



# Bankers Advisory

## COMPLIANCE MONITOR

July 20, 2016

### *FHA Publishes Lender Insight, Highlights Quality Control Findings*

by Anna DeSimone

June 20, 2016 the FHA Office of Lender Activities and Program Compliance published *Lender Insight*, Issue No. 12. Narrative information from the publication are reproduced below:

Since its launch *Lender Insight* has featured quarterly loan level findings data by presenting the initial ratings of all loans along with the updated ratings as of six months from the end of the review period. Additionally, for the past year, each of the top 50 by volume lenders has received an individualized loan review findings report depicting a quarter-by-quarter snapshot of the results of FHA's post-endorsement technical review of the company's loan production.

This information delivers insight into the most common loan level findings and highlights recurring and frequently cited errors. The initial unacceptable rate has been fairly static, averaging 47.4 percent over the last eight quarters. The net material defect rate after lender mitigation is substantially lower, averaging 6.1 percent over the same time frame.

The QC sample represented are from post-endorsement technical reviews conducted between June 2014 and March 2016. The sample represents 44,220 loans endorsed by 1,315 FHA lenders. The data in this issue illustrate the initial and final unacceptable rates for the top 5 mitigated findings.

Mitigated findings often represent easily-remedied documentation errors rather than actual loan manufacturing defects. FHA will actively address the lack of improvement in reducing the initial unacceptable rate.

An immediate step will begin with the Quality Assurance Division's lender monitoring reviews. As part of its lender monitoring process, FHA will evaluate how each lender is addressing the causes of high initial unacceptable ratings and the operational steps being taken to close the gap.

#### **Top Five Mitigated Findings**

*Shown with typical reason for unacceptable findings*

#### **FLOOD CERTIFICATION (VA03)**

1. Life of Loan certification is missing from binder.

## SOURCE OF FUNDS (FD10)

1. Large deposits are not documented or deposits are from an unacceptable source.
2. Verified funds are less than the minimum required investment or actual funds to close.
3. Verified funds or reserves are less than what was run through TOTAL Scorecard causing AUS findings to be invalid for approval.

## GIFT FUNDS (FD20)

1. Documentation related to gift funds is missing or is unclear to reviewer.
2. The relationship between the donor and the borrower does not meet HUD requirements.
3. Withdrawal documentation is missing.
4. Documentation in the file leads to information that indicates the gift documentation is a loan from the gift donor.

## INCOME DOCUMENTATION (IC20)

1. Missing verification of 2-year employment history and/or W-2s to support the income.
2. Child support/alimony income used to qualify is not verified according to FHA guidelines.
3. Missing Year-to-date Profit and Loss Statement(s), Business Tax Returns and Balance Sheets for self-employed borrowers when required.

## OBLIGATIONS OF BORROWERS (LA 04)

1. Debts omitted without documentation to support exclusion per FHA guidelines.
2. Liabilities revealed through other case binder documentation (paystubs, bank statements, tax returns, etc.) that were not considered in the qualifying ratios.
3. Missing credit report of non-purchasing spouse in community property states or debts not considered in qualifying ratios.

### *Other Announcements:*

The use of FHA's Electronic Appraisal Delivery (EAD) portal is mandatory for all appraisal submissions for originations with case numbers assigned on and after June 27, 2016.

Mortgagees are *no longer* able to:

- Use both the EAD portal and other appraisal submission methods concurrently for originations.
- Submit appraisals for originations with case numbers assigned on and after June 27 to FHA through any method other than the EAD portal.
- Access the Appraisal Logging Screen in FHA Connection (FHAC) for case numbers that require an appraisal to be submitted through the EAD portal.

Find more information, user guides, and fact sheets on FHA's EAD Resource Page.

### **About the Author**

Anna DeSimone is President and Founder of Bankers Advisory and Principal of CliftonLarsonAllen LLP. She can be reached at [Anna@bankersadvisory.com](mailto:Anna@bankersadvisory.com)

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