		Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size
Entity Name											
FHA Number											
Fiscal Year End											

A. QUALITY CONTROL PLAN

Compliance Requirement

HUD-approved mortgagees are required to originate and service HUD-insured mortgages in accordance with accepted practices of prudent lending institutions and to comply with all relevant HUD rules and regulations. Each HUD-approved mortgagee is required to establish and maintain a written quality control plan in accordance with HUD Handbook 4060.1, chapter 7, or the latest HUD guidance for loan origination and servicing. Each approved mortgagee must develop and implement a quality control plan consistent with its needs and the above referenced guidance to assist corporate management in determining whether its personnel are following HUD requirements and the mortgagee's policies and procedures. The monthly quality control procedures may be conducted by the entity itself internally, by personnel not involved in any aspect of mortgage origination or servicing, or by an external reviewer, such as the independent auditor or another qualified organization (24 CFR 202.5(h)).

Suggested Audit Procedures

a. Obtain a copy of the mortgagee's quality control plan and compare it to the general and specific requirements contained in HUD Handbook 4060.1.

b. Determine whether the mortgagee has a procedure in place, which assures that all employees involved in loan origination and servicing understand the mortgagee's quality control policies and procedures.

c. Inquire whether the mortgagee relies on an internal or external quality control review of its origination, underwriting, and servicing functions. *

(1) If the mortgagee relies on an internal review,

a. Determine whether knowledgeable personnel performed the review and that they have no involvement in the day-to-day process that they reviewed.

b. Determine whether the mortgagee provided the staff access to current guidelines relating to the operations they are responsible to review, either in hard copy format or electronic format.

(2) If the mortgagee relies on the external review process,

a. Determine whether the mortgagee ensured that the outside firm met HUD's requirements.

b. Determine that the agreement with the outside firm is in writing, states the roles and responsibilities of each party, and is available for review by HUD staff.

d. Determine whether the sample sizes of HUD loans used throughout the year were determined in accordance with HUD Handbook 4060.1. This includes a random sample of insured loans being serviced by the mortgagee or its agent.

e. Determine whether any branch offices received an on-site review as required by HUD Handbook 4060.1.

Entity Name _____
FHA Number _____
Fiscal Year End _____

	Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size
f. Determine whether the quality control plan includes coverage for any loan correspondents and authorized agents of the mortgagee.										
(1) Determine whether the sponsor Quality Control Program provides for the sponsor to review the loans originated and sold by each of its loan correspondents. If it does,										
a. Determine whether the sponsor determined an appropriate percentage of loans to be reviewed.*										
b. *Determine whether the sponsor retained the documents and methodologies used in making that determination and the results of the review.										
c. Review the documentation for compliance with HUD requirements and determine whether the findings were reported and followed up in accordance with the mortgagee policies/procedures.										
(2) If the sponsor allowed the loan correspondents to conduct their own quality control review, determine										
a. Whether the arrangement with the sponsor(s) is detailed in writing.										
b. That the aggregate number and scope of reviews meet FHA requirements.										
c. That loans are reviewed within 90 days of closing.										
d. That findings are clear as to source and cause.										
e. That the results are available in a timely manner to both mortgagees and HUD.										
g. Review the supporting documentation of the most recent review to determine whether all the required general and specific elements included in HUD Handbook 4060.1, chapter 7 were included in the quality control review. The quality control plan must provide for the written reverification of the mortgagor's employment, deposits, gift letter or other sources of funds.										
h. Obtain a written copy of the latest quality control report and determine whether senior management officials also received a copy, which included any deficiencies identified during the review.										
i. Determine whether the mortgagee notified the Office of Lender Activities and Program Compliance of any violations, false statements, or program abuses that were in the quality control report.										
j. Determine whether senior management officials promptly initiated corrective action for all deficiencies noted. *										
k. Determine whether the files evidenced the actions taken by senior management to correct the deficiencies.										
l. *Determine whether the files evidence that the employees were notified of the deficiencies and provided instructions to correct the deficiencies and prevent recurrence.										

