



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

SINGLE FAMILY HOUSING



# Welcome to...

## FHA Loan Review System Basics

Today's webinar begins  
at 2:00 PM (Eastern)

**We will be underway shortly**

Please test your speakers and choose Audio source (computer/smartphone or telephone) by selecting desired option in **Audio Settings** – see left side of toolbar at bottom of screen.



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# Technical Support

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- Recommend Chrome browser.
- Technical issues? Review *Technology FAQs* by clicking **Chat** icon at bottom of screen or **Landing Page**.
- Need additional tech support? Click *Contact Tech Support* icon on **Chat** link or **Landing Page**.



# Q&A Session

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- There will be a Q&A session following the presentation.
- Follow instructions in *Q&A Instructions* link found in the **Chat** icon/**Landing Page** and **Q&A Instructions** slide at end of the presentation.
- Test Audio, if asking a question.
- Select one of the two Audio options:
  - Computer/Smartphone
  - Standard Telephone Line
- Send unanswered questions to FHA Resource Center.



# Contact FHA Resource Center

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- Online at: [www.hud.gov/answers](http://www.hud.gov/answers).
- Via email at: [answers@hud.gov](mailto:answers@hud.gov).
- Via phone at: 1-800-Call-FHA (1-800-225-5342)

Persons with hearing or speech impairments call the Federal Relay Service at 1-800-877-8339.



# Documents/Materials & Training Evaluation

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## Documents/Materials:

- Click **Chat** icon or **Landing Page** – select *Webinar Documents/Materials* link for copy of presentation.

## Training Evaluation:

- Click on **Chat** icon or **Landing Page** – select *Survey* link.



# Helpful Links

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Click **Chat** icon or **Landing Page** – select links to bookmark:

- FHA Lenders page:  
[https://www.hud.gov/program\\_offices/housing/sfh/lender](https://www.hud.gov/program_offices/housing/sfh/lender)
- FHA FAQ page:  
<https://answers.hud.gov/FHA/s/>
- Single Family Housing Archived Webinars (On Demand) page:  
[https://www.hud.gov/program\\_offices/housing/sfh/events/sfh\\_webinars](https://www.hud.gov/program_offices/housing/sfh/events/sfh_webinars)





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## Office of Lender Activities and Program Compliance **FHA Loan Review System Basics**

August 23, 2023

Last Updated: 8/14/2023

**Presented by the Quality Assurance Division:**  
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**Derek Taylor**, Management & Program Analyst  
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# Agenda

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Overview

Defect Taxonomy

Using the Loan Review System

Resources

Q&A

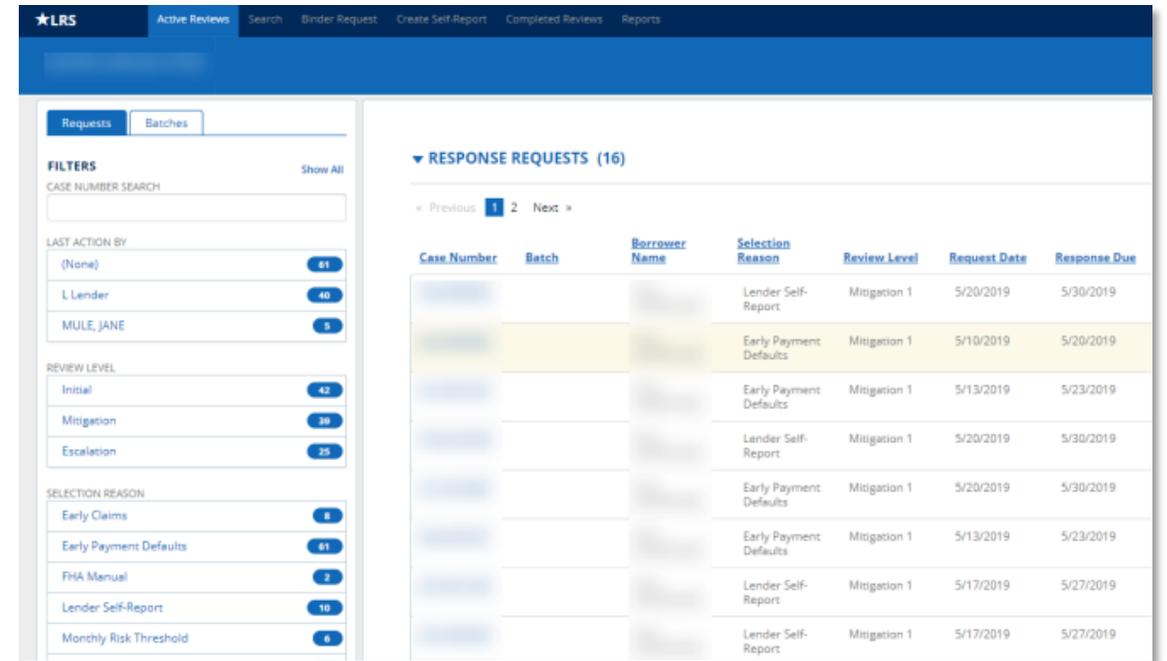


# Overview



# Overview

- The Loan Review System (LRS) is the electronic platform for most Federal Housing Administration (FHA) Title II Single Family quality assurance review processes:
  - Various post-endorsement loan reviews
  - Lender monitoring reviews
  - Test cases for lenders seeking Unconditional Direct Endorsement (DE) authority
  - Lender self-reporting of fraud/misrepresentation and other material findings
- Does not impact the standard origination process
- Implemented FHA's Defect Taxonomy



The screenshot displays the LRS interface. On the left, there are filter sections for 'LAST ACTION BY' (None: 61, L Lender: 40, MULE, JANE: 5), 'REVIEW LEVEL' (Initial: 42, Mitigation: 39, Escalation: 25), and 'SELECTION REASON' (Early Claims: 8, Early Payment Defaults: 61, FHA Manual: 2, Lender Self-Report: 10, Monthly Risk Threshold: 6). The main area shows 'RESPONSE REQUESTS (16)' with a table of data.

Case Number	Batch	Borrower Name	Selection Reason	Review Level	Request Date	Response Due
			Lender Self-Report	Mitigation 1	5/20/2019	5/30/2019
			Early Payment Defaults	Mitigation 1	5/10/2019	5/20/2019
			Early Payment Defaults	Mitigation 1	5/13/2019	5/23/2019
			Lender Self-Report	Mitigation 1	5/20/2019	5/30/2019
			Early Payment Defaults	Mitigation 1	5/20/2019	5/30/2019
			Early Payment Defaults	Mitigation 1	5/13/2019	5/23/2019
			Lender Self-Report	Mitigation 1	5/17/2019	5/27/2019
			Lender Self-Report	Mitigation 1	5/17/2019	5/27/2019

# Defect Taxonomy



# Defect Taxonomy

- Handbook 4000.1 Appendix 8.0
- The method FHA uses to identify defects at the loan level
- Provides useful feedback through structured categorization of defects
- Balances FHA's risk management and quality assurance business processes

Appendix 8.0 – FHA Defect Taxonomy (09/22/2020)

## APPENDIX 8.0 - FHA DEFECT TAXONOMY (09/22/2020)

Effective for Loan Reviews as of 01/01/20

### I. PURPOSE

The Defect Taxonomy is FHA's method of identifying defects **at the loan level**.

#### A) The Defect Taxonomy provides:

- useful data and feedback through structured categorization of defects and their sources, causes and severities.
- balance between FHA's risk management and quality assurance business processes.

#### B) The Defect Taxonomy **does not**:

- Establish a universal statement on all monitoring or enforcement efforts by FHA.
- Address FHA's response to patterns of loan-level defects, regardless of severity.
- Limit FHA's actions with regard to fraud or misrepresentation.
- Establish standards for administrative or civil enforcement action, which are currently set forth in law.
- Preclude FHA from referring any violation of any severity to HUD's Mortgagee Review Board, Departmental Enforcement Center, Office of Fair Housing and Equal Opportunity, or other HUD offices for findings that, in FHA's judgment, warrant such referral.
- Affect or override FHA's normal process for referral of fraud, waste, or abuse to the Office of the Inspector General.

### II. CORE CONCEPTS

#### A) Defect Areas

Underwriting loan reviews are categorized into nine defect areas that represent fundamental characteristics of a loan's eligibility for FHA insurance. Defect areas are organized following a consistent pattern of sources, causes, severity tier descriptions and potential remedies.

- Applicable HUD policies are provided for reference; they are subject to change and may not be all-inclusive.

#### B) Sources and Causes

Sources and causes describe Findings in greater detail based on HUD policy requirements. An individual Finding is identified in the Loan Review System (LRS) by its specific defect area, source, and cause.

#### C) Severity Tiers

There are four potential severity tiers, one of which is assigned to each Finding based on the size and nature of the deviation from FHA requirements. Severity tiers indicate whether a lender response is required in LRS.

- **Tier 1 and 2** Findings are unacceptable, requiring a lender response.
  - Lenders may rebut any unacceptable Finding by responding in LRS with supporting documentation.
- **Tier 3 and 4** Findings are deficient and do not impact a loan's eligibility for FHA insurance.
  - These Findings do not require a lender response, but optional responses can be submitted in LRS.

Handbook 4000.1  
Last Revised: 11/09/2021

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# Defect Taxonomy (cont.)

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- *The Defect Taxonomy does not:*
  - Establish a universal statement on all monitoring or enforcement efforts by FHA
  - Address FHA’s response to patterns of loan-level defects
  - Limit FHA’s actions with regard to fraud or misrepresentation
  - Establish standards for administrative or civil enforcement action
  - Preclude FHA from referring any violation of any severity to other Housing and Urban Development (HUD) offices
  - Affect or override FHA’s normal process for referring cases to the Office of Inspector General



# Defect Taxonomy (cont.)

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- Underwriting loan reviews are categorized into nine defect areas that represent fundamental characteristics of a loan's eligibility for FHA insurance:
  1. Borrower Income
  2. Borrower Credit
  3. Loan to Value and Maximum Mortgage Amount
  4. Borrower Assets
  5. Property Eligibility
  6. Property Appraisal
  7. Borrower Eligibility
  8. Mortgage Eligibility
  9. Lender Operations
- Defect areas are organized following a consistent pattern of sources, causes, severity tier descriptions and potential remedies.

