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# Lender Insight

Issue No. 9

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## What's Trending

### Post Endorsement Technical Review Findings Letters Go Paperless

On April 27, 2015, FHA deployed an automated delivery notice for unacceptable findings that stem from the review of mortgages selected for Post-Endorsement Technical Review (PETR). As a result, we no longer mail Findings Letters via the U.S. Postal Service.

FHA now sends a "real time" electronic message with the subject line "Notice of Loan Level Material Finding" to the lender's Administrative Contact registered in the Lender Electronic Assessment Portal (LEAP). The message contains a link to retrieve the eFindings Letter in FHA Connection.

Your Administrative Contact is the central point of delivery for all eFindings Letters and follow-up notices. Follow-up notices are delivered via email 15 days prior to the response due date.

### What You Need To Know....

- ◆ Your FHAC Application Coordinator designates access to the FHA Connection eFindings functions. The Unacceptable eFindings Letters query is accessible via the Mortgagee Performance Report selection.
- ◆ All eFindings Letters issued since April 27, 2015 may be retrieved using the query and are available for PDF download.
- ◆ Responses must include a cover sheet with the FHA Case Number as well as the name and phone number of the individual providing the response on behalf of the lender.
- ◆ For Electronic Case Binders **only**, the responses to eFindings Letters along with any attachments **must be uploaded using the Electronic Binder Additions feature** in FHA Connection. Do not mail or email responses.

# Quarterly Loan Review Findings

FHA's Quarterly Loan Review Summary for Quarter ending March 31, 2015

## QC Report Update

Top 20 Unacceptable Findings

We have made changes to the way in which we report quarterly quality control results. In previous editions of *Lender Insight*, the loan level findings were grouped into five broad categories: File Documentation, Credit/Underwriting, Operational Deficiencies, Program Eligibility, and Collateral/Asset Valuation; and the top 5 unacceptable findings were provided for each category.

Beginning with this edition, reporting will focus on the most prevalent unacceptable findings, regardless of category. The timeframe that serves as the basis for reporting is also different. Instead of providing the initial rating of the selected sample, we are waiting for one quarter to pass before reporting on the sample. By allowing for the initial round of lender mitigation, the results better reflect underlying manufacturing defects.

With an emphasis on the frequency of unacceptable findings and providing results on a more seasoned sample better, we believe the report will be more beneficial to stakeholders.

For additional details on FHA QC reporting and historical reporting, 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

This sample includes all Single Family Post Endorsement Technical Loan Reviews (PETRs) completed between January 1 and March 31, 2015. **This report reflects the current rating of each file reviewed as of June 30, 2015, the quarter following the initial review period.** These ratings may continue to change until such time as FHA closes out the review cycle, which is generally 6 months from the initial review period

## Sample Characteristics

Total Loans Reviewed:	5,615	Purchase:	86%
Conforming:	21%	Rate & Term Refinance:	6%
Deficient:	36%	Streamline Refinance:	8%
Unacceptable:	9%	HECM:	0%
Mitigated	35%	EPDs:	41%



# Quarterly Loan Review Findings

FHA's Quarterly Loan Review Summary for Quarter ending March 31, 2015

Rank	Findings Code	Findings Code Description	Category	% of all Unacceptable Finding Codes
1	AU01	Data integrity deficiencies. File documentation does not support Accept/Approve decision in AUS	Operational Deficiencies	7%
2	FD10	Unacceptable, unsupported or insufficient source of funds	Credit	7%
3	LA04	Obligations of borrower(s) omitted, inaccurate, not supported, not disclosed and/or not legible	Credit	7%
4	FD20	Concerns related to assets derived from gift(s)	Credit	6%
5	IC02	Income improperly calculated or from an unacceptable source	Credit	5%
6	IC20	Income improperly documented	Credit	5%
7	EQ04	Qualifying ratios exceeded without acceptable compensating factors for manually approved loans	Credit	4%
8	AU05	AUS invalid or missing	File Documentation	3%
9	VA03	Existing construction in Special Flood Hazard Area (A or V Zone) without evidence of flood insurance	File Documentation	3%
10	MA04	Mortgage amount incorrect, LTV limit and/or statutory limit exceeded	Program Eligibility	3%
11	CH03	Mortgage or rental verification missing, mortgage not current or mortgage history not satisfactory	File Documentation	3%
12	IC30	Stability of income is insufficient and/or not supported	Credit	2%
13	LI01	Lender Insured data integrity concerns: insured loan data entered in FHA Connection is not supported by file documents	Operational Deficiencies	2%
14	DC13	Questionable Documentation	File Documentation	2%
15	CH41	CAIVRS, LDP/GSA authorization and/or delinquent federal debt issues not properly documented or satisfied	Credit	2%
16	FD60	Borrower did not make the required minimum cash investment (down payment)	Credit	2%
17	DC11	Form HUD-92900-A not properly completed or missing	File Documentation	2%
18	CL32	Unallowable, excessive costs/credits to borrower or other HUD-1 and/or Good Faith Estimate inaccuracies	Operational Deficiencies	2%
19	CH40	Concerns with poor credit pattern, major derogatory credit, judgments, liens, collections, disputed accounts and/or recent material inquiries	Credit	2%
20	AU02	Documentation does not support credit waivers of AUS	File Documentation	2%



For the quarter ending March 31, 2015, File Documentation findings accounted for 48% of all defects cited by FHA's QC Team. This is a consistent theme as File Documentation citations have averaged 48% of all findings each of the last four quarters.