Entity Name	
FHA Number	
Fiscal Year End	

B. SPONSOR RESPONSIBILITY OVER TITLE II LOAN CORRESPONDENTS

Compliance Requirement

The sponsor can must agree to assume the responsibility of assuring that the loan correspondent under its sponsorship is in compliance with HUD requirements. The sponsor can assume the responsibility for any number or for all of its Title II loan correspondents. The sponsor's acceptance of responsibility is provided for in HUD Handbook 4060.1 paragraph 4-4.

Suggested Audit Procedures.

	Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size
a. Determine whether the sponsor										
-1 Annually communicate in writing, to the individual loan correspondent its intent to assume responsibility for the loan correspondent's compliance.										
-2 Indicate in the correspondence the areas of compliance over which the sponsor would assume responsibility.										
-3 Issue a written report annually, summarizing the results of its compliance testing.										
-4 Accumulate and retain the supporting information that serves as the basis for each written annual compliance report issued to the loan correspondent.										
b. Test the documentation supporting the reviews and the reports to assure its accuracy and reliability.										
c. Assure that the areas not included in the sponsor's assumption of responsibility are included in the auditor's testing and reporting for the period under audit. *										

Entity Name	
FHA Number	
Fiscal Year End	

	Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size

C. BRANCH OFFICE OPERATIONS

Compliance Requirement

A mortgagee may maintain one or more branch offices for the submission of applications for mortgage insurance. A traditional branch office is a separately located unit of the mortgagee in an office in which no business except that of the mortgagee is conducted. It may be located in the mortgagee's home office. In addition, a mortgagee may register a branch office that does not meet the requirements of a traditional branch office (nontraditional branch office). The mortgagee may determine the location and type of its branch office facilities. The nontraditional branch office facility may be located in either commercial or noncommercial space. Each branch office must be registered by HUD. A loan correspondent is also permitted to establish branch offices in accordance with 24 CFR 202.5(k) (HUD Handbook 4060.1, paragraph 2-11 B and C).

*An approved mortgagee is prohibited from engaging an existing, separate mortgage company or broker to function as a branch of the approved mortgagee and allowing that separate entity to originate insured mortgages under the approved mortgagee's FHA mortgagee number. This constitutes a prohibited branch arrangement . Separate entities may not operate as "branches" or "DBAs" of a FHA approved mortgagee (HUD Handbook 4060.1, paragraph 2-14 A).

The direct lending branch office must meet the office facilities and staff requirements of a traditional branch office except that it must have a separate manager and can be collocated with a lender's home office or one of its traditional branches (HUD Handbook 4060.1, paragraph 2-11 D). *

Suggested Audit Procedures.

a. Determine whether all branches are registered with HUD by reviewing the appropriate form or screen printout.

b. Through inquiry and/or physical observation, determine whether the branch is a true branch and is not a subsidiary, independent contractor, agent of the auditee, or separate entity. A mortgagee with a separate tax ID number is required to have approval as a mortgagee in its own right. A branch must have at least one employee *(a W-2 employee)* including, a branch manager. The branch manager can manage more than one branch except if the branch is a direct lending branch, which must have a separate manager. The branch office must have its own telephone and maintain its own accounting records.

c. Review auditee's payroll records for indications of any branch office personnel, except the receptionist, who are not employed exclusively by the auditee at any given time. Inquire of personnel to determine whether branch employees conduct only the business affairs of that entity during normal business hours.

d. Determine whether the branch office (1) is located in space which is separated by a partition from any other entity, (2) is clearly identified to the public, (3) operating costs are paid by the approved mortgagee or loan correspondent, (4) display the "fair housing poster", (5) provides privacy for conducting interviews and (6) has adequate space and equipment.

