

HUD 4155-2, Lender’s Guide to the Single Family Mortgage Insurance Process

Chapter 1. Mortgage Insurance Program Overview

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Section A. General Information on FHA Mortgage Insurance Programs, the Mortgage Insurance Process, and Loan Origination Requirements/Restrictions

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	Overview of FHA Single Family Mortgage Insurance Programs	1-A-2
2	Overview of the Mortgage Loan Application and Insurance Endorsement Process	1-A-7
3	Restrictions on the Use of Sponsored Third-Party Originators	1-A-11

1. Overview of FHA Single Family Mortgage Insurance Programs

Introduction This topic contains an overview of the FHA single family mortgage insurance programs, including

- the purpose of FHA single family mortgage insurance programs
 - what FHA will and will not insure
 - enabling legislation for FHA's mortgage insurance programs
 - mortgage insurance funds
 - the Direct Endorsement (DE) Program, and
 - FHA insurance program documentation and education.
-

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4155.2 1.A.1.a Purpose of FHA Mortgage Insurance Programs The Federal Housing Administration (FHA) offers various mortgage insurance programs which insure approved lenders against losses on mortgage loans. FHA-insured mortgages may be used to purchase homes, improve homes, or refinance existing mortgages.

Continued on next page

1. Overview of FHA Single Family Mortgage Insurance Programs, Continued

4155.2 1.A.1.b What FHA Will and Will Not Insure

FHA's programs differ from one another primarily in terms of what types of properties and financing are eligible. Except as otherwise stated in this handbook, FHA's single family programs are limited to one- to four-family properties that are owner-occupied principal residences. FHA insures mortgages secured by

- detached or semi-detached dwellings
- manufactured housing
- townhouses or row houses, or
- individual units within FHA-approved condominium projects.

FHA will *not* insure mortgages secured by

- commercial enterprises
- boarding houses
- hotels and motels
- tourist houses
- private clubs
- bed and breakfast establishments, or
- fraternity and sorority houses.

Reference: For more information on eligibility of primary and secondary residences, see [HUD 4155.1 4.B.](#)

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1. Overview of FHA Single Family Mortgage Insurance Programs, Continued

4155.2 1.A.1.c Enabling Legislation for FHA's Single Family Programs

All of FHA's single family programs are authorized by the enabling legislation of Title II of the National Housing Act (NHA), and each program is generally referred to by its particular section of the Act, such as

- Section 203(b), the basic program
- Section 251, Adjustable Rate Mortgages (ARM), and
- Section 234(c) Condominiums.

The regulations implementing the individual programs are contained in the Code of Federal Regulations (CFR), Title 24. The CFR codifies the general and permanent rules of the Department of Housing and Urban Development (HUD) and is updated by publishing changes to regulations in the Federal Register.

Reference: For information on specific mortgage insurance programs, see [HUD 4155.2 1.C.](#)

4155.2 1.A.1.d Mortgage Insurance Funds

Characteristics of each single family mortgage insurance program reflect the particular insurance fund under which that program is insured.

The table below lists the three mortgage insurance funds and a description of the programs covered by each one.

Name of Mortgage Insurance Fund	Description
Mutual Mortgage Insurance (MMI) Fund	Covers most programs, including most of the programs authorized under Section 203(b).
General Insurance (GI) Fund	Covers <ul style="list-style-type: none"> • rehabilitation under Section 203(k) • condominiums under Section 234(c), and • other programs.
Special Risk Insurance (SRI) Fund	Covers Section 223(e) and others.

Continued on next page

1. Overview of FHA Single Family Mortgage Insurance Programs, Continued

4155.2 1.A.1.e Direct Endorsement Program

Under FHA's Direct Endorsement (DE) program, approved lenders may underwrite and close mortgage loans without FHA's prior review or approval. This includes all aspects of the mortgage loan application, property analysis, and borrower underwriting.

Note: This assumes that the lender is a [DE](#) lender with unconditional approval. If the lender has only "conditional" FHA approval, and is in the Pre-Closing Review phase, then the lender must submit the loan to FHA for approval *prior* to closing the loan.

All FHA programs described in this handbook are eligible for DE processing *except*

- the Section 203(n), Single Family Cooperative program, and
- mortgage loans for HUD employees, with the exception of streamline refinances.

References: For more information on

- mortgage credit analysis, see [HUD 4155.1 Chapter 1](#)
- conditional DE approval and pre-closing review, see [HUD 4155.2 2.B.3](#)
- the Section 203(n) program, see [HUD 4155.2 1.C.6](#), and
- loans for HUD employees, see [HUD 4155.2 3.B.1](#).

Continued on next page

1. Overview of FHA Single Family Mortgage Insurance Programs, Continued

4155.2 1.A.1.f FHA Insurance Program Documentation and Education

HUD Handbooks and Mortgagee Letters (ML) provide detailed processing instructions and advise the mortgage industry of major changes to FHA programs and procedures. Additionally, the Homeownership Centers (HOC)

- issue Circular Letters
- conduct seminars
- lead industry meetings
- distribute other program information, and
- maintain online reference guides.

References:

- For HOC-specific information, see HUD's website at www.hud.gov.
 - For HUD forms, Handbooks and Mortgagee Letters, see HUD's website at www.hud.gov/hudclips/.
-

2. Overview of the Mortgage Loan Application and Insurance Endorsement Process

Change Date March 1, 2011

**4155.2 1.A.2.a
Loan
Application and
Endorsement
Process
Overview**

The table below describes the stages of the mortgage loan application and endorsement process.

Stage	Description
1	A borrower contacts a lender regarding a mortgage loan, and the lender determines if the loan would be eligible for FHA insurance.
2	<p>The borrower, along with the lender’s representative, completes the loan application. The loan officer collects all supporting documentation from the borrower and submits the application and documentation to the lender.</p> <p><i>Reference:</i> For more information on the standard application package and required documentation, see HUD 4155.1 1.B.1.</p>
3	<p>The lender applies for, and is assigned, an FHA case number through the FHA Connection (FHAC).</p> <p><i>References:</i> For more information on the FHA Connection, see</p> <ul style="list-style-type: none"> • HUD 4155.2 1.D, and • the FHA Connection Guide.

Continued on next page

2. Overview of the Mortgage Loan Application and Insurance Endorsement Process, Continued

4155.2 1.A.2.a Loan Application and Endorsement Process Overview (continued)

Stage	Description
4	<p>Through FHAC, the lender</p> <ul style="list-style-type: none"> • assigns an appraiser to perform a property appraisal, to determine the value of the property that is to be security for the mortgage loan, and • completes the appraisal logging. <p>Reference: For more information on appraisals and property standards, see HUD 4155.2 4.</p>
5	<p>The lender</p> <ul style="list-style-type: none"> • instructs its underwriter to perform the mortgage credit analysis to determine the borrower's ability and willingness to repay the mortgage debt, and • enters the borrower's income/credit information into FHAC. <p>Reference: For more information on performing a mortgage credit analysis, see HUD 4155.1 4.C.</p>
6	<p>The underwriter makes the underwriting decision. If the loan is</p> <ul style="list-style-type: none"> • approved, the process continues with Stage 7, or • rejected <ul style="list-style-type: none"> – the borrower is notified, – the underwriter updates FHAC via the <i>Mortgage Credit Reject Screen</i>, and – this completes the process. <p>Reference: For more information on borrower approval and rejection notification, see HUD 4155.2 5.2.</p>

Continued on next page

2. Overview of the Mortgage Loan Application and Insurance Endorsement Process, Continued

4155.2 1.A.2.a Loan Application and Endorsement Process Overview (continued)

Stage	Description
7	<p>Once the loan is approved, the lender closes the loan with the borrower.</p> <p>Reference: For more information on</p> <ul style="list-style-type: none"> • loan closing, see HUD 4155.2 6.A • DE Lender Program application, see HUD 4155.2 2.A, and • DE lender approval, see HUD 4155.2 2.B.
8	<p>After the loan is closed, the lender initiates the loan endorsement process.</p> <p>Lenders <i>not</i> participating in Lender Insurance Program (LI)</p> <ul style="list-style-type: none"> • complete the Insurance Application function in FHAC • submit the case binder to the appropriate HOC for endorsement review, and • submit the case binder to the HOC in hard copy form. <p>Lenders participating in LI</p> <ul style="list-style-type: none"> • insure loans through FHAC, and • submit case binders in either electronic format (eCB) or in hard copy form, if requested by the HOC. <p>Note: The HOC may request the case binder because a severe warning is displayed for a post-endorsement technical review (PETR), or to perform an appraisal review.</p> <p>References: For more information on</p> <ul style="list-style-type: none"> • preparation and submission of the case binder, see HUD 4155.2 8.B, and • the Lender Insurance Program, see HUD 4155.2 2.C and the Lender Insurance Guide.

Continued on next page

2. Overview of the Mortgage Loan Application and Insurance Endorsement Process, Continued

4155.2 1.A.2.a Loan Application and Endorsement Process Overview (continued)

Stage	Description
9	<p>Upon receipt of the case binder from a non-LI lender, the HOC</p> <ul style="list-style-type: none"> • logs the closing package into FHAC • performs a pre-endorsement review, and • issues the <ul style="list-style-type: none"> – Mortgage Insurance Certificate (MIC), or – Non-Endorsement Notice/Notice of Rejection (NOR).
10	<p>The HOC completes insurance endorsement processing using the logging and endorsement functions in FHAC.</p> <p>Result: Once the loan is endorsed, FHAC generates an MIC for the lender to download.</p> <p>References: For more information on</p> <ul style="list-style-type: none"> • the MIC, see HUD 4155.2 8.C.6, and • FHA Connection, see <ul style="list-style-type: none"> – HUD 4155.2 1.D, and – the <i>FHA Connection Guide</i>.
11	<p>To ensure that mortgage lenders understand and comply with FHA requirements, selected case binders are chosen for PETR by the HOCs.</p> <p>Reference: For more information on PETRs, see HUD 4155.2 9.C.</p>

3. Restrictions on the Use of Sponsored Third-Party Originators

Introduction This topic contains information on the restrictions on the use of sponsored third-party originators, including

- role of the sponsored third-party originator (TPO)
 - RESPA prohibition of duplicative fees
 - loan origination functions that may not be performed by a third-party originator, and
 - counseling services that may be provided by a broker.
-

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**4155.2 1.A.3.a
Role of the
Sponsored
Third-Party
Originator
(TPO)** Loan correspondents (also referred to as sponsored third-party originators (TPO)) may participate in FHA programs by establishing a sponsorship relationship with an FHA-approved Direct Endorsement (DE) lender. The lender may permit its sponsored [TPO](#) to perform all loan application and processing tasks related to an FHA-insured loan transaction, except for underwriting and any tasks executed directly in FHA Connection (FHAC). Sponsoring FHA-approved lenders will determine the exact origination and processing duties their sponsored TPO may perform.

The lender may permit a sponsored TPO to originate Home Equity Conversion Mortgages (HECM), provided that the TPO adheres to all [HECM](#) origination requirements.

Reference: For more information on loan origination services that may not be performed by a sponsored TPO lender, see [HUD 4155.2 1.A.3.c](#).

**4155.2 1.A.3.b
RESPA
Prohibition of
Duplicative
Fees** A [TPO](#) may be compensated for the actual loan origination services it performs, either directly by the borrower or indirectly by the FHA-approved lender, without being in violation of either the Real Estate Settlement Procedures Act (RESPA) or FHA regulations.

[RESPA](#) does, however, prohibit the payment of duplicative fees. The payment to a broker for duplicated services amounts to an unearned fee in violation of Section 8(b) of RESPA. Further, this payment may also act as a disguised referral fee for steering the borrower to an FHA-approved lender, a violation of section 8(a) of RESPA.

Continued on next page

3. Restrictions on the Use of Sponsored Third-Party Originators Continued

**4155.2 1.A.3.c
Loan
Origination
Functions That
May Not be
Performed by a
Third-Party
Originator**

FHA requires that for mortgage loan applications originated by a sponsored [TPO](#), *only* an FHA-approved [DE](#) lender may

- underwrite
- approve
- close in the lender's name
- insure or submit for endorsement, and
- perform any tasks executed directly in [FHAC](#).

Notes:

- Loans *must* close in the name of the sponsoring underwriting lender.
- Only approved lenders may order FHA case numbers.

References: For more information on

- sponsored TPOs, see [HUD 4155.2 2.B.6](#), and
- FHA case numbers and FHA Connection, see [HUD 4155.2 1.D](#).

Continued on next page

3. Restrictions on the Use of Sponsored Third-Party Originators

Continued

**4155.2 1.A.3.d
Counseling
Services That
May Be
Provided by a
Broker**

Services that are considered counseling in nature (such as educating a prospective borrower in the home-buying and financing process, advising the borrower about different types of loan products available, and demonstrating how closing costs and monthly payments could vary under each product), may be performed by a mortgage broker, so long as the services provided constitute meaningful counseling, and not steering.

Under [RESPA](#), when “counseling” services are performed, HUD also looks at whether

- counseling gave the borrower the opportunity to consider products from at least three different lenders
- the entity performing the counseling would receive the same compensation regardless of which lender’s product was ultimately selected, and
- any payment made for the counseling services is reasonably related to the services performed.

Notes:

- The fee charged must be paid from the borrower’s own available assets and must be disclosed on the HUD-1 [Settlement Statement](#) at closing.
- A copy of the contract for these services must be included in the loan file submitted for insurance endorsement.
- Under no circumstances may a borrower be charged a fee that is not commensurate with the amount normally charged for similar services.

Reference: For more information on sponsored third-party originators, see [HUD 4155.2 2.B.6](#).

Section B. Fair Housing and Other Regulatory Requirements

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
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3	Affirmative Fair Housing Marketing	1-B-6
4	Fair Credit Reporting Act (FCRA)	1-B-8
5	Equal Credit Opportunity Act (ECOA)	1-B-9
6	Executive Order 11063 (as Amended by Executive Order 12259)	1-B-12
7	Helping Families Save Their Homes Act and Other Housing Act Requirements	1-B-13
8	Reporting Fraud and Abuse	1-B-21

1. General Information on Fair Housing and Other Regulatory Requirements

Introduction This topic contains general information on Fair Housing and other regulatory requirements, including

- the applicability of Federal statutes and regulations to FHA single family programs, and
 - references for locating information on various statutes and regulations.
-

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**4155.2 1.B.1.a
Applicability of Federal Statutes and Regulations to FHA Single Family Programs** Federal statutes and regulations concerning fair housing and equal credit opportunities apply to all of FHA's single family mortgage insurance programs. Lenders must abide by these statutes and regulations for all new origination and assumption transactions.

**4155.2 1.B.1.b
Locating Information on Various Statutes and Regulations** The table below lists the statutes and regulations with which lenders must comply, and reference information for locating information on each statute or regulation.

Statute/Regulation	Reference
Title VIII of the Civil Rights Act of 1968, as amended (Public Law 90-284)	Office of Fair Housing and Equal Opportunity U.S. Department of Housing and Urban Development 451 7 th Street, SW Washington, DC 20410
Fair Housing Act	See HUD 4155.2 1.B.2

Continued on next page

1. General Information on Fair Housing and Other Regulatory Requirements, Continued

4155.2 1.B.1.b Locating Information on Various Statutes and Regulations (continued)

Statute/Regulation	Reference
Affirmative Fair Housing Marketing	See HUD 4155.2 1.B.3
Fair Credit Reporting Act (FCRA)	See HUD 4155.2 1.B.4
Equal Credit Opportunity Act (ECOA)	See HUD 4155.2 1.B.5
Executive Order 11063, as amended by Executive Order 12259	See HUD 4155.2 1.B.6
Helping Families Save Their Homes Act and Other Housing Act Requirements	See HUD 4155.2 1.B.7

2. The Fair Housing Act

Introduction This topic contains information on the Fair Housing Act, including

- a description of the Fair Housing Act
- prohibited practices in making loans
- prohibited practices in determining loan terms and conditions and loan availability, and
- prohibited practices in the selling, brokering or appraising of real estate.

Change Date March 1, 2011

4155.2 1.B.2.a Description of the Fair Housing Act HUD is responsible for enforcing the Fair Housing Act. The Fair Housing Act, contained in [42 U.S.C. 3605](#), prohibits discrimination in residential real estate-related transactions, such as

- making or purchasing loans or providing other financial assistance, and
- the terms and conditions for making available loans or other financial assistance.

Lenders are prohibited from discriminating on the basis of

- race
- color
- religion
- sex
- handicap/disability
- familial status (existence of children), or
- national origin.

Notes:

- While the statute uses the term “handicap,” the preferred term is “disability” or “person with disabilities.”
 - While not prohibited by the Fair Housing Act, discrimination on the basis of marital status, sexual orientation, age, source of income, and other factors is prohibited by other federal, state or local laws, which must be followed where applicable.
-

Continued on next page

2. The Fair Housing Act, Continued

4155.2 1.B.2.b Prohibited Practices in Making Loans

When making loans or providing other financial assistance, a lender is prohibited from discriminating against individuals by

- failing or refusing to provide information regarding
 - the availability of loans or other financial assistance
 - the application requirements, procedures or standards for review and approval of loans or financial assistance, or
 - providing information that is
 - inaccurate, or
 - different from that provided to others because of race, color, religion, sex, disability, familial status, or national origin.
-

4155.2 1.B.2.c Prohibited Practices in Loan Terms & Conditions and Availability

It is unlawful for a lender to discriminate against an individual because of race, color, religion, sex, disability, familial status, or national origin by using different policies, practices, or procedures to

- evaluate or determine the creditworthiness of any person in connection with a loan or other financial assistance secured by residential real estate
 - determine the type of loan or other financial assistance to be provided, or
 - determine the loan amount, interest rate, duration or other terms for the loan or other financial assistance.
-

4155.2 1.B.2.d Prohibited Practices in the Selling, Brokering, or Appraising of Real Estate

It is unlawful for any person or entity whose business includes engaging in the selling, brokering, or appraising of residential real property to discriminate in making available such services, or in the performance of such services, because of race, color, religion, sex, handicap, familial status, or national origin.

3. Affirmative Fair Housing Marketing

Introduction This topic contains information on Affirmative Fair Housing Marketing, including

- applicability of the Fair Housing Marketing policy, and
 - specific requirements regarding
 - hiring policies
 - display of the Equal Housing Opportunity logo, and
 - marketing plans.
-

Change Date March 1, 2011

4155.2 1.B.3.a Applicability of the Fair Housing Marketing Policy FHA’s regulations on Affirmative Fair Housing Marketing apply to all single family mortgage insurance programs. Homebuilders building five or more units per year must comply with specific policies outlined in [HUD 4155.2 1.B.3.b](#).

Reference: For more information on Fair Housing Marketing, see [24 CFR Part 200, Subpart M](#).

4155.2 1.B.3.b Specific Requirements of the Fair Housing Policy The table below outlines the requirements with which all homebuilders building five or more units per year must comply.