# Defect Taxonomy (cont.)

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- Sources and Causes describe findings in greater detail based on HUD policy
  - An individual finding is identified in LRS by a specific Defect Area, Source, and Cause
- One of four potential severity tiers is assigned to each Finding based on the size and nature of the deviation from FHA requirements
- Severity tiers indicate whether a lender response is required in LRS
- Tier 1 and 2 Findings are unacceptable, requiring a lender response
  - Potential remedies include mitigating documentation, financial remediation or indemnification
  - Lenders may also rebut any unacceptable Finding
- Tier 3 and 4 Findings are deficient and do not impact a loan's eligibility for FHA insurance
  - These Findings do not require a lender response, but optional responses can be submitted in LRS



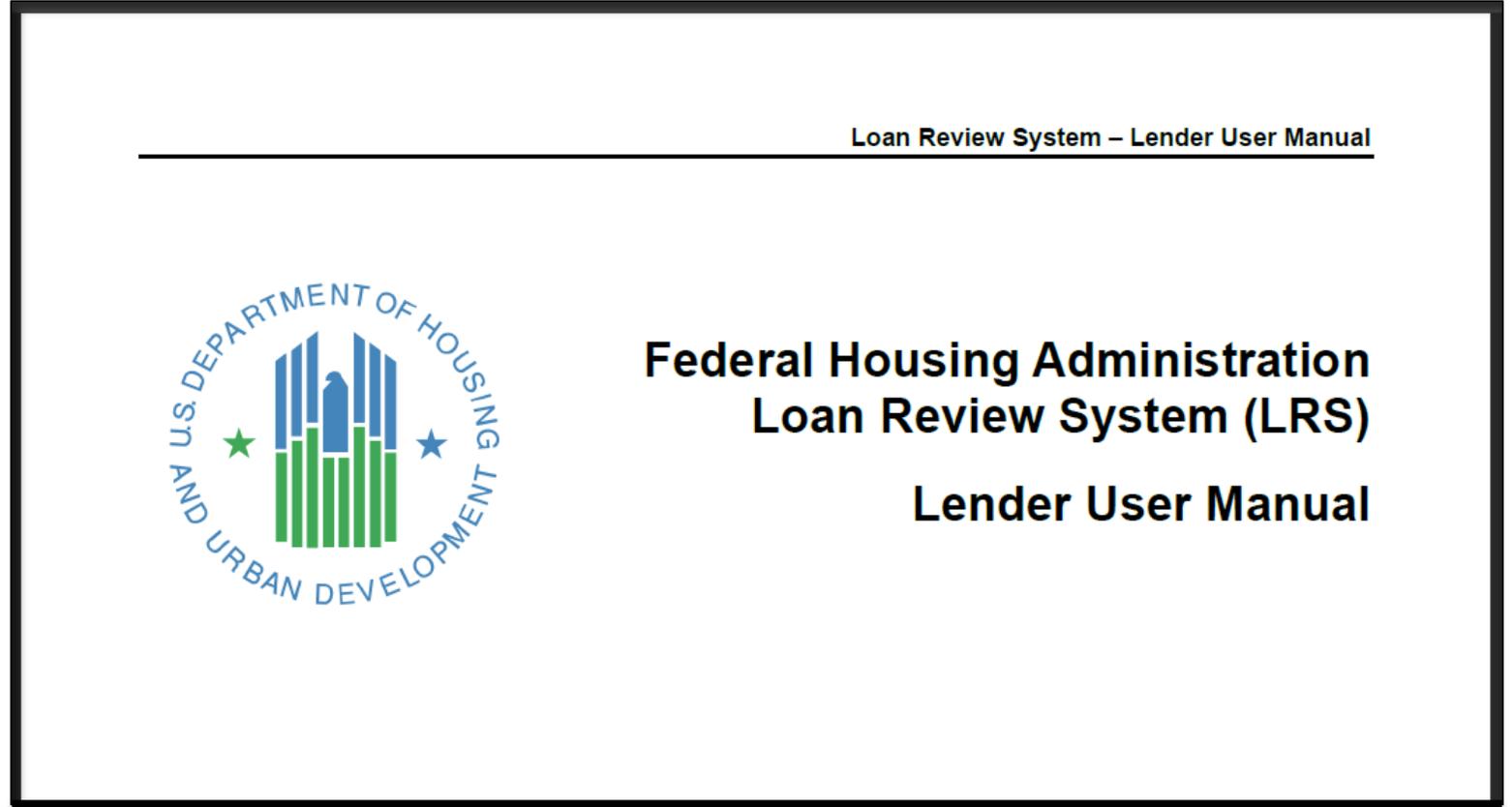
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# Using the Loan Review System



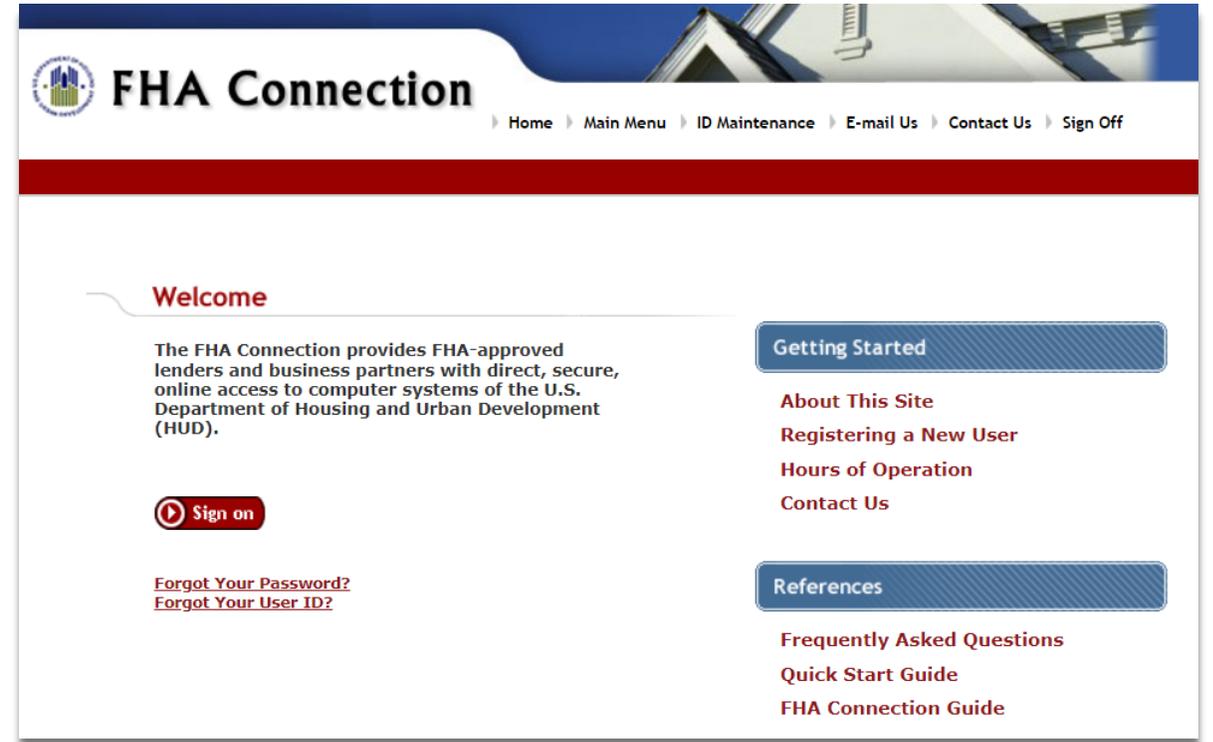
# User Manual

- Available online:  
<https://www.hud.gov/sites/dfiles/SFH/documents/LRSUserManual.pdf>
- Troubleshooting access errors
- Step-by-step instructions
- Helpful hints



# Access

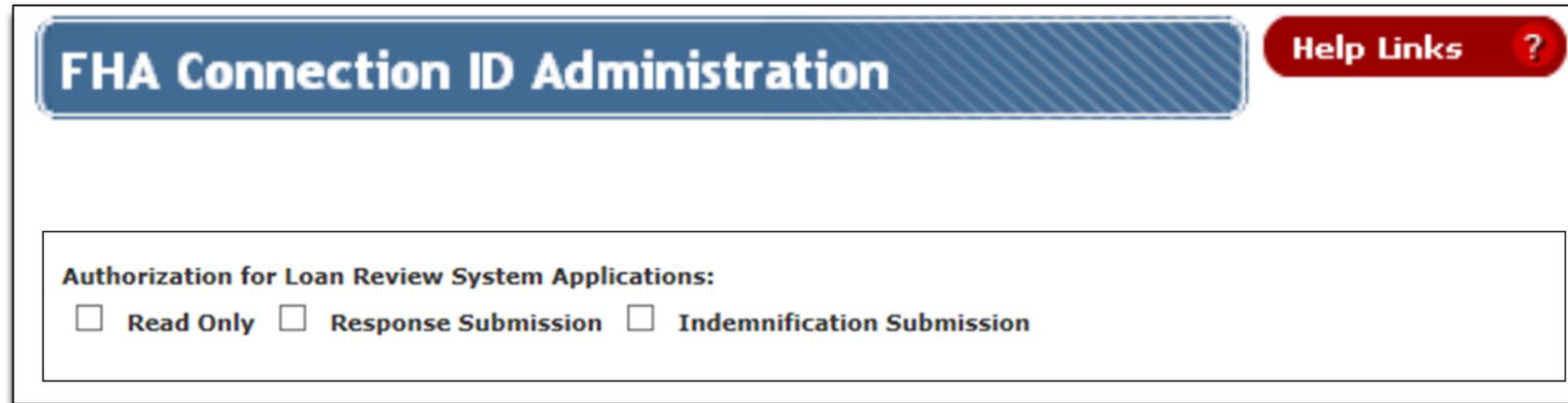
- FHA Connection (FHAC) single sign-on at: <https://entp.hud.gov/clas/index.cfm>
- Lender's Application Coordinator grants access
  - User Registration process for new users
  - User Administration process for existing users



The screenshot shows the homepage of the FHA Connection website. At the top, there is a navigation bar with the FHA Connection logo and a menu: Home, Main Menu, ID Maintenance, E-mail Us, Contact Us, and Sign Off. Below the navigation bar, the main content area features a "Welcome" section with a brief description of the service. A prominent "Sign on" button is visible. To the right, there are two blue buttons: "Getting Started" and "References". Under "Getting Started", there are links for "About This Site", "Registering a New User", "Hours of Operation", and "Contact Us". Under "References", there are links for "Frequently Asked Questions", "Quick Start Guide", and "FHA Connection Guide".