Entity Name _____
FHA Number _____
Fiscal Year End _____

	Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size
e. Review company records for evidence that the present branch office manager is a corporate officer or an employee authorized to bind the corporation in matters involving loan origination and servicing and whether the branch office manager of a direct lending branch office only manages that branch.										
f. *During the period under audit, if a separate entity was purchased and legally merged into the approved mortgagee, determine if a copy of the merger documents and state license (s) were provided to FHA's Lender Approval and Recertification Division.*										

Entity Name	
FHA Number	
Fiscal Year End	

Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size

D. LOAN ORIGINATION

Compliance Requirement

HUD requires the originators of insured mortgages to develop such loans in accordance with HUD requirements. They must obtain and verify information with at least the same care that would be exercised in originating a loan in which the mortgage would be entirely dependent on the property as security to protect its investment.

Information on the auditee's copy of Form HUD-92900, HUD/FHA Application for Commitment for Insurance under the National Housing Act, must be supported by documents in the auditee files (HUD Handbook 4000.2).

Mortgagees may not require, as a condition of providing an insured loan, the principal amount of the loan to exceed a minimum amount established by the mortgagee (24 CFR 203.18d).

Regulations at 24 CFR 202.12 prohibit lenders from originating insured mortgages if it is the customary lending practice of the lender to engage in "tiered pricing" of its loans (for discount points, origination fee and other such fees) of more than 2 percent in an area (metropolitan statistical area or county in rural areas). The regulation further requires HUD to ensure that any variations in mortgage charge rates be based only on the actual variations in costs to the lender to make the loan. The 2 percent limitation on variation in "mortgage charge rates" shall be applied to all Section 203 mortgages by loan type.

Suggested Audit Procedures

a. Obtain an understanding of the auditee's procedures for processing loan applications. Determine whether the auditee's procedures provide for applicant's credit report, employment verification, and verification of deposits to be sent directly to the auditee and not pass through any interested third party (e.g., realtor).

b. Obtain a sample of files for loans originated during the audit period to perform the following tests. This should include loans originated at the auditee's branch offices and by its loan correspondents as well as its central office. When an auditee uses an independent third party to perform quality control over loan origination, the auditor may rely on the testing of loan files performed by the independent third party, provided the auditor has reviewed the independent reviewer's procedures and retested some of the same files chosen for testing and the quality control written reports indicated no significant discrepancies were identified.

(1) Review loan file documentation for evidence that the loan applicant had an opportunity for a face- to-face interview. If the loan applicant opted not to have a face-to-face interview, *determine whether the mortgagee asked sufficient questions to elicit a complete picture of the borrower's (i) financial situation,

(ii) source of funds for the transaction, and (iii) intended use of the property. Verification of all this information, as well as the identity of the loan applicant, must be documented in the loan file. *

(2) Review all files in the sample to determine whether any forms have been signed by the mortgagee but not completed by the applicant.

(3) Determine whether all employment and income data are supported by a verification of employment or other sources, especially for self-employed applicants and applicants with nonemployment income. Review loan file documentation for evidence that the mortgagee reconciled any conflicting information before submitting the application package to the appropriate HUD Homeownership Center for endorsement.

(4) Test that the applicant's cash assets, source of funds, and liabilities are supported by documentation such as verifications of deposit, gift letters, credit reports, etc.

Entity Name _____
FHA Number _____
Fiscal Year End _____

	Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size
c. Obtain a sample of files for rejected loans during the audit period and perform the following review:										
(1) Determine whether an individual review was provided for all rejected applications that were denied due to a statistical category or score (e.g., credit score, debt/income ratio). Ensure that the score accurately reflected the financia status (e.g., loan and rent payments, current housing payments) of the applicant. A rejection should not be influenced by statistical categories or geographic location.										
(2) Determine whether the rejection was made based on established criteria and the reason for the rejection was provided to the applicant. Ensure that all procedures for accepting and processing the loan were followed.										
d. ~~Test whether loan correspondents are selling mortgages to entities other than their sponsors without prior HUD approval. In connection with the direct endorsement program, to confirm that the loan correspondent does not underwrite loans, review selected loan documentation for indications of underwriting by the loan correspondent.~~										
e. Review the agreements between the auditee and its staff appraisers and test for compliance with HUD Handbook 4000.4, chapter 2.										

