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Information from FHA's Office of Lender Activities and Program Compliance

Lender Insight

Issue No. 10

December
2015



What's Trending

Supplemental Performance Metric

FHA implemented its new Supplemental Performance Metric in the Neighborhood Watch Early Warning System. The new metric assesses lender performance based on a lender's default rate within three credit score bands and compares it to an FHA target rate, rather than simply to the lender's peers.

A component of FHA's Blueprint for Access to Mortgage Credit, the Supplemental Performance Metric complements the current Compare Ratio to provide a more balanced and comprehensive assessment of lender performance.

Annual Recertification

Eighty-five percent of the FHA-approved lenders have a December fiscal year end. All of these lenders should be preparing to submit their recertification packages using LEAP—the Lender Electronic Assessment Portal.

On January 1, 2016, nearly 2,400 FHA-approved lenders will receive electronic notifications instructing them to begin their recertification activities.

Recertification Tips >>>

Annual recertification can be time-consuming for lenders and FHA. Use the following tips to avoid common errors.

✓ **Ensure that Financial Data Entry is complete and accurate**

Non-Government lenders – including Small Supervised lenders – must complete the Financial Data Entry step in LEAP. Incomplete financial data will be rejected.

✓ **Ensure that Audit Reports include all components and comply with the latest standards**

Lenders that are required to submit audited financials must ensure that the Independent Auditor's Report includes the complete set of Financial Statements, and that the entire audit package is prepared in compliance with the latest Consolidated Audit Guide published by HUD's Office of Inspector General.

✓ **Periodically access LEAP to monitor recertification status and cure deficiencies**

All lenders should check their status in LEAP to confirm that the recertification package has been accepted by FHA, and to watch for deficiencies that need a cure. Lenders should cure any deficiencies within five business days.

Quarterly Loan Review Update

General Information

This update includes information on Single Family Post Endorsement Technical Reviews conducted between April 1 and June 30, 2015.

The data presented below reflects loan findings and ratings as of October 31, 2015, which may continue to change until the review cycle is complete. This generally takes 6 months from the initial review.

For additional details on the Report, please visit the "Quarterly Loan Review Findings Report" tab on our lender page at www.hud.gov/lenders.

Loan Sample Characteristics

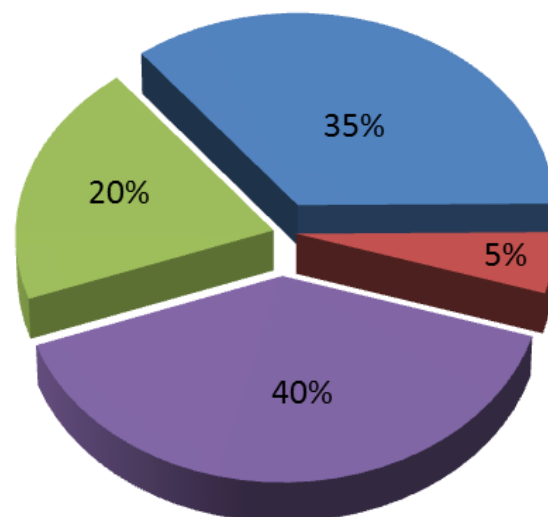
Total Loans Reviewed = 6,415

Type	#	% of Total
Purchase	4,335	68.6%
Streamline Refinance	1,151	17.9%
Rate & Term Refinance	480	7.5%
HECM	449	7.0%

Performing	4,383	68.3%
EPDs	2,032	31.7%

Loan Review Ratings as of October 31, 2015

▶ Conforming	1,278
▶ Deficient	2,278
▶ Unacceptable	317
▶ Mitigated	2,542



Quarterly Loan Review Update

Frequently Mitigated Findings

Even when an unacceptable finding is mitigated, it indicates that the loan endorsement binder exhibited a material defect. FHA's initial unacceptable rate has remained at 45-47% over the last four quarters. After six months, the unacceptable rate drops to approximately 5% due to FHA's receipt of mitigating documentation from lenders, resulting in **an overall mitigation rate of almost 90%**.

