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May 12, 2022

Julienne Joseph  
Deputy Assistant Secretary for Single Family Housing  
Federal Housing Administration / US Department of Housing and Urban Development  
451 7<sup>th</sup> Street S.W.  
Washington, DC 20410

**Re: Servicing Defect Taxonomy**

Dear Ms. Joseph:

Many thanks to you and the FHA Single Family team for your engagement with stakeholders on the FHA Servicing Defect Taxonomy. The posting of the draft document enabled the mortgage industry and consumer advocates to come together to discuss both the merits and the shortcomings of the proposed framework. We presented some of our shared thoughts and concerns during the Listening Session that FHA hosted in March.

Subsequent to that meeting, the Housing Policy Council (HPC)<sup>1</sup> met with representatives from the consumer advocacy community to discuss next steps, then reached out to FHA leadership to express an interest in continuing the dialogue. To assist with this future dialogue, HPC and our members developed a “strawman” version of the Servicing Defect Taxonomy based on your original document – attached to this note.

We developed this strawman document to illustrate the additional detail that we are seeking from FHA. We thought that this approach would offer all parties a better understanding of the stakeholder input provided to FHA. It is our intent that this document can serve as a baseline draft for discussion purposes, an update that would help advance the conversation.

We are sending this document in conjunction with a request for a future meeting with FHA and either the full set of organizations previously involved in the FHA listening session or some subset thereof. We will share the draft with the consumer advocates as well, of course, to serve as a baseline for the conversation.

Thank you so much for consideration of this request. We look forward to your response.

Yours truly,

A handwritten signature in black ink that reads 'Edward J. DeMarco'.

Edward J. DeMarco  
President  
Housing Policy Council

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<sup>1</sup> The Housing Policy Council 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.housingpolycouncil.org](http://www.housingpolycouncil.org).

## 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**

<b>Cause</b>	A Cause is the basis for a Finding.
<b>Defect</b>	A Defect is any deviation from HUD policy requirements by a Lender, Mortgagee, or other participant (as applicable), regardless of Materiality.
<b>Finding</b>	A Finding is a determination that a Defect has occurred. An individual Finding is identified in the Loan Review System (LRS) by its specific Cause, Defect Area, and Source. <ul style="list-style-type: none"> <li>• Tier 1 and Tier 2 Defects are “unacceptable” Findings. An “unacceptable” finding requires a Mortgagee response in LRS</li> </ul>

	<p>and must be Remedied.</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>
<b>Fraud</b>	<p>Fraud, for the purposes of this Taxonomy only, is:</p> <ul style="list-style-type: none"> <li>• A Materially false statement,</li> <li>• Intentionally made to induce an entity to act to its detriment,</li> <li>• Upon which that entity reasonably relies, and</li> <li>• That causes actual harm to that entity.</li> </ul>
<b>Material, Materiality, Materially</b>	<p>Materiality is defined as follows:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• In the context of Servicing, a Defect or Finding is Material if it has an adverse impact to the Property and/or FHA.</li> </ul>
<b>Mitigate, Mitigated, Mitigation</b>	<p>Actions that reduce the likelihood that a Defect or Finding will be Material.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>
<b>Property</b>	<p>Property refers to the real estate entity that will serve (or serves) as adequate security for a specific FHA-insured Mortgage.</p>
<b>Remediable, Remedial, Remedied, Remedy</b>	<p>A Remedy addresses potential impact to FHA or the Property from Tier 1 and Tier 2 Defects.</p>
<b>Severity Tier</b>	<p>A Defect’s Severity Tier determines what (if any) steps a Mortgagee may take to address a Defect.</p>
<b>Source</b>	<p>A Source is an activity a Mortgagee must perform in accordance with HUD policy requirements.</p>

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 Material 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 Material 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.

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).

#### **A) Originations Remedies**

[Intentionally omitted.]