Entity Name	
FHA Number	
Fiscal Year End	

E. LOAN SETTLEMENT

Compliance Requirement

The mortgagee's responsibilities before and following loan settlement are minimal. The loan origination fee should normally compensate the mortgagee for the required services. However, HUD has specified the types and amount of additional charges and fees, which the mortgagee may collect from the borrower. Additionally, the mortgagee is responsible for promptly submitting up-front mortgage insurance premiums to HUD following loan settlement, disbursing the funds, and completing the transaction in accordance with the closing documents without undue delay (24 CFR 203.284).

Suggested Audit Procedures.

	Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size
a. *Obtain an understanding of the auditee's procedures for settling and completing loan transactions. *										
b. Select a representative sample of HUD loans for testing from those settled during the audit period.										
-1 Examine the signed settlement statement (Form HUD-1). Prove the mathematica accuracy of the HUD-1. Compare amounts listed on the HUD-1 to other authentic loan documents.										
-2 Review the fees and charges collected from the mortgagors as shown on loan settlement statements to determine whether they are equal to the mortgagee's actual out-of-pocket costs for the related service or the maximum charge allowed by HUD, whichever is lower. Determine whether the origination fee did not exceed 1 percent of the loan amount. Compare the fees and charges to the guidelines contained in HUD Handbook 4000.2. Report any differences as findings.										
-3 *Review the accuracy of points and closing costs. Determine whether the differences may be due to discriminatory practices. *										
-4 Review computations and supporting data for amounts collected to establish escrow accounts for taxes and hazard insurance. Reconcile and report on any differences.										
-5 Review computations and supporting data for interest collected from the mortgagor at loan closing. Reconcile and report on any differences.										
-6 The Form HUD-92900 contains the acquisition cost of the property. The HUD-1 contains the amount of the insured mortgage. Compare the amount of the insured mortgage to the acquisition costs to determine whether the mortgagor made the minimum investment.										
-7 Examine the canceled check or other supporting documentation for evidence that the mortgagee submitted the mortgage insurance premium to HUD, in accordance with HUD policy at the time of closing. *Determine whether payment reached HUD's depository within 10 calendar days of closing (Mortgagee Letter 2005-28 dated June 20, 2005). *										
-8 Compare the purchase contract and the HUD-1 for agreement as to sales price earnest money and any seller concessions.										

Entity Name	
FHA Number	
Fiscal Year End	

	Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size

F. LOAN SERVICING

Compliance Requirement

Mortgagees that service HUD/FHA-insured loans are permitted to collect certain fees from the borrowers in accordance with HUD regulations (HUD Handbook 4330.1, chapter 4).

* Loan correspondents are not allowed to service loans.*

Mortgagees that service insured Home Equity Conversion Mortgages (HECM) with adjustable rate mortgages are responsible for adjusting those rates in accordance with the annual and lifetime caps as established by HUD Handbook 4235.1.

Loan servicing procedures are to be followed consistently and should not vary. *The lender shall have an organized means of periodically identifying the payment status of delinquent loans to enable personnel to initiate and follow up on collection activities and shall document its records to reflect its collection activities on delinquent loans. The lender shall accept partial payments under an executed modification agreement or an acceptable repayment plan (refer to 24 CFR 201.41 for more details). A modification agreement may be used to increase or reduce monthly payments but not to increase the term or the interest rate to assure that the delinquent or defaulted loan is brought current before or by the end of the loan term. A modification agreement may also be used to effect a reduction in the interest rate and in the monthly payment for current loans, 24 CFR 203.500.*

Suggested Audit Procedures

a. *Obtain an understanding of the auditee's procedures for servicing loans. *

b. Select a sample of delinquent and defaulted loans, including loans in foreclosure, for testing the mortgagee's loan servicing procedures.

c. Review the loan file documentation for evidence that the auditee documents its records to reflect its servicing on delinquent and defaulted mortgages.

-1 *Determine* whether the auditee maintains individual servicing records documenting collection (loan servicing) activities.