Requirement	Policy
Hiring	Applicants must <ul style="list-style-type: none"> • maintain a non-discriminatory policy in hiring sales staff • instruct all employees on the laws and philosophy of fair housing, and • submit an Equal Housing Opportunity (EHO) Certification to FHA.

Continued on next page

3. Affirmative Fair Housing Marketing, Continued

4155.2 1.B.3.b Specific Requirements of the Fair Housing Policy (continued)

Requirement	Policy
Logo	<p>Applicants must display the Equal Housing Opportunity (EHO) statement, logotype, and slogan on all</p> <ul style="list-style-type: none"> • advertising • brochures • site signs, and • other materials.
Affirmative Fair Housing Marketing Plan	<p>Single family homebuilders are required to provide information to HUD on their affirmative fair housing marketing activities. These activities, among other things, are intended to inform everyone of the availability of housing opportunities, regardless of</p> <ul style="list-style-type: none"> • race • color • religion • sex • disability, • familial status, or • national origin.

4. Fair Credit Reporting Act (FCRA)

Introduction This topic contains information on the Fair Credit Reporting Act (FCRA) including

- the purpose of the FCRA, and
 - lender requirements when taking adverse action against a borrower.
-

Change Date March 1, 2011

4155.2 1.B.4.a Purpose of the FCRA The [Fair Credit Reporting Act](#) (FCRA) is intended to control collection and dissemination of information about granting credit to a borrower.

The FCRA is designed primarily to ensure that consumer reporting agencies exercise fairness, confidentiality, and accuracy in preparing and disclosing credit information.

4155.2 1.B.4.b Lender Requirements When Taking Adverse Action Against a Borrower

As required under the [FCRA](#), if a lender takes adverse action that is based in whole or in part on a credit report, the lender must disclose to the borrower the name, address, and, if available, the telephone number of the credit reporting agency issuing the report. Additionally, the notice must

- be provided at the time of notice of mortgage rejection, or within a reasonable time thereafter, and
- indicate that the borrower is entitled to request, from the credit reporting agency, the information reported to the lender that was used as a reason for rejection.

Note: A copy of any such notice should be retained in the application file.

5. Equal Credit Opportunity Act (ECOA)

Introduction This topic contains information on the Equal Credit Opportunity Act (ECOA), including

- the requirements of the ECOA and Regulation B
 - lender restrictions per the ECOA, and
 - Regulation B requirements for borrower notification of action taken
 - Regulation B time limit for borrower notification, and
 - requirements for rejected loan applications.
-

Change Date March 1, 2011

4155.2 1.B.5.a Requirements of the ECOA and Regulation B The Equal Credit Opportunity Act (ECOA) prohibits discrimination in the extension of credit

- on the basis of
 - race
 - color
 - religion
 - national origin
 - sex
 - marital status, or
 - age
- because all or part of the borrower’s income derives from public assistance, or
- because the borrower has, in good faith, exercised any right under the Consumer Credit Protection Act.

The ECOA and Regulation B of the Board of Governors of the Federal Reserve System outline rules to be observed in evaluating the creditworthiness of borrowers.

Under *no* circumstances can the source of confidential credit information be disclosed to third parties, except as required by law.

References: For more information on

- the ECOA, see [15 USC 1601](#), and
 - Regulation B, see [12 CFR 202](#).
-

Continued on next page

5. Equal Credit Opportunity Act (ECOA), Continued

4155.2 1.B.5.b Lender Restrictions per ECOA

The [ECOA](#) prohibits a lender from

- making any oral or written statement, in advertising or otherwise, to borrowers or prospective borrowers that would discourage on a prohibited basis a reasonable person from making or pursuing an application
 - inquiring whether income stated in an application is derived from alimony, child support, or separate maintenance payments, *unless* the lender discloses to the borrower that such income need not be revealed if the borrower does not want the lender to consider it in determining the borrower's creditworthiness
 - inquiring about the sex, race, color, religion, or national origin of an applicant (except as provided in [12 CFR 202.13](#) regarding information for monitoring purposes), or
 - inquiring about birth control practices, or intentions concerning the bearing and rearing of children, or the capability to bear them.
-

4155.2 1.B.5.c Regulation B Requirement for Borrower Notification of Action Taken

Regulation B requires that a borrower be notified of action taken by the creditor. Actions taken by HUD or the Direct Endorsement (DE) lender include

- issuing a Firm Commitment or [DE](#) approval
 - rejecting the borrower for mortgage credit reasons, and
 - notifying the borrower of the lender's inability to process the application because certain items are incomplete or were not submitted.
-

4155.2 1.B.5.d Regulation B Time Limit for Borrower Notification

Under Regulation B, the maximum time limit for borrower notification is 30 days after the date the [DE](#) underwriter receives the application, or the resubmission or reconsideration of an application. Under *no* circumstances is the processing of an application to be delayed to such an extent that notification cannot be provided within this time limit.

For purposes of complying with the notification requirements of Regulation B, resubmissions and reconsiderations are considered new applications.

Continued on next page

5. Equal Credit Opportunity Act (ECOA), Continued

4155.2 1.B.5.e Requirements for Rejected Loan Applications

Under Regulation B, for loan applications that are rejected, the lender must

- complete rejection notices that
 - provide all of the specific reasons for the rejections and any counter proposals to effectuate loan approvals (such as a reduced mortgage amount), and
 - otherwise comply with the requirements of Regulation B, and
- retain case binders on the rejected loans for 26 months from the date the applications are
 - received by the [DE](#) underwriter, or
 - rejected by the appropriate Homeownership Center (HOC).

Notes:

- Delinquent accounts need not be listed in the rejection notice.
- At least one credit aspect must be rejected before an overall rejection can be issued.

Reference: For more information on requirements for rejected loan applications, see [HUD 4155.1 1.A.5.g](#).

6. Executive Order 11063 (as Amended by Executive Order 12259)

Change Date March 1, 2011

4155.2 1.B.6.a
Description of
Executive
Order 11063

[Executive Order 11063](#), as amended by [Executive Order 12259](#), prohibits discrimination in lending practices involving housing and related facilities that are financed, insured, or guaranteed by the Federal government.

7. Helping Families Save Their Homes Act and Other Housing Act Requirements

Introduction This topic contains information on Section 203 of the Helping Families Save Their Homes Act (HFSH) of 2009, as well as the requirements of other housing acts, including

- Section 527 of the National Housing Act
 - Section 535 of the National Housing Act
 - National Affordable Housing Act requirements
 - HFSH Act eligibility requirements
 - investigations for crimes related to the mortgage industry
 - definition of corporate officer
 - definition of unresolved findings
 - change of lender status under the HFSH Act
 - compliance with the S.A.F.E Act and NMLS
 - notification of business changes
 - changes to lender's address, and
 - use of lender's name in advertising under the HFSH Act.
-

Change Date March 1, 2011

**4155.2 1.B.7.a
NHA Section
527
Requirements** [Section 527](#) of the [National Housing Act](#) (NHA) prohibits denial of a federally-related mortgage loan on the basis of sex.

**4155.2 1.B.7.b
NHA Section
535
Requirements** Under [Section 535](#) of the [NHA](#), a lender is prohibited from requiring, as a condition of providing a loan to be insured by FHA, that the loan amount equal or exceed a minimum amount established by the lender.

Continued on next page

7. Helping Families Save Their Homes Act and Other Housing Act Requirements, Continued

**4155.2 1.B.7.c
National
Affordable
Housing Act
Requirements**

Section 330(a) of the [1990 National Affordable Housing Act](#) prohibits a variation in the mortgage rates charged by the lender (known as “tiered pricing”) that exceeds 2% for FHA-insured mortgages made on dwellings located within a particular area.

Reference: For more information on the prohibition of mortgage rate variation, see [24 CFR 202.12](#).

Continued on next page

7. Helping Families Save Their Homes Act and Other Housing Act Requirements, Continued

4155.2 1.B.7.d Section 203 of the [Helping Families Save Their Homes Act](#) (HFSH) of 2009 contains provisions that place additional requirements on FHA-approved lenders and expand FHA’s authority to pursue civil money penalties for violations of program requirements. The provisions that limit eligibility for those participating in FHA programs are described in the table below.

All Principal Owners and Corporate Officers must confirm that the institution and any officer, partner, director, principal, manager, supervisor, loan processor, loan underwriter, or loan originator participating in FHA programs, is not...	
1	<p>currently suspended, debarred, under a limited denial of participation (LDP), or otherwise restricted under</p> <ul style="list-style-type: none"> • part 25 of Title 24 of the Code of Federal Regulations • part 180 as implemented by part 2424 • any successor regulations to such parts, or • similar provisions of any other Federal agency .
2	<p>under indictment for, or been convicted of, an offense that reflects adversely upon the lender’s integrity, competence or fitness to meet the responsibilities of an approved lender.</p>
3	<p>subject to unresolved findings or federal lawsuits resulting from an audit, investigation, or review by</p> <ul style="list-style-type: none"> • the Department of HUD or • other federal, state or local governmental agencies, or • any other regulatory/oversight entities with jurisdiction over the activities of their institutions and/or employees. <p><i>Note:</i> For a definition of unresolved findings, see HUD 4155.1 1.B.7.f.</p>
4	<ul style="list-style-type: none"> • engaged in business practices that do not conform to generally accepted practices of prudent lenders or that demonstrate irresponsibility.
5	<p>convicted of, or pled nolo contendere to, a felony related to participation in the real estate or mortgage loan industry</p> <ul style="list-style-type: none"> • during the seven-year period preceding the date of application for licensing and registration, or • at any time preceding such date of application, if the felony involved an act of fraud, dishonesty, breach of trust, or money laundering.

Continued on next page

7. Helping Families Save Their Homes Act and Other Housing Act Requirements, Continued

4155.2 1.B.7.d HFSH Act Eligibility Requirements (continued)

All Principal Owners and Corporate Officers must confirm that the institution and any officer, partner, director, principal, manager, supervisor, loan processor, loan underwriter, or loan originator participating in FHA programs, is not...	
6	in violation of provisions of the Secure and Fair Enforcement (S.A.F.E.) for Mortgage Licensing Act of 2008 (Public Law 12 U.S.C 5101 et seq.), or any applicable provision of state law.
7	in violation of any other requirement as established by the Secretary.

Reference: For more information on civil money penalties, see [HUD 4155.2 9.D.5](#).

4155.2 1.B.7.e Investigations for Crimes Related to the Mortgage Industry

All principal owners and corporate officers of FHA-approved lenders must confirm that none of their employees or subsidiaries are involved in investigations or reviews that may be due to an instance of fraud, embezzlement, forgery, or any other crime related to the real estate or mortgage loan industry.

4155.2 1.B.7.f Definition of Corporate Officer

FHA defines a Corporate Officer as a person with any of the following titles:

- Owner
 - President
 - Vice President
 - Chief Operating Officer
 - Chief Financial Officer
 - Director
 - Corporate Secretary
 - Chief Executive Officer
 - Member (i.e., of a Limited Liability Corporation), and
 - Chairman of the Board.
-

Continued on next page

7. Helping Families Save Their Homes Act and Other Housing Act Requirements, Continued

4155.2 1.B.7.g
Definition of
Unresolved
Findings

The unresolved findings and lawsuits and findings referenced in [HUD 4155.2 1.B.7.d](#) may include, but are not limited to

- Fair Housing Act lawsuits by the Department of Justice alleging an ongoing pattern or practice of discrimination
- HUD letters of findings or charges alleging systemic violations of the Fair Housing Act
- open issues in any HUD Office of the Inspector General (OIG) audit, investigation or review
- any action by HUD’s Mortgagee Review Board (MRB)
- the suspension, surrender, or revocation of a license of any kind (e.g., Mortgage Broker License, CPA) by a state or local jurisdiction
- the imposition of fines, settlement agreements, or other monetary sanctions by a state or local entity, or
- any other action taken by a government agency.

Findings are considered “unresolved” until an action is taken by the investigating entity, or the entity formally determines that no action is warranted.

Continued on next page

7. Helping Families Save Their Homes Act and Other Housing Act Requirements, Continued

4155.2 1.B.7.h Change of Lender Status under the HFSH Act

An FHA-approved lender is required to notify FHA if any of its individual employees are subject to a sanction or another administrative action.

Lender must report to FHA business changes including the

- debarment, suspension or [LDP](#), or the application of other sanctions, exclusions, fines, or penalties pursuant to applicable provisions of state or federal law, and applied to the lender, or to any of the lender's
 - officers
 - partners
 - directors
 - principals
 - managers
 - supervisors
 - loan processors
 - loan underwriters, or
 - loan originators, and
- revocation of a state-issued mortgage loan originator license issued pursuant to the [S.A.F.E.](#) Act, or any other declaration of ineligibility pursuant to state law.

References: For more information on

- the S.A.F.E. Mortgage Licensing Act of 2008, see <http://www.nls.gov/offices/hsg/ramh/safe/safeact1.pdf>, and
- all business changes lenders must report to FHA, see
 - Chapters 2 and 6 of [HUD 4060.1](#) REV-2, *Mortgagee Approval Handbook*
 - [ML 10-38](#), and
 - [HUD 4155.2 1.B.7.k](#).

Continued on next page

7. Helping Families Save Their Homes Act and Other Housing Act Requirements, Continued

4155.2 1.B.7.i Compliance with the SAFE Act and NMLS

The failure of an FHA-approved lender to comply with the requirements of the S.A.F.E. Act and applicable state law is cause for withdrawal of FHA lender approval, or loss of authorization to participate in FHA lending programs.

Principal Owners and Corporate Officers must confirm that all employees, as required, consistently meet their respective states' licensing requirements, as well as all federally-mandated licensing or registration requirements, including registration with the Nationwide Mortgage Licensing System and Registry (NMLS).

References: For more information on

- the S.A.F.E. Mortgage Licensing Act of 2008, see <http://www.nls.gov/offices/hsg/ramh/safe/safeact1.pdf>, and
 - each state's NMLS requirements and implementation plans, see <http://mortgage.nationwidelicingsystem.org>.
-

4155.2 1.B.7.j Notification of Business Changes

Subsequent to approval, an FHA-approved lender must immediately notify HUD in writing of any business changes that affect its approval status or its ability to effectively and efficiently engage in FHA activity, such as changes to corporate officers, shareholders, ownership, partnerships or control. These changes must be reported on the lender's company letterhead, signed by a principal owner or corporate officer, and sent to:

U.S. Department of Housing and Urban Development
Office of Lender Activities and Program Compliance
Attn: Director, Lender Approval and Recertification
451 7th St. SW, Room B-133/P3214
Washington, DC 20410

References:

- For additional information on all business changes lenders must report to FHA, see
 - Chapter 6 of [HUD 4060.1](#) REV-2, *Mortgagee Approval Handbook*
 - [ML 10-38](#), and
 - [HUD 4155.2 1.B.7.k](#).
 - For a definition of corporate officer, see [HUD 4155.2 1.B.7.e](#).
-

Continued on next page

7. Helping Families Save Their Homes Act and Other Housing Act Requirements, Continued

4155.2 1.B.7.k FHA Connection (FHAC) must reflect an approved lender’s current address at all times. For HUD to ensure a delivery confirmation of any official notices, the lender must input its street address in the FHAC field labeled *Administrative Address*.

4155.2 1.B.7.l Under Section 203 of the [HFSH](#) Act, an FHA-approved lender must use its HUD-registered business name(s) in all advertisements and promotional materials related to FHA programs. HUD-registered business names must include any aliases or “doing business as” (DBA) names on file with FHA.

Use of Lender’s Name in Advertising under the HFSH Act

Lenders must keep copies of all advertisements and promotional materials for a period of two years from the date that the materials are circulated or used to advertise.

4155.2 1.B.7.m Under [HFSH](#), it is a violation warranting a civil money penalty to use, without authorization

Unauthorized Use of Seal, Logo or Acronyms

- the FHA seal or logo
- the Department of HUD seal or logo
- the Government National Mortgage Association (Ginnie Mae) seal or logo
- the acronyms HUD, FHA or GNMA, or
- any other official seal or logo of the Department of HUD, except as authorized by the Secretary.

References: For more information on

- civil money penalties, see [HUD 4155.2 9.D.5](#), and
 - additional requirements for lenders under HFSH, see [ML 09-31](#).
-

8. Reporting Fraud and Abuse

Introduction This topic contains information on reporting fraud and abuse, including

- reporting fraud, violations and program abuses
 - methods of reporting fraud or abuse, and
 - management response and corrective actions for material deficiencies.
-

Change Date March 1, 2011

4155.2 1.B.8.a Reporting Fraud, Violations and Program Abuses A lender, or any of its employees, must report immediately to HUD if they detect any

- violations of law or regulation
- false statements
- potential fraud
- material deficiencies, or
- program abuses.

Lenders must monitor all loans they originate, underwrite or service for the above items throughout the lifecycle of the loans.

Continued on next page

8. Reporting Fraud and Abuse, Continued

4155.2 1.B.8.b Methods for Reporting Fraud or Abuse

A report of fraud or abuse may be submitted to HUD via

- the Internet at <http://www.hud.gov/offices/pih/programs/ph/rhiip/uivreporting.cfm>
- the Neighborhood Watch Early Warning system, as described in paragraph 7-3(J) of [HUD 4060.1](#), REV-2 *Mortgagee Approval Handbook*
- phone, by calling
 - toll-free at 1-800-347-3735, or
 - TDD at 202-708-2451
- fax, at 202-708-4829, or
- U.S. Mail, by sending the report to the following address:

U.S. Department of Housing & Urban Development
Office of Inspector General Hotline
Assistant Inspector General for Investigations
451 7th Street, S.W., Room 8270
Washington, DC 20410

Reference: For the *Hotline Complaint Intake Form*, see <http://www.hud.gov/offices/pih/programs/ph/rhiip/docs/complaintform.doc>.

4155.2 1.B.8.c Management Response and Corrective Actions for Material Deficiencies

Management is expected to review and respond accordingly to each instance of fraud or other serious deficiency, indicating what steps, if any, have been taken to cure or resolve the violations.

All corrective actions taken in response to instances of fraud or other serious material deficiencies should be reported to HUD via the Neighborhood Watch Early Warning System, as described in [HUD 4155.2 1.B.8.b](#).

Section C. Home Mortgage Insurance Programs

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	General Information on Home Mortgage Insurance Programs	1-C-2
2	Section 203(b) Home Mortgage Insurance	1-C-3
3	Section 203(h) Home Mortgage Insurance for Disaster Victims	1-C-6
4	Section 203(i) Home Mortgage Insurance for Outlying Areas	1-C-9
5	Section 203(k) Rehabilitation Home Mortgage Insurance and Streamlined Limited Repair Program	1-C-11
6	Section 203(n) Single Family Cooperative Program	1-C-17
7	Section 220(d)(3)(A) Urban Renewal Mortgage Insurance	1-C-19
8	Section 220(h) Insured Improvement Loans-Urban Renewal Areas	1-C-23
9	Section 223(e) Miscellaneous Housing Insurance	1-C-25
10	[Placeholder]	1-C-27
11	Section 234(c) Mortgage Insurance for Condominium Units	1-C-28
12	Section 238(c) Mortgage Insurance in Military Impacted Areas (MIAs)	1-C-31
13	Section 245(a) Graduated Payment Mortgage (GPM) and Growing Equity Mortgage (GEM)	1-C-32
14	Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL)	1-C-37
15	Section 248 Single Family Mortgage Insurance on Indian Lands (IL)	1-C-41
16	Section 251 Adjustable Rate Mortgages (ARMs)	1-C-43
17	Section 255 Home Equity Conversion Mortgage (HECM)	1-C-48

1. General Information on Home Mortgage Insurance Programs

Introduction	<p>This topic contains general information on home mortgage insurance programs, including</p> <ul style="list-style-type: none">• a description of the types of home mortgage insurance programs described in this section, and• the enabling legislation for these programs.
Change Date	March 1, 2011
4155.2 1.C.1.a Types of Mortgage Insurance Programs	<p>This section provides a brief description of all FHA single family mortgage insurance programs. Unless otherwise stated, FHA's single family programs are limited to primary residences only.</p>
4155.2 1.C.1.b Enabling Legislation for Single Family Insurance Programs	<p>All of the FHA's single family programs are authorized by the enabling legislation of Title II of the National Housing Act. Each program is generally referred to by its particular section of the Act.</p> <p>Reference: For more information on FHA's home mortgage insurance programs, see HUD 4155.2 1.A.1.</p>

2. Section 203(b) Home Mortgage Insurance

Introduction This topic contains information on the Section 203(b) Home Mortgage Insurance program, including

- a description of Section 203(b) insurance
 - the determination of the maximum insurable mortgage on purchases
 - statutory loan limits
 - maximum loan-to-value (LTV) ratios
 - the required minimum investment policy
 - the mortgage term
 - MIP payment, and
 - the refinancing policy.
-

Change Date March 1, 2011

4155.2 1.C.2.a Description of Section 203(b) Insurance Section 203(b) Home Mortgage Insurance insures lenders against losses on mortgage loans used to

- finance the purchase of proposed, under construction, or existing one- to four-family dwellings or manufactured homes, or
 - refinance indebtedness on existing housing.
-

4155.2 1.C.2.b Determination of the 203(b) Maximum Insurable Mortgage for Purchases The maximum insurable mortgage under Section 203(b) is determined by the lesser of the

- statutory maximum loan limit, or
- applicable loan-to-value (LTV) ratio.

References: For information on

- statutory loan limits, see [HUD 4155.2 1.C.2.c](#), and
 - maximum LTV ratios, see [HUD 4155.2 1.C.2.d](#).
-

Continued on next page

2. Section 203(b) Home Mortgage Insurance, Continued

4155.2 1.C.2.c Section 203(b) Statutory Loan Limits

Statutory loan limits for home mortgage loans under 203(b) in high-cost areas are based upon the median sales prices in the area. Statutory limits may be 50% higher in Alaska, Hawaii, Guam, and the Virgin Islands.

Note: Dollar limitations may be increased by up to 20% if the increase is directly attributable to the cost and installation of a solar energy system on the property.

Reference: Statutory loan limits may be found

- on the HUD website at www.hud.gov, or
 - by accessing the FHA Connection at <https://entp.hud.gov/clas/>.
-

4155.2 1.C.2.d Section 203(b) Maximum LTV Ratios

The maximum [LTV](#) for a property depends upon the

- stage of construction:
 - proposed
 - under construction, or
 - existing
- appraised value and sales price (for a purchase), and
- borrower's decision credit score.

Note: Although the upfront mortgage insurance premium (UFMIP) may be financed, the underwriter should not include it when applying the appropriate LTV.

References: For more information on

- maximum LTVs for
 - properties in different stages of construction, see [HUD 4155.1 2.B](#)
 - refinance transactions, see [HUD 4155.1 3.A.1.g](#)
 - borrowers using 203(h), Mortgage Insurance for Disaster Victims, see [HUD 4155.1 6.A.6.d](#)
 - borrowers with non-traditional or insufficient credit histories, see [HUD 4155.1 4.C.3.a](#), and
 - minimum decision credit scores, see [HUD 4155.1 4.A.1.c](#) and [HUD 4155.1 4.A.1.j](#).
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Section D. FHA Connection

Overview

In This Section This section contains the topics listed in the table below.

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2	Accessing the FHA Connection	1-D-6
3	Requesting an FHA Case Number	1-D-9
4	Canceling and Reinstating Case Numbers	1-D-12
5	Transferring Case Numbers	1-D-13
6	FHA Connection for Third-Party Originators and Sponsors	1-D-16

1. Overview of the FHA Connection

Introduction This topic contains general information on the FHA Connection, including

- a description of FHA Connection
 - FHAC functionality
 - FHAC Help Screen information
 - FHAC error messages
 - logging appraisal information into FHAC, and
 - FHAC B2G.
-

Change Date March 1, 2011

**4155.2 1.D.1.a
Description of
FHA
Connection** The FHA Connection (FHAC) is an interactive portal on the Internet that provides approved FHA lenders real-time access to several FHA systems, including FHA's Computerized Homes Underwriting Management System (CHUMS).

Reference: For more information, see the [FHA Connection Guide](#).

Continued on next page

1. Overview of the FHA Connection, Continued

4155.2 1.D.1.b FHAC Functionality

[FHAC](#) provides lenders with the ability to perform the following transactions electronically:

- request
 - FHA case number assignments
 - appraiser assignments
 - case queries
 - refinance authorizations
 - insurance
 - inspector assignments
 - loan data
 - case cancellations
 - Credit Alert Interactive Voice Response System (CAIVRS) authorizations
 - reports, and
 - Home Equity Conversion Mortgage (HECM) insurance
- transfer cases to other lenders or sponsors
- query approval lists
- create
 - Institutional Master File (IMF) sponsor relationships, and
 - Authorized Agents for Title II
- register
 - underwriters
 - automated underwriting systems, and
 - sponsored third-party originators (TPO)
- transmit any additional FHA information on a particular property
- change IMF addresses
- inquiry IMF addresses, and
- add Title I and Title II branches.

Important: Direct Endorsement (DE) lenders must use FHAC. The Homeownership Centers (HOC) will not accept telephone or mail requests for case numbers, case status, or any actions that can be performed by the lender through FHAC.

Continued on next page

1. Overview of the FHA Connection, Continued

4155.2 1.D.1.c Help Screen Information

A Help ? icon is located on the upper right hand corner of each [FHAC](#) screen to assist the user. The Help window describes the system's

- functions
- data entry fields
- valid data entries, and
- information that is returned to the user upon performing various functions.

Important: Lenders should consult the Help screens before calling FHA for assistance with the data entry fields.

Reference: For more information on FHAC, see the [FHA Connection Guide](#).

4155.2 1.D.1.d FHAC Error Messages

[FHAC](#) users receive immediate feedback, in the form of electronic error messages, on reasons for possible non-insurance. Lenders must correct any errors before cases are submitted for insurance.

Reference: For information on the types of errors the lender must correct prior to submitting the case binder for insurance, see the [FHA Connection Guide](#).

4155.2 1.D.1.e Logging Appraisal Information Into FHAC

For all cases, including [HECMs](#), the

- appraiser must send his/her original appraisal and one copy to the lender (the appraiser should not mail the appraisal to the [HOC](#)), and
- lender is required to enter the appraisal information into FHAC prior to receiving insurance.

When mailing the HUD case binder to the HOC, the [DE](#) lender must include the original appraisal and copy provided by the appraiser.

Note: Lenders originating HECM loans enter the appraisal information into [FHAC](#) for the system to calculate the mortgage insurance premium (MIP).

References: For more information on

- on the Appraisal Logging screen, see [ML 10-15](#), and
 - FHAC, see the [FHA Connection Guide](#).
-

Continued on next page

1. Overview of the FHA Connection, Continued

4155.2 1.D.1.f FHAC B2G

The FHA Connection Business-to-Government (FHAC B2G) specification allows lenders to transmit data directly from their own internal loan processing systems to FHA without re-keying data into [FHAC](#) or functional equivalent.

B2G reduces the data entry burden for lenders and allows efficient transmission of large volumes of data to FHA. The FHAC B2G Guide and a list of available functions and enhancements may be found at <http://www.hud.gov/offices/hsg/sfh/f17c/welcome.cfm>

2. Accessing FHA Connection

Introduction This topic contains information on accessing the FHA Connection, including

- where to access FHA Connection (FHAC)
 - types of user IDs for FHAC, and
 - obtaining user IDs for FHAC.
-

Change Date March 1, 2011

4155.2 1.D.2.a The FHA Connection (FHAC) is accessed on the Internet

**Where to
Access FHA
Connection**

- from the HUD website at www.hud.gov, or
- at <https://entp.hud.gov/clas>.

Also available at the HUD website are the

- [FHA Connection Quick Start Guide](#), with in-depth instructions on using the portal, and
 - [FHA Connection Guide](#), which describes the functions available to lenders.
-

4155.2 1.D.2.b A user identification number (ID) is necessary to sign onto the [FHAC](#) portal. The two types of user IDs that are issued are the

**Types of IDs
for FHAC**

- Application Coordinator ID, and
- Standard ID.

Each lender must designate an Application Coordinator at the corporate level prior to requesting standard IDs.

Note: A maximum of two Application Coordinator IDs may be issued per lender at the corporate level.

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2. Accessing FHA Connection, Continued

4155.2 1.D.2.c The table below describes the stages in the process for obtaining Application Coordinator and standard user IDs for [FHAC](#).
Obtaining User IDs for FHAC

Stage	Description
1	The lender designates an Application Coordinator (or a maximum of two Coordinators).
2	<p>The Application Coordinator obtains an ID by completing the FHA Application Coordinator Registration Form on the FHAC website with the following information:</p> <ul style="list-style-type: none"> • name • Social Security number (SSN) • lender ID • e-mail address • mother’s maiden name • desired password, and • the system name for which they are applying for the ID.
3	<p>After successfully completing the form</p> <ul style="list-style-type: none"> • the system generates a user ID which is mailed to the lender’s president/CEO, and • the president/CEO forwards the ID upon receipt to the Application Coordinator. <p><i>Note:</i> If the president/CEO feels that the applicant should not receive this ID, he/she may contact the Help Line at 1-800-CALLFHA (800-225-5342) to have the ID terminated.</p>
4	<p>Once the Application Coordinator has his/her ID, other lender employees may request standard IDs for themselves by</p> <ul style="list-style-type: none"> • completing the FHAC ID Registration form, indicating that they are requesting standard IDs, and • providing the same information as in Stage 2.

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2. Accessing FHA Connection, Continued

4155.2 1.D.2.c Obtaining User IDs for FHAC (continued)

Stage	Description
5	After the employees successfully complete their registrations <ul style="list-style-type: none">• the system generates the standard IDs, and• the Application Coordinator is able to retrieve the IDs from the system.
6	The Application Coordinator uses the <i>FHAC Maintenance Screen</i> to <ul style="list-style-type: none">• grant company employees proper authorization and access to different applications (such as <i>Case Query</i>, <i>Appraiser Reassignment</i>, <i>Insurance Processing</i>, etc.), and• remove IDs from the system when necessary.

3. Requesting an FHA Case Number

Introduction This topic contains information on using the FHA Connection to obtain case numbers, including

- requesting an FHA case number, and
 - requesting case number before appraiser assignment
 - case numbers on sponsored originations
 - NMLS ID for case number assignment, and
 - requirements for obtaining case numbers.
-

Change Date March 1, 2011

4155.2 1.D.3.a Requesting an FHA Case Number Lenders should request and cancel case numbers in accordance with prudent business practices and existing guidance, using the FHA Connection (FHAC) or its functional equivalent. A case number should be obtained only when the lender has an active loan application for the subject borrower and property in accordance with [HUD 4155.2 1.A.2.a](#).

Sponsored third-party originators (TPO) cannot order FHA case numbers or access FHAC.

References: For more information on

- ordering case numbers on sponsored originations, see [HUD 4155.2 1.D.3.c](#)
 - additional requirements for requesting a case number, see [HUD 4155.2 1.D.3.e](#)
 - cancellation of case numbers, see [HUD 4155.2 1.D.4](#), and
 - FHAC, see the [FHA Connection Guide](#).
-

4155.2 1.D.3.b Requesting Case Number Before Appraiser Assignment Lenders may request a case number in [FHAC](#) without first having to select an appraiser from the FHA Appraiser Roster and input the appraiser's information in the *Case Number Assignment* screen.

The effective date of the appraisal must be after the case number assignment date, except in limited circumstances as described in [HUD 4155.2 4.4.o](#).

References: For more information on

- the [FHA Appraiser Roster](#), see [HUD 4150.2](#), and
 - property valuation and appraisals, see Chapter 4 of [HUD 4155.2](#).
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3. Requesting an FHA Case Number, Continued

4155.2 1.D.3.c Case Numbers on Sponsored Originations

Lenders will not be able to order case numbers for sponsored originations unless their [TPO](#) has been registered in [FHAC](#), per instructions provided at [HUD 4155.2 1.D.6.a](#).

On the *Case Number Assignment* screen, the sponsoring lender that is requesting the case number must answer, “Is this a Sponsored Originator Case?” If the lender selects

- **Yes**, it must click on the *Sponsored Originator EIN* selection from the drop-down window, and enter the TPO’s [EIN](#) in the field, or
 - **No**, this response indicates that it is acting in the capacity of an FHA-approved entity. The lender must click on the *Originator ID* selection from the drop-down window, and enter the FHA lender ID in the field.
-

4155.2 1.D.3.d NMLS ID for Case Number Assignment

Effective April 1, 2011, the name of the loan officer who took the application from the borrower and his/her Nationwide Mortgage Licensing System and Registry identification number (NMLS ID) must be entered on the revised [Uniform Residential Loan Application](#) and the *Case Number Assignment* screen in [FHAC](#).

Reference: For additional information required on sponsored [TPO](#) loans, see [HUD 4155.2 1.D.3.c](#).

4155.2 1.D.3.e Requirements for Obtaining Case Numbers

Effective April 18, 2011, when requesting a case number, FHA systems will require the lender to

- certify that it has an active loan application for the subject borrower *and* property in accordance with [HUD 4155.2 1.A.2.a](#), and
- provide the subject borrower’s name and social security number for *all* proposed construction and existing construction less than one year old.

Reference: For a screen shot of the system enhancement for this requirement, see Appendix I of [ML 2011-10](#).

4. Canceling and Reinstating Case Numbers

Introduction This topic contains general information on canceling and reinstating case numbers, including

- canceling a case number
- automatic case number cancellations, and
- reinstatement of case numbers.

Change Date March 1, 2011

**4155.2 1.D.4.a
Canceling a
Case Number** The lender must fax a cancellation request, specifying the reason for cancellation, to the appropriate Homeownership Center (HOC) to close an outstanding file and cancel the FHA case number if

- an appraisal has not been completed and the borrower will not close the loan as an FHA loan
- the FHA mortgage insurance will not be sought, or
- the appraisal has already expired.

Reference: For information on requesting an FHA case number, see [HUD 4155.2 1.D.3.](#)

Continued on next page

4. Canceling and Reinstating Case Numbers, Continued

4155.2 1.D.4.b Automatic Case Number Cancellations

Beginning April 18, 2011, FHA's systems will automatically cancel an uninsured case number where there has been no activity for six months since the last action taken, except for

- an appraisal update, or
- transmission of the Upfront Mortgage Insurance Premium (UFMIP) to FHA.

“Last action taken” includes

- case number assigned
- appraisal information entered
- firm commitment issued by FHA
- insurance application received and subsequent updates, and
- Notice of Return (NOR) and resubmissions.

Last action taken does *not* include updates to borrowers' names and/or property addresses. For example, making changes to the number of borrowers on a loan will not reset the six-month timeframe for automatic cancellation.

A report on case numbers that will be automatically cancelled the following month may be accessed through *FHA Connection/Single Family Origination/Origination Reports*.

4155.2 1.D.4.c Reinstatement of Case Numbers

If a case number has been canceled, and FHA insurance *will* be sought, the lender must fax a request to the appropriate [HOC](#), requesting that the case number be reinstated to an active status.

Case numbers that were automatically cancelled, including those for condominium units, will not be re-instated unless the lender provides evidence that

- the subject loan closed prior to cancellation of the case number, such as a [HUD-1 Settlement Statement](#), or
 - not reinstating the case number causes an undue hardship to the borrower that is unrelated to recent changes to premiums and underwriting requirements.
-

5. Transferring Case Numbers

Introduction This topic contains information on transferring case numbers, including

- requirements for the transferring lender
 - case number transfer for new borrower using existing appraisal
 - case number transfer involving a rejected loan
 - case number transfer involving a Master Appraisal Report (MAR), and
 - case number transfer involving a sponsored originator.
-

Change Date March 1, 2011

**4155.2 1.D.5.a
Requirements
for the
Transferring
Lender**

Transferring lenders are expected to cooperate in the transfer of case numbers. At the borrower's request, the lender must assign the case number to the new lender using the *Case Transfer* function in the FHA Connection (FHAC). Additionally, the transferring lender

- is *not* entitled to a fee for the transfer of a streamline refinance case number, regardless of the current stage of processing for the loan
- may be entitled to any lock-in fee collected from the borrower at the time of application
- *is* required to provide the new lender with the appraisal, but is *not* required to provide any processing documents.

Note: If processing documents *are* provided, the transferring lender

- must negotiate the fee with the new lender, and
- is *not* authorized to charge the borrower a separate fee for the transfer of the processing documents.

Reference: For more information on the FHA Connection, see [HUD 4155.2 1.D.2.](#)

Continued on next page

5. Transferring Case Numbers, Continued

4155.2 1.D.5.b Case Number Transfer for New Borrower Using Existing Appraisal

If a case number transfer involves a new borrower using an existing appraisal, the new lender

- collects an appraisal fee from the new borrower, and
 - sends the fee to the original lender, who, in turn, refunds the fee to the original borrower.
-

4155.2 1.D.5.c Case Number Transfer Involving a Rejected Loan

If the transfer involves a rejected loan, the original lender must complete the *Mortgage Credit Reject* function in [FHAC](#) prior to transferring the loan.

Reference: For more information on the FHA Connection, see [HUD 4155.2 1.D.2.](#)

4155.2 1.D.5.d Case Number Transfer Involving a MAR

If a case number transfer involves a Form HUD 91322.1, *Master Appraisal Report (MAR)*, the transferring lender is only entitled to a pro-rata share of the cost of the MAR.

While the lender may have expended resources to obtain the MAR in anticipation of capturing most, if not all, of the individual mortgage loans, it may not deny an appraisal assignment request to a borrower who wishes to use an alternative lender.

Example: If the MAR is for 100 units at a cost of \$10,000, the new lender pays the transferring lender \$100 per unit.

Important: As of January 12, 2011, no new case numbers will be assigned for loans in which the appraisal report is a MAR. For more information on the elimination of MARs, see [ML 11-07](#).

