



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

SINGLE FAMILY HOUSING



Welcome to...

Office of Lender Activities and Program Compliance

## **FHA Underwriting 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



# Technical Support

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- Recommend Chrome browser.
- Technical issues? Review *Technology FAQs* by clicking **Chat** icon at bottom of screen or **Landing Page**.
- Need additional tech support? Click *Contact Tech Support* icon on **Chat** link or **Landing Page**.



# 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.
- Select one of the two Audio options:
  - Computer/Smartphone
  - Standard Telephone Line
- 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 Underwriting Quality Assurance Update

March 20, 2024

**Presented by the Quality Assurance Division:**  
**Jack Higgins**, Director  
**Derek J. Taylor**, Deputy Director  
**Alexander Adkins**, Management & Program Analyst  
**Christina Channing**, Single Family Housing Specialist

Last Updated: 2/7/2024



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# 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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**Loan Review Results**

**Top Underwriting Findings**

**Top Operational Findings**

**Resources**

**Q&A**



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# Loan Review Results



# Loan Review Volume: Underwriting

Selection Reason	CY23 Q1	CY23 Q2	CY23 Q3	CY23 Q4	# Completed	# Net Material	% Net Material
Monthly Random	2,440	2,098	2,955	2,303	9,796	479	4.9%
Early Payment Defaults	2,554	2,527	1,954	2,081	9,116	1,044	11.5%
Monthly Risk Threshold	1,927	1,653	2,100	2,601	8,281	803	9.7%
Lender Self-Report	935	1,150	810	913	3,808	1,564	41.1%
Lender Monitoring	413	881	698	430	2,422	295	12.2%
Review Location Quality Control	366	383	403	355	1,507	44	2.9%
Test Case	182	164	267	203	816	18	2.2%
FHA Manual	436	151	97	51	735	167	22.7%
Early Claims	26	46	81	55	208	11	5.3%
<b>Total</b>	<b>9,279</b>	<b>9,053</b>	<b>9,365</b>	<b>8,992</b>	<b>36,689</b>	<b>4,425</b>	<b>12.1%</b>

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



# Quarterly Loan Review Summary

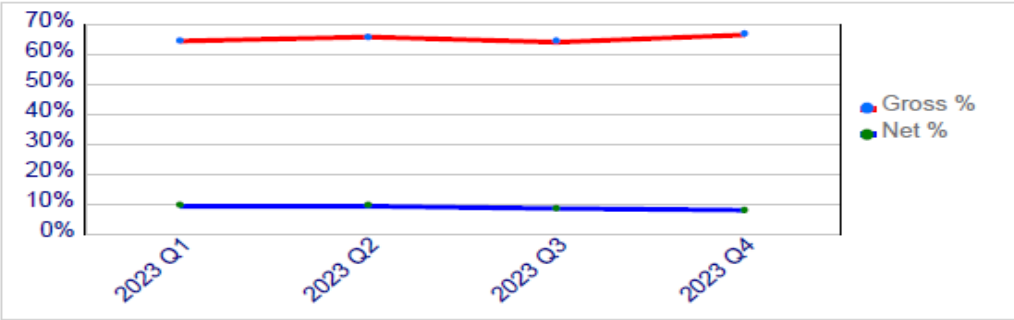
**Completed Quarter(s):** 2023 Q1, 2023 Q2, 2023 Q3, 2023 Q4 (calendar year)

**Location(s):** All

**Sample:** Total (performing and non-performing loans, excluding lender self-reports, OIG audit and internal Quality Control (QC)).

## Material Defects

Qtr	# of Loans	Gross #	Gross %	Net #	Net%
2023 Q1	8,094	5,223	64.5%	772	9.5%
2023 Q2	7,696	5,071	65.9%	733	9.5%
2023 Q3	8,331	5,344	64.1%	732	8.8%
2023 Q4	7,856	5,231	66.6%	646	8.2%



