

Section B. Lender Monitoring Tools

Overview

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1. Post Endorsement Technical Reviews (PETRs)

Introduction This topic contains information on Post Endorsement Technical Reviews (PETRs), including the

- purpose of the PETR
 - importance of the PETR
 - HOC PETR responsibilities, and
 - selection of LI case binders for PETR and LI lender submission requirements.
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Change Date December 23, 2010

4155.2 9.B.1.a Purpose of the PETR FHA performs a post endorsement technical review (PETR) on selected cases to evaluate the

- risk that loans represent to FHA's insurance funds, and
 - lender's compliance with FHA's
 - underwriting requirements, and
 - documentation requirements.
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1. Post Endorsement Technical Reviews (PETRs), Continued

4155.2 9.B.1.b Importance of the PETR

The post endorsement technical review of mortgage lender underwriting is critical to the success of the Direct Endorsement (DE) program. Because underwriting decisions rely heavily on the subjective interpretation of the [DE](#) lender, it is imperative that FHA quickly identify and correct underwriting deficiencies.

4155.2 9.B.1.c HOC PETR Responsibilities

Homeownership Centers (HOCs) must provide meaningful, constructive analysis of each case that is subject to a [PETR](#) to ensure that the risk of the loan is assessed and that lenders continue to perform quality underwriting and closing.

When conducting a [PETR](#), the reviewer

- assesses whether the loan represents an unacceptable level of risk to the FHA insurance funds
- assesses how well the underwriter
 - arrived at his/her decisions
 - addressed inconsistencies and problems
 - made reasonable conclusions, based on the information and documentation in the case, and
 - complied with FHA guidelines
- assigns ratings to the Mortgage Credit and Valuation aspects of the lenders' underwriting and loan closing, and
- enters the rating information into the Underwriting Report System (URS) in FHA Connection (FHAC).

Reference: For more information on PETR ratings, see [HUD 4155.2 9.C.2](#).

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1. Post Endorsement Technical Reviews (PETRs), Continued

**4155.2 9.B.1.d
LI Lender
Submission
Requirements
for Case
Binders
Selected for
PETR**

For insurance applications that the lender endorses for insurance through the Lender Insurance (LI) Program that receive an electronic notice of intent to review, the lender must provide the case binder in paper or digitized format (depending on which process it has chosen), within 10 business days of FHA's transmittal of a request.

Failure to submit 5 or more requested case binders to the applicable [HOC](#) will result in a suspension of the lender's eligibility to submit files under the [LI](#) program until the lender submits the case binders in a satisfactory manner.

References: For more information on

- [LI](#) Program eligibility and approval, see [HUD 4155.2 2.C](#)
 - requirements for [LI](#) lender pre-insurance review, see [HUD 4155.2 8.A.2](#)
 - [LI](#) case binder submission, see [HUD 4155.2 8.B.7](#), and
 - the Lender Insurance Guide, see <http://portal.hud.gov/fha/sf/programs/guide011807.pdf>.
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2. Mortgagee Performance Reports

Introduction	This topic contains information on Mortgagee Performance Reports, including • a description of the Mortgagee Performance Report, and • the sections of the Mortgagee Report.
Change Date	March 1, 2011
4155.2 9.B.2.a Description of the Mortgagee Performance Report	FHA generates a monthly statistical report, available to lenders and FHA staff, that details the performance of each Direct Endorsement (DE) lender's underwriting and appraisal. The report provides • summary information based on post endorsement technical reviews (PETRs), and • a picture of the – performance of each branch office within the local jurisdiction, and – lender's overall performance, both locally and nationally. Note: The last completed level of review is reported if several levels of review are required. The report is divided into subsections with information for the • last month • two months prior to the last reporting month, and • first nine months of the reporting period. Reference: For more information on the review levels, see HUD 4155.2 9.C.3.b.

