

In this issue >>>

Focus on Enforcement

FHA's Quarterly Loan Review Findings:

- Initial Findings from Quarter Ending December 31, 2013
- Focus: Operational Deficiencies

Flood Insurance Certificates

Origination Binder Retention and Submission



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

Lender Insight

Issue No. 4
March
2014



What's Trending

Increased Quality Control Needed on Submissions for Mortgage Insurance Certificates

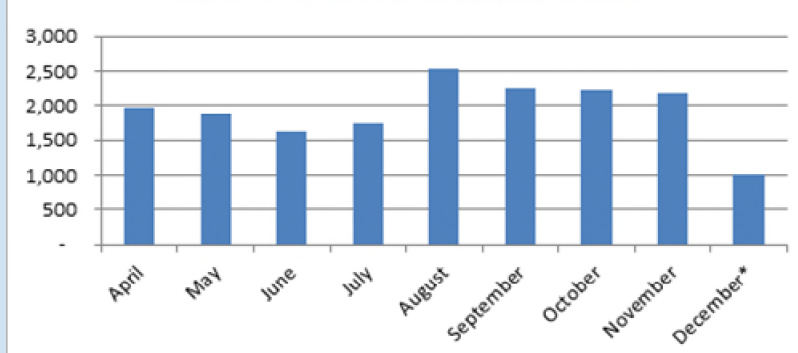
Lender requests to correct information on Mortgage Insurance Certificates (MICs) have been more frequent than expected over the past year.

It is the lender's responsibility to ensure information contained on the MIC is correct prior to submitting the mortgage to FHA for endorsement.

Of the MIC corrections reviewed, 81.5% stemmed from FHA's Lender Insurance (LI) Program. LI lenders must employ a pre-endorsement review process. A large number of requests for MIC corrections may be an indicator of an inadequate pre-endorsement review.



MIC Correction Submissions



Common Issues Requiring MIC Corrections

- **Incorrect MIPs on Mortgage Refinances:** The lender paid the incorrect Mortgage Insurance Premium (MIP) amount. It is important to note that MIP amounts may be different for purchase mortgages versus refinances.
- **Discrepancies Between the Legal/Closing Documents and FHA Connection:** The mortgage amount, interest rate, monthly payment, maturity date, etc. entered into FHA Connection does not match the exact dollar amounts or other information listed on the note, deed, and/or HUD-1 documents.
- **Adjustments to Maximum Mortgage Amount:** The lender incorrectly underwrote the loan application or incorrectly entered information into the insurance application screen in FHA Connection and wants to adjust the maximum mortgage amount.
- **Voluntary Termination of Mortgage Insurance Contract:** A lender in FHA's Lender Insurance Program insured a mortgage in error where the loan never closed. The lender requests FHA terminate the mortgage insurance under 24 C.F.R. § 203.295.



Voluntarily Withdrawing Your FHA Approval

If a lender no longer wishes to participate in FHA programs, the lender must submit a letter requesting voluntary withdrawal of its FHA approval, signed by a senior officer. The letter must be sent to the following address:

U.S. Department of Housing & Urban Development
Office of Lender Activities and Program Compliance
Attn: Director, Lender Approval and Recertification Division
451 7th Street, SW Room B-133/P3214
Washington, DC 20410

A request to voluntarily withdraw FHA approval is subject to a satisfactory review of the lender's current FHA status. A lender's request will not be honored if there is an administrative action or Mortgagee Review Board action pending against the lender, or if the lender is reported as delinquent in the payment of any Mortgage Insurance Premiums to the Department. A lender whose approval is voluntarily withdrawn may reapply for FHA approval at any time in the future.

A lender may not simply let its FHA approval expire by failing to complete FHA's required annual recertification process. Failing to recertify will result in a referral to the Mortgagee Review Board for administrative action. If a lender is withdrawn from the program by Board action it may have an adverse impact on the lender, should they wish to reapply for FHA approval in the future. As a reminder, all final agency actions by the Mortgagee Review Board are publicly reported in the Federal Register.