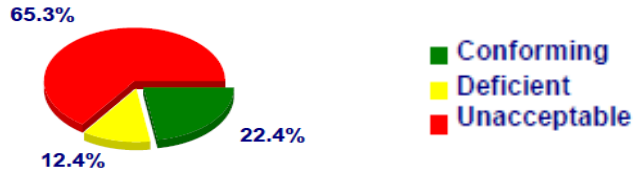
## Review Ratings #

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2023 Q1	1,846	1,025	4,451	25	731	16
2023 Q2	1,640	985	4,338	32	655	46
2023 Q3	1,927	1,060	4,612	21	689	22
2023 Q4	1,739	886	4,585	15	618	13
Total	7,152	3,956	17,986	93	2,693	97

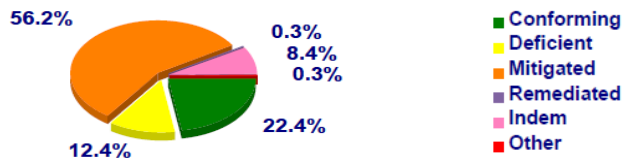
## Review Ratings %

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2023 Q1	22.8%	12.7%	55.0%	0.3%	9.0%	0.2%
2023 Q2	21.3%	12.8%	56.4%	0.4%	8.5%	0.6%
2023 Q3	23.1%	12.7%	55.4%	0.3%	8.3%	0.3%
2023 Q4	22.1%	11.3%	58.4%	0.2%	7.9%	0.2%
Total	22.4%	12.4%	56.2%	0.3%	8.4%	0.3%

