

FHA Defect Taxonomy Updated to Include Servicing Loan Reviews

Today, the Federal Housing Administration (FHA) published Mortgagee Letter (ML) [2025-01](#), *Federal Housing Administration (FHA) Defect Taxonomy Updates for Servicing Loan Reviews*. This ML updates the [Single Family Housing Policy Handbook 4000.1](#) (Handbook 4000.1), [Appendix 8.0 – FHA Defect Taxonomy](#) (Defect Taxonomy) with revised introductory sections and new content focused on Title II servicing loan reviews.

FHA's [Defect Taxonomy](#) is the agency's method for identifying loan-level defects and is used to categorize FHA policy violations and corresponding remedies, which are then communicated to mortgagees through the [Loan Review System](#). FHA's current defect taxonomy includes guidance applicable only to Title II underwriting loan reviews. FHA's Office of Single Family Housing also conducts servicing loan reviews; however, its method of identifying servicing defects has never been published other than in draft form.

With this ML, FHA is addressing this transparency gap by adding servicing loan reviews and aligning the defect taxonomy with the requirements in [Handbook 4000.1](#), *Section III – Servicing and Loss Mitigation*.

The updated [Defect Taxonomy](#) includes:

- Six defect areas covering FHA requirements through the servicing lifecycle;
- Severity tier descriptions with common characteristics and distinctions based on the practical impact of non-compliance;
- Expanded, servicing-specific remedies aligned with severity tiers for each defect area.
- Revised introductory sections that apply to both underwriting and servicing reviews.

The addition of servicing-specific guidance to the [Defect Taxonomy](#) will provide greater clarity and transparency into FHA's servicing loan review process. New introductory language will increase awareness of FHA's use of indemnifications and other remedies for all review types. Pursuit of such loan-level actions and remedies does not limit FHA's ability to refer a mortgagee to the Mortgagee Review Board (MRB) or prevent the MRB from initiating its own action where appropriate.

Today's [ML 2025-01](#) incorporates feedback received on the draft ML that was posted on the [Single Family Drafting Table](#) and announced in [FHA INFO 2021-92](#), dated October 28, 2021. A revised version of the draft ML was later posted for stakeholder feedback on July 10, 2024, via [FHA INFO 2024-45](#).

The provisions of this ML are effective for Title II loan reviews as of January 15, 2025, and will be incorporated into a future version of the [Handbook 4000.1](#).