



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
**FEDERAL HOUSING ADMINISTRATION**  
SINGLE FAMILY HOUSING



**Welcome to...**  
Office of Lender Activities and Program Compliance  
**FHA Servicing Quality Assurance Update**

Today's webinar begins  
at 2:00 PM (Eastern)

**We will be underway shortly**

Please test your speakers and choose Audio source (computer/smartphone or telephone) by selecting desired option in **Audio Settings** – see left side of toolbar at bottom of screen.



**OFFICE OF SINGLE FAMILY HOUSING**



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- Technical issues? Review *Technology FAQs* by clicking **Chat** icon at bottom of screen or **Landing Page**.
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# Questions and Answers

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- Q&A session will follow the presentation.
- Follow instructions in *Q&A Instructions* link found in the **Chat icon/Landing Page** and **Q&A Instructions** slide at end of the presentation.
- Test Audio, if asking a question.
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  - Computer/Smartphone
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- Send unanswered questions to FHA Resource Center.



# Contact FHA Resource Center

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- Online at: [www.hud.gov/answers](http://www.hud.gov/answers)
- Via email at: [answers@hud.gov](mailto:answers@hud.gov)
- Via phone at: 1-800-Call-FHA (1-800-225-5342)

Persons with hearing or speech impairments call Federal Relay Service at 1-800-877-8339.



# Documents/Materials & Training Evaluation

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- Documents/Materials:
  - Click **Chat** icon or **Landing Page** – select *Webinar Documents/Materials* link for copy of presentation.
- Training Evaluation:
  - Click on **Chat** icon or **Landing Page** – select *Survey* link.



# Helpful Links

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Click **Chat** icon or **Landing Page** – select links to bookmark:

- FHA Lenders page:  
[https://www.hud.gov/program\\_offices/housing/sfh/lender](https://www.hud.gov/program_offices/housing/sfh/lender)
- FHA FAQ page:  
<https://www.hud.gov/FHAFAQ>
- Single Family Housing Archived Webinars (On Demand) page:  
[https://www.hud.gov/program\\_offices/housing/sfh/events/sfh\\_webinars](https://www.hud.gov/program_offices/housing/sfh/events/sfh_webinars)





U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

# FEDERAL HOUSING ADMINISTRATION

SINGLE FAMILY HOUSING



Office of Lender Activities and Program Compliance

## FHA Servicing Quality Assurance Update

March 27, 2024

**Presented by Quality Assurance Division:**

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**Derek J. Taylor**, Deputy Director

**Alexander Adkins**, Management & Program Analyst

**Kim Gordon**, Single Family Housing Specialist

Last Updated: 2/15/2024



OFFICE OF SINGLE FAMILY HOUSING



# Disclaimer

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The purpose of this presentation is to provide an overview and summation of recent changes to Federal Housing Administration (FHA) policy. It introduces and explains official policy issued in Department of Housing and Urban Development (HUD) Handbooks and Mortgagee Letters (ML). If you find a discrepancy between the presentation and Handbooks, MLs, etc., the official policies prevail. Please note, the information provided in this training is subject to change.

The information in this presentation is current as of the August 9, 2023, publication of HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

Please consult HUD Handbooks and MLs through HUD's Client Information Policy Systems ([HUDCLIPS](#)) for the most recent updates and current policy.





# Agenda

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**FHA Servicing Reviews**

**Top Servicing Findings**

**Servicing Operations**

**Resources**

**Q&A**



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# FHA Servicing Reviews



# FHA Servicing Reviews

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- The Quality Assurance Divisions (QADs) in FHA's Homeownership Centers review servicers for compliance with all applicable requirements.
- Reviews are directed to the current servicer of record in FHA systems.
  - FHA defines servicer as the entity responsible for performing servicing actions on FHA-insured mortgages on its behalf or on behalf of or at the direction of another Mortgagee. (Handbook 4000.1 III.A.1.a.i).
  - Servicers are responsible for their actions in servicing FHA-insured mortgages, including actions taken on behalf of or at the direction of the holder. (III.A.1.b).