## Gross Ratings

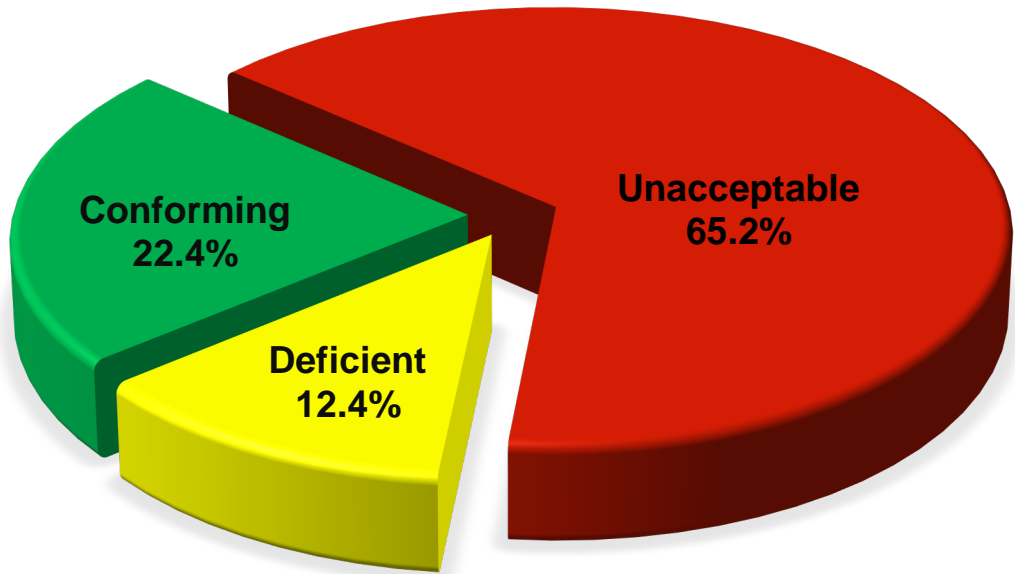


## Net Ratings

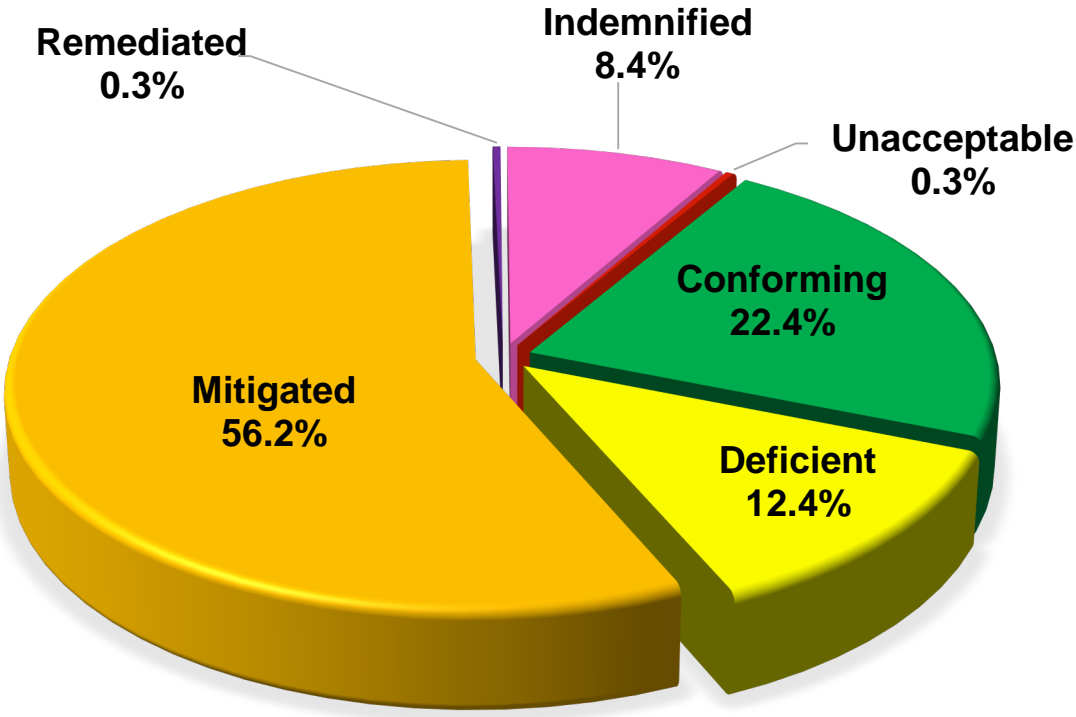


# Quarterly Ratings and Outcomes

## Initial Ratings (Gross)

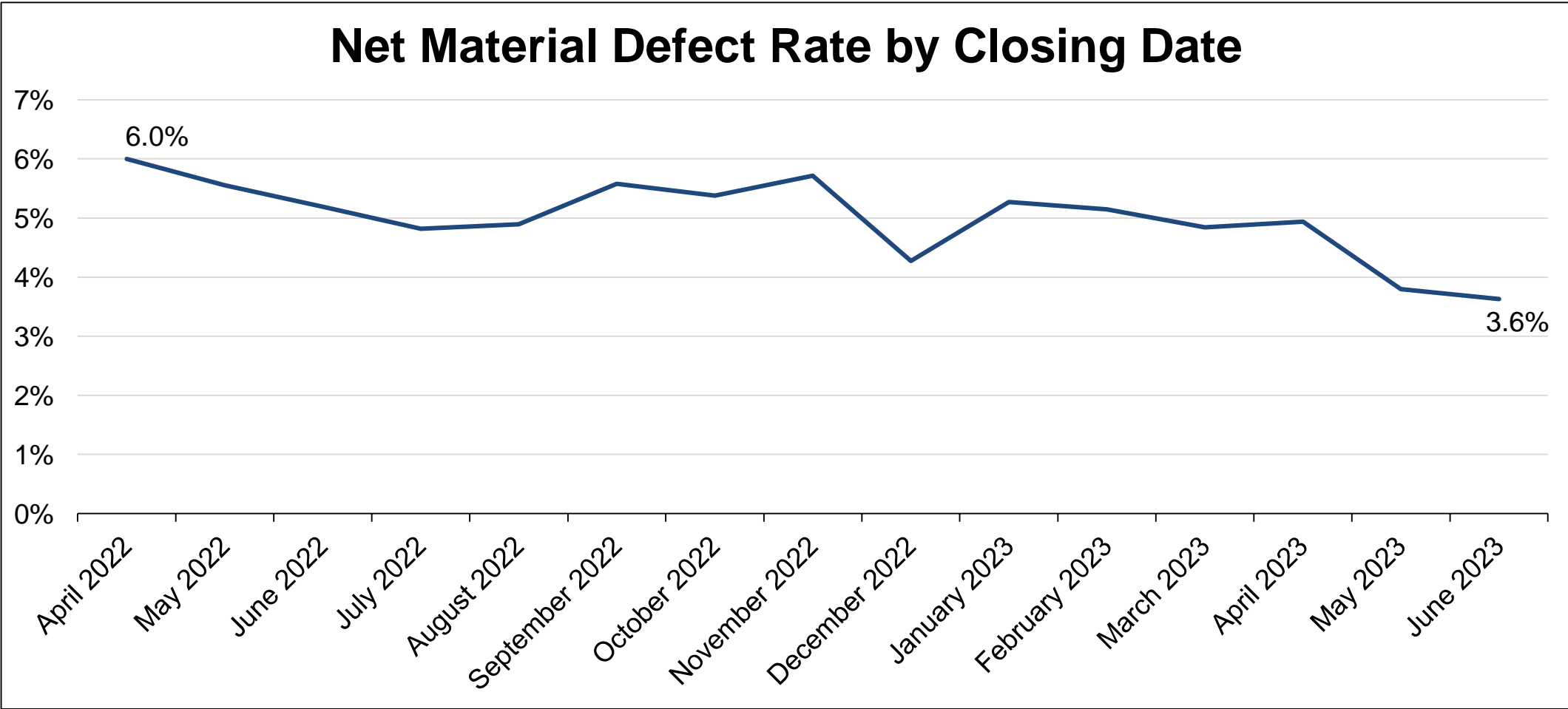


## Final Ratings (Net)



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

# Random Sample Trends



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# Top Underwriting Findings



# Top Underwriting Findings

## Loan Reviews – Forward

Defect Area	% of Net Material
Borrower Income	25.50%
Borrower Credit	21.18%
Borrower Assets	14.29%
Lender Operations	11.18%
Property Eligibility	9.53%
Mortgage Eligibility	5.53%
Borrower Eligibility	4.64%
LTV/Max Mortgage Amount	4.31%
Property Appraisal	3.82%

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





# Borrower Income

Source	Cause	Frequent Examples
Salary or Hourly Wages from Primary Employment	History, stability, and/or continuance not supported.	<ul style="list-style-type: none"> <li>Borrower's most recent two years of employment and income not documented (from current employment and/or and past employment).</li> <li>Stability of income not supported based on gap in employment of six months or more because borrower was not employed on current job for at least six months at the time of case number assignment and/or two-year work history prior to gap in employment was not documented.</li> </ul>
Self-Employment	Effective income improperly calculated or not supported by documentation.  Issues concerning required documentation or verifications.	<ul style="list-style-type: none"> <li>Borrower's employment income was not averaged over the previous two years as required for hourly employees with variable hours.</li> <li>Self-employment income was not calculated based on the average gross self-employment income earned over the previous two years.