



# FHA's Office of Single Family Housing

2016 Ginnie Mae Summit

## FHA: Streamlining Guidance and Supporting the Borrower

Washington, DC  
September 19, 2016

### Presenters:

:

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# FHA Single Family Priorities

## Expanding Access to Credit

*Implementing responsible ways of providing first-time homebuyers and underserved, credit worthy borrowers access to credit to ensure long-term homeownership success.*

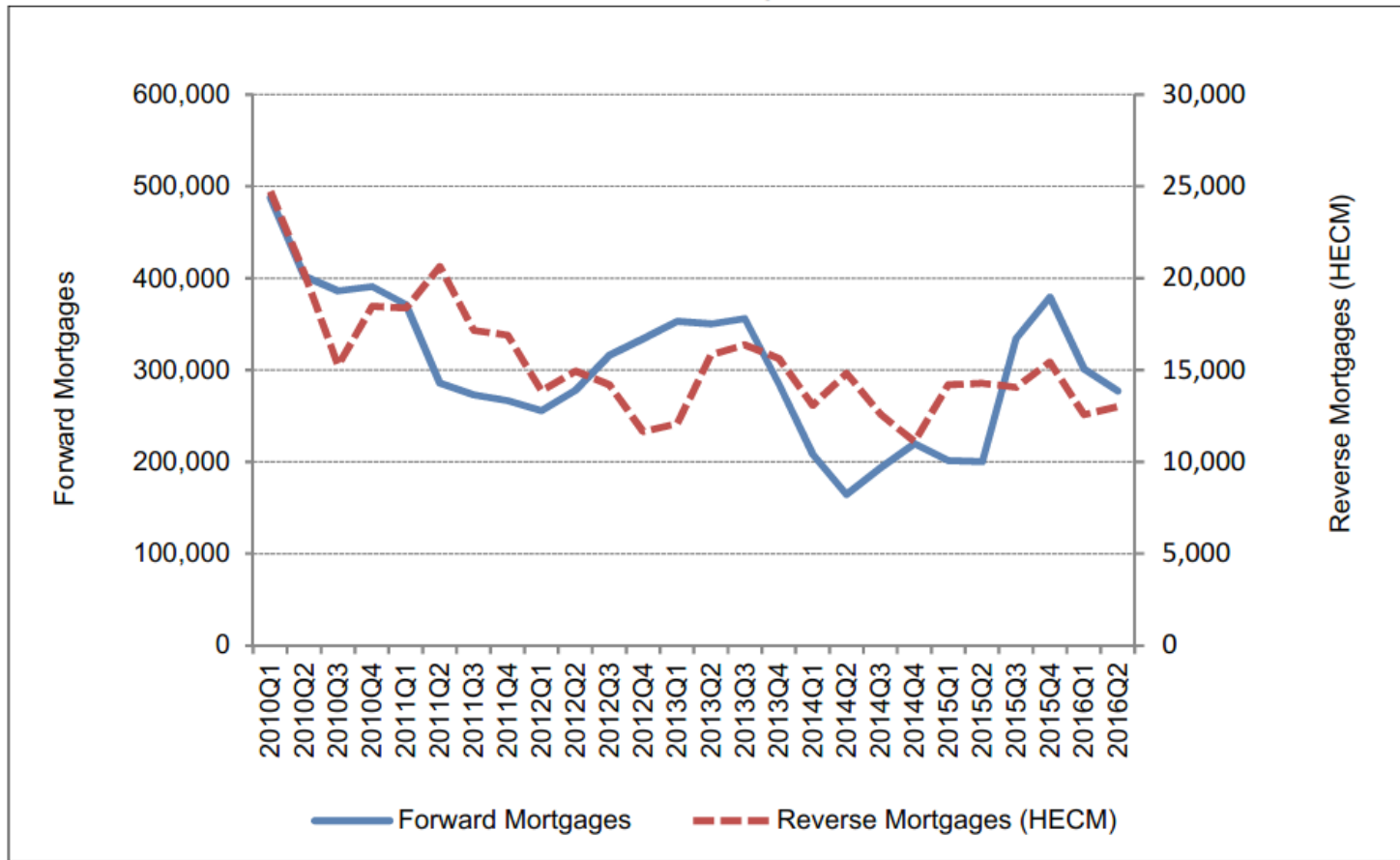
## Ensure Long-term Viability of MMI Fund