# Loan Review Volume: Servicing

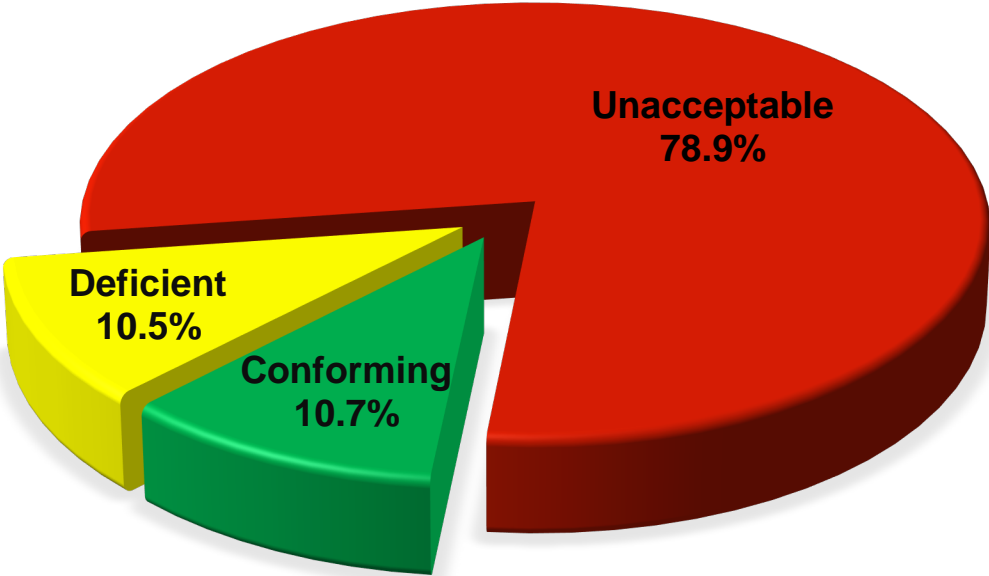
Selection Reason	CY23 Q1	CY23 Q2	CY23 Q3	CY23 Q4	# Completed	# Net Material	% Net Material
Lender Monitoring	95	132	141	102	470	60	12.8%
Lender Self-Report	95	147	74	108	424	94	22.2%
<b>Total</b>	<b>190</b>	<b>279</b>	<b>215</b>	<b>210</b>	<b>894</b>	<b>154</b>	<b>17.2%</b>

*Loan Review System (LRS) reviews completed from 1/1/2023 to 12/31/2023*

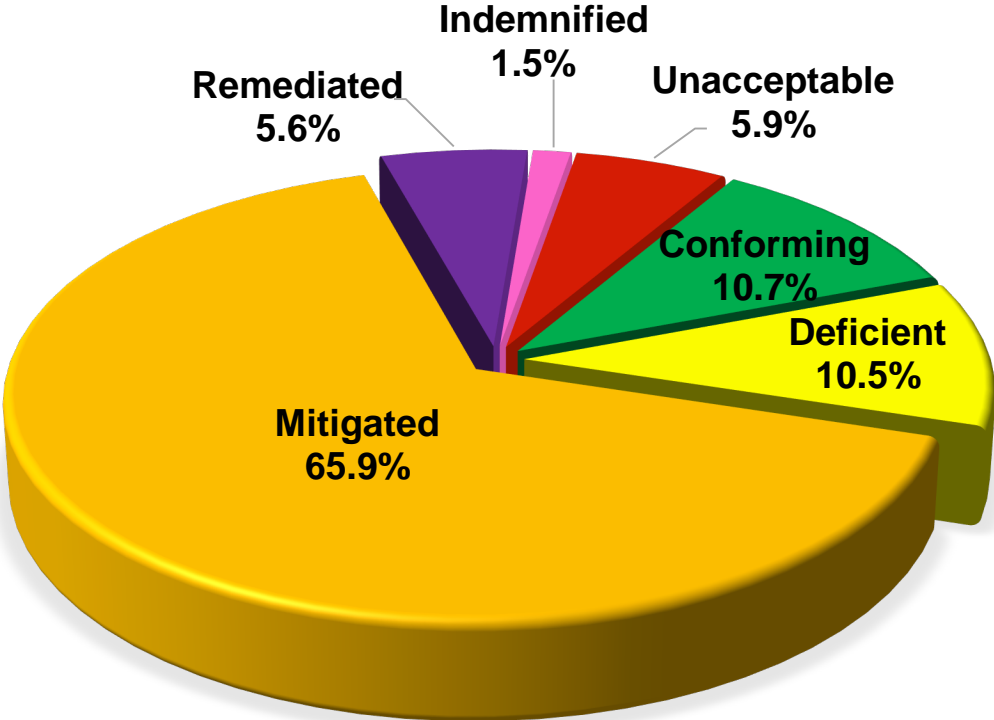


# Servicing Review Ratings and Outcomes

## Initial Ratings (Gross)



## Final Ratings (Net)



LRS reviews completed from 1/1/2023 to 12/31/2023 (excluding lender self-reports and internal QC).