Continued on next page

5. Transferring Case Numbers, Continued

**4155.2 1.D.5.e
Case Number
Transfer
Involving a
Sponsored
Originator**

To transfer a case number to a new approved lender or sponsored third-party originator (TPO), the transferring lender must complete the actions in [FHAC](#) as described in the table below.

If the loan origination company is acting in the capacity of...	Then, from the drop-down window...
sponsored third-party originator (TPO)	<ul style="list-style-type: none"> • click on <i>Sponsored Originator EIN</i> selection • enter the EIN in the field, and • enter date of Assignment Letter.
FHA-approved lender	<ul style="list-style-type: none"> • click on <i>Originator ID</i> selection • enter the FHA approved lender ID in the field, and • enter date of Assignment Letter.

Note: The date of Assignment Letter is the date that the transfer between lenders occurred.

6. FHA Connection for Third-Party Originators and Sponsors

Introduction This topic contains information on the use of FHA Connection (FHAC) for third-party originators and their sponsoring lenders, including

- sponsored originator maintenance screen in FHA Connection
 - sponsored originators in FHAC, and
 - case number assignment screen for sponsored originations
 - Insurance Application and HECM Insurance Application screens, and
 - case query screen.
-

Change Date March 1, 2011

**4155.2 1.D.6.a
Sponsored
Originator
Maintenance
Screen in FHA
Connection** Third-party originators (TPO) must be registered in FHA Connection (FHAC) by their sponsoring lenders, on the *Sponsored Originator Maintenance* screen listed on the *Single Family Origination, FHA Approval List* selection screen. The sponsoring lender's FHAC Application Coordinator must grant the appropriate users access to register [TPOs](#), as described in [HUD 4155.2 1.D. 2.c.](#)

For registrations, the TPO must provide the

- entity's legal name
- Employer Identification Number (EIN) issued by the Internal Revenue Service, and
- Nationwide Mortgage Licensing System & Registry (NMLS) identification number.

Lenders can view existing or add new TPOs on the *Sponsored Originator Maintenance* screen.

**4155.2 1.D.6.b
Sponsored
Originators in
FHAC** Once a sponsored [TPO](#) has been registered in [FHAC](#), any sponsoring lender may process FHA loans with that entity.

Lenders that are FHA-approved may originate FHA loans as a sponsored originator. The processes in this section regarding FHAC for sponsored TPOs also apply to FHA-approved lenders acting as sponsored originators.

Continued on next page

6. FHA Connection for Third-Party Originators and Sponsors, Continued

4155.2 1.D.6.c Case Number Assignment Screen for Sponsored Originations

The *Case Number Assignment* screen in [FHAC](#) requires the entry of data that indicates if a loan is a sponsored origination. If the [TPO](#) is not already registered in FHAC, the sponsoring lender will receive an error message when requesting a case number.

References: For information on

- registering TPOs in FHAC, see [HUD 4155.2 1.D.6.a](#), and
 - ordering case numbers for sponsored originations, see [HUD 4155.2 1.D.3.c](#).
-

4155.2 1.D.6.d Insurance Application and HECM Insurance Application Screens

The two *Insurance Application* entry screens will display the sponsored [TPO](#)'s name and [EIN](#) that was previously entered on the *Case Number Assignment* screen.

References: For more information on

- the *Case Number Assignment* screen for Sponsored Originations, see [HUD 4155.2 1.D.6.c](#), and
 - ordering case numbers for sponsored originations, see [HUD 4155.2 1.D.3.c](#).
-

4155.2 1.D.6.e Case Query Screen

The *Case Query* screen will display the sponsored [TPO](#) for sponsored originator cases.

Section A: Direct Endorsement (DE) Program Lender Application

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	Overview of the DE Program Lender Application and Approval Process	2-A-2
2	Lender Eligibility Requirements	2-A-5
3	General Information on Underwriting and Underwriters	2-A-9
4	Underwriter Qualification Criteria and Responsibilities	2-A-11

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.

Change Date March 1, 2011

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.

Continued on next page

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.

Continued on next page

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.

Change Date March 1, 2011

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.

Continued on next page

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, <i>REV-2 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*.

Continued on next page

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](#).

Continued on next page

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](#).
-

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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Change Date March 1, 2011

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.](#)
-

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).

Continued on next page

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](#).
-

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>

Continued on next page

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.

Continued on next page

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.

Continued on next page

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.

Section B: Direct Endorsement (DE) Program Lender Approval

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	General Information on Direct Endorsement Lender Approval	2-B-2
2	Overview of the Direct Endorsement Lender Approval Process	2-B-4
3	Direct Endorsement Pre-Closing Test Case Review Phase	2-B-6
4	Direct Endorsement Unconditional Approval Phase	2-B-10
5	Principal/Authorized Agent Relationship	2-B-12
6	Requirements for Sponsors of Third-Party Originators	2-B-14

1. General Information on Direct Endorsement Lender Approval

Introduction The topic contains general information on Direct Endorsement (DE) lender approval, including

- two phases of DE Lender approval
- eligibility for participation in the pre-closing review phase
- DE authority for the lender, and
- changes that affect DE lender approval status.

Change Date March 1, 2011

4155.2 2.B.1.a Two Phases of DE Lender Approval The table below describes the two phases of the lender approval process in the Direct Endorsement (DE) Program.

DE Lender Approval Phase	Description of Phase
Pre-closing “test case” review phase	<p>The lender with pre-closing approval submits “test case” loans to FHA for review prior to closing.</p> <p>References: For more information on the</p> <ul style="list-style-type: none"> • DE lender approval process, see HUD 4155.2 2.B.2 • pre-closing review phase, see HUD 4155.2 2.B.3, and
Unconditional approval phase	<p>The lender, having successfully completed the pre-closing review phase, receives unconditional approval from FHA and may close loans prior to submitting them to FHA for endorsement.</p> <p>Reference: For more information on the unconditional approval phase, see HUD 4155.2 2.B.4.</p>

Continued on next page

1. General Information on Direct Endorsement Lender Approval, Continued

4155.2 2.B.1.b Eligibility for Participation in the Pre-Closing Review Phase

A lender is eligible and approved to participate in the pre-closing test case review phase upon satisfactory completion of the entrance conference with the Homeownership Center (HOC).

Reference: For more information on the entrance conference, see [HUD 4155.2 2.A.1.d](#).

4155.2 2.B.1.c DE Authority for the Lender

FHA grants [DE](#) authority to the lender, *not* the individual underwriter. If a lender hires a registered DE underwriter who was previously employed by another FHA-approved lender, a 15 case pre-closing review is still required.

4155.2 2.B.1.d Changes That Affect DE Lender Approval Status

An unconditionally approved [DE](#) lender that loses all of its registered DE underwriters automatically loses its DE approval status, and must set up an Authorized Agent or Sponsored Third-Party Originator (TPO) relationship with another lender, or cease originating FHA loans.

Lenders are required to notify FHA whenever there are changes that affect their DE approval status.

References: For more information on

- the Principal/Authorized Agent relationship, see [HUD 4155.2 2.B.5](#)
 - Sponsored Third-Party Originators, see [HUD 4155.2 2.B.6](#), and
 - changes affecting DE approval status, see [HUD 4155.2. 1.B.7.g](#).
-

2. Overview of the Direct Endorsement Lender Approval Process

Change Date March 1, 2011

4155.2 2.B.2.a DE Lender Approval Process

This table outlines steps in the Direct Endorsement (DE) Lender approval process.

Stage	Description
1	<p>A lender that applies for unconditional DE Lender approval must submit a minimum of 15 mortgage loan application “test cases” for review by the Homeownership Center (HOC).</p> <p><i>Note:</i> The test cases may vary by loan type, and must represent expected underwriting situations. Since they are submitted to the jurisdictional HOC prior to closing, the lender’s underwriter cannot fully execute the Underwriter Certification on Page 3 of form HUD 92900-A, <i>HUD/VA Addendum to Uniform Residential Loan Application</i>.</p> <p><i>Reference:</i> For instructions on completing the Underwriter Certification during the pre-closing review phase, see HUD 4155.2 2.B.3.b.</p>
2	<p>The HOC performs a detailed review of each test case application.</p> <p><i>Reference:</i> For more information on the HOC’s test case application review requirements, see HUD 4155.2 2.B.3.c.</p>
3	<p>If the test cases demonstrate</p> <ul style="list-style-type: none"> • <i>acceptable</i> underwriting, <ul style="list-style-type: none"> – FHA issues a firm commitment to the lender to insure any of the eligible test cases, and – the process continues with Stage 6, or • <i>unacceptable</i> underwriting, the process continues with Stage 4.

Continued on next page

2. Overview of the Direct Endorsement Lender Approval Process, Continued

4155.2 2.B.2.a DE Lender Approval Process (continued)

Stage	Description
4	<p>If the test cases demonstrate <i>unacceptable</i> underwriting, the HOC may</p> <ul style="list-style-type: none"> • request more cases be submitted as part of the test period, and/or • discontinue accepting test cases while the lender trains its underwriters on FHA requirements. <p>Reference: For more specific information about how the HOC handles unacceptable underwriting, see HUD 4155.2 2.B.3.e.</p>
5	<p>Once the lender properly completes the required test cases, FHA will grant unconditional DE approval.</p>
6	<p>After granting unconditional approval to a lender, the HOC will perform post-endorsement technical reviews (PETR) on the first 30 cases submitted by the lender, to ensure continued compliance with FHA underwriting standards.</p> <p>Reference: For more information on PETRs performed by the HOC, see HUD 4155.2 9.B.1.</p>

3. Direct Endorsement Pre-Closing Test Case Review Phase

Introduction

The topic contains information on the pre-closing phase of the Direct Endorsement (DE) Lender Approval process, including

- test case submission to the HOC
 - instructions for completing the Underwriter Certification on test cases
 - HOC test case review requirements
 - granting DE approval
 - unacceptable underwriting on test cases
 - test case review underwriting report, and
 - special test case requirements for HECMs.
-

Change Date

March 1, 2011

**4155.2 2.B.3.a
Test Case
Submission to
the HOC**

To be granted unconditional Direct Endorsement (DE) approval for forward mortgages, the lender must submit 15 pre-closing test cases within a period of 12 consecutive months to the Homeownership Center (HOC) for review prior to closing.

If a loan was closed *prior* to review by the HOC, the

- lender is responsible for making any corrections and providing any documents required by the HOC prior to insurance endorsement, and
 - HOC is *not* obligated to insure the mortgage if the review requirements cannot be met.
-

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3. Direct Endorsement Pre-Closing Test Case Review Phase, Continued

4155.2 2.B.3.b Instructions for Completing the Underwriter Certification on Test Cases

Because the lender must submit the test case application package to the [HOC](#) prior to closing the mortgage loan, the Underwriter/Mortgagee Certification on Page 3 of form [HUD-92900-A](#), *HUD/VA Addendum to Uniform Residential Loan Application*, cannot be fully executed. During the pre-closing review phase, the lender must

- complete all information on the Underwriter/Mortgagee Certification with the exception of the closing date
- *not* sign the certification, since the underwriter cannot make the closing certifications
- *not* have the lender's representative sign the certification, and
- submit Page 4 of the form with the closing documents.

Reference: For instructions on completing each page of form [HUD-92900-A](#), *HUD/VA Addendum to Uniform Residential Loan Application*, see [HUD 4155.1 1.B.3.c](#).

4155.2 2.B.3.c HOC Test Case Review Requirements

During the pre-closing review phase, the [HOC](#) must review in detail each test case application received from the lender, including

- the property appraisal
- value determination
- the mortgage credit analysis, and
- ensuring lender compliance with any requirements specific to the mortgage insurance program.

If the application is eligible, a firm commitment is issued to the lender.

Continued on next page

3. Direct Endorsement Pre-Closing Test Case Review Phase, Continued

**4155.2 2.B.3.d
Granting DE
Approval**

Unconditional [DE](#) approval will be granted when the lender has successfully underwritten and processed 15 test cases, as evidenced by the issuance of firm commitments by the [HOC](#).

**4155.2 2.B.3.e
Unacceptable
Underwriting
on Test Cases**

The [HOC](#) may request that additional cases be submitted as part of the test period if the first 15 test cases do *not*

- demonstrate acceptable underwriting, or
- represent expected underwriting situations, including no fewer than five streamline refinances or automated underwritten loans.

If the lender has submitted 30 test cases and still has not met the standards for unconditional approval, the HOC may

- inform the lender that no additional test cases may be submitted for a period of up to 180 days, to allow the lender time to train its underwriters on FHA requirements, or
 - discontinue accepting cases.
-

Continued on next page

3. Direct Endorsement Pre-Closing Test Case Review Phase, Continued

**4155.2 2.B.3.f
Test Case
Review
Underwriting
Report**

An Underwriting Report must be completed on all test cases and maintained in the lender file at the [HOC](#).

Any deficiencies will be noted on the Underwriting Report, regardless of whether or not a firm commitment is issued. This report, which should be reviewed by the [DE](#) underwriter/lender, is available through the FHA Connection (FHAC).

References: For information on

- the contents of the HOC's lender file, see [HUD 4155.2 2.A.1.c](#), and
 - Underwriting Report requirements, see the FHA Connection – *Underwriter Review Functions – Underwriter Activity*.
-

**4155.2 2.B.3.g
Special Test
Case
Requirements
for HECMs**

For lenders wishing to receive unconditional [DE](#) approval status for Home Equity Conversion Mortgages (HECM), a separate request is required. Additionally, there must be

- an entrance conference, which may be held separately or in conjunction with the entrance conference for forward loans, and
- a minimum of five pre-closing test case reviews.

Reference: For more information on the Section 255 HECM program, see [HUD 4155.2 1.C.17](#), and [HUD 4235.1](#), *Home Equity Conversion Mortgages*.

4. Direct Endorsement Unconditional Approval Phase

Introduction This topic contains information on the unconditional approval phase for a Direct Endorsement (DE) lender, including

- granting unconditional DE approval
 - post-endorsement technical reviews of DE lenders
 - adding a new underwriter, and
 - unconditional approval acceptance by other HOCs.
-

Change Date March 1, 2011

4155.2 2.B.4.a Granting Unconditional DE Approval Upon satisfactory completion of the pre-closing test case review phase, as described in [HUD 4155.2 2.B.3](#), the lender receives a letter evidencing unconditional approval for Direct Endorsement (DE).

4155.2 2.B.4.b Post-Endorsement Technical Reviews on DE Lenders After the lender is granted unconditional [DE](#) approval, the Homeownership Center (HOC) performs post-endorsement technical reviews (PETR) of

- the first 30 cases submitted by the lender, and
- a percentage of subsequent cases.

Reference: For more information on PETRs, see [HUD 4155.2 9.B.1](#) and [HUD 4155.2 9.C](#).

Continued on next page

4. Direct Endorsement Unconditional Approval Phase, Continued

4155.2 2.B.4.c Adding a New Underwriter After Approval

A new underwriter joining the staff of an unconditionally-approved [DE](#) lender does *not* need to go through the pre-closing test case review phase. In such cases, the lender is responsible for ensuring that the new underwriter

- meets basic eligibility requirements
- is registered with his/her new company in FHA Connection, and
- performs the underwriting function in a manner consistent with FHA guidelines.

References: For information on

- the pre-closing review phase, see [HUD 4155.2 2.B.3](#)
 - underwriter eligibility criteria and qualifications, see [HUD 4155.2 2.A.4](#), and
 - FHA Connection, see [HUD 4155.2 1.D](#).
-

4155.2 2.B.4.d Unconditional Approval Acceptance by Other HOCs

Once a lender has received unconditional [DE](#) approval in one [HOC](#), all other HOCs will recognize that approval. HOCs rely on the experience and judgment of other HOCs in determining lender eligibility.

5. The Principal/Authorized Agent Relationship

Introduction This topic contains information on the Principal/Authorized Agent relationship, including

- designation of a lender as an Authorized Agent, and
 - Principal/Authorized Agent roles and relationship.
-

Change Date March 1, 2011

4155.2 2.B.5.a Designation of a Lender as an Authorized Agent

Any Direct Endorsement (DE) approved lender, be it supervised, non-supervised, or a qualified government mortgage lender may, when acting as the Principal, designate a DE-approved supervised or non-supervised mortgage lender to be its Authorized Agent.

The table below describes the type of underwriting approval each entity must possess as of effective July 1, 2011. An FHA-approved lender that has not obtained unconditional DE approval by July 1, 2011 will no longer be able to act as a Principal. It may continue to pursue unconditional approval and participate in FHA programs as a sponsored third-party originator (TPO).

For this mortgage type...	the Principal may have either...	and the Authorized Agent <i>must</i> have...
Forward mortgage	unconditional <ul style="list-style-type: none"> • DE approval, or • HECM approval 	unconditional DE approval.
HECM	unconditional <ul style="list-style-type: none"> • DE approval, or • HECM approval 	unconditional HECM approval.

Note: The relationship must be documented in FHA Connection (FHAC) by the Authorized Agent.

Continued on next page

5. The Principal/Authorized Agent Relationship, Continued

4155.2 2.B.5.b Principal/ Authorized Agent Roles and Relationship

The Principal must originate the loan and the Authorized Agent must underwrite the loan. The loan may close in either party's name, and either may submit the loan for insurance endorsement.

The Principal's FHA ID number must be entered in the "Originator" field on the FHA case file and in [FHAC](#).

Note: [TPOs](#) may *not* act as Principal or Authorized Agent.

References: For more information on the

- Principal/Authorized Agent relationship, see [HUD 4060.1](#), *Mortgage Approval Handbook* and [ML 2010-20](#), and
 - FHA Connection, see [HUD 4155.2 1.D](#).
-

6. Requirements for Sponsors of Third-Party Originators

Introduction This topic contains information on the requirements for sponsors of third-party originators, including

- general policy guidelines governing third-party originators (TPO)
 - TPO underwriting and appraisals
 - sponsoring lender's Areas Approved for Business
 - sponsoring lender's responsibility for FHA compliance
 - sponsoring lender's responsibility for legal compliance
 - sponsored TPO loan performance data
 - quality control for TPOs
 - monitoring early payment defaults of sponsored originations, and
 - temporary extension of FHA approval for loan correspondents.
-

Change Date March 1, 2011

**4155.2 2.B.6.a
General Policy
Guidelines
Governing
Third-Party
Originators
(TPO)**

A third-party originator (TPO) must be sponsored by an FHA-approved Direct Endorsement (DE) lender. The lender will determine the exact origination and processing duties its sponsored TPO can perform in conjunction with FHA-insured mortgage transactions.

TPOs cannot underwrite, own or service FHA-insured loans.

References: For specific information on the role of

- sponsored third-party originators, see [HUD 4155.2 1.A.3.a](#), and
 - the sponsoring lender, see [HUD 4155.2 1.A.3.c](#).
-

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6. Requirements for Sponsors of Third-Party Originators,

Continued

4155.2 2.B.6.b TPO Underwriting and Appraisals

For a loan originated by a [TPO](#), the sponsoring lender must underwrite the property and the borrower. An FHA-approved staff appraiser employed by the sponsor may perform the appraisal, unless the borrower or seller is an employee of the underwriting lender.

