



FHA – What We Learned In 2011



What We Learned In 2011

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- All Supervised Lenders are being reviewed
- Non-Supervised Lenders
 - Reviewed if not reviewed in prior year
- Audits with NO findings are being reviewed
- CPA State License being checked

Mortgagee Letter 2010-20

Implementation of Final Rule FR 5356-F-02

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- Phase One

- Effective May 20, 2010

- Existing lenders, no changes - yet
- All New Applicants
 - New Worth \$1,000,000
 - Liquidity 20%

- Effective May 20, 2011

- Lenders approved prior to May 20, 2010
- 2 categories
 - Meet SBA size standards
 - » Non-depository institutions - Total receipts less than \$7,000,000

Mortgagee Letter 2010-20

Implementation of Final Rule FR 5356-F-02

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» Depository institutions - Total assets less than \$175,000,000

- \$500,000 – Meet SBA size standards
- \$1,000,000 – All others

- Phase Two

- Effective May 20, 2013
- All Single Family Programs
- \$1,000,000 plus 1% of total volume in excess of \$25,000,000
- Max required \$2,500,000
- Liquidity 20%



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Mortgagee Letter 2010-20

Implementation of Final Rule FR 5356-F-02

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- Phase Two
 - Multifamily Programs With Engagements in Mortgage Servicing
 - Net Worth \$1,000,000 plus 1% of total volume in excess of \$25,000,000
 - Max required \$2,500,000
 - Liquidity 20%

Mortgagee Letter 2010-20

Implementation of Final Rule FR 5356-F-02

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- Phase Two

- Multifamily Programs Without Engagements in Mortgage Servicing

- Net Worth \$1,000,000 plus ½ % of total volume in excess of \$25,000,000
 - Max required \$2,500,000
 - Liquidity 20%

Computation of Adjusted Net Worth

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- Computation of Adjusted Net Worth
 - Needs to be part of Supplemental Data in Reports
 - Not on a consolidated basis
 - Must compute using FHA Approved Entity assets & liabilities
 - Specific format
 - Upload computation with notes
 - If deficient –Need finding and CAP
 - Loan origination must equal HUD

Computation of Adjusted Net Worth

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- Computation of Adjusted Net Worth (Cont.)
 - Capital Contribution being questioned by HUD
 - Title
 - Type
 - Cash
 - Land
 - Securities
 - Fixed Assets
 - Current Operations - NO



Computation of Adjusted Net Worth

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- Computation of Adjusted Net Worth (Cont.)
 - If corrected prior to audit report date
 - Subsequent Event footnote needed
 - If corrected after audit report date
 - CPA memo verifying deposit, date and amount
 - Copies of deposit slip & complete bank statement verifying deposits & withdrawals
 - Exact date and amount of Capital Contribution (specific language)
 - Plan to monitor Adj. New Worth (ANW) requirement monthly throughout the year
 - Exact date company is in compliance with ANW



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	Balance Sheet	Ops & Equity	Cash Flows	Net Worth	Liquidity
Line Item #	Account Description				Amount
1201*	FHA Servicing Portfolio				\$ 0
Add FHA Originations and FHA Purchases:					
1202*	FHA Originations - Dollar amount of FHA-insured Title II mortgage loan originations during the year under audit				\$ 11,841,593
1203*	FHA Purchases - Dollar amount of FHA-insured Title II mortgage loan correspondent purchases during your fiscal year under audit				\$ 0
1205	Subtotal				\$ 11,841,593
Subtract FHA Servicing Retained:					
1221*	Dollar amount of FHA-insured Title II mortgage loan originations retained at the fiscal year end under audit				\$ 0
1222*	Dollar amount of FHA-insured Title II mortgage loan correspondent purchases retained at the end of the year under audit				\$ 0
1225	Subtotal				\$ 0
1231	Total				\$ 11,841,593
1232	1% of Total (future calculation for May 20, 2013)				\$ 118415.93
1235	Minimum Net Worth Required per Lender Category (future calculation for May 20, 2013)				\$ 500,000
1240	Net Worth Required Per Lender's Current Size				\$ 500,000
500	Stockholder's Equity (Net Worth) per Balance Sheet				\$ 2,431,916
180	Less: Unacceptable Assets				\$ 0
1270	Adjusted Net Worth				\$ 2,431,916
1280	Adjusted Net Worth ABOVE Program Requirement				\$ 1,931,916

Unacceptable Assets

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- Unacceptable Assets
 - Assets of the approved entity only
 - Assets listed on ANW schedule **MUST** be identified on Balance Sheet for LASS
 - Other Assets – If disclosure
 - HUD can determine no unacceptable assets
 - They are acceptable



- Computation of Liquidity
 - Footnote disclosure listing each type of cash
 - Should have computation in W/P
- Fixed Assets
 - Footnote disclosure
 - Proof of purchase