*Balancing our mission with sound lending practices to ensure the health of the Mutual Mortgage Insurance Fund.*

## Making it Easier to Do Business

*Working with the industry participants to enhance business processes, communication, and policy clarity.*

# Endorsement Counts by Fiscal Year and Quarter

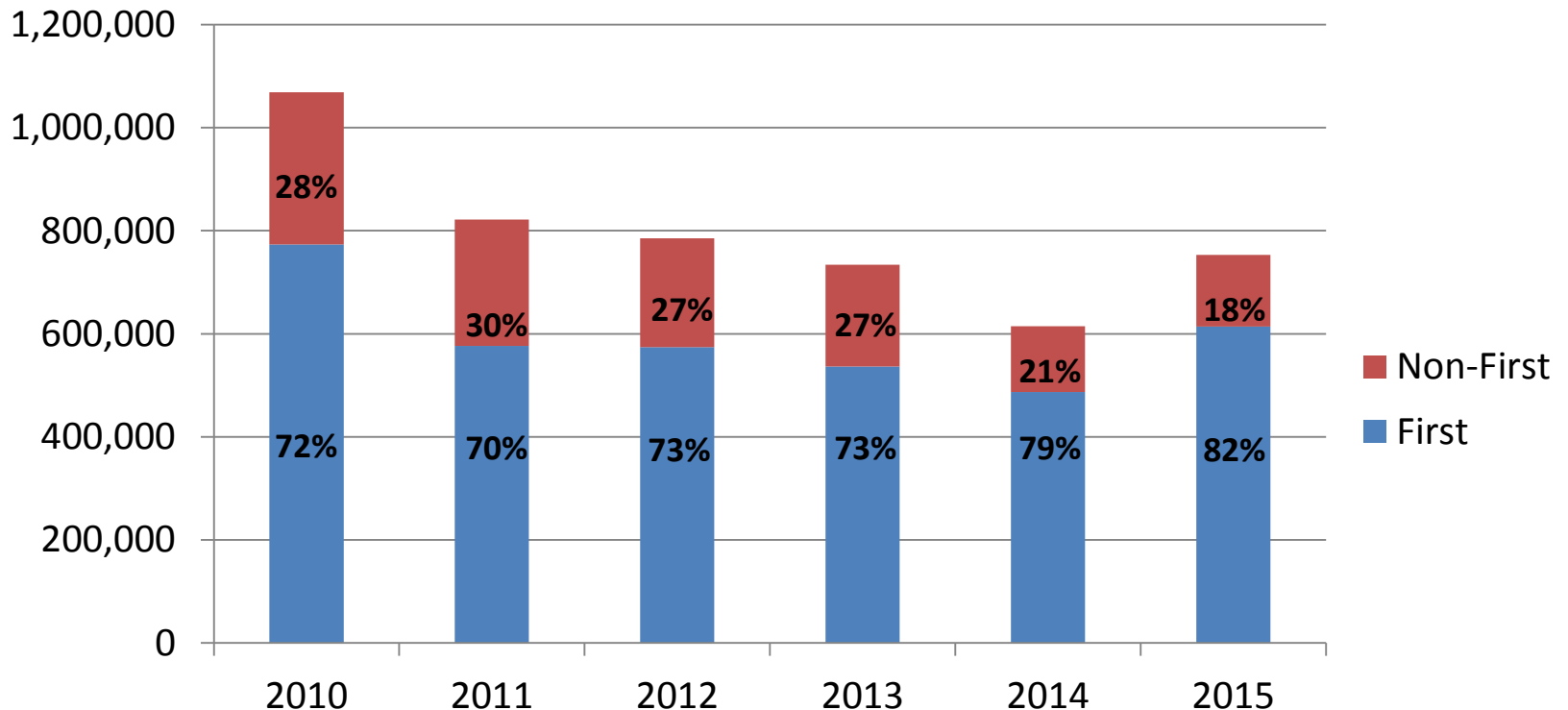


SOURCE: U.S. Department of HUD/FHA, May 2016.