Reference: For more information on the role of the sponsor, see [HUD 4155.2 1.A.3.c](#).

4155.2 2.B.6.c Sponsoring Lender's Areas Approved for Business

If the sponsor's [DE](#) approval is through a Homeownership Center (HOC) other than the local HOC, the sponsoring lender must

- write to the local HOC and request DE approval, and
- enclose a copy of its unconditional approval letter from the other HOC.

The lender may underwrite sponsored [TPO](#) loans in any state in which it is permitted by the state to do so, and in which the sponsored TPO is permitted to conduct origination activities.

An approved lender's wholesale Areas Approved for Business, therefore, consist of all states in which it sponsors a TPO that meets the applicable requirements for loan origination of that state, and in which the lender is permitted by the state to underwrite mortgage loans and sponsor mortgage originators.

Reference: For the list of Single Family Origination Lending Areas Approved for Business, see [HUD 4155.2 12.E.2](#).

Continued on next page

6. Requirements for Sponsors of Third-Party Originators,

Continued

4155.2 2.B.6.d Sponsoring Lender's Responsibility for FHA Compliance

Lenders that wish to sponsor [TPOs](#) are required to register these entities in FHA Connection, per instructions provided in [HUD 4155.2 1.D.6](#).

The lender is responsible for compliance with FHA requirements in all aspects of an FHA loan transaction, whether performed by the sponsoring lender or the TPO, unless applicable law or regulation governing the violation(s) in question requires specific knowledge on the part of the party to be held responsible.

Lenders should pursue sponsoring relationships with responsible originators, and diligently monitor and evaluate the activities and performance of those they sponsor.

4155.2 2.B.6.e Sponsoring Lender's Responsibility for Legal Compliance

Lenders shall ensure that each of their sponsored [TPOs](#)

- adhere to all applicable federal, state and local requirements governing their FHA loan origination and processing activities, and
- obtain and maintain a unique identifier from the Nationwide Mortgage Licensing System and Registry (NMLS ID), in accordance with the registration guidelines set by NMLS.

Lenders must carefully evaluate the specific guidelines governing the programs and activities in which they wish to participate, as well as relevant state and local laws and regulations governing such activities.

Reference: For more information on FHA's employment requirements for approved lenders, see Chapter 2 of [HUD 4060.1 REV-2, Mortgagee Approval Handbook](#).

Continued on next page

6. Requirements for Sponsors of Third-Party Originators,

Continued

4155.2 2.B.6.f Sponsored TPO Loan Performance Data

Neighborhood Watch will provide loan performance data for all loans originated via a sponsored [TPO](#) relationship. The data will be available only to FHA-approved lenders, to evaluate TPO loan origination trends and performance.

Lenders will be able to access aggregate comparative data for all sponsored TPOs for a rolling two-year period, and loan-level performance data for the loans on which they acted as sponsor for their TPO.

A link to sponsored TPO performance is available on the *Early Warnings* menu selection. Sponsors can search for a TPO by entering the entity's legal name or [NMLS](#) ID number in the selection field.

4155.2 2.B.6.g Quality Control for TPOs

Sponsoring lenders are responsible for performing quality control review of loans originated by and acquired from each of their [TPOs](#). The procedures used to review and monitor sponsored TPOs must be included in the lender's Quality Control Plan, and must, at a minimum, include the requirements outlined in paragraph 7-6 of [HUD 4060.1, REV-2](#).

Reference: For more information, see [ML 2011-02](#).

4155.2 2.B.6.h Early Payment Defaults of Sponsored Originations

In addition to loans selected for routine quality control reviews, sponsoring lenders must review all early payment defaults (EPD) originated by their [TPOs](#). EPD are defined as loans that become 60 or more days past due within the first six payments.

Lenders must review EPDs within 45 days from the end of the month in which the loans are reported as 60 days past due.

Reference: For more information, including the EPD review report and follow-up requirements, see paragraph 7-6(E) of [HUD 4060.1, REV-2](#).

Continued on next page

6. Requirements for Sponsors of Third-Party Originators, Continued

4155.2 2.B.6.i Temporary Extension of FHA Approval for Loan Correspondents

FHA no longer approves Loan Correspondents after December 31, 2010, and they are statutorily prohibited from closing FHA-insured loans in their own names. There is, however, a temporary extension of FHA approval for currently-approved Loan Correspondents until March 31, 2011, for the narrow purpose of allowing loans in their pipelines to close in their names. FHA approval of all Loan Correspondents for all other purposes expired on December 31, 2010.

This extension only applies to those loans, for which, as of December 31, 2010, a case number had been assigned, *and*

- HUD has issued a firm commitment for insurance, or
- a [DE](#) underwriter has
 - approved the borrower for such loan (i.e., the lender has received and accepted approval via [TOTAL](#) scorecard or has manually underwritten the loan), and
 - reviewed and approved the appraisal.

Loans eligible for this extension must close by March 31, 2011. All other pipeline loans not meeting the above criteria that did not close prior to January 1, 2011 must close in the name of an approved FHA lender or sponsoring lender.

References: For more information on

- this extension, see <http://www.hud.gov/offices/hsg/sfh/waivers122010.pdf>, and
 - the policy for third-party originators, see [HUD 4155.2 2.B.6.a](#).
-

Section C: Lender Insurance (LI) Program Eligibility & Approval

Overview

In this Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	General Information on the Lender Insurance (LI) Program	2-C-2
2	LI Program Eligibility & Approval Requirements	2-C-4

1. General Information on the Lender Insurance (LI) Program

Introduction This topic includes general information on the Lender Insurance (LI) Program, including

- the basics of the LI Program
 - the benefits of the LI Program
 - PETRs on LI loans, and
 - regulations governing LI (reference).
-

Change Date March 1, 2011

4155.2 2.C.1.a Basics of the LI Program The Lender Insurance (LI) Program enables high-performing FHA-approved Direct Endorsement (DE) lenders, with acceptable default and claim rates, to endorse FHA mortgage loans without a pre-endorsement review conducted by FHA.

An LI approved lender performs its own pre-endorsement review and submits loan level data to FHA via the FHA Connection (FHAC), Business to Government (B2G) or other electronic means. [FHAC](#)

- performs an automated verification process to check the data for accuracy and completeness, and
- electronically generates a mortgage insurance certificate, to serve as evidence that the mortgage has been insured, if the loan-level data submission clears all the risk-mitigation edits FHA has in place.

The lender is *not* required to provide a case binder in advance of endorsement, unless the loan does not clear FHA's edits.

If the LI lender has been approved for electronic submission, the lender may submit an electronic case binder (eCB) instead of a hard copy case binder.

References: For more information on

- LI endorsement processing, see [HUD 4155.2 8.C.3](#)
 - requirements for LI lender pre-insurance review, see [HUD 4155.2 8.A.2](#)
 - LI case binder submission, see [HUD 4155.2 8.B.7](#), and
 - LI lender submission requirements for case binders selected for post endorsement technical review (PETR), see [HUD 4155.2 9.B.1.d](#).
-

Continued on next page

1. 1. General Information on the Lender Insurance (LI) Program, Continued

4155.2 2.C.1.b Benefits of the LI Program

The [LI](#) Program reduces a lender's submission of case binders to FHA and the need to have FHA review the application for mortgage insurance before endorsement. The need to submit case binders to satisfy Notices of Return (NOR) is also dramatically reduced.

If FHA *does* require submission of a case binder, all mailing costs associated with the mortgage insurance endorsement process are eliminated for those lenders that choose to submit case binders electronically.

Reference: For more information in LI endorsement processing, see [HUD 4155.2 8.C.3](#).

4155.2 2.C.1.c PETRs on LI Loans

Under the [LI](#) Program, FHA selects a sample of mortgages for post-endorsement technical review (PETR).

Note: A lender may submit case binders for PETR in paper or electronic format.

Reference: For more information on submission requirements for case binders selected for PETR, see [HUD 4155.2 9.B.1.d](#).

4155.2 C.1.d Regulations Governing LI (Reference)

The regulations governing the [LI](#) Program may be found in

- [24 CFR 203.4](#)
 - [24 CFR 203.6](#), and
 - [24 CFR 203.255\(f\)](#).
-

2. Lender Insurance Program Eligibility & Approval Requirements

Introduction This topic contains information on the eligibility requirements for the Lender Insurance (LI) Program, including

- LI Program eligibility
 - acceptable claim/default rate for LI lenders
 - LI Program approval requirements
 - duration of LI Program approval, and
 - termination of LI approval.
-

Change Date March 1, 2011

**4155.2 2.C.2.a
LI Program
Eligibility**

To participate in the Lender Insurance (LI) Program, a lender must

- be an unconditionally approved Direct Endorsement (DE) lender, and
- have an acceptable default and claim record, as described in [HUD 4155.2 2.C.2.b](#), for two years prior to its application for participation in the LI Program.

For DE lenders that underwrite as sponsors for third-party originators (TPO), the default and claim rate is the aggregate of both retail originations and mortgages underwritten for their sponsored TPOs.

Lenders must agree to indemnify FHA under the conditions of Section 256(c) of the National Housing Act (NHA).

Note: [LI](#) eligibility is company-specific and not determined at the branch level.

Reference: For information on LI endorsement processing, see [HUD 4155.2 8.C.3](#).

Continued on next page

2. Lender Insurance Program Eligibility & Approval Requirements, Continued

4155.2 2.C.2.b Acceptable Claim/Default Rate for LI Lenders

An acceptable claim/default rate is defined as being at or below 150% of the national average. [DE](#) lenders that operate only in one state have the right to have a compare rate using FHA loans made in that state only rather than the national average.

4155.2 2.C.2.c LI Program Approval Requirements

A [DE](#) lender wishing to participate in the [LI](#) Program must request approval. Access to the LI Program is conditioned upon the lender's certification, executed as an electronic acknowledgement through the FHA Connection (FHAC), that it will comply with the LI Program's procedures and requirements.

Each lender must acknowledge, prior to participating, that it is eligible under the LI Program and will participate according to applicable regulations and other written instructions from FHA.

4155.2 2.C.2.d Duration of LI Program Approval

Approval for the [LI](#) Program is effective for one year. At the end of the one-year period, the lender will be automatically checked by FHA's system of records. If the lender's claim/default performance continues to be acceptable and meets all other criteria, the lender's approval for LI participation will be renewed for another year.

4155.2 2.C.2.e Termination of LI Approval

A lender's approval to participate in the [LI](#) Program may be terminated if the lender

- fails to adopt and employ prudent review techniques
 - loses its [DE](#) approval
 - has a branch office terminated by, or
 - fails to meet the eligibility criteria listed in
 - [HUD 4155.2 2.C.2.a](#)
 - [HUD 4155.2 2.C.2.b](#), and
 - [HUD 4155.2 2.C.2.c](#).
-

Section A. Finance Related Policies

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	Mortgage Note and Security Instrument Requirements	3-A-2
2	Policies on Prepayment	3-A-3
3	Policy on Assumptions	3-A-4

1. Mortgage Note and Security Instrument Requirements

Change Date March 24, 2011

**4155.2 3.A.1.a
Requirements
for Note and
Security
Instrument**

The note and security instrument (mortgage, deed of trust, or security deed) must meet FHA requirements. FHA may prescribe either the

- complete security instrument, or
- use of FHA-approved uniform language, for cases in which FHA does *not* prescribe the complete security instrument.

Reference: For more information on the note and security instrument, see [HUD 4155.2 6.B.](#)

2. Policies on Prepayment

Introduction	<p>This topic contains information on prepayment, including</p> <ul style="list-style-type: none">• prepayment policy• mortgages on which advance notice of prepayment is required, and• prepayment penalty and due-on-sale clauses.
Change Date	<p>March 24, 2011</p>
4155.2 3.A.2.a Prepayment Policy	<p>A borrower may prepay a mortgage in whole or in part.</p> <p>Reference: For more information on prepayment requirements, see HUD 4155.2 3.A.2.a.</p>
4155.2 3.A.2.b Mortgages on Which Advance Notice of Prepayment Is Required	<p>If a mortgage was insured</p> <ul style="list-style-type: none">• <i>before</i> August 2, 1985<ul style="list-style-type: none">– the borrower must provide 30 days written notice of prepayment to the lender or be charged one extra month’s interest, and– the payment must reach the lender by the first of the month, or• <i>on or after</i> August 2, 1985<ul style="list-style-type: none">– advance notice of prepayment is not required, and– if the payment is received after the first day of the month, the lender may, at its option, collect the remainder of that month’s interest.
4155.2 3.A.2.c Prepayment Penalty and Due-on-Sale Clauses	<p>FHA does not permit either prepayment penalties or due-on-sale clauses on insured mortgages, except for cases in which FHA approves a due-on-sale clause in connection with</p> <ul style="list-style-type: none">• tax-exempt bond financing by state or local governments, or• the implementation of statutory restrictions on assumptions.

3. Policy on Assumptions

Change Date March 24, 2011

**4155.2 3.A.3.a
Restrictions on
Assumptions** If the loan application was signed by the borrower before December 1, 1986, the FHA-insured mortgage generally contains no restrictions on assumability.

For a mortgage where the application was signed *on or after* December 1, 1986, the loan *may* be assumable depending on a creditworthiness review of the assumptor(s).

Reference: For more information on assumptions, see [HUD 4155.1 7](#).

Section B. Loans Involving HUD Employees, Relationships Posing a Possible Conflict of Interest, and Lender Employees

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	Loans Involving HUD/FHA Employees	3-B-2
2	Loans Involving a Business Relationship Posing a Possible Conflict of Interest	3-B-3
3	Loans Involving Lender Employees	3-B-4

1. Loans Involving HUD/FHA Employees

Introduction This topic contains information on loans that involve HUD/FHA employees, including

- applications for HUD/FHA employees or members of their households, and
 - underwriting applications from HUD/FHA employees or members of their households.
-

Change Date March 24, 2011

4155.2 3.B.1.a Applications for HUD/FHA Employees or Members of Their Households The jurisdictional Homeownership Center (HOC) is responsible for underwriting and approval of loan applications for HUD/FHA employees or members of their households.

Reference: For the exception to this policy, see [HUD 4155.2 3.B.1.b](#).

4155.2 3.B.1.b Underwriting Applications from HUD/FHA Employees or Members of Their Households Loan applications from HUD/FHA employees or members of their households are *not* eligible for underwriting by Direct Endorsement (DE) lenders or evaluation by any automated underwriting system, except streamline refinances. For a loan application involving a HUD/FHA employee or a member of his/her household, the lender must

- process the loan application, and
- submit the complete underwriting loan package, marked “*Confidential*,” to the attention of the Processing and Underwriting Division Director for underwriting, commitment processing and approval.

The [HOC](#) reviews the loan package, and approves or denies the application of the HUD/FHA employee or the member of his/her household.

Exception: For streamline refinances *only*, any HUD/FHA employee or member of his/her household (for example, spouse, parent, or child) may have his/her streamline refinance underwritten and approved/denied by a [DE](#) lender.

Reference: For more information on streamline refinances, see [HUD 4155.1 3.C](#) and [HUD 4155.1 6.C](#).

2. Loans Involving a Business Relationship Posing a Possible Conflict of Interest

Change Date March 24, 2011

**4155.2 3.B.2.a
DE Program
Participation
by an Entity
With a Possible
Conflict of
Interest**

A lender that has provided a construction loan, or has a financial interest in, owns, is owned by or affiliated with the building or selling entity or real estate firm, may originate mortgages under the Direct Endorsement (DE) Lender program *provided* that

- the appraisal is performed by a qualified, independent, FHA Roster appraiser, and
- when required, inspections are performed by fee inspectors on the FHA Inspector Roster.

The lender's personnel may perform the mortgage credit analysis.

3. Loans Involving Lender Employees

Change Date March 24, 2011

**4155.2 3.B.3.a
Loans
Involving the
Lender's
Employees**

If a lender's employee is the borrower or seller in a mortgage loan transaction

- the employee *cannot* be involved in processing the application
 - an independent FHA Roster appraiser, who is not affiliated with the lender, must be used
 - if an inspection is involved, it must be performed by an FHA-approved fee inspector
 - the application should be processed by a different branch from the one at which the employee works, or by the lender's main office, and
 - the case must be clearly annotated with "Employee" on the [HUD-92900-LT](#), *FHA Loan Underwriting and Transmittal Summary*, and the front of the case binder.
-

Chapter 4. Property Valuation and Appraisals

1. General Information on Property Valuation and Eligibility

Introduction	<p>This topic contains general information on property valuation, including</p> <ul style="list-style-type: none"> • the purpose of property valuation • lender responsibility for appraisers • appraisal management company (AMC) and third party organization fees • verification of compliance with property requirements • lender responsibility for determination of property eligibility and accuracy of appraised value • variations in the property appraisal and underwriting process • property eligibility for FHA insurance • property eligibility under Section 223(e) • compliance inspection requirements • appraisal assignment to ensure appraiser competency • preventing improper influences on appraisers • prohibition of mortgage brokers and commission based lender staff from the appraisal process • appraiser independence safeguards • appraiser selection in the FHA Connection, and • DE underwriter responsibility for quality of appraisal report.
Change Date	February 22, 2010
4155.2 4.1.a Purpose of Property Valuation	<p>The purpose of the property valuation process is to</p> <ul style="list-style-type: none"> • determine eligibility for mortgage insurance based on the <i>condition</i> and <i>location</i> of a property, and • estimate the <i>value</i> of the property for mortgage insurance purposes. <p>The appraisal is the lender's tool for making this determination.</p>

Continued on next page

1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.b Lender Responsibility for Appraisers

The lender is equally responsible, along with the appraiser, for the quality, integrity, accuracy and thoroughness of the appraisal. The lender will be held accountable by HUD if the lender knew, or should have known, that there were problems with the integrity, accuracy and thoroughness of an appraisal submitted to FHA for mortgage insurance purposes. Lenders that submit appraisals to HUD that do not meet FHA requirements are subject to the imposition of sanctions by the HUD Mortgage Review Board.

Note: This applies to both sponsor lenders that underwrite loans and loan correspondent lenders that originate loans on behalf of their sponsors.

References: For information on

- certification requirements for appraisers, see [4150.2 5-1 A.2](#)
 - appraisal assignment to ensure appraiser competency, see [HUD 4155.2 4.1.l](#)
 - preventing improper influences on appraisers, see [HUD 4155.2 4.1.k](#), and
 - appraiser independence safeguards, see [HUD 4155.2 4.1.m](#).
-

4155.2 4.1.c Appraisal and Appraisal Management Company (AMC)/Third Party Organization Fees

FHA does not require the use of AMCs or other third party organizations for appraisal ordering, but recognizes that some lenders use AMCs and/or other third party organizations to help ensure appraiser independence.

