

October 11, 2022

Julia Gordon
Assistant Secretary for Housing, Federal Housing Commissioner
Department of Housing and Urban Development
451 7th St S.W.
Washington, D.C. 20410

Revised FHA Servicing Defect Taxonomy Proposal

Dear Commissioner Gordon:

The Housing Policy Council¹ (“HPC”) and the National Consumer Law Center² (“NCLC”) write to provide a joint update on the groups’ recommendations regarding the Servicing Defect Taxonomy that FHA is developing. Since submitting initial recommendations, HPC and NCLC have worked closely together in an effort to reach alignment on a number of issues where those previous recommendations diverged.³

We have attached a revised version of HPC’s Taxonomy (the “Revised HPC Proposal”). Although areas of divergence remain, HPC and NCLC strongly encourage FHA to review this Revised HPC Proposal in connection with the issuance of a Taxonomy. We again note that it is most important that the Taxonomy contain sufficient detail, clarity, and certainty to promote full engagement in the FHA Program. Importantly, this Revised HPC Proposal reflects the following specific recommendations on which HPC and NCLC jointly agree:

- Life-of-loan indemnification should be limited.
- Remedies should be calibrated to the actual harm caused.
- Defects should be categorized by defect type and should include examples.
- The Servicing Defect Taxonomy should clearly outline its role in the FHA supervision process and how it will be used.

Below, this letter summarizes both areas where HPC and NCLC have reached alignment and areas where we continue to diverge. For issues where HPC and NCLC continue to have differing views or interpretations, each organization’s perspective is presented below. For FHA’s ease of reference, the Revised HPC Proposal marks these issues using color-coding:

- Areas where HPC and NCLC have reached alignment are highlighted in green.
- Areas where HPC and NCLC diverge are highlighted in yellow.

¹ HPC is a trade association comprised of the leading national mortgage lenders and servicers, mortgage and title insurers, and technology and data companies. HPC advocates for the mortgage and housing marketplace interests of its members in legislative, regulatory, and judicial forums. Our interest is in the safety and soundness of the housing finance system, the equitable and consistent regulatory treatment of all market participants, and the promotion of lending practices that create sustainable homeownership opportunities in support of vibrant communities and long-term wealth-building for families. For more information, visit www.housingpolicycouncil.org.

² Since 1969, the nonprofit NCLC has worked for consumer justice and economic security for low-income and other disadvantaged people in the U.S. through its expertise in policy analysis and advocacy, publications, litigation, expert witness services, and training.

³ HPC submitted a proposed Servicing Defect Taxonomy strawman document to FHA dated May 12, 2022. Subsequently, NCLC submitted feedback on HPC’s proposal to FHA dated July 5, 2022.

Further, we have annotated the attached Revised HPC Proposal with flags that will direct FHA to the relevant numbered sections below. We are hopeful that this document will provide helpful information to assist in the quick release of a revised Taxonomy.

Areas of Alignment

1. “Cause” vs. “Defect” Definitions – The Revised HPC Proposal adopts NCLC’s recommendations regarding the definitions for and uses of the terms “Cause” and “Defect.”
2. “Material Misrepresentation” Definition – The Revised HPC Proposal omits the phrase “Material Misrepresentation.” Although FHA documents typically refer to “fraud and material misrepresentation,” FHA guidance has not defined “fraud” distinctly from “material misrepresentation.” As a result, for the sake of simplicity—and to avoid any potential misinterpretation or use of the two terms in a manner that is inconsistent with existing FHA policy—the Revised HPC Proposal uses a single defined term: Fraud.⁴
3. Systemic Issues – HPC and NCLC have aligned on proposed language addressing the need to identify systemic issues underlying servicing errors. This new language appears in Part III (Remedies) of the Revised HPC Proposal.
4. Consumer Impact Statement – HPC and NCLC have aligned on proposed language addressing the actions that servicers should take when remedying a defect’s impact to FHA that does not also substantially correct negative consumer impact. This new language appears in Part III (Remedies) of the Revised HPC Proposal.⁵
5. Potential Restrictions on Principal Reduction – HPC and NCLC have aligned on new language that more fully describes situations where principal reduction may not be appropriate based on foreclosure or bankruptcy impacts. This new language appears in “Limitations” column of the Remedies table entry for Principal Reduction.
6. Defect Area 4, Tier 2 Examples and Remedies – HPC and NCLC have aligned on including NCLC’s additional suggested Remedies for Tier 2 defects in Defect Area 4.⁶
7. Defect Area 6, Tier 2 Examples and Remedies – NCLC and HPC have aligned on potential corresponding Remedies in Defect Area 6.

Areas of Differing Perspective or Interpretation

Below, NCLC and HPC present each organization’s individual perspective on the issues. Neither organization’s perspective or opinion should be attributed to the other.

⁴ This resolves potential ambiguity in NCLC’s July 5 submission—although NCLC referenced UDAP, NCLC did not intend to incorporate UDAP enforcement mechanisms into the Taxonomy.

⁵ As discussed below, NCLC and HPC continue to diverge regarding the extent to which the Taxonomy should include consumer impacts. However, NCLC believes that this additional language is an acceptable improvement.

⁶ While we have reached alignment on additional suggested remedies in Tier 2 defects, as discussed below, NCLC and HPC continue to diverge regarding the classification of certain Defects for Defect Area 4.

8. Expansion of Scope of Taxonomy to Consumer Impact –

NCLC view

NCLC believes that the definition of “Materiality” in the servicing context should be expanded to include Defects or Findings that have an adverse impact on borrowers. Likewise, NCLC’s July 5 submission includes several other suggested insertions of references to “borrowers” that reflect this expansion. This language brings the taxonomy expressly in line with the Congressional intent behind the FHA program.

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HPC view

The proposed additional language regarding consumer impacts discussed above in ¶ 4 sufficiently expresses FHA’s expectation that servicers will address consumer impacts of servicing errors. Further, servicers’ federal and state regulators already have mature and effective examination processes for this purpose. HPC believes that reviving participation in FHA programs is an essential component of fulfilling FHA’s Congressional housing mission. Expanding the scope of the Taxonomy would not encourage renewed participation in FHA programs.

