



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

July 28, 2011

Mortgagee Letter 2011-25

To: All Approved Supervised Lenders and Applicants for FHA Supervised Lender Approval

Subject Alternative Reporting Requirements for Small Supervised Lenders and Clarification of Requirements for Supervised Lenders in Parent-Subsidiary Relationships

Purpose The purpose of this Mortgagee Letter is to advise supervised lenders and mortgagees with consolidated assets below the audited financial reporting thresholds set by Federal regulators at 12 C.F.R. § 363.1(a), 12 C.F.R. § 562.4(b)(2), and 12 C.F.R. § 715.4(c) of changes to the Federal Housing Administration's (FHA) requirements regarding the submission of audited financial statements as a condition for FHA lender approval and renewal.

Effective Date All requirements contained in this Mortgagee Letter are effective immediately.

Affected Topics References to audited financial statement reporting requirements set forth in HUD Handbook 4060.1 REV-2, "FHA Title II Mortgagee Approval Handbook," HUD's Office of Inspector General (OIG) Handbook 2000.04, "Consolidated Audit Guide for Audits of HUD Programs," and Mortgagee Letter 2009-31, "Strengthening Counterparty Risk Management."

Financial Statement Reporting Requirements for Small Supervised Lenders As announced in Mortgagee Letter 2009-31, "Strengthening Counterparty Risk Management," and as codified in 24 C.F.R. § 202.5(g), all lenders, including supervised institutions, are now required to electronically submit audited financial statements within 90 days of their fiscal year end as part of the annual process for renewing their FHA lender approval. Likewise, supervised lenders seeking FHA approval are now required to include audited financial statements as part of their initial application package.

Effective immediately, FHA-approved supervised lenders that are regulated by the Federal Deposit Insurance Corporation, Office of Thrift Supervision, or National Credit Union Administration whose consolidated

assets do not meet the threshold required by those agencies for submitting audited financial statements (delineated at 12 C.F.R. § 363.1(a), 12 C.F.R. § 562.4(b)(2), and 12 C.F.R. § 715.4(c)) are not required to submit audited financial statements to FHA,¹ nor an audited computation of net worth. These new directions apply at the time of approval and at recertification, but will expire on April 7, 2012.

Supervised lenders that are not required to submit audited financial statements to FHA, as provided above, must submit a copy of their unaudited regulatory report (i.e. Report of Condition and Income, also known as the “Call Report” and submitted on the Federal Financial Institutions Examination Council forms 031 and 041; a consolidated or fourth quarter Thrift Financial Report; or a consolidated or fourth quarter NCUA Call Report, submitted on NCUA Form 5300 or 5310) that aligns with their fiscal year end.

In addition, these lenders are required to submit an independent auditor's: (1) report on internal control as it relates to administering HUD-assisted programs; and (2) report on compliance with specific requirements applicable to major and non-major HUD programs (as prescribed by chapters one, two, and seven of HUD OIG Handbook 2000.04). These audited reports must be prepared by an independent auditor licensed by a regulatory authority of a state or other political subdivision of the United States or by a certified public accountant (refer to HUD Handbook OIG 2000.04, Chapter 1 for information on auditor requirements).

Reporting Requirements and Clarification for Supervised Lenders in Parent-Subsidiary Relationships

FHA-approved supervised lenders in parent-subsubsidiary structures that choose to submit the audited consolidated financial statements of a parent company in accordance with Mortgagee Letter 2011-05, “Revised Audited Financial Statement Reporting Requirements for Supervised Lenders in Parent-Subsidiary Structures and New Financial Reporting Requirements for Multifamily Mortgagees,” are no longer required to submit internally prepared consolidating schedules.

Instead, these lenders must submit a copy of the subsidiary’s unaudited regulatory report (e.g., consolidated or fourth quarter Call Report or Report of Condition and Income, Office of Thrift Supervision Report, consolidated or fourth quarter Thrift Financial Report, Form 10-K, NCUA Supervisory Committee Audit, etc.) that aligns with the lender’s fiscal year end.

¹ Under current regulations, these exemptions apply to supervised institutions with less than \$500 million in assets in 2010. This threshold may change over time as these regulations change.

In addition, FHA-approved supervised lenders that submit the audited consolidated financial statements of a parent company pursuant to the changes to reporting requirements in Mortgagee Letter 2011-05 are advised that all FHA approval requirements remain in effect for the FHA-approved entity. Specifically, net worth and liquidity requirements must be met by the FHA-approved lender regardless of the lender's financial reporting documentation.

**Submitting
Unaudited
Regulatory
Reports to
FHA**

Until the Lender Assessment Subsystem (LASS) is updated to permit the submission of unaudited regulatory reports through a separate attachment section, supervised lenders must submit their unaudited regulatory reports by uploading them with the auditor's footnote in LASS regardless of the manner of the lender's financial reporting.

**Information
Collection
Requirements**

The information collection requirements contained in this document are pending approval by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and will be assigned an OMB control number once it has been approved. 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.

Questions

If you have questions concerning this Mortgagee Letter, please call 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Signature

Carol J. Galante

Acting Assistant Secretary for Housing-Federal Housing Commissioner