-2 Review the servicing records to determine whether they contain information on collection contacts, attempted and completed.

d. Review selected loan file documents for evidence that the auditee communicates with the mortgagor or makes a reasonable effort to do so to determine the cause of default

-1 Review the individual loan servicing records for recorded collection contacts of more than one type (i.e., telephone, letter, face-to-face interview, etc.) if one type of contact effort is unsuccessful.

-2 Review the individual loan servicing records for mortgagor explanations of defaults and documented attempts by loan servicing personnel to contact the mortgagors.

-3 Based on the review of the individual loan servicing records, when the cause of delinquency appears to be temporary (i.e., illness, unemployment), test whether the auditee offers reasonable repayment plans.

e. Review selected receipts for evidence that the auditee accepts partial or late mortgage payments offered by mortgagors as provided for in HUD Handbook 4330.1.

-1 *Review the auditee's procedures for the handling of partial payments. Obtain a representation letter from the auditee concerning such procedures. *

Entity Name FHA Number Fiscal Year End	Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size
-2 Review the servicing records for the recording of partial payments accepted, held in a pending file, or rejected. (Note: The decision to reject a late or partia payment must be a decision based on the individual circumstances.)										
-3 Review the payment records of selected mortgagors to determine whether										
(a) The amount of the late charge, if any, was computed correctly.										
(b) The late charge was assessed after 15 days of delinquency or the 17th day of the month.										
f. Inquire whether the auditee has implemented steps to comply with the provisions of HUD's Loss Mitigation program. *Servicing mortgagees can use the following five tools to mitigate losses to the insurance fund: special forbearance, mortgage modification, partial claim, pre foreclosure sale, and deed in lieu of foreclosure. HUD requires that all loss mitigation tools are considered, and the servicing mortgagee is required to document its loss mitigation efforts. Review selected claims files for evidence that such relief measures were considered (refer to Mortgagee Letter 00-05). *										
g. Inquire whether the auditee sends notices to advise the mortgagor about HUD's foreclosure relief program once it has decided to foreclose. Review the loan files selected for evidence that such letters were sent before the initiation of foreclosure proceedings.										
h. Compare charges assessed to borrowers for servicing activities to allowable amounts. For the loans selected,										
-1 Review charges to mortgagors for checks returned due to insufficient funds.										
-2 Review charges to the mortgagor for attorney's fees and test whether										
(a) The charges were for services performed by someone other than salaried members of the auditee's staff.										
(b) The charges were made only in those cases in which the auditee made a decision to foreclose and referred the loan to an attorney for initiation of foreclosure proceedings.										
i. Obtain an understanding of the auditee's procedures for paying mortgage insurance premiums to HUD. Determine that the auditee follows one of the two acceptable methods of making mortgage insurance premium payments (electronic payment or bank check) and that its practices comply with HUD regulations.										
j. Review a representative sample of insurance claims submitted to HUD following mortgage defaults. Recalculate the net claim amount on the Single Family Application for Insurance Benefits (Form HUD-27011) and compare the claim amount information to the accounting records. Test the amounts included in the claim for preservation and protection expenses to determine whether they are supported by documentation.										
k. Select a sample of adjustable rate HECMs and test whether the mortgagee is not exceeding the limitations of the 2 percent annual and 5 percent lifetime caps.										
l. Select a sample of HECMs and determine that the disbursements have been made in accordance with the mortgage note.										

Entity Name	
FHA Number	
Fiscal Year End	

G. ESCROW ACCOUNTS

Compliance Requirement

HUD requires that mortgagees establish escrow accounts and that mortgagors make monthly payments thereto, to ensure that funds will be available to pay taxes and insurance premiums. Each month the mortgagee must collect from the mortgagor an amount which the mortgagee estimates will be sufficient to enable it to accumulate funds to pay all escrow obligations before delinquency i.e., (a) mortgage insurance premiums; (b) taxes, special assessments, and ground rents, if any; (c) hazard insurance premiums, if any; and (d) flood insurance premiums where required. The mortgagee should analyze the escrow account, at least annually, to determine whether projected escrow balances will be sufficient to fund escrow disbursements. Any projected escrow shortage should be collected by either (a) lump sum payment or (b) allocating the shortage over a 12-month period. The mortgage instrument provides the authority for the mortgagee to accumulate sufficient escrow funds with which to pay the mortgagor's tax and insurance bills 30 days before the time the bills become delinquent (HUD Handbook 4330.1, chapter 2).