9. “Materiality” Definition (Increase in Risk) –

NCLC view

NCLC believes the definition of “Materiality” in the servicing context should be expanded to add Defects or Findings that “substantially increase the risk of unnecessary foreclosure.” Such defects threaten HUD’s statutory goals of stabilizing homeownership and protecting the Mutual Mortgage Insurance Fund, and HUD should address them through the taxonomy." When a defect led to avoidable foreclosures in the past and continues to cause avoidable foreclosures, there is a substantial likelihood that it will cause more avoidable foreclosures if not corrected.

HPC view

This proposed language would defeat the Servicing Defect Taxonomy’s purpose of promoting certainty and consistency by adding a highly subjective element to one of the most critical operative definitions of the Taxonomy. There is no objective way to measure the “substantiality” of any risk arising from any particular servicing defect. As a result, expanding the scope of Materiality in this way would prevent the Taxonomy from encouraging renewed participation in FHA Programs.

10. Servicing Remedies, Example of Corresponding Defects –

NCLC view

NCLC’s July 5 submission included additional examples of corresponding Defects for Account Adjustment and Financial Compensation that are not included in the Revised HPC Taxonomy. These examples are: “exceeding the required timelines in implementing loss mitigation option pursuant to its terms” and “exceeding the required timelines in meeting loss mitigation timing requirements.” NCLC continues to believe these examples are important to illustrate defects that can cause harm to FHA and to borrowers.

HPC view

The “Examples of Corresponding Defects” column of the Servicing Remedies table is intended to be illustrative only, as it is neither exclusive nor exhaustive. In addition, many of the suggested additions would not be appropriate under the definition of “Materiality” that HPC supports, centering on harm to the Property or to FHA.

11. Borrower Escalations Example Defect –

NCLC view

NCLC’s July 5 submission included responses to borrower inquiries and escalations as an additional example of a Tier 2 defect in Defect Area 3. NCLC continues to believe that borrower inquiries and escalations are a crucial area for HUD examinations to consider and should be specifically identified in the taxonomy, but NCLC is flexible about where in the taxonomy borrower inquiries and escalations are addressed. NCLC urges its retention. Specific subsections within § III.A.2.i of Handbook 4000.1 are appropriately listed as examples elsewhere in the document (*e.g.* in Defect Areas 2, 3) in order to highlight their importance. Subsection III.A.2.i.ix merits this specific reference because of its crucial role in promoting voluntary corrections without FHA involvement.

HPC view

FHA requirements around this issue are already addressed by Defect Area 4. Defect Area 4 covers Single Family Housing Handbook 4000.1, § III.A.2.i—which includes, among other guidelines, FHA’s borrower escalation requirements from subsection § III.A.2.i.ix. Further, the specific Defects discussed in each Defect Area are provided only as examples, not as an exhaustive list of all requirements covered by the Defect Area.

12. Classification of Defects Related to Consumer Notices and Outreach –

NCLC view

NCLC disagrees with the proposed Tier classification of Defects related to consumer outreach and notices in Defect Areas 3 and 4. NCLC believes that such Defects should be evaluated on a case-by-case basis under the general materiality standard. Timely and accurate outreach, accurate communications, and notice to borrowers are foundations of all FHA loss mitigation, which demands prompt intervention to minimize risk of loss. Treating these defects

categorically as non-material and as non-remediable minimizes the role of these requirements and undercuts the foundations of the program. NCLC recognizes that not all notice and outreach defects will have a harm to FHA, but some will when the lack of timely communication impacts loss mitigation outcomes. When there is harm, it is not fixed by further notices or outreach, but instead by using the remedy types to fix what the failures have caused. A servicer that commenced a foreclosure based on an untimely notice can be required to re-start the proceedings after giving a timely notice. Account adjustment and monetary compensation would be appropriate remedies in other cases, as is true for any defect that caused a concrete harm.

HPC view

Such Defects are properly categorized as Tier 3, which includes include Defects that are non-Material and non-Remediable. Defects of this nature are not Material⁷ because they do not adversely impact the Property or FHA. They are also not Remediable—once an FHA timeline for conducting outreach or sending a notice has expired, it is no longer possible to comply with that timeline.⁸ Further, case-by-case classification would defeat the Servicing Defect Taxonomy’s purpose of establishing an objective, consistent framework for addressing Defects by inserting an element of subjective judgment into the correction process.

Both HPC and NCLC welcome questions from FHA and encourage FHA to solicit additional feedback from stakeholders by posting a draft Servicing Defect Taxonomy on its Drafting Table. Again, we appreciate FHA’s continued engagement with the stakeholder community.

Respectfully,

Housing Policy Council
National Consumer Law Center (on behalf of its low-income clients)

⁷ Based on the definition of Materiality supported by HPC.

⁸ For example, FHA guidelines require servicers to send form HUD-92070 to customers no later than the 45th day of delinquency. A servicer who inadvertently fails to meet that deadline might well choose to send the notice to the consumer on day 50 to address potential consumer impact by ensuring that the information is provided to the consumer, even if 5 days late. Nevertheless, doing so does not actually Remediate the underlying Defect—at day 50, it is simply no longer possible to send the notice by the 45th day of delinquency as FHA guidelines require.

APPENDIX 8.0 – FHA DEFECT TAXONOMY (XX/XX/2022)

I. PURPOSE

The Defect Taxonomy is FHA’s method of categorizing Defects **at the loan level**.

A) The Defect Taxonomy provides:

- useful data and feedback through structured categorization and illustrative examples of defects and their sources, causes and severities.
- useful information on how the taxonomy will be utilized in both an origination and servicing loan review context, including when loans will be subject to review under the taxonomy, and how defect severities are characterized and addressed.
- 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.
- Establish standards for administrative or civil enforcement action, which are currently set forth in law.
- Preclude FHA from referring violations 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.

C) The Defect Taxonomy will be used for:

- Resolution of issues identified during Origination and Servicing HUD QAD loan reviews and audits;
- Resolution of Lender and servicer self-reported loan-level defects;
- Resolution of origination and servicing loan-level issues identified by or reported to HUD OIG;

D) The Defect Taxonomy will not be used for:

- Resolution of issues identified during post-claim audit reviews;
- Resolution of issues identified during National Servicing Center desk reviews.

II. CORE CONCEPTS

A) Definitions

See Cover Letter, ¶ 1.

