



FHA's Office of Single Family Housing

2015 Ginnie Mae Summit

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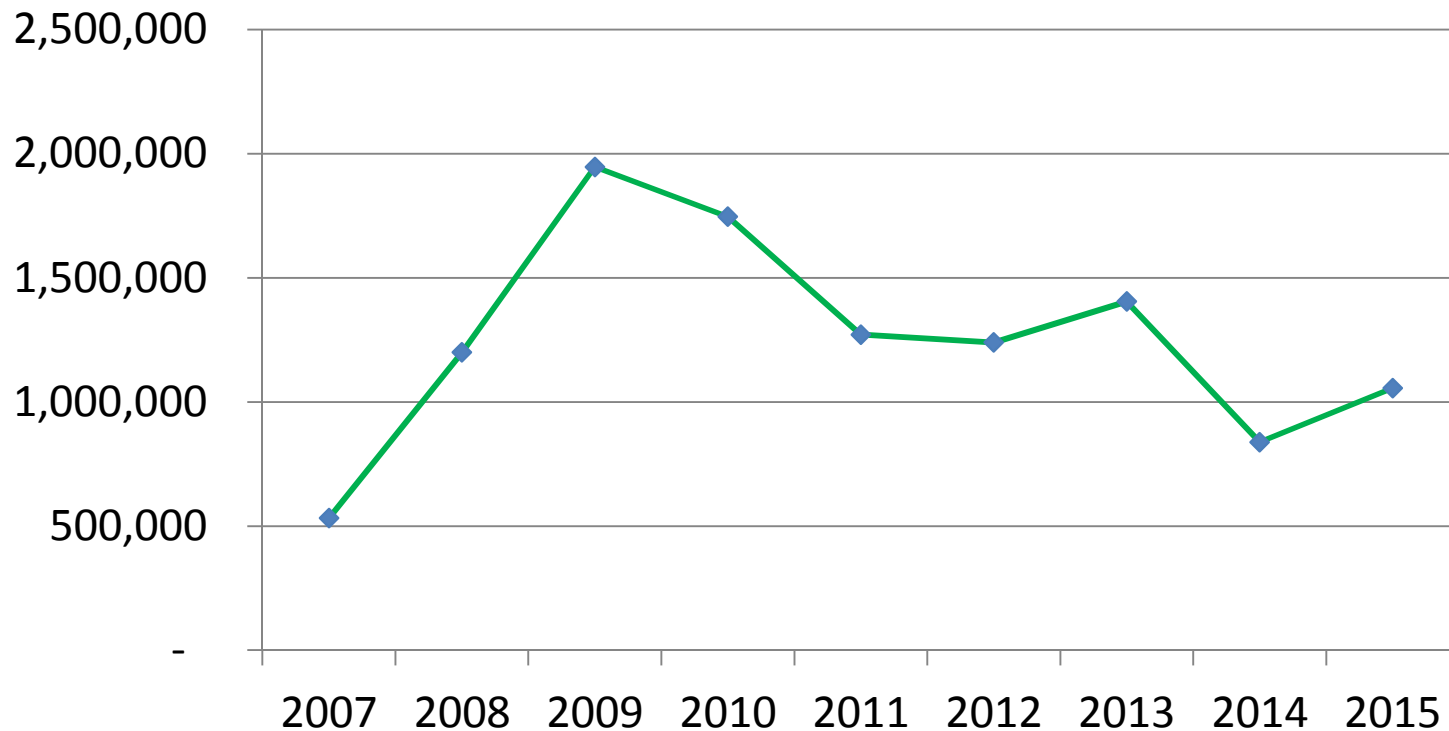
Agenda

- Portfolio Highlights
- Update on FHA's Blueprint for Access to Credit
 - FHA's Single Family Housing Policy Handbook
 - Supplemental Performance Metric
 - Loan Quality Assessment Framework
 - Loan and Lender Certifications
- FY 2015 Loan QC Results
 - Overview
 - Risk Based Sample
 - Random Sample
 - Trends and Observations
- New QC and Risk Management Initiatives