# FHA Purchase Mortgages and Access to Credit

FHA Share of Portfolio: First-Time Homebuyers

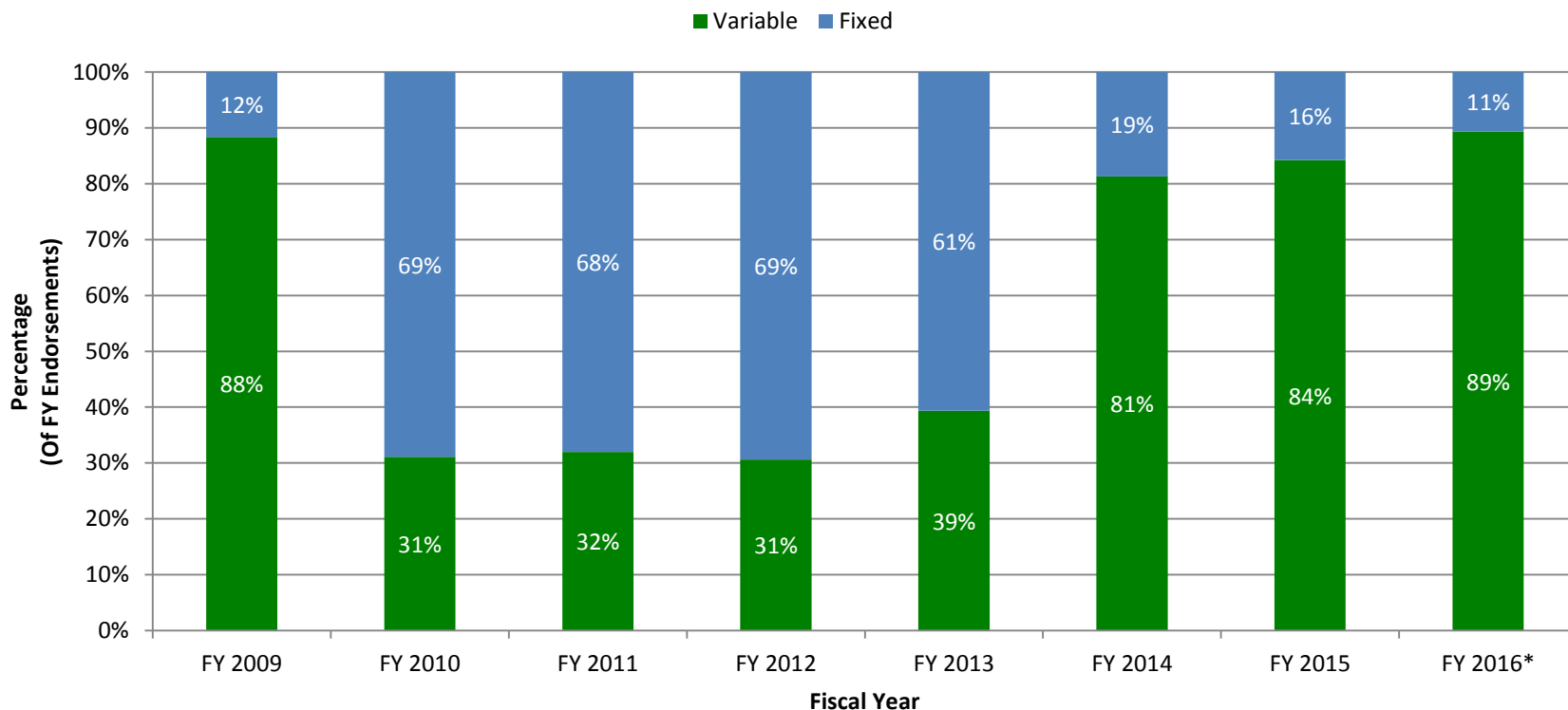


Source: FHA Home Mortgage Insurance Division





# HECM Endorsement Portfolio Snapshot: FY 2009 – FY 2016 YTD HECM Interest Rate Type



• Data as of July 31, 2016





# Single Family Portfolio Improvement

- **~\$14** Billion of additional economic value added to MMIF each year since FY 2012.
- **~\$8** Billion of additional economic value added to HECMs since FY 2014.
- **39%** Drop in seriously delinquent rates.
- **28%** Improvement in recovery rates.
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Source: *Summary of FY 2015 FHA Annual Report to Congress on the Financial Health of the Mutual Mortgage Insurance Fund*, Department of Housing and Urban Development, November 16, 2015





# Technology and Business Transformation Strategies and Goals

- FHA's Business Transformation goals are to:
  - Increase operational efficiencies and replace legacy infrastructure;
  - Enhance processes and tools throughout the organization and for stakeholders;
  - Improve risk management capabilities; and
  - Make it easier to do business with FHA.



# Affordable Features of FHA Loans

- Down payment requirement: Only 3.5 percent.
- Government Downpayment assistance or a gift from family or one's employer can cover 3.5 percent.
- Streamline Refinance opportunity.
- Permit Non-Occupying Co-borrower.
- Competitive interest rate availability.
- Assumable.
- Effective permanent loss mitigation requirements that lenders help borrowers to avoid foreclosure.





# Property Assessed Clean Energy (PACE)

- July 19, 2016, Mortgagee Letter 2016-11 provided policy for using FHA insurance on new Title II forward mortgages with an existing PACE obligation:
  - Must be structured as a special assessment and collected as such