Mitigated findings often represent easily-remedied documentation errors rather than actual loan manufacturing defects, but mitigation requires significant time and resources from lenders and FHA. Lenders should focus on preventing errors before loans are insured.

The most frequently mitigated findings are listed in the table below. The number of initial unacceptable findings and the number of those findings subsequently mitigated represent loans reviewed between April 1 and June 30, 2015.

FHA is committed to reducing the initial unacceptable rate and will focus its attention on lenders with a pattern of unacceptable findings that are easily mitigated.

Description	Category	Code	# of Initial Unacceptable Findings	# Mitigated After 6 Months	Mitigation Rate
Unacceptable, unsupported or insufficient source of funds	Borrower Assets	FD10	556	491	88%
Concerns related to assets derived from gift(s)	Borrower Assets	FD20	506	436	86%
Existing construction in Special Flood Hazard Area (A or V Zone) without evidence of flood insurance	Property Eligibility	VA03	412	378	92%
Income improperly documented	Borrower Income	IC20	395	332	84%
Obligations of borrower(s) omitted, inaccurate, not supported, not disclosed and/or not legible	Borrower Credit	LA04	388	319	82%
Data integrity deficiencies. File documentation does not support Accept/Approve decision in AUS	Lender Operations	AU01	382	304	80%

Unable to Certify

Corporate Officers with the Certifying Official authorization will be able to complete the Certification step in LEAP beginning January 1.

If you expect to submit an Unable to Certify notification, you should do so promptly.

You must provide a written explanation detailing why you are unable to certify to each of the Certification statements.

Requests for extensions will not be granted due to Unable to Certify delays. Therefore, to expedite FHA's review, you should attach relevant documents that support or clarify your explanations. Examples of documentation include excerpts from Form 10-K filings regarding litigation or regulatory matters, or summary descriptions of state or agency examinations.

Issues reported during the year as a Notice of Material Event do not need to be reported again if FHA's earlier review determined that the issue does not impact the Annual Certification and there have been no changes to the issue previously reported.

The FHA Resource Center is here to help!

Contact us at:

Phone: **1-800-CALL-FHA (225-5342)** or TTY: **1-800-877-8339**

Email: answers@hud.gov

For more information, please visit our FHA Lender page at

www.hud.gov/lenders

and our online FAQ site at www.hud.gov/answers

Voluntarily Withdrawing from FHA

Lenders cannot give up their FHA approval by simply choosing not to recertify. Failing to recertify will result in a Mortgagee Review Board action.



If you no longer wish to participate in FHA programs, you must submit a Voluntary Withdrawal request in LEAP. The requirements are spelled out in the Doing Business with FHA section of the Single Family Housing Policy Handbook (HUD Handbook 4000.1) and instructions for submitting the request are in the online LEAP User Manual.

SINGLE FAMILY POLICY HANDBOOK

FHA stakeholders can now benefit from a consolidated, comprehensive set of policies that support homeownership for millions of qualified individuals and families each year. The following sections of the Single Family Housing Policy Handbook went into effect on September 15, 2015:

- ◆ Doing Business with FHA—Lenders and Mortgagees
- ◆ Doing Business with FHA—Other Participants in FHA Transactions (Appraiser)
- ◆ Origination through Post-Closing/Endorsement for Title II Forward Mortgages
- ◆ Appraiser and Property Requirements for Title II Forward and Reverse Mortgages
- ◆ FHA's supplemental Single Family Housing Appraisal Report and Data Delivery Guide
- ◆ Quality Control, Oversight and Compliance—Lenders and Mortgagees
- ◆ Quality Control, Oversight and Compliance—Other
- ◆ Participants in FHA Transactions (Appraiser)

Also published are the three sections below, which have a March 2016 effective date:

- ◆ Servicing and Loss Mitigation for Title II Forward Mortgages and the Servicer Tier Ranking System
- ◆ Doing Business with FHA—Other Participants in FHA Transactions
- ◆ Quality Control, Oversight and Compliance—Other Participants in FHA Transactions

Information regarding handbook publications and updates can be found on the Single Family Housing Policy Handbook Information Page.