FHA-approved lenders must ensure that

- FHA Appraisers are not prohibited by the lender, AMC or other third party, from recording the fee the appraiser was paid for the performance of the appraisal in the appraisal report
 - FHA Roster appraisers are compensated at a rate that is customary and reasonable for appraisal services performed in the market area of the property being appraised
 - the fee for the actual completion of an FHA appraisal may not include a fee for management of the appraisal process or any activity other than the performance of the appraisal
 - any management fees charged by an AMC or other third party must be for actual services related to ordering, processing or reviewing of appraisals performed for FHA financing, and
 - AMC and other third party fees must not exceed what is customary and reasonable for such services provided in the market area of the property being appraised.
-

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1. General Information on Property Valuation and Eligibility, Continued

**4155.2 4.1.d
Verification of
Compliance
With Property
Requirements**

As the on-site representative for the lender, the appraiser provides preliminary verification that a property meets the General Acceptability Standards, which include the Minimum Property Requirements (MPR) or Minimum Property Standards (MPS).

The table below outlines the requirements for FHA financing.

To be eligible for FHA financing ...	Must comply with HUD’s Minimum Property Standards ...
new construction	including 24 CFR 200.926d .
existing construction	contained in HUD 4905.1 , <i>Requirements for Existing Housing One- to Four-Family Living Units</i> , Appendix D.
manufactured homes	contained in HUD 4930.3G , <i>Permanent Foundations Guide for Manufactured Housing</i> .

**4155.2 4.1.e
Lender
Responsibility
for
Determination
of Property
Eligibility and
Accuracy of
Appraised
Value**

Lenders are responsible for properly reviewing appraisals and determining if the appraised value used to determine the mortgage amount is accurate and adequately supports the value conclusion.

- References:** For more information on property eligibility, see
- [HUD 4155.1 4.B](#)
 - [HUD 4150.2](#), *Valuation Analysis for Single Family One to Four Unit Dwellings*, Appendix D, and
 - [HUD 4930.3G](#), *Permanent Foundations Guide for Manufactured Housing*.

**4155.2 4.1.f
Variations in
the Property
Appraisal and
Underwriting
Process**

The property appraisal and underwriting process varies by

- stage of construction, and
- type of processing.

- References:** For more information on
- the property appraisal and underwriting process, see [HUD 4150.2](#)
 - appraisals, see [HUD 4155.2 4.4](#), and
 - the underwriting process, see [HUD 4155.1 1.1](#).

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1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.g Property Eligibility for FHA Insurance

Only one to four unit properties, including a one family unit in a condominium project, are eligible for mortgage insurance, *except* for mortgage insured under Section 220 of the National Housing Act. The mortgage must be on real estate held

- in fee simple
- on leasehold under a lease for not less than 99 years which is renewable, or
- under a lease having a period of not less than 10 years to run beyond the maturity date of the mortgage.

For properties processed under the HECM program, the mortgage must be on real estate held

- in fee simple
- on leasehold under a lease for not less than 99 years which is renewable, or
- under a lease having a remaining period of not less than 50 years beyond the date of the 100th birthday of the youngest mortgagor.

References: For more information on

- eligible properties, see [HUD 4155.1 4.B](#), and
- the Section 220 (d)(3)(A), Urban Renewal Mortgage Insurance program, see [HUD 4155.2 1.C.7](#), and
- the Section 220 (h), Insured Improvement Loans-Urban Renewal Areas program, see [HUD 4155.2 1.C.8](#).

Continued on next page

1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.h Property Eligibility Under Section 223(e)

A mortgage may be insured pursuant to Section 223(e) for the repair, rehabilitation, construction, or purchase of properties in older, declining urban areas. Eligibility under Section 223(e) is determined by the appropriate HOC.

If the case is being processed under the Direct Endorsement (DE) Lender Program, the lender must submit the case binder to the appropriate HOC for prior approval processing and Section 223(e) consideration. The case binder must be submitted after the appraiser and the lender's underwriter have determined that

- the property does *not* meet the location eligibility requirements of Section 203(b), but
- the property *is* located in an older, declining urban area that may qualify for Section 223(e).

Reference: For more information on the Section 223(e) program, see [HUD 4155.2 1.C.9](#).

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1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.i Compliance Inspection Requirements

Compliance inspections completed by FHA Roster Inspectors or local authority with jurisdiction may be required for

- proposed construction or properties under construction
- properties undergoing substantial rehabilitation, and
- existing properties requiring repairs to major systems (for example, structural, heating, and so on).

The number and timing of inspections for new construction depends upon the

- stage of construction (proposed construction, under construction, or new construction less than one year old)
- coverage by an acceptable 10 year warranty plan
- issuance of a building permit and Certificate of Occupancy (CO) by the local jurisdiction
- acceptability of inspections by the local community, and
- the type of construction (stick built, manufactured home, or condominium conversions). Modular homes are treated the same as stick built.

A clear final inspection or, in certain cases, a Certificate of Occupancy, will be required before FHA will insure the mortgage.

Part B, Certificate of Completion, of [Fannie Mae Form 1004D/Freddie Mac Form 442](#) provides for compliance repair and completion inspections for existing and new construction dwellings.

References: For more information on

- compliance inspections, see
 - [HUD 4145.1](#), *Architectural Processing and Inspections for Home Mortgage Insurance*, and
 - [HUD 4150.2](#), *Valuation Analysis for Single-Family One- to Four-Unit Dwellings*
- required inspections on newly-constructed manufactured homes, see [4155.2 4.10.e](#)
- property eligibility, see [HUD 4930.3G](#), *Permanent Foundations Guide for Manufactured Housing*, and
- use of the *Appraisal Update and/or Completion Report* form, [HUD 4155.2 4.4.k](#), [HUD 4155.2 4.4.l](#) and [HUD 4155.4.4.m](#).

Continued on next page

1. General Information on Property Valuation and Eligibility, Continued

4155.1 4.1.j Appraisal Assignment to Ensure Appraiser Competency

An appraiser who is primarily experienced in appraising detached, single family dwellings in one market may lack the knowledge, experience and/or resources for obtaining market data that will enable the appraiser to perform quality appraisals on condominiums or manufactured homes in the same market, or on detached, single family homes in another market a short distance away.

The valuation principles for appraising all residential properties are essentially the same, no matter the market in which the property is located. However not all appraisers are knowledgeable and experienced, or have access to sources of data for all markets.

The lender must select an appropriate appraiser for every assignment, one who has knowledge of the market area, or geographic competency.

A lender must not assume, simply because an appraiser is state-certified, that the appraiser is qualified and knowledgeable in a specific market area or property type. It is incumbent upon the lender to determine whether an appraiser's qualifications, as evidenced by educational training and actual field experience, are sufficient to enable the appraiser to competently perform appraisals before assigning an appraisal to him/her.

4155.2 4.1.k Preventing Improper Influences on Appraisers

In order to help FHA Roster appraisers avoid conflicts of interest or appearance of conflicts of interest, no member of a lender's loan production staff or any person who is compensated on a commission basis tied to the successful completion of a loan, or reports, ultimately, to any officer of the lender not independent of the loan production staff and process, shall have substantive communications with an appraiser relating to or having an impact on valuation, including ordering or managing an appraisal assignment.

References: For more information on

- communication with appraisers, see [4150.2 1-2C](#)
 - lender responsibilities for appraisers, see [HUD 4155.2 4.1.b](#)
 - prohibition of mortgage brokers and commission based lender staff from the appraisal process, see [HUD 4155.2 4.1.i](#), and
 - appraiser independence safeguards, see [HUD 4155.2 4.1.m](#).
-

Continued on next page

1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.1 Prohibition of Mortgage Brokers and Commission based Lender staff from the Appraisal Process

FHA prohibited lenders from accepting appraisal reports completed by an appraiser selected, retained or compensated, in any manner by real estate agents. To ensure appraiser independence, FHA-approved lenders are now prohibited from accepting appraisals prepared by FHA Roster appraisers who are selected, retained or compensated in any manner by a mortgage broker or any member of a lender's staff who is compensated on a commission basis tied to the successful completion of a loan.

4155.2 4.1.m Appraiser Independence Safeguards

Lenders, and third parties working on behalf of lenders, are prohibited from

- withholding or threatening to withhold timely payment or partial payment for an appraisal report
 - withholding or threatening to withhold future business from an appraiser
 - demoting or terminating, or threatening to demote or terminate, an appraiser
 - expressly or impliedly promising future business, promotions or increased compensation for an appraiser
 - conditioning the ordering of an appraisal report or the payment of an appraisal fee, salary or bonus on the opinion, conclusion or valuation to be reached, or on a preliminary value estimate requested from an appraiser
 - requesting that an appraiser provide an estimated, predetermined or desired valuation in an appraisal report prior to the completion of that report
 - requesting that an appraiser provide estimated values or comparable sales at any time prior to the appraiser's completion of an appraisal report.
 - providing to the appraiser an anticipated, estimated, encouraged or desired value for a subject property or a proposed or target amount to be loaned to the borrower, except that a copy of the sales contract for purchase must be provided
 - providing stock or other financial or non-financial benefits to
 - the appraiser,
 - the appraisal company
 - the appraisal management company, or
 - any entity or person related to the appraiser, appraisal company or management company
-

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1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.m Appraiser Independence Safeguards (continued)

- allowing the removal of an appraiser from a list of qualified appraisers, or the addition of an appraiser to an exclusionary list of qualified appraisers, used by any entity without prompt written notice to such appraiser, which notice shall include written evidence of the appraiser's
 - illegal conduct
 - violation of the Uniform Standards of Professional Appraisal Practice (USPAP) standards
 - violation of state licensing standards, or
 - improper or unprofessional behavior or other substantive reason for removal
- ordering, obtaining, using, or paying for a second or subsequent appraisal or automated valuation model (AVM) in connection with a mortgage financing transaction unless
 - there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such appraisal is clearly and appropriately noted in the loan file
 - such appraisal or automated valuation model is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control process or underwriting guidelines, and
 - the lender adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value, or
- any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity or impartiality, or violates law or regulation, including, but not limited to the Truth in Lending Act (TILA) and Regulation Z and USPAP.

Note: If absolute lines of independence cannot be achieved as a result of the lender's small size and limited staff, the lender must be able to clearly demonstrate that it has prudent safeguards in place to isolate its collateral evaluation process from influence or interference by its loan production process.

References: For more information on

- lender responsibilities for appraisers, see [HUD 4155.2 4.1.b](#), and
- preventing improper influences on appraisers, see [HUD 4155.2 4.1.k](#).

Continued on next page

1. General Information on Property Valuation and Eligibility, Continued

**4155.2 4.1.n
Appraiser
Selection in the
FHA
Connection**

Lenders are also responsible for assuring that the appraiser who actually conducted the appraisal is correctly identified in FHA Connection. Lenders who fail to assure that the FHA Connection reflects the correct name will be subject to administrative sanctions.

**4155.2 4.1.o
DE
Underwriter
Responsibility
for Quality of
Appraisal
Report**

The DE Underwriter who is responsible for the quality of the appraisal report is allowed to communicate with the appraiser, to request clarifications and discuss components of the appraisal that influence its quality.

The underwriter bears the primary responsibility for determining the eligibility of a property for FHA insurance.

2. General Acceptability Standards and Property Eligibility

Introduction This topic contains information on General Acceptability Standards and property eligibility, including

- the basis for the determination of MPS and MPR
 - minimum property standards for houses and manufactured homes
 - site condition standards
 - lead-based paint standards
 - services and facilities standards
 - access standards
 - restrictions regarding non residential use, and
 - rejection of “existing” or newly constructed property.
-

Change Date October 26, 2009

**4155.2 4.2.a
Basis for
Determination
of
MPS and MPR**

The application of MPS for new construction is determined by

- construction status (proposed construction, under construction, or existing construction less than one-year old), and
- construction type (on-site construction or manufactured housing).

A property is considered “new construction” if it was completed less than one year from the date of the Certificate of Occupancy (CO) or its equivalent.

The application of MPR for an “existing” property is determined by the date of the CO or its equivalent. To be considered “existing” property, it must be over one year from the date of the CO.

References: For additional information on

- minimum property requirements for existing construction, see [HUD 4905.1](#), *Requirements for Existing Housing- One- to Four-Family Living Units*, as modified by [ML 05-48](#)
 - proposed construction, see [HUD 4910.1](#), *Minimum Property Standards for Housing*, 1994 Edition, as modified by [ML 05-48](#), and
 - rehabilitation construction, see [HUD 4240.4](#), *Section 203(k) Rehabilitation Home Mortgage Insurance*.
-

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2. General Acceptability Standards and Property Eligibility, Continued

**4155.2 4.2.b
Property
Standards for
Houses and
MPR for Site
Built and
Manufactured
Housing**

The table below contains the general minimum property standards in order for houses and manufactured homes to be eligible for FHA insurance.

References: For more information on property eligibility, see

- [HUD 4155.1 4.B](#), and
- [HUD 4150.2](#), including the revised Appendix D.

Dwelling Type	Property Standards
Housing	<p>Eligible housing includes</p> <ul style="list-style-type: none"> • detached or semi-detached dwellings • row houses • multiplex dwellings, and • individual condominium units. <p>Important: If <i>not</i> detached</p> <ul style="list-style-type: none"> • the dwelling must be separated from an adjoining dwelling by a party or lot line wall extending the full height of the building, and • each living unit must be individually accessible for use and maintenance without trespass on adjoining properties.

Continued on next page

2. General Acceptability Standards and Property Eligibility, Continued

4155.2 4.2.b Property Standards for Houses and MPR for Site Built and Manufactured Housing (continued)

Dwelling Type	Property Standards
<p>Manufactured Homes</p>	<p>A manufactured home is a structure that is</p> <ul style="list-style-type: none"> • transportable in one or more sections • designed and constructed to Federal Manufactured Construction and Safety Standards, and • so labeled regarding conformance with the Federal Manufactured Home Construction and Safety Standards (MHCSS). <p>To be eligible for FHA mortgage insurance, the manufactured home must</p> <ul style="list-style-type: none"> • have at least 400 square feet as the minimum floor area • be constructed after June 15, 1976, in conformance with the MHCSS, as evidenced by an affixed certification label • be classified as real estate (but need not be treated as real estate for purposes of state taxation) • be designed to be used as a dwelling with a permanent foundation built to FHA requirements • be built and must still be remaining on a permanent chassis • have a mortgage that <ul style="list-style-type: none"> – covers both the unit and its site, and – has a term of not more than 30 years from the date of amortization, and • have a finished grade elevation beneath the home (including the basement) at or above the 100 year flood elevation. <p>References: For additional information on manufactured homes, see</p> <ul style="list-style-type: none"> • HUD 4145.1, <i>Architectural Processing and Inspections for Home Mortgage Insurance</i> • HUD 4150.2, <i>Valuation Analysis for Single-Family One- to Four-Unit Dwellings</i> • flood insurance for manufactured homes, HUD 4155.2 4.3.g. • property eligibility requirements specific to manufactured homes, HUD 4155.2 4.10, and • manufactured housing condominium projects, HUD 4155.1 4.B.1.b.

Continued on next page

2. General Acceptability Standards and Property Eligibility, Continued

4155.2 4.2.c Site Condition Standards

The site conditions of a property must be free of health and safety hazards.

4155.2 4.2.d Lead-Based Paint Standards

If the property was built before 1978

- the seller must disclose known information on lead-based paint and lead-based paint hazards before selling the house
- the sales contracts must include a disclosure form about lead-based paint, and
- the buyers have up to 10 days from the date of the signing of the sales contract to check for lead.

FHA *may* insure a mortgage on a house, even with lead-based paint, if defective paint surfaces are treated. However, FHA will *not* pay the cost to have the lead-based paint removed, treated, or repaired.

4155.2 4.2.e Services and Facilities Standards

Utilities and other facilities should be independent for each unit and must include

- a continuing supply of safe, potable water
 - sanitary facilities and a safe method of sewage disposal
 - heating adequate for health and comfort
 - domestic hot water, and
 - electricity for lighting and equipment.
-

4155.2 4.2.f Access Standards

There must be vehicular access to the property by means of an abutting public or private street.

If private, there must be a permanent recorded easement and provisions for permanent maintenance. Each property must have access to its rear yard.

Continued on next page

2. General Acceptability Standards and Property Eligibility, Continued

4155.2 4.2.g Restrictions on Non Residential Use

Non residential use must be subordinate to the property's residential use and character, and it may not exceed 25 percent of the total floor area.

The following non residential properties are ineligible for mortgage insurance:

- commercial enterprises
- boarding houses
- hotels/motels
- tourist houses
- private clubs
- bed and breakfast establishments, and
- fraternity/sorority houses.

Exception: Exceptions to this restriction are made for Section 203(k) properties.

References: For more information on

- allowable commercial space on Section 203(k) properties, see [HUD 4150.2, Valuation Analysis for Single-Family One- to Four-Unit Dwellings](#), and
 - the Section 203(k) program, see [HUD 4155.2 1.C. 5](#).
-

4155.2 4.2.h Rejection of “Existing” or Newly Constructed Property

When examination of “existing” or newly constructed property reveals noncompliance with the General Acceptability Standards, an appropriate specific condition (repair) to correct the deficiency is required, if correction is feasible.

If correction is *not* feasible, and only *major* repairs or alterations can affect compliance, the lender must reject the property.

Note: The appraiser must note those repairs necessary to make the property comply with FHA’s General Acceptability Standards, together with the estimated cost to cure. The lender will determine which repairs for existing properties must be made for the property to be eligible for FHA-insured financing.

Continued on next page

3. Requirements for Properties in Special Flood Hazard Areas (SFHA)

Introduction This topic contains information on eligibility requirements for various types of properties in special flood hazard areas (SFHA), including

- responsibility for determining property eligibility
 - properties ineligible for FHA insurance
 - eligibility of proposed and new construction in SFHAs
 - lender discretion on requiring a flood elevation certificate and/or flood insurance
 - flood insurance requirements for
 - existing construction
 - condominiums, and
 - manufactured homes, and
 - the required amount of insurance coverage.
-

Change Date October 26, 2009

**4155.2 4.3.a
Responsibility
for
Determining
Property
Eligibility in
SFHA**

The lender is responsible for determining the eligibility of properties in special flood hazard areas (SFHA) as designated by the Federal Emergency Management Agency (FEMA). The FHA appraiser is required to review the FEMA Flood Insurance Rate Map, note the FEMA zone designation on the Uniform Residential Appraisal Report (URAR), and, if the property is located in a SFHA, attach a copy of the flood map panel. Lenders are strongly encouraged, however, to obtain a flood zone certification independent of any assessment made by the appraiser, to avoid culpability for regulatory violations or civil claims for damages that may arise from improper determinations.

Lenders must inform borrowers of the requirement to obtain adequate flood insurance as a condition of closing for properties where any portion of the dwelling and related structures and equipment are located in a SFHA. They must require the escrow of flood insurance premiums if escrow is required for other items such as hazard insurance and taxes.

