



ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

**Date: September 22, 2020**

**Mortgagee Letter 2020-31**

**To:** All FHA-Approved Mortgagees  
All Other Interested Stakeholders

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**Subject** Federal Housing Administration (FHA) Defect Taxonomy Appendix to Handbook 4000.1

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**Purpose** This Mortgagee Letter announces the incorporation of the FHA Defect Taxonomy as an Appendix to the Single Family Housing Policy Handbook 4000.1 (Handbook 4000.1).

Appendix 7.0 – FHA Defect Taxonomy is [attached](#). It includes the content implemented with version 2 of the FHA Defect Taxonomy, which became effective for Title II loan reviews as of January 1, 2020.

FHA will begin referencing Appendix 7.0 – FHA Defect Taxonomy effective immediately with the issuance of this Mortgagee Letter. It will be appended to the Handbook 4000.1 in a forthcoming update. Separate use and maintenance of the FHA Defect Taxonomy in any previous document format is discontinued.

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**Effective Date** Appendix 7.0 – FHA Defect Taxonomy is effective immediately.

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**Public Feedback** HUD welcomes feedback from interested parties for a period of *30* calendar days from the date of issuance. To provide any feedback on this policy document, please send comments to the FHA Resource Center at [answers@hud.gov](mailto:answers@hud.gov). HUD will consider the feedback in determining the need for future updates.

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**Affected Programs** This guidance applies to all FHA Title II Single Family mortgage programs.

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## Background

FHA must manage a variety of risks in operating its Single Family Housing Programs. In carrying out its responsibilities as required by the National Housing Act, FHA reviews various aspects of forward and reverse mortgage loans endorsed for Title II insurance.

The Defect Taxonomy is FHA's method of identifying defects at the loan level. It is used to describe findings through the Loan Review System based on HUD requirements. The Defect Taxonomy provides useful data and feedback through structured categorization of defects and their sources, causes, and severities. For more consistent review outcomes, potential remedies that align with severity tiers are listed in each defect area.

The Defect Taxonomy does not establish a universal statement on all monitoring or enforcement efforts by FHA, and it does not limit FHA's actions with regard to fraud or misrepresentation or establish standards for administrative or civil enforcement action, which are currently set forth in law. FHA's normal process for referral of fraud, waste, or abuse to the Office of the Inspector General remains unaffected. The Defect Taxonomy does not address FHA's response to patterns of loan-level defects, and it does not preclude FHA from referring findings, regardless of severity or loan-level remedy, to HUD's Mortgagee Review Board, Departmental Enforcement Center, Office of Fair Housing and Equal Opportunity, or other HUD offices as warranted.

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## HUD Single Family Housing Policy Handbook 4000.1

In accordance with this Mortgagee Letter, the Quality Control, Oversight and Compliance section of Handbook 4000.1 will be updated as described below.

### Loan Level Monitoring (V.C.3.)

#### b. Title II Loan Reviews

##### iv. Findings

FHA will document the results of each loan review in the [Loan Review System](#). Any Findings of non-compliance with Title II Insured Housing Program requirements will be identified in accordance with [Appendix 7.0 – FHA Defect Taxonomy](#). For each unacceptable Finding, FHA will request a response and specify allowable remedies from the Mortgagee. The Mortgagee must resolve each unacceptable Finding by submitting a response and remedy requested through the [Loan Review System](#).

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### **Paperwork Reduction Act**

The information collection requirements contained in this document are approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1996 (44 U.S.C. 3501-3520) and assigned OMB Control Numbers 2502-0005, 2502-0059 and 2502-0600. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to a collection of information unless the collection displays a currently valid OMB Control Number.

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### **Questions**

For additional information on this Mortgagee Letter, please visit [www.hud.gov/answers](http://www.hud.gov/answers) or call FHA's Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Relay Service at 1-800-877-8339.

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### **Signature**

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