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

LENDER INSIGHT

Issue No. 12* June 2016

No measurable improvement to initial material defect rate.

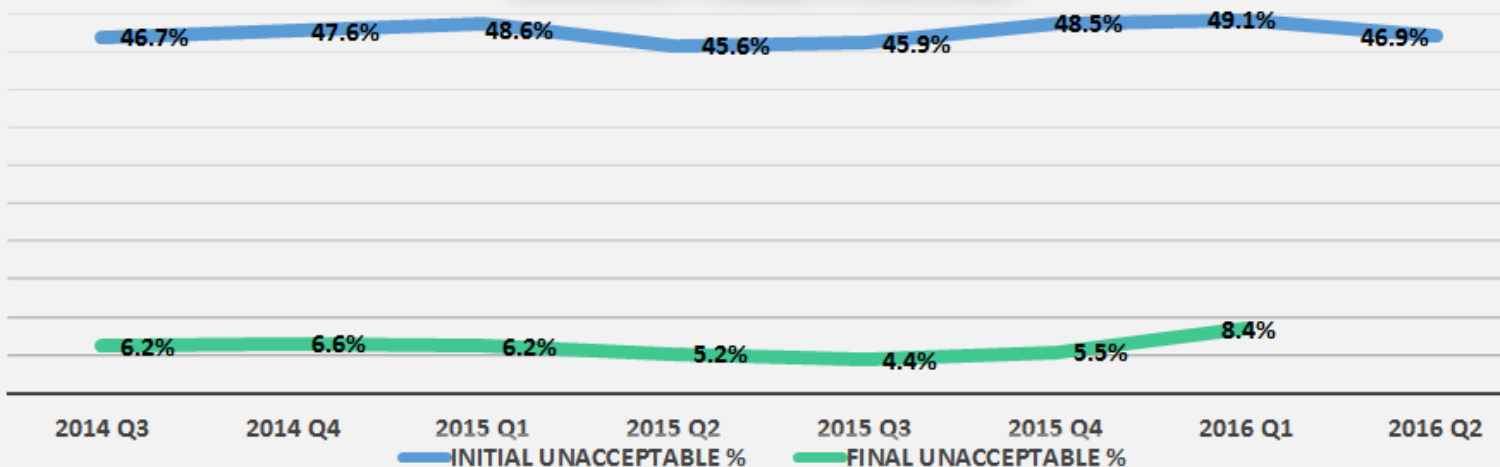
Since its launch *Lender Insight* has featured quarterly loan level findings data by presenting the initial ratings of all loans along with the updated ratings as of six months from the end of the review period.

Additionally, for the past year, each of the top 50 by volume lenders has received an individualized loan review findings report depicting a quarter-by-quarter snapshot of the results of *FHA's post-endorsement technical review* of the company's loan production. This information delivers insight into the most common loan level findings and highlights recurring and frequently cited errors.

As the graph below shows, the initial unacceptable rate has been fairly static, averaging **47.4 percent** over the last eight quarters. The net material defect rate after lender mitigation is **substantially lower, averaging 6.1 percent over the same time frame.**

The QC sample represented in the charts illustrated here are from post-endorsement technical reviews conducted between June 2014 and March 2016. The sample represents **44,220 loans endorsed by 1,315 FHA lenders.** The charts in this issue illustrate the initial and final unacceptable rates for the top 5 mitigated findings.

UNACCEPTABLE FINDINGS



TOP 5 MITIGATED FINDINGS

Mitigation consumes valuable time and resources.

Mitigated findings often represent easily-remedied documentation errors rather than actual loan manufacturing defects.

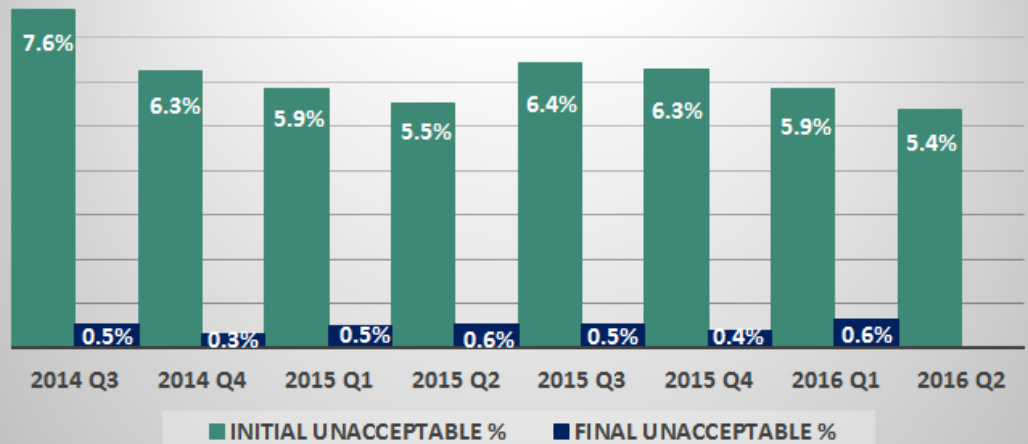
FHA will actively address the lack of improvement in reducing the initial unacceptable rate.