Enforcement Actions by the Mortgagee Review Board

During the period from October through December 2013, cases heard by the Mortgagee Review Board (MRB) involved infractions consisting of the following types of fact-based violations:

- Failure to establish and implement a Quality Control Plan to oversee servicing operations
- Failure to perform loss mitigation in accordance with FHA requirements
- Failure to review delinquent loans on a monthly basis to determine which loss mitigation techniques, if any, are appropriate
- Referring loans to foreclosure while in loss mitigation (dual tracking)
- Violating agreements to repay HUD for Departmental losses in connection with signed Indemnification Agreements
- Failure to comply with HUD's annual recertification requirements

Total Civil Money Penalties (CMPs):	\$516,500
Lenders Sanctioned:	33
Settlement Agreements:	1
Lenders Who Entered Into Indemnification Agreements:	1
Loans Covered by Indemnification Agreements:	1
Lenders Withdrawn:	32

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

PETR Escalation Process >>>

For case files that receive unacceptable Post-Endorsement Technical Review (PETR) ratings, a Processing & Underwriting Division issues a letter to the lender describing the unacceptable finding(s) and requests additional documentation to mitigate all findings cited in the letter. Lenders that fail to submit documentation to mitigate the finding(s), or lenders that fail to respond, are referred to the Quality Assurance Division (QAD) for action. QAD requests that the lender sign an indemnification agreement based on the unacceptable findings. If the lender fails to respond adequately to the unacceptable findings, or fails to execute an indemnification agreement, the case is escalated to the Office of Lender Activities and Program Compliance in Headquarters for final resolution.

Cases that are unable to be resolved by the Office of Lender Activities are referred to the Mortgagee Review Board (MRB). Once a case is referred to the MRB, further review of the lender will occur, which may lead to additional violations being uncovered.



Initial Quarterly Loan Review Findings

FHA's Quarterly Loan Review Summary for Quarter ending December 31, 2013

Introduction >>>

The FHA Quarterly Loan Review Findings include all Single Family Post-Endorsement Technical Loan Reviews (PETRs) conducted by FHA between September 30, 2013, and December 31, 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. 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:	5,504	Purchase:	72%
Conforming:	15%	Rate & Term Refinance:	6%
Deficient:	37%	Streamline Refinance:	20%
Initial Unacceptable:	48%	HECM:	2%
		EPDs:	37%


Finding Category	% of Total	% Unacceptable (U)
Program Eligibility	10%	74%
Credit/Underwriting	25%	79%
Collateral/Asset Valuation	7%	63%
Operational Deficiencies	9%	73%
File Documentation	50%	65%
Totals	100%	

Top 5 Findings Ranked by Category

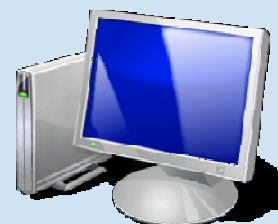
Program Eligibility	% of Total	% U	Credit and Underwriting	% of Total	% U
1. Purchase contract, Real Estate Certificate and/or amendatory clause missing, illegible or incorrect.	25%	63%	1. CAIVRS, LDP/GSA authorization, and/or delinquent federal debt issues not properly documented or satisfied.	21%	66%
2. Issues related to National Mortgage Licensing System registration requirements.	13%	64%	2. Unacceptable, unsupported, or insufficient source of funds.	16%	81%
3. Borrower not owner occupant, property not principal residence, possible investor issues and/or eligibility requirements for principal residence not met.	12%	70%	3. Income improperly documented.	12%	81%
4. Mortgage amount incorrect, loan-to-value limit and/or statutory limit exceeded.	12%	97%	4. Concerns related to assets derived from gift(s).	12%	78%
5. Streamline refinance eligibility criteria not met.	11%	80%	5. Obligations of borrower(s) (non-purchasing spouses included) omitted, inaccurate, not supported, not disclosed, and/or illegible.	11%	84%
6. All other	28%	78%	6. All other	27%	86%
	100%			100%	

Collateral/Asset Valuation	% of Total	% U	File Documentation	% of Total	% U
1. Concerns related to the Neighborhood, Site, and/or Improvements section of the appraisal report.	40%	59%	1. Form HUD-92900-A not properly completed or missing.	23%	55%
2. Concerns related to Sales Comparison Approach section of the appraisal report.	40%	54%	2. HUD-92900-LT FHA Loan Underwriting and Transmittal Summary is missing, illegible or incorrect.	13%	57%
3. Property does not meet Minimum Property Requirements or Standards.	9%	92%	3. Uniform Residential Loan Application not properly completed or missing.	12%	57%
4. Appraisal is missing or expired.	5%	76%	4. Form HUD-92800.5B substantially incomplete, incorrect or missing.	10%	60%
5. Repairs not acceptably addressed.	4%	94%	5. HUD-1, HUD-1 Addendum if applicable, and/or Good Faith Estimate either missing, not the final copy, not complete or illegible.	7%	63%
6. All other	1%	59%	6. All other	35%	79%
	100%			100%	

Top 5 Findings Ranked by Category (Continued)

FOCUS 	Operational Deficiencies	% of Total	% U
1.	Data integrity deficiencies: File documentation does not support Accept/Approve decision in AUS.	42%	77%
2.	Lender Insured data integrity concerns: Insured loan data entered in FHA Connection is not supported by file documents.	31%	64%
3.	Unallowable, excessive costs/credits to borrower or other HUD-1 and/or Good Faith Estimate inaccuracies.	16%	77%
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.	7%	68%
5.	Sales contract dated less than 91 days from acquisition date by seller.	1%	95%
6.	All other	2%	90%
		100%	

Lender Insight and Quarterly Loan Review Findings Reports are now available online!