Continued on next page

3. Requirements for Properties in Special Flood Hazard Areas (SFHA), Continued

4155.2 4.3.b Properties in SFHA Ineligible for FHA Insurance

A property is *not* eligible for FHA insurance if a residential building and related improvements to the property are located within a SFHA (Zone A, a “*Special Flood Zone Area*”, or Zone V, a “*Coastal Area*”), and insurance under the National Flood Insurance Program (NFIP) is not available in the community.

4155.2 4.3.c Eligibility of Proposed and New Construction in SFHAs

If any portion of the property improvements (the dwelling and related structures/equipment essential to the value of the property and subject to flood damage) is located within a SFHA, the property is *not* eligible for FHA mortgage insurance *unless*

- a final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) that removes the property from the SFHA is obtained from FEMA, or
- if the property is *not* removed from the SFHA by a LOMA or LOMR, the lender obtains a FEMA National Flood Insurance Program Elevation Certificate (FEMA form 81-31), prepared by a licensed engineer or surveyor, documenting that the lowest floor (including the basement) of the residential building, and all related improvements/equipment essential to the value of the property, is built at or above the 100-year flood elevation in compliance with the NFIP criteria.

If a LOMA or LOMR is obtained that removes the property from the SFHA, neither flood insurance nor a flood elevation certificate is required.

Insurance under the NFIP *is* required when a flood elevation certificate documents that the property remains located within a SFHA.

Note: The LOMA, LOMR or flood elevation certificate must be submitted with the case for endorsement.

Reference: For more information on the National Flood Insurance Program criteria, see [44 CFR 60.3 – 60.6](#).

Continued on next page

3. Requirements for Properties in Special Flood Hazard Areas (SFHA), Continued

**4155.2 4.3.d
Lender
Discretion on
Requiring a
Flood Elevation
Certificate
and/or Flood
Insurance**

If a lender is uncertain about whether a property is located within a SFHA, it may require a flood elevation certificate. In addition, the lender has discretion to require national flood insurance even if

- the residential building and related improvements to the property are *not* located within the SFHA, but
 - the lender has reason to believe that the building and related improvements to the property may be vulnerable to damage from flooding.
-

**4155.2 4.3.e
Flood
Insurance
Requirements
for Existing
Construction**

Insurance under the NFIP must be obtained as a condition of closing and maintained for the life of the loan for an existing property when any portion of the residential improvements is determined to be located in a SFHA. If the improvements are subsequently removed from a SFHA by a LOMA or LOMR, flood insurance will no longer be required.

**4155.2 4.3.f
Flood
Insurance for
Condominiums**

The Homeowners' Association (HOA), not the individual condominium owner, is responsible for maintaining flood insurance on buildings located within a SFHA.

The lender is responsible for ensuring that the HOA obtains and maintains adequate flood insurance if the FHA appraiser reports that buildings in a condominium project are located within a SFHA. The flood insurance coverage must protect the interest of borrowers who hold title to individual units as well as the common areas of the condominium project.

A LOMA, LOMR or elevation certificate is acceptable evidence if any part of the property improvements is located within the SFHA.

Reference: For more information on LOMA, LOMR and elevation certificate see [4155.2 4.3.c](#).

Continued on next page

3. Requirements for Properties in Special Flood Hazard Areas (SFHA), Continued

4155.2 4.3.g Flood Insurance for Manufactured Homes

If any portion of property improvements for both new and existing manufactured home properties are located within a SFHA (Zones A or V), the property is *not* eligible for FHA mortgage insurance without

- a FEMA-issued LOMA or LOMR, or
- an elevation certificate, prepared by a licensed engineer or surveyor on the finished construction, indicating that the finish grade beneath the dwelling or manufactured home is at or above the 100-year return frequency flood elevation.

Note: When utilizing an elevation certificate, the property remains in a SFHA and flood insurance is required. Neither an elevation certificate nor flood insurance is required with LOMA or LOMR that removes the property from the SFHA.

Important: For manufactured homes with basements, the grade beneath the basement must be at or above the 100-year flood elevation.

4155.2 4.3.h Required Insurance Amount

National flood insurance is required for the term of the loan and must be maintained in an amount equal to the *least* of the following:

- the development cost of the property, less estimated land cost
- the maximum amount of the NFIP insurance available with respect to the property improvements, or
- the outstanding principal balance of the loan(s).

References: For more information on flood insurance requirements, see [HUD 4150.2](#), *Valuation Analysis for Single-Family One- to Four-Unit Dwellings*.

4. Appraisal Requirements

Introduction This topic contains information on the requirements for appraisals, including

- the FHA policy on appraisals
 - appraisal reporting standards
 - appraisal reporting forms
 - the term of an appraisal
 - the FHA policy on the reuse of appraisals
 - the FHA policy on appraisal extensions
 - appraisal and inspection fees
 - lender responsibility for providing appraised value documentation to the borrower
 - appraisal transfer and change of client name when the borrower switches lenders
 - ordering a second appraisal when the borrower switches lenders
 - when the appraisal and/or completion report form is used
 - when the appraisal and/or completion report form is not used, and
 - who may use the appraisal and/or completion report form.
-

Change Date February 22, 2010

**4155.2 4.4.a
FHA Policy on
Appraisals**

Except for certain streamline refinance transactions, FHA requires an appraisal of all properties to establish an estimated value for mortgage insurance purposes.

All individual properties, whether proposed construction, under construction, or existing construction, must meet MPS or MPR.

References: For more information on

- streamline refinance transactions, see [HUD 4155.1 3.C](#), and
 - appraisal requirements for individual properties, see
 - [HUD 4140.1](#), *Land Planning Principles for Home Mortgage Insurance*
 - [HUD 4150.2](#), *Valuation Analysis for Single-Family One- to Four-Unit Dwellings*, and
 - [ML 05-34](#) and [ML 05-48](#).
-

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4. Appraisal Requirements, Continued

4155.2 4.4.b Appraisal Reporting Standards

An appraisal performed for FHA purposes requires that the appraiser

- address all sections of the appraisal form
- complete the form in a manner that clearly reflects the thoroughness of the investigation and analysis of the appraisal findings, and
- ensure that the conclusions about the observed conditions of the property provide rationale for the opinion of market value.

The completed appraisal form utilized, together with the required exhibits, constitutes the reporting instrument to HUD for FHA-insured mortgages.

References: For information on appraisal forms, see

- [HUD 4155.2 4.4.c](#), and
- [HUD 4150.2](#), Appendix D.

Continued on next page

4. Appraisal Requirements, Continued

**4155.2 4.4.c
Appraisal
Reporting
Forms**

The appraisal reporting form used depends on the type of property that is being appraised.

The table below lists the appraisal forms used by the appraiser, depending upon the type of property being appraised.

Important: Regardless of which form in the table below is used, the [Fannie Mae Form 1004MC, Market Conditions Addendum](#), must be completed along with the appropriate appraisal form.

Reference: For access to these forms, see the HUDCLIPS Web site at <http://www.hud.gov/offices/adm/hudclips/>.

Appraisal Form	Form Usage
Uniform Residential Appraisal Report (URAR) (Fannie Mae Form 1004 , March 2004)	Required to report an appraisal of <ul style="list-style-type: none"> • a one unit property, or • a one unit property with an accessory unit.
Manufactured Home Appraisal Report (Fannie Mae Form 1004C , March 2005)	Required to report an appraisal of a one-unit manufactured home.
Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 , March 2005)	Required to report an appraisal of <ul style="list-style-type: none"> • a unit in a condominium project, or • a condominium unit in a planned unit development (PUD).
Small Residential Income Property Appraisal Report (Fannie Mae Form 1025)	Required to report an appraisal of a two to four unit property.
Manufactured Home Appraisal Report (Fannie Mae Form 1004C , March 2005)	Required to report an appraisal of a condominium manufactured home.
Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073)	Required as an addendum to the appraisal report if the property is located in a manufactured housing condominium project (MHCP).

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4. Appraisal Requirements, Continued

Appraisal Reporting Forms (continued)

Appraisal Form	Form Usage
<p>Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442/March 2005)</p>	<p>This is a dual-purpose form.</p> <ul style="list-style-type: none"> • Part A, Summary Appraisal Update Report <ul style="list-style-type: none"> – provides for updates of existing appraisals when the appraiser concurs with the original appraisal report, and – updates the appraisal by incorporating the original appraisal report. • <i>Part B, Completion Report</i>, provides for compliance repair and completion inspections for existing and new construction dwellings. <p>References: For information on the use of</p> <ul style="list-style-type: none"> • Fannie Mae Form 1004D/Freddie Mac Form 442/March 2005, <i>Appraisal Update and/or Completion Report</i>, see <ul style="list-style-type: none"> – HUD 4155.2 4.4.k, HUD 4155.2 4.4.l and HUD 4155.2 4.4.m, and – ML 09-51. • other required appraisal forms, see HUD 4150.2, <i>Valuation Analysis for Single Family One to Four Unit Dwellings</i>, Appendix D.

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4. Appraisal Requirements, Continued

4155.2 4.4.d Term of an Appraisal

The validity period for all appraisals on existing, proposed and under construction properties is 120 days.

If the appropriate HOC determines that soft market conditions exist in certain areas or markets, it may shorten the term of appraisals for substantial rehabilitation upon advance notice to lenders.

The term of the appraisal begins on the day the home is inspected by the FHA-approved appraiser and this date appears on the URAR.

4155.2 4.4.e FHA Policy on Appraisal Reuse

Appraisals *cannot* be reused after the mortgage for which the appraisal was ordered has closed.

A new appraisal is required for each refinance transaction requiring an appraisal.

Example: An appraisal used for the purchase of a property cannot be used again for a subsequent refinance, even if six months has not passed.

4155.2 4.4.f FHA Policy on Appraisal Extensions

If a borrower signs a valid sales contract or is approved for a loan prior to the expiration date of the appraisal, the term of the appraisal may be extended, at the option of the lender, for 30 days to allow for the approval of the borrower and closing of the loan.

Approval of the borrower occurs when the lender's DE underwriter signs the [HUD-92900-LT](#), *FHA Loan Underwriting and Transmittal Summary*.

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4. Appraisal Requirements, Continued

4155.2 4.4.g FHA Policy on Appraisal and Inspection Fees

The lender is responsible for collecting and promptly paying appraisers and inspectors.

4155.2 4.4.h Lender Responsibility for Providing Appraised Value Documentation to the Borrower

In accordance with the provisions of the National Housing Act, the lender must provide to the borrower a Statement of Appraised Value.

The lender accomplishes this by giving the borrower a copy of [HUD - 92800.5B](#), *Conditional Commitment – DE Statement of Appraised Value*, or a copy of the completed appraisal report, at or before loan closing.

4155.2 4.4.i Appraisal Transfer and Change of Client Name when the Borrower Switches Lenders

In cases where a borrower has switched lenders, the first lender must, at the borrower's request, transfer the case to the second lender. FHA does not require that the client name on the appraisal be changed when it is transferred to another lender.

In accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), the second lender is not permitted to request that the appraiser change the name of the client within the appraisal report unless it is a new appraisal assignment. To effect a client name change, the second lender and the original appraiser may engage in a new appraisal assignment wherein the scope of work is limited to the client name change. A new client name should include the name of the client (lender) and HUD.

References: For more information on

- transferring case numbers, see [HUD 4155.1 1.D.5](#), and
 - ordering second appraisals, see [HUD 4155.2 4.4.j](#).
-

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4. Appraisal Requirements, Continued

4155.2 4.4.j Ordering a Second Appraisal when the Borrower Switches Lenders

FHA prohibits “appraiser shopping”, where lenders order additional appraisals in an effort to assure the highest possible value for the property, and/or the least amount of deficiencies or repairs are noted and required by the appraiser.

However, in the case where a borrower switches from one FHA lender (first lender) to a second lender, and an appraisal was ordered by and completed for the first lender, a second appraisal may be ordered by the second lender if the

- first appraisal contains material deficiencies, as determined by the Direct Endorsement underwriter for the second lender
- appraiser performing the first appraisal is on the second lender’s exclusionary list of appraisers, or
- failure of the first lender to provide a copy of the appraisal to the second lender in a timely manner would cause a delay in closing, posing potential harm to the borrower, which includes events outside the borrower’s control such as
 - loss of interest rate lock
 - purchase contract deadline
 - foreclosure proceedings, and/or
 - late fees.

For the first two scenarios above, the lender must ensure that copies of both appraisals are retained in the case binder. For the third scenario, the appraisal from the first lender must be added to the case binder when it is received.

Important: In all cases, the lender must document why a second appraisal was ordered and retain the explanation in the case binder.

References: For more information on

- appraisal reuse, see [HUD 4155.2 4.4.e](#), and
- appraisal extensions, see [HUD 4155.2 4.4.f](#).

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4. Appraisal Requirements, Continued

4155.2 4.4.k The FHA appraiser should only use [Fannie Mae Form 1004D/Freddie Mac Form 442](#), *Appraisal Update and/or Completion Report* under the conditions described in the table below.

When the Appraisal and/or Completion Report Form Is Used

When the lender...	Then the appraiser...
<ul style="list-style-type: none"> • needs to extend the validity period of an existing appraisal that is due to expire, and • does not want to order a new appraisal 	should use <i>Part A/Appraisal Update</i> .
needs to extend the validity period of an existing appraisal for new construction that is incomplete	should use <i>Part A/Appraisal Update</i> .
needs to report the <ul style="list-style-type: none"> • completion of a repair, and/or • satisfaction of requirements and conditions noted on the original appraisal report referenced in the header of the <i>Summary Appraisal Update and/or Completion Report</i> 	should use <i>Part B/Completion Report</i> .

Continued on next page

4. Appraisal Requirements, Continued

4155.2 4.4.l
When the Appraisal and/or Completion Report Form Is Not Used

The FHA appraiser may *not* use [Fannie Mae Form 1004D/Freddie Mac Form 442](#), *Appraisal Update and/or Completion Report* under the conditions described in the table below.

If ...	Then the appraiser ...
<ul style="list-style-type: none"> • the property has declined in value • the building improvements that contribute value to the property cannot be observed from the street or a public way, or • the exterior inspection of the property reveals deficiencies or other significant changes that did not exist as of the effective date of the appraisal report being updated 	<p>may not use <i>Part A/Appraisal Update</i>.</p>
<ul style="list-style-type: none"> • the property is new construction and manufactured housing, and • a form HUD-92051, <i>Compliance Inspection Report</i>, is required 	<p>may not use <i>Part B/Completion Report</i>.</p>

4155.2 4.4.m
Who May Use the Appraisal Update and/or Completion Report Form

The FHA appraiser who performed the original appraisal, if currently in good standing on the FHA Appraiser Roster, may use *Part A, Summary Appraisal Update Report*, or *Part B, Completion Report*.

Any other FHA appraiser, currently in good standing on the FHA Appraiser Roster, may *only* use *Part B, Completion Report*.

Reference: For information on how to use the *Appraisal Update and/or Completion Report* form, see [ML 09-51](#).

5. Appraisal Repair Requirements

Introduction This topic contains information on repair requirements, including

- the FHA policy on repair requirements on an appraisal
 - types of repairs
 - properties with defective conditions, and
 - additional required inspections by qualified entities.
-

Change Date December 30, 2009

**4155.2 4.5.a
FHA Policy on
Appraisal
Repair
Requirements**

In the performance of an FHA appraisal, the appraiser must

- denote any deficiency in the appropriate section(s) of the appraisal report (site issues in the site section, improvement issues in the improvements section, and so on), and
- note those repairs necessary to make the property comply with FHA's MPR, or MPS, together with the estimated cost to cure.

The lender determines which repairs for existing properties must be made for the property to be eligible for FHA-insured financing.

Reference: For information on compliance inspection requirements, see [HUD 4155.2 4.1.i](#).

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5. Appraisal Repair Requirements, Continued

4155.2 4.5.b
Types of
Repairs

The types of repairs that may need to be made to a property include

- cosmetic repairs, and
- required repairs.

The table below describes cosmetic and required repairs.

Type of Repair	Description
Cosmetic repairs	<p>These repairs are not required, however, they must be considered in the overall condition rating and valuation of the property. Such repairs would include surface treatments, beautification or adornment not required for the preservation of the property.</p> <p>Generally, worn floor finishes or carpets, holes in window screens, or a small crack in a windowpane are examples of deferred maintenance that do not rise to the level of a required repair, but must be reported by the appraiser.</p>
Required repairs	<p>The physical condition of existing building improvements must be examined at the time of the appraisal to determine whether repairs, alterations or inspection are necessary or essential to eliminating conditions that threaten the continued physical security of the property.</p> <p>Required repairs must be limited to those required to</p> <ul style="list-style-type: none"> • protect the health and safety of the occupants (Safety) • protect the security of the property (Security), and • correct physical deficiencies or conditions affecting structural integrity (Soundness).

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5. Appraisal Repair Requirements, Continued

4155.2 4.5.c Properties With Defective Conditions

A property with defective conditions is unacceptable for FHA insurance until the conditions have been remedied and the probability of further damage has been eliminated. Defective conditions include

- defective construction, and
 - other readily observable conditions that impair the safety, security, or structural soundness of the dwelling.
-

4155.2 4.5.d Additional Required Inspections by Qualified Entities

Typical conditions that would require further inspection or testing by qualified individuals or entities include

- infestation – evidence of termites
- inoperative or inadequate plumbing, heating, or electrical systems
- structural failure in framing members
- leaking or worn-out roofs
- cracked masonry or foundation damage, and
- drainage problems.

Reference: For more information on compliance inspection requirements, see

- [HUD 4155.2 4.1.i](#)
 - [ML 05-48](#)
 - [ML 05-34](#), and
 - [HUD 4150.2](#).
-

6. Satisfying Repair Requirements

Introduction This topic contains information on satisfying repair requirements, including

- the FHA policy on satisfying repair requirements noted on the appraisal report
 - the Compliance Inspection Report
 - the Lender Certification
 - the escrow of funds for completion of construction
 - the lender obligation to complete improvements
-

Change Date February 22, 2010

**4155.2 4.6.a
FHA Policy on
Satisfying
Repair
Requirements**

Repair requirements outstanding on the appraisal report must be satisfied before the mortgage is submitted for endorsement. Satisfaction of repair requirements can be submitted by providing

- a Compliance Inspection Report ([HUD-92051](#)), as described in [HUD 4155.2 4.6.b](#)
- Part B of [Fannie Mae Form 1004D/Freddie Mac Form 442](#), *Appraisal Update and/or Completion Report*
- the Mortgagee's Assurance of Completion ([HUD-92300](#)) of escrowed repairs, as described in [HUD 4155.2 4.6.c](#), or
- a certification from a "qualified" professional on their company form or letterhead.

Note: A "qualified" professional may be a professionally licensed

- engineer
- home inspector, or
- trades person.

Reference: For more information on compliance inspection requirements, see [HUD 4155.2 4.1.i](#).

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6. Satisfying Repair Requirements, Continued

4155.2 4.6.b Compliance Inspection Report

Form [HUD-92051](#), *Compliance Inspection Report*, or Part B of [Fannie Mae Form 1004D/Freddie Mac Form 442](#), *Appraisal Update and/or Completion Report*, are used to certify that repairs have been completed satisfactorily.