## B) Servicing Remedies

Remedy Type (alphabetical)	Description	Examples of Corresponding Defects	Limitations
<b>Account Adjustment</b>	<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"> <li>• Loan set-up</li> <li>• Payment application errors</li> <li>• Escrow errors</li> <li>• Failure to timely terminate Mortgage Insurance Premiums</li> <li>• Offering a customer an incorrect loss mitigation option</li> <li>• Offering a loss mitigation option with incorrect terms</li> </ul>	<ul style="list-style-type: none"> <li>• Investor restrictions<sup>1</sup></li> <li>• FHA policies</li> <li>• Loan in foreclosure or bankruptcy</li> <li>• Account status</li> </ul> <p>In cases where Account Adjustment is not possible due to these or other limitations, Financial Compensation may be appropriate.</p>
<b>Financial Compensation</b>	<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"> <li>• Overcharging fees or costs</li> <li>• Overcharging interest</li> </ul> <p>In cases where Principal Reduction or Account Adjustment is not possible, Financial Compensation may be appropriate.</p>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>
<b>Indemnification, Five-Year</b>	<p>Agreement to indemnify FHA against financial losses associated with the Defect for a period of five years after the date of the Defect (retroactively).</p>	<p>In the context of mortgage servicing, five-year indemnification is appropriate only for Defects related to the underwriting or processing of loan assumptions.</p>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>

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

<b>Indemnification, Life-of-Loan</b>	<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>	<p>This Remedy is reserved exclusively for Tier 1 Findings or Defects</p>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>
<b>Indemnification, Two-Year</b>	<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"> <li>• Failure to offer or evaluate for loss mitigation</li> <li>• Erroneous loss mitigation denials</li> <li>• Offering a customer an incorrect loss mitigation option (Only when Account Adjustment is not possible.)</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>
<b>Mitigating Documentation</b>	<p>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.</p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>
<b>Principal Reduction</b>	<p>For current loans: Reduction of principal loan balance. For delinquent or defaulted loans: 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>	<ul style="list-style-type: none"> <li>• Payment application errors</li> <li>• Capitalization calculations errors with modifications or partial claims</li> </ul>	<ul style="list-style-type: none"> <li>• Investor restrictions</li> <li>• Loan in foreclosure or bankruptcy</li> </ul> <p>In cases where Principal Reduction is not possible due to these or other limitations, Financial Compensation may be appropriate.</p>

<b>Remittance</b>	Refraining from claiming loss mitigation incentives or returning incentives and/or claim funds to FHA.	<ul style="list-style-type: none"> <li>• Offering the incorrect loss mitigation option</li> <li>• Overclaiming amounts in a loss claim or a partial claim</li> </ul>	N/A
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**IV. FRAUD**

All Findings of Material 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**

<b>Defect Area 1: General Servicing Operations (SO)</b>	
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.	
<b><u>HUD Policy References</u></b>	
<b>Single Family Housing Handbook 4000.1</b>	<b>HECM</b>
<ul style="list-style-type: none"> <li>• III.A.1.n ..... Record Retention – Servicing File</li> <li>• III.A.1.c ..... Providing Information to HUD</li> <li>• III.A.1.b ..... Responsibility for Servicing Actions</li> <li>• III.A.2.c ..... Reporting to Consumer Reporting Agencies and the IRS</li> <li>• III.A.1.d ..... Communication with Borrowers and Authorized Third Parties</li> <li>• III.A.1.j ..... Post Endorsement Mortgage Amendments</li> <li>• III.A.1.f ..... Servicing Fees and Charges</li> <li>• III.A.1.e.v ..... Payment Administration (Prepayment)</li> <li>• III.A.1.m ..... Disclosures</li> <li>• III.A.2.n.iv.(I) ..... Presidentially Declared Major Disaster Areas</li> <li>• III.A.2.o.i.(B) ..... Presidentially Declared COVID-19 National Emergency</li> <li>• III.A.3.b.iii.-iv. &amp; viii.-ix ..... Assumptions</li> <li>• III.A.3.e.ii ..... Section 222 Mortgages</li> <li>• III.A.3.g.iv. &amp; vii ..... HOPE for Homeowners</li> <li>• III.A.3.i.i ..... Servicing FHA-Insured Mortgages for Servicemember-Borrowers</li> <li>• III.A.3.j ..... Section 235 Mortgages</li> <li>• Appendix 3.0 ..... Post Endorsement Fees and Charges by HOC</li> </ul>	
<b><u>Sources &amp; Causes</u></b>	
<b>Sources</b>	<b>Causes</b>
<ol style="list-style-type: none"> <li>1. Servicing File Record Retention and Providing Information to HUD</li> <li>2. Sale of Mortgages and Servicing Transfers</li> <li>3. Consumer Credit and IRS Reporting</li> <li>4. Credit Reporting for Presidentially Declared Major Disasters and Presidentially Declared COVID-19 National Emergency</li> <li>5. Communication with Borrowers/Authorized Third Parties</li> <li>6. Partial Release or Modification of Security</li> <li>7. Servicing Fees and Charges</li> </ol>	<ol style="list-style-type: none"> <li>A. Records and/or documentation missing, incomplete, or illegible</li> <li>B. Servicing action or activity out of compliance or not completed as required</li> <li>C. FHA reporting requirements not met for changes and updates to the mortgage record</li> <li>D. Non-compliance with program or product specific criteria or procedures</li> <li>E. Evidence of Fraud</li> </ol>