Lenders are encouraged to evaluate their file documentation processes and procedures to identify any gaps that may help minimize documentation related defects. The examples provided below represent the most common unacceptable file documentation findings. This list is not exhaustive and is meant as an informal resource only.

## **File Documentation**

### **1. AUS is invalid or missing**

- The AUS was not included in the Endorsement Binder
- The loan was endorsed with an "AUS invalid message" in the most recent TOTAL Scorecard feedback certificate
- The loan approval was not supported based on the information in the file, generally related to borrower eligibility
- The loan required a manual downgrade but was endorsed as a TOTAL Accept

### **2. Property is located in a Special Flood Hazard Area (A or V Zone) without evidence of flood insurance; or the flood insurance documentation is provided, but the coverage is insufficient**

- The property is located in a Special Flood Hazard Area (SFHA) Zone A, Zone V (or zoning is not reported) and the file contains no documentation of flood insurance coverage or flood insurance coverage is insufficient
- File documentation does not clearly indicate that the SFHA flood zone determination service is for the life of the loan

### **3. Mortgage or rental verification is missing, the mortgage is not current or the mortgage payment history is not satisfactory — REMINDER:** In accordance with HUD Handbook 4155.1 - 3.A.1.j, a lender must obtain a current payoff statement for all liens that are to be satisfied from the proceeds of a refinance transaction

- Any purchase transaction, rate/term refinance, or cash-out refinance where the mortgage is not current or the evidence to support the status of "current" is missing
- Any transactions where the mortgage history is not satisfactory and/or does not comply with "Late Mortgage Payments" guidance
- For AUS transactions, the mortgage rating was not entirely "read" by the AUS/TOTAL and the history is not satisfactory (items that are not 'read' by the AUS would also require code AU05)
- During manual underwriting, there was no verification of rent in the loan file and the borrower had no traditional credit as defined by ML 08-11

### **4. HUD-92900-A is not properly completed or is missing**

- The HUD-92900-A is missing
- The Officer of the lender did not sign page 1 or complete the Lender's Certificate on page 4
- The borrower(s) failed to sign page 2 or 4
- The Lender Representative or Direct Endorsement Underwriter failed to execute page 3

### **5. Documentation does not support credit waivers of AUS**

- Lender has used AUS approval and waiver of documentation has been applied, but the case binder is lacking documentation to support the waiver

## ***Processing Mergers and Acquisitions***

If an FHA-approved lender expects to be engaged in a merger or an acquisition, it's best to notify FHA sooner rather than later in order to ensure a smooth transition.

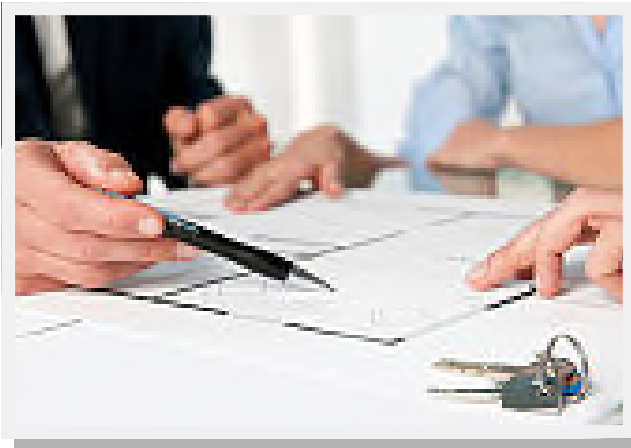
All notifications must be made through LEAP and written notice must occur at least 45 days prior to the effective date. The 45 day window provides FHA with sufficient time to review and process the request, however each transaction differs, and some take more time and effort to minimize the impact on the lender's operations.

### ***Important Facts to Remember....***

- ◆ A non-surviving institution is prohibited from accepting new applications, servicing, holding, or submitting claims for FHA loans upon the legal effective date of the merger.
- ◆ If a surviving institution does not have Unconditional Direct Endorsement authority or has been approved for Pre-Closing (Test Case) status, it may not act as a Direct Endorsement lender until the authority is officially granted. Unconditional DE authority is not granted retroactively. Loans submitted for insurance by lenders without the proper authority are ineligible for FHA insurance.
- ◆ The non-surviving institution remains responsible for paying insurance premiums and complying with all other obligations associated with its loans until the merger is fully processed by FHA, all loans are transferred, and record changes are reported accurately to HUD.

## ***Lender Recertification Activities***

As of June 30, 2015, 1,849 out of 2,227 FHA-approved mortgagees have successfully submitted annual recertification packages in LEAP. You are reminded each FHA approved lender must complete all annual recertification steps within 90 days of its fiscal year end. Failure to comply may result in referral to the Mortgagee Review Board for administrative action.



## ***Keep Administrative Contact Info Updated!***

It is essential that every FHA-approved lender keeps its Administrative Contact information in LEAP completed and updated. This includes a current business street address, phone number, contact person, and email address. General mailboxes are not acceptable. The Administrative Contact information is used by HUD's Office of Lender Activities and Program Compliance, Mortgagee Review Board, Office of General Counsel, and Office of Inspector General to send official notices to FHA-approved lenders. All FHA-approved lenders should add the "@hud.gov" domain to their email servers to ensure the timely delivery of electronic notices from HUD.



***The FHA Resource Center is here to help!***

**Contact 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)  
and our online FAQ site at [www.hud.gov/answers](http://www.hud.gov/answers)

