

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

MORTGAGEE LETTER 00-20

TO: ALL APPROVED MORTGAGEES

Subject: Neighborhood Watch provides loan performance data via the FHA Connection

This mortgagee letter announces the availability of Neighborhood Watch through the FHA Connection. Neighborhood Watch is designed as an Early Warning System that allows all FHA-approved lenders to analyze their own and others early default and claim performance. The system is designed to highlight exceptions, so that potential problems are readily identifiable. Neighborhood Watch is a tool which identifies lenders, loan types, and locations by zip code that have a high incidence of single family insured mortgages going into default (90 days delinquent) within the first or second year from loan origination.

Once authorized to use Neighborhood Watch (following completion of the FHA Connection Registration Form), lenders can click on the Neighborhood Watch link located on the "Single Family FHA" screen of the FHA Connection to begin using the application. Lenders can use this tool to obtain the latest information on the performance of their insured FHA loan originations. The website address for the FHA Connection is: **<https://entp.hud.gov/clas/index.html>**.

This system is a work in progress and currently concentrates on early defaults. The system gives lenders the ability to identify and analyze patterns, by lender (originator and loan correspondent/sponsor), geographic area, or product type, for loans which became 90 days delinquent during the first or second year.

The major components of the latest version of Neighborhood Watch are:

- o Early Warnings - First Defaults allows you to hone in on the lenders, geographic areas, and loan types that exhibit unusually high levels of first defaults early in the loan amortization period.

There are two options under Early Warnings - First Defaults:

- o By Area
- o By Single Lender

- o Analysis - Analysis offers a detailed view of individual performance data. Using the Origination and Default/Claim Comparison option, users can assess comparative performance measures of any two entities of interest, either lenders or areas, from zip code up to the nationwide level. Data can be analyzed by three general categories: lender, location, and product type.
- o Details - The Details option features several report/query functions that permit the user to quickly access detailed data for Neighborhood Watch-related entities. This option includes:
 - o Lender Details - This feature generates a detailed profile of all FHA approved lenders. The Lender Summary Report that is generated contains important information about the lender, including key dates, Lender ID, type of lender, home office location, and a listing of all branch offices. In addition, lenders can view lists of Sponsors, Correspondents, Principals, and Authorized Agents that they are affiliated with.
 - o Program Profiles - One of the features of Neighborhood Watch is the behind-the-scenes conversion from ADP code to HUD programs. All case data in the Single Family Data Warehouse (the Neighborhood Watch source data) has a single ADP (automated data processing) code associated with it which is entered at the time of loan application/endorsement.
 - o Default Cases - This feature gives authorized users the ability to view, print, or export to Excel, case-level data on defaulted cases. Lender employees will be restricted to viewing the default cases for which their company was/is the originating, sponsoring, servicing, or holding lender only.
 - o Help - This feature provides users with guidance on using the system as well as descriptions of each menu option. In addition, definitions of all title headings are displayed if the user simply clicks on the column heading.
 - o Feedback - This feature is a facility that allows users to ask questions or provide comments on the Neighborhood Watch system.

Enhancements to the system are expected to be released in six month intervals. When the system is enhanced, "What's New" in Help will be updated to describe the features in that release. Future enhancements will include branch level, trend and servicing data, as well as FHA Case Details. Case Details will allow a lender that is either the originator, sponsor, servicer, or holder, to enter an FHA case number and access detailed data on an individual case, from the date the case number was requested, to insurance termination, including property disposition data when applicable.

Attached are "frequently asked questions" regarding the Neighborhood Watch/Early Warning System and how lenders can evaluate their performance relative to HUD's Credit Watch/Termination initiative.

If you have any questions about this system, please access the Feedback option in the Neighborhood Watch/Early Warning system and send us your questions or comments. If you are unable to access this feature, please contact the Office of Lender Activities and Program Compliance: Quality Assurance Division at (202) 708-2830.

Sincerely,

William C. Apgar
Assistant Secretary for Housing-
Federal Housing Commissioner

Attachment

Frequently Asked Questions

Neighborhood Watch/Early Warning System

Q: How do I access Neighborhood Watch?

A: Neighborhood Watch is accessed via the FHA Connection.

If you already have an "ID," your company's FHA Connection Coordinator simply has to change your FHA Connection authorizations to include one or both of the Neighborhood Watch levels of access (Summary and/or Loan Detail). To change an employee's authorization, the FHA Coordinator must:

1. Select "ID maintenance" at the bottom of the Single Family FHA page on the FHA Connection.
2. Select Authorization Update.
3. Enter the employee's User ID (in the "by FHA ID" field), and send.
4. Select "Change" and, under "Neighborhood Watch, select the appropriate boxes (to determine levels of access). *To retrieve statistical reports (early warning, comparison, etc.), requires authorization to access "summary data. " To retrieve specifics about the defaulted cases requires authorization to access to "loan details."* Press Send.

If you need an "ID," you can register for one on the FHA Connection site at <https://entp.hud.gov/clas/index.html>. For further information about registering and how the Coordinator changes FHA Connection authorizations, see the Questions and Answers on Registration and Maintenance.

Q: How often is the data in Neighborhood Watch updated?

A: Monthly.

Q: Can I access servicing data using Neighborhood Watch?

A: No. Currently, Neighborhood Watch contains only origination data. However, future plans are to include servicing data.

Q: Can I get a list of the FHA Case Numbers for loans that I originated?

A: The only lists currently available in Neighborhood Watch are for cases reported by Servicers to HUD as 90 or more days delinquent. However, future plans are to include the option to download case level origination data.

Q: Why doesn't the total number of originations shown in Neighborhood Watch match the number of originations that I think that our company originated?

A: Neighborhood Watch captures originations that are FHA-insured. Cases that are in the pipeline that have not been insured are not reflected in Neighborhood Watch.

Q: There are loans on our Neighborhood Watch report that we rejected and another lender approved. These loans are now in foreclosure and are showing up under our name. How can I correct this problem?

A: These loans are showing up under your name because your company requested the FHA Case Number. Contact the Processing and Underwriting area at the Homeownership Center that endorsed the loans to request the FHA Case Number be transferred to the correct originator.

Q: Please define "default" as displayed in Neighborhood Watch?

A: Neighborhood Watch reflects "first" defaults, capturing the first time a loan was reported to HUD as 90 days or more delinquent within the first or second year of loan origination. Loans shown as "defaults" in Neighborhood Watch subsequently may have cured.

Q: What is the compare ratio?

A: Compare ratio is the value that reveals the largest discrepancies between the subject's default percentage and the default percentage to which it is being compared. The percentages being compared are the percentages of originations that first defaulted during a selected period (e.g., defaults within the first two years). A higher ratio is indicative of an area (or lender) that has an unusually high default percentage in comparison with that region or lender's surrounding area. For example, if a lender has an 8% default rate in California and 4% of all California loans defaulted, then the lender's compare ratio equals 2.0, or 200%.

Q: Can I use Neighborhood Watch to analyze my default and claim rates relative to the Credit Watch/Termination initiative?

A: Yes. However, before beginning the analysis, it is important to keep in mind some differences between Neighborhood Watch and the analysis HUD does for Credit Watch/Termination.

2

- o *Neighborhood Watch* is designed to allow analysis of mortgagee performance rolled up to the **institution** level within many geographic areas, including HUD

Field Office jurisdictions. For *Credit Watch/Termination*, HUD analyzes performance by mortgagee **branch office** within a HUD Field Office jurisdiction using a mainframe system available only to HUD staff. Therefore, if you have more than one FHA approved branch office in any HUD Office jurisdiction, the default percentage shown in Neighborhood Watch will be a total for all your branch offices in that HUD Office jurisdiction.

- o *Neighborhood Watch* shows "first" defaults, capturing the first time a loan was reported to HUD as 90 days or more delinquent within the first or second year of loan origination. Therefore, loans shown as "defaults" in Neighborhood Watch subsequently may have cured. *Credit Watch/Termination* captures only "active" defaults (and claims) to calculate the mortgagee default and claim rate. Since some defaults displayed in Neighborhood Watch may have cured, the default percentage displayed in Neighborhood Watch may be higher than the default and claim rate calculated during Credit Watch/Termination analysis.
- o *Neighborhood Watch* analyzes origination activity for a 24 month period using the beginning of amortization as the starting date. *Credit Watch/Termination* analyzes defaults and claims on loans during the 24 month period from insurance endorsement.
- o *Neighborhood Watch* includes HECMs (Home Equity Conversion Mortgages, i.e. Reverse Mortgages) in the origination totals. *Credit Watch/Termination* excludes HECMs.

To monitor your performance using Neighborhood Watch:

- o If you are making FHA loans in multiple HUD jurisdictions, the following steps will show whether your first default percentage was 1.5 times the average in any HUD jurisdiction:
 1. Select the "Early Warning" menu option.
 2. Select the "By Single Lender" option underneath First Defaults.
 3. Enter the lender name or HUD lender ID. Submit. The system will display the name and HUD Lender ID. Verify your selection. Submit.
 4. Select the "Originator by Comparison" at the Lender Options window.
 5. Change the parameters by entering "1.5" as the minimum compare ratio.
 6. Choose "Lender rolled up to HUD Office level vs. HUD Offices." At the Compare Lender to window. Submit.

- o For a summary of your business in a jurisdiction, the following steps will produce a report showing your first default percentage vs. the average by individual loan characteristics (e.g. 4 unit dwellings).
 1. Select the "Analysis" menu option.
 2. Select "Origination and Default/Claim Comparison".
 3. Select "Lender" as the Subject and "HUD Office" as the Baseline. Submit.
 4. Enter the lender name or HUD Lender ID. Submit. The system will display the name and HUD Lender ID. Verify your selection. Submit.
 5. For Roll-up Area, choose "HUD Office" and select desired office from the pull-down list of all HUD Offices where the lender did FHA business. Submit.
 6. Select the State and HUD Office. Submit.
 7. Maintain default selections at "Analysis Type" parameter screen. Submit.

Q: I received a Credit Watch Notice along with a list of defaults and claims. However, the list differs from the loans shown in Neighborhood Watch for the same period. Why?

A: The Credit Watch list shows those loans that were "in default" or claim status as of the report date. The Credit Watch analysis gives lenders credit for loans that cure. Neighborhood Watch displays loans that were "ever in default" within 24 months of origination, whether or not they have cured.