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# Top Servicing Findings



# Top Servicing Findings

## Loan Reviews – Forward

Defect Area	% of Gross Material
Loss Mitigation Processing	23.99%
Home Retention	21.74%
Delinquent and Default Servicing	20.29%
Home Disposition	14.81%
Account Administration	10.79%
Servicer Operations	8.37%

- Represents servicing findings in LRS reviews completed from 1/1/2023 to 12/31/2023.
- Percentages represent the share of all gross material findings attributed to each defect area.
- Excludes self-reports and internal Quality Control (QC).



# Loss Mitigation Processing

Source	Cause	Frequent Examples
Loss Mitigation Status	Reporting requirements not met	<ul style="list-style-type: none"> <li>Stage of loss mitigation review was not reported to FHA using the accurate <i>Delinquency Workout Status Code</i>.</li> <li>Servicer initiated foreclosure but did not ensure complete or accurate reporting of <i>Ineligible for Loss Mitigation Code</i>.</li> </ul>
Loss Mitigation Waterfall Options	Unallowable or improperly calculated amounts	<ul style="list-style-type: none"> <li>Servicer did not complete review of loss mitigation request to determine whether the borrower qualified for a loss mitigation option as required.</li> <li>Unallowable or improperly calculated amount included in total outstanding debt to be resolved or capitalized and/or loan was not brought current for the month due through completion of loan modification and/or partial claim.</li> </ul>
Financial Evaluation	Issues with required documentation	<ul style="list-style-type: none"> <li>Determination of eligibility for home retention or home disposition options is not supported based on documents retained in the servicing file.</li> <li>Borrower was not properly evaluated for loss mitigation in accordance with Presidentially-Declared/COVID-19/National Emergency specific provisions.</li> </ul>



# Loss Mitigation Processing (cont.)

## HUD Policy References

### ***Single Family Housing Policy Handbook 4000.1, Section III.A.***

- 2.i Loss Mitigation Review Process
- 2.j HUD's Loss Mitigation Program
- 2.m Loss Mitigation Incentives
- 2.n Presidentially-Declared Major Disaster Areas
- 2.o Presidentially-Declared COVID-19 National Emergency
- 3. Programs and Products

*References are not all-inclusive.*



# Delinquent and Default Servicing

Source	Cause	Frequent Examples
Delinquency or Default Status	FHA reporting requirements not met (SFDMS Reporting)	<ul style="list-style-type: none"> <li>Reason for default, default status date, or oldest unpaid installment date not accurately reported to FHA.</li> <li>Occupancy status and/or date of occupancy determination inaccurately reported.</li> <li>Presidentially-Declared/COVID-19/National Emergency related reporting errors.</li> </ul>
Servicing File	Record retention requirements not met	<ul style="list-style-type: none"> <li>FHA is unable to determine delinquent and default servicing compliance due to missing or incomplete individual servicing account records.</li> <li>Original loan documents, individual account history, or servicing records not maintained or preserved as required during servicing transfer.</li> </ul>



# Delinquent and Default Servicing (cont.)

## HUD Policy References

### ***Single Family Housing Policy Handbook 4000.1, Section III.A.***

- 2.a** Mortgages in Delinquency or Default
- 2.b** HUD Default Servicing Contact
- 2.c** Reporting to Consumer Reporting Agencies and the IRS
- 2.d** Late Charges
- 2.e** Partial Payments for Mortgages in Default
- 2.f** Lien Status
- 2.o** Presidentially-Declared COVID-19 National Emergency
- 3.** Programs and Products

*References are not all-inclusive.*



# Top Servicing Findings

## Loan Reviews – Home Equity Conversion Mortgages (HECM)

Defect Area	% of Gross Material
Account Administration	49.10%
Servicer Operations	33.33%
Delinquent and Default Servicing	10.36%
Home Disposition	7.21%

- Represents servicing findings in LRS reviews completed from 1/1/2023 to 12/31/2023.
- Percentages represent the share of all gross material findings attributed to each defect area.
- Excludes self-reports and internal QC.



