General Session: VA, FHA and USDA Update

September 16, 2019
Origination - Quality Control Plan

- Lender Handbook (26-7) Chapter 1: The Lender, Section 15 - Elements of a Quality Control Plan. This policy requires certain provisions MUST be included in the lender’s Quality Control (QC) plan.

  - **Section 15, f: Deficiencies Reported to VA** (Require prompt reporting of any violation of law or regulation, false statements or program abuses by the lender, its employees or any other party to the transaction to the VA office of jurisdiction, and provide for furnishing audit or review findings to VA on demand) – Reported to RLC LGO *(Avoid reporting overlay deficiencies and report only VA guideline deficiencies)*

  - **Section 15, l: Review of Loans** (The QC plan must provide for the following on loans selected for review: Review of loans within 90 days of loan closing, written re-verification of borrower’s employment, deposits, and all sources of funds, reordering of a new credit report from another credit source)
LAPP - Quality Control Plan

- Lender Handbook (26-7) Chapter 1: The Lender, Section 15 - Elements of a Quality Control Plan
  Section 15, C (For lenders participating in LAPP, reviews include the quality control procedures)

- QC plans MUST outline any LAPP QC procedures. This would be a substantial finding. Per Lender Handbook Chapter 13, section 1, every appraisal made for VA purposes **must** be reviewed by the lender’s VA authorized staff appraisal reviewer (SAR) under the Lender Appraisal Processing Program (LAPP) in order to:
  - confirm that the photographs accurately reflect the appraiser’s description of the subject and comparable properties
Most Common Lender Audit Findings (continued)

- verify that the appraisal report is fully complete, clear and prepared according to industry-accepted appraisal techniques and VA instructions
- determine that the appraiser's methodology is appropriate and that the appraiser's conclusions are consistent, sound, supportable, logical and based upon data in the appraisal report
- determine, through use of reasonably available information, that the appraiser's value recommendation and other conclusions are consistent with those in similar cases recently processed
- identify all property-related conditions and requirements that must be satisfactorily resolved before the property can become the security for a VA guaranteed loan, and
- issue a notice of value.
Other Areas of Concern

- Early Claim Loans (Loans that defaulted and went to foreclosure within two years of origination)
- Approved Underwriters – VA has documented a number of egregious loans resulting from unapproved VA underwriters for non-supervised lenders
- Approved Agents – (Emerging Bankers) Non-VA lenders approving and closing loans through affiliated lender partners
- Interest Rate Reduction Refinance – VA will continue to monitor compliance with new requirements with the new legislation
  - Public Law 115-174 Affects on IRRRRL’s
- New Mandatory stacking order Circular 26-19-19
- Blue Water Navy Vietnam Veterans Act of 2019
  - The law will become effective January 1, 2020
Last but not least...

Thanks for all that you do to help Veterans, Servicemembers & their families with their housing needs!
MBA Risk Management, Fraud and QA Prevention Forum

FHA Quality Assurance Update

September 16, 2019

Presented by:
Jack Higgins
Director, Quality Assurance Division

Last Updated: 9/4/2019
Quality Assurance Program Overview

• Continuous monitoring of FHA lender performance focused on greatest potential sources of risk

• Implemented by HOC Processing and Underwriting Divisions (PUDs) and Quality Assurance Divisions (QADs)

• Three core elements
  — Loan reviews
  — Lender monitoring reviews
  — Measuring lender performance against established benchmarks
## Loan Review Volume

<table>
<thead>
<tr>
<th>Selection Reason</th>
<th># Completed</th>
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<tbody>
<tr>
<td>Early Payment Defaults</td>
<td>20,063</td>
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<tr>
<td>Lender Monitoring</td>
<td>4,842</td>
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<tr>
<td>Lender Self-Reports</td>
<td>3,801</td>
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<tr>
<td>Random Selections</td>
<td>1,964</td>
</tr>
<tr>
<td>Review Location Quality Control (QC)</td>
<td>1,453</td>
</tr>
<tr>
<td>Risk Algorithm</td>
<td>1,378</td>
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<tr>
<td>Test Cases</td>
<td>1,035</td>
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<td>FHA Manual Selections</td>
<td>759</td>
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<tr>
<td>Early Claims</td>
<td>717</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>36,012</strong></td>
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</table>

<table>
<thead>
<tr>
<th>Review Type</th>
<th># Completed</th>
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<tbody>
<tr>
<td>Underwriting</td>
<td>34,286</td>
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<tr>
<td>Servicing</td>
<td>1,726</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>36,012</strong></td>
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</tbody>
</table>

Loan Review System (LRS) reviews completed from 9/1/2018 to 8/31/2019
Fraud & Material Misrepresentation

- Fraud and material misrepresentation categories
  - Lender knew/should have known
  - Lender did not know/could not have known