*Mortgagees may not use mortgagor escrow funds for any purpose other than for which they were received and the mortgagee cannot report escrows as its own assets. If escrow funds are reported on the balance sheet, they must be fully offset by a corresponding liability and must be segregated on the balance sheet. *

Suggested Audit Procedures

	Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size
a. Obtain an understanding of the policies and procedures for reconciling custodial trust accounts.										
b. *Determine whether escrows are reported on the balance sheet. If so, assure that the proper liability account is established and reported, and the accounts are segregated as required. *										
c. Obtain trial balances of individual escrow accounts and reconcile or review the reconciliation of the total with the auditee's control account and the related bank account. Test whether the auditee did not use escrow funds for late charges, assumption fees, or any purpose other than specified above.										
d. For selected mortgages, obtain the most recent escrow analysis and note whether it was prepared not more than one year ago, and whether monthly deposits appear adequate to provide for payments of taxes, insurance, etc., by review of actual payments or other evidence of amounts due (e.g., tax assessment notices or prospective rate adjustment notices from insurance companies). Also, test whether the most recent real estate tax bills for each account were paid. If not paid within the discount period, inquire as to reasons for the delay and test whether the mortgagor retained the benefit of the discount and any late charges assessed were borne by the auditee at its expense. Test whether the mortgagor was furnished a statement of interest paid during the preceding year within 60 days after the end of the calendar year.										
e. On accounts selected for review, inspect supporting documents for escrow disbursements such as receipts, invoices, tax bills, and canceled checks. *Determine that the funds were only used for the intended purpose and the proper amount was disbursed. *										

Entity Name _____
FHA Number _____
Fiscal Year End _____

		Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size
f.	Test whether escrow funds are deposited in accounts fully insured by the FDIC or NCUA and whether the auditee covered any overdrafts on selected accounts by advancing its own funds to custodial accounts so that FDIC or NCUA insurance protection was not impaired. HUD regulations neither require nor forbid that escrow accounts bear interest. However, in those cases in which accounts are interest bearing, test whether interest earned, less expense, is passed on to the mortgagor.										
g.	Test whether the auditee advises the mortgagor of the amount of any surplus escrow funds in accordance with HUD requirements.										
h.	Review the policies and procedures that the auditee has established to ensure that bills payable from the escrow fund or the information needed to pay such bills is obtained in advance of the due date.										
i.	For any bills paid late by the auditee, determine whether any late charges/penalties assessed are paid out of the auditee's funds and not the mortgagor's funds.										
j.	Inquire whether the auditee requires the mortgagor to purchase hazard insurance coverage from the auditee or from a specific company.										
k.	Review selected loan payoffs for evidence that the auditee returns to the mortgagor the amounts held in escrow for taxes and hazard insurance within 30 days of receipt by the mortgagee of payoff funds.										

Entity Name	
FHA Number	
Fiscal Year End	

H. SECTION 235 ASSISTANCE PAYMENTS

Compliance Requirement

Compliance Requirement. Under Section 235, HUD sends assistance payments to the mortgagee on behalf of the mortgagor as long as the mortgagor is eligible for the payments. HUD executes a contract with the mortgagee for each mortgage. Once a mortgage is insured, many of the initial eligibility criteria cease their applicability; however, the mortgagor must meet other continuing eligibility criteria. In addition, the mortgagee must secure recertifications of income, family composition, occupancy, and employment at least annually and as otherwise required by HUD (HUD Handbook 4330.1, chapter 10).

