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

LENDER INSIGHT

Issue No. 11 * March 2016

RECERTIFICATION REMINDERS

Small Supervised lenders must submit call reports

Although Small Supervised lenders are not required to submit audited financials, they are required to submit an Unaudited Regulatory Report – also known as a “call report” – as part of the Lender Electronic Assessment Portal (LEAP) recertification process. The report must be **signed** by a Corporate Officer and it must align with your fiscal year end.

Audit reports must comply with the latest standards

Lenders that are required to submit audited financials must ensure that the Independent Auditor's Report includes a complete set of financial statements, and that the entire audit package complies with the latest Consolidated Audit Guide published by HUD's Office of Inspector General.

Lenders should access LEAP regularly

Check your status in LEAP frequently to confirm that your recertification package has been accepted by FHA, and to watch for deficiencies that need a cure. You should cure deficiencies within five business days.

All lenders must enter accurate financial data

All non-government lenders – including Small Supervised – are responsible for entering accurate financial data into the LEAP Financial Data Template. Data must be entered **in whole dollars**. Amounts should never be stated in thousands of dollars, regardless of how they appear in call reports or audited financial statements. If data is entered in thousands of dollars, the lender will be flagged for insufficient net worth and/or liquidity.

EXAMPLE:

Correct: \$1000000



Incorrect: \$10000



The [LEAP User Manual](#) contains step-by-step instructions for completing the annual recertification process. The User Manual and additional tools are available on the [LEAP Information](#) page in the Approvals & Renewals section at www.hud.gov/lenders.

Annual Recertification

For lenders with a December Fiscal Year End, your Recertification packages must be received in LEAP by March 31, 2016.

DID YOU KNOW ?

Voluntary Withdrawal

Failure to Recertify Does Not Equate to Voluntary Withdrawal .

Lenders cannot give up their FHA approval by simply choosing not to recertify. Failing to recertify will result in a Mortgagee Review Board action.

If you no longer wish to participate in FHA programs, you must submit a Voluntary Withdrawal request in LEAP. The requirements are spelled out in the "Doing Business with FHA" section of FHA's *Single Family Housing Policy Handbook* ([HUD Handbook 4000.1](#)) and instructions for submitting the request are in the online [LEAP User Manual](#).



MYTH OR FACT ?

Test cases

MYTH: Test Case status is a learning opportunity on how to underwrite FHA loans.

FACT: A lender submits Test Cases in order to **demonstrate** that it can meet FHA's origination and underwriting requirements and gain the privilege of Unconditional Direct Endorsement (DE) authority. The Single Family Homeownership Centers conduct a thorough underwriting review of each loan and, although we will allow a lender to cure any defects, we expect them to have a qualified DE Underwriter on staff when applying to start the Test Case phase.

Underwriters must have the basic experience and training described in the "Doing Business with FHA – Other Participants" section of [HUD Handbook 4000.1](#). FHA provides frequent training opportunities for underwriters and appraisers, which are announced through the Single Family FHA INFO mailing list. To subscribe to this list, go to the [Subscribe to FHA INFO/ Single Family Housing Industry Email List](#) page or send a request by email to answers@hud.gov.



Questions?

Phone: **1-800-CALL-FHA (225-5342)** or 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.

REPORTING MATERIAL EVENTS *to* FHA

What is a Notice of Material Event?

A **Notice of Material Event** is the method for submitting a required notice to FHA of a change to the information provided by the lender at application, as evidence of approval eligibility, or a change that affects the lender's FHA-approval status.

The most common examples include:

- Bankruptcy
- Business Form Change (e.g., corporation to LLC)
- Liquid Assets Deficiency
- Operating Loss
- Principal Activity Change
- Change of Principal Owners
- Supervision Change
- Unresolved Findings/Sanctions
- Lending License(s) Surrender
- Cease Operations Change in Partnership
- Change of Fidelity Bond or E&O Insurance area

When should I submit the Notice of Material Event?

Most notices must be submitted **within 10 days of the event** and some require follow-up reporting. Lenders are strongly encouraged to notify FHA as soon as the event occurs to prevent delays during the annual recertification. Requirements are spelled out in the "Doing Business with FHA – Post-Approval Changes" section of the [HUD Handbook 4000.1](#) and instructions for submitting Notices of Material Events are in the online [LEAP User Manual](#).

How do I submit a Notice of Material Event?

All Notices of Material Events are submitted using LEAP. Include a brief description of event in the space provided; the description is limited to 250 characters. You must include a cover letter signed by a Corporate Officer summarizing the change along with any additional supporting information, which can be uploaded as an attachment. Each attachment is limited to a file size of 5MB.