# Account Administration

Source	Cause	Frequent Examples
Escrow Management and Property Charge Disbursements	Account activity not performed as required	<ul style="list-style-type: none"> <li>• Life expectancy set-aside (LESA) requirements not met due to incomplete transaction history, inadequate disbursement details, or copies of bills.</li> <li>• Unallowable fees and charges added to the outstanding principal balance or LESA funds used incorrectly.</li> <li>• The set-aside account was not used solely for the purpose intended and/or was prematurely exhausted due to improper use.</li> <li>• Servicer prematurely advanced property tax payments without ensuring borrower payments were received by the taxing authority.</li> </ul>
Annual Escrow Analysis	Incomplete or insufficient servicing records, audit trail, or documentation	<ul style="list-style-type: none"> <li>• Annual statements were not provided timely and were not documented in accordance with FHA requirements.</li> <li>• The servicing file does not demonstrate the servicer's compliance with FHA's late fee policies.</li> </ul>

# Account Administration (cont.)

## HUD Policy References

### *Single Family Housing Policy Handbook 4000.1, Section III.B.*

- 1.e Borrower Disbursements
- 1.f Payment Administration
- 1.g Servicing Fees and Charges
- 1.i Set-Asides
- 1.j Allowable Fees and Charges
- 1.m Insurance Coverage Administration

*References are not all-inclusive.*



# Home Disposition

Source	Cause	Frequent Examples
HECM Property Disposition	Required actions or activities not completed in accordance with policy	<ul style="list-style-type: none"> <li>• Servicer did not perform first-time vacant inspections in compliance with FHA requirements.</li> <li>• Reasonable action to secure the property and protect the value were not taken when the servicer became aware the property was vacant.</li> <li>• Unacceptable property conditions due to disrepair or servicer neglect for property protection and preservation.</li> </ul>
Foreclosure Review and Activities	Incomplete or insufficient servicing records, audit trail, or documentation	<ul style="list-style-type: none"> <li>• FHA is unable to determine if the due and payable status was assigned correctly and timely due to incomplete servicing records or the loan was not called due and payable in accordance with Home Equity Conversion Mortgages (HECM) policy.</li> <li>• Servicer did not obtain an acceptable appraisal prior to foreclosure sale bidding.</li> </ul>
	Issues with required documentation	<ul style="list-style-type: none"> <li>• Servicer maintained adequate documentation in the servicing file but did not properly update Home Equity Reverse Mortgage Information Technology (HERMIT).</li> </ul>



# Home Disposition (cont.)

## HUD Policy References

### ***Single Family Housing Policy Handbook 4000.1, Section III.B.***

- 1.i Set-Asides
- 1.j Allowable Fees and Charges
- 1.q Property Maintenance
- 2. Default Servicing

*References are not all-inclusive*





# Servicing Remedies

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## Purpose

- Mitigate risk to FHA and, to the extent possible, put borrowers in the position they would have been in if no servicing violation had occurred.

## Types

- *Mitigating Documentation* to support compliance or the completion of corrective actions.
- *Financial Remediation* to correct specific monetary errors.
- *Indemnification* to protect FHA against any actual net loss.



# Servicing Remedies (cont.)

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## Financial Remediation

- *Refund* to reimburse unallowable or erroneous charges, fees, or costs to the affected party.
- *Principal Reduction* applied to the unpaid principal balance of the loan. For delinquent/defaulted loans, funds may be applied to the borrower's suspense account.
- *Account Adjustment* applied to the borrower's loan, escrow, or suspense account in the amount necessary to bring the account into compliance with HUD policy.
- *Remittance* of improperly paid claims and/or loss mitigation incentives to HUD.

# Servicing Remedies (cont.)

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## Partial Claim Reimbursements

- *Why?*
  - Miscalculations resulting in overpayment to the servicer.
  - Inclusion of unallowable expenses.
  - Other violations of FHA policy that make the **p**artial claim invalid.
- *How Much?*
  - Overpaid amount.
  - Full amount.
- *How?*
  - National Servicing Center.
  - HUD's Loan Servicing Contractor.

