



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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Recertification Branch

U.S. Department of Housing and Urban Development



OFFICE OF SINGLE FAMILY HOUSING



Agenda

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Initial FHA Approval



Initial FHA Approval

An applicant must comply with all of the requirements to participate in the origination, underwriting, closing, endorsement, servicing, purchasing, holding, or selling of FHA-insured Title I or Title II mortgages.

Reference: Single Family Housing Policy Handbook 4000.1 (SF Handbook), Section I. A.



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.
- Operating for 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:
Principal activity requirement 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.



Preparing for FHA Approval Example

Scenario:

Jamaica Lending Mortgage

- Submitted application on October 31, 2018
- Fiscal year end is December
- Audited financial statements August 24, 2017 (inception) through December 31, 2017
- Unaudited financial statements for July 2018, August 2018 and September 2018
- Member's capital \$800,000
- Liquidity \$568,020
- Principal activity is in loan origination, processing, underwriting and closing coordination services.



Preparing for FHA Approval Example (cont.)

- Does not meet minimum adjusted net worth of \$1,000,000 plus 1 percent of the total volume in excess of \$25,000,000 of FHA Single Family Mortgages originated, underwritten, serviced, and/or purchased during the prior fiscal year, up to a maximum required adjusted net worth of \$2,500,000.
- Holds no less than 20 percent of its required adjusted net worth in liquid assets.
- Meets the principal activity requirement.



Preparing for FHA Approval Example (cont.)

Scenario:

Amsterdam Mortgage Lending

- Submitted application on June 15, 2018.
- Fiscal year end is December
- Audited financial statements August 24, 2017 (inception) through April 30, 2018.
- Member's capital \$1,000,000
- Liquidity \$200,000
- Principal activity is in loan origination, processing, underwriting and closing coordination services. New institution with no revenue and no expenses.

Preparing for FHA Approval Example (cont.)

- Meets the minimum adjusted net worth of \$1,000,000 plus 1 percent of the total volume in excess of \$25,000,000 of FHA Single Family Mortgages originated, underwritten, serviced, and/or purchased during the prior fiscal year, up to a maximum required adjusted net worth of \$2,500,000.
- Holds no less than 20 percent of its required adjusted net worth in liquid assets.
- Meets the principal activity requirement.
- Next recertification period due: March 31, 2019
 - Submit audited financial statements to cover May 1, 2018 thru December 31, 2018.

Administrative Contact

Once approved lenders must maintain updated information for a primary Administrative Contact in LEAP.

Contact information must include:

- Full name;
- Telephone number;
- Email address; and
- Business street address (post office boxes are not acceptable).

Lenders should add the @hud.gov domain to their servers to ensure timely delivery of emails from HUD.

Reference: LEAP User Manual; Section 5.1



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.

Reference: Single Family Housing Policy Handbook 4000.1 (SF Handbook), Section I. A.



General Requirements

- Annual recertification submitted through the Lender Electronic Assessment Portal (LEAP).
- Submit:
 - Online certification
 - Recertification Fee
 - Financial statements
- 90 days after its fiscal year end.
 - Fiscal year ends December 31
 - Recertification completed by March 31



Notice of Material Event Notification



Notice of Material Event

A Notice of Material Event is the method of notifying FHA of a change to the information provided at approval, or a change that affects the lender's FHA-approval status, and is submitted via LEAP.

- Bankruptcy
- Business Form Change
- Cease Operations
- Change in Partnership
- Change of Fidelity Bond or E&O Insurance
- Lending License(s) Surrender
- **Liquid Assets Deficiency**
- **Net Worth Deficiency**
- **Operating Loss**
- **Principal Activity Change**
- Change of Principal Owners
- Supervision Change
- **Unresolved Findings/Sanctions**

Net Worth, Liquidity, Operating Losses

- If at any time during the fiscal year the lender falls below the net worth or liquidity requirements.
- Must include evidence of actions taken to cure the deficiency.
- The lender experiences an operating loss of 20 percent or greater of its net worth within a quarter.
 - Submit financial statements every quarter until lender shows an operating profit for two consecutive quarters, or until lender submits financial reports as part of its annual recertification, whichever is the longer period.
- Must report within 30 business days of the deficiency.

LEAP Input Issues



LEAP Input Issues

- Financial statements that do not align with the fiscal year end.
- Truncated numbers in the financial data template.
- Pledged assets in the financial data template.
- Total assets not included in the financial data template.
- Wrong recertification package completed.

Compliance Report



Compliance Report Requirements

- Opinion on the compliance with specific requirements applicable to each major program
- Identify both the major HUD programs and the direct and material compliance requirements tested for each major HUD program in a table format.
- Combined origination and servicing portfolio of less than \$2 million, the opinion on compliance must cover only the compliance requirements in Chapter 7, section 7-5(A), quality control plan and 7-5(G) Lender Annual Recertification, Adjusted Net Worth and Licensing

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!**

