



Office of Lender Activities and Program Compliance

Federal Housing Administration (FHA): Financial Audit Requirements for FHA Lenders

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The information in this document is current as of the Last Update date noted above. This document does not establish or modify the policy contained in FHA's Handbooks and Mortgagee Letters in any way.





Overview

- Initial Federal Housing Administration (FHA) Approval
- Annual Recertification
- What's New in FHA Recertification?
- Helpful References



Initial FHA Approval

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



Preparing for FHA Approval

- Meet all eligibility requirements, including net worth, liquidity, principal activity, in order to obtain FHA approval.
- Audited financial statements cover 12 months of operation.
- End date of audited financial statements aligns with 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.
- Operating for fewer than 12 months, submit audited financial statements to cover all months of operation.
- Income statement and cash flow statement not required if new institution.



Preparing for FHA Approval (cont.)

- Small Supervised institutions must submit signed, unaudited regulatory report (call report) that aligns with fiscal year end.
- Large Supervised, Non-Supervised, or Investing institutions submit audited financial statements.
- Government institutions are not required to provide financial documentation.
- Audited financial statements must be 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 Computation of Adjusted Net Worth.



Preparing for FHA Approval (cont.)

- Minimum adjusted net worth of at least \$1,000,000 at fiscal year end.
- No less than 20 percent of institution's required adjusted net worth must be in liquid assets.
- 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;
 - Purchasing consumer installment contracts or a directly related field.
 - A directly related field is something directly related to the investing or lending of mortgages, not simply actions relating to real estate in general.
- Corrective action plans are not acceptable.



Initial FHA Approval: Common Deficiencies

- Minimum adjusted net worth of \$1,000,000 not met.
- Capital contributions do not meet FHA requirements – 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, consolidated schedules or call reports with consolidated financial statements.
- Audited financial statements disclose unacceptable assets.



Annual Recertification

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



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 end is December 31, 2016, the recertification package is due by March 31, 2017.



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).
- Review notices of material events previously submitted to FHA.
- Report lender segment changes.
- Preview certification statements.
- If unable to certify is anticipated—gather supporting documentation for all events that will prevent lender from certifying (i.e. consent orders, MOUs, settlements, agreements, etc.).



What's New in FHA Annual Recertification Certification Statements

- FHA implemented revised certification statements for all mortgagee types on August 1, 2016.
- The changes were applied starting with mortgagees with July 2016 Fiscal Year End.
- The revised certification statements can be found in the Annual Recertification Section at www.hud.gov/lenders.



Annual Recertification: Common Deficiencies

Mortgagees

- Audited, consolidated schedules or call reports
- Financial Data Template
 - 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

- Computation does not include FHA activity
- Computation based on consolidated entity instead of FHA approved entity
- Capital contributions not supported properly
- Audited, consolidated schedules or call reports





Annual Recertification: Common Deficiencies (cont.)

Notice of Material Event (NME)

- Failure to submit NME
- Failure to submit NME within 10 business days
- Report all changes, including but not limited to:
 - Liquid Assets or Net Worth Deficiency
 - Operating Loss
 - Principal Activity
- Lack of detailed explanation and supporting documentation



What's New in FHA – Multifamily Mortgagees

Quality Control Plan (QC)

- Quality Control (QC) requirements are based on the mortgagee's FHA lender approval—Single Family and/or Multifamily.
- Mortgagees approved to conduct Multifamily Housing activities only, should adhere to the QC requirements described in the Multifamily Accelerated Processing (MAP) Guide.
- Mortgagees approved to conduct with Multifamily and Single Family Housing activities must implement QC requirements for both programs. The QC requirements for Single Family Housing are outlined in the *Single Family Housing Policy Handbook* 4000.1 (SF Handbook).



Helpful References

- FHA Connection user registration details:
<https://entp.hud.gov/clas/reginfo.cfm>
- SF 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
- HUD Audit Guide:
<http://www.hudoig.gov/reports-publications/audit-guides/consolidated-audit-guides>



Helpful References (cont.)

- ***Lender Insight:***

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/SFH_Lender_Insight

- ***Single Family Housing News (FHA INFO) emails:***

- Provides the lending industry with updates on new Mortgagee Letters, Handbooks, and other notices, as well as a FHA Housing Industry Training.

- To sign up go to:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe



Helpful References (cont.)

The FHA Resource Center

- www.hud.gov/answers: FHA's Online Knowledge Base helps you find answers 24/7; with **2000+ Qs and As** addressing 90 percent of our phone calls **and** announcements of policy changes and training opportunities.
- Email: answers@hud.gov
- Phone: **(800) CALL-FHA** or (800) 225-5342
Monday through Friday, 8:00 am – 8:00 pm ET on all non-Federal holidays



Questions?



2017 Developments

- Answering Certification Questions
 - Q7 – Findings related to Handbook 4000.1
 - Section I – Doing Business With FHA
 - Section V – Quality control, Oversight and Compliance
- 3 Key Compliance Requirements
 - Deficiency at Y/E automatic referral to Mortgagee Review Board
 - Net Worth
 - Liquidity
 - Principal Activity



2017 Developments

- Notice of Violation (NOV) mailed out 1st of each month
 - Certified letter
 - Respond within 30 days