



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

April 2, 2009

Mortgagee Letter 2009-12

TO: ALL APPROVED MORTGAGEES

SUBJECT: Mortgagee Monitoring

FHA has always focused on the fundamentals of prudent underwriting and credit policies and has long held a commitment to strong program oversight and risk management. FHA's risk management practices encompass the entire process from lender approval to loan endorsement and servicing, including: Post Endorsement Technical Reviews, Appraiser Watch, Credit Watch Termination Initiative, Quality Assurance Lender Monitoring Reviews, Annual Lender Renewal and Audited Financial Statement Review.

Originating quality loans is critical to the success of any mortgage entity and the FHA is no exception. Collectively, we must make every effort to eliminate improperly originated, underwritten and/or serviced loans, or related fraudulent activities.

FHA continues to introduce proactive measures to appropriately manage its risk. Recently, FHA reactivated its Special Work Assessment Teams (SWAT) to conduct single-focus on-site reviews of lenders whose originations are exhibiting signs of distress.

HUD must hold mortgagees accountable for their lending practices in order to protect the public trust and the FHA Insurance Fund. The Department expects each mortgagee to exercise the same level of care in originating, underwriting and servicing an FHA-insured mortgage as it would for a loan in which the mortgagee would be entirely dependent on the property as security to protect its investment. When a mortgagee fails to comply with HUD's policies and procedures, HUD will take the appropriate action. For example, lenders that materially violate FHA program statutes, regulations and handbook requirements may be referred to the Mortgagee Review Board for appropriate sanctions, which may include termination of mortgagee approval.

The Department urges you to review your company's procedures to ensure that your organization is in full compliance with all FHA requirements. While not an exhaustive list, it is imperative that you ensure your organization:

- implements and maintains a comprehensive quality control plan,
- reviews all loans with early payment defaults;
- does not engage in false or misrepresentative advertising;
- fully documents the stability and amount of borrower(s) income; and,
- does not charge excessive and unallowable fees to the borrower.

If you have questions regarding this Mortgagee Letter, please call the FHA Resource Center

at 1-800-CALL-FHA (1-800-225-5342). Persons with hearing or speech impairments may access this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Sincerely,

Brian D. Montgomery
Assistant Secretary for Housing-
Federal Housing Commissioner