

CHAPTER 8  
MORTGAGEE MONITORING, ADMINISTRATIVE SANCTIONS  
AND MRB ACTIONS, CREDIT WATCH AND NEIGHBORHOOD  
WATCH

Part A. Monitoring Activities

8-1 Introduction. Various offices within HUD monitor the performance of mortgagees originating or servicing single family insured mortgages. The objectives of the mortgagee monitoring program are:

- A. To ensure that mortgagee practices are in compliance with statutory, regulatory and administrative loan origination and servicing requirements;
- B. To identify mortgagees representing a high risk to the Departments insurance funds and take appropriate actions to mitigate losses; and
- C. To provide consistency in the resolution of problems relating to non-compliance with FHAs loan origination and servicing requirements by approved mortgagees.

8-2 On-site Reviews. These reviews, conducted at mortgagees offices, consist of an opening conference; interviews with mortgagee officials and their employees; reviews of individual case files, logs and computer records; reviews of the mortgagees policies, procedures, and Quality Control Program; and an exit conference; followed, as appropriate, by selected reverifications, such as interviews with mortgagors. Mortgagees are given a few days notice prior to an origination review and approximately one months notice prior to a servicing review. Mortgagees are expected to have files requested by FHA monitors available for their review.

On-site comprehensive reviews of national and large national lenders evaluate, not only mortgagee files, records, and practices, but also the lenders overall operations and policies with respect to lender relationships, quality control and risk management, wholesale loans and riskier FHA product lines. These reviews are conducted using staff and resources from one or more of the QADs in the Homeownership Centers and Headquarters.

8-3 Results and Referrals. Upon completion of the on-site review, an exit conference is held to discuss problems and deficiencies in loan files and in the mortgagees operations. Minor findings, which have been resolved by the mortgagee, may be closed out at the exit conference. Following the completion of the post on-site review activities, the QAD will send a letter to the mortgagees home office identifying any problems found and actions needed, or refer the matter for further handling. Mortgagees are expected to respond to findings letters promptly, and include a detailed description and appropriate documentation on any refuted findings.

Referrals may be made to:

- \* Office of Fair Housing and Equal Opportunity (fair lending issues);
- \* Office of Consumer and Regulatory Affairs (RESPA issues);
- \* HUDs Enforcement Center (suspension or debarment actions);
- \* Mortgagee Review Board;
- \* Office of Inspector General (fraud or illegal activities are suspected); and

\* State licensing agencies ù eg. Secretary of State, Real Estate Commissioner, Appraisal Review Board, Department of Banking, Bar Association.

#### Part B. Administrative Sanctions and MRB Actions

8-4 Basics. HUD may take an administrative action against individuals, companies and lenders for actions or omissions in connection with FHA mortgage insurance programs.

A. Limited Denial of Participation (LDP). Serious, isolated, violations of FHA requirements may lead to an LDP of an individual or company (other than an approved mortgagee) by the Homeownership Center, Multifamily Hub or Center, or a Deputy Assistant Secretary. The LDP precludes the party from participating in the HUD programs specified, within the jurisdiction of the HUD official taking the action, for up to one year (see 24 Code of Federal Regulations (CFR) Part 24).

B. Debarment or Suspension. Violations of statutes or serious or repeated violations of FHA requirements may lead to a debarment or suspension of an individual, a company, or with approval of the MRB, a lender, by the Departments Enforcement Center or an Assistant Secretary. These actions preclude the party from participating in most Federal domestic programs (see 24 CFR Part 24).

C. Mortgagee Review Board (MRB) Action. The Departments Mortgagee Review Board (MRB) is authorized to impose civil money penalties on a mortgagee or other party, and to take administrative action against any approved mortgagee that does not comply with FHA requirements or the non-discrimination requirements of the Equal Credit Opportunity Act, the Fair Housing Act, or Executive Order 11063. The Departments regulations on the Mortgagee Review Board and civil money penalties are in 24 CFR Parts 25 and 30.

1. Administrative Actions. The Board may issue a letter of reprimand, place a mortgagee on probation, suspend or withdraw a mortgagees approval, or enter into a Settlement Agreement. The Board may also issue a cease and desist order where there is reasonable cause to believe that a mortgagee is violating, or has violated the Departments requirements. The nature and extent of the violations determines the type of administrative action that the Board may take.

2. Civil Money Penalties. The Board is authorized to impose a civil money penalty of up to \$6,500 per violation, per day of its continuance, against a party that knowingly and materially violates FHA program regulations or requirements. A civil money penalty may be imposed against a mortgagee in addition to any other administrative action taken by the Board.

#### Part C. Credit Watch Termination Initiative

8-5 Overview. Credit Watch Termination Initiative holds single family mortgagees accountable for poorly performing loans that they originated or underwrote. This process is administered by the Quality Assurance Division (QAD) in FHA Headquarters (see 24 CFR 202.2 and 202.3(c)(2)).

A. Review of Early Defaults and Claims. QAD compares the

proportion of a mortgagees loans that became 90 days delinquent early in their term to the proportion of early defaults and claims on all insured loans.

B. Outcome. A mortgagee (or branch) with default and claim rates that are two or more times the average for a HUD Field Office jurisdiction may become ineligible to originate or underwrite further single family insured mortgages in that area.

C. Process. Before any restriction takes effect, a mortgagee will have an opportunity to present its analysis of the early defaults and claims, and conclusions about its accountability to FHA officials in Washington, DC.

#### Part D. Neighborhood Watch

8-6 Overview: The Neighborhood Watch Early Warning System is a web-based software application that displays loan performance data for single family mortgagees and appraisers, by loan types and geographic areas using FHA-insured single family loan information.

Origination loan information is displayed for a two-year period and is updated on a monthly basis. The default data includes current defaults, and defaults within the first and first two years from endorsement. Results can be displayed for distinct categories of FHA lenders (e.g. sponsors, loan correspondents) and can be viewed for numerous reporting periods (e.g. current month, 24 months of quarterly data). Servicing data is updated monthly and can be viewed by single servicer or all servicers.

To support its users, the Neighborhood Watch system has an extensive Help menu as well as a Feedback feature. Lenders can access Neighborhood Watch via the FHA Connection. Details on its use are contained in the Single Family Housing portion of the FHA Connection Guide.