FHA Portfolio Snapshot

Endorsements by Fiscal Year





FHA Portfolio Snapshot

Past policy action has put FHA on strong financial footing

- ✓ 30% drop in seriously delinquent rates
- ✓ 58% improvement in recovery rates
- ✓ 63% reduction in foreclosure starts
- ✓ \$7-\$10 billion of value added to MMIF every year
- ✓ \$40 billion in available cash for paying claims

The policy changes that produced these results will remain in place and bolster future loan cohorts

Source: FY2014 Actuarial Report, FY2014 FHA Annual Report





Blueprint for Access

Takes a targeted approach to expanding access and affordability through greater clarity and transparency

Quality Assurance Framework

Concept: FHA's focus on clear rules and guidance and robust oversight with timely feedback so lenders can focus on quality of their processes and lend to qualified borrowers.

- Four central components of the Framework:
 1. *FHA Single Family Housing Policy Handbook*
 2. Lender Performance Management
 3. Loan Quality Assessment
 4. Loan Sampling



Single Family Housing Policy Handbook

FHA's *Single Family Housing Policy Handbook*, Handbook 4000.1 is a consolidated, consistent, and comprehensive single source for FHA Single Family Housing Policy:

- **Consolidates:** All SF Mortgagee Letters, Housing Notices, Handbooks, and other policy documents into one single source available on Allregs and hud.gov
- **Consistent:** Consistent format and terms throughout the SF Handbook support easier use – key to FHA's Access to Credit strategy.
- **Comprehensive:** The SF Handbook will cover all Single Family Housing policy.
- Implementation Effective 9/14/2015





Supplemental Performance Metric

- Launched on August 17, 2015; Available via NW Early Warnings System
- Supplements the Compare Ratio, a peer based default and claim ratio

Distribution and SDQ Rates					Weighted SDQ and Scores		
	<640	640-680	>680	SDQ Rate	Mix-Adjusted SDQ Rate	Supplemental Metric Ratio	Compare Ratio
Lender					1.5%	120%	149%
Mix	30%	30%	40%	1.8%			
SDQ	2.4%	2.3%	0.9%				
Benchmark Portfolio					1.6%		
Mix	25%	50%	25%	1.6%			
SDQ	3.0%	1.5%	0.4%				
FHA Portfolio					1.2%	100%	
Mix	12%	42%	46%	1.2%			
SDQ	2.0%	1.7%	0.5%				





Revised Lender and Loan Certifications

- Loan certification (92900-A) revisions:
 - Pre-endorsement review requirement
 - Prohibited activities for those directly involved with borrower/loan
 - Removal of clauses dealing with lender-level issues
 - Comment period ends October 1
 - Anticipated effective date end of calendar year
- Lender certification revisions:
 - Addition of lender-level language removed from 92900-A
 - Clauses on most certification statements so lenders can certify after reporting information and receiving clearance from HUD
 - First comment period ends November 2, followed by additional 30-days
 - Anticipate effective date sometime early 2016



Loan Quality Assessment Methodology (Defect Taxonomy)

Pre-Taxonomy Approach to QA

The majority of current defect codes focus on causes, often leading to multiple codes all describing a small piece of a single fundamental issue (e.g., borrower income not being sufficient).

Two potential levels of findings for each defect - Unacceptable and Deficient,¹ providing only a limited ability to analyze the scope of defects solely on the basis of the finding reported.

Much of the detail of the sources and causes of defects is captured only in loan reviewer's notes, which prevents data analysis on why defects are occurring at the aggregate level.

Taxonomy

The coding of defects is standardized within a limited number of defect categories, allowing FHA to capture greater detail on the fundamental issues impacting a loan's quality. Although there are significantly fewer defects, each defect employs between 15-30 "reason codes" to capture rich detail about why a defect occurred.

Subdivision of each existing findings level, creating four tiers of defects, allowing FHA to capture greater detail on the scope of the defect.

The sources and causes of defects are captured as part of the Basis of Ratings code, allowing FHA to analyze the reason why defects are occurring at the aggregate level.