Suggested Audit Procedures

	Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size
a. Select a representative sample of mortgagors receiving Section 235 assistance payments from the records of the mortgagee.										
b. Review the mathematical accuracy of Form HUD-93102, Mortgagee's Certification and Application for Assistance of Interest Reduction Payments, and Form HUD-300, Monthly Summary of Assistance Payments Due Under Sections 235(b), 235(j), or 235(i) or of Interest Reduction Payments Due Under Section 236, or equivalent computer printout. Report on any discrepancies.										
c. 'Compare a sample of HUD-93102s to copies paid by the U.S. Treasury to determine whether the dollar amounts are identical. Also, compare the number of Section 235 loans shown on the billing to the U.S. Treasury to the records of the mortgagee's servicing portfolio. Report on any discrepancies. Copies of the paid HUD-93102s can be obtained from *Office of the CFO - HUD Assistant CFO for Accounting Division of Accounting, Monitoring and Analysis* 451 Seventh Street, SW, Room 3222 Washington, DC 20410-4500										
d. Select a sample of individual loan files and										
-1 Examine documentary evidence that the mortgagee obtained and verified information concerning mortgagor income, family composition, and occupancy of the property.										
-2 Test the mathematical accuracy of assistance payments computed by the mortgagee and trace to the Form HUD-300 or computer printout. Tests should include both formula I and formula II computations and factors used in computations. Determine whether the formula providing the greater/lesser amount of assistance was used.										
-3 *Determine* whether the recertification was completed in a timely manner by the mortgagor (i.e., no sooner than 60 days before and no later than 30 days after the mortgage anniversary date). If the recertification was not completed in a timely manner, determine whether the auditee acted to suspend the assistance payments contract.										
-4 Review the mortgagee's records of loans subject to recapture of assistance paid on behalf of mortgagors for documentation of the cumulative assistance paid so that it can be recaptured (Mortgagee Letter 81-38).										

Entity Name	
FHA Number	
Fiscal Year End	

I. FEDERAL FINANCIAL AND ACTIVITY REPORTS

Compliance Requirement

Compliance Requirement. Mortgagees participating in HUD-assisted activities are required to ensure that financial status, single-family default monitoring, and reports required under the Home Mortgage Disclosure Act contain reliable data and are presented in accordance with the terms of applicable agreements between the entity and HUD. The individual agreements, handbooks and mortgagee letters contain the specific reporting requirements that the mortgagee is to follow (HUD Handbooks 4330.1, chapter 7 and 4155.1, chapter 3; Mortgagee Letter 95-3).

Suggested Audit Procedures

		Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size
a.	Identify all HUD-required financial and activity reports by inquiry of the mortgagee.										
b.	Obtain an understanding of the auditee's procedures for preparing and reviewing the required reports.										
c.	Select a sample of financial reports, other than those that are included in the audited financial statements, and determine whether the reports selected are prepared in accordance with HUD instructions.										
d.	Select a sample of activity reports and determine whether the reports selected are prepared in accordance with HUD requirements.										
e.	For the sample, trace significant data to supporting documentation; i.e., worksheets, ledgers, etc. Report all material differences between selected reports and mortgagee records.										
f.	Review significant adjustments made to the general ledger accounts affecting HUD-assisted activity and evaluate the propriety of those adjustments.										

Entity Name	
FHA Number	
Fiscal Year End	

	Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size

J. KICKBACKS

Compliance Requirement

HUD regulations prohibit mortgagees from paying any fee, kickback, compensation or thing of value, including a fee representing all or part of the lender's origination fee, to any person or entity other than for services actually performed or to any person or entity for referral of the loan or as a finder's fee (24 CFR 202.5(1).