  - Enforceable lien for the full amount of the PACE obligation cannot be recorded ahead of the FHA mortgage
- FHA **does not** insure the PACE obligation; does provide specific policies for FHA insurance on **new** mortgages with a PACE obligation.
- The policy does not affect current FHA-insured mortgages with PACE obligations.



## Increased Affordability Translates into Increased Access to Credit

- FHA is now appropriately priced.
- Premium structure supports the MMIF and facilitates access to credit:
  - 42% increase in borrowers served by FHA in FY 2015.
- Mortgage Insurance Premium rate reduction helped 75,000 new borrowers in FY 2015 with credit scores of 680 or below.
- To date in FY 2016, FHA insured nearly 87,000 more mortgages for borrowers with credit scores below 680 than during a comparable period in FY 2015.



# Regulatory Actions Underway

- Home Equity Conversion Mortgages (HECMs)
- Condominiums



# Expanding Access to Credit

*Single Family Housing Policy Handbook*



# SF Handbook Overview

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

- **Consolidated:** Eventually, all SF Mortgagee Letters, Housing Notices, Handbooks, and other policy documents will be consolidated into a single source.
- **Consistent:** Consistent format and terms throughout the SF Handbook support easier use – a key to FHA's Access to Credit strategy.
- **Comprehensive:** The SF Handbook will cover all Single Family Housing policy.



# Comprehensive Content

- Offers a single, comprehensive source – now an end-to-end source for almost all Title II forward mortgage policy.
- Eliminates a labor-intensive process to find precise policy information in multiple documents.
- Delivers easier access:
  - Online SF Handbook provides advanced search, compare, and other features.



