

Section C. Post Endorsement Technical Review (PETR) Procedures

Overview

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1. Targeting Lenders for Post Endorsement Technical Reviews (PETRs)

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| Introduction | <p>This topic contains information on targeting lenders for post endorsement technical reviews (PETRs), including</p> <ul style="list-style-type: none">• requirement for the percentage of cases reviewed for new Direct Endorsement (DE) lenders• requirement for the percentage of cases reviewed for existing DE lenders, and• requirement for the percentage of cases reviewed for DE lenders released from probation status. |
| Change Date | December 23, 2010 |
| 4155.2 9.C.1.a PETR for New DE Lenders | FHA performs post endorsement technical reviews (PETR) on 100% of the first 30 cases originated by a new lender that is granted unconditional Direct Endorsement (DE) approval. |
| 4155.2 9.C.1.b PETR for Existing DE Lenders | <p>For existing DE lenders, the percentage of cases requested for post endorsement technical reviews (PETR) is established at 5% of endorsed loans originated by each lender's home and branch offices. A higher percentage of reviews may be set at the Homeownership Center's (HOC) discretion, based on</p> <ul style="list-style-type: none">• the percentage of the lender's cases receiving an Unacceptable rating• the recommendation of the Quality Assurance Division (QAD)• complaints from<ul style="list-style-type: none">– borrowers– counseling agencies– appraisers– lender's staff, or– other lenders, and• other factors considered appropriate by the HOC. |

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1. Targeting Lenders for Post Endorsement Technical Reviews (PETRs), Continued

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| 4155.2 9.C.1.c PETR for DE Lenders Released From Probation Status | <p>When a lender is returned to unconditional DE approval following a period of probation, then</p> <ul style="list-style-type: none">• all cases are subject to PETRs for the first six months, or• FHA reviews 100% of the first 30 cases. |
|--|---|

2. Post Endorsement Technical Review (PETR) Ratings

Introduction This topic contains information on post endorsement technical review (PETR) ratings, including

- risk-based evaluation of loans, and
 - PETR ratings.
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Change Date December 23, 2010

4155.2 9.C.2.a Risk-Based Evaluation of Loans Lenders are advised that the PETR process is substantially different from the mortgage monitoring performed by the Homeownership Centers (HOC) and other Departmental reviews of insured mortgage operations.

Recent changes have been made to FHA's loan review process in order to clearly identify which loans pose too great a risk to FHA and which loans contain errors or other deficiencies.

Reference: For information on post endorsement technical review (PETR) rating guidance, see [HUD 4155.2 9.C.2.b](#).

4155.2 9.C.2.b PETR Ratings The reviewer conducting the [PETR](#) assigns one of the ratings in the table below to both the Mortgage Credit and the Valuation/Underwriting.

| Rating | Description |
|------------|--|
| Conforming | <p>The loan presents an acceptable level of risk, and no documentation deficiencies or processing errors were identified.</p> <p>The basic eligibility of the borrower and/or property for FHA mortgage insurance is not questioned.</p> |

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2. Post Endorsement Technical Review (PETR) Ratings, Continued

4155.2 9.C.2.b PETR Ratings (continued)

| Rating | Description |
|--------------|--|
| Deficient | <p>The loan presents an acceptable level of risk, but FHA identified documentation deficiencies or processing errors. FHA expects the lender to correct these deficiencies and errors in future submissions. Lenders that are consistently deficient are subject to Homeownership Center (HOC) actions to improve compliance with FHA requirements.</p> <p>The basic eligibility of the borrower and/or the property for mortgage insurance is not questioned.</p> |
| Unacceptable | <p>The loan exhibits such serious violations of FHA requirements and, therefore, poses such a level of risk to the Department, that it should not have been approved. This rating may also occur when the file is missing key documents necessary to determine whether the underwriting was performed appropriately in compliance with FHA standards.</p> <p>The borrower and/or the property do not meet the basic eligibility criteria for FHA mortgage insurance.</p> |
| Mitigated | <p>Based on the initial review, the loan was rated Unacceptable. If the lender, in response to a request from HUD, provides explanations and/or additional documentation that mitigates the risk, then the “Unacceptable” rating is changed to “Mitigated”.</p> <p>If there was more than one code cited in the Unacceptable rating, all factors must be mitigated in order for the rating to be changed.</p> |

Notes:

- There are no automatic ratings. Rather, the reviewer must make an overall determination of the level of risk represented by the loan, and assign a rating accordingly.
- A status of “Conforming” or “Deficient” on a PETR review in either Valuation/Underwriting (Val/UW) or Mortgage Credit (MC) does not guarantee that the underwriting of the mortgage is free from defects that may give rise to sanctions against the individuals and entities involved with the mortgage.