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2. Mortgagee Performance Reports, Continued

4155.2 9.B.2.b The table below describes the eight sections of the Mortgagee Performance Report.
Sections of the
Mortgagee
Performance
Report

Report Section	Description
Section 1 – Lender Performance by Branch	For each active branch office and sponsored third-party originator, this section lists the • number of cases insured • number of cases issued a Notice of Return (NOR), and • NOR rate on endorsement submissions.
Section 2 – Underwriting Performance	This section provides a summary of underwriting ratings based on Valuation/Underwriting and Mortgage Credit (MC) technical reviews for active underwriters employed by the lender. Note: The last completed level of review is reported if several levels of review are required.
Section 3 – Cases Rated Unacceptable – Underwriting	This section lists, by FHA case number, the cases that received “Unacceptable” ratings for either the Valuation/Underwriting or Mortgage Credit (MC) technical review. This section also lists the • names of the underwriters • reason codes for the “Unacceptable” ratings, and • names of the borrowers.
Section 4 – Cases Rated Mitigated – Underwriting	This section lists, by FHA case number, the cases that received “Mitigated” ratings for either the Valuation/Underwriting or Mortgage Credit (MC) technical review. This section also lists the • names of the underwriters • reason codes for the “Unacceptable” ratings that were mitigated, and • names of the borrowers.

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2. Mortgagee Performance Reports, Continued

4155.2 9.B.2.b Sections of the Mortgagee Performance Report (continued)

Report Section	Description
Section 5 – Cases Rated Deficient – Underwriting	This section lists, by FHA case number, the cases that received “Deficient” ratings for either the Valuation/Underwriting or Mortgage Credit (MC) technical review. This section also lists the • names of the underwriters • reason codes for the “Deficient” ratings, and • names of the borrowers.
Section 6 – Appraiser Performance Data	This section provides a summary of appraiser reviews for the appraisers used by the lender against whom a sanction or action was imposed (based on field reviews). This section also includes the • names of the appraisers • number of field reviews performed, and • sanctions or actions imposed.
Section 7 – Case Actions – Appraisers	This section lists, by FHA case number, the cases for which the lender used an appraiser against whom a sanction or action was imposed (based on field reviews). This section also lists the • lender’s case references, and • names of the borrowers.
Section 8 – National Performance – Summary Rates	This section lists, for each HUD field office, the • percentage of Unacceptable, Mitigated, and Deficient ratings for the Valuation/Underwriting and Mortgage Credit (MC) technical reviews for all underwriters/lenders • number of appraiser sanctions or actions imposed, based on field reviews, and • overall NOR rate for each HUD field office. Note: National totals are provided at the end of each part of this section.

3. Underwriting Report System (URS) Reports

Introduction This topic contains information on Underwriting Report System (URS) reports, including

- a description of the URS reports
 - URS report requests and retrieval, and
 - a listing of the available URS reports.
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Change Date December 23, 2010

4155.2 9.B.3.a Description of URS Reports The Underwriting Report System (URS) is the system into which all post endorsement technical reviews (PETRs) are entered upon completion. The [URS](#) generates reports that provide detailed and summary data on the results of [PETRs](#).

Reference: For more information on URS and PETR data entry, see [HUD 4155.2 9.C.3](#).

4155.2 9.B.3.b URS Report Requests and Retrieval FHA staff may request [URS](#) reports by using the Report Request function in FHA Connection (FHAC). The Report Retrieval function in [FHAC](#) is used, later in a given day, to either

- retrieve the report, or
- check to see whether the request for the report is completed.

Reports can be retrieved in Portable Document Format (.pdf) or Microsoft Excel file (.xls) format. Completed reports are maintained for fifteen days.