An immediate step will begin with the Quality Assurance Division's lender monitoring reviews. As part of its lender monitoring process, FHA will evaluate how each lender is addressing the causes of high initial unacceptable ratings and the operational steps being taken to close the gap.

FLOOD CERTIFICATION (VA03)

Typical reason for unacceptable findings:

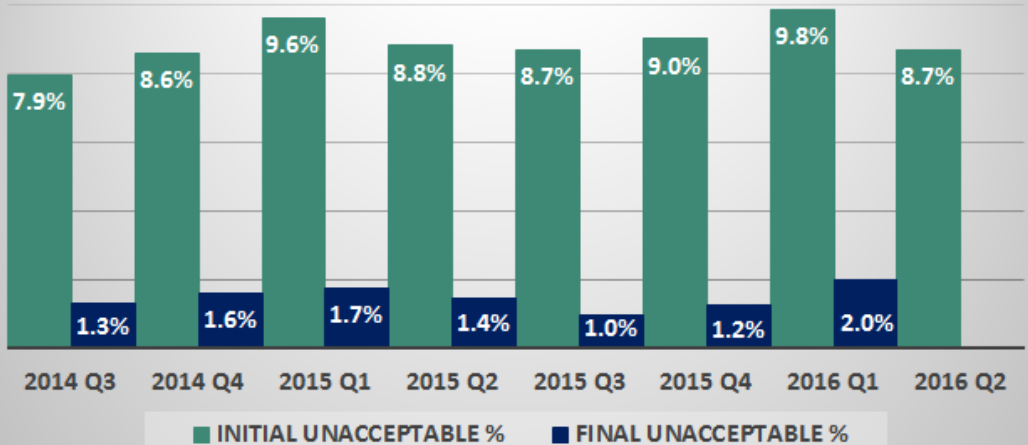
1. Life of Loan certification is missing from binder.



SOURCE OF FUNDS (FD10)

Typical reasons for unacceptable findings:

1. Large deposits are not documented or deposits are from an unacceptable source.
2. Verified funds are less than the minimum required investment or actual funds to close.
3. Verified funds or reserves are less than what was run through TOTAL Scorecard causing AUS findings to be invalid for approval.

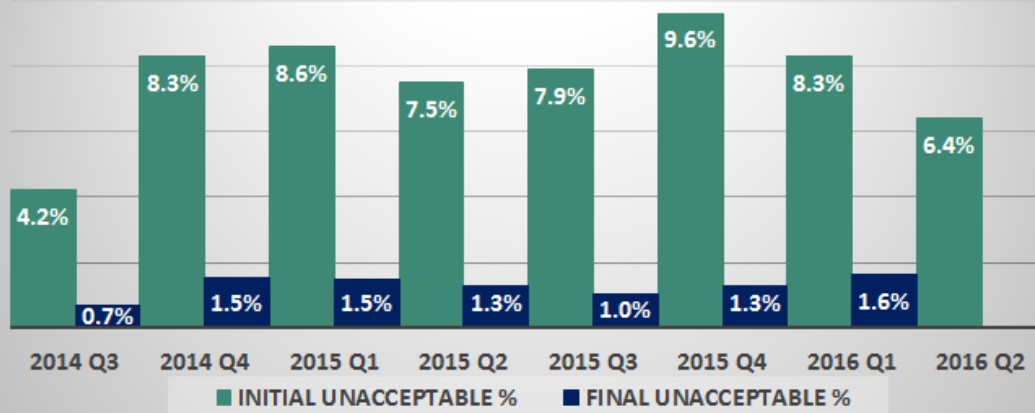


TOP 5 MITIGATED FINDINGS

GIFT FUNDS (FD20)

Typical reasons for unacceptable findings:

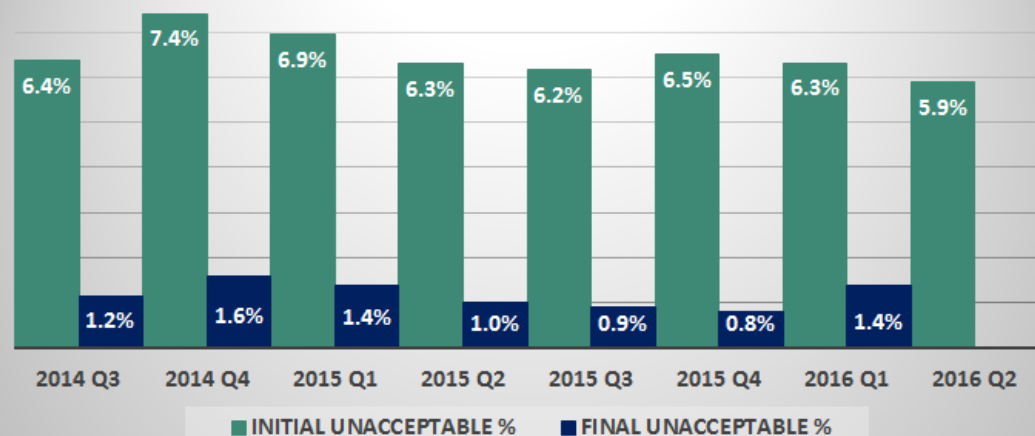
1. Documentation related to gift funds is missing or is unclear to reviewer.
2. The relationship between the donor and the borrower does not meet HUD requirements.
3. Withdrawal documentation is missing.
4. Documentation in the file leads to information that indicates the gift documentation is a loan from the gift donor.



INCOME DOCUMENTATION (IC20)

Typical reasons for unacceptable findings:

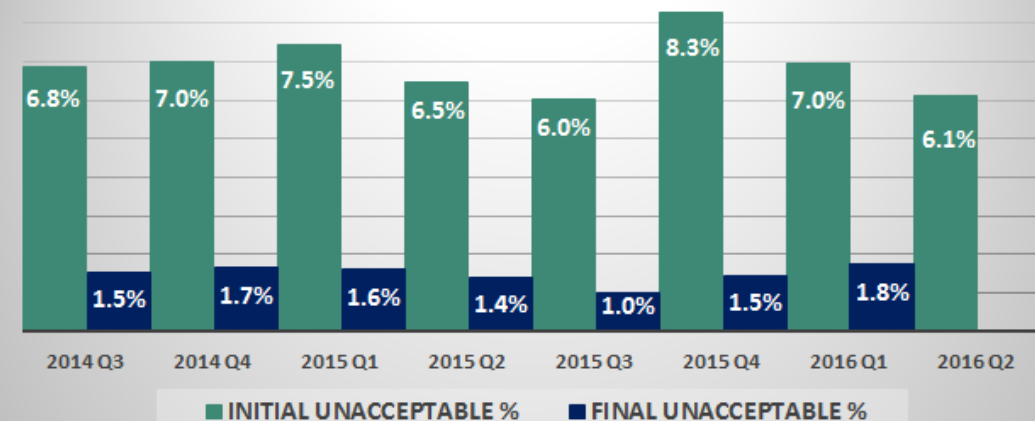
1. Missing verification of 2-year employment history and/or W-2s to support the income.
2. Child support/alimony income used to qualify is not verified according to FHA guidelines.
3. Missing Year-to-date Profit and Loss Statement(s), Business Tax Returns and Balance Sheets for self-employed borrowers when required.



OBLIGATIONS OF BORROWERS (LA04)

Typical reasons for unacceptable findings:

1. Debts omitted without documentation to support exclusion per FHA guidelines.
2. Liabilities revealed through other case binder documentation (paystubs, bank statements, tax returns, etc.) that were not considered in the qualifying ratios.
3. Missing credit report of non-purchasing spouse in community property states or debts not considered in qualifying ratios.



MANDATORY ELECTRONIC APPRAISAL DELIVERY

The use of FHA's Electronic Appraisal Delivery (EAD) portal is mandatory for all appraisal submissions for originations with case numbers assigned on and after June 27, 2016.

Mortgagees are **no longer** able to:

- Use both the EAD portal and other appraisal submission methods concurrently for originations.
- Submit appraisals for originations with case numbers assigned on and after June 27 to FHA through any method other than the EAD portal.
- Access the Appraisal Logging Screen in FHA Connection (FHAC) for case numbers that require an appraisal to be submitted through the EAD portal.

Find more information, user guides, and fact sheets on FHA's EAD Resource Page.

QUESTIONS?

Visit our FHA Lender page at:

www.hud.gov/lenders

and our online FAQ site at:

www.hud.gov/answers

Email: answers@hud.gov

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

TTY: **1-800-877-8339**

KEEP CONTACT INFORMATION UPDATED

Every FHA-approved lender must keep administrative contact information in LEAP complete and up to date.

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.

The LEAP User Manual contains step-by-step instructions for updating contact information. The User Manual and additional tools are available on the LEAP Information page in the Post-Approval section at www.hud.gov/lenders.