3. Post Endorsement Technical Review (PETR) Underwriting Report System (URS) Data Entry Requirements

Introduction This topic contains information on post endorsement technical review (PETR) Underwriting Report System (URS) data entry requirements, including

- accessing the [URS](#) module
 - [PETR](#) review levels
 - entry of ratings and deficiency codes into URS, and
 - entry of narrative information into URS.
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Change Date December 23, 2010

4155.2 9.C.3.a Accessing the Underwriting Report System (URS) Module FHA reviewers must enter all Post Endorsement Technical Review (PETR) data into the Underwriting Report System (URS). The [URS](#) data entry screens provide for the entry of overall ratings, deficiency codes, and narrative in connection with a [PETR](#).

The [URS](#) module is found under the Single Family Origination Menu in FHA Connection (FHAC).

Reference: For more information on URS and URS reports, see [HUD 4155.2 9.B.3](#).

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3. Post Endorsement Technical Review (PETR) Underwriting Report System (URS) Data Entry Requirements, Continued

**4155.2 9.C.3.b
PETR Review
Levels**

The table below describes the four levels of review that may be completed for a loan.

Note: For the Lender Insurance (LI) program, the review requirements are the same, however, on the [LI](#) case binders (loans), [URS](#) displays an *Integrity Review of Endorsement Data* field before the initial review level is performed.

| Review Level | Description |
|-------------------|---|
| Initial | <p>The initial review level is completed for the first PETR of a loan.</p> <p><i>Note:</i> The initial review level may be completed by Homeownership Center (HOC) staff or by a contractor.</p> |
| Quality Control | <p>The Quality Control (QC) level is used to enter the results of QC reviews of the initial reviews performed by contractors.</p> |
| GTR/Supervisory | <p>The Government Technical Representative (GTR)/Supervisory review level is used to confirm or revise changes in ratings made at the QC level.</p> <p><i>Note:</i> The GTR/Supervisory review level may be completed by a PUD supervisor or designated senior PUD staff.</p> |
| Additional Review | <p>The “Additional Review” level of review is used to</p> <ul style="list-style-type: none"> • enter changes in ratings based on lender responses to ratings from earlier level reviews, or • otherwise confirm or change ratings from earlier review levels. <p><i>Note:</i> The Additional Review level is also used to change the Unacceptable rating to Mitigated in either or both “Val/UW” or “MC” rating categories.</p> |

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3. Post Endorsement Technical Review (PETR) Underwriting Report System (URS) Data Entry Requirements, Continued

4155.2 9.C.3.c For both the Mortgage Credit (MC) and Valuation Underwriting (Val/UW) of a loan, the reviewer must enter a rating of either

Entry of Ratings and Deficiency Codes into URS

- Conforming
- Deficient, or
- Unacceptable.

Whenever a rating of Deficient or Unacceptable is entered, the reviewer *must* enter at least one deficiency code.

References: For more information on

- [PETR](#) ratings, see [HUD 4155.2 9.C.2.b](#), and
 - [PETR](#) deficiency codes, [HUD 4155.2 12.B.4](#).
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4155.2 9.C.3.d After conducting a [PETR](#), the reviewer must enter into [URS](#) narrative explanations for

Entry of Narrative Information into URS

- each deficiency code cited, and
 - any rating changed from a previous review level.
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4. Deficiency Letters and Lender Responses

Introduction This topic contains information on deficiency letters and lender responses, including

- the requirement for issuing a deficiency letter, and
 - HOC processing of lender responses.
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Change Date December 23, 2010

4155.2 9.C.4.a Requirement for Issuing a Deficiency Letter The Homeownership Center (HOC) *must* issue a deficiency letter to the lender for *each* loan receiving a rating of Unacceptable for Mortgage Credit (MC) and/or Valuation/Underwriting (Val/UW). The letter must

- identify the specific deficiencies upon which the unacceptable rating was based, and
- provide the lender with 45 days (unless an extension is granted) to submit a response in writing, including any explanations or documentation explaining the decision to approve the mortgage. [LI](#) lenders are required to submit their responses electronically within 10 business days.

Note: The [HOC](#) may extend the time period for the lender's response based on requests from the lender or other factors. Failure to respond satisfactorily may result in a request from the [HOC](#) to indemnify HUD against loss.

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4. Deficiency Letters and Lender Responses, Continued

4155.2 9.C.4.b
HOC
Processing of
Lender
Responses

The [HOC](#) must review the lender's response and any additional documentation provided by the lender, and take one of the actions listed in the table below.

| If the lender ... | Then the HOC ... |
|--|---|
| adequately addresses the deficiencies on which the Unacceptable rating was based | <ul style="list-style-type: none"> • changes the Unacceptable rating to Mitigated in the Underwriting Report System (URS), and • notifies the lender that the post endorsement technical review (PETR) has been closed. |
| <ul style="list-style-type: none"> • does <i>not</i> respond to the deficiency letter, or • does <i>not</i> provide a response that adequately addresses the deficiencies on which the Unacceptable rating was based | forwards a recommendation to the Quality Assurance Division (QAD) for an Indemnification Agreement. |