Cause	A Cause is the specific conduct or inaction found to be the reason why a Defect occurred.
Defect	A Defect is any deviation from HUD policy requirements by a Lender, Mortgagee, or other participant (as applicable), regardless of Materiality.
Finding	A Finding is a determination that a Defect has occurred. An individual Finding is identified in the Loan Review System (LRS) by

	<p>its specific Cause, Defect Area, and Source.</p> <ul style="list-style-type: none"> • Tier 1 and Tier 2 Defects are “unacceptable” Findings. An “unacceptable” finding requires a Mortgagee response in LRS and must be Remedied. • Tier 3 and Tier 4 Defects are “deficient” Findings. A “deficient” Finding does not require a Mortgagee response in LRS and need not be Remedied.
<p>Fraud</p> <p>See Cover Letter, ¶ 2.</p>	<p>Fraud, for the purposes of this Taxonomy only, is:</p> <ul style="list-style-type: none"> • A Materially false statement, • Intentionally made to induce an entity to act to its detriment, • Upon which that entity reasonably relies, and • That causes actual harm to that entity.
<p>Material, Materiality, Materially</p> <p>See Cover Letter, ¶¶ 8, 9.</p>	<p>Materiality is defined as follows:</p> <ul style="list-style-type: none"> • In the context of Mortgage origination and underwriting, a Defect or Finding is Material if disclosure of the Defect or Finding would have altered the Mortgagee’s decision to approve the Mortgage or to endorse or seek endorsement from FHA for insurance of the Mortgage. • In the context of Servicing, a Defect or Finding is Material if it has an adverse impact to the Property and/or FHA.
<p>Mitigate, Mitigated, Mitigation</p>	<p>Actions that reduce the likelihood that a Defect or Finding will be Material.</p> <ul style="list-style-type: none"> • In the context of mortgage origination and underwriting, Mitigation means adequately addressing the deficiencies underlying a Defect or Finding such that the Mortgagee’s decision to approve the Mortgage or to endorse or seek endorsement from FHA for insurance of the Mortgage is reasonably acceptable to FHA. • In the context of Servicing, Mitigation means adequately addressing the deficiencies underlying the Defect or Finding such that there is no longer a Material adverse impact on the Property and/or FHA.
<p>Property</p>	<p>Property refers to the real estate entity that will serve (or serves) as adequate security for a specific FHA-insured Mortgage.</p>
<p>Remediable, Remedial, Remedied, Remedy</p>	<p>A Remedy addresses potential impact to FHA or the Property from Tier 1 and Tier 2 Defects.</p>
<p>Severity Tier</p>	<p>A Defect’s Severity Tier determines what (if any) steps a Mortgagee may take to address a Defect.</p>

Source	A Source is an activity a Mortgagee must perform in accordance with HUD policy requirements.
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Terms not specifically defined above shall have the meanings provided by FHA Handbook 4000.1 Glossary and Acronyms.

B) Severity Tiers

- **Tier 1**
 - A Defect belongs to Severity Tier 1 if it is associated with Fraud about which the Mortgagee knew or reasonably should have known.
 - A Tier 1 Defect is “unacceptable” and requires a Mortgagee response in LRS.
 - A Tier 1 Defect must be Remedied. Remedies include submission of Mitigating Documentation to clear a Finding.

- **Tier 2**
 - A Defect belongs to Severity Tier 2 if it is:
 - Material, or
 - Non-Material but Remediable.
 - A Tier 2 Finding may also be appropriate when FHA is unable to determine compliance due to missing, incomplete, or inaccurate Mortgagee records (unless those records are or should be within the possession or control of FHA).
 - A Tier 2 Defect is “unacceptable” and requires a Mortgagee response in LRS.
 - A Tier 2 Defect must be Remedied. Remedies include submission of Mitigating Documentation to clear a Finding.

- **Tier 3**
 - A Defect belongs to Severity Tier 3 if it is not Material.
 - A Tier 3 Finding is also appropriate for any Defect for which HUD Policies provide a specific regulatory penalty for non-compliance (e.g. interest curtailment for missed foreclosure/conveyance timelines or reconveyance for title defects).
 - A Tier 3 Defect is “deficient” and does not require a Mortgagee response in LRS.
 - Remediation is not required for Tier 3 Defects. However, Mortgagees may submit Mitigating Documentation to clear a Finding.

- **Tier 4**
 - A Defect belongs to Severity Tier 4 if it is associated with Fraud about which the Mortgagee did not know and could not reasonably have known.
 - A Tier 4 Defect is “deficient” and does not require a Mortgagee response in LRS.
 - Remediation is not required for Tier 4 Defects. However, Mortgagees may submit optional responses in LRS to mitigate Findings.

III. REMEDIES

FHA has the authority to pursue loan-level actions and relief reasonably related to a Mortgagee's underlying violations. FHA will not generally refer a Mortgagee to the Mortgagee Review Board (MRB) based on a Tier 1 or Tier 2 Defect if the Mortgagee appropriately Remedies the Defect. However, FHA may, in its discretion, refer knowing Material violations of HUD/FHA program statutes, regulations, and handbook requirements to the MRB even if the underlying Defect has been Remedied.

When FHA identifies a Tier 1 or Tier 2 Defect that is likely to also impact other loans, FHA will examine the Cause of the Defect. Based on its examination of the Defect, FHA will assess whether the Defect is evidence of a systemic practice or structural problem with the servicer. In making this determination, the servicer will have an opportunity to show that defect does not implicate a systemic practice or structural problem.

See Cover Letter, ¶ 3.

The purpose of a Remedy is to address potential adverse impacts to FHA from a Defect – by Mitigating the Materiality of a Defect. As a result, the Remedy for any Defect should be proportional to the Materiality of the Defect.

Remedies are not mutually exclusive. In some cases, multiple Remedies may be necessary to resolve a Finding or Defect. The Defect Area tables below include examples of potential Remedies that could, either individually or in combination, address a Defect based on its specific facts and circumstances.

Remediation is not required for Tier 3 or Tier 4 Defects, including Defects for which HUD Policies provide a specific regulatory penalty for non-compliance (e.g. return of partial claim funds for missed partial claim timeframes or interest curtailment for missed foreclosure/conveyance timelines).

Note: To the extent that Remediation of a Material impact to FHA does not substantially correct negative consumer impacts from origination or servicing Defects, servicers should take actions consistent with FHA servicing guidelines to remedy the negative impacts. Where necessary, corrective action should include redress for consumer injury and address systemic weaknesses to prevent future Defects.

See Cover Letter, ¶ 4.

A) Originations Remedies

[Intentionally omitted.]