## Single Family Housing Policy Handbook (SF Handbook 4000.1) Development Progress

### Key

As of April 20, 2016

	Published	Posted	Being Developed	
Doing Business with FHA	<b>Title I Lenders and Title II Mortgagees</b> Types of Programs and Mortgagees    Application and Eligibility Supplemental Authorities                Post Approval Operations/Changes Annual Recertification                    Voluntary Withdrawal		<b>Other Participants</b> Appraisers                RE Brokers 203(k) Consultants      Closing Agents DE Underwriters           Inspectors Nonprofits	
	<b>Title II Forward Mortgages</b> Origination/Processing                    203(k) Appraiser                                      203(k) Consultant Underwriting                                   HUD REO Closing Post-Closing Endorsement Product Sheets		<b>HECM</b> Origination/Processing Underwriting Closing Post-Closing Endorsement	<b>Title I Manufactured Home Loans</b> Origination/ Processing Underwriting Closing Post-Closing Endorsement Chattel Appraisal Land Appraisal Product Sheets
Origination through Post-Closing/Endorsement	Condo Project Approval		Appraiser and Property Requirements for Title II Forward and Reverse Mortgages	
Servicing	<b>Title II Forward Mortgages</b> Servicing of FHA-Insured Mortgages Default Servicing Loss Mitigation Performance Programs & Products		<b>Servicing – HECM</b> Performing Loan Servicing Loss Mitigation	
	<b>Servicing and Loss Mitigation – Title I Loans</b> Performing Loan Servicing Loss Mitigation			
Claims & Disposition	<b>Claims – Title II Forward Mortgages</b> Submission                Supplemental Claims Claims                        Reconveyance                Post-Claims Review		<b>Claims – HECM</b>	
	<b>Disposition – Title II Forward Mortgages</b> Management and Marketing Program    REO Property Sales		<b>Disposition – HECM</b>	
Quality Control, Oversight & Compliance	<b>Quality Control – Institution and Loan level</b> Program Office Sanctions Sanctions Against Individuals		<b>Quality Control – HECM</b> Mortgagee Monitoring Mortgagee Review Board Referrals for Non-Compliance	
	<b>Quality Control – Title I Loans</b> Appraisers                RE Brokers 203(k) Consultants      Closing Agents DE Underwriters           Inspectors Nonprofits		<b>Other Participants</b> Quality Control Monitoring                Nonprofits Actions and Sanctions	





## Servicing and Loss Mitigation Section

- Section III: Servicing and Loss Mitigation published on June 26, 2015 and became effective on March 14, 2016.
- Consolidates existing servicing guidance in FHA Handbook 4330.1 and over 220 Mortgagee Letters and other policy documents.
- Includes the layout and major policy changes for:
  - Servicing of FHA-Insured Mortgages;
  - Default Servicing;
  - Programs and Products, and
  - Servicer Tier Ranking System II.





# Claims and Disposition Section

- Claims and Disposition section for Title II forward mortgages published on March 14, 2016 and becomes effective on September 30, 2016.
- Logical structure that follows the traditional claim submission and property disposition process.
- Two subsections:
  - Title II Claims: how to calculate claims and what documentation is needed; and
  - Title II Disposition: guidance on how properties are marketed and sold.



