



# Bankers Advisory

## COMPLIANCE MONITOR

June 3, 2014

### *HUD Updates FHA Annual Recertification and Post-Approval Process*

**By Anna DeSimone**

May 27, 2014, HUD Issued ML 2014-09: Annual Recertification and Post-Approval Updates. The purpose of the Mortgagee Letter was to inform lenders about changes to FHA's systems that alter the way lenders execute post-approval updates and complete FHA's annual recertification process. The changes detailed in this Mortgagee Letter became effective May 27, 2014, with the deployment of the Lender Electronic Assessment Portal (LEAP).

The following sections of HUD Handbook 4060.1, REV-2, are amended with guidance provided in this Mortgagee Letter: Chapter 4, Section 4-4: LASS Submission of Annual Audited Financial Statements and Chapter 6, Section 6-1, Reporting Business Changes. The substance of the remaining policies contained in Chapters 4 and 6 of Handbook 4060.1 remain unchanged. However, the communication and delivery methods for reporting business changes to FHA and for submitting a lender's annual recertification package discussed throughout these Chapters will be impacted by LEAP. Lenders may access LEAP through FHA Connection. All Application Coordinator and Standard User IDs and passwords remain intact.

#### **Post-Approval Updates & Business Changes**

LEAP allows lenders to self-update their institution and branch profile information. LEAP also automates the process for requesting business changes and notifications required by Chapter 6 of HUD Handbook 4060.1 and Mortgagee Letters 2009-31, 2010-38, and 2011-34. These changes include corporate officer changes, voluntary withdrawal, notification of material events, adding branches, mergers, and branch bulk transfers and acquisitions. Accordingly, the following actions must now be completed using LEAP: (1) all requests for business changes; (2) notifying FHA of any events described in the above referenced Mortgagee Letters; and (3) the corresponding upload of supporting documents.

#### **LEAP- Annual Recertification**

All activities associated with FHA's annual recertification process have been transitioned to LEAP. This includes completion of the online certifications, financial data submissions, and the payment of recertification fees.

#### **Financial Data Templates, and Agreed Upon Procedures**

All HUD-approved Title I and Title II supervised, non-supervised, and investing lenders and mortgagees must provide financial information to HUD on an annual basis; unless requested, government mortgagees are not required to submit such information. FHA has replaced the Data Collection Form with Audit Related Questions. Both the Audit Related Questions and Financial Data Templates have been restructured by lender type. Based on lender type and financial information provided in the lender's previous filings, the LEAP system will direct lenders to the correct Audit Related Questions and Financial

Data Template for the lender's reporting structure. Audit Related Questions only apply to lenders that are required to submit audited financial statements.

Supervised, non-supervised, and investing lenders and mortgagees are required to complete the Financial Data Template and upload all required financial documents as described in Chapter 7 of HUD Handbook 2000.04, Consolidated Audit Guide. All data entry and document upload functions must be completed by the lender and may no longer be completed by a third party such as the lender's Independent Public Accountant (IPA).

FHA will provide tools that simulate the online Audit Related Questions and Financial Data Templates in order to allow IPAs and lenders to create hard copies of these documents prior to the lender's data entry in LEAP. The hard copies are not required to be submitted; the tools are intended to aid lenders with data entry and document upload functions.

### **Application to Small Supervised Lenders**

Institutions identified as small supervised lenders (see 24 C.F.R. § 202.6(c)) are required to complete a Financial Data Template and submit required financial documents using LEAP as part of their annual recertification process.

### **Information Collection Requirements**

Paperwork reduction information collection requirements contained in this Mortgagee Letter have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. § 3501-3520) and assigned OMB Control Number 2502-0005. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.

### **Handbook Section 4-4: LASS Submission of Annual Audited Financial Statements**

Within 90 days after the close of its fiscal year, non-supervised mortgagees and non-supervised loan correspondents must submit their audited financial and compliance data electronically through LASS. LASS consists of:

- (1) specifically designed financial data templates (FDT) which collects financial data;
- (2) a data collection form (DCF) which will collect information about the mortgagee and the auditor reporting on the financial statements, internal controls, compliance data, and the attachment of the mortgagee's signed audit reports, including the compliance and internal control reports to their financial statements, and
- (3) a Note and Finding template which allows for the attachment of the mortgagee's audited footnotes, auditor's finding, and mortgagee's corrective action plans.

The hard copy basic financial statements and auditor reports must be issued prior to the mortgagee initiating their electronic submission of their financial and compliance data and are the basis for the mortgagee's electronic submission. The basic financial statements must be prepared and audited in

accordance with HUD IG most recent Handbook 2000.04, Consolidated Audit Guide for Audits of HUD Programs; and GAO's most recent Government Auditing Standards (the "Yellow Book"). The audit must be done by a Certified Public Accountant (or a Public Accountant licensed on or before Dec. 31, 1970) qualified to perform the audit and licensed to practice in the State in which the mortgagee has its home office, and who has not been suspended, debarred, or otherwise excluded from performing audits of mortgagees. When requested by the Department, a mortgagee must submit any other materials that may be needed to make a determination regarding continuation of approval.