B) Servicing Remedies

Remedy Type (alphabetical)	Description	Examples of Corresponding Defects	Limitations
Account Adjustment	<p>Adjustment to a borrower’s mortgage, escrow, or suspense account in an amount necessary to bring the account into compliance with FHA policy.</p> <p>This may include a loan modification.</p>	<ul style="list-style-type: none"> • Loan set-up • Payment application errors • Escrow errors • Failure to timely terminate Mortgage Insurance Premiums • Offering a customer an incorrect loss mitigation option • Offering a loss mitigation option with incorrect terms 	<ul style="list-style-type: none"> • Investor restrictions¹ • FHA policies • Loan in foreclosure or bankruptcy • Account status <p>In cases where Account Adjustment is not possible due to these or other limitations, Financial Compensation may be appropriate.</p> <p style="text-align: right; border: 1px solid red; padding: 2px;">See Cover Letter, ¶ 10.</p>
Financial Compensation	<p>Monetary payment to the party or parties impacted by the Defect.</p> <p>When FHA insurance is terminated, and FHA has paid a termination claim, the required amount of financial remediation must be made to FHA via Claims Remittance.</p> <p>When financial remediation cannot be completed due to foreclosure status, or when an FHA claim has not yet been filed, the Finding may be mitigated with the lender’s acknowledgement and agreement to make financial adjustments before or upon submission of an FHA claim. (See Remittance.)</p>	<ul style="list-style-type: none"> • Overcharging fees or costs • Overcharging interest <p>In cases where Principal Reduction or Account Adjustment is not possible, Financial Compensation may be appropriate.</p>	<ul style="list-style-type: none"> • N/A
Indemnification, Five-Year	<p>Agreement to indemnify FHA against financial losses associated with the Defect for a period of five years after</p>	<p>In the context of mortgage servicing, five-year indemnification is appropriate only for Defects related to the underwriting or</p>	<ul style="list-style-type: none"> • N/A

¹ E.g. guidelines set by Fannie Mae, Freddie Mac, private investors, or Ginnie Mae (as insurer).

	the date of the Defect (retroactively).	processing of loan assumptions.	
Indemnification, Life-of-Loan	<p>Agreement to indemnify FHA against financial losses associated with the Defect for the life of the loan, retroactive to the date of the Defect.</p> <p>For liquidated loans, Life-of-Loan Indemnification requires refraining from submitting loss claims or returning loss claim funds to FHA.</p>	This Remedy is reserved exclusively for Tier 1 Findings or Defects	<ul style="list-style-type: none"> N/A
Indemnification, Two-Year	<p>Agreement to indemnify FHA against financial losses associated with the Defect for a period of two years after the date of the Defect (retroactively).</p> <p>The indemnification will terminate two years after the date of the Defect if the loan returns to or remains in a performing status.</p>	<p>Defects that could contribute to a monetary default within two years of the date of the Defect, including:</p> <ul style="list-style-type: none"> Failure to offer or evaluate for loss mitigation Erroneous loss mitigation denials Offering a customer an incorrect loss mitigation option (Only when Account Adjustment is not possible.) 	<ul style="list-style-type: none"> N/A
Mitigating Documentation	Documentation sufficient to clear a Defect or Finding by demonstrating that the Defect did not occur or that the Defect or Finding has been Mitigated.	<ul style="list-style-type: none"> A Mortgagee may clear a Finding related to the failure to evaluate a borrower for loss mitigation by submitting documentation demonstrating that a Mortgagee properly evaluated the borrower for loss mitigation A Mortgagee may clear a Finding related to a payment application error by submitting documentation showing that the payment application error has already been corrected 	<ul style="list-style-type: none"> N/A
Principal Reduction	<p>For current loans: Reduction of principal loan balance.</p> <p>For delinquent or defaulted loans:</p>	<ul style="list-style-type: none"> Payment application errors Capitalization calculations errors with modifications or partial claims 	<ul style="list-style-type: none"> Investor restrictions Situations where principal reduction is impossible or

	<p>Funds applied to the loan's suspense account.</p> <p>The amount should correspond to the amount necessary to resolve any adverse impact to the FHA or the Property.</p>		<p>impractical due to foreclosure status or bankruptcy laws/rules</p> <p>In cases where Principal Reduction is not possible due to these or other limitations, Financial Compensation may be appropriate.</p>
Remittance	<p>Refraining from claiming loss mitigation incentives or returning incentives and/or claim funds to FHA.</p>	<ul style="list-style-type: none"> • Offering the incorrect loss mitigation option • Overclaiming amounts in a loss claim or a partial claim 	N/A

IV. FRAUD

All Findings of Fraud may be referred to the Office of the Inspector General (OIG).

- A)** FHA determines if the Mortgagee knew or reasonably should have known based on whether:
 - an employee of the lender was involved *and/or*
 - red flags regarding origination, assumption, or loss mitigation documentation reasonably should have been questioned by the Mortgagee.
- B)** FHA's loan review determinations regarding Findings of Fraud do not affect or override any separate determinations of the OIG through any audit or investigative process.

V. UNDERWRITING LOAN REVIEW

Effective for Loan Reviews as of 01/01/20

[Placeholder – No changes to existing Section V published in Handbook 4000.1]

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VI. SERVICING LOAN REVIEW

Defect Area 1: General Servicing Operations (SO)	
Requirements applicable to the servicing of all FHA-insured Single-Family mortgages, including Mortgagee responsibility for records management, required actions and various processing functions in the course of mortgage servicing regardless of loan performance.	
HUD Policy References	
Single Family Housing Handbook 4000.1	HECM
<ul style="list-style-type: none"> • III.A.1.n Record Retention – Servicing File • III.A.1.c Providing Information to HUD • III.A.1.b Responsibility for Servicing Actions • III.A.2.c Reporting to Consumer Reporting Agencies and the IRS • III.A.1.d Communication with Borrowers and Authorized Third Parties • III.A.1.j Post Endorsement Mortgage Amendments • III.A.1.f Servicing Fees and Charges • III.A.1.e.v Payment Administration (Prepayment) • III.A.1.m Disclosures • III.A.2.n.iv.(I) Presidentially Declared Major Disaster Areas • III.A.2.o.i.(B) Presidentially Declared COVID-19 National Emergency • III.A.3.b.iii.-iv. & viii.-ix Assumptions • III.A.3.e.ii Section 222 Mortgages • III.A.3.g.iv. & vii HOPE for Homeowners • III.A.3.i.i Servicing FHA-Insured Mortgages for Servicemember-Borrowers • III.A.3.j Section 235 Mortgages • Appendix 3.0 Post Endorsement Fees and Charges by HOC 	
Sources & Defects	
Sources	Defects
<ol style="list-style-type: none"> 1. Servicing File Record Retention and Providing Information to HUD 2. Sale of Mortgages and Servicing Transfers 3. Consumer Credit and IRS Reporting 4. Credit Reporting for Presidentially Declared Major Disasters and Presidentially Declared COVID-19 National Emergency 5. Communication with Borrowers/Authorized Third Parties 	<ol style="list-style-type: none"> A. Records and/or documentation missing, incomplete, or illegible B. Servicing action or activity out of compliance or not completed as required C. FHA reporting requirements not met for changes and updates to the mortgage record D. Non-compliance with program or product specific criteria or procedures E. Evidence of Fraud