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3. Underwriting Report System (URS) Reports, Continued

4155.2 9.B.3.c The table below lists the [URS](#) reports that are available.
Available URS Reports

Report Number/Name	Description
F17NHCA – URS Ratings Change Report	This report lists, by underwriter review contractor, the cases for which the mortgage credit (MC) analysis review rating and/or the valuation and underwriting documents review (Val) rating for a selected level of review differed from the rating for the initial review. The report includes information on the reviewers, ratings, and deficiency codes for the two levels of review being compared for the selected type of review (post endorsement and/or test (pre-closing) case).
F17NMCA – Lender Summary Report	This report lists, by originator, the number of cases that received Conforming, Deficient, Unacceptable, or Mitigated ratings for the mortgage credit analysis review (MC) and/or the valuation and underwriting documents review (Val) for the selected level of review and type of review (post endorsement and/or test (pre-closing) case). Also included in this report is the percentage of reviewed cases with the specified rating. The report can be requested for a single lender or all lenders with reviewed cases within the jurisdiction of the Homeownership Center's (HOC) jurisdiction.

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3. Underwriting Report System (URS) Reports, Continued

4155.2 9.B.3 Available URS Reports (continued)

Report Number/Name	Description
F17NNCA – URS Ratings Detail Report	This report lists, by originator and/or sponsor/agent, the case details of the review, including the • type of review (post-endorsement and/or test (pre-closing) case) • review level • review ratings, • reviewer (HOC staff and/or contractor), and • deficiency codes. This report can be requested for all lenders, an entire lending institution, or a single lender branch with reviewed cases within the jurisdiction of the HOC.
F17NOCA – URS Lender Letter Report	This report provides information on lender letters that were sent, or should have been sent, due to an “Unacceptable” rating for the mortgage credit analysis review (MC) and/or the valuation and underwriting documents review (Val). The following three different versions of the report can be requested: • letters sent and not responded to by the lender • letters sent and responded to by the lender, and • letters that should have been sent. Each version of the report lists, by originator and underwriter, the cases for which a letter was sent, or should have been sent, either • within the last 30 days or less • more than 30 days and less than 90 days ago, or • 90 days ago or later.

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4. Onsite and Remote Lender Monitoring Reviews

Introduction	This topic contains information regarding onsite and remote lender monitoring reviews, including • the purpose of onsite and remote lender monitoring reviews • basis for targeting lenders • the performance of onsite and remote lender monitoring reviews • elements of the review, and • lender notification at the conclusion of the review.
Change Date	December 23, 2010
4155.2 9.B.4.a Purpose of Onsite and Remote Lender Monitoring Reviews	The purpose of the onsite and remote lender monitoring review is to • ensure that lender practices are in compliance with statutory, regulatory, and administrative loan origination and servicing requirements • uncover mortgage finance fraud and abuse of HUD programs • identify lenders representing a high risk to FHA's insurance funds and take appropriate action to mitigate losses • provide consistency in the resolution of problems relating to lender non-compliance with FHA's loan origination and servicing requirements • provide compliance guidance to FHA-approved lenders to increase loan origination and to reduce servicing risks, and • provide timely feedback to lenders to enable them to improve performance.
4155.2 9.B.4.b Basis for Targeting Lenders	FHA targets lenders for onsite and remote monitoring reviews based on • default and claim rates • portfolio loss mitigation scores • complaints • high risk programs • portfolio charges, and • other high risk patterns.

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4. Onsite and Remote Lender Monitoring Reviews, Continued

4155.2 9.B.4.c Performance of Onsite and Remote Lender Monitoring Reviews

The Homeownership Center's (HOC) Quality Assurance Division (QAD) conducts onsite and remote reviews that consist of

- interviews with lender officials and their employees
- interviews with loan participants, including employers, gift donors, buyers, and appraisers
- an analysis of the lender's FHA-insured portfolios
- an analysis of the lender's origination and/or servicing policies
- reviews of
 - individual case files
 - logs and computer records, and
 - the lender's Quality Control (QC) Program, and
- an exit conference.