## **Required Reports by Type of Mortgagee For LASS Submission**

### **1. Non-supervised Mortgagee**

A non-supervised mortgagee, unless exempt per paragraph 4-4(B)(5), must maintain the following documents to support their electronic submission:

a. Audited financial statements

Balance sheet;

Income statement;

Cash flow statement;

Statement of Equity; and

Footnotes.



b. Computation of adjusted net worth including a Statement of Auditing Standards (SAS) 29 opinion. The SAS 29 opinion can be issued in a separate report or included within the Independent Auditor's

c. Independent Auditor's Report on the Financial Statements

d. Independent Auditor's Report on Internal Control.

e. Independent Auditor's Report on Compliance with Specific Requirements Applicable to Major/Non-Major HUD Programs. Major program mortgagees are subject to an audit of their compliance with HUD major programs. Non-major program mortgagees are subject to a review of their compliance with HUD non-major programs. Major program means an individual assistance program or a group of programs in a category of Federal financial assistance, which exceeds \$300,000 during the applicable year. A project, which has an outstanding HUD-insured or guaranteed loan balance exceeding \$300,000 as of the reporting date, shall be considered a major program. A mortgagee or loan correspondent, which originates and/or services an aggregate of

FHA-insured loans exceeding \$300,000 during the period under audit, is considered a major program.

- f. Schedule of Audit Finding. When reporting deficiencies in internal control or instances noncompliance the auditor should generate a schedule of finding. The auditor should place their findings in proper perspective by providing a description of the work performed that resulted in the finding. To the extent possible the auditor should develop the elements of criteria, condition, cause, effect, and recommendations to assist management in understanding the need for taking corrective action.
  
- g. Corrective Action Plan. If the auditor has noted any findings then the mortgagee must submit a corrective action plan, which addresses each finding.

## 2. Non-supervised Loan Correspondent

A non-supervised loan correspondent, unless exempt per paragraph 4-4(B)(5), must maintain the following documents to support their electronic submission:

- a. Audited financial statements.
  - Balance sheet;
  - Income statement;
  - Cash flow statement;
  - Statement of Equity; and
  - Footnotes.
  
- b. Computation of adjusted net worth including a Statement of Auditing Standards (SAS) 29 opinion. The SAS 29 opinion can be issued in a separate report or included within the Independent Auditor's Report on the Financial Statements.
  
- c. Independent Auditor's Report on the Financial Statements.
  
- d. Independent Auditor's Report on Internal Control
  
- e. Independent Auditor's Report on Compliance with Specific Requirements Applicable to Major/Non-major HUD Programs. Major program mortgagees are subject to an audit of their compliance with HUD major programs. Non-major program mortgagees are subject to a review of their compliance with HUD non-major programs. Major program means an individual assistance program or a group of programs in a category of Federal financial assistance, which exceeds \$300,000 during the applicable year. A project, which has an outstanding HUD-insured or guaranteed loan balance exceeding \$300,000 as of the reporting date, shall be considered a major

program. A mortgagee or loan correspondent, which originates and/or services an aggregate of FHA-insured loans exceeding \$300,000 during the period under audit, is considered a major program. For Title II loan correspondents, the requirement for the auditor to review and report on the mortgagee's compliance has been modified under the condition that the Sponsor agrees to assume the responsibility of assuring compliance for each loan correspondent under their sponsorship. In those instances where the Sponsor agrees to assume the responsibility of assuring compliance of loan correspondents under their sponsorship the Sponsor must communicate annually in writing to the individual loan correspondents their intent to assume responsibility for their compliance. The Sponsor must indicate the areas of compliance that they will be assuming. The Sponsor must issue annually a written report summarizing the results of their compliance testing. In addition, the Sponsor must accumulate and retain the supporting information that served as the basis for the written annual compliance report issued to the loan correspondent. Nevertheless, in accordance with Government Auditing Standards (the "Yellow Book") it is incumbent upon the auditor to test and report on those areas of compliance not assumed by the Sponsor. In addition, the auditor must determine where applicable that the Sponsors are testing and reporting the results of their compliance reviews. Accordingly, when meeting the requirements of Government Auditing Standards, the auditor should issue a Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The report may vary depending on whether there are reportable instances of noncompliance or material weaknesses. However, if the non-supervised loan correspondent is also approved under the Title I program, then separate reports on internal control and compliance will have to be issued for that program.

- f. Schedule of Audit Finding. When reporting deficiencies in internal control or instances noncompliance the auditor should generate a schedule of finding. The auditor should place their findings in proper perspective by providing a description of the work performed that resulted in the finding. To the extent possible the auditor should develop the elements of criteria, condition, cause, effect, and recommendations to assist management in understanding the need for taking corrective action.
- g. Corrective Action Plan. If the auditor has noted any findings then the mortgagee must submit a corrective action plan, which addresses each finding.

#### **Types of Mortgagee for Which LASS Submission are Not Required**

1. Supervised Mortgagee
2. Supervised Loan Correspondent
3. Investing Mortgagee
4. Governmental Institution
5. Newly Approved Mortgagee. If the mortgagee's initial approval date is less than six months prior to the end of its fiscal year and the audited financial statements submitted for approval are for the period ended not more than six months prior to the end of its fiscal year, then the mortgagee is not required to submit new audited financial statements for recertification, nor is an annual

recertification fee due. However, the audited financial statements submitted with its next renewal must cover the period from the date of its initial audited financial statements to the end of its fiscal year. The period covered by the renewal audit cannot exceed 18 months.

### **C. Extensions**

Extensions are granted only in cases of catastrophic events beyond the control of lender or auditor. Extension requests must be submitted through LASS. The request must be received no earlier than 45 days prior to the submission due date and no later than 15 days prior to the submission due date.



*Anna is President and Founder of Bankers Advisory, Inc. She can be reached at [anna@bankersadvisory.com](mailto:anna@bankersadvisory.com).*