</li> <li>Borrower was self-employed for less than two years and was not previously employed in the same line of work or in an occupation related to self-employment.</li> <li>Documentation reveals self-employment loss that was not subtracted from the borrower's gross monthly qualifying income as required.</li> </ul>



# Borrower Income (cont.)

## HUD Policy References

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

- 1.b.ii(A)** General Borrower Eligibility Requirements
  - 4.a** Underwriting with an Automated Underwriting System
  - 4.c** Income Requirements (TOTAL)
  - 4.e** Final Underwriting Decision (TOTAL)
  - 5.b** Income Requirements (Manual)
  - 5.d** Final Underwriting Decision (Manual)

*References are not all-inclusive.*



# Borrower Assets

Source	Cause	Frequent Examples
Gift Funds	<p>Required documentation missing or incomplete.</p> <p>Improperly verified or unacceptable source of funds.</p>	<ul style="list-style-type: none"> <li>Evidence of Gift transfer from the donor to the Borrower was not provided.</li> <li>Missing donor’s bank statement showing sufficient funds for the Gift amount when funds were received by escrow or settlement agent.</li> <li>Insufficient documentation to establish that the Governmental Entity incurred an enforceable legal obligation to fund the Borrower’s Minimum Required Investment prior to or at closing.</li> </ul>
Large Deposits	Asset amount used to support approval not supported.	<ul style="list-style-type: none"> <li>Individual deposits exceeded one percent of the Adjusted Value, but documentation was insufficient to support that funds came from an acceptable source.</li> <li>Unverified funds used for the purpose of qualifying for the loan, including those to satisfy debt, pay costs outside of closing, or submitted to Automated Underwriting Systems (AUS) as reserves.</li> </ul>