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# Servicing Operations



# Top Operational Findings

## Lender Monitoring Reviews

Defect Area	% of Gross Material
Quality Control (QC) Program	21.65%
Default Processing	21.65%
Payment Processing	15.46%
Training	9.28%
Affiliates	7.22%
General Operations	6.19%
Sanctions and Compliance	4.12%
Servicing Transfers	4.12%
Foreclosure Management	4.12%
Mortgage Insurance Premiums	4.12%
Eligibility Requirements and Employment Checks	2.06%

- Represents servicing findings in LRS reviews completed from 1/1/2023 to 12/31/2023.
- Percentages represent the share of all gross material findings attributed to each defect area.



# Quality Control Program

## Frequent Examples

- Failure to adopt, implement, and maintain a QC program covering all aspects of FHA operations and loan administration in accordance with all HUD requirements.
- A QC plan does not contain all required written operational policies and procedures applicable for FHA loan administration.
- QC reviews did not demonstrate that the servicer accurately identifies and classifies loan-level violations in accordance with HUD policy.
- QC reviews did not require additional documentation and/or corrective actions to mitigate risks to FHA when the servicer identified material violations of FHA policy requirements.
- QC reports did not list the QC reviewer and/or did not demonstrate QC independence.
- Failure to self-report unresolved material findings to FHA as required.

# Quality Control Program (cont.)

## QC Reports – Information Necessary to Confirm Compliance

- Who May Perform Quality Control?
- Loan File Selection
- Identifying Patterns, Fraud, Misrepresentation, and Other Findings
- Loan Sample Risk Assessment

### *Sample Report Format*

Borrower Name	FHA Case No.	Selection Reason	QC Reviewer	Risk Rating		Findings Summary		Review Date	Dates Reported to Management		Corrective Action	Self-Report Date
				Initial	Final	Initial Report	Final Report		Initial Report	Final Report		

# Quality Control Program (cont.)

## HUD Policy References

### ***Single Family Housing Policy Handbook 4000.1, Section V.A***

1. Quality Control Program Overview
2. Institutional Quality Control Program Requirements
3. Loan Level Quality Control Program Requirements
4. Data Integrity

*References are not all-inclusive*





# Affiliates

## Frequent Examples

- Affiliates did not meet eligibility requirements and/or maintain all state & federal licenses and registrations required for the servicing functions performed.
- Incomplete re-verification of compliance with all applicable laws related to licensing, qualification, eligibility, or approval to participate in FHA programs.
- Methodology and procedures used to review Affiliates were not provided, or insufficient details captured in the Affiliates list.
- Inadequate monitoring and quality control reviews of contract service providers.
- Information and documents requested by FHA were not provided in the format and time frame requested.

# Affiliates (cont.)

## Affiliates List – Information Necessary to Confirm Compliance

- Operational Compliance
- Affiliate Quality Control Reviews
- Ineligible Participants

### *Sample Report Format*

				Eligibility Checks					Quality Control		Risk Relationship Rating		Lender Owned Affiliate		
Affiliate Name	Affiliate's Role	Functions Performed	Start Date	Recertification Frequency	Last date checked	Method Used	Current Status	Date Suspended / Termed	QC Required? Y/N	Last QC Date	Rating	As of Date	% of ownership	Principal Owner	% of FHA Business

# Affiliates (cont.)

## HUD Policy References

### ***Single Family Housing Policy Handbook 4000.1, Section V.A***

- 2.b.** Operational Compliance
- 3.f.** Ineligible Participants

*References are not all-inclusive.*



# Resources



# Resources

## LRS Information Page

[https://www.hud.gov/program\\_offices/housing/sfh/lender/loan\\_review\\_system](https://www.hud.gov/program_offices/housing/sfh/lender/loan_review_system)