Part B of [Fannie Mae Form 1004D/Freddie Mac Form 442](#), *Appraisal Update and/or Completion Report* provides for compliance repair and compliance inspections for existing and new construction dwellings.

Important: Part B of [Fannie Mae Form 1004D/Freddie Mac Form 442](#) may *not* be used in lieu of Form [HUD-92051](#), *Compliance Inspection Report*, for new construction and manufactured housing.

These forms must be prepared, as appropriate, by

- an appraiser, or
- an FHA fee inspector, for inspections that require architectural expertise (such as structural or basic system repair).

Such reports must be reviewed by FHA or the lender's underwriter, as appropriate.

Note: An FHA-approved inspector list is available via the FHA Connection, located at <https://entp.hud.gov/clas/>.

References: For more information on

- compliance inspection requirements, see [HUD 4155.2 4.1.i](#)
 - use of the *Appraisal Update and/or Completion Report* form, see
 - [HUD 4155.2 4.1.k](#)
 - [HUD 4155.2 4.1.l](#), and
 - [HUD 4155.2 4.1.m](#).
-

4155.2 4.6.c Lender Certification

A lender certification [HUD-92300](#), *Mortgagee's Assurance of Completion* is acceptable in those instances in which the required repair items are minor and uncomplicated.

Note: If the borrower could complete the work on his/her own as normal maintenance, FHA considers the work to be "minor".

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6. Satisfying Repair Requirements, Continued

4155.2 4.6.d Escrow of Funds for Completion of Construction

If adverse weather conditions prevent completion of the repairs, it is not always necessary to complete all new construction items (for example, landscaping) or required repairs (such as exterior painting) before submitting the mortgage for insurance endorsement. In certain situations, funds may be escrowed, and FHA will accept a [HUD-92300](#), *Mortgagee's Assurance of Completion* at the time of endorsement.

The escrow of funds may *only* be used when

- the dwelling is habitable, safe and essentially complete
 - the deferred work cannot be acceptably completed prior to loan closing, but will be completed within six months
 - all other conditions of the appraisal have been satisfied by compliance inspections or by an acceptable *Mortgagee's Assurance of Completion*, and
 - the lender has not been denied the privilege of using a *Mortgagee's Assurance of Completion* due to poor follow up or non satisfaction of outstanding escrows.
-

4155.2 4.6.e Lender Obligation to Complete Improvements Regardless of Escrow Reserves

The lender assumes the obligation to satisfactorily complete improvements, regardless of the adequacy of the funds reserved by escrow or letter of credit.

An appraiser or an inspector on FHA's Appraiser Roster or FHA's Panel of Inspectors must confirm that the work was satisfactorily completed.

References:

- For lists of such appraisers or inspectors, see the HUD Web site at www.hud.gov.
 - For more information on the escrow of funds and verification of work completion, see [HUD 4145.1](#), *Architectural Processing and Inspections for Home Mortgage Insurance*.
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7. Prohibition on Property Flipping

Introduction	<p>This topic contains information on the prohibition of property flipping, including the</p> <ul style="list-style-type: none">• definition of <i>property flipping</i>• inapplicability of property flipping restrictions to new construction• requirement that the seller must be the owner of record• appraiser responsibility for analyzing prior sales of a property• restriction on re-sales occurring 90 days or less after acquisition• required second appraisal on properties sold between 91 and 180 days after acquisition• re-sales occurring between 91 days and 12 months following acquisition, and• exceptions to the 90-day restriction.
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Change Date	February 22, 2010
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4155.2 4.7.a Definition: Property Flipping	The term <i>property flipping</i> refers to a practice whereby recently acquired property is resold for a considerable profit with an artificially inflated value, often abetted by a lender's collusion with an appraiser.
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4155.2 4.7.b Inapplicability of Property Flipping Restrictions to New Construction	The restrictions listed in this topic, and in 24 CFR 203.37a do <i>not</i> apply to a builder selling a newly built home or building a home for a borrower wishing to use FHA-insured financing.
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Continued on next page

7. Prohibition on Property Flipping, Continued

4155.2 4.7.c Seller Must Be the Owner of Record

To be eligible for a mortgage insured by FHA

- a property must be purchased from the owner of record
- the transaction may *not* involve any sale or assignment of the sales contract, and
- the lender must obtain, and submit in the case binder to HUD, documentation verifying that the seller is the owner or record.

Such documentation may include, but is not limited to

- a property sales history report
- a copy of the recorded deed from the seller, or
- other documentation, such as a copy of a property tax bill, title commitment, or binder, demonstrating the seller's ownership of the property and the date it was acquired.

Note: This requirement applies to all FHA purchase money mortgages, regardless of the time between re-sales.

4155.2 4.7.d Appraiser Responsibility for Analyzing Prior Sales of a Property

To be in compliance with updated Standard Rule 1-5 of the Uniform Standards of Professional Appraisal Practice (USPAP), appraisers are required to analyze any prior sales of a subject property in the previous three years for one to four family residential properties.

Mortgage lenders may rely on the information provided by the appraiser in the Uniform Residential Appraisal Report (URAR) describing the Date, Price and Data for Prior Sales for the subject property within the last three years.

4155.2 4.7.e Restriction on Re-Sales Occurring 90 Days or Less After Acquisition

If a property is re-sold 90 days or fewer following the date of acquisition by the seller, the property is *not* eligible for a mortgage insured by FHA.

FHA defines the

- *seller's date of acquisition* as the date of settlement on the seller's purchase of that property, and
- *re-sale date* as the date of execution of the sales contract by a buyer intending to finance the property with an FHA-insured loan.

Reference: For exceptions to this 90-day restriction, see [HUD 4155.2 4.7.h](#)

Continued on next page

7. Prohibition on Property Flipping, Continued

4155.2 4.7.f Second Appraisal Required on Properties Sold Between 91 and 180 Days After Acquisition

A lender must obtain a second appraisal by another appraiser if

- the re-sale date of a property is between 91 and 180 days following the acquisition of the property by the seller, and
- the resale price is 100 percent or more over the price paid by the seller when the property was acquired.

FHA reserves the right to revise the resale percentage level at which this second appraisal is required by publishing a notice in the Federal Register.

Example: If a property is re-sold for \$80,000 within six months of the seller's acquisition of that property for \$40,000, the lender must obtain a second independent appraisal supporting the \$80,000 sales price. Even if the lender provides documentation showing the cost and extent of rehabilitation that went into the property resulting in the increased value, the second appraisal is still required.

Note: The cost of the second appraisal may *not* be charged to the borrower.

4155.2 4.7.g Resales Occurring Between 91 Days and 12 Months Following Acquisition

FHA reserves the right to require additional documentation from a lender to support the resale value of a property *if*

- the resale date is more than 90 days after the date of acquisition by the seller, but before the end of the twelfth month following the date of acquisition, and
- the resale price is 5 percent or greater than the lowest sale price of the property during the preceding 12 months.

At FHA's discretion, such documentation may include, but not be limited to, an appraisal from another appraiser.

Continued on next page

7. Prohibition on Property Flipping, Continued

4155.2 4.7.h Exceptions to the 90 Day Restriction

The *only* exceptions to the 90 day resale restriction described in [HUD 4155.2 4.7.e](#) are for

- properties acquired by an employer or relocation agency in connection with the relocation of an employee
- re-sales by HUD under its Real Estate Owned (REO) program
- sales by other United States Government agencies of single family properties pursuant to programs operated by these agencies
- sales of properties by nonprofits approved to purchase HUD owned single family properties at a discount with resale restrictions
- sales of properties that are acquired by the seller by inheritance
- sales of properties by state and federally-chartered financial institutions and government sponsored enterprises
- sales of properties by local and state government agencies, and
- sales of properties within Presidentially Declared Disaster Areas.

Any subsequent re-sales of the properties described above must meet the 90 day threshold in order for the mortgage to be eligible as security for FHA insurance.

Note: HOCs do *not* have the authority to waive the 90-day resale restriction because it is a regulatory requirement and *not* an administrative policy.

8. Seller Concessions and Verification of Sales

Introduction

This topic contains information on FHA requirements regarding seller concessions and verification of sales. It includes information on

- the FHA policy on appraisal requirements for sales concessions
 - types of sales concessions, and
 - lender requirements regarding sales concessions.
-

Change Date

May 10, 2009

**4155.2 4.8.a
FHA Policy on
Appraisal
Requirements
for Sales
Concessions**

Sales concessions influence the price paid for real estate. For this reason, FHA requires that appraisers identify and report sales concessions and properly address and/or adjust the comparable sale transactions to account for sales concessions in the appraisal of all properties to be security for an FHA-insured loan.

**4155.2 4.8.b
Types of Sales
Concessions**

Sales concessions may be in the form of any of the following concessions given by the seller or any other party involved in a mortgage transaction:

- loan discount points
 - loan origination fees
 - interest rate buy downs
 - closing cost assistance
 - payment of condominium fees
 - builder incentives
 - down payment assistance
 - monetary gifts, or
 - personal property
-

Continued on next page

8. Seller Concessions and Verification of Sales, Continued

**4155.2 4.8.c
Lender
Requirements
Regarding
Sales
Concessions**

FHA requires that lenders comply with the requirements listed below with respect to sales concessions:

- on any real estate purchase transaction, the lender must provide the appraiser with a complete copy of the ratified sales contract, including all addenda, for the subject property that is to be appraised
- lenders must provide appraisers with all financing data and sales concessions for the subject property granted by anyone associated with the transaction (*Note*: Sales concession information must include gifts and/or down payment assistance, which may or may not be included in the contract of sale.), and
- if a lender requests a reconsideration of value, the lender must provide the appraiser with any amendments to the contract that occurred after the effective date of the appraisal.

Note: Contributions from sellers or other interested third parties to the transaction that exceed 6 percent of the sales price or other financing concessions must be treated as inducements to purchase, thereby reducing the amount of the mortgage.

Reference: For information on inducements to purchase, see [HUD 4155.1 2.A.4.](#)

9. Reporting Requirements for Appraisals in Declining Markets

Introduction This topic contains information on the reporting requirements for appraisals in declining markets, including

- a description of a “declining market” for purposes of properties that are to be collateral for FHA-insured mortgages
 - the policy requiring the use of closed comparables and active listings/pending sales
 - specific requirements for reporting comparable listings/pending sales for appraisals in declining markets, and
 - requirements regarding market trend data sources.
-

Change Date May 10, 2009

4155.2 4.9.a Description of “Declining Market” for Purposes of Properties That Are Collateral for an FHA-Insured Mortgage While there is no standard industry definition, for purposes of performing appraisals on properties that are to be collateral for FHA-insured mortgages, a “declining market” is considered to be any neighborhood, market area, or region that demonstrates a decline in prices or deterioration in other market conditions as evidenced by an oversupply of existing inventory or extended marketing times

Note: A declining trend in the market must be identified by the conclusions of the [Fannie Mae 1004MC, Market Conditions Addendum](#). The appraiser must provide a summary comment and provide support for all conclusions relating to the trend of the current market.

4155.2 4.9.b Policy Requiring Use of Comparables for Appraisal Reporting in Declining Markets In order to show recent market activity, appraisals of properties located in declining markets must include at least two comparable sales that

- closed within 90 days prior to the effective date of the appraisal, and
- are as similar as possible to the subject property.

Note: In cases where compliance with this requirement is difficult or not possible due to the lack of market data, a detailed explanation is required.

Continued on next page

9. Reporting Requirements for Appraisals in Declining Markets, Continued

4155.2 4.9.c Specific Requirements for Reporting Comparable Listings/ Pending Sales for Appraisals in Declining Markets

In order to ensure that FHA receives an accurate and thorough appraisal analysis, the inclusion of comparable listings and/or pending sales is required in appraisals of properties that are located in declining markets. Specifically, the appraiser must

- include a minimum of two active listings or pending sales on the appraisal grid of the applicable appraisal reporting form in comparable 4-6 position or higher (in addition to the three settled sales)
- ensure that active listings and pending sales are market tested and have reasonable market exposure to avoid the use of over priced properties as comparables. (*Note:* Reasonable market exposure is reflected by typical marketing times for the neighborhood. The comparable listings should be truly comparable and the appraiser should bracket the listings using both dwelling size and sales price whenever possible.)
- adjust active listings to reflect list to sale price ratios for the market
- adjust pending sales to reflect the contract purchase price whenever possible or adjust pending sales to reflect list to sale price ratios
- include the original list price, any revised list prices, and total days on the market (DOM) (*Note:* Provide an explanation for DOM that do not approximate time frames reported in the Neighborhood section of the appraisal reporting form or that do not coincide with the DOM noted in the Market Conditions Addendum.)
- reconcile the adjusted values of active listings or pending sales with the adjusted values of the settled sales provided (*Note:* If the adjusted values of the settled comparables are higher than the adjusted values of the active listings or pending sales, the appraiser must determine if a market condition adjustment is appropriate. The final value conclusion should not be based solely on the comparable listing or pending sales data.), and
- include an absorption rate analysis, which is critical to developing and supporting market trend conclusions, as mandated by the Market Conditions Addendum. (*Example:* Assuming 36 sales during a six-month period, the absorption rate is 6 sales per month (36/6).

Continued on next page

9. Reporting Requirements for Appraisals in Declining Markets, Continued

4155.2 4.9.d Specific Requirements for Market Trend Data Sources

Data regarding market trends is available from a number of local and nationwide sources. Appraisers must be diligent in using only impartial sources of data. The appraiser must

- verify data via local parties to the transaction, such as
 - agents
 - buyers
 - sellers, and
 - lenders, or
- use public records or another impartial data source that can be replicated if a sale cannot be verified by a party.

Unacceptable Sources:

Unacceptable data sources include local and national media and other sources considered not readily verifiable. A Multiple Listing Service (MLS) by itself is not considered a verification source.

Notes:

- Appraisal results should be able to be replicated.
 - Known or reported incentives or sales concessions must be noted in the financing section of the grid for any active or pending comparable used.
-

10. Property Eligibility Requirements Specific to Manufactured Homes

Introduction This topic contains information on the requirements for property eligibility specific to manufactured homes, including

- foundation requirements for manufactured homes
 - Engineer’s Certification on Foundation Compliance for Manufactured Homes
 - use of the Engineer’s Certification for future loans
 - perimeter enclosures for manufactured homes
 - required inspections for new construction manufactured homes, and
 - termite control for manufactured homes.
-

Change Date February 22, 2010

4155.2 4.10.a Foundation Requirements for Manufactured Homes All manufactured home permanent foundation systems must follow the FHA guidelines in effect at the time of the certification, which are currently published in the *Permanent Foundations Guide for Manufactured Housing* (PFGMH).

Reference: For more information on PFGMH, see [HUD 4930.3G](#), or www.huduser.org/publications/destech/permfound.html.

4155.2 4.10.b Engineer’s Certification on Foundation Compliance for Manufactured Homes The lender must submit an *Engineer’s Certification on Foundation Compliance*, attesting to compliance with the current PFGMH, which must be

- completed by a licensed professional engineer or registered architect, who is licensed/registered in the state where the manufactured home is located
- site-specific, and
- included in both the lender’s loan file and the insuring binder when submitted to FHA.

Note: The certification must contain the engineer’s or registered architect’s signature, seal, and/or state license/certification number. In states where seals are issued, the seal must be on the certification.

Reference: For more information on PFGMH, see [HUD 4930.3G](#), or www.huduser.org/publications/destech/permfound.html.

Continued on next page

10. Property Eligibility Requirements Specific to Manufactured Homes, Continued

4155.2 4.10.c Use of the Engineer's Certification on Foundation Compliance for Manufactured Homes for Future Loans

A copy of the foundation certification, showing that the foundation met the PFGMH guidelines that were in effect at the time of certification, is acceptable for future FHA loans, provided there are no alterations and/or observable damage to the foundation.

A copy of the foundation certification is not required in the loan file or insuring binder for any

- FHA-to-FHA transaction, provided that no modifications have been made to the foundation or structure from the date of the effective certification, or
 - FHA/HUD Real Estate Owned (REO) Division sales.
-

4155.2 4.10.d Perimeter Enclosures for Manufactured Homes

For the space beneath a manufactured home to be properly enclosed, the perimeter enclosure must

- be a continuous wall (whether bearing or non-load bearing)
- be adequately secured to the perimeter of the unit
- separate the crawl space from backfill
- keeps out vermin and water, and
- allow for proper ventilation of the crawl space.

For new construction, the space beneath the home shall be enclosed by a continuous foundation-type construction designed to resist all forces to which it is subjected without transmitting forces to the building superstructure. The enclosure shall be constructed of materials that conform to the PFGMH, and to HUD *Minimum Property Standards* (MPS), such as concrete, masonry, or treated wood.

For existing construction, there must be adequate backing, such as concrete, masonry, or treated wood, to permanently attach and support or reinforce the skirting, if the perimeter enclosure is non-load bearing skirting comprised of lightweight material.

References: For more information on

- HUD *Minimum Property Standards*, see [HUD 4910.1](#).
 - PFGMH, see [HUD 4930.3G](#), or www.huduser.org/publications/destech/permfound.html.
-

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10. Property Eligibility Requirements Specific to Manufactured Homes, Continued

4155.2 4.10.e Required Inspections for New Construction Manufactured Homes

For newly-constructed manufactured homes, initial and final inspections must be completed in accordance with the requirements in HUD 4145.1, REV-2, CHG-1, *Architectural Processing and Inspections for Home Mortgage Insurance*; and reported using the *Compliance Inspection Report* form. The inspections must be performed by

- FHA Compliance Inspectors
- licensed engineers
- registered architects, or
- other qualified construction industry professionals, as determined by the lender.

The inspector must have a copy of the FHA-required foundation certification, and related plans and specifications at the time of the inspection.

FHA Roster appraisers may use Part B of [Fannie Mae Form 1004D/Freddie Mac Form 442](#), *Appraisal Update and/or Completion Report*, which provides for compliance repair and completion inspections for existing and new construction dwellings.

Important: The FNMA form [Fannie Mae Form 1004D/Freddie Mac Form 442](#), *Appraisal Update and/or Completion Report* may not be used in lieu of form [HUD-92051](#), *Compliance Inspection Report*, for new construction and manufactured housing.

References: For more information on

- inspection requirements, see [HUD 4145.1](#), *Architectural Processing and Inspections for Home Mortgage Insurance*
- the *Compliance Inspection Report*, see form [HUD-92051](#)
- PFGMH, see [HUD 4930.3G](#), or www.huduser.org/publications/destech/permfound.html, and
- the use of [Fannie Mae Form 1004D/Freddie Mac Form 442](#)/March 2005,
 - [HUD 4155.2 4.4.k](#), [HUD 4155.2 4.4.l](#), and [HUD 4155.2 4.4.m](#), and
 - [ML 09-51](#).

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10. Property Eligibility Requirements Specific to Manufactured