# Borrower Assets (cont.)

## HUD Policy References

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

- 1.b.ii(A)** General Borrower Eligibility Requirements
  - 4.a** Underwriting with an Automated Underwriting System
  - 4.d** Asset Requirements (TOTAL)
  - 4.e** Final Underwriting Decision (TOTAL)
  - 5.c** Asset Requirements (Manual)
  - 5.d** Final Underwriting Decision (Manual)

*References are not all-inclusive.*



# Top Underwriting Findings

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

Defect Area	% of Net Material
Lender Operations	25.71%
Borrower Credit	20.00%
Property Appraisal	14.29%
Borrower Income	14.29%
Property Eligibility	14.29%
Borrower Eligibility	8.57%
Mortgage Eligibility	2.86%
LTV/Maximum Mortgage Amount	0%
Borrower Assets	0%

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



# Borrower Credit – HECM

Source	Cause	Frequent Examples
Housing Payment History	Required documentation not included in loan file	<ul style="list-style-type: none"> <li>• Regardless of fully funded Life Expectancy Set-Aside, approval not supported based on borrower’s unsatisfactory property charge payment history or demonstrated disregard for financial obligations without documented extenuating circumstances.</li> <li>• Borrower’s payment history for all property charges not verified or documented in accordance with FHA requirements.</li> </ul>
Monthly Obligations	<p>Amount not supported or improperly calculated</p> <p>FHA standards not met – approval not supported</p>	<ul style="list-style-type: none"> <li>• Financial Assessment improperly completed and/or calculations not supported.</li> <li>• Monthly expenses exceed effective income and compensating factors not documented and/or minimum Life Expectancy Set-Aside was not applied as required.</li> <li>• FHA is unable to determine compliance with the Financial Assessment due to insufficient documentation to support the borrower’s monthly obligations.</li> </ul>



# Borrower Credit – HECM (cont.)

## HUD Policy References

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

- 2.b.ii(A)** General Borrower Eligibility Requirements
  - 5.a** Performing the Financial Assessment of the Borrower
  - 5.b** Credit History Review Requirements
  - 5.c** Property Charge Payment History Review Requirements
  - 5.d** Monthly Expense Analysis
  - 5.h** Required Documentation
  - 5.i** Final HECM Decision
- 8.a.xii** Performing the Financial Assessment

*References are not all-inclusive.*



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# Top Operational Findings





# Top Operational Findings

## Lender Monitoring Reviews

Defect Area	% of Gross
Quality Control Program	28.75%
Affiliates	13.19%
General Operations	11.54%
Eligibility Requirements and Employment Checks	11.17%
Closing/Post-Closing and Endorsement	8.79%
Training	8.42%
Mortgage Credit Rejects	5.86%
Sanctions and Compliance	5.86%
Marketing and Advertising	3.30%
Mortgage Insurance Premiums	1.83%
Funding Program	1.28%

- Represents operational 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.
- QC Plan does not contain all required written operational policies and procedures applicable for FHA loan administration.
- Failure to effectively monitor and select Early Payment Default loans for monthly QC reviews or complete QC reviews timely in accordance with FHA requirements.
- QC reviews did not properly identify material violations of FHA policy requirements requiring additional documentation and/or corrective actions to mitigate risks to FHA.
- Failure to self-report QC findings of fraud, misrepresentation, and/or other unresolved material findings to FHA as required.
- QC reports do not capture all required elements or information to include the complete results from each QC review to include corrective actions taken and any pending follow up activities as a result of material findings.
- QC Plan does not contain all required origination and underwriting elements for review of FHA loans selected for pre-closing or post-closing QC.

# 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 list provided to FHA does not capture all required elements to determine compliance.
- QC Plan does not adequately document the methodology and procedures used to review Affiliates.
- Failure to adequately monitor Affiliates to include re-verification of compliance with all applicable laws related to licensing, qualification, eligibility, or approval to originate FHA loans.
- Failure to identify patterns of fraud, misrepresentation, or other material policy violations in loans originated by its Affiliates, and/or didn't document the results of each review, and any corrective actions taken as a result of findings.
- Failure to verify that each Affiliate was properly trained and adhered to requirements for participation in FHA loans.
- Failure to perform QC reviews of FHA-insured loans originated, underwritten, and/or closed by Affiliates.

