



FEDERAL HOUSING ADMINISTRATION

OFFICE OF SINGLE FAMILY HOUSING



**Affordable Housing Association of Certified Public Accountants (AHACPA)
Las Vegas Lender Update**

Federal Housing Administration: Financial Audit Requirements for FHA Lenders

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U.S. Department of Housing and Urban Development



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Overview

- Initial FHA Approval
- Annual Recertification
- Helpful References



Initial FHA Approval

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Initial FHA Approval

An applicant must comply with all of the requirements in the *Single Family Housing Policy Handbook 4000.1* (SF Handbook) to participate in the origination, underwriting, closing, endorsement, servicing, purchasing, holding, or selling of FHA-insured Title I or Title II mortgages.

A selection of these requirements are contained on the following slides.



Preparing for FHA Approval

- Meet all eligibility requirements including net worth, liquidity, and principal activity at fiscal year end.
- Audited financial statements must cover 12 months of operation. If fewer than 12 months, submit audited financial statements covering all months of operation.
- End date of audited financial statements aligns with lenders' fiscal year end.
- End date of audited financial statements more than six months old, submit most recent unaudited financial statements signed by a corporate officer.
- Income statement and cash flow statement not required if new institution.

Preparing for FHA Approval (cont.)

- No less than 20 percent of required adjusted net worth in liquid assets.
- Non-supervised Institutions:
 - Meet FHA's principal activity requirement by deriving at least 50 percent of its activities from real estate mortgages, consumer installment notes or similar advances of credit, or from purchasing consumer installment contracts or from a directly-related field.
 - A directly-related field is something directly related to the investing, lending or mortgages, not simply actions relating to real estate in general.
- Corrective action plans are not acceptable.

Documentation Requirements

Audited financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and Generally Accepted Auditing Standards (GAAS).

Independent Auditor’s Report must include opinion on Supplementary Information (Computation of Adjusted Net Worth) and a copy of Computation of Adjusted Net Worth.

Segment	Financial Reporting Requirements
Supervised Small (Total net assets less than \$500 Million)	<input type="checkbox"/> Signed Unaudited Regulatory Report
Non-Supervised Supervised Large Investing	<input type="checkbox"/> Audited Financial Statements <input type="checkbox"/> Signed Independent Auditor’s Report on Supplementary Info <input type="checkbox"/> Computation of Adjusted Net Worth <input type="checkbox"/> Report on Internal Control <input type="checkbox"/> Report on Compliance <input type="checkbox"/> Unaudited Regulatory Report or Consolidated Schedules, if applicable
Government	<input type="checkbox"/> None



Common Deficiencies

- Minimum adjusted net worth of \$1 million not met.
- Capital contributions do not meet FHA requirements and/or fail to provide documentation to support contributions.
- Financial statements do not align with fiscal year end.
- Interim financial statements not provided.
- Most recent signed call report not provided.
- Failed to include audited consolidating schedules or call reports with consolidated financial statements.
- Audited financial statements discloses unacceptable assets.

Annual Recertification



Annual Recertification

A mortgagee must fully comply with all of the requirements in the SF Handbook in order to retain FHA approval to participate in the origination, underwriting, closing, endorsement, servicing, purchasing, holding, or selling of FHA-insured Title I or Title II mortgages.

A selection of these requirements are contained on the following slides.

General Requirements

- Complete FHA's recertification process on an annual basis.
- Submit annual recertification packages through the Lender Electronic Assessment Portal (LEAP).
- Mortgagee must submit:
 - Online certification
 - Recertification Fee
 - Financial statements
- Each recertification package is due within 90 days after its fiscal year end.
 - Example – If a mortgagee's fiscal year ends December 31, 2017, the recertification package is due by March 31, 2018.

Preparing For Annual Recertification

- Confirm and/or update administrative contact information.
- Ensure corporate officer information is accurate.
- Verify that corporate officers have access to LEAP and are assigned the certifying official role (maximum of three).
- Report lender segment changes.
- Preview certification statements.
- Review notices of material events previously submitted to FHA.
- If unable to certify is anticipated, gather supporting documentation for all events that will prevent lender from certifying (i.e., consent orders, Memorandum of Understanding (MOUs), settlements, agreements, etc.).



Common Deficiencies

All Mortgagees

- Audited consolidating schedules or call reports
- Financial Data Template (FDT)
 - Whole dollars instead of rounded to thousands
 - Data for consolidated entity not FHA-approved entity only

Small Supervised Mortgagees

- Signed call report
- FDT

Adjusted Net Worth

- Adjusted net worth deficiency at fiscal year end
- Computation does not include FHA activity
- Computation based on consolidated entity instead of FHA-approved entity
- Capital contributions not supported properly
- Audited consolidating schedules or call reports

Common Deficiencies (cont.)

Liquidity

- Liquidity deficiency at fiscal year end
- Cash contributions not supported properly

Operating Losses

- Interim financial statements not provided

Notice of Material Event (NME)

- Failure to submit NME or failure to submit timely
- Report all changes included but not limited to:
 - Liquid Assets or Net Worth Deficiency
 - Operating Loss
 - Principal Activity
- Lack of detailed explanation and supporting documentation

Helpful References



Helpful References

- FHA Connection user registration details:
<https://entp.hud.gov/clas/reginfo.cfm>
- HUD *Single Family Housing Policy Handbook* 4000.1, Doing Business with FHA:
<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>
- LEAP User Manual
http://portal.hud.gov/hudportal/documents/huddoc?id=SFH_LEAP_user_manual.pdf
- The HUD Audit Guide: <http://www.hudoig.gov/reports-publications/audit-guides/consolidated-audit-guides>

Helpful References (cont.)

- Annual Recertification Page
 - www.hud.gov/program_offices/housing/sfh/lender/approvals_renewals/sfh_recertification
- Single Family Housing News (FHA INFO) emails
 - Provides the lending industry updates on new Mortgagee Letters, Handbooks, and other notices, as well as a FHA Housing Industry Training.
 - To sign up go to the “subscribe to FHA INFO” link on the HUD Resources section of the main FHA lender web page at www.hud.gov/lenders



FHA Resource Center

	Option	Point of Contact	Hours Available	Comments
1	FHA Knowledge Base – FAQs	www.hud.gov/answers	24/7/365	Knowledge Base web page includes option to email questions.
2	Email	answers@hud.gov	24/7/365	
3	Telephone	<p>1-800-CALL-FHA (1-800-225-5342)</p> <p>Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.</p>	<p>8:00 AM to 8:00 PM Eastern M-F</p>	Voicemail is available after hours or during extended wait periods.



Questions?



**Thank you
for joining us today!**

