



---

MORTGAGE BANKERS ASSOCIATION

October 27, 2017

Gisele Roget  
Deputy Assistant Secretary for Single Family Housing  
U.S. Department of Housing and Urban Development  
451 7<sup>th</sup> Street S.W., Room 9282  
Washington D.C. 20410-0500

**RE: Loan Review System (LRS) Feedback**

Dear Ms. Roget:

The Mortgage Bankers Association (MBA)<sup>1</sup> thanks the U.S. Department of Housing and Urban Development (HUD) for its efforts to improve the Federal Housing Administration's (FHA) new Loan Review System (LRS) that was implemented on May 15, 2017. This new system includes the final Defect Taxonomy, which provides substantial process improvements for both lenders and FHA. However, MBA continues to believe necessary changes are still required to include the assignment specific remedies for each tier of defect severity. MBA has confidence that the LRS demonstrates a positive movement towards providing greater certainty and clarity regarding the types of errors that can expose lenders to False Claims Act risk.

MBA appreciates FHA's willingness to engage with the industry through informational webinars and industry dialogue following the implementation of the LRS. MBA urges FHA to continue this discussion with lenders and other industry stakeholders, as lenders are now using the LRS within their companies. To this end, MBA offers the following feedback that emphasizes the need for continual improvement and response timelines under the new LRS:

**I. Loan Review System Feedback**

MBA acknowledges that the new LRS has increased efficiency and decreased finding notification delays. Lenders have explained the LRS is a modern and streamlined system. However, lenders have also found the LRS to be less user friendly than Neighborhood Watch with necessary additional enhancements required. MBA encourages FHA to maintain an ongoing dialogue regarding LRS implementation feedback. Please see a summary of lender comments below:

---

<sup>1</sup> The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: [www.mortgagebankers.org](http://www.mortgagebankers.org).

- Lenders face confusion during the self-report Defect Type, because they are able to choose either “Underwriting” or “Servicing.” The “Underwriting” label is misleading and would be clearer if it was re-labeled “Originations.” If the issue concerns servicing underwriting, lenders are supposed to use the “Servicing” label for all matters concerning servicing.
- Increased lender response times to FHA are critical, especially the five calendar days for the second rebuttal period. In some cases, lenders can’t obtain the information in that allotted time frame find themselves escalating the issue to headquarters. By escalating the issue, a few more days are granted and that is not always enough time to resolve the issue, forcing lenders to indemnify.
- The tracking of self-reported defects should be enabled, as lenders are unable to view self-reported loans unless they are pulled for file review by FHA. Lenders are also no longer able to determine the date or who within their institution self-reported. Without being able to track self-reported defects, it makes it very difficult for Claims Management to respond to indemnification requests from FHA. Additionally, when a loan is pulled for file review and a response is requested, the lender is unable to determine which findings were self-reported defects and which were discovered or added by HUD.
- Lenders are experiencing intermittent technical issues and are required to exit the program, wait, and try again. This can happen when initially trying to access the site or when moving from one tab to the next (e.g. moving from Active Reviews to Completed Reviews). FHA has been receptive, both acknowledging and trying to assist in resolving the issues.
- FHA should consider allowing feedback for Tier 3 and 4 findings or consider eliminating these categories altogether.
- Lenders appreciate that self-reporting requires fewer fields and anticipate the categories on the dropdown menus will be expanded on future training calls.
- Lenders are concerned that “robust reporting” is not available yet, as it was scheduled to be available in August.
- There is a trend that has coincided with the rollout of LRS wherein the FHA reviewers are not providing insightful or informative feedback to the lender responses. In some cases, the FHA reviewer simply restates the initial finding without acknowledging the lender response or explaining why the lender response wasn’t able to resolve the issue. In these cases, it appears that the FHA reviewer is more interested in escalating the review through the stages rather than working collaboratively with the lender to resolve the issue. In addition, there is a trend wherein the FHA reviewers introduce new, additional findings in their responses, rather than listing all issues up front in the initial finding. This is highly problematic because when an FHA reviewer introduces a new finding within a response, the lender does not receive the maximum time allotted to resolve the issue.
- FHA reviewers should cite specific numbered sections from the 4000.1 handbook when posting any LRS material finding. That step will save time for both sides of the process. After all, FHA’s analysts are already on the page and can capture the citations quickly. Lenders should be able to respond faster and the number of times lenders might need to seek clarification could be reduced.

- The FHA reviewer's contact info should be attached to each review. Lenders should not be required to use their limited number of responses in order to seek minor clarifications.
- Depending on the severity of a defect a lender might be asked to indemnify for a specific period of time, or for the life of the loan. The "life of loan" indemnification request does not explicitly state that it is for the life of the loan and the request should be updated to make it clear.
- The system times out too quickly, even when the user is still active on the site. Lenders must exit the browser before attempting to log back into the system. The timeout should be extended, it should account for active users, and should not require a full re-entry in order to log back in.

## II. Conclusion

FHA plays a critical role in creating access to affordable mortgage credit for many homebuyers with limited financial options. We welcome the opportunity to work with FHA to further improve its program to ensure loan quality and the development of clear standards to promote safe and sustainable financing. MBA believes that continued dialogue with the industry is critical to achieving this goal. To this end, following the implementation of the LRS and the Defect Taxonomy, we request an opportunity to discuss our feedback with you via conference call with a group of lenders and you or your staff to assist FHA as it continues to improve its systems and processes.

MBA greatly appreciates the efforts FHA has put into developing the new LRS and the final Defect Taxonomy and urges FHA to consider the above recommendations. Should you have questions or wish to discuss these comments, please contact Andrea Oh, Policy Advisor at (202) 557-2922 or [aoh@mba.org](mailto:aoh@mba.org).

Sincerely,

A handwritten signature in black ink that reads "Stephen A. O'Connor". The signature is written in a cursive, slightly slanted style.

Stephen A. O'Connor  
Senior Vice President Public Policy and Industry Relations