- Beginning Equity balance (Line 991) must equal Ending Balance (Line 990) of prior year submission
 - If not, HUD has asked for as many as 4 years of Statement of Stockholders Equity
- Beginning Cash balance (Line 462) must equal Ending Cash of prior year submission

- Missing or inadequate amounts reported for:
 - Personnel Expense – Wages
 - Personnel Expense – Payroll Taxes and Benefits
 - Interest Expense
 - Occupancy
 - Depreciation
 - Professional



- Statement of Stockholders Equity
- Cash Flow Statements
 - Do not net owner deposits and withdrawals. Each must be shown separately.
 - Line items flow from P&L

Quality Control Plan Findings

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- Quality Control Plan findings
 - All Mortgagees required to have QC Plan
 - Mortgagee Letter 2011-02
 - HUD considers QC problems MATERIAL
 - Nonperformance of QC reviews is a material weakness and should be included in IC report
 - Need a Finding and CAP
 - Will require a copy of QC plan
 - HUD will ask for most recent copy of QC review reports



- Reports
 - Include Titles on all reports
 - Must be hand signed
 - Acceptable formats
 - Scanned copy of original document with hand signature
 - Image file containing legal hand signature inserted onto document



- Independent Audit Report
 - Audit of related statements of income, STOCKHOLDERS / MEMBERS EQUITY, ...(not retained earnings)
- SAS 29 Opinion
 - Include Computation of Adjusted Net Worth
 - HUD has been requesting all pages listed be uploaded

Internal Control Report

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- Compliant with SAS 115 & SAS 117
 - (1)'s & (2)'s
- Include Title on reports
 - Independent Auditor's Report on Internal Control (Combined Report Applicable to Internal Control Over Financial Statements and Internal Control Over Compliance for HUD-Assisted Programs)

Compliance Report

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- Compliance Report with Specific Requirements Applicable to Major HUD Programs (see sample report)
 - MUST identify specific program requirements tested. (see sample report)
 - Quality Control Plan, Branch Office Operations, Loan Origination, Loan Settlement, Loan Servicing, Escrow Accounts, Federal Financial and Activity Reports, KICKBACKS, Mortgagee Approval Requirements, etc.
 - NEW - Sponsor responsibilities
 - NEW - Section 235 Assistance Payments
 - Include Title on reports



- Title I and Title II approval
 - Must prepare separate Compliance reports for Title I and Title II to submit to HUD

Management Letter

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- Letter to Management (ML)
 - Material instances
 - Finding in Report
 - Immaterial instances
 - Reported to management in letter
 - If you do not prepare a Management Letter, do not refer to one in your reports
 - If you have findings AND you prepared a ML, HUD may ask for the letter along with CAP's for items stated in the ML

Corrective Action Plan

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- Corrective Action Plan
 - Must be separate from finding
 - On client letterhead
 - Written (or appear to be written) by client
 - Hand signed by client



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Notify HUD

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- Net Worth falls below required minimum
- Operating Loss
 - 20% of net worth
 - Submit quarterly financial statements (audited or unaudited)

First Electronic Filing

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- If approved with a financial statement more than 6 months old, will need to file a submission for the current year
 - Example
 - Approved Jan. 2011
 - Approval package used a 12/31/2009 audit
 - Required to submit a 12/31/2010 submission by 3/31/2011, even though they were not approved until 2011

Future Audit Filings

(Per Bob Holland)

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- All Other or Separate CPA letters about HUD uploaded
- Management Memo
 - How each compliance issue was resolved
- Follow-up on prior year issues
- Footnote disclosure on Liquidity
 - List each cash type
- Compliance Report
 - List all areas in scope
 - Note those that are not applicable

Supervised Entities

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- When starting LASS submission answer questions correctly

Instructions:

Please state whether the HUD approved lender is a parent or subsidiary entity and, if the answer is "No", whether the HUD approved lender issued financial statements independent of the consolidated entity.

Is the HUD approved lender a parent or subsidiary entity?

- Yes No

Did the HUD approved lender issue financial statements independent of the consolidated entity?

- Yes No

Is the information from its assets, liabilities and results of operation entered from the consolidated financial statements of the parent entity?

- Yes No

Supervised Entities

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- Parent/Subsidiary Entities
 - HUD Audit Guide
 - Mortgagee Letter 2011-05
 - Internally prepared consolidating schedules
 - No longer required
 - Unaudited regulatory report (Call Report)

Small Supervised Lenders

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- Less than \$500 million in assets
- Mortgage Letter 2011-25
- Allowed to mail in hard copy
- Expires April 7, 2012
- Revised Internal Control Report
 - Auditor use professional judgment

LASS SYSTEM

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АНАСРА

- Supervised entities
- New system 2012?