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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<b>Defect Area 1 – Severity Tiers</b>		<b>Remedies</b>								
<b>Unacceptable</b>										
<b>1</b>	Evidence of Material Fraud about which the <b>servicer knew or reasonably should have known.</b>	<b>Life-of-Loan Indemnification</b>								
<b>2</b>	<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> <table border="1" data-bbox="168 828 1365 1153"> <thead> <tr> <th data-bbox="168 828 766 873">Example Defects</th> <th data-bbox="766 828 1365 873">Potential Corresponding Remedies</th> </tr> </thead> <tbody> <tr> <td data-bbox="168 873 766 971">Failure to obtain HUD approval for a partial release or modification of security that impacts the value of the Property</td> <td data-bbox="766 873 1365 971">           1. Mitigating Documentation;            2. Principal Reduction;            3. Remittance         </td> </tr> <tr> <td data-bbox="168 971 766 1068">Inaccurate pre-payment calculations</td> <td data-bbox="766 971 1365 1068">           1. Mitigating Documentation;            2. Account Adjustment;            3. Financial Compensation         </td> </tr> <tr> <td data-bbox="168 1068 766 1153">Assessing inappropriate servicing fees/costs</td> <td data-bbox="766 1068 1365 1153">           1. Mitigating Documentation;            2. Principal Reduction;            3. Financial Compensation         </td> </tr> </tbody> </table>	Example Defects	Potential Corresponding Remedies	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	<b>Mitigating Documentation</b>  <b>Principal Reduction</b>  <b>Account Adjustment</b>  <b>Financial Compensation</b>  <b>Remittance</b>
Example Defects	Potential Corresponding Remedies									
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									
<b>Deficient</b>										
<b>3</b>	<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"> <li>• Failure to timely report events to FHA;</li> <li>• Failure to provide pre-payment disclosures to customers as required with no inappropriate calculation of post payment interest.</li> </ul>									

<b>4</b>	Evidence of Material Fraud about which the <b>servicer did not know and could not reasonably have known.</b>

<b>Defect Area 2: General Account Administration (AA)</b>	
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"> <li>• III.A.1.g ..... Escrow</li> <li>• III.A.1.h ..... Insurance Coverage Administration</li> <li>• III.A.2.n.iii ..... Presidentially Declared Major Disaster Areas</li> <li>• III.A.1.i ..... Mortgage Insurance Premium Remittance</li> <li>• III.A.1.k ..... Mortgage Insurance Premium Cancellation</li> <li>• III.A.1.l ..... Mortgage Insurance Termination</li> <li>• III.A.1.i.i.-iv ..... Payment Administration</li> <li>• III.A.3.a ..... Adjustable Rate Mortgages</li> <li>• III.A.3.a.vi ..... Assumptions for Adjustable Rate Mortgages</li> <li>• III.A.3.b.ii. &amp; v ..... Assumptions</li> <li>• II.A.8.n ..... Assumptions</li> <li>• III.A.3.e.iii. &amp; iv ..... Section 222 Mortgages</li> <li>• III.A.3.g.ii. &amp; iii ..... HOPE for Homeowners</li> <li>• III.A.3.j. .... Section 235 Mortgages</li> </ul>	
<u>Sources &amp; Causes</u>	
Sources	Causes
<ol style="list-style-type: none"> <li>1. Escrow and Escrow Disclosures</li> <li>2. Insurance Coverage and Administration</li> <li>3. Presidentially Declared Disasters – Property Repairs</li> <li>4. MIP Remittance, Cancellation/Termination and Disclosures</li> <li>5. Receipt and Application of Payments/Partial Payments</li> <li>6. Adjustable Rate Loans</li> <li>7. Assumption Underwriting and Processing</li> <li>8. Program and Product (Section 222, HOPE for Homeowners, Section 235)</li> </ol>	<ol style="list-style-type: none"> <li>A. Records and/or documentation missing, incomplete, or illegible</li> <li>B. Servicing action or activity out of compliance or not completed as required</li> <li>C. FHA reporting requirements not met for changes and updates to the mortgage record</li> <li>D. Non-compliance with program or product specific criteria or procedures</li> <li>E. Evidence of Fraud</li> </ol>