6. Partial Release or Modification of Security 7. Servicing Fees and Charges 8. Assumption Communications, Fees and Reporting 9. Prepayment and Prepayment Disclosures 10. Program and Product (HOPE for Homeowners, Section 222, SCRA, Section 235) Requirements related to Sources above	
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Defect Area 1 – Severity Tiers		Remedies
Unacceptable		
1	Evidence of Fraud about which the servicer knew or reasonably should have known.	Life-of-Loan Indemnification
	<p>Missing, incomplete, or inaccurate Mortgagee records that make FHA unable to determine compliance with the servicing obligations found in the Sources for Defect Area 1.</p> <p>Material <u>or</u> Non-Material but Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 1.</p>	Mitigating Documentation Principal Reduction Account Adjustment Financial Compensation
	Example Defects	Potential Corresponding Remedies
2	Failure to obtain HUD approval for a partial release or modification of security that impacts the value of the Property	1. Mitigating Documentation; 2. Principal Reduction; 3. Remittance
	Inaccurate pre-payment calculations	1. Mitigating Documentation; 2. Account Adjustment; 3. Financial Compensation
	Assessing inappropriate servicing fees/costs	1. Mitigating Documentation; 2. Principal Reduction; 3. Financial Compensation
Deficient		

3	<p>Missing, incomplete, or inaccurate Mortgagee records that are sufficient to allow FHA to determine compliance with the servicing obligations found in the Sources for Defect Area 1.</p> <p>Non-Material and Non-Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 1. For example:</p> <ul style="list-style-type: none"> • Failure to timely report events to FHA; • Failure to provide pre-payment disclosures to customers as required with no inappropriate calculation of post payment interest.
4	Evidence of Fraud about which the servicer did not know and could not reasonably have known.

Defect Area 2: General Account Administration (AA)	
Requirements specific to the accounting and administrative functions in connection with the servicing of FHA-insured Single-Family mortgages, including various routine activities and related reporting, disclosures, and documentation requirements.	
<u>HUD Policy References</u>	
Single Family Housing Handbook 4000.1	HECM
<ul style="list-style-type: none"> • III.A.1.g Escrow • III.A.1.h Insurance Coverage Administration • III.A.2.n.iii Presidentially Declared Major Disaster Areas • III.A.1.i Mortgage Insurance Premium Remittance • III.A.1.k Mortgage Insurance Premium Cancellation • III.A.1.l Mortgage Insurance Termination • III.A.1.i.i.-iv Payment Administration • III.A.3.a Adjustable Rate Mortgages • III.A.3.a.vi Assumptions for Adjustable Rate Mortgages • III.A.3.b.ii. & v Assumptions • II.A.8.n Assumptions • III.A.3.e.iii. & iv Section 222 Mortgages • III.A.3.g.ii. & iii HOPE for Homeowners • III.A.3.j Section 235 Mortgages 	
<u>Sources & Defects</u>	
Sources	Defects
<ol style="list-style-type: none"> 1. Escrow and Escrow Disclosures 2. Insurance Coverage and Administration 3. Presidentially Declared Disasters – Property Repairs 4. MIP Remittance, Cancellation/Termination and Disclosures 5. Receipt and Application of Payments/Partial Payments 	<ol style="list-style-type: none"> A. Records and/or documentation missing, incomplete, or illegible B. Servicing action or activity out of compliance or not completed as required C. FHA reporting requirements not met for changes and updates to the mortgage record

6. Adjustable Rate Loans 7. Assumption Underwriting and Processing 8. Program and Product (Section 222, HOPE for Homeowners, Section 235) related to Sources above	D. Non-compliance with program or product specific criteria or procedures E. Evidence of Fraud
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Defect Area 2 – Severity Tiers		Remedies	
Unacceptable			
1	Evidence of Fraud about which the servicer knew or reasonably should have known.	Life-of-Loan Indemnification	
2	Missing, incomplete, or inaccurate Mortgagee records that make FHA unable to determine compliance with the servicing obligations found in the Sources for Defect Area 2.	Mitigating Documentation Principal Reduction Account Adjustment Financial Compensation Remittance Five-Year Indemnification* <small>*Only for Credit Qualifying Assumption Underwriting Defects Impacting the Approval Decision.</small>	
	Material OR Non-Material but Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 2.		
	Example Defects		Potential Corresponding Remedies
	Escrow or rate change errors		1. Mitigating Documentation; 2. Account Adjustment
	Payment application errors		1. Mitigating Documentation; 2. Account Adjustment; 3. Principal Reduction
	Failure to timely cancel/terminate MIP		1. Mitigating Documentation; 2. Account Adjustment
Failure to maintain adequate hazard or flood insurance coverage	1. Mitigating Documentation; 2. Remittance		
Credit Qualifying Assumption underwriting errors	1. Mitigating Documentation; 2. Five-Year Indemnification		
Deficient			
3	Missing, incomplete, or inaccurate Mortgagee records that are sufficient to allow FHA to determine compliance with the servicing obligations found in the Sources for Defect Area 2. Non-Material and Non-Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 2. For example: <ul style="list-style-type: none"> Failure to provide required assumption or MIP notices 		

4	Evidence of Fraud about which the servicer did not know and could not reasonably have known.
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Defect Area 3: General Delinquent and Default Servicing (DS)

Requirements applicable to the servicing of non-performing FHA-insured Single-Family mortgages, including Mortgagee responsibility for records management, accounting and administrative functions, required actions, notices, and various processing functions in the course of delinquent and default mortgage servicing.

