

# SPECIAL EDITION



*from the*  
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After touring the country and talking to lenders over the past few weeks, I think it is important to take a moment and emphasize to all lenders the important role they play in this housing market, particularly in their role as responsible stewards of underwriting quality loans that will perform sustainably over time. In some cases I am seeing activities that reflect an over exuberance in the marketplace to find ways to increase loan origination revenues. Some may say it's only "a few opportunistic lenders," while others may say it's a more widespread trend. It is our job at FHA to ensure that the FHA portfolio is not impacted by dangerous lender behavior that could threaten the safety of a financially sound, viable program for decades to come. Therefore, I want to be very clear on FHA's position as it relates to underwriting, lender accountability and affordable programs.

**Quality underwriting is not only essential; it is expected.** Every lender engaging in business with FHA is expected to perform and maintain quality underwriting standards. FHA has flexible guidelines in place so we can best serve our mission of providing affordable housing opportunities to American families and be a source for insuring the availability of mortgages in a time of market contraction. We delegate that responsibility to you, our lender partners, each and every day. We expect your organization to have the right people and processes in place to make quality underwriting decisions, perform thoughtful analysis of a borrower's ability to repay the loan, and adhere to realistic underwriting ratios.

We know that in today's economy, there are a wide range of applicant profiles. We expect you to ensure that your processes and staff are well-equipped to assess the overall quality of the loan, determine a realistic income level and analyze the borrower's true ability to repay the loan. It is imperative we look at income levels, credit history, and qualifying ratios realistically and make decisions responsibly.

To ensure that our partners perform the quality underwriting we expect, we have refined and re-tooled our loan level review processes to more effectively spot unsatisfactory underwriting performance. Utilizing updated risk targeting criteria and a collaborative approach, we are executing an enhanced strategy to identify underwriting deficiencies and take action to protect FHA from unwarranted risks and losses. This comprehensive and calculated risk management endeavor will permit us to single out those lenders that are needlessly endangering FHA and the continued availability of its programs.

## LINKS

[HUD.gov/fha](http://HUD.gov/fha)

[HUD press releases](#)

FHA's loan level review processes have been enhanced to more effectively manage risks and minimize losses arising from poorly underwritten or fraudulent loans. Processes have been modified and aligned across all Single Family offices to achieve a collaborative and comprehensive approach to evaluating loans throughout the loan lifecycle. For Post-Endorsement Technical Reviews, case selection criteria have been revised and review procedures enhanced and standardized. For lender and servicer reviews, the targeting tools and methodology have been strengthened to better target lenders and loans that pose the greatest risks to FHA.

And, as FHA continues to increase our quality control efforts, we are paying close attention to areas where some may try to take unique advantage of the flexibility of FHA without the appropriate focus on quality. One example is in how loans are originated for our non-FHA to FHA refinanced loans. Even with our FHA streamline refinance program we can identify risk simply by looking at the original loan quality before it was refinanced into an FHA loan. Through this process of reviewing the original loan we can ensure that it was a quality loan and one of FHA caliber.

**Affordable products are core to FHA serving its mission.** FHA plays a critical role in the market. Not only does FHA help to stabilize the housing recovery by providing liquidity at a much needed time, but FHA, as a mission driven organization, also has a goal to provide affordable homeownership opportunities in America. We want to make sure those who buy a home today, buy a home they can keep over the long term.

Our affordable lending programs and those specifically created to help during the housing crisis, such as Hope for Homeowners, are designed to provide flexibility to serve this unique, often distressed segment of the population. We expect you to maintain the spirit and intention of these programs by providing close control over how these programs are executed in the marketplace and how compensation on these loans is paid to your staff. We need to learn from past lessons and protect consumers from behaviors where they are overcharged or adversely selected. We are paying close attention to how these programs are administered and expect you will too. Lenders must keep very close control over compensation programs to ensure borrowers are not paying more than they should to have access to FHA's affordable programs.

We have to join together to oppose predatory lending, fraud, and irresponsible business practices that threaten the housing industry and the financial security of homeowners and people trying to save for retirements. We have to create a climate of trust and confidence that will attract investors and free liquidity. If we are wise now, the market will be healthier and more secure in the future.

Our goal must be nothing less than to craft a solid, sustainable housing market, a market with a secure foundation based on trust and integrity for the future. Let's continue to work together.