For more information, visit our lender page located at www.hud.gov/lenders. Check out the "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 as data becomes available.

Focus: OPERATIONAL DEFICIENCIES >>>

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

1. *Data integrity deficiencies: File documentation does not support Accept/Approve decision in AUS.*

- Unacceptable if a re-scoring of the loan through TOTAL Emulator, based on the recalculated correct income, asset, or other information supported by file documentation, results in a "Refer" decision, and the loan was not eligible based on a manual underwrite. Unacceptable if the credit report in the file is not the one that was used for the AUS/TOTAL risk assessment of "Accept/Approve" and the loan was not approvable on a manual basis using the credit report provided.

2. *Lender Insured data integrity concerns: Insured loan data entered in FHA Connection is not supported by file documents.*

- Unacceptable if significant data discrepancies exist between information entered into FHA Connection and information in the case binder that impacts an AUS "Accept" or loan eligibility or insurability (e.g., tolerance levels for cash reserves, income, taxes, and insurance exceed the stated thresholds and require resubmission; TOTAL system override(s) or a manual downgrade would be triggered by the data discrepancy).

3. *Unallowable, excessive costs/credits to borrower or other HUD-1 and/or Good Faith Estimate inaccuracies.*

- Unacceptable if charges on the Good Faith Estimate do not coincide with the final HUD-1 and are outside of allowable tolerances. Unacceptable if there are excessive credits to the borrower that affect the borrower's required minimum cash investment. Unacceptable if lender credits are used to pay off borrower debt, escrow shortages, etc. in a refinance transaction.

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.*

- Unacceptable if significant data discrepancies exist between information entered into FHA Connection and the case binder that impact loan eligibility or insurability and/or an AUS "Accept" (e.g., inaccurate appraisal information logged into FHA Connection that if entered correctly would trigger a flipping warning, and requires additional documentation not included in the case binder; tolerance levels for cash reserves, income, taxes, and insurance exceed the stated threshold and require resubmission; TOTAL system override(s) or a manual downgrade would be triggered by the data discrepancy.)

5. *Sales contract dated less than 91 days from acquisition date by seller.*

- Unacceptable if waiver requirements are not met to permit the sale of a property with a prior sales contract date of less than 91 days.

Life-of-Loan Flood Certification Requirement



One of the most frequently rated file documentation deficiencies is missing life-of-loan flood certification in the case binder. In accordance with Mortgagee Letter 2012-28, all case binders are required to include documentation to evidence the flood zone determination and certification to clearly indicate that the service is for the life of the loan (for cases assigned on or after February 9, 2013).

If flood insurance is required, it must be provided under the National Flood Insurance Program (NFIP). If certification is missing or file documentation does not clearly reflect determination, life-of-loan service, and/or flood insurance is not under NFIP, the applicable valuation rating is *Unacceptable* under codes VA03 for existing construction and VA04 for new construction and manufactured homes.

Important upcoming dates in FHA's Business Transformation Process:

- March 31, 2014 - Title I and II Consolidation
- April 18, 2014 - Transition Period for LEAP Deployment Begins



For more information, please visit our lender page at www.hud.gov/lenders. Look for the "LEAP Information" page under the "Approvals and Renewals" heading.

Origination Binder Retention and Submission

Attention Servicers/Holders and Lender Insurance (LI) Lenders:

FHA requests the origination binder for a variety of post-endorsement technical review processes. Servicers/Holders and LI lenders are required to provide the origination binder in accordance with FHA requirements as shown in the table (right).

LI lenders are subject to suspension and/or termination from the LI program for failure to maintain and submit origination binders in accordance with FHA requirements. Servicers/Holders that fail to retain and/or submit an origination binder in accordance with FHA requirements also risk additional quality assurance activities by FHA.

Party	LI Mortgagees	Servicer/Holder
File Type	Origination Binder	Origination Binder
Format	Paper or Electronic	Paper or Electronic
Retention Period	2 years from the date of endorsement	2 years beyond the life of the loan
Submission Timeframe	Within 10 days from the date of request	Within 24 hours of the date of request
Requirements	4155.2 9.B.1.d and ML 13-12 Guide	4330.1 Rev-5 Paragraph 1-4 and ML 05-36

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