Withdrawal & Reinstatement Process

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- Final Rule Oct 10, 2008
 - 24 C.F.R. Part 25
 - See ML 2009-01
- Notice of Deficiency (30 day letter)
- Notice of Violation
 - 30 days to respond
 - Referred to Mortgagee Review Board (MRB)
 - Settlement Agreement and a Civil Monies Penalty notice.
 - Penalty is \$3,500 up to \$7,500 to be determined by the MRB
- Notice of Withdrawal or Termination

Most Commonly Asked Questions

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- How are extension requests submitted?
- What happens if the submission is not filed on time?
- How do I change my fiscal year end (FYE)?



What AHACPA Learned this year from HUD



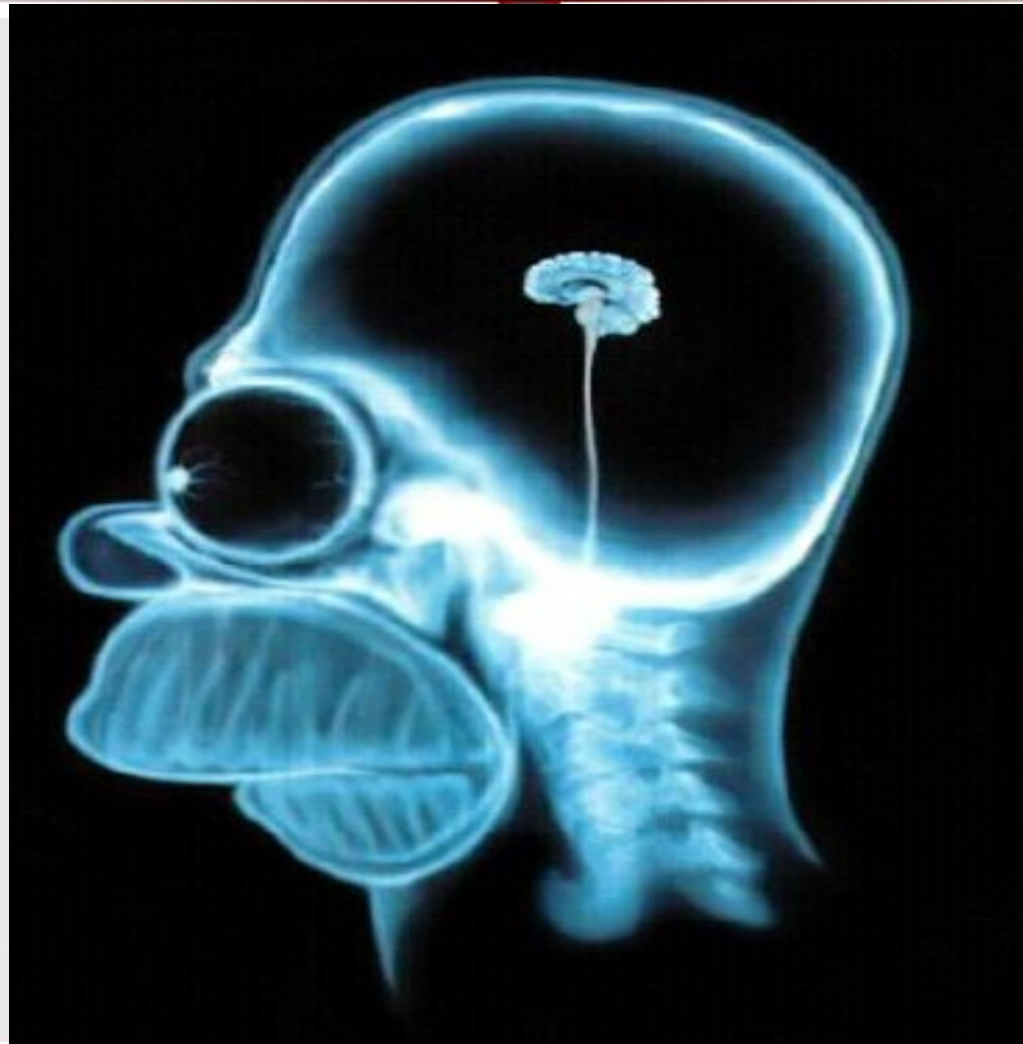
Case Studies

Welcome to LASS 2011

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Case Study 1

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- Supervised Entity
- Filed financial statements in accordance with ML 2011-05
- I/C & Compliance reports were addressed to consolidated entity

Case Study 2

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- HUD was unable to verify CPA's state license
- Supplemental Opinion was correct.
 - Referenced appropriate page numbers.
 - Did not upload CPA's computation of ANW (page 35 of report)

Case Study 3

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- Original ANW showed required Net Worth at \$250,000. Adjusted Net Worth over amount required was \$9,600,000
- Revised ANW computation did not change required Net worth of \$250,000.
- See CPA response to issuing a new opinion.
- HUD accepted this response.