HUD Policy References

Single Family Housing Handbook 4000.1	HECM
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- III.A.2.d Late Charges
- III.A.2.e Partial Payments for Mortgages in Default
- III.A.2.h Early Default Intervention
- III.A.2.i.viii Loss Mitigation During Bankruptcy Proceedings
- III.A.2.n.iv.(K) Presidentially Declared Major Disaster Areas
- III.A.2.o.i.(B) Presidentially Declared COVID-19 National Emergency
- III.A.2.p Non-Monetary Default
- III.A.2.s Reinstatement
- III.A.2.t.i.(D)(1)(d) Prohibition of Foreclosure Due to Bankruptcy
- III.A.2.t.ii.(E)(2)(d) Foreclosure Delay Due to Bankruptcy
- III.A.2.v.iii.(B) Conveyance of Properties (Mortgagee Property Preservation and Protection Actions)
- III.A.3.c.i Hawaiian Home Lands Mortgages (Section 247)
- III.A.3.d Insured Mortgages on Indian Land (Section 248)
- III.A.3.j Section 235 Mortgages

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Sources & Defects

Sources	Defects
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1. Partial Payments or Suspense Account
2. Late Charges and Fees
3. Presidentially Declared Disasters – Late Fees
4. Presidentially Declared COVID-19 National Emergency – Late Fees
5. Collection Communications
6. SFDMS Default Reporting
7. Assigned Loss Mitigation Personnel
8. Required Default Notices
9. Face-to-Face Interview
10. Determining Property Occupancy Status or Condition

- A. Records and/or documentation missing, incomplete, or illegible
- B. Servicing action or activity out of compliance or not completed as required
- C. FHA reporting requirements not met for changes and updates to the mortgage record
- D. Non-compliance with program or product specific criteria or procedures
- E. Evidence of Fraud

11. Non-Monetary Default 12. Bankruptcy 13. Mortgage Reinstatement 14. Program and Product (Section 247, Section 248, Section 235) Requirements related to the Sources above	
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Defect Area 3 – Severity Tiers		Remedies
Unacceptable		
1	Evidence of Fraud about which the servicer knew or reasonably should have known.	Life-of-Loan Indemnification
	Missing, incomplete, or inaccurate Mortgagee records that make FHA unable to determine compliance with the servicing obligations found in the Sources for Defect Area 3. Material OR Non-Material but Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 3. <div style="border: 1px solid red; padding: 2px; display: inline-block; color: red;">See Cover Letter, ¶ 11.</div>	Mitigating Documentation Principal Reduction Account Adjustment Financial Compensation
	Example Defects	Potential Corresponding Remedies
2	Charging late fees in excess of allowable amounts	1. Mitigating Documentation; 2. Account Adjustment; 3. Financial Compensation
	Failure to determine occupancy status or failure to timely perform initial occupancy inspection	1. Mitigating Documentation; 2. Remittance
	Failure to conduct required vacancy-based property preservation	1. Mitigating Documentation; 2. Remittance
	Misapplication of reinstatement funds	1. Mitigating Documentation; 2. Account Adjustment; 3. Principal Reduction
Deficient		
3	Missing, incomplete, or inaccurate Mortgagee records that are sufficient to allow FHA to determine compliance with the servicing obligations found in the Sources for Defect Area 3. Non-Material and Non-Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 3. For example: <ul style="list-style-type: none"> • Failure to conduct timely collections outreach; • Inaccurate Single Family Default Monitoring System (SFDMS) reporting regarding account status (e.g. occupancy status, default status, reason 	Remittance

See Cover Letter, ¶ 12.

	<ul style="list-style-type: none"> for default); • Failure to provide required notices triggered by default; • Failure to conduct timely face-to-face interview
4	Evidence of Fraud about which the servicer did not know and could not reasonably have known.

Defect Area 4: Loss Mitigation Processing (LP)

Servicing standards and procedures specific to FHA-insured mortgage loss mitigation processing, including various review activities, waterfall order, reporting, required notices, and document collection.

HUD Policy References

Single Family Housing Handbook 4000.1	HECM
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- III.A.2.g Imminent Default
- III.A.2.i Loss Mitigation Review Process
- III.A.2.j HUD's Loss Mitigation Program
- III.A.2.k.ii Postponement of Principal Payments for Servicemembers
- III.A.2.k.vi Non-Incentivized Loan Modifications
- III.A.2.k.vii Loss Mitigation Assumptions
- III.A.2.n.iv.(J) Presidentially Declared Major Disaster Areas
- III.A.2.o.iv Presidentially Declared COVID-19 National Emergency
- III.A.2.t.i.(B) Timeframe for Utilization of Loss Mitigation or Initiation of Foreclosure
- III.A.2.t.ii.(C) Loss Mitigation During the Foreclosure Process
- III.A.3.e.v Loss Mitigation for Section 222 Mortgages
- III.a.3.g.vi HOPE for Homeowners

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Sources & Defects

Sources	Defects
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1. Loss Mitigation Reviews
2. Loss Mitigation Request
3. Financial Evaluation
4. General Eligibility
5. Loss Mitigation Reporting
6. Imminent Default
7. Communications and Notices
8. Escalated Cases

- A. Records and/or documentation missing, incomplete, or illegible
- B. Servicing action or activity out of compliance not completed as required
- C. Unallowable or improperly calculated amounts related to the loss mitigation financial evaluation
- D. FHA loss mitigation reporting requirements not met
- E. Requirements related to borrower eligibility, ownership, or occupancy not met
- F. Evidence of Fraud

<ul style="list-style-type: none"> 9. Loss Mitigation Agreements 10. Loss Mitigation Option Priority Waterfall 11. Loss Mitigation for Servicemembers 12. Loss Mitigation Review and Reporting for Presidentially Declared Major Disaster Areas and COVID-19 National Emergency 13. Loss Mitigation During the Foreclosure Process 14. Loss Mitigation Assumption 15. Program and Product (Section 222, HOPE for Homeowners) Requirements related to the Sources above 	
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Defect Area 4 – Severity Tiers		Remedies	
Unacceptable			
1	Evidence of Fraud about which the servicer knew or reasonably should have known.	Life-of-Loan Indemnification	
2	Missing, incomplete, or inaccurate Mortgagee records that make FHA unable to determine compliance with the servicing obligations found in the Sources for Defect Area 4.	Mitigating Documentation Principal Reduction Account Adjustment Financial Compensation Remittance Two-Year Indemnification	
	Material <u>or</u> Non-Material but Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 4.		
	Example Defects		Potential Corresponding Remedies
	Failure to evaluate for loss mitigation		<ul style="list-style-type: none"> 1. Mitigating Documentation; 2. Financial Compensation; 3. Principal Reduction; 4. Account Adjustment; 5. Two-Year Indemnification
	Failure to collect documentation required for loss mitigation review (e.g. hardship documents, financial information)		<ul style="list-style-type: none"> 1. Mitigating Documentation; 2. Two-Year Indemnification
Loss mitigation financial calculation error	<ul style="list-style-type: none"> 1. Mitigating Documentation; 2. Principal Reduction; 3. Account Adjustment; 4. Remittance; 5. Two-Year Indemnification 		
Failure to follow loss mitigation waterfall order	<ul style="list-style-type: none"> 1. Mitigating Documentation; 2. Account Adjustment; 		

See Cover Letter, ¶ 6.