What happens next?

FHA will review the notice and determine if the events reported affect the lender's FHA-approval and/or its ability to provide the annual certification.

FHA will communicate its determination to the lender via email. An issue reported during the year as a Notice of Material Event does not need to be reported again through the Unable to Certify process if FHA's earlier review determined that the issue does not impact the Annual Certification and there have been no changes to the issue since it was reported.



QUARTERLY LOAN REVIEW UPDATE

General Information

Post Endorsement Technical Reviews

This update provides information on Single Family Post Endorsement Technical Reviews conducted between July 1, and September 30, 2015.

The data presented below reflects ratings and findings as of March 1, 2016, which may continue to change until the review cycle is complete. This generally takes six months from the initial review.



Sample Characteristics

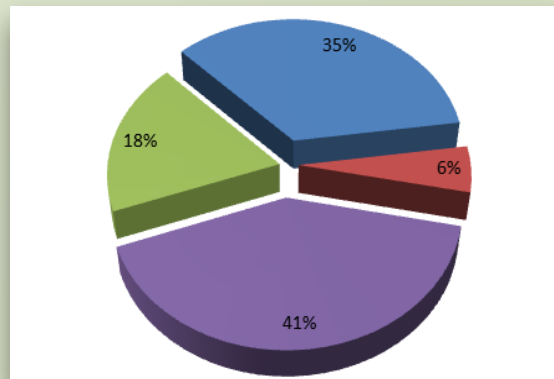
Total Loans Reviewed = 6,148

Type	#	% of Total
Purchase	4,532	73.7%
Streamline	619	10.1%
Rate & Term	419	6.8%
HECM	578	9.4%

Performing	3,226	52.5%
EPDs	1,969	32.0%
Random	953	15.5%

LOAN REVIEW RATINGS *as of* MARCH 2016

Performance Type	Outcome
▶ Conforming	1,126
▶ Deficient	2,151
▶ Unacceptable	336
▶ Mitigated	2,535



FREQUENTLY MITIGATED LOAN FINDINGS

FHA is committed to reducing the initial unacceptable rate and is focusing its attention on those lenders with a pattern of unacceptable findings that are easily mitigated.

The table shows the most frequently mitigated findings. The number of initial unacceptable findings and the number of those findings subsequently mitigated are for the loans reviewed between July 1, and September 30, 2015.

Description	Category	Code	# of Initial Unacceptable	# Mitigated After 6	Mitigation Rate
Concerns related to assets derived from gift(s)	Borrower Assets	FD20	548	470	86%
Unacceptable, unsupported or insufficient source of funds	Borrower Assets	FD10	491	415	85%
Obligations of borrower(s) omitted, inaccurate, not supported, not disclosed and/or not legible	Borrower Credit	LA04	455	370	81%
Data integrity deficiencies. File documentation does not support Accept/Approve decision in AUS	Lender Operations	AU01	410	323	79%
Income improperly documented	Borrower Income	IC20	341	292	86%
Existing construction in Special Flood Hazard Area (A or V Zone) without evidence of flood insurance	Property Eligibility	VA03	312	292	94%

Mitigated findings often represent easily-remedied **documentation errors** rather than **actual loan manufacturing defects**, but mitigation requires significant time and resources from lenders and FHA.

6 Simple things lenders can do to reduce the number of unacceptable findings.

- 1. Document the income.** Make sure the income documentation is complete and legible, and substantiates the minimum income necessary to support the approval of the loan. For self-employed borrowers, if more than one quarter has passed since the filing due date for the prior year's taxes, you must provide both a year-to date profit and loss (P&L) statement and a balance sheet.
- 2. Provide proof that gift funds came from an acceptable source.** Proof means a signed gift letter (or legal obligation to provide funds), evidence of the donor's ability to provide funds with specific clear details, (e.g., Vanguard IRA rather than "retirement account"), and record of the transfer and receipt of the gift funds.
- 3. Explain large deposits that occur within days of closing.** It is critical to confirm that large deposits are from acceptable sources and are not loans.
- 4. Do not omit debts without explanation.** This especially applies to student loan debt exemptions.
- 5. Input complete and accurate information into TOTAL Scorecard.** FHA rescues a loan using only the income, assets, liabilities, credit report, and other information that is provided in the loan file. If that documentation does not support an Accept/Approve decision, then the loan may not be approvable.
- 6. Put the life-of-loan flood certification or evidence of flood insurance in the FHA case binder.**