FHA QC Program Highlights

- FHA conducts monthly QC on a sample of performing and non-performing loans.
- Life-cycle of a complete file review ranges 30-120 days.
- In FY 2015, FHA introduced a random sample into its QC program to benchmark expected defect rates.
- In addition to loan level QC, FHA conducts focused lender examinations.
- Resumed posting QC results in *Lender Insight*
 - Published quarterly – focus on frequency of high-risk findings
 - Quarterly emphasis based on emerging or sustained trends





FHA Quality Assurance Trends

- From 10/1/14 to 7/31/15
 - 36,224 loans reviewed; 80% of reviews are closed
 - Sampled from 1,072 active lenders
 - Approximate sample rate of 4% of new endorsements
 - Early Payment Defaults represented approximately 20% of sample
 - Conducted 218 Lender Examinations covering HECM, Servicing, and Underwriting



FHA Quality Assurance Trends

- Following analysis is based on results from FHA's Post Endorsement Reviews completed through 4/30/2015.
- 13k loans in sample
- Net material defect rate of 6.7%.
- Sample Description:

Loan Type	% of Population
Purchase	85.3%
Rate and Term Refi	6.35%
Streamline	8.35%

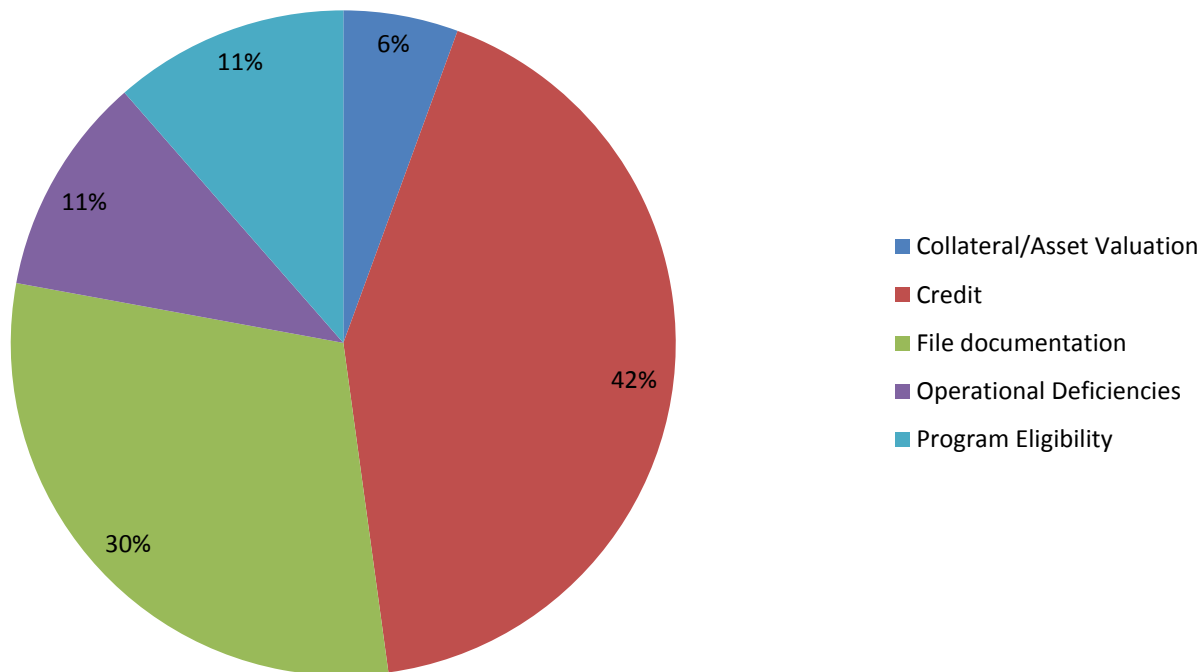
Loan Characteristics	
Avg. FICO	656
Avg. Front End	32.3%
Avg. Back End	44.7%