# Affiliates (cont.)

## HUD Policy References

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

- 1.a-d** Quality Control Program Overview
- 2.a** Who May Perform Quality Control
- 2.b.ii** Affiliate Quality Control Reviews
- 2.d** Fraud, Misrepresentation, and Other Findings
- 3.a-c** Loan Level Quality Control Program Requirements

*References are not all inclusive.*



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# 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 U.S. Department of Housing and Urban Development website. The header includes the department logo, name, and navigation links for 'About Us' and 'What We Do', along with a search bar. A secondary navigation bar lists categories: 'Housing Home', 'About Us', 'Single Family', 'Healthcare Programs', 'Multifamily', 'Housing Counseling', and 'More'. The main content area features a breadcrumb trail: 'Home / Program Offices / Housing / Single Family / Lenders / Loan Review System'. The title is 'LOAN REVIEW SYSTEM'. The text describes the LRS as an electronic platform for FHA Title II Single Family quality assurance review processes, including:

- Various Post-Endorsement Loan Reviews
- Unconditional Direct Endorsement Authority Test Cases
- Lender Monitoring Reviews
- Lender Self-Reporting of Fraud and Other Material Findings

Below this is a section titled 'Functions and Features' with a list of capabilities:

- Communicates findings using FHA's Defect Taxonomy
- Consolidates most quality assurance functions into one system
- Automates various manual processes and communications
- Organizes and prioritizes requests for lender responses
- Streamlines submission of required documents
- Enhances loan quality reporting and analytics
- [LRS User Manual - Updated January 1, 2020](#)

On the right side of the page, there are three promotional sections:

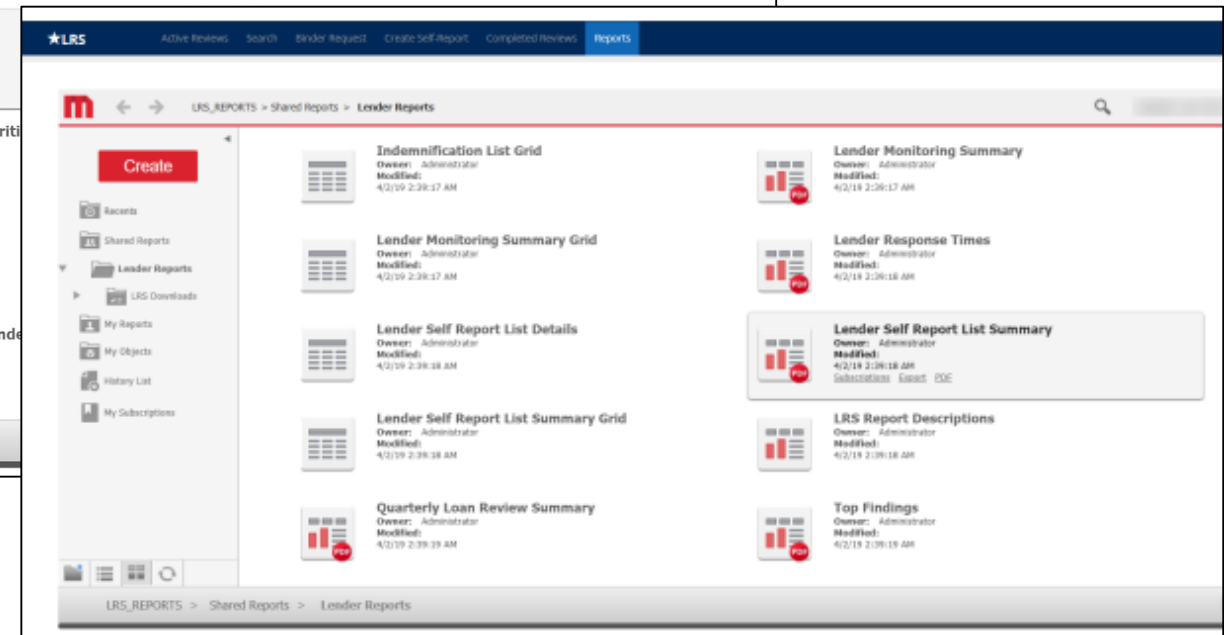
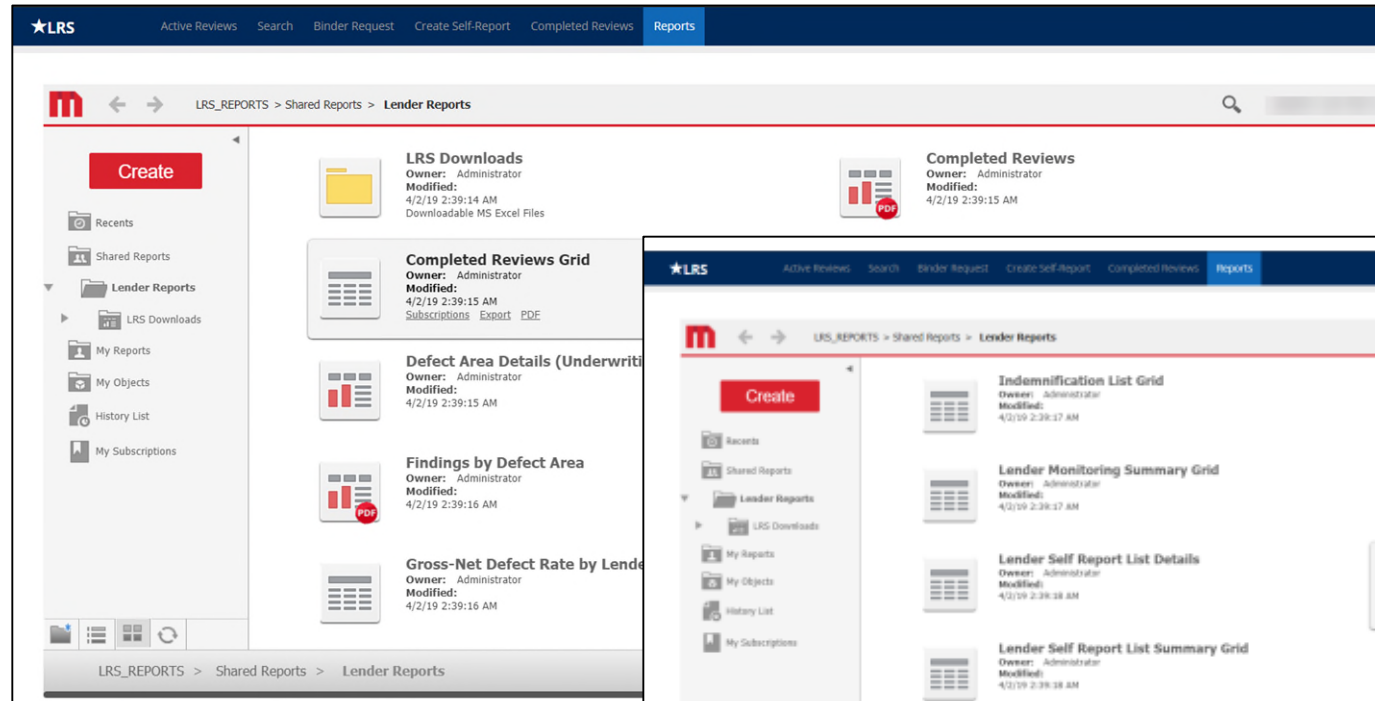
- Quality Assurance Webinars**: Take advantage of FHA's online webinar offerings to stay up-to-date on quarterly quality assurance results, most common findings, and additional guidance for lenders related to quality assurance processes.
- UPCOMING SINGLE FAMILY HOUSING EVENTS AND TRAINING**
- SINGLE FAMILY HOUSING ARCHIVED WEBINARS**

At the bottom right, there is a section for **Subscribe to FHA INFO Announcements**, which includes 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 the FHA Case Number and 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. On the left, there are search fields and filters. The search results table has the following columns: Case Number, Batch, Product Type, Selection Date, Selection Reason, Selection Status, Review Type, Review Level, Review Status, and Review Location. A red arrow points to the Review Location column.

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)
- 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)



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# Q&A



# Q&A Instructions

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## Check your audio to ensure it's working correctly:

- Click *Test Speaker & Microphone* option or Microphone icon if image is crossed out.
- 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!**