4155.2 9.B.4.d Elements of the Review

The areas covered by the onsite and remote review include, but are not limited to

- implementation of a [QC](#) Plan
- proper verification of all income, assets, and liabilities used to underwrite and approve the loan
- proper verification of the adequacy and source of funds used for the borrower's required minimum investment
- proper calculation of the maximum mortgage amount
- accuracy and completeness of the Form [HUD-1](#), *Settlement Statement*
- proper endorsement of loans via Lender Insurance (LI) or submission to the [HOC](#)
- timely payment of mortgage insurance premiums
- compliance with reporting requirements under the Home Mortgage Disclosure Act (HDMA)
- evaluation of rejected loans and loan pricing for possible discriminatory practices, and
- compliance with servicing requirements.

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4. Onsite and Remote Lender Monitoring Reviews, Continued

4155.2 9.B.4.e Lender Notification at Conclusion of Review

At the conclusion of the onsite and remote lender monitoring review, [QAD](#) discusses any findings with the lender. [QAD](#) also prepares a letter to the lender that

- outlines any deficiencies or other findings
- specifies any loans for which Indemnification Agreements are requested, and
- states that the lender is required to respond to any identified findings.

Reference: For more information on Indemnification Agreements, see [HUD 4155.2 9.D.4](#) and/or contact the HOC QAD.

5. Neighborhood Watch Early Warning System

Introduction This topic contains information on the Neighborhood Watch Early Warning System, including

- a description of the Neighborhood Watch Early Warning System, and
 - types of Neighborhood Watch reports.
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Change Date March 1, 2011

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5. Neighborhood Watch Early Warning System, Continued

4155.2 9.B.5.a Description of the Neighborhood Watch Early Warning System

Neighborhood Watch Early Warning System is a web-based application that displays loan performance data for single family mortgages, lenders, and appraisers.

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 two years from endorsement. Servicing data is updated monthly and may be viewed by servicers.

Neighborhood Watch is a tool that aids

- FHA staff in monitoring both lenders and FHA programs, and
- lenders in analyzing their own early default and claim performance, and that of
 - sponsored third-party originators, and
 - other lenders.

The system is designed to highlight exceptions, so that potential problems are readily identifiable. In addition, the system can be used to identify loan programs, geographic areas, and lenders that are performing well.

The system provides the ability to identify and analyze patterns in loans that became 90 days delinquent during their first two years, either by geographic area, or by originating lender.

The default data is based on the first time that loans within the two year loan origination period were first reported to HUD as 90 days or more delinquent. Therefore, the default statistics include loans that were defaulted on, but have been subsequently cured.

Reference: For more information on Neighborhood Watch for sponsored originations, see [HUD 4155.2 2.B.6.e](#).

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5. Neighborhood Watch Early Warning System, Continued

4155.2 9.B.5.b Types of Neighborhood Watch Reports

Neighborhood Watch reports provide the ability to view origination and default data in two principal ways through the use of the following two different types of reports:

- Early Warnings – These reports provide summary data for an individual lender or all lenders within various geographic areas selected by the reviewer.
 - Analysis – These reports provide the ability to compare all or specific lenders within one geographic area to all or specific lenders within another geographic area.
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6. Other Lender Monitoring Tools

Introduction	This topic contains information on other lender monitoring tools, including • pre-closing test cases • complaints, and • prior lender sanctions.
Change Date	December 23, 2010
4155.2 9.B.6.a Pre-Closing Test Cases	Pre-closing test cases provide the ability to review lender underwriting prior to loan closing and endorsement. Whether for new lenders seeking Unconditional DE authority for the first time or lenders who have been placed on probation, pre-closing test cases allow Homeownership Center (HOC) staff to assess the knowledge and judgment of a lender's underwriter(s).
4155.2 9.B.6.b Complaints	Complaints received from borrowers, counseling agencies, appraisers, or other lenders can assist HOC staff in identifying problems, potential fraud, or abuse. A pattern of complaints may lead to an increase in post endorsement technical reviews (PETRs) or other actions by the HOC.
4155.2 9.B.6.c Prior Lender Sanctions	When problems, complaints, or other performance issues arise, a review of any prior lender sanction imposed may provide background and other helpful information for addressing current issues.