# Expanding Access to Credit

## *Quality Assurance Framework*



# Quality Assurance Framework

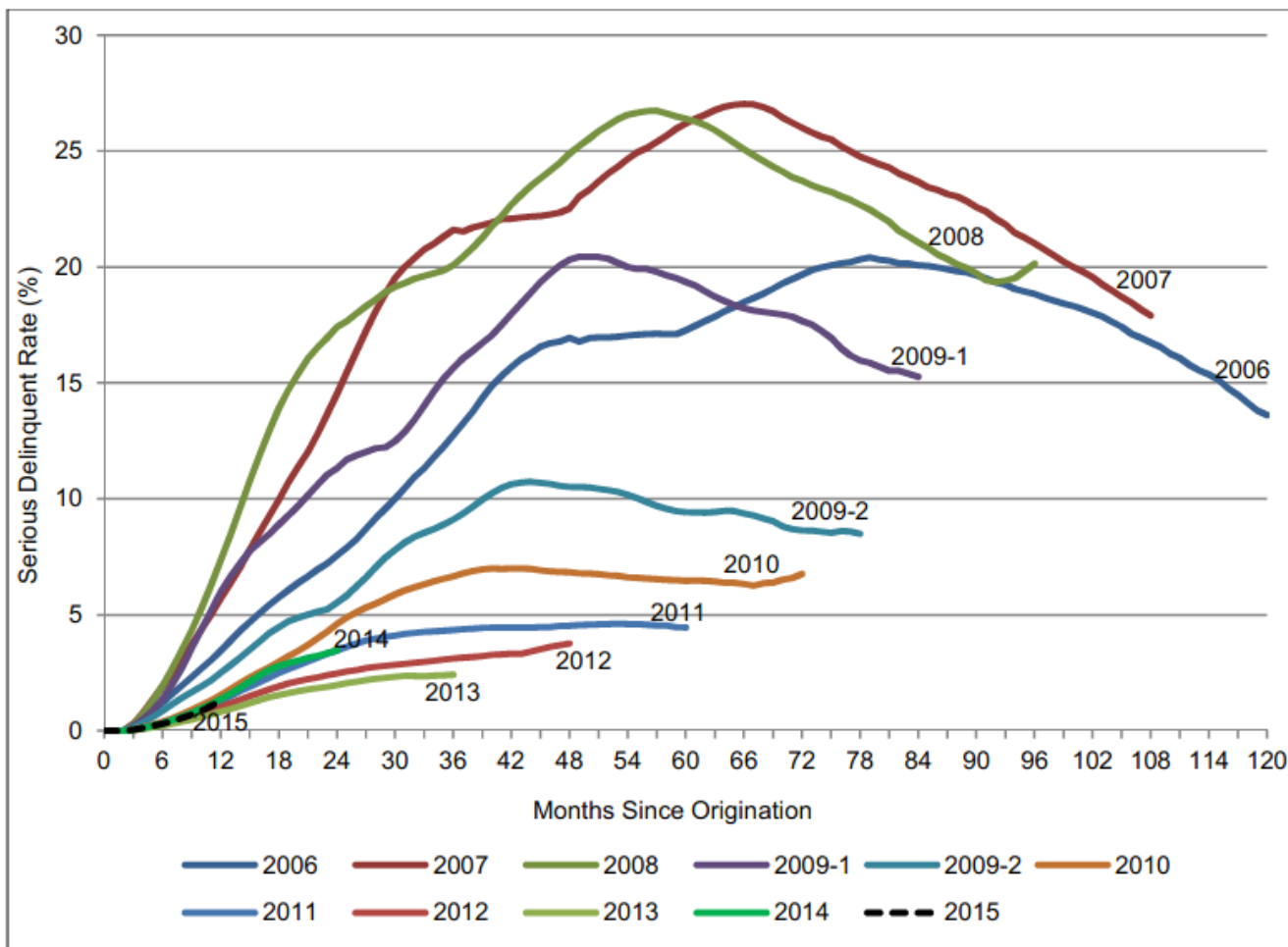
## **FHA wants to:**

- Provide clear rules of the road.
- Encourage responsible behavior.

## **So lenders can:**

- Originate loans with confidence.
- Focus on the quality of their processes and lend to all qualified borrowers.

# Measuring and Monitoring Loan Quality



Notes: The FY 2009 cohort is separated into two parts, representing loan originations from October through March in 2009-1 and loan originations from April through September in 2009-2. A loan that is in foreclosure processing or has gone to claim is deemed to be a “failure” for this illustration. The failure rate is the sum of Cumulative Claim Rate and Cumulative Active Foreclosure Rate.

SOURCE: U.S. Department of HUD/FHA, May 2016



# Loan Quality Assessment Methodology (Defect Taxonomy)

This Taxonomy represents an evolution in FHA's approach to Quality Assurance.

## 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,<sup>1</sup> 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.

<sup>1</sup> The terms "Unacceptable" and "Deficient" refer solely to the code names used by FHA in its previous QA systems and practice and should not be extrapolated to any other context or for any other purpose. Because these terms could be open to a variety of interpretations and do not provide the level of specificity desired by FHA, they are being replaced under the Taxonomy with Tier labels.





# Lender Performance Management

Supplemental Performance Metric compares lender performance to an FHA risk mix and default rate.