related to Sources above

<b>Defect Area 2 – Severity Tiers</b>		<b>Remedies</b>	
<b>Unacceptable</b>			
<b>1</b>	Evidence of Material Fraud about which the <b>servicer knew or reasonably should have known.</b>	<b>Life-of-Loan Indemnification</b>	
<b>2</b>	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.	<b>Mitigating Documentation</b> <b>Principal Reduction</b> <b>Account Adjustment</b> <b>Financial Compensation</b> <b>Remittance</b> <b>Five-Year Indemnification*</b>  <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.		
	<b>Example Defects</b>		<b>Potential Corresponding Remedies</b>
	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		
<b>Deficient</b>			
<b>3</b>	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"> <li>• Failure to provide required assumption or MIP notices</li> </ul>		
<b>4</b>	Evidence of Material Fraud about which the <b>servicer did not know and could not reasonably have known.</b>		

**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**

- 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

**Sources & Causes**

**Sources**

**Causes**

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
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

- 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

Defect Area 3 – Severity Tiers		Remedies	
<b>Unacceptable</b>			
<b>1</b>	N/A	N/A	
<b>2</b>	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.	<b>Mitigating Documentation</b> <b>Principal Reduction</b> <b>Account Adjustment</b> <b>Financial Compensation</b> <b>Remittance</b>	
	Material OR Non-Material but Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 3.		
	<b>Example Defects</b>		<b>Potential Corresponding Remedies</b>
	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		
<b>Deficient</b>			
<b>3</b>	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"> <li>• Failure to conduct timely collections outreach;</li> <li>• Inaccurate Single Family Default Monitoring System (SFDMS) reporting regarding account status (e.g. occupancy status, default status, reason for default);</li> <li>• Failure to provide required notices triggered by default;</li> <li>• Failure to conduct timely face-to-face interview</li> </ul>		
<b>4</b>	Evidence of Material Fraud about which the <b>servicer did not know and could not reasonably have known.</b>		

**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**

- 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

**Sources & Causes**

**Sources**

**Causes**

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
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

- 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

Defect Area 4 – Severity Tiers		Remedies	
<b>Unacceptable</b>			
<b>1</b>	Evidence of Material Fraud about which the <b>servicer knew or reasonably should have known.</b>	<b>Life-of-Loan Indemnification</b>	
<b>2</b>	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.	<b>Mitigating Documentation</b> <b>Principal Reduction</b> <b>Account Adjustment</b> <b>Financial Compensation</b> <b>Remittance</b> <b>Two-Year Indemnification</b>	
	Material <u>or</u> Non-Material but Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 4.		
	<b>Example Defects</b>		<b>Potential Corresponding Remedies</b>
	Failure to evaluate for loss mitigation		1. Mitigating Documentation; 2. Financial Compensation; 3. Two-Year Indemnification
	Failure to collect documentation required for loss mitigation review (e.g. hardship documents, financial information)		1. Mitigating Documentation; 2. Two-Year Indemnification
Loss mitigation financial calculation error	1. Mitigating Documentation; 2. Principal Reduction; 3. Account Adjustment; 4. Remittance; 5. Two-Year Indemnification		
Failure to follow loss mitigation waterfall order	1. Mitigating Documentation; 2. Account Adjustment; 3. Financial Compensation; 4. Remittance; 5. Two-Year Indemnification		
<b>Deficient</b>			
<b>3</b>	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"> <li>• Failure to provide required notices associated with loss mitigation review;</li> <li>• Inaccurate Single Family Default Monitoring System (SFDMS) reporting regarding loss mitigation status;</li> </ul>		

<b>4</b>	Evidence of Material Fraud about which the <b>servicer did not know and could not reasonably have known.</b>
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**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.