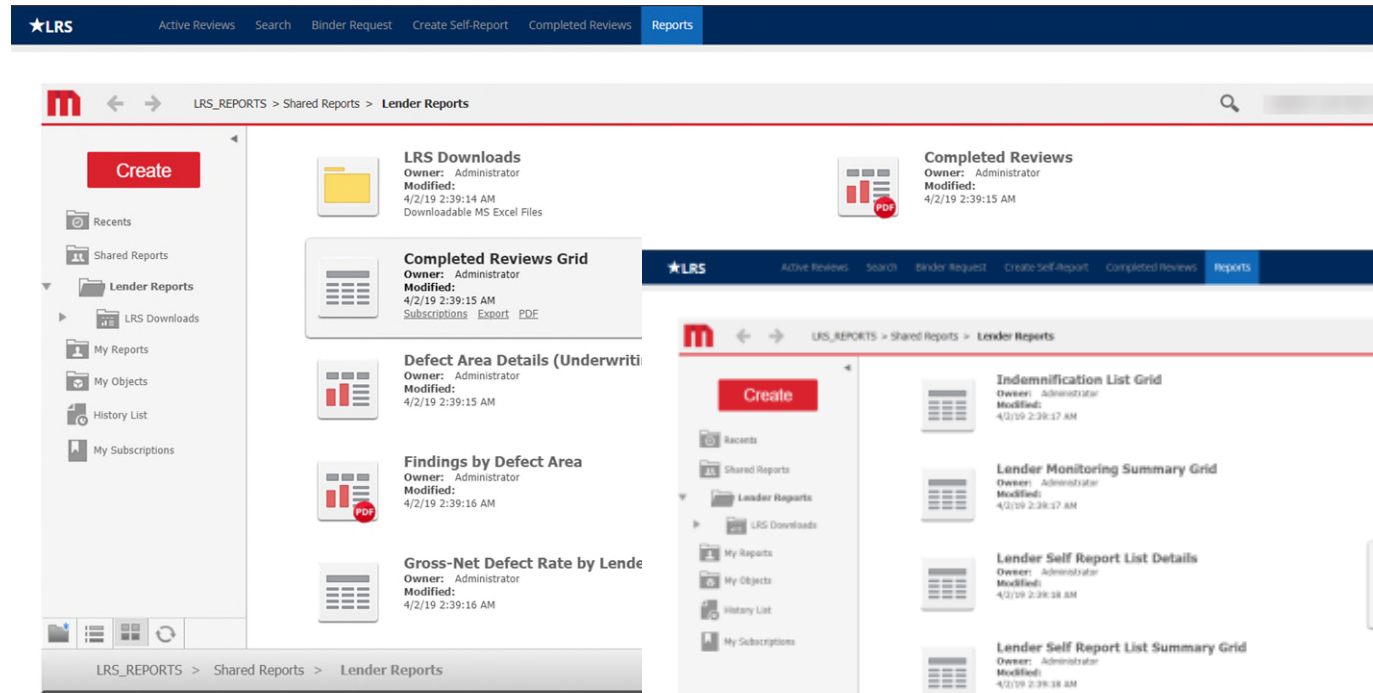
- LRS User Manual
- FHA Defect Taxonomy
- Archived Webinars

The screenshot shows the HUD website's LRS Information Page. At the top, there is a dark blue header with the HUD logo and the text "U.S. Department of Housing and Urban Development". To the right of the header are links for "About Us" and "What We Do", and a search bar. Below the header is a navigation bar with links for "Housing Home", "About Us", "Single Family", "Healthcare Programs", "Multifamily", "Housing Counseling", and "More". The main content area has a breadcrumb trail: "Home / Program Offices / Housing / Single Family / Lenders / Loan Review System". The title "LOAN REVIEW SYSTEM" is prominently displayed. Below the title, a paragraph describes the LRS as an electronic platform for FHA Title II Single Family quality assurance review processes. A bulleted list follows, detailing various review types: "Various Post-Endorsement Loan Reviews", "Unconditional Direct Endorsement Authority Test Cases", "Lender Monitoring Reviews", and "Lender Self-Reporting of Fraud and Other Material Findings". A section titled "Functions and Features" lists several capabilities, including communicating findings, consolidating functions, automating manual processes, organizing requests, streamlining document submission, and enhancing reporting. A link to the "LRS User Manual - Updated January 1, 2020" is provided. On the right side of the page, there are three sections: "Quality Assurance Webinars" with a brief description and a link to "UPCOMING SINGLE FAMILY HOUSING EVENTS AND TRAINING"; "SINGLE FAMILY HOUSING ARCHIVED WEBINARS"; and "Subscribe to FHA INFO Announcements" with a link to "FHA INFO ARCHIVE".



