gov/reports-publications/audit-guides/consolidated-audit-guides>.
- Audit Related Questions and Financial Data Templates have been tailored to each lender segment.
- Small supervised lenders must now submit financial data using LEAP.



Update Lender Information Prior to LEAP Implementation

As FHA makes the transition to LEAP, during April 2014, lenders will be unable to access or make changes to their lender profile information in FHA Connection, including the bank accounts used for automatic withdrawal of MIP and claim remittance payments. Lenders may continue to submit requests for those changes that only FHA can make; however, the changes will not be processed until the two-week transition period has ended.

It is important that lenders:

- ✓ Complete any pending recertification submission as soon as possible. This includes submissions of:
 - the online certification
 - recertification fee payments
 - financial data submissions
- ✓ Review all FHA Connection user ID numbers to ensure that all users are active at the time of transition.
- ✓ Pay special attention to corporate officers with authorization to complete the annual certification.
- ✓ Ensure all corporate officers, branch managers, branch locations, and branch authorities are accurate.
- ✓ Make any necessary changes or updates to the Institution Profile in FHA Connection.
- ✓ Submit any requests for changes that must be completed by FHA as soon as possible.

Attestation

- Audit Related Questions and Financial Data Templates for each segment will be available on www.hud.gov in advance of LEAP deployment.
- Independent Public Accountant attestation will not be required for small supervised lenders.

Financial Data Entry

- The new Audit Related Questions include only those questions relevant to the financial reporting requirements for each segment.
- The Financial Data Template allows the upload of the complete audited financial statements.
- Only those users with an “M” ID number will have access to enter data into LEAP.
- On-screen definitions for each line item will offer clarity regarding what information is required.
- LEAP allows lenders to input financial data and provides control over the financial data entered into the system.





Title I & Title II Consolidation

FHA will consolidate the FHA Lender ID numbers for lenders that participate in both FHA Title I and Title II Programs, provided the lenders have the same Tax ID number. Instead of separate IDs, FHA will institute Title I and Title II “authorities.” Authorities will denote the type of FHA loans lenders are approved to originate, underwrite, and/or service.

To prepare, lenders should review and update all administrative information in FHA Connection, as well as the list of designated corporate officers, branches, branch managers, and regional managers.

Consolidation will be effective in March 2014. For more information, please visit our lender page at www.hud.gov/lenders to view an expanded slide presentation from our LEAP Webinar held November 20, 2013.

In the Next Issue...

MIC Corrections

Focus: Operational Deficiencies

More Information on the Deployment of LEAP 3.0 and Revised Recertification Procedures

...and more updates on initiatives and policy changes

Stay tuned!

Did You Know? >>>

Enforcement Actions >>>



HUD Increased its Maximum Civil Money Penalties



On January 18, 2013, HUD published a rule increasing civil money penalties and civil penalties under many of its programs.

HUD increased the maximum civil money penalty on each violation from **\$7,500 to \$8,500** and increased the maximum civil money penalty that can be assessed against a lender in a calendar year from **\$1,375,000 to \$1,525,000**. These increases were effective beginning February 19, 2013.

The increases were the result of inflation adjustments required by the Federal Civil Penalties Inflation Adjustment Act of 1990 (28 U.S.C. 2461) (FCPIA Act). The FCPIA Act mandates the adjustments and the formula used to calculate them. For more information, see Final Rule FR-5662-F-01.

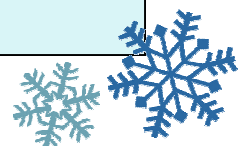
From July through September 2013, cases heard by the Mortgagee Review Board (MRB) involved the following types of fact-based violations:

- Failure to notify HUD of suspension by a state regulator;
- Falsely certifying on the annual certifications that the lender was not subject to any adverse action filed by a state regulatory agency;
- Failure to resolve discrepancies on income and source of funds for FHA loans;
- Failure to complete the required monthly review of delinquent accounts;
- Failure to engage in loss mitigation and retain documentation in loan servicing files;
- Failure to honor the terms of outstanding indemnification agreements; and
- Submitting false HUD-1 settlement statements to HUD in case binders.

MRB Actions FY2013*

Total Civil Money Penalties (CMPs):	\$2,515,000
Lenders Sanctioned:	57
Settlement Agreements:	21
Lenders Who Entered Indemnification Agreements:	10
Loans Covered by Indemnification Agreements:	187
Lenders Withdrawn:	29

**Statistics cover the period October 1, 2012 through September 30, 2013 and refer to actions taken by the Mortgagee Review Board only*



Quarterly Loan Review Findings

FHA's Quarterly Loan Review Summary for Quarter ending September 30, 2013



Introduction >>>

The FHA Quarterly Loan Review Findings include all Single Family Post-Endorsement Technical Loan Reviews (PETRs) conducted by FHA between July 1, 2013 and September 30, 2013. **This report reflects the initial rating of each file reviewed during the quarter.** A loan rated 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. The loans reviewed are selected by a risk targeting methodology and are not representative of the overall FHA portfolio. For additional details on the Report, please see our June 2013 edition of *Lender Insight*.