Distribution and SDQ Rates					Weighted SDQ and Scores		
	<640	640-680	>680	SDQ Rate	Mix-Adjusted SDQ Rate	Supplemental Metric Ratio	Compare Ratio
<b>Lender</b>					<b>1.5%</b>	<b>117%</b>	<b>149%</b>
Mix	30%	30%	40%	1.8%			
SDQ	2.4%	2.3%	0.9%				
<b>Benchmark Portfolio</b>					<b>1.6%</b>		
Mix	25%	50%	25%	1.6%			
SDQ	3.0%	1.5%	0.4%				
<b>FHA Portfolio</b>					<b>1.2%</b>	<b>100%</b>	
Mix	12%	42%	46%	1.2%			
SDQ	2.0%	1.7%	0.5%				



# Expanding Access to Credit

*Other Recent Policy Actions*



# Condominium Project Approval Temporary Provisions

- August 24, 2016, Mortgagee Letter 2016-13 extended temporary condominium project approval policy provisions, without changes, **until August 31, 2017.**
- Supports the continuation of FHA's ability to insure mortgages in condominium projects and avoid market disruption.
- Rulemaking work in progress – necessary to propose policy revisions and address items in the *Housing Opportunity Through Modernization Act of 2016.*





## Loan-Level and Lender-Level Certifications

- Final Form 92900-A, *HUD/VA Addendum to Uniform Residential Loan Application* (Loan-Level Certification):
  - Published via Mortgagee Letter on March 15, 2016.
  - Effective for use with case numbers assigned on or after August 1, 2016.
- Lender Initial and Annual Certifications (Lender-Level Certifications):
  - Finals were implemented in LEAP; mortgagees required to certify to the revised statements at next annual certification on or after August 1, 2016



# Student Loans

- Reduced by 50% the percentage used to calculate the monthly obligation (2% to 1%); or actual provided payment amortizes loans.
- Same calculation applied for all student loan scenarios.
- Separates out student loans from other deferred obligations.



## Ensure Long-term Viability of MMIF

*Balancing our mission with sound lending practices  
to ensure the health of the Mutual Mortgage  
Insurance Fund.*



# Mutual Mortgage Insurance Fund: Marked Improvement

- The Mutual Mortgage Insurance Fund has reached 2.07%, up from 0.41% in FY 2014, and has an Economic Net Worth of \$23.8 billion, up \$19 billion from FY 2014.
- Improvement in the Fund is attributable to FHA actions, including improved risk management and loss mitigation, that have strengthened portfolio performance.
- The MIP reduction has played an important role in the housing recovery and allowed FHA to serve 75,000 new borrowers this year with credit scores below 680.



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# FHA Single Family Business Transformation Overview

Origination through Endorsement



TOTAL / MISMO	<i>SF Housing Policy Handbook</i> (HUD Handbook 4000.1)	Electronic Appraisal Delivery	eCase Binder
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## Electronic Appraisal Delivery (EAD) Portal

- Web-based platform to electronically upload, submit, and/or view appraisal data.
- Located at **ElectronicAppraisalDelivery.com**.
- Access the portal to electronically upload, submit and/or view appraisal data.
- Automatic update of the FHA Connection Appraisal Logging screen.
- Now required to submit all appraisals, on all new originations, for case numbers on or after June 27, 2016.



# Planned Effort - eCase Binder

## Current State

- Only LI Lenders are able to submit eCase Binders when a binder is requested; some still submit paper.
- Costly to receive, handle, and store.
- Current capability/functionality of eCase Binder provides limited ability to navigate and search the files efficiently.

## Future State

- Enhance submission process - upload files vs. interface.
- Enhance functionality for improved ease of use:
  - Indexing
  - Navigation
- Ability to append/update binders.
- Link appraisal documents (EAD/binder).
- Submission history.

## Implementation Strategy

- Phased implementation for both LI and non-LI Lenders.

**Long-term strategy is to eliminate the use of paper binders for all lenders.**







# Thank You