# Access (cont.)

- Three possible user roles for lenders
  - Read Only
  - Response Submission
  - Indemnification Submission



The screenshot displays a web interface for "FHA Connection ID Administration". At the top left, the title "FHA Connection ID Administration" is shown in a blue box with diagonal stripes. To the right of the title is a red button labeled "Help Links" with a question mark icon. Below the title bar is a white box containing the text "Authorization for Loan Review System Applications:" followed by three unchecked checkboxes: "Read Only", "Response Submission", and "Indemnification Submission".

# Access (cont.)

**FHA Connection**

Home Main Menu ID Maintenance E-mail Us Contact Us Sign Off

▶ Single Family FHA	Provides access to the online business areas used to originate, process, insure and service FHA loans.	▶ MORE
▶ Multifamily FHA	Provides access to CNA e-Tool, MDDR, PASS, and the Web-based eLOCCS system.	▶ MORE
▶ Lender Functions	Provides access to lender-related functions.	▶ MORE

### FHA Connection Resources

**HUDCLIPS:** The HUD Client Information and Policy System (HUDCLIPS) offers HUD clients free access to HUD's official repository of policies, procedures, announcements, and other materials using full-text online searches.

# Access (cont.)



The screenshot shows the 'FHA Connection' website. At the top left is the FHA logo. To its right is the text 'FHA Connection'. Further right is a navigation menu with links: Home, Main Menu, ID Maintenance, E-mail Us, Contact Us, and Sign Off. Below this is a red horizontal bar with the text 'Single Family FHA'. Underneath, there are two blue buttons: 'Single Family FHA Business Areas' and 'Message Boards Updated as of:'. Below these buttons is a list of business areas with corresponding update dates:

Single Family Origination	Thursday, July 06, 2023
Single Family Servicing	Tuesday, February 28, 2023
Property Improvement/Manufactured Housing	Friday, December 02, 2022
Loan Review System	Monday, April 03, 2023
Neighborhood Watch	Friday, May 13, 2022
Physical Assessment	
Mortgagee Letters	

A red arrow points to the 'Loan Review System' link.

# Access (cont.)

- LRS Active Reviews Screen

The screenshot displays the LRS Active Reviews interface. At the top, there is a navigation bar with the LRS logo and tabs for 'Active Reviews', 'Search', 'Binder Request', 'Create Self-Report', 'Completed Reviews', and 'Reports'. Below the navigation bar, there are two tabs: 'Requests' (selected) and 'Batches'. On the left side, there is a 'FILTERS' section with a 'Show All' link. The filters include: 'CASE NUMBER SEARCH' (a text input field), 'LAST ACTION BY' (options: '(None)' with 61, 'L Lender' with 40, and 'MULE, JANE' with 5), 'REVIEW LEVEL' (options: 'Initial' with 42, 'Mitigation' with 39, and 'Escalation' with 25), and 'SELECTION REASON' (partially visible). The main content area is titled 'RESPONSE REQUESTS (16)' and includes a pagination control showing '1' selected. Below this is a table with the following columns: Case Number, Batch, Borrower Name, Selection Reason, Review Level, Request Date, Response Due, and Last Action By. The table contains five rows of data, with the second row highlighted in yellow.

Case Number	Batch	Borrower Name	Selection Reason	Review Level	Request Date	Response Due	Last Action By
[blurred]	[blurred]	[blurred]	Lender Self-Report	Mitigation 1	5/20/2019	5/30/2019	[blurred]
[blurred]	[blurred]	[blurred]	Early Payment Defaults	Mitigation 1	5/10/2019	5/20/2019	[blurred]
[blurred]	[blurred]	[blurred]	Early Payment Defaults	Mitigation 1	5/13/2019	5/23/2019	[blurred]
[blurred]	[blurred]	[blurred]	Lender Self-Report	Mitigation 1	5/20/2019	5/30/2019	[blurred]
[blurred]	[blurred]	[blurred]	Early Payment Defaults	Mitigation 1	5/20/2019	5/30/2019	[blurred]

# Binder Request and Delivery

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- Lenders with Lender Insurance authority (LI)
  - LI Contact receives FHAC email notification
  - FHAC Binder Selection screen displays all outstanding binder requests
  - LRS Binder Request function shows subset of cases requested for LRS review
- Lenders without Lender Insurance authority (Non-LI)
  - No action necessary – FHA already has endorsement binder submitted in FHA Catalyst
  - LRS selection indicator displayed on Insurance Application screen in FHAC
  - LRS shows each case on the Active Reviews screen when the review starts

# Binder Request and Delivery (cont.)

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- FHA Catalyst: Case Binder Module
  - Non-LI lenders and LI lenders designated for “paper” binder submission must use FHA Catalyst
  - Includes Conditional Direct Endorsement (DE) Test Case submission for review in LRS
  - LI lenders approved for electronic Case Binder submission must continue to submit through FHAC
- Servicing Reviews
  - Required documents and delivery method may vary depending on selection reason
  - All servicing file requests displayed on LRS Binder Requests screen
  - FHA communicates additional details as needed

# Review Levels

Review Level	Under Review by FHA	Response Request
Initial	FHA's initial review	Lender's first opportunity to resolve
Mitigation 1	Review of lender's initial response	Lender's second opportunity to resolve
Mitigation 2	Review of lender's Mitigation 1 response	N/A
Escalation 1	Confirmation of Mitigation 2 decision	Lender's third opportunity to resolve
Escalation 2	Review of lender's Escalation 1 response	N/A
HQ Escalation 1	Confirmation of Escalation 2 decision	Lender's fourth (final) opportunity to resolve
HQ Escalation 2	Review of lender's HQ Escalation 1 response	N/A

# Response Timeframes

Review Level	Standard	Lender Monitoring	Test Case	Review Location QC
Initial	15	30	7	-
Mitigation 1	10	10	5	15
Escalation 1	10	10	5	15
HQ Escalation 1	10	10	5	10



# Responding to Findings

- Select a case number from the Response Request section of the Active Reviews screen
  - Findings Overview screen opens with the Review Data tab selected on the left sidebar

Defect Area	Rating	Findings	SEVERITY TIER			
			1	2	3	4
Borrower Credit/Liabilities (BC)	UNACCEPTABLE	1	0	1	0	0
TOTALS:		1	0	1	0	0

Rating: **UNACCEPTABLE**

[Address Findings](#)

[Complete Wrap-Up](#)

# Responding to Findings (cont.)

- Click the Findings tab or the Address Findings button to begin responding

**Review Data** | **Findings**

▼ BI Finding (2) Unacceptable

- BI.7.G ✓
- BI.3.C

▼ BC Finding (1) Unacceptable

- BC.4.G ✓

▼ BA Finding (1) Deficient

- BA.2.G

▼ PE Finding (4) Unacceptable

- PE.11.G ✓
- PE.3.F
- PE.4.F
- PE.6.B

▼ BE Finding (1) Unacceptable

### FINDINGS OVERVIEW

Defect Area	Rating	Findings	SEVERITY TIER			
			1	2	3	4
Borrower Income (BI)	UNACCEPTABLE	2	0	1	1	0
Borrower Credit/Liabilities (BC)	UNACCEPTABLE	1	0	1	0	0
Borrower Assets (BA)	DEFICIENT	1	0	0	1	0
Property Eligibility (PE)	UNACCEPTABLE	4	0	2	1	1
Borrower Eligibility/Qualification (BE)	UNACCEPTABLE	1	1	0	0	0
Lender Operations (LO)	DEFICIENT	1	0	0	1	0
<b>TOTALS:</b>		<b>10</b>	<b>1</b>	<b>4</b>	<b>4</b>	<b>1</b>

Rating: **UNACCEPTABLE**

[Address Findings](#)

[Complete Wrap-Up](#)

# Responding to Findings (cont.)

- Enter a response in the text box or click the Choose File button to upload a response document

The screenshot displays the LRS (Loan Review System) interface. At the top, there are navigation tabs: "LRS", "Active Reviews", "Search", "Binder Request", "Create Self-Report", "Completed Reviews", and "Reports". Below the tabs, there are search filters for "Borrower Name", "Property Address", "Request Date" (12/19/2017), "Response Due" (1/3/2018), and "Review Level" (Initial). A "Back to List" button is also present.

The main content area is divided into two sections. On the left, there is a "Findings" sidebar with a list of findings categorized by type and severity:

- BI Finding (2) - Unacceptable**
  - BI.7.G (Severity: 2) - Unacceptable
  - BI.3.C (Severity: 3) - Unacceptable
- BC Finding (1) - Unacceptable**
  - BC.4.G (Severity: 2) - Unacceptable
- BA Finding (1) - Deficient**
  - BA.2.G (Severity: 3) - Deficient
- PE Finding (4) - Unacceptable**
  - PE.11.G (Severity: 2) - Unacceptable
  - PE.3.F (Severity: 2) - Unacceptable
  - PE.4.F (Severity: 3) - Unacceptable
  - PE.6.B (Severity: 4) - Unacceptable
- BE Finding (1) - Unacceptable**

The right section shows a detailed view of the selected finding: **2 PE.3.F - UNACCEPTABLE**. It includes a "Go to Current Response" link, the source ("Property flood requirements not met"), and the cause ("Possible misrepresentation /fraud- lender knew or should have known"). Below this, there are sections for "INITIAL" (Severity: Tier 2: Unacceptable, Finding Description: This is a sample comment to the Lender at the Initial Review Level.), "LENDER RESPONSE TO FHA" (This is a sample Lender Response to FHA at the Initial Review Level.), and "RESPONSE DOCUMENTS" (Sample Response Document.jpg, Sample PDF Document.pdf). A "SELECT PREVIOUSLY UPLOADED DOCUMENTS" dropdown menu shows "- Sample PDF Document.pdf". At the bottom, there are buttons for "Choose File...", "Findings Overview", and "Save Response".

# Responding to Findings (cont.)

- Click the Complete Wrap-Up button and confirm that you want to submit responses
  - Double-check the Active Reviews screen to make sure the response was submitted

The screenshot displays the LRS Active Reviews interface. A modal dialog box titled "CONFIRM REVIEW LEVEL SUBMIT" is open, asking the user to confirm they have properly responded to all unacceptable findings before submitting the review back to FHA. The dialog includes "Cancel" and "Confirm" buttons.