Loan Sample Characteristics >>>

Total Loans Reviewed:	6,692	Purchase:	70%
Conforming:	16%	Rate & Term Refinance:	5%
Deficient:	36%	Streamline Refinance:	25%
Initial Unacceptable:	48%	HECM:	0%
		EPDs:	19%

Finding Category	% of Total	% Unacceptable (U)
Program Eligibility	10%	76%
Credit/Underwriting	23%	79%
Collateral/Asset Valuation	7%	64%
Operational Deficiencies	9%	77%
File Documentation	51%	64%
Total	100%	

Top 5 Findings Ranked by Category


Credit and Underwriting	% of Total	% U
1. CAIVRS, LDP/GSA authorization, and/or delinquent federal debt issues not properly documented or satisfied.	21%	64%
2. Unacceptable, unsupported, or insufficient source of funds.	16%	82%
3. Income improperly documented.	13%	82%
4. Concerns related to assets derived from gift(s).	13%	79%
5. Obligations of borrower(s) (non-purchasing spouses included) omitted, inaccurate, not supported, not disclosed, and/or illegible.	11%	85%
6. All other	26%	86%
	100%	

Collateral/Asset Valuation	% of Total	% U
1. Concerns related to Sales Comparison Approach section of the appraisal report.	41%	56%
2. Concerns related to the Neighborhood, Site, and/or Improvements section of the appraisal report.	40%	62%
3. Property does not meet Minimum Property Requirements or Standards.	8%	87%
4. Repairs not acceptably addressed.	5%	99%
5. Appraisal is missing or expired.	4%	80%
6. All other	2%	64%
	100%	

Operational Deficiencies	% of Total	% U
1. Data integrity deficiencies: File documentation does not support Accept/Approve decision in AUS.	40%	80%
2. Lender Insured data integrity concerns: Insured loan data entered in FHA connection is not supported by file documents.	28%	72%
3. Unallowable, excessive costs/credits to borrower or other HUD-1 and/or Good Faith Estimate inaccuracies.	20%	86%
4. Data discrepancies exist between information entered into FHAC and the case binder, but do not effect loan approval or insurability.	10%	63%
5. Sales contract dated less than 91 days from acquisition date by seller.	1%	96%
6. All other	1%	74%
	100%	

File Documentation	% of Total	% U
1. Form HUD-92900-A not properly completed or missing.	21%	54%
2. Uniform Residential Loan Application not properly completed or missing.	14%	51%
3. HUD-92900-LT FHA Loan Underwriting and Transmittal Summary is missing, illegible or incorrect.	11%	61%
4. Form HUD-92800.5B substantially incomplete, incorrect or missing.	9%	57%
5. HUD-1, HUD-1 Addendum if applicable, and/or Good Faith Estimate either missing, not the final copy, not complete or illegible.	7%	65%
6. All other	36%	78%
	100%	

Top 5 Findings Ranked by Category (Continued)

FOCUS 	Program Eligibility	% of Total	% U
1.	Purchase contract, Real Estate Certificate and/or amendatory clause missing, illegible or incorrect.	25%	65%
2.	Streamline refinance eligibility criteria not met.	15%	87%
3.	Issues related to National Mortgage Licensing System registration requirements.	13%	59%
4.	Mortgage amount incorrect, loan-to-value limit and/or statutory limit exceeded.	12%	100%
5.	Borrower not owner occupant, property not principal residence, possible investor issues, and/or eligibility requirements for principal residence not met.	10%	77%
6.	All other	26%	79%
		100%	

Looking for past editions of Lender Insight or our Quarterly Loan Review Findings Report?



Effective January 2014, you can find these publications on our lender page located at www.hud.gov/lenders. Check our new "Performance" tab for the most recent versions of *Lender Insight* and the Quarterly Loan Review Findings Report. We will periodically update the reports with mitigated findings. You will be able to find FHA's Basis for Ratings Codes and a link to Neighborhood Watch under this tab as well.

Focus: PROGRAM ELIGIBILITY >>>

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

1. *Purchase contract, Real Estate Certificate and/or amendatory clause missing, illegible or incorrect.*

- Unacceptable if purchase contract is missing, incorrect, or illegible. Unacceptable if Real Estate Certificate and/or amendatory clause is missing, incorrect, or illegible, and impacts the transaction (e.g. property appraised less than sales price).

2. *Streamline refinance eligibility criteria not met.*

- Unacceptable if any of the eligibility criterion have not been met on a streamline refinance transaction (e.g. net tangible benefit, seasoning requirements, verification of funds to close, payoff statement for current loan missing, mortgage payment history missing).

3. *Issues related to National Mortgage Licensing System (NMLS) registration requirements.*

- Unacceptable if the lender or loan officer was not registered in the NMLS, or the registration was expired or terminated at the time of the loan application. Unacceptable if the loan officer is registered in the NMLS to originate for a lender other than the originating lender in the loan transaction.

4. *Mortgage amount incorrect, loan-to-value limit and/or statutory limit exceeded.*

- Unacceptable if the mortgage amount or the loan-to-value ratio (LTV) exceeds the maximum permitted by the applicable program or statute (e.g. mortgage amount includes unallowable costs, mortgage amount exceeds county loan limits, LTV on cash-out refinance exceeds 85%).

5. *Borrower not owner occupant, property not principal residence, possible investor issues, and/or eligibility requirements for principal residence not met.*

- Unacceptable if the borrower did not meet FHA eligibility requirements for ownership of the property at the time of loan approval. Unacceptable if there is a strong indication in the file that the borrower will not be the occupant. Unacceptable if the borrower has more than one FHA-insured loan and the file lacks documentation to support an exception (e.g. increase in commute to work, increase in family size).



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