# Resources (cont.)

- Access LRS reports to review your own results
  - Top Findings
  - Self-Reports
  - Indemnifications
  - Data Downloads



# Resources (cont.)

## FHA Resource Center

- When inquiring about a specific LRS review, lenders must provide FHA Case Number, their and its review location.
  - Review location is shown on the LRS Search screen, the Binder Request screen, or the Review Data tab.

The screenshot shows the LRS Search interface. The top navigation bar includes 'Active Reviews', 'Search', 'Binder Request', 'Create Self-Report', 'Completed Reviews', and 'Reports'. The 'Search' tab is active. On the left, there are 'SEARCH FIELDS' and 'FILTERS'. The 'SEARCH FIELDS' section has a dropdown for 'Case Number(s)'. The 'FILTERS' section includes 'PRODUCT TYPE' (Purchase: 71, Refinance: 35) and 'SELECTION REASON' (Early Claims: 1, Early Payment Defaults: 11, Lender Self-Report: 94). The main area displays 'SEARCH RESULTS (106)' in a table format. A red arrow points to a 'Print' button in the top right corner.

Case Number	Batch	Product Type	Selection Date	Selection Reason	Selection Status	Review Type	Review Level	Review Status	Review Location
		Refinance		Early Claims	Received	Underwriting	Initial	Assigned	SNA-QAD
		Refinance		Lender Self-Report	Received	Underwriting	Initial	Assigned	SNA-QAD
		Purchase		Early Payment Defaults	Received	Underwriting	Initial	Completed	SNA-PUD
		Purchase		Early Payment Defaults	Received	Underwriting	Initial	Completed	DEN-PUD
		Purchase		Lender Self-Report	Received	Underwriting	Mitigation 2	Assigned	PHI-QAD

# Resources (cont.)

Option	Point of Contact	Hours Available	Comments
1 FHA Knowledge Base – FAQs	www.hud.gov/answers	24/7/365	Knowledge Base web page includes option to email questions.
2 Email	answers@hud.gov	24/7/365	
3 Telephone	1-800-CALL-FHA (1-800-225-5342) Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.	8:00 AM to 8:00 PM Eastern M-F	Voicemail is available after hours or during extended wait periods.

*FHA INFO* emails: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at: [https://www.hud.gov/program\\_offices/housing/sfh/FHA\\_INFO\\_subscribe](https://www.hud.gov/program_offices/housing/sfh/FHA_INFO_subscribe)





# Helpful Links

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- FHA Single Family Information Page  
[https://www.hud.gov/program\\_offices/housing/sfh](https://www.hud.gov/program_offices/housing/sfh)
- Single Family Housing Policy Handbook 4000.1  
[https://www.hud.gov/program\\_offices/housing/sfh/handbook\\_4000-1](https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1)
- Single Family Drafting Table  
[https://www.hud.gov/program\\_offices/housing/sfh/sfh\\_policy\\_drafts](https://www.hud.gov/program_offices/housing/sfh/sfh_policy_drafts)
- FHA National Servicing Center  
[https://www.hud.gov/program\\_offices/housing/sfh/nsc](https://www.hud.gov/program_offices/housing/sfh/nsc)
- Subscribe to FHA INFO Notices  
[https://www.hud.gov/program\\_offices/housing/sfh/FHA\\_INFO\\_subscribe](https://www.hud.gov/program_offices/housing/sfh/FHA_INFO_subscribe)



# Q&A



# Q&A Instructions

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- Test/change audio settings on computer/smartphone/telephone by selecting *Audio Settings* on toolbar.

## Access audio using one of the following options:

### Option A: Computer or smartphone

- If viewing webinar through computer or smartphone, click *Raise Hand* icon. You will receive onscreen message to unmute yourself - click *Unmute Myself* button. When prompted by moderator, provide your name, company affiliation, then ask your question.

### Option B: Standard telephone line

- To ask a question, press \*9 to be placed in queue. Webinar moderator will unmute your phone and you will hear an automated voice message stating *You Are Unmuted*. When prompted by moderator, provide your name, company affiliation, then ask your question.

**Thank you for joining us today!**

