

**U.S. Department of Housing and Urban Development
Office of the Inspector General**

SPECIAL ATTENTION OF:

HUD-Approved Title II Nonsupervised and Supervised
Mortgagees

TRANSMITTAL

Handbook No: 2000.04, REV-2, CHG-9

Chapter Number: 7

Issued: January 19, 2011

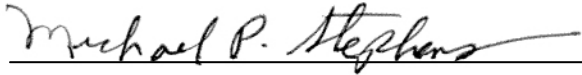
1. This transmits Handbook 2000.04, REV-2, CHG-9, Chapter 7, Consolidated Audit Guide for Audits of HUD Programs, pages 7-29, 7-30, and 7-31 and Schedule G, page 7-37. The U.S. Department of Housing and Urban Development, Federal Housing Administration (HUD-FHA), issued Mortgagee Letter 2011-05 covering financial statement reporting requirements for supervised lenders and reporting of loan fees for multifamily mortgagees. This issuance covers reporting of loan fees for multifamily mortgagees and is applicable to both supervised and nonsupervised mortgagees. The financial statements will be covered in a separate issuance.
2. **Summary:** The Office of the Inspector General is in the process of updating the handbook and will release each chapter as it is completed. When all of the chapters providing audit guidance are released, the remaining chapters will be revised, and the entire handbook will be repackaged and released as REV-3.
3. Chapters 7 and 2 are in the process of being completely revised. This revision to chapter 7 is an interim change to Handbook IG 2000.04, REV-2, chapter 7, dated April, 2007. Changes needed to chapter 2 are incorporated in chapter 7. A change is necessary to require information to be included in the audit reports for multifamily mortgages. This chapter serves as a reference for auditors who perform audits of approved Title II supervised and nonsupervised mortgagees.
4. **Significant Changes:**
 - a. A new paragraph 7-7 has been added to incorporate the requirements of Mortgagee Letter 2011-05, pertaining to the new requirements established for reporting loan fees for participants in FHA's multifamily programs. **This requirement applies to both supervised and nonsupervised mortgagees.**
 - b. A format schedule is provided for the presentation of information required for earned loan fees for multifamily lenders (Schedule G).
 - c. Former paragraphs 7-7 and 7-8 are renumbered and are now 7-8 and 7-9, respectively.
 - d. In paragraph 7-9, clarification has been made adding reference to HUD Handbook 4060.1, REV-2, to provide guidance and requirements for the submission of audited financial statements.

Filing Instructions:

Remove	Insert
Chapter 7, dated October 2006, pages 7-29 and 7-30	Chapter 7, dated January 2011, pages 7-29, 7-30, 7-31 and Schedule G, page 7-37

5. Effective Date:

This chapter is effective upon issuance.



Michael Stephens
Acting Inspector General

7-7 *Multifamily Insured Loans Reporting Requirement - Loan Fees for Multifamily Mortgages

A. Compliance Requirement. Mortgagees participating in FHA multifamily programs are now required to report total loan fees earned that exceed 5 percent of the insured loan amount on each FHA-insured loan of more than \$2 million endorsed during the mortgagee's fiscal year period covered in its audited financial statements.

Loan fees include

1. Origination and placement fees as permitted by the Multifamily Accelerated Processing Guide,
2. **Plus** trade profit, trade premium, or marketing gain earned on the sale of the Ginnie Mae security at a value above par, even if the security sale is delayed until after endorsement,
3. **Minus** loan fees applied by the mortgagee to its legal expenses incurred in connection with loan closing.

Loan fees should be reported on a separate schedule included with the mortgagee's annual audited financial statements submitted to HUD via LASS (example format schedule attached as example G). For each loan in which the mortgagee earned total loan fees of more than 5 percent, the schedule must list (1) the FHA loan number, (2) the loan amount at initial or final endorsement, and (3) the amount of total loan fees earned above 5 percent, both in dollar amount and as a percentage of the FHA-insured loan amount.

Mortgagees are not required to separately report on total loan fees that do not exceed 5 percent.

If, on a single loan endorsement, the trade profit, trade premium, or marketing gain earned on the sale of the Ginnie Mae security is received by the mortgagee during a fiscal year reporting period that is subsequent to the period in which the origination and placement fees were received and if the total of the fees earned requires reporting under this mortgagee letter, the mortgagee shall disclose the total loan fees it earned that are above 5 percent of the loan amount on the schedule filed during the subsequent fiscal year.

Mortgagee Letter 2011-05 also states that that mortgagees' annual audited financial statements are not subject to Freedom of Information Act requests. *

B. *Suggested Audit Procedures.

1. Review insured loans of more than \$2 million that closed during the reporting period and determine whether the total loan fees earned exceeded 5 percent of the loan amount.
2. Review the report and determine whether all of the fees earned that exceeded 5 percent of the loan amount were listed in the report.
3. Determine whether the report included all of the required information and whether that information was accurate based on information in the loan file.
4. Determine whether any trade profit, trade premium, or marketing gain fees earned on the sale of the Ginnie Mae security were received by the mortgagee during a fiscal year reporting period that was subsequent to the period in which the origination and placement fees were received and whether the total of the fees earned requires reporting under Mortgagee Letter 2011-05 and that the mortgagee disclosed the total loan fees it earned that were above 5 percent on the schedule filed during the subsequent fiscal year.*

7-8 Audit Finding Reporting.

All material instances of noncompliance with any HUD requirement or regulation, including adjusted net worth and/or liquidity deficiencies, deficiencies in internal control, instances of fraud or illegal acts, or contract violations that were disclosed during the audit process, must be reported as findings in the audit report. All nonmaterial instances of noncompliance, deficiencies in internal control, instances of fraud or illegal acts, or contract violations disclosed during the audit process may be reported separately to management. Such reporting must be in writing in a management letter or other type of written auditor communication and must be mentioned in the independent auditor's report, including the date of the management letter or other written communication. Noncompliances, deficiencies, or instances of violations, which were corrected during the audit process or after the fiscal year under audit or disclosed as a part of the audit process before the end of the fiscal year under audit and/or before the issuance of the audit report must be included in the report as resolved findings or in a management letter depending on their materiality.

A. Content of Finding.

Findings are to be presented in accordance with the standards and requirements of the "Yellow Book." A finding should be supported by sufficient, competent, and relevant evidence; be presented in a manner to promote adequate understanding of the matters reported; and provide convincing but fair presentations in proper perspective.

Please refer to chapter 2 for the information that is to be included in a finding.

B. Corrective Action in Process.

Many times when auditees are presented with draft findings, they will start to take action to correct the deficient condition. When this action is underway and the auditor has completed his/her fieldwork, the auditee can include the action completed and the action remaining to be taken in the auditee's comments and in the corrective action plan. Regardless of whether the auditee is in the process of correcting the finding, the auditor is to include the finding in the report with all required elements.

C. Corrective Action Completed.

Many times when the auditee is presented with draft findings, it will start to take action and complete that action, correcting the deficient condition before the completion of the fieldwork. When this action occurs, the finding is still to be included in the audit report with all required elements. The action taken/completed should be included in the auditee's comment section and should be validated by the auditor. The recommendation section should follow the auditee's comment section, and the auditor should state whether he/she tested the action. In addition, the auditor could include any additional recommendations he/she believes necessary based on the testing of that action.

7-9 Technical Assistance Needed.

*On behalf of the HUD Secretary, the Lender Approval and Recertification Division determines the acceptability of all audited financial statements submitted by program participants through LASS. Therefore, it is important that such submissions meet the requirements delineated in this chapter and HUD Handbook 4060.1, REV-2. If a program participant has questions related to HUD's audited financial statements' requirements, the participant may contact the LASS helpline at 202-755-7400 or submit an e-mail to lass@hud.gov. *

