



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

**Date: January 7, 2025**

**Mortgagee Letter 2025-01**

**To:** All FHA-Approved Mortgagees  
All Direct Endorsement Underwriters  
All Eligible Submission Sources for Condominium Project Approvals  
All FHA Roster Appraisers  
All FHA-Approved 203(k) Consultants  
All FHA-Approved Title I Lenders  
All HUD-Certified Housing Counselors  
All HUD-Approved Nonprofit Organizations  
All Governmental Entity Participants  
All Real Estate Brokers  
All Closing Agents

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**Subject** Federal Housing Administration (FHA) Defect Taxonomy Updates for Servicing Loan Reviews

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**Purpose** This Mortgagee Letter (ML) updates the FHA Defect Taxonomy with revised introductory sections and new content focused on Title II servicing loan reviews.

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**Effective Date** The provisions of this ML are effective for Title II loan reviews initiated on or after January 15<sup>th</sup>, 2025.

All updates will be incorporated into a forthcoming update of the HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

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**Affected Programs** This guidance applies to all FHA Title II Single Family mortgage programs.

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**Background** Appendix 8.0 – FHA Defect Taxonomy in Handbook 4000.1 is FHA’s quality assurance framework for Title II loan reviews. It provides a consistent method for identifying defects at the loan level, useful data and feedback through structured categorization of defects, and balance between

**Mortgagee Letter 2025-01, Continued**

FHA’s statutory obligation to mitigate risk to the Mutual Mortgage Insurance Fund (MMIF) and quality assurance business processes.

The current FHA Defect Taxonomy includes guidance applicable to Title II underwriting loan reviews only. This ML expands the Defect Taxonomy to incorporate defect areas focused on Title II servicing loan reviews and revises introductory sections that apply to both underwriting and servicing.

The updated FHA Defect Taxonomy reflects public feedback received in response to drafts posted on FHA’s Single Family Drafting Table in October 2021 and July 2024.

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**Summary of Changes**

This ML:

- updates Appendix 8.0 – FHA Defect Taxonomy with revised introductory sections and new content focused on Title II servicing loan reviews.

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**FHA Single Family Housing Policy Handbook 4000.1**

See attachment, Appendix 8.0 – FHA Defect Taxonomy.

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**Paperwork Reduction Act**

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0328; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0524; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0600; 2502-0610; and 2502-0611. In accordance with the PRA, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

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**Feedback or  
Questions**

HUD welcomes feedback from interested parties and will consider feedback in determining the need for future updates. Any feedback or questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342), [answers@hud.gov](mailto:answers@hud.gov), or [www.hud.gov/answers](http://www.hud.gov/answers). The FHA Resource Center is prepared to accept calls from persons who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. Information on how to make an accessible phone call is available at <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

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**Signature**

Julia R. Gordon  
Assistant Secretary for Housing -  
FHA Commissioner

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