Case Study 4

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- HUD was unable to verify CPA's state license
- Findings reported as immaterial
 - Quality Control Review of Rejected Loans
- Schedule of Findings referenced in Compliance report
- CPA qualified Compliance report in cure
- HUD did not require Mortgagee to perform review of rejected loans for 2010.

Case Study 5

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- HUD was unable to verify CPA's state license.
- No Findings
- Pages referenced in Supplemental Opinion were a detail of G&A expense and Direct Costs.
- No Adjusted Net Worth footnote.
- HUD could see that ANW computation was not included in Supplemental Opinion.

Case Study 6

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- HUD was unable to verify CPA's state license
- No Findings
- Used old Internal Control report
- Made contributions of \$4,000,000 during year

Case Study 7

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- HUD was unable to verify CPA's state license
- Findings
 - QC Plan not sufficient
 - Doc prep fees and interest collected was not in accordance with FHA guidelines.
 - Training of employees on Internal Control
 - HMDA report not filed
- Referenced a Management Letter in Internal Control report
- Originally reported \$295,000 in loan originations, however, a loan for \$39,000 was misclassified.
- CAP noted they contracted with a third party to do their reviews.

Case Study 8

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- Findings
 - QC Plan did not address all HUD specific requirements.
 - QC Reviews performed on all loans, no determination if 10% of FHA loans were selected.
 - Site reviews not performed
 - Referral fees paid to employees
- I/C report referred to a Management Letter
- No management action plan was prepared
 - “no significant deficiencies or material weaknesses found”

Case Study 9

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- Findings – All reported as immaterial
 - Site reviews not performed
 - QC Reviews performed on all loans, no determination if 10% of FHA loans were selected.
 - QC Reviews not reported to management timely.
 - Rejected applications not reviewed
 - Branches not registered
 - QC Plan did not address all HUD specific requirements.
 - Net worth computation not prepared by management at year end to determine compliance

Case Study 10

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- Findings – Material
 - QC Plan did not address all HUD specific requirements.
 - Branches not registered
 - QC Reviews for 3rd & 4th Qtrs were performed, however no FHA loans were reviewed. Performed.
- Notice difference in language of findings and what HUD is requiring because of it.

Case Study 11

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- No Findings
- Used old I/C Report
- Used “applicable requirements” instead of “specific programs” in 4th paragraph.

Case Study 12

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- No Findings reported
- Compliance report referred to a “schedule of findings”
 - Schedule of findings stated there were no findings.
- Beginning Equity balance at 1/1/2010 showed \$1,600,000
- Ending Equity balance at 12/31/2009 showed \$1,100,000

Case Study 13

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- Findings - Material
 - QC Plan did not adhere to HUD guidelines
 - QC Reviews were not performed in 2010.
- Note Bob Holland's email
 - Future Audit Filings

Case Study 14

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- Cash & Equity beginning balances did not agree to prior year ending balances.

Mortgagee Letter 2010-38 Mortgagee Eligibility Requirements and Electronic Annual Certification Requirements

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- Officers defined
- Notify HUD of changes
 - Change of Officers
 - Business changes – Address, etc.
 - Criminal activity
- Annual Recertification
 - Complete online Annual Certification
 - Electronic payment of renewal fee
 - Submission of audit

Mortgagee Letter 2009-53

RESPA and FHA Related Policies

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- No 1% origination fee limit
- HECM & Section 203K Rehabilitation has not changed
- FHA expects lender fees will be fair and reasonable
- Borrowers not overcharged

Mortgagee Letter 2011-18

Elimination for FHA's origination fee cap 203K

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- 1% origination fee cap on 203K Rehabilitation Mortgage Insurance Program
- HECM remains unchanged

Mortgagee Letter 2011-17

Use of HUD/FHA Logo, Advertising

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- May display official FHA Approved Lending Institution logos (Exhibit A)
- Must have disclaimer not acting for FHA
- May not appear to be an official government form
- TPO's are prohibited from using logo
- Exhibit B prohibited for all

Mortgagee Letter 2010-03

Mortgagee Approval & Terminating Underwriting Authority

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- Terminate DE Underwriter when default claim rate exceeds 200% in geographic area
- HUD review rate of defaults every 3 months
- Reinstatement
 - Apply after 6 months
 - Review of underwriting
 - Review must be by from a CPA
 - CAP and evidence of implementation

Mortgagee Letter 2010-34

Revised Lender Approval Requirements

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- Officers
 - New definition
 - Owner, President, VP, COO, CFO, Director, Corporate Secretary, CEO, Chairman of Board, Member or Manager of LLC
- Office Facilities
 - No longer required to submit evidence of acceptable home office facilities
- Conversion of FHA Lender Approval Type
 - Submit new lender approval application
 - Pay \$1,000 application fee