- FHA bases this determination on whether
  - An employee of the lender was involved and/or
  - Red flags in the loan file should have been questioned by the underwriter

- FHA requests life-of-loan indemnification when it determines that the lender knew or should have known

- Both categories are referred to HUD’s Office of Inspector General
LRS Resources

- LRS Information Page on HUD.gov
  (https://www.hud.gov/program_offices/housing/sfh/lender/loan_review_system)
- Lender User Manual
- Webinars
Helpful Links

- SF Handbook Information

- Upcoming Single Family Housing Events and Training
  https://www.hud.gov/program_offices/housing/sfh/events

- Subscribe to FHA INFO
## FHA Resource Center

<table>
<thead>
<tr>
<th>Option</th>
<th>Point of Contact</th>
<th>Hours Available</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHA Knowledge Base – FAQs</td>
<td><a href="http://www.hud.gov/answers">www.hud.gov/answers</a></td>
<td>24/7/365</td>
<td>Knowledge Base web page includes option to email questions.</td>
</tr>
<tr>
<td>Email</td>
<td><a href="mailto:answers@hud.gov">answers@hud.gov</a></td>
<td>24/7/365</td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td>1-800-CALL-FHA (1-800-225-5342)</td>
<td>8:00 AM to 8:00 PM Eastern M-F</td>
<td>Voicemail is available after hours or during extended wait periods.</td>
</tr>
</tbody>
</table>

*FHA INFO emails: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at: https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFOSubscribe*
Risk Management, QA & Fraud Prevention Forum
USDA Rural Housing Service Updates
Date Goes Here

Presented by
Michelle C. Corridon
Deputy Director
SFH Guaranteed Loan Program
Program Overview

• 100 percent financing
• Rural areas only
• Low and moderate income households
How do we manage risk?

- Guaranteed Underwriting System (GUS)
- Electronic Status Reporting (ESR)
- Loan level quality assurance reviews
- Lender recertification/compliance reviews
- Internal audit
- GAO/OIG audits
- Partnerships and feedback
Electronic Status Reporting (ESR)

• We are one year into the updated ESR system
  • All loans are reported monthly using transaction sets or directly into USDA LINC
  • Currently implementing updates to ESR based on user feedback
  • Identifying issues? Let us know and we will connect you with someone who can help!
Other reporting

- Lender/portfolio stress testing coming in 2020
- Enhanced outward communications with lenders performance data-working towards a outward facing scorecard. We will be working with our lending partners to develop.
Transfers of servicing

- Movement of servicing from banks to non-banks
- Top 6 of 10 servicers now non-banks
- Working with our partners to manage this transition
- Let us know before a transfer so we can assist in a smooth transition
SFH restructure

• Headquarters will now perform:
  • Loan commitment and closings.
  • Loan quality assurance functions
  • Lender eligibility and compliance functions
    – Combination of contractor assistance and HQ staff
  • Additional staff dedicated to risk management and loan servicing
  • Fully operational March 2020
Common findings lender compliance reviews

Servicing:
Finding #400006 (High): In 6.2% of serviced loans tested, the Servicer did not use the correct delinquency status codes to report monthly defaults to USDA-RD.

Finding #900067 (Medium): In 32.4% of loan modifications tested, the Servicer did not provide a copy of the executed Loan Modification to USDA-RD within 60 days of execution.

Finding #420005 (Medium): In 10.9% of loss claim transactions tested, the loan file(s) did not document that the Servicer submitted a loss claim(s) to USDA-RD within 45 calendar days of the settlement date of the property.
Common findings lender compliance reviews

Origination:
Findings #800138/20733 (High): The loan file is missing the Lender’s documentation addressing compensating factors and underwriter’s decision for waiving credit (manually underwritten and Refer/Refer with Caution loans only):
  - 10.3% loans sampled GUS Refer/Refer with Caution loans tested
  - 8.4% loans sampled applicable originated loans tested

Findings #800040/200739 (High): The loan file is missing documentation of mitigating circumstances to establish the applicant’s intent for good credit and credit scores were below minimum thresholds (manually underwritten and Refer/Refer with Caution loans only):
  - 8.5% loans sampled GUS Refer/Refer with Caution loans tested
  - 6.9% loans sampled originated loans tested
Coming Soon

- Construction initiatives-single close and rehab piece begins 10/1/2019
- Technology fee-collection begins 1/1/2020 (loans obligated on or after 1/1/2020)
- Settle claims at foreclosure-expected final rule publication soon, implementation post 1/2020.
- New URLA/updated GUS-late 2020
- Appraisal tool-late 2020
- Delegated underwriting authority-several years out
Contact Me

Michelle C. Corridon
202-720-5457
michelle.corridon@usda.gov
Or
Stuart Walden
202-690-4507
stuart.walden@usda.gov
Text in your questions for the FHA/VA/USDA Update panel: