

Section A: Direct Endorsement (DE) Program Lender Application

Overview

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1. Overview of the Direct Endorsement (DE) Program Lender Application and Approval Process

Introduction This topic contains information on the Direct Endorsement (DE) Program lender application and approval process, including

- DE Program participation is a privilege
 - the lender code of ethics
 - DE lender application file at HOC, and
 - an overview of the DE lender application and approval process.
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4155.2 2.A.1.a DE Program Participation Is a Privilege FHA's approval of a lender to participate in the Direct Endorsement (DE) Program is a privilege. To obtain DE approval, a lender must demonstrate it has the qualifications, experience, and expertise to underwrite mortgage loans that satisfy FHA requirements. To maintain approval, a lender must consistently underwrite and close loans that meet all FHA requirements.

4155.2 2.A.1.b Lender Code of Ethics A [DE](#) lender *must* conduct its business operations in accordance with

- accepted sound mortgage lending practices
 - ethics
 - standards, and
 - all federal and state laws applicable to mortgage banking.
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1. Overview of the Direct Endorsement (DE) Program Lender Application and Approval Process, Continued

**4155.2 2.A.1.c
DE Lender
Application File
at HOC**

Each Homeownership Center (HOC) must establish a file for every lender that applies for [DE](#) approval within its jurisdiction. The file must contain

- documentation of the entrance conference with the lender
- copies of the conditional approval letter, or rejection letter if applicable, and
- individual Underwriting Reports for the 15 (or more) pre-closing test cases.

Reference: For information on the pre-closing test case phase, see [HUD 4155.2 2.B.3](#).

**4155.2 2.A.1.d
Overview of DE
Lender
Application and
Approval
Process**

The table below describes the stages of the lender application and approval process for the [DE](#) Program.

Stage	Description
1	<p>The lender applies for, and receives, basic DE approval from FHA’s Office of Lender Activities and Program Compliance, located at FHA Headquarters.</p> <p>References: For the requirements for obtaining basic FHA mortgage lender approval, see</p> <ul style="list-style-type: none"> • HUD 4060.1, <i>Mortgagee Approval Handbook</i> • ML 10-20 • HUD 4155.2 2.A, and • HUD 4155.2 2.B.
2	<p>The lender applies for pre-closing DE approval by sending to the HOC where their corporate office is located</p> <ul style="list-style-type: none"> • a letter requesting pre-closing DE approval, which includes the DE underwriter’s name and Computerized Home Underwriting Management System (CHUMS) identification (ID) number, and • a copy of the HUD approval letter, received from the Office of Lender Approval in HUD Headquarters, granting basic approval.

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1. Overview of the Direct Endorsement (DE) Program Lender Application and Approval Process, Continued

Overview of DE Lender Application and Approval Process (continued)

Stage	Description
3	<p>Upon receipt of the written request from the lender, the HOC</p> <ul style="list-style-type: none"> • sends out an approval letter for pre-closing that includes the specific requirements that must be met for unconditional DE approval • provides reference material to the lender • establishes a lender file, and • sets up an entrance conference with the lender, which is either conducted face-to-face or by telephone. <p><i>Note:</i> The purpose of the conference is to</p> <ul style="list-style-type: none"> • educate the lender about the submission and processing procedures used by the HOC for pre-closing test cases • provide the lender with contact information for the HOC • highlight underwriting requirements, and • allow the HOC to answer questions from the lender.
4	<p>The lender submits DE pre-closing test cases, in color coded case binders, to the HOC.</p> <p><i>Reference:</i> For more information on the pre-closing test case review phase, see HUD 4155.2 2.B.3.</p>
5	<p>The lender is either granted unconditional approval or is terminated.</p> <p><i>Reference:</i> For more information on the unconditional approval phase, see HUD 4155.2 2.B.4.</p>

2. Lender Eligibility Requirements

Introduction This topic contains information on lender eligibility requirements, including

- basic lender eligibility requirements
- quality control plan required for lender approval
- changes affecting DE approval status
- use of lender’s staff appraisers/inspectors
- use of lender’s staff underwriter/appraiser, and
- exceptions to use of staff appraisers/inspectors.

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4155.2 2.A.2.a Basic Lender Eligibility Requirements The table below outlines the requirements that mortgage lenders must meet to be eligible for participation in the Direct Endorsement (DE) Lender Program.

Requirement	Description
Application	A lender must apply for, and receive, basic FHA mortgage lender approval from FHA’s Office of Lender Activities and Program Compliance.
Lender Status	<p>An eligible lender must be either a</p> <ul style="list-style-type: none"> • supervised or non-supervised mortgage lender, or • governmental institution. <p><i>Note:</i> A third-party originator (TPO) may participate in FHA programs <i>only</i> by establishing a sponsorship relationship with an FHA-approved lender, as described in HUD 4155.2 2.B.6.</p>
Experience	<p>An eligible DE lender must have</p> <ul style="list-style-type: none"> • five years’ experience in the origination of single family mortgages, or • a principal officer with a minimum of five years’ managerial experience in the origination of single family mortgages.

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2. Lender Eligibility Requirements, Continued

4155.2 2.A.2.a Basic Lender Eligibility Requirements (continued)

Requirement	Description
Staff Requirement	<p>An eligible DE lender must have on staff a full time employee to serve as underwriter.</p> <p>References:</p> <ul style="list-style-type: none"> • For general information on underwriting/underwriters, see HUD 4155.2 2.A.3. • For a description of the qualification criteria and responsibilities of the underwriter, see HUD 4155.2 2.A.4.
Quality Control Plan	<p>An eligible DE lender must have developed and implemented a Quality Control Plan.</p> <p>Reference: For more information on quality control plans, see HUD 4155.2 2.A.2.b.</p>
Net Worth	<p>An eligible DE lender must have the net worth requirements prescribed in HUD 4060.1, REV-2 <i>Mortgagee Approval Handbook</i>, and updated by ML 10-20.</p>

4155.2 2.A.2.b Quality Control Plan Required for Lender Approval

In order to qualify for basic FHA approval, a lender must

- implement a written Quality Control Plan that
 - ensures compliance with the rules, regulations, and other FHA issuances regarding mortgage loan origination and servicing, and
 - is independent of the loan production function, and
- review and, when necessary, modify its existing Quality Control Plan to effectively evaluate and monitor the overall quality of loans submitted for [DE](#).

Note: Quality Control Plans do *not* have to name the FHA or the [DE](#) Program.

Reference: For information on the primary objectives of Quality Control Plans and suggested underwriting and servicing guidelines, see Chapter 7 of [HUD 4060.1](#), REV-2 *Mortgagee Approval Handbook*.

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2. Lender Eligibility Requirements, Continued

4155.2 2.A.2.c
Changes
Affecting DE
Approval
Status

Lenders must notify FHA of changes that affect [DE](#) approval status, as described in [HUD 4155.2 2.B.1.c](#).

4155.2 2.A.2.d
Use of Lender’s
Staff
Appraiser/
Inspector

The lender may use its own staff appraiser and inspector to perform appraisals and inspections, except as noted in [HUD 4155.2 2.A.2.f](#). The table below outlines the requirements for staff appraisers and inspectors.

Role	Requirement
Appraiser	<p>Staff appraisers must be registered on FHA Roster of Appraisers to perform appraisals for FHA loans.</p> <p>Reference: For information on the FHA Roster of Appraisers, see HUD 4150.2, <i>Valuation Analysis for Single Family One to Four Unit Dwellings</i>.</p>
Inspector	<p>Staff inspectors must be registered on FHA Roster of Inspectors to perform inspections for FHA loans.</p> <p>Reference: For information on the FHA Roster of Inspectors, see HUD 4145.1, <i>Architectural Processing and Inspections for Home Mortgage Insurance</i>.</p>

4155.2 2.A.2.e
Use of Lender
Staff
Underwriter/
Appraiser

A [DE](#) underwriter may perform the mortgage credit analysis of the borrower and the full underwriting analysis of the appraisal and application on the same mortgage.

A DE underwriter who is also an appraiser on the FHA roster may not perform an appraisal of the property that is to be security for the mortgage loan if he/she will perform the mortgage credit analysis of the borrower and/or the full underwriting analysis of the application.

Reference: For information on underwriter qualifications and responsibilities, see [HUD 4155.2 2.A.3](#).

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2. Lender Eligibility Requirements, Continued

4155.2 2.A.2.f Exceptions to Use of Staff Appraiser/ Inspector

A lender's staff technicians may *not* be used, and qualified independent fee appraisers and/or fee inspectors from the FHA Rosters *must* be used, for mortgage loans in which

- the borrower or seller is an employee of the lender, or
- the lender
 - has provided the construction loan, or
 - has a financial interest in, owns, is owned by, or affiliated with the building or selling entity or real estate firm.

References: For more information on

- loans involving a business relationship that may constitute a conflict of interest, see [HUD 4155.2 3.B.2](#)
 - loans made to a lender's employee, see [HUD 4155.2 3.B.3](#), and
 - the FHA Appraiser and Inspector Rosters, see [HUD 4155.2 2.A.2.d](#).
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3. General Information on Underwriting and Underwriters

Introduction This topic contains general information on underwriting and underwriters, including

- the importance of the underwriter
 - underwriter sanctions and ineligibility
 - registering an underwriter in FHA Connection, and
 - use of an Automated Underwriting System (AUS).
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4155.2 2.A.3.a Importance of the Underwriter The underwriter's role and responsibilities are critical elements of the Direct Endorsement (DE) Program, and FHA looks to the underwriter as its focal point.

To participate in the [DE](#) Program, a lender must have a qualified underwriter on staff.

References: For information on

- underwriter qualifications and responsibilities, see [HUD 4155.2 2.A.4.](#)
 - lender eligibility criteria for the DE Program, see [HUD 4155.2 2.A.2.](#)
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4155.2 2.A.3.b Underwriter Sanctions and Ineligibility The mortgage lender is responsible for ensuring that no sanctions exist against its underwriter, as described in [HUD 4155.2 1.B.7.d](#) and [HUD 4155.1 4.A.2.c](#). Likewise, the underwriter cannot have any delinquent Federal debt, and may *not* be listed on FHA Credit Alert Interactive Voice Response System (CAIVRS).

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3. General Information on Underwriting and Underwriters, Continued

4155.2 2.A.3.c Registering an Underwriter in FHA Connection

The lender must register each of its underwriters in FHA Connection (FHAC).

By registering an underwriter in [FHAC](#), the lender certifies that he/she meets the necessary qualifications described in [HUD 4155.2 2.A.4.a](#), and is not ineligible due to any criteria described in [HUD 4155.1 2.A.3.b](#).

Reference: For more information on FHA Connection, see [HUD 4155.2 1.D](#).

4155.2 2.A.3.d Use of an AUS

Mortgage lenders may use an Automated Underwriting System (AUS) that employs the FHA Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard.

These systems evaluate loan application elements, including information on the applicant's

- income
- credit history
- cash reserves, and
- mortgage loan.

[AUS](#) data is used to provide an underwriting recommendation that either the

- borrower's credit and capacity are acceptable, or
- loan application must be referred to an individual underwriter.

Important: An AUS does *not* evaluate property acceptability; for this, an individual underwriter must review the appraisal.

References: For more information on the TOTAL scorecard, see

- [HUD 4155.1 6.A.1](#)
 - Mortgagee Letters (ML) [2004-01](#); [04-44](#); [04-47](#); [05-15](#), and
 - the [TOTAL Mortgage Scorecard User Guide](#).
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4. Underwriter Qualification Criteria and Responsibilities

Introduction This topic contains information on

- underwriter qualifications, and
- underwriter responsibilities.

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4155.2 2.A.4.a Underwriter Qualifications The table below describes the qualifications necessary for a lender’s staff underwriter to be approved by HUD/FHA.

Qualification	Description
General	<p>The underwriter must be a <i>full time</i> employee of the lender and must be</p> <ul style="list-style-type: none"> • a corporate officer with signatory authority (or otherwise authorized to bind the mortgage lender in matters involving origination of mortgage loans), and • employed by only one lender. <p><i>Note:</i> The originating lender may <i>not</i> contract out the underwriting function.</p> <p><i>Reference:</i> For a definition of Corporate Officer, see HUD 4155.2 1.B.7.e.</p>
Character	<p>The underwriter must be a reliable and responsible professional who is</p> <ul style="list-style-type: none"> • skilled in mortgage evaluation, and • able to demonstrate knowledge and experience regarding principles of mortgage underwriting. <p><i>Reference:</i> For more information on underwriting responsibilities, see HUD 4155.2 2.A.4.b.</p>

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4. Underwriter Qualification Criteria and Responsibilities, Continued

4155.2 2.A.4.a Underwriter Qualifications (continued)

Qualification	Description
Location	FHA has no requirement regarding the location of an underwriter (for example, the main office or a branch office).
Experience	<p>The underwriter must have a minimum of three years full-time recent experience (or equivalent) reviewing both credit applications and one-to-four unit property appraisals.</p> <p>This experience should have been with an</p> <ul style="list-style-type: none"> • institutional investor originating for its own portfolio or purchasing these types of mortgage loans, or • originator selling these types of mortgage loans to investors. <p><i>Notes:</i></p> <ul style="list-style-type: none"> • Experience related solely to either mortgage credit <i>or</i> appraisal review counts for one half of the total requirement. • Other experience may include quality control reviews for investors or similar experiences.
Ineligibility under the HFSH Act	The underwriter may not be subject to <i>any</i> of the actions or restrictions listed in HUD 4155.2 1.B.7d .

4. Underwriter Qualification Criteria and Responsibilities, Continued

**4155.2 2.A.4.b
Underwriter
Responsibilities**

The table below outlines the responsibilities assumed by the underwriter.

Responsibility	Description
Familiarity with Underwriting Procedures	<p>The lender is responsible for ensuring the underwriter’s familiarity with</p> <ul style="list-style-type: none"> • the underwriting procedures discussed in principal underwriting handbooks <ul style="list-style-type: none"> – HUD 4155.1, <i>Mortgage Credit Analysis for Mortgage Insurance on One-to-Four Family Properties</i>, and – HUD 4155.2, <i>Lender’s Guide to the Single Family Mortgage Insurance Process</i> • the appraisal procedures discussed in valuation handbooks <ul style="list-style-type: none"> – HUD 4145.1, <i>Architectural Processing and Inspections for Home Mortgage Insurance</i> – HUD 4150.1, <i>Valuation Analysis for Home Mortgage Insurance</i>, and – HUD 4150.2, <i>Valuation Analysis for Single Family One- to Four-Unit Dwellings</i> – HUD 4905.1, <i>Requirements for Existing Housing, One-to-Four-Family Living Units</i>, and – HUD 4910.1, <i>Minimum Property Standards for Housing</i>, and • all applicable FHA Mortgagee Letters that affect appraisals and credit underwriting.
Coordination and Compliance	<p>The underwriter is responsible for</p> <ul style="list-style-type: none"> • coordinating all phases of the loan underwriting process, and • ensuring compliance with all FHA requirements and prudent underwriting procedures.

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4. Underwriter Qualification Criteria and Responsibilities, Continued

4155.2 2.A.4.b Underwriter Responsibilities (continued)

Responsibility	Description
Verification of Information	The underwriter must ensure that information is obtained and verified with at least the same care that would be exercised if originating a mortgage in which the lender would be entirely dependent on the property as security to protect its investment.
Appraisal Review and Credit Analysis	The underwriter must ensure reasonable conclusions, sound reports, and compliance with FHA requirements by <ul style="list-style-type: none"> • reviewing appraisal reports and compliance inspections, and • documenting all credit analyses performed and/or obtained by fee and staff personnel.
Loan Acceptability	The underwriter is responsible for making decisions with due diligence and in a prudent manner, regarding the <ul style="list-style-type: none"> • acceptability of the <ul style="list-style-type: none"> – appraisal – inspections, and – borrower's capacity to repay the mortgage, and • overall acceptability of the mortgage loan for FHA insurance.
Personnel Performance	The underwriter must monitor and evaluate the performance of fee and staff personnel used for the Direct Endorsement (DE) Program.

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4. Underwriter Qualification Criteria and Responsibilities, Continued

4155.2 2.A.4.b Underwriter Responsibilities (continued)

Responsibility	Description
Detection of Warning Signs	<p>The underwriter must be</p> <ul style="list-style-type: none"> • attuned to the warning signs that may indicate any irregularities, and • alert and able to detect fraud.
Certification Page 3, Form HUD-92900-A	<p>By executing page 3 of Form HUD-92900-A, <i>HUD/VA Addendum to Uniform Residential Loan Application</i>, the underwriter certifies that he/she</p> <ul style="list-style-type: none"> • has personally reviewed all application documents • finds compliance with the applicable requirements, and • is approving the loan for closing.
Closing Review and Certification	<p>The underwriter (or the lender or lender’s closing department) must</p> <ul style="list-style-type: none"> • review all <ul style="list-style-type: none"> – closing documents – certifications on the closing statements, and – legal instruments and other documents executed at closing, and • certify on page 4 of form HUD-92900-A, <i>HUD/VA Addendum to Uniform Residential Loan Application</i>, that the <ul style="list-style-type: none"> – transaction and loan meet statutory and regulatory requirements of the FHA and National Housing Act, and – loan has been closed in accordance with the terms and sales price specified in the sales contract.