FHA Quality Assurance Trends

Current Unacceptable Findings





FHA Quality Assurance Trends

Rank	Description	Finding Category	Unacceptable Rate
1	Unacceptable, unsupported or insufficient source of funds (FD10)	Credit	10.1%
2	Concerns related to assets derived from gift(s) (FD20)	Credit	8.5%
3	Obligations of borrower(s) (non-purchasing spouses included) omitted, inaccurate, not supported, not disclosed and/or not legible (LA04)	Credit	7.9%
4	Data integrity deficiencies. File documentation does not support Accept/Approve decision in AUS (AU01)	Operations	7.6%
5	Income improperly documented (IC20)	Credit	7.2%
6	Existing construction in Special Flood Hazard Area (A or V Zone) without evidence of flood insurance (VA03)	File Documentation	6.3%
7	Income improperly calculated or from an unacceptable source (IC02)	Credit	5.1%
8	Qualifying ratios exceeded without acceptable compensating factors for manually approved loans (EQ04)	Credit	4.6%



FHA Quality Assurance Trends

Rank	Description	Finding Category	Unacceptable Rate
9	AUS invalid or missing (AU05)	File Documentation	3.2%
10	Mortgage verification missing, mortgage not current or mortgage history not satisfactory (CH03)	File Documentation	3.1%
11	Mortgage amount incorrect, LTV limit and/or statutory limit exceeded (MA04)	Program Eligibility	3.1%
12	Unallowable, excessive costs/credits to borrower or other HUD-1 and/or Good Faith Estimate inaccuracies (CL32)	Operations	2.9%
13	Documentation does not support credit waivers of AUS (AU02)	File Documentation	2.9%
14	Form HUD-92900-A not properly completed or missing (DC11)	File Documentation	2.8%
15	CAIVRS, LDP/GSA authorization and/or delinquent federal debt issues not properly documented or satisfied (CH41)	Credit	2.7%
16	Lender Insured data integrity concerns: insured loan data entered in FHA Connection is not supported by file documents (LI01)	Operations	2.4%



FHA Quality Assurance Trends

Rank	Description	Finding Category	Unacceptable Rate
17	Concerns with poor credit pattern, major derogatory credit and/or recent material inquiries (CH40)	Credit	2.3%
18	Secondary financing: the source or terms are unacceptable, not documented or inadequately documented (FD30)	Credit	2.3%
19	Property does not meet Minimum Property Requirements or Standards (VA06)	Collateral	2.3%
20	Borrower did not make the required minimum cash investment (down payment) (FD60)	Credit	2.3%
21	Stability of income is insufficient and/or not supported (IC30)	Credit	2.3%
22	Compliance inspections (including form HUD-92051), certifications, or local government approvals are missing, incorrect or incomplete (VA25)	File Documentation	2.2%
23	Concerns related to Neighborhood, Site, and/or Improvements section of the appraisal report (VA01)	Collateral	2.2%
24	Concerns related to bankruptcies, judgments, liens and/or foreclosures (CH21)	Credit	1.8%
25	Purchase contract, Real Estate Certificate and/or Amendatory Clause missing, illegible or incorrect (UW20)	Program Eligibility	1.8%





FHA Quality Assurance Observations

- Majority of issues are resolved by additional documentation supplied by lender; documentation that wasn't included in endorsement case binder
- The pattern of high initial unacceptable rate with reduction to single digit unacceptable rates is repeated quarter after quarter
- Continuing concern for FHA
 - Resource drain for lenders and FHA
 - Blurs lines between true manufacturing issues and documentation deficiencies
 - Hinders efforts at managing loan quality



What's Next

- Continued focus on reducing initial defect rates
- Deep Dive on use of “deficient” loan ratings
- Improvements to Defect Reporting (revised quarterly reports)
- Strict management of time frames; both internal and external
- Deployment of lender specific quarterly QC reporting
- E-Case Binders
- Implementation of Loan Review System



FHA QC Resources

- FHA Lender Performance Home Page- <http://1.usa.gov/1POfvTJ>
- Lender Insight Newsletter- <http://1.usa.gov/1gU9O9m>
- FHA QC Finding Codes- <http://1.usa.gov/1JR82yF>
- Neighborhood Watch- <http://1.usa.gov/1KN0LVR>