**HUD Policy References**

<b>Single Family Housing Handbook 4000.1</b>	<b>HECM</b>
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- 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

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**Sources & Causes**

<b>Sources</b>	<b>Causes</b>
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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

- 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	
<b>Unacceptable</b>			
<b>1</b>	Evidence of Material Fraud about which the <b>servicer knew or reasonably should have known.</b>	<b>Life-of-Loan Indemnification</b>	
<b>2</b>	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.	<b>Mitigating Documentation</b> <b>Principal Reduction</b> <b>Account Adjustment</b> <b>Financial Compensation</b> <b>Remittance</b> <b>Two-Year Indemnification</b>	
	Material <u>or</u> Non-Material but Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 5.		
	<b>Example Defects</b>		<b>Potential Corresponding Remedies</b>
	Offering a customer the incorrect loss mitigation home retention option		1. Mitigating Documentation; 2. Account Adjustment; 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		
<b>Deficient</b>			

	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	<p>Non-Material and Non-Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 5. For example:</p> <ul style="list-style-type: none"> <li>Inaccurate Single Family Default Monitoring System (SFDMS) reporting regarding loss mitigation home retention options (approval or completion status);</li> <li>Missed partial claim document return timelines</li> </ul>
4	Evidence of Material Fraud about which the <b>servicer did not know and could not reasonably have known.</b>

<b>Defect Area 6: Loss Mitigation Home Disposition Options (HD)</b>	
Standards and requirements for executing various loss mitigation Home Disposition Options from processing through completion of related servicing activities.	
<b><u>HUD Policy References</u></b>	
<b>Single Family Housing Handbook 4000.1</b>	<b>HECM</b>
<ul style="list-style-type: none"> <li>III.A.2.l.ii..... Pre-Foreclosure Sales</li> <li>III.A.2.l.iii..... Deed-in-Lieu of Foreclosure</li> <li>III.A.2.n.iv.(H)..... Presidentially Declared Major Disaster Areas</li> <li>III.A.2.o.iii.(D)..... Presidentially Declared COVID-19 National Emergency</li> <li>III.A.2.m..... Loss Mitigation Incentives</li> <li>III.A.3.v..... Section 222 Mortgages</li> <li>III.A.3.g.vi.(C) &amp; (D)..... HOPE for Homeowners</li> </ul>	
<b><u>Sources &amp; Causes</u></b>	
<b>Sources</b>	<b>Causes</b>
<ol style="list-style-type: none"> <li>Streamline Pre-Foreclosure Sale (PFS)</li> <li>Streamline PFS for Servicemember with Permanent Change of Station (PCS) Orders</li> <li>Standard PFS</li> <li>Streamline Deed-in-Lieu of Foreclosure (DIL)</li> <li>Streamline DIL for Servicemember with PCS Orders</li> <li>Standard DIL</li> <li>Disaster Loss Mitigation Home Disposition Options</li> <li>COVID-19 Loss Mitigation Home Disposition Options</li> <li>Communications and Notices</li> <li>Property Valuation</li> </ol>	<ol style="list-style-type: none"> <li>Records and/or documentation missing, incomplete, or illegible</li> <li>Servicing action or activity not completed as required</li> <li>Requirements related to property condition, valuation or title not met</li> <li>Non-compliance with program or product specific criteria or procedures</li> <li>Evidence of Fraud</li> </ol>

