

Summary of HUD's Post-Closing QC Requirements

The purpose of this communication is to outline the post-closing quality control requirements as identified in HUD Handbook 4000.1 with regards to independence, timeliness, reporting (both internally and to HUD), and sample size and selection. The HUD Handbook can be assessed from the following link for the complete QC guidance and requirements:

<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>

Quality Control for Single Family Origination and Servicing

Independence-The QC function must be independent of the origination and servicing functions. QC functions may be performed by either in-house staff or outside source (as long as a written agreement exists).

Timeliness- Mortgagees must select Mortgages for post-closing reviews on a monthly basis. The selection must be comprised of loans closed in the prior one-month period. Mortgages selected must be reviewed within 60 Days from the end of the prior one-month period.

Sample Size and Loan Selection (Each review must document how the sample size and selections were determined):

- (a) 3,500 or fewer FHA-Insured mortgages per year
 - Mortgagees that originate/underwrite or service 3,500 or fewer FHA-insured Mortgages per year must review a minimum of 10 percent of the FHA-insured Mortgages the Mortgagee originates/underwrites or services. More than 3,500 FHA-Insured Mortgages per year
- (b) More Than 3,500 FHA-Insured Mortgages per Year
 - Mortgagees that originate/underwrite or service more than 3,500 FHA Mortgages per year must review either 10 percent of the FHA-insured Mortgages the Mortgagee originates/underwrites or services, or a stratified random sample that provides a 95 percent confidence level with a 2 percent statistically valid confidence interval.

Note: Although a mortgagee may consider the loans reviewed by a subservicer on their portfolio as part of their QC, the mortgagee remains responsible for ensuring the sample size requirements are met on their portfolio alone. Typically, the sample selection of a subservicer is based on the entire FHA portfolio they service and therefore may not be representative of a mortgagee's portfolio when considered separately.

Early Payment Defaults (defined as loans that become 60 days past due) - Mortgagees must select Early Payment Defaults (EPD) for review on a monthly basis. EPDs selected must be reviewed within 60 Days from the end of the month in which the loan was selected.

Reporting and Corrective Action- Initial review Findings must be reported to the Mortgagee's senior management within 30 Days of completion of the initial Findings report. The Mortgagee's final report must be issued within 60 Days from the date the initial review Findings were reported to senior management. Mortgagee senior management must review and respond to each instance of fraud, material misrepresentation, or other Material Finding. The Mortgagee's final report must identify the corrective and curative actions being taken, the timetable for completion, and any planned follow-up activities.

Notification to HUD- The Mortgagee must report to FHA any Material Findings concerning the origination, underwriting, or servicing of a Mortgage that the Mortgagee is unable to mitigate. Findings that do not involve fraud or material misrepresentation and were already Mitigated by the Mortgagee do not have to be reported to FHA. The Mortgagee must report any Findings of fraud or material misrepresentation to FHA immediately. The Mortgagee must report all other Material Findings that the Mortgagee is unable to mitigate to FHA no later than 90 Days after the completion of the initial Findings report. For all Findings that must be reported, the Mortgagee must identify what actions have been taken to attempt to mitigate each Finding, and report any planned or pending follow-up activities. The Mortgagee must use the Lender Reporting feature in Neighborhood Watch to report Findings to FHA.

Servicing Reviews- Mortgagees must select Mortgages for servicing reviews on a monthly basis. Mortgages selected for servicing reviews must be reviewed within 60 Days from the end of the month in which the loan was selected.