		3. Financial Compensation; 4. Remittance; 5. Two-Year Indemnification	
	Exceeding required timelines in implementing a loss mitigation option	1. Mitigating Documentation; 2. Account Adjustment; 3. Financial Compensation; 4. Remittance	See Cover Letter, ¶ 6.
Deficient			
3	Missing, incomplete, or inaccurate Mortgagee records that are sufficient to allow FHA to determine compliance with the servicing obligations found in the Sources for Defect Area 4.		
	Non-Material and Non-Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 4. For example: <ul style="list-style-type: none"> Failure to provide required notices associated with loss mitigation review; Inaccurate Single Family Default Monitoring System (SFDMS) reporting regarding loss mitigation status; 		
4	Evidence of Fraud about which the servicer did not know and could not reasonably have known.		

Defect Area 5: Loss Mitigation Home Retention Options (HR)	
Standards and requirements for executing various loss mitigation Home Retention Options from processing through completion of related servicing activities.	
<u>HUD Policy References</u>	
Single Family Housing Handbook 4000.1	HECM
<ul style="list-style-type: none"> III.A.2.iii..... Forbearance Plans III.A.2.iv Special Forbearance for Unemployment III.A.2.v FHA HAMP III.A.2.m Loss Mitigation Incentives III.A.2.n.iv.(C)-(E) & (J)..... Presidentially Declared Major Disaster Areas III.A.3.o.i.-iii..... Presidentially Declared COVID-19 National Emergency III.A.3.c.i.(C) Section 247 Mortgages III.A.3.e.v..... Section 222 Mortgages III.A.3.g.vi.(A) & (B)..... HOPE for Homeowners Appendix 4.0..... FHA-HAMP Calculations 	

Sources & Defects

Sources	Defects
<ol style="list-style-type: none"> 1. Informal and Formal Forbearance 2. Disaster Forbearance 3. COVID-19 Forbearance 4. Special Forbearance for Unemployment 5. FHA-HAMP Standalone Loan Modification 6. FHA-HAMP Standalone Partial Claim 7. FHA-HAMP Loan Modification and Partial Claim Combination 8. Trial Payment Plans 9. Partial Claim Document Requirements and Timeframes 10. Disaster Loss Mitigation Home Retention Options 11. COVID-19 Loss Mitigation Home Retention Options 12. Loss Mitigation Escrow Requirements 13. Special Forbearance for Unemployment and FHA-HAMP Incentives 14. Non-incentivized Loan Modification Reporting 15. Home Retention Option Reporting 16. Program and Product (HOPE for Homeowners, Section 247 Mortgages, Section 222 Mortgages) Requirements related to the Sources above 	<ol style="list-style-type: none"> A. Records and/or documentation missing, incomplete, or illegible B. Servicing action or activity not completed as required C. Unallowable or improperly calculated amount included in total outstanding debt to be resolved or capitalized D. FHA reporting requirements related to Home Retention Option not met E. Program or product specific provisions or eligibility requirements not met F. Evidence of Fraud

Defect Area 5 – Severity Tiers		Remedies
Unacceptable		
1	Evidence of Fraud about which the servicer knew or reasonably should have known.	Life-of-Loan Indemnification
2	<p>Missing, incomplete, or inaccurate Mortgagee records that make FHA unable to determine compliance with the servicing obligations found in the Sources for Defect Area 5.</p> <p>Material <u>or</u> Non-Material but Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 5.</p>	<p>Mitigating Documentation</p> <p>Principal Reduction</p> <p>Account Adjustment</p> <p>Financial Compensation</p>
	Example Defects	Potential Corresponding Remedies
	Offering a customer the incorrect loss mitigation home retention option	<ol style="list-style-type: none"> 1. Mitigating Documentation; 2. Account Adjustment;
		Remittance
		Two-Year Indemnification

		3. Financial Compensation; 4. Remittance; 5. Two-Year Indemnification	
	Failure to maintain first lien position when performing loan modifications	1. Mitigating Documentation; 2. Principal Reduction; 3. Remittance	
	Incorrect FHA HAMP target payment calculations	1. Mitigating Documentation; 2. Principal Reduction; 3. Account Adjustment; 4. Financial Compensation; 5. Remittance; 6. Two-Year Indemnification	
	Failure to follow FHA HAMP trial payment plan requirements	1. Mitigating Documentation; 2. Remittance; 3. Two-Year Indemnification	
	Insufficient documentation of completed FHA HAMP trial payment plan	1. Mitigating Documentation; 2. Remittance	
Deficient			
	Missing, incomplete, or inaccurate Mortgagee records that are sufficient to allow FHA to determine compliance with the servicing obligations found in the Sources for Defect Area 5.		
3	Non-Material and Non-Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 5. For example: <ul style="list-style-type: none"> • Inaccurate Single Family Default Monitoring System (SFDMS) reporting regarding loss mitigation home retention options (approval or completion status); • Missed partial claim document return timelines 		
4	Evidence of Fraud about which the servicer did not know and could not reasonably have known.		