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	
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Defect Area 6 – Severity Tiers		Remedies												
<b>Unacceptable</b>														
<b>1</b>	Evidence of Material Fraud about which the <b>servicer knew or reasonably should have known</b> . (This includes a <i>knowing</i> violation of the pre-foreclosure sale arm's-length transaction requirement.)	<b>Life-of-Loan Indemnification</b>												
	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.  Material <u>or</u> Non-Material but Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 6.	<b>Mitigating Documentation</b>  <b>Principal Reduction</b>  <b>Account Adjustment</b>  <b>Financial Compensation</b>												
	<table border="1"> <thead> <tr> <th>Example Defects</th> <th>Potential Corresponding Remedies</th> </tr> </thead> <tbody> <tr> <td>Offering a customer the incorrect loss mitigation home disposition option</td> <td>1. Mitigating Documentation; 2. Remittance</td> </tr> <tr> <td>Incorrect pre-foreclosure sale net proceeds calculations</td> <td>1. Mitigating Documentation; 2. Financial Compensation; 3. Remittance</td> </tr> <tr> <td>Failure to ensure pre-foreclosure sale arm's-length transaction requirements are met</td> <td>1. Mitigating Documentation; 2. Remittance</td> </tr> <tr> <td>Failure to follow property valuation requirements</td> <td>1. Mitigating Documentation; 2. Principal Reduction; 3. Remittance</td> </tr> <tr> <td>Improper deed-in-lieu documentation requirements</td> <td>1. Mitigating Documentation; 2. Remittance</td> </tr> </tbody> </table>	Example Defects	Potential Corresponding Remedies	Offering a customer the incorrect loss mitigation home disposition option	1. Mitigating Documentation; 2. Remittance	Incorrect pre-foreclosure sale net proceeds calculations	1. Mitigating Documentation; 2. Financial Compensation; 3. Remittance	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	<b>Remittance</b>
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Incorrect pre-foreclosure sale net proceeds calculations	1. Mitigating Documentation; 2. Financial Compensation; 3. Remittance													
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													
<b>2</b>														
<b>Deficient</b>														

	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.
3	<p>Non-Material and Non-Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 6. For example:</p> <ul style="list-style-type: none"> <li>Inaccurate Single Family Default Monitoring System (SFDMS) reporting regarding loss mitigation home disposition options (approval or completion status);</li> <li>Failure to timely provide borrowers with required loss mitigation home disposition notices;</li> </ul>
4	Evidence of Material Fraud about which the <b>servicer did not know and could not reasonably have known.</b>

<b>Defect Area 7: Foreclosure, Conveyance, and Conveyance Alternatives (FC)</b>	
Standards and requirements for liquidation, acquisition of the Property, and alternatives to acquisition.	
<u>HUD Policy References</u>	
Single Family Housing Handbook 4000.1	HECM
<ul style="list-style-type: none"> <li>III.A.2.t..... Foreclosure</li> <li>III.A.2.r..... Claims without Conveyance of Title</li> <li>III.A.2.u ..... Acquiring Possession</li> <li>III.A.2.v ..... Conveyance of Acquired Properties</li> <li>III.A.2.w ..... Non-Conveyance Foreclosure</li> <li>III.A.2.x ..... Deficiency Judgments</li> <li>III.A.3.c.ii.-iv ..... Section 247 Mortgages</li> <li>III.A.3.d ..... Section 248 Mortgages</li> <li>III.A.3.i.ii..... Servicing FHA-Insured Mortgages for Servicemember Borrowers</li> <li>Appendix 6.0..... First Legal Actions and Reasonable Diligence Timeframes</li> </ul>	
<u>Sources &amp; Causes</u>	
Sources	Causes
<ol style="list-style-type: none"> <li>Servicing Actions Prior to Foreclosure</li> <li>Servicemembers</li> <li>Foreclosure Review Process</li> <li>Foreclosure Processing, Timelines and Proceedings</li> <li>Foreclosure Attorney Fees</li> <li>Property Valuation</li> <li>Deficiency Judgments</li> <li>Acquiring Possession</li> </ol>	<ol style="list-style-type: none"> <li>Records and/or documentation missing, incomplete, or illegible</li> <li>Servicing action or activity not completed as required</li> <li>FHA insurance termination reporting requirements not met</li> <li>Requirements related to property preservation, condition, valuation or title not met</li> <li>Non-compliance with program or product specific criteria or procedures</li> <li>Evidence of Fraud</li> </ol>