Suggested Audit Procedures.

a. Obtain the general ledger, cash journal, canceled checks, and supporting invoices for at least two months of the audit period.

b. Test whether disbursements are supported by an invoice and were not for an unreasonable amount in return for goods or services actually performed. Reconcile and report on any differences.

c. *Determine whether any funds were advanced to real estate agents, real estate brokers mortgage brokers, or packagers as an advance of anticipated commissions on sales to be financed with a FHA-insured mortgage. *

d. *Determine whether any low-interest or no-interest loans were made to a real estate broker, real estate agent, mortgage broker, packager, builder, or any other party from whom the mortgagee accepts proposals involving FHA- insured mortgages.

e. Determine whether any payment was made for a gratuity or for a gift valued above items that are customarily distributed in the normal course of advertising, public relations, or as a general promotion device to any person or entity involved in FHA-insured mortgage transactions of the mortgagee.

f. Determine whether any fees or compensation was paid that is prohibited by the Rea Estate Settlement Procedures Act (RESPA). *

g. During the review of loan origination and loan settlement documents, the auditor should be alert for any fees or other types of payments, which may represent kickbacks. If the auditor notes any kickbacks or indications of kickbacks, these should be reported as a finding.

Entity Name	
FHA Number	
Fiscal Year End	

	Applicable per Compliance Supplement (yes or No)	Applicable But Not Material (N/A or Yes)	Inherent Risk Assessment	Workpaper Reference of IR Assesment	Control Risk Assessment	Workpaper Reference of CR Assessment	Tests of Controls Sample Size	Audit Risk of Significant Non-Compliance	Compliance Testing Workpaper Reference	Compliance Testing Sample Size

K. MORTGAGE APPROVAL REQUIREMENTS

Compliance Requirement

A nonsupervised mortgagee or loan correspondent supervised mortgagee shall have and maintain an adjusted net worth, in assets acceptable to the Secretary, as follows

Title II supervised or nonsupervised lenders and mortgagees, except multifamily mortgagees

** Minimum of $250,000 plus 1% of the mortgages volume in excess of $25 million, up to maximum net worth of $1 million*

Multifamily only - nonsupervised *lenders and* mortgages

** $250,000*

Supervised or nonsupervised mortgagees or loan correspondents, approved by HUD for program participation, must maintain liquid assets of 20 percent of the adjusted net worth. The adjusted net worth must be in liquid assets (cash, cash equivalents or marketable securities) up to a maximum of $100,000 (24 CFR 202.7(b)(2) and 202.8(b)(4)). All mortgagees, but not loan correspondents, shall maintain both fidelity bond and errors and omissions insurance of at least $300,000 each (24 CFR 7(b)(5)).

*Mortgagees must also file a verification report with HUD each year. This report should be printed from FHA Connection, signed and mailed to HUD (24 CFR 202.5(m)).

Mortgagees must also submit to HUD either an audited or unaudited financial statement, within 30 days of the end of each fiscal quarter in which the mortgagee experiences an operating loss of 20 percent of its net worth and until the mortgagee demonstrates an operating profit for two consecutive quarters or until the next recertification, whichever is the longer period (24 CFR 202.5(m)(1)).

Mortgagees must also pay the annual renewal fee online through the FHA Connection by accessing Pay.gov. and using the "pay now" button (HUD Handbook 4060.1 paragraph 4-3 B.) (24 CFR 202.5(i)). *

Suggested Audit Procedures

a. Test whether the nonsupervised mortgagee or loan correspondent supervised mortgagee meets the required levels for adjusted net worth, liquid assets, fidelity bond coverage and errors and omissions bond, according to HUD Handbook 4060.1. *If the mortgagee or loan correspondent does not meet the requirement, report the deficiency in the report on compliance. Determine whether there are internal control deficiencies related to the noncompliance that should be reported in the report on interna controls.*

b. *Ensure that the mortgagee has filed the annual verification report and paid the annua renewal fee.

c. Determine the client's compliance in reporting any quarterly loss in excess of 20 percent. *

ADJUSTED NET WORTH

Compliance Requirement

An FHA computation of adjusted net worth is required for all nonsupervised mortgagees and loan correspondents even if there were no loans originated or serviced during the audit period. The required amount, which must be maintained throughout the year, varies by program participant type and approval date according to the guidance in HUD Handbook 4060.1 paragraph 2-5. When the mortgagee/loan correspondent is a parent or a subsidiary to a parent, the adjusted net worth computation must focus on the assets and liabilities of the individual (non consolidated) entity with the HUD audit requirement.