Defect Area 6: Loss Mitigation Home Disposition Options (HD)	
Standards and requirements for executing various loss mitigation Home Disposition Options from processing through completion of related servicing activities.	
<u>HUD Policy References</u>	
Single Family Housing Handbook 4000.1	HECM
<ul style="list-style-type: none"> • III.A.2.I.ii..... Pre-Foreclosure Sales 	

<ul style="list-style-type: none"> • III.A.2.l.iii Deed-in-Lieu of Foreclosure • III.A.2.n.iv.(H) Presidentially Declared Major Disaster Areas • III.A.2.o.iii.(D) Presidentially Declared COVID-19 National Emergency • III.A.2.m Loss Mitigation Incentives • III.A.3.v Section 222 Mortgages • III.A.3.g.vi.(C) & (D)..... HOPE for Homeowners 	
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Sources & Defects	
Sources	Defects

<ol style="list-style-type: none"> 1. Streamline Pre-Foreclosure Sale (PFS) 2. Streamline PFS for Servicemember with Permanent Change of Station (PCS) Orders 3. Standard PFS 4. Streamline Deed-in-Lieu of Foreclosure (DIL) 5. Streamline DIL for Servicemember with PCS Orders 6. Standard DIL 7. Disaster Loss Mitigation Home Disposition Options 8. COVID-19 Loss Mitigation Home Disposition Options 9. Communications and Notices 10. Property Valuation 11. Title Requirements 12. Arm’s Length Transaction 13. PFS and DIL Incentives 14. Home Disposition Option Reporting 15. Program and Product (Section 222 Mortgages, HOPE for Homeowners) Requirements related to the Sources above 	<ol style="list-style-type: none"> A. Records and/or documentation missing, incomplete, or illegible B. Servicing action or activity not completed as required C. Requirements related to property condition, valuation or title not met D. Non-compliance with program or product specific criteria or procedures E. Evidence of Fraud
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Defect Area 6 – Severity Tiers		Remedies
Unacceptable		
1	Evidence of Fraud about which the servicer knew or reasonably should have known . (This includes a <i>knowing</i> violation of the pre-foreclosure sale arm’s-length transaction requirement.)	Life-of-Loan Indemnification
	Missing, incomplete, or inaccurate Mortgagee records that make FHA unable to determine compliance with the servicing obligations found in the Sources for Defect Area 6.	Mitigating Documentation

	Material <u>or</u> Non-Material but Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 6.		Principal Reduction Account Adjustment Financial Compensation Remittance
	Example Defects	Potential Corresponding Remedies	
2	Offering a customer the incorrect loss mitigation home disposition option	1. Mitigating Documentation; 2. Remittance; 3. Financial Compensation	
	Incorrect pre-foreclosure sale net proceeds calculations	1. Mitigating Documentation; 2. Financial Compensation; 3. Remittance	See Cover Letter, ¶ 7.
	Failure to ensure pre-foreclosure sale arm's-length transaction requirements are met	1. Mitigating Documentation; 2. Remittance	
	Failure to follow property valuation requirements	1. Mitigating Documentation; 2. Principal Reduction; 3. Remittance	
	Improper deed-in-lieu documentation requirements	1. Mitigating Documentation; 2. Remittance	
Deficient			
3	Missing, incomplete, or inaccurate Mortgagee records that are sufficient to allow FHA to determine compliance with the servicing obligations found in the Sources for Defect Area 6.		
	Non-Material and Non-Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 6. For example: <ul style="list-style-type: none"> Inaccurate Single Family Default Monitoring System (SFDMS) reporting regarding loss mitigation home disposition options (approval or completion status); Failure to timely provide borrowers with required loss mitigation home disposition notices; 		
4	Evidence of Fraud about which the servicer did not know and could not reasonably have known.		

Defect Area 7: Foreclosure, Conveyance, and Conveyance Alternatives (FC)

Standards and requirements for liquidation, acquisition of the Property, and alternatives to acquisition.

HUD Policy References

Single Family Housing Handbook 4000.1

HECM

- III.A.2.t..... Foreclosure
- III.A.2.r..... Claims without Conveyance of Title
- III.A.2.u Acquiring Possession
- III.A.2.v Conveyance of Acquired Properties
- III.A.2.w Non-Conveyance Foreclosure
- III.A.2.x Deficiency Judgments
- III.A.3.c.ii.-iv Section 247 Mortgages
- III.A.3.d Section 248 Mortgages
- III.A.3.i.ii..... Servicing FHA-Insured Mortgages for Servicemember Borrowers
- Appendix 6.0..... First Legal Actions and Reasonable Diligence Timeframes

Sources & Defects

Sources

Defects

1. Servicing Actions Prior to Foreclosure
2. Servicemembers
3. Foreclosure Review Process
4. Foreclosure Processing, Timelines and Proceedings
5. Foreclosure Attorney Fees
6. Property Valuation
7. Deficiency Judgments
8. Acquiring Possession
9. Cash for Keys
10. Eviction
11. Notice to Occupants of Pending Acquisition (NOPA)
12. Property Preservation and Protection Activities
13. Property Preservation and Protection Costs
14. Title Requirements
15. Conveyance of Acquired Properties
16. Reconveyance
17. Claims without Conveyance of Title (CWCOT)
18. Assignments for Special Programs
19. Program and Product (Section 247, Section 248, SCRA) Requirements related to the Sources above

- A. Records and/or documentation missing, incomplete, or illegible
- B. Servicing action or activity not completed as required
- C. FHA insurance termination reporting requirements not met
- D. Requirements related to property preservation, condition, valuation or title not met
- E. Non-compliance with program or product specific criteria or procedures
- F. Evidence of Fraud

Defect Area 7 – Severity Tiers		Remedies
Unacceptable		
1	Evidence of Fraud about which the servicer knew or reasonably should have known.	Life-of-Loan Indemnification
	Missing, incomplete, or inaccurate Mortgagee records that make FHA unable to determine compliance with the servicing obligations found in the Sources for Defect Area 7. Material <u>or</u> Non-Material but Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 7.	Mitigating Documentation Principal Reduction Account Adjustment Financial Compensation
	Example Defects	Potential Corresponding Remedies
2	Failure to meet conveyance condition requirements	1. Mitigating Documentation; 2. Remittance
	Failure to follow CWCOT requirements	1. Mitigating Documentation; 2. Remittance
	Failure to follow property valuation requirements	1. Mitigating Documentation; 2. Principal Reduction; 3. Remittance
	Failure to follow Program or Product assignment requirements	1. Mitigating Documentation; 2. Remittance
		Remittance
Deficient		
3	Missing, incomplete, or inaccurate Mortgagee records that are sufficient to allow FHA to determine compliance with the servicing obligations found in the Sources for Defect Area 7. Non-Material and Non-Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 7. For example: <ul style="list-style-type: none"> • Failure to adhere to foreclosure timelines; • Failure to adhere to conveyance timelines 	
4	Evidence of Fraud about which the servicer did not know and could not reasonably have known.	