The background interface shows a "FINDINGS OVERVIEW" section with a table of findings and a summary table. The findings are categorized by type and severity tier.

Rating	Findings	1	2	3	4
UNACCEPTABLE	2	0	2	0	0
DEFICIENT	1	0	0	1	0
DEFICIENT	1	0	0	1	0
TOTALS:	4	0	2	2	0

Buttons visible in the interface include "Address Findings" and "Complete Wrap-Up".

# Self-Reporting to FHA

- All Lenders must self-report in accordance with Handbook 4000.1
  - See section V.A.2.d.iv. for specific guidelines

What to report	When to report it
All Findings of fraud and material misrepresentation	Immediately
Any Material Findings that you are unable to mitigate	No later than 90 Days after the completion of the initial Findings report

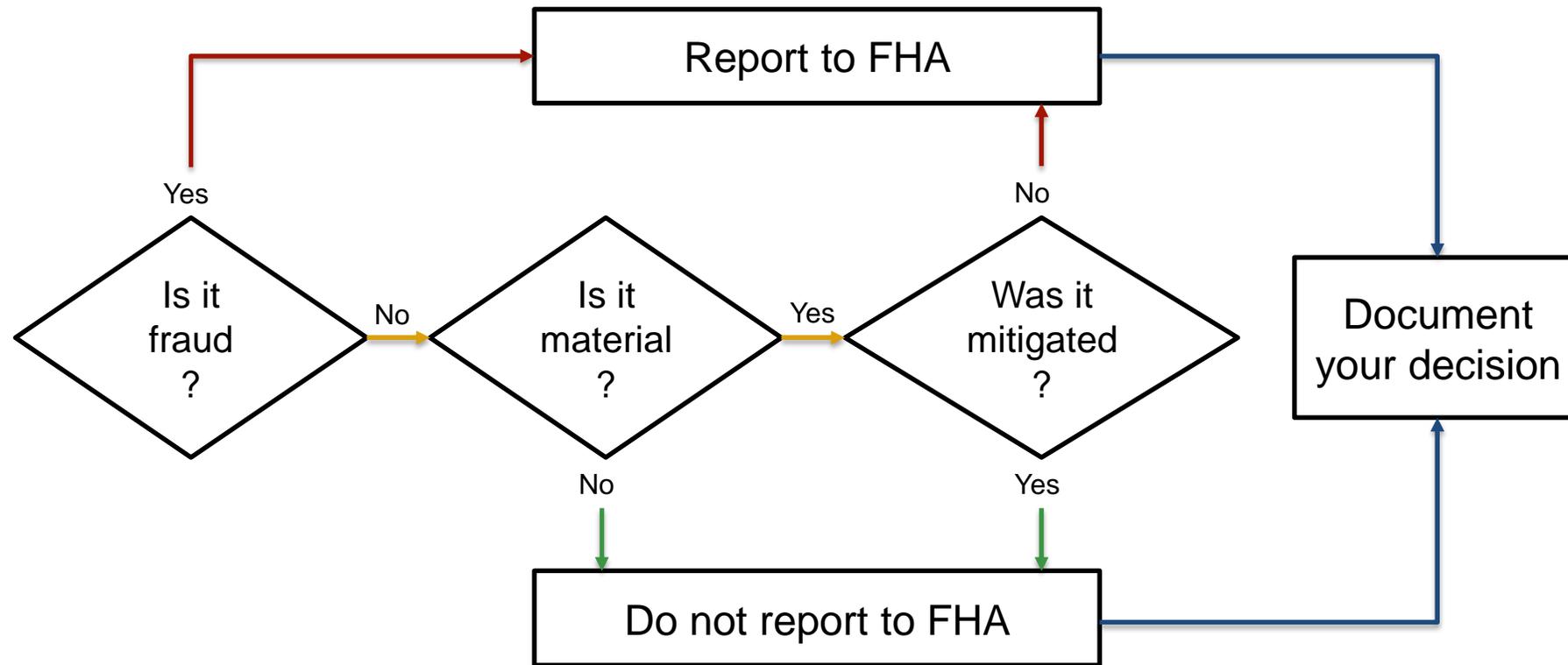
# Self-Reporting to FHA (cont.)

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- Before reporting, ask these questions:
  - Is it fraud?
  - Is the finding material?
  - Was it mitigated within the required timeframe?
- Document your decisions
- When reporting, be prepared for indemnification or other remedy



# Self-Reporting to FHA (cont.)



# Self-Reporting to FHA (cont.)

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- Fraud and material misrepresentation categories:
  - Tier 1: Lender/servicer knew or should have known
  - Tier 4: Lender/servicer did not know and could not have known
- FHA determines if the lender knew or should have known based on whether:
  - An employee of the lender was involved and/or
  - Red flags in the loan file should have been questioned by the lender
- Both categories are referred to HUD's Office of the Inspector General (OIG)

# Self-Reporting to FHA (cont.)

- Choose the appropriate Review Type:
  - Use Underwriting for issues that occurred at loan origination
  - Use Servicing for issues related to servicing or loss mitigation

The screenshot displays the 'Create Self-Report' interface within the LRS system. The navigation bar at the top includes 'Active Reviews', 'Search', 'Binder Request', 'Create Self-Report' (highlighted), 'Completed Reviews', and 'Reports'. The main content area is divided into two steps: '1) Add Case(s) to Self-Report' and '2) Add Case Details:'. Under step 1, there is a 'Review Type' dropdown menu with a red asterisk indicating a required field. The dropdown is open, showing 'Select' at the top, followed by 'Underwriting' and 'Servicing'. Below the dropdown is an 'Add' button. At the bottom right of the form, there are 'Clear' and 'Next Step' buttons.

# Self-Reporting to FHA (cont.)

- Submit cases in bulk if reporting them for the same issue
  - FHA will request case-specific details if necessary

★ LRS    Active Reviews    Search    Binder Request    **Create Self-Report**    Completed Reviews    Reports

1) Add Case(s) to Self-Report    2) Add Case Details:

Review Type \*  
Underwriting

Enter Case Number(s)

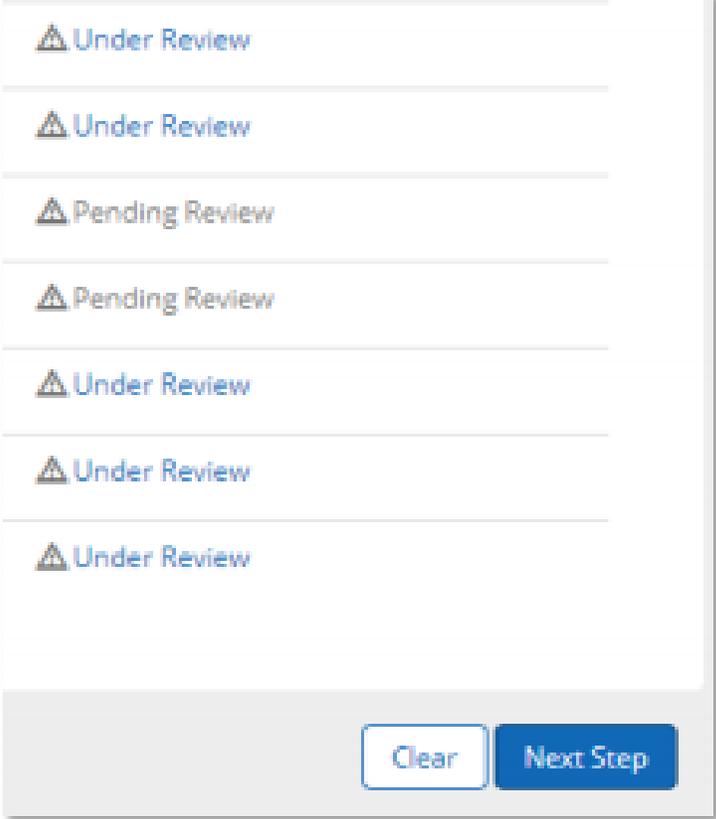
Add

Case #	Borrower Name	Property Address	Errors/Warnings
			⚠ Pending Review

Clear    Next Step

# Self-Reporting to FHA (cont.)

- *Case Not Found* error message means the case number is invalid or not endorsed
  - Reporting to FHA is not required
- *Under Review or Pending Review* means there is an active review in LRS
  - Submit the case number and findings to the FHA Resource Center
  - Periodically re-check and attempt to submit the self-report in LRS



The screenshot displays a list of case statuses in a table-like format. Each row contains a status label preceded by a small warning triangle icon. The statuses are: Under Review, Under Review, Pending Review, Pending Review, Under Review, Under Review, and Under Review. At the bottom right of the interface, there are two buttons: a white 'Clear' button and a blue 'Next Step' button.

⚠ Under Review
⚠ Under Review
⚠ Pending Review
⚠ Pending Review
⚠ Under Review
⚠ Under Review
⚠ Under Review

Clear Next Step

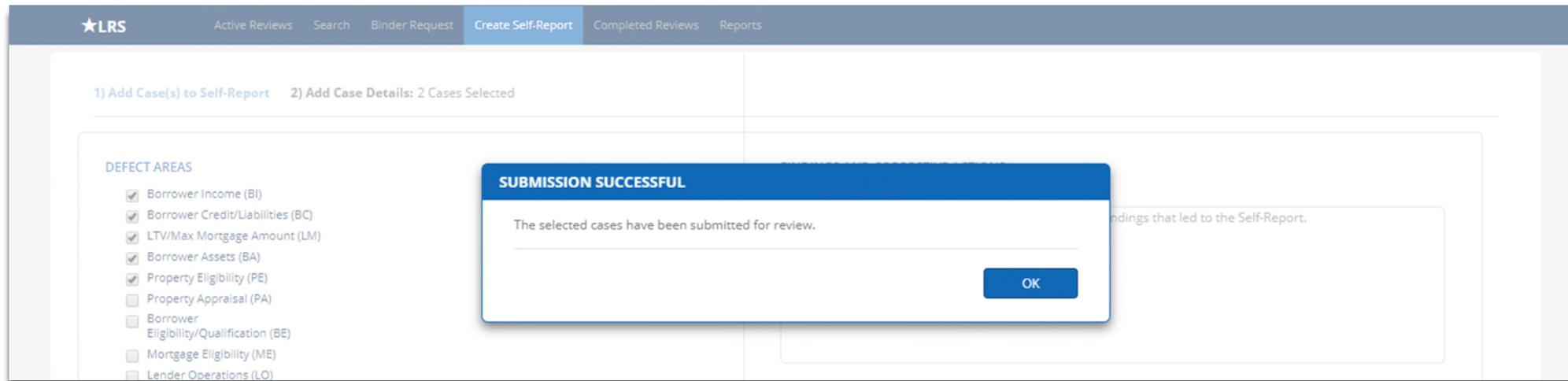
# Self-Reporting to FHA (cont.)

- Enter details and submit

The screenshot displays the 'Create Self-Report' interface in the LRS system. The navigation bar includes 'Active Reviews', 'Search', 'Binder Request', 'Create Self-Report', 'Completed Reviews', and 'Reports'. The main content area is divided into two columns. The left column contains two sections: 'DEFECT AREAS' and 'FRAUD'. Under 'DEFECT AREAS', there are checkboxes for Borrower Income (BI), Borrower Credit/Liabilities (BC), LTV/Max Mortgage Amount (LM), Borrower Assets (BA), Property Eligibility (PE), Property Appraisal (PA), Borrower Eligibility/Qualification (BE), Mortgage Eligibility (ME), and Lender Operations (LO). Under 'FRAUD', there is a checkbox for 'Fraud has been detected for selected cases(s)', a 'Types of Fraud' dropdown menu with 'Dual Transa...' and 'Employment' selected, and a 'Fraud Participants' dropdown menu with 'Select', 'Appraiser', and 'Borrower' visible. The right column contains the 'FINDINGS AND CORRECTIVE ACTIONS' section, which includes two text input areas: 'Describe the findings that led to this Self-Report:' and 'Describe any corrective actions that have been taken:'. Both text areas contain sample text. At the bottom right of the form, there are 'Clear' and 'Submit' buttons.

# Self-Reporting to FHA (cont.)

- LRS automatically directs the review to the DE underwriting lender or current servicer of record
- FHA may take any of the following actions:
  - Close the review based on information provided
  - Initiate a binder request for underwriting reviews or reach out directly for servicing documentation
  - Refer the issue to HUD's Office of Inspector General



# Indemnification

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- Lenders must respond to Tier 1 and 2 findings in LRS with mitigating documentation, financial remediation or other remedy
- When alternative remedies have been exhausted, lenders may resolve unacceptable findings with either a 5-year or Life-of-Loan indemnification agreement
- Indemnifications must be submitted electronically in LRS unless FHA requests otherwise
- Handbook 4000.1 requires all lenders to grant the LRS Indemnification Submission role to individuals authorized to sign indemnification agreements



# Indemnification (cont.)

Indemnification Type	Description
5-Year	Most common type of indemnification Applies to most underwriting defects for forward loans Reflects a 5-year sunset provision for performing loans
Life-of-Loan	Used for: <ul style="list-style-type: none"><li>• Fraud/misrepresentation about which the lender knew or should have known</li><li>• Underwriting violations related to the property, maximum insurable mortgage amount, and certain other eligibility and statutory requirements</li><li>• HECM violations</li><li>• Servicing violations</li></ul>

# Indemnification (cont.)

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- Indemnified loans remain insured
- FHA requirements for servicing and payment of mortgage insurance premiums remain in force
- The lender that signed the indemnification must adhere to its terms, but other eligible parties may still submit claims
- When lenders merge, the surviving institution inherits indemnification liability
- HUD's Financial Operations Center (FOC) will bill the responsible party for any amount due

# Indemnification (cont.)

- Submitting an indemnification in LRS

The screenshot shows the LRS (Loan Review System) interface for submitting an indemnification. The top navigation bar includes 'LRS', 'Active Reviews', 'Search', 'Binder Request', 'Create Self-Report', 'Completed Reviews', and 'Reports'. Below this is a search bar with fields for 'Borrower Name', 'Property Address', 'Request Date' (12/19/2017), 'Response Due' (12/29/2017), and 'Review Level' (HQ Escalation). A 'Back to List' button is on the left, and an 'Indemnification' button is on the right.

The main content area is titled 'INDEMNIFICATION - CASE # [redacted]'. It is divided into two columns. The left column contains the following information:

- Review ID: [redacted]
- Selection Reason: **FHA MANUAL**
- Review Type: **UNDERWRITING**
- Review Scope: **F**
- Review Level: **HQ ESCALATION 1**
- Review Location: **HQ**

The right column contains the indemnification form with the following fields:

- MORTGAGEE**: UNITED STATES, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
- BY:** Authorized Representative (left) / Federal Housing Administration (right)
- DATED:** 12/19/2017 (left) / (right)
- APPENDIX A**
- FHA Case Number**: [redacted]
- Date of Endorsement**: [redacted]

At the bottom of the form, there are buttons for 'Download PDF', 'e-Sign Indemnification', 'Cancel', and 'Save Response'.

# LRS Reports

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- Lenders can access reports to review their own LRS results, including:
  - Quarterly Loan Review Summary
  - Top Findings
  - Self-Reports
  - Indemnifications
  - Downloadable Data
- All reports and data are automatically filtered to the Lender ID associated with the current user
- Only some MicroStrategy functions are available through LRS, but lenders can use downloadable data to build their own reports
- Compare to the national Quarterly Loan Review Summary:  
[https://www.hud.gov/sites/dfiles/SFH/documents/sfh\\_qtrlyLoanRevSummary.pdf](https://www.hud.gov/sites/dfiles/SFH/documents/sfh_qtrlyLoanRevSummary.pdf)



# LRS Reports (cont.)

## Quarterly Loan Review Summary

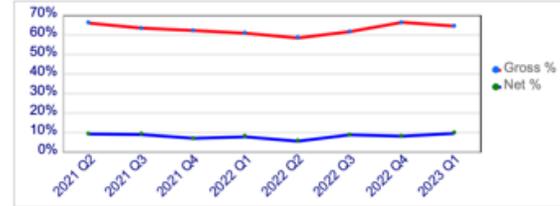
Completed Quarter(s): 2021 Q2, 2021 Q3, 2021 Q4, 2022 Q1, 2022 Q2, 2022 Q3, 2022 Q4, 2023 Q1

Location(s): All

Sample: Total

### Material Defects

Qtr	# of Loans	Gross #	Gross %	Net #	Net%
2021 Q2	5,835	3,853	66.0%	540	9.3%
2021 Q3	5,513	3,501	63.5%	494	9.0%
2021 Q4	5,430	3,381	62.3%	382	7.0%
2022 Q1	5,846	3,559	60.9%	455	7.8%
2022 Q2	4,382	2,560	58.4%	243	5.5%
2022 Q3	7,795	4,809	61.7%	688	8.8%
2022 Q4	6,319	4,199	66.5%	513	8.1%
2023 Q1	8,095	5,224	64.5%	773	9.5%

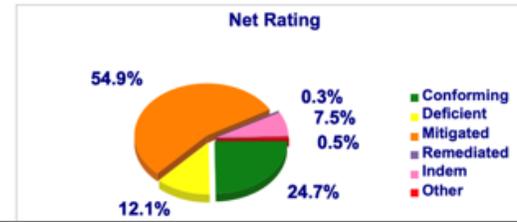
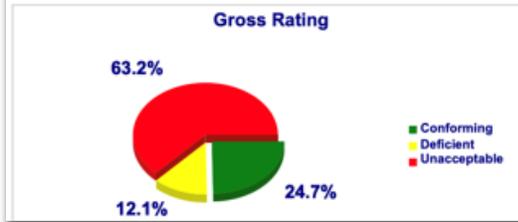


### Review Ratings #

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2021 Q2	1,322	660	3,313	20	479	41
2021 Q3	1,317	695	3,007	23	442	29
2021 Q4	1,400	649	2,999	31	323	28
2022 Q1	1,550	737	3,104	24	387	44
2022 Q2	1,322	500	2,317	13	208	22
2022 Q3	2,066	920	4,121	18	643	27
2022 Q4	1,344	776	3,686	12	481	20
2023 Q1	1,846	1,025	4,451	25	732	16
<b>Total</b>	<b>12,167</b>	<b>5,962</b>	<b>26,998</b>	<b>166</b>	<b>3,695</b>	<b>227</b>

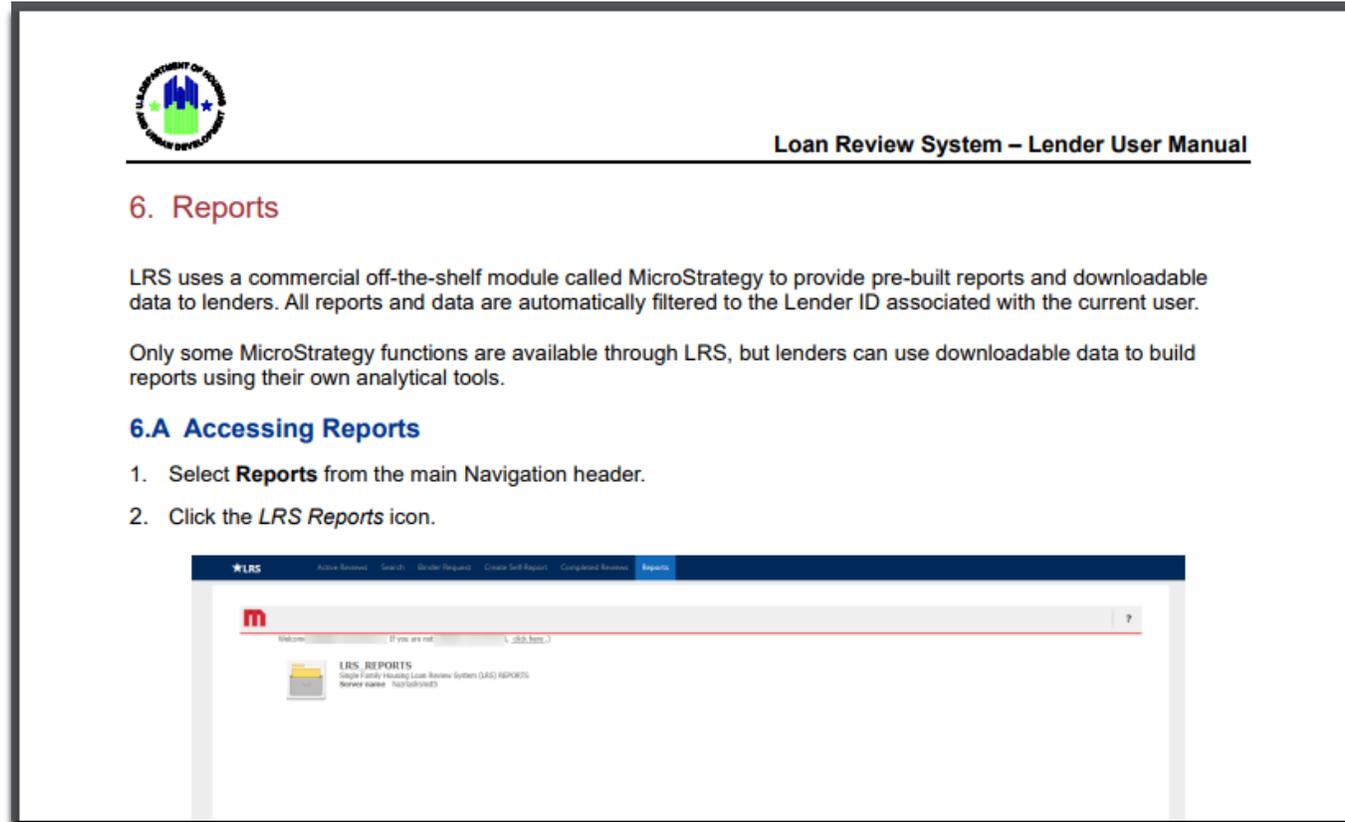
### Review Ratings %

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2021 Q2	22.7%	11.3%	56.8%	0.3%	8.2%	0.7%
2021 Q3	23.9%	12.6%	54.5%	0.4%	8.0%	0.5%
2021 Q4	25.8%	12.0%	55.2%	0.6%	5.9%	0.5%
2022 Q1	26.5%	12.6%	53.1%	0.4%	6.6%	0.8%
2022 Q2	30.2%	11.4%	52.9%	0.3%	4.7%	0.5%
2022 Q3	26.5%	11.8%	52.9%	0.2%	8.2%	0.3%
2022 Q4	21.3%	12.3%	58.3%	0.2%	7.6%	0.3%
2023 Q1	22.8%	12.7%	55.0%	0.3%	9.0%	0.2%
<b>Total</b>	<b>24.7%</b>	<b>12.1%</b>	<b>54.9%</b>	<b>0.3%</b>	<b>7.5%</b>	<b>0.5%</b>



# LRS Reports (cont.)

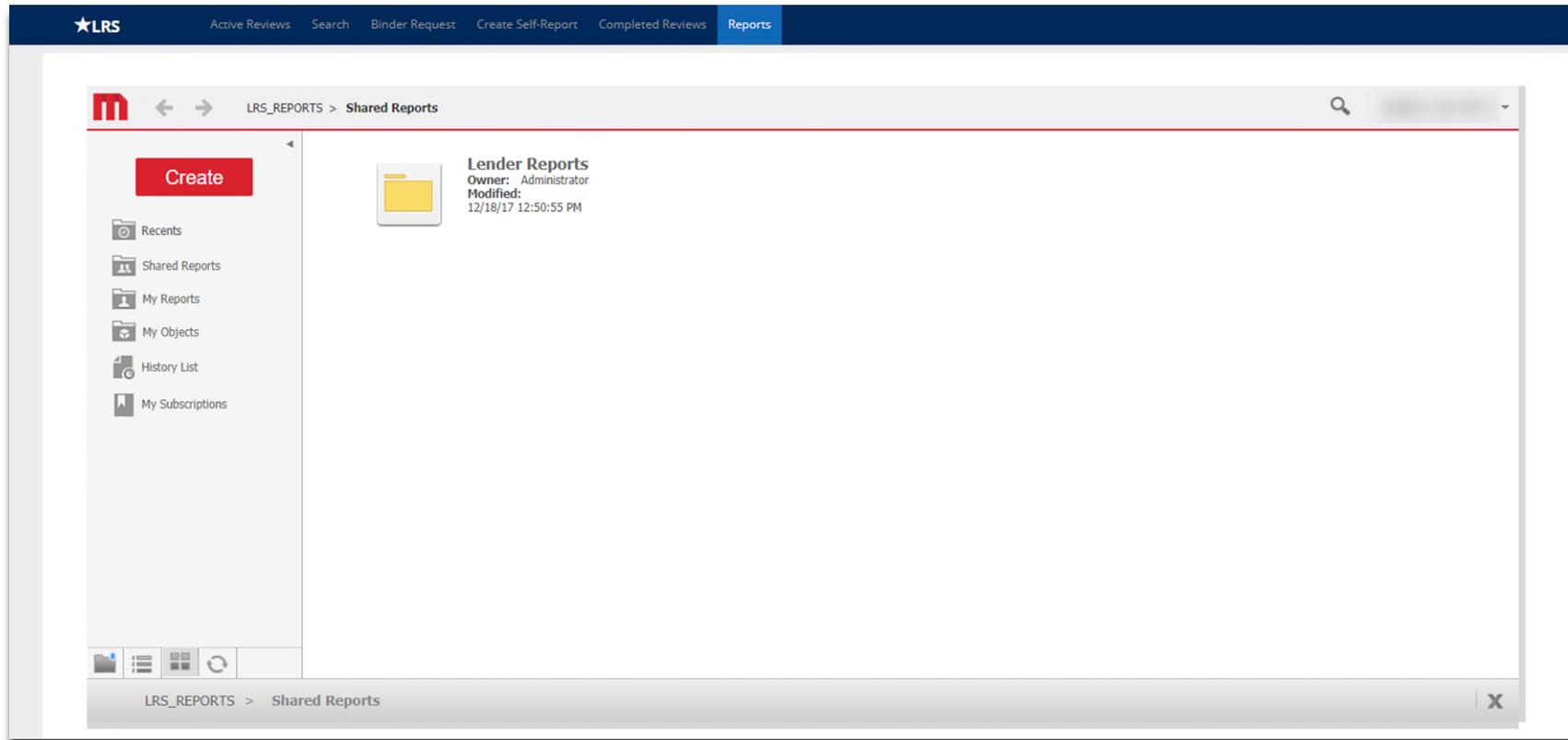
- Step-by-step instructions are included in the LRS User Manual



The screenshot shows a page from the 'Loan Review System – Lender User Manual'. At the top left is the U.S. Department of Housing and Urban Development logo. The page title is 'Loan Review System – Lender User Manual'. The main heading is '6. Reports'. Below this, the text states: 'LRS uses a commercial off-the-shelf module called MicroStrategy to provide pre-built reports and downloadable data to lenders. All reports and data are automatically filtered to the Lender ID associated with the current user.' It then notes: 'Only some MicroStrategy functions are available through LRS, but lenders can use downloadable data to build reports using their own analytical tools.' The sub-heading is '6.A Accessing Reports', followed by two numbered steps: '1. Select **Reports** from the main Navigation header.' and '2. Click the *LRS Reports* icon.' Below the text is a screenshot of the LRS web interface. The interface shows a navigation bar with 'LRS' and several menu items: 'Active Reviews', 'Search', 'Render Request', 'Create Self Report', 'Completed Reviews', and 'Reports'. The 'Reports' menu item is highlighted. Below the navigation bar is a search bar with a magnifying glass icon and a question mark. The main content area displays 'LRS REPORTS' with a folder icon, 'Single Family Housing Loan Review System (LRS) REPORTS', and 'Server name: 10476200025'.

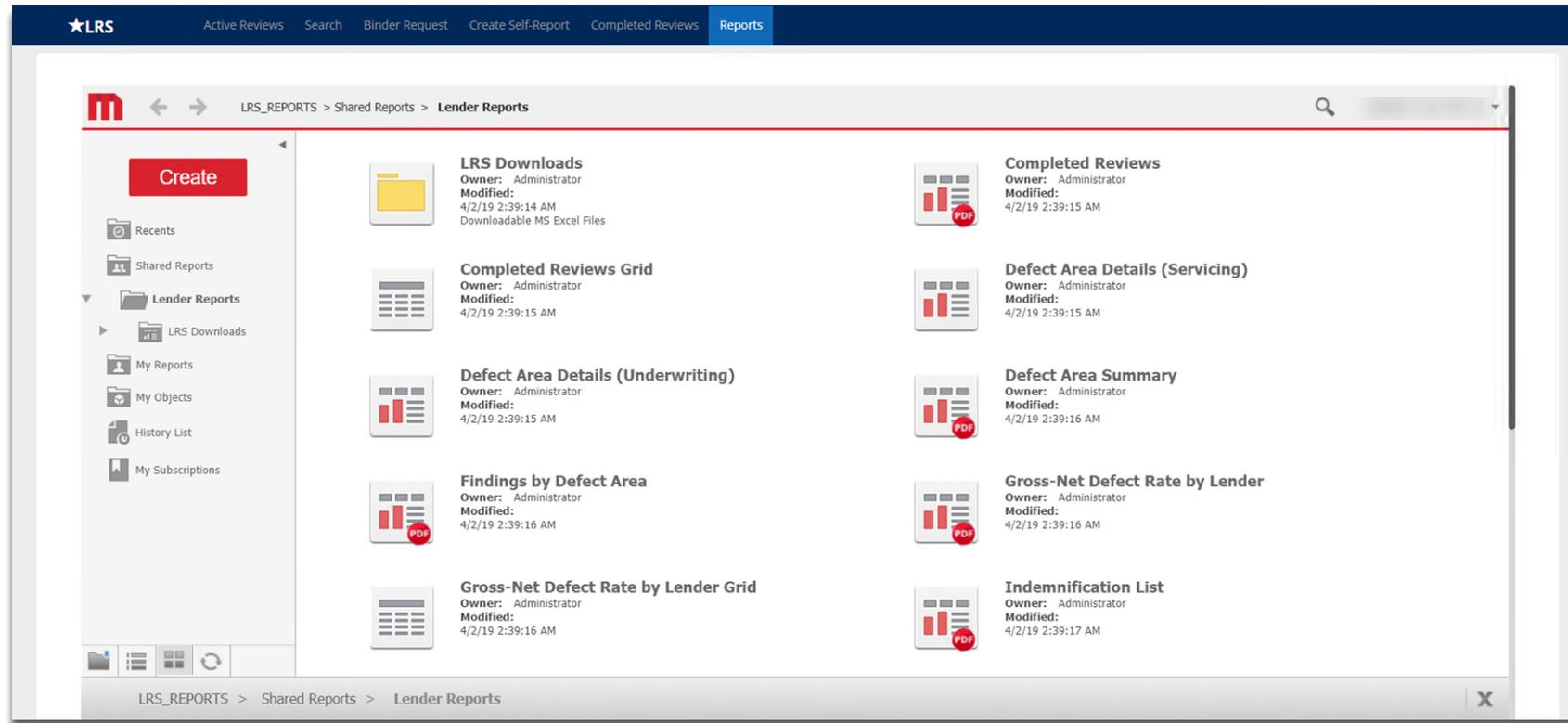
# LRS Reports (cont.)

- LRS uses a module called MicroStrategy to provide pre-built reports and data



# LRS Reports (cont.)

- Canned reports
  1. Click on any icon in the Lender Reports folder



# LRS Reports (cont.)

- Canned reports
  2. Choose the preferred start/end dates and any other options from the filter screen
  3. Click the Export button to run the report

The screenshot shows a web interface for generating LRS reports. On the left is a sidebar with an 'INDEX' and a 'Summary of your selections' section containing two items: '1 Indemnification Search Start Date' and '2 Indemnification Search Through Date', both with green checkmarks. The main area is divided into two sections: '1. Indemnification Search Start Date' and '2. Indemnification Search Through Date'. The first section prompts the user to enter a date, with a text box containing '2/22/2019' and a calendar icon. It also shows a radio button for 'Your selection' and a selected radio button for 'The default selection is: Today minus 3 Month(s) (2/22/2019)'. The second section prompts for a date to search through, with a text box containing '5/22/2019' and a calendar icon. It also shows a radio button for 'Your selection' and a selected radio button for 'The default selection is: Today (5/22/2019)'. A calendar for May 2019 is displayed, with the 22nd highlighted. At the bottom, there are 'Export' and 'Cancel' buttons, with a red arrow pointing to the 'Export' button.

# LRS Reports (cont.)

- Indemnification List
  - Click the INDEM LETTER hyperlink to view/download the executed Indemnification Agreement

**Indemnification List**  
Agreement Date between 05/14/2017 and 08/14/2017

Case Number	LRS Review ID	Endorsement Date	Agreement Date	Agreement Number	Term	Expiration Date	Document Link
					Life of Loan	04/10/2047	<a href="#">INDEM LETTER</a>
					Life of Loan	12/29/2046	<a href="#">INDEM LETTER</a>
					Life of Loan	12/29/2046	<a href="#">INDEM LETTER</a>
					Life of Loan	12/27/2031	<a href="#">INDEM LETTER</a>
					5 Year	06/01/2022	<a href="#">INDEM LETTER</a>
					5 Year	12/27/2021	<a href="#">INDEM LETTER</a>
					Life of Loan	12/30/2046	<a href="#">INDEM LETTER</a>



# LRS Reports (cont.)

- Lender Self Report List
  - Lender Self Report List Summary is a PDF with basic information on self-reported cases
  - Choose Lender Self Report List Details for sortable data (Excel format)

The screenshot displays a grid of report cards. Each card includes a title, owner, and modification date. The 'Lender Self Report List Summary' card is highlighted with a grey background and includes links for 'Subscriptions', 'Export', and 'PDF'. Two red arrows point towards this card from the left and right sides.

Report Title	Owner	Modified	PDF Icon
Indemnification List Grid	Administrator	4/2/19 2:39:17 AM	No
Lender Monitoring Summary Grid	Administrator	4/2/19 2:39:17 AM	No
Lender Self Report List Details	Administrator	4/2/19 2:39:18 AM	No
Lender Self Report List Summary Grid	Administrator	4/2/19 2:39:18 AM	No
Quarterly Loan Review Summary	Administrator	4/2/19 2:39:19 AM	Yes
Lender Monitoring Summary	Administrator	4/2/19 2:39:17 AM	Yes
Lender Response Times	Administrator	4/2/19 2:39:18 AM	Yes
Lender Self Report List Summary	Administrator	4/2/19 2:39:18 AM	Yes
LRS Report Descriptions	Administrator	4/2/19 2:39:18 AM	No
Top Findings	Administrator	4/2/19 2:39:19 AM	Yes

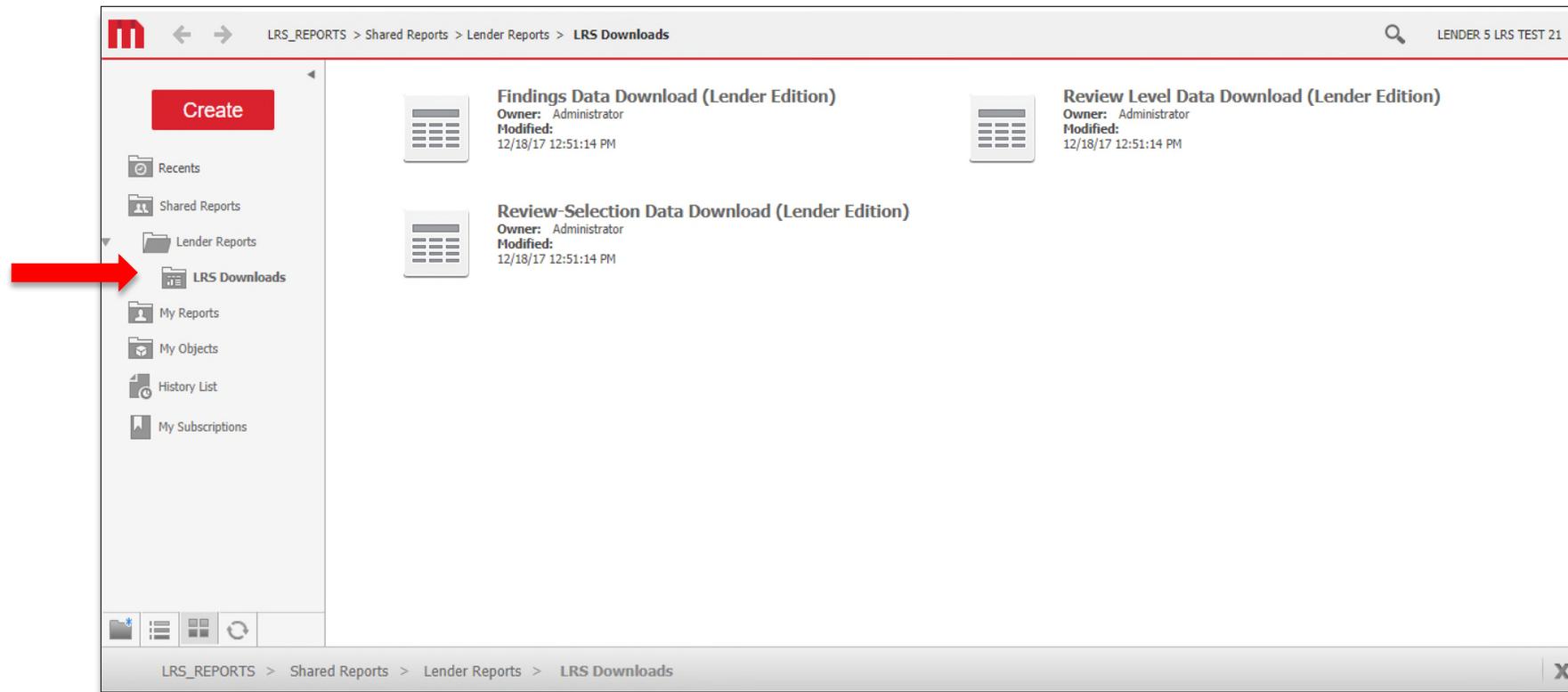
# LRS Reports (cont.)

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- LRS provides three downloadable datasets that lenders can use to create their own reports:
  - *Review-Selection Data* contains fields that apply to each review
  - *Review Level Data* contains fields that apply to each review level
  - *Findings Data* contains fields that apply to each finding logged
- Each dataset begins with a common group of fields, which can be used to link data for more advanced analytics

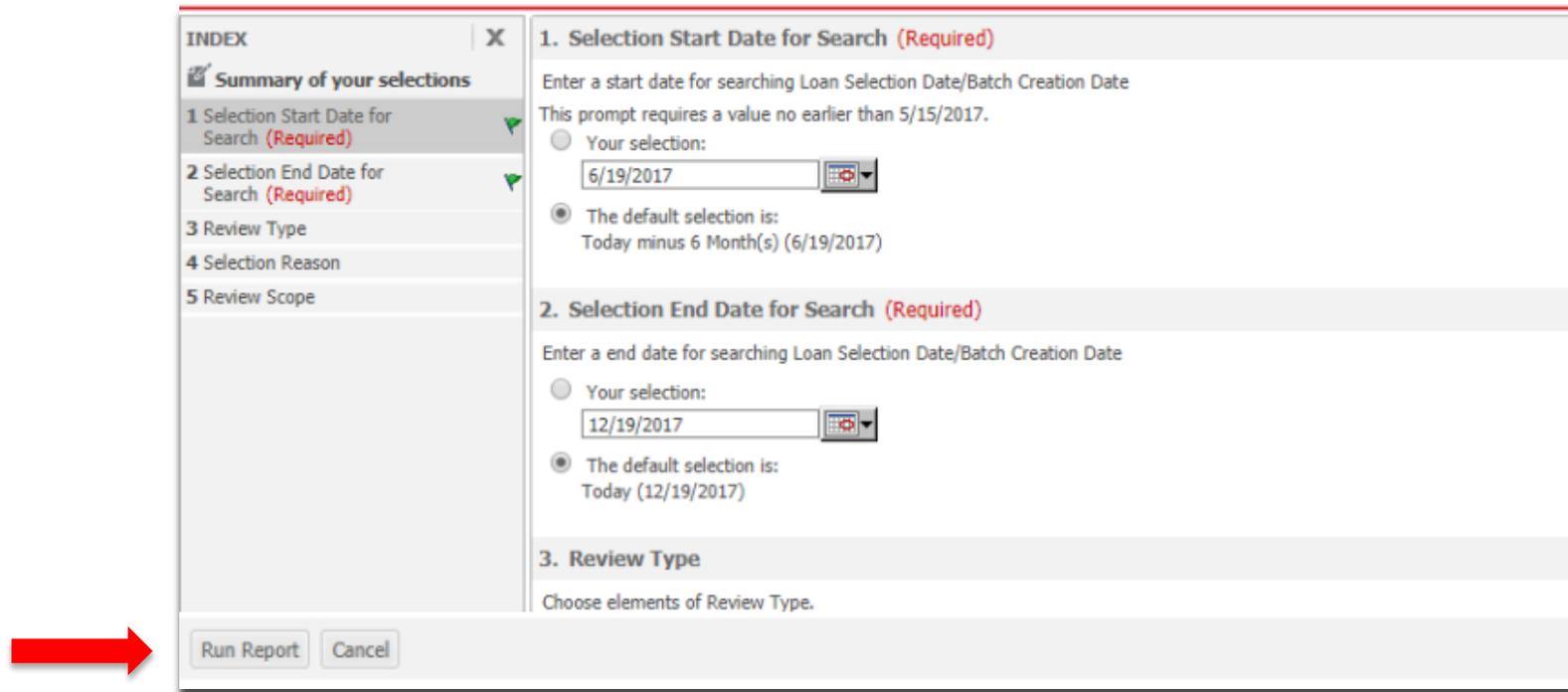
# LRS Reports (cont.)

- Downloadable Data
  1. Click on the *LRS Downloads* folder and choose a dataset



# LRS Reports (cont.)

- Downloadable Data
  2. Choose from available filters and click *Run Report*



The screenshot displays a web-based interface for generating LRS reports. On the left, an 'INDEX' sidebar lists five sections: 'Summary of your selections', '1 Selection Start Date for Search (Required)', '2 Selection End Date for Search (Required)', '3 Review Type', '4 Selection Reason', and '5 Review Scope'. The main content area is divided into three sections: '1. Selection Start Date for Search (Required)', '2. Selection End Date for Search (Required)', and '3. Review Type'. Each date section includes a text input field with a calendar icon, radio buttons for 'Your selection' and 'The default selection is:', and a date value (6/19/2017 for the start date and 12/19/2017 for the end date). The 'Run Report' button at the bottom left is highlighted with a red arrow.

# LRS Reports (cont.)

- Downloadable Data
  3. Click the *Export* button in the header

The screenshot displays the 'Findings Data Download (Lender Edition)' interface. The breadcrumb trail at the top reads: LRS\_REPORTS > Shared Reports > Lender Reports > LRS Downloads > Findings Data Download (Lender Edition). The 'TOOLS' menu is expanded, and a red arrow points to the 'Export' icon. The 'REPORT DETAILS' section shows a report filter: `{{(Selection Date) (ID) >= 6/19/2017 12:00:00 AM} And {{(Selection Date) (ID) <= 12/19/2017 12:00:00 AM} And (USER_ID (USER_ID) = [redacted] And {{(Lender ID) (ID) = {User Mortgagee ID} {{(Mortgagee ID)}}} And {{(Batch Sta`. The 'PROMPT DETAILS' section lists prompts such as 'Prompt 1: Selection Start Date for Search' and 'Prompt 2: Selection End Date for Search'. Below this is a table with 8 columns: Review ID, Case #, Lender ID, Lender Name, Review Type, Selection Reason, Review Scope, and Selection Date. The table shows two rows of data, both with 'Underwriting' as the Review Type and 'FULL' as the Review Scope. The bottom of the interface shows the breadcrumb trail and a close button (X).

# LRS Reports (cont.)

- Downloadable Data
  4. Choose from available options and click the *Export* button again

**Export Options**

Findings Data Download (Lender Edition)

Export:

Export Header and Footer:

**Excel options:**

- Excel with plain text
- CSV file format
- Excel with formatting
- HTML
- Plain text    Delimiter:

**Excel with formatting options:**

- Export metric values as text
- Export headers as text
- Embed all images

Export Report Title

Export filter details

Remove extra column:

Do not prompt me again.

# LRS Reports (cont.)

- Downloadable Data
  - Data will be exported with the options applied

Findings Data Download (Lender Edition) .xlsx - Excel

Report Filter:  
 ((Selection Date) (ID) >= 6/19/2017 12:00:00 AM) And ((Selection Date) (ID) <= 12/19/2017 12:00:00 AM) And (USER\_ID (USER\_ID) = [redacted] And ((Lender ID) (ID) = (User Mortgage ID) ((Mortgage ID))) And ((Batch Status) (ID) <> "Cancelled") And ((Selection Status) (ID) <> "Cancelled") And ((Review Status) (ID) <> "Cancelled")

Review ID	Case #	Lender ID	Lender Name	Review Type	Selection Reason	Review Scope	Selection Date	Selection Status	Review Status	Batch ID	Batch Status	Review Level Name	Review Level Status	Review Level Creation Date	Current Review Level Name
7				Underwriting		FULL		Received	Completed	N/A	N/A		Completed		Cc
8				Underwriting		FULL		Received	Assigned	N/A	N/A		Completed		As
9				Underwriting		FULL		Received	Assigned	N/A	N/A		Completed		As
10				Underwriting		FULL		Received	Assigned	N/A	N/A		Completed		As
11				Underwriting		FULL		Received	Assigned	N/A	N/A		Completed		As
12				Underwriting		FULL		Received	Assigned	N/A	N/A		Completed		As
13				Underwriting		FULL		Received	Assigned	N/A	N/A		Completed		As
14				Underwriting		FULL		Received	Assigned	N/A	N/A		Completed		As
15				Underwriting		FULL		Received	Assigned	N/A	N/A		Completed		As
16				Underwriting		FULL		Received	Assigned	N/A	N/A		Completed		As
17				Underwriting		FULL		Received	Assigned	N/A	N/A		Completed		As
18				Underwriting		FULL		Received	Assigned	N/A	N/A		Completed		As
19				Underwriting		FULL		Received	Assigned	N/A	N/A		Completed		As
20				Underwriting		FULL		Received	Assigned	N/A	N/A		Assigned		As
21				Underwriting		FULL		Received	Assigned	N/A	N/A		Assigned		As
22				Underwriting		FULL		Received	Assigned	N/A	N/A		Assigned		As
23				Underwriting		FULL		Received	Assigned	N/A	N/A		Assigned		As
24				Underwriting		FULL		Received	Assigned	N/A	N/A		Assigned		As
25				Underwriting		FULL		Received	Assigned	N/A	N/A		Assigned		As

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# Resources



# Resources

- LRS Information Page
  - User Manual
  - Defect Taxonomy
  - Webinars

The screenshot shows the U.S. Department of Housing and Urban Development website. The header includes the department logo and name, along with navigation links for 'About Us' and 'What We Do', and a search bar. A secondary navigation bar lists categories: 'Housing Home', 'About Us', 'Single Family', 'Healthcare Programs', 'Multifamily', 'Housing Counseling', and 'More'. The main content area features a breadcrumb trail: 'Home / Program Offices / Housing / Single Family / Lenders / Loan Review System'. The title is 'LOAN REVIEW SYSTEM'. The introductory text states: 'The Loan Review System (LRS) is the electronic platform for most Federal Housing Administration (FHA) Title II Single Family quality assurance review processes, including:'. A bulleted list follows: 'Various Post-Endorsement Loan Reviews', 'Unconditional Direct Endorsement Authority Test Cases', 'Lender Monitoring Reviews', and 'Lender Self-Reporting of Fraud and Other Material Findings'. Below this is the 'Functions and Features' section with a bulleted list: 'Communicates findings using FHA's Defect Taxonomy', 'Consolidates most quality assurance functions into one system', 'Automates various manual processes and communications', 'Organizes and prioritizes requests for lender responses', 'Streamlines submission of required documents', 'Enhances loan quality reporting and analytics', and 'LRS User Manual - Updated January 1, 2020'. On the right side, there are three sections: 'Loan Review Resources' with a link to 'LRS User Manual' and a note 'Discontinued December 31, 2019' and a link to 'Defect Taxonomy Version 1'; 'Quality Assurance Webinars' with a paragraph about webinar offerings and links for 'UPCOMING SINGLE FAMILY HOUSING EVENTS AND TRAINING' and 'SINGLE FAMILY HOUSING ARCHIVED WEBINARS'; and 'Subscribe to FHA INFO Announcements' with a link to 'Subscribe to receive FHA INFO announcements and CE NEWS about...'. The bottom of the screenshot is partially cut off.



# Resources (cont.)

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	1-800-CALL-FHA (1-800-225-5342) Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.	8:00 AM to 8:00 PM Eastern M-F	Voicemail is available after hours or during extended wait periods.

*FHA INFO* emails: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at: [https://www.hud.gov/program\\_offices/housing/sfh/FHA\\_INFO\\_subscribe](https://www.hud.gov/program_offices/housing/sfh/FHA_INFO_subscribe)



# Helpful Links

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- LRS Information Page  
[https://www.hud.gov/program\\_offices/housing/sfh/lender/loan\\_review\\_system](https://www.hud.gov/program_offices/housing/sfh/lender/loan_review_system)
- FHA Catalyst: Case Binder Module Page  
[https://www.hud.gov/program\\_offices/housing/FHACatalyst/casebinder](https://www.hud.gov/program_offices/housing/FHACatalyst/casebinder)
- FHA Single Family Information Page  
[https://www.hud.gov/program\\_offices/housing/sfh](https://www.hud.gov/program_offices/housing/sfh)
- Single Family Housing Policy Handbook 4000.1  
[https://www.hud.gov/program\\_offices/housing/sfh/handbook\\_4000-1](https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1)
- FHA National Servicing Center  
[https://www.hud.gov/program\\_offices/housing/sfh/nsc](https://www.hud.gov/program_offices/housing/sfh/nsc)
- Subscribe to FHA INFO Notices  
[https://www.hud.gov/program\\_offices/housing/sfh/FHA\\_INFO\\_subscribe](https://www.hud.gov/program_offices/housing/sfh/FHA_INFO_subscribe)



# Q&A



# Q&A Instructions

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## Check your audio to ensure it's working correctly:

- Click *Test Speaker & Microphone* option or Microphone icon if image is crossed out.
- Test/change audio settings on computer/smartphone/telephone by selecting *Audio Settings* on toolbar.

## Access audio using one of the following options:

### Option A: Computer or smartphone

- If viewing webinar through computer or smartphone, click *Raise Hand* icon. You will receive onscreen message to unmute yourself - click *Unmute Myself* button. When prompted by moderator, provide your name, company affiliation, then ask your question.

### Option B: Standard telephone line

- To ask a question, press \*9 to be placed in queue. Webinar moderator will unmute your phone and you will hear an automated voice message stating *You Are Unmuted*. When prompted by moderator, provide your name, company affiliation, then ask your question.

**Thank you for joining us today!**