<ul style="list-style-type: none"> <li>9. Cash for Keys</li> <li>10. Eviction</li> <li>11. Notice to Occupants of Pending Acquisition (NOPA)</li> <li>12. Property Preservation and Protection Activities</li> <li>13. Property Preservation and Protection Costs</li> <li>14. Title Requirements</li> <li>15. Conveyance of Acquired Properties</li> <li>16. Reconveyance</li> <li>17. Claims without Conveyance of Title (CWCOT)</li> <li>18. Assignments for Special Programs</li> <li>19. Program and Product (Section 247, Section 248, SCRA) Requirements related to the Sources above</li> </ul>	
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<b>Defect Area 7 – Severity Tiers</b>		<b>Remedies</b>										
<b>Unacceptable</b>												
<b>1</b>	Evidence of Material Fraud about which the <b>servicer knew or reasonably should have known.</b>	<b>Life-of-Loan Indemnification</b>										
	<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 7.</p> <p>Material <u>or</u> Non-Material but Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 7.</p>	<p><b>Mitigating Documentation</b></p> <p><b>Principal Reduction</b></p> <p><b>Account Adjustment</b></p> <p><b>Financial Compensation</b></p>										
<b>2</b>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th data-bbox="168 1040 768 1076" style="text-align: center;"><b>Example Defects</b></th> <th data-bbox="768 1040 1365 1076" style="text-align: center;"><b>Potential Corresponding Remedies</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="168 1076 768 1166">Failure to meet conveyance condition requirements</td> <td data-bbox="768 1076 1365 1166"> <ul style="list-style-type: none"> <li>1. Mitigating Documentation;</li> <li>2. Remittance</li> </ul> </td> </tr> <tr> <td data-bbox="168 1166 768 1227">Failure to follow CWCOT requirements</td> <td data-bbox="768 1166 1365 1227"> <ul style="list-style-type: none"> <li>1. Mitigating Documentation;</li> <li>2. Remittance</li> </ul> </td> </tr> <tr> <td data-bbox="168 1227 768 1351">Failure to follow property valuation requirements</td> <td data-bbox="768 1227 1365 1351"> <ul style="list-style-type: none"> <li>1. Mitigating Documentation;</li> <li>2. Principal Reduction;</li> <li>3. Remittance</li> </ul> </td> </tr> <tr> <td data-bbox="168 1351 768 1409">Failure to follow Program or Product assignment requirements</td> <td data-bbox="768 1351 1365 1409"> <ul style="list-style-type: none"> <li>1. Mitigating Documentation;</li> <li>2. Remittance</li> </ul> </td> </tr> </tbody> </table>	<b>Example Defects</b>	<b>Potential Corresponding Remedies</b>	Failure to meet conveyance condition requirements	<ul style="list-style-type: none"> <li>1. Mitigating Documentation;</li> <li>2. Remittance</li> </ul>	Failure to follow CWCOT requirements	<ul style="list-style-type: none"> <li>1. Mitigating Documentation;</li> <li>2. Remittance</li> </ul>	Failure to follow property valuation requirements	<ul style="list-style-type: none"> <li>1. Mitigating Documentation;</li> <li>2. Principal Reduction;</li> <li>3. Remittance</li> </ul>	Failure to follow Program or Product assignment requirements	<ul style="list-style-type: none"> <li>1. Mitigating Documentation;</li> <li>2. Remittance</li> </ul>	<b>Remittance</b>
<b>Example Defects</b>	<b>Potential Corresponding Remedies</b>											
Failure to meet conveyance condition requirements	<ul style="list-style-type: none"> <li>1. Mitigating Documentation;</li> <li>2. Remittance</li> </ul>											
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Failure to follow property valuation requirements	<ul style="list-style-type: none"> <li>1. Mitigating Documentation;</li> <li>2. Principal Reduction;</li> <li>3. Remittance</li> </ul>											
Failure to follow Program or Product assignment requirements	<ul style="list-style-type: none"> <li>1. Mitigating Documentation;</li> <li>2. Remittance</li> </ul>											

**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 7.</p> <p>Non-Material and Non-Remediable failure to fulfill the servicing obligations found in the Sources for Defect Area 7. For example:</p> <ul style="list-style-type: none"><li>• Failure to adhere to foreclosure timelines;</li><li>• Failure to adhere to conveyance timelines</li></ul>
4	<p>Evidence of Material Fraud about which the <b>servicer did not know and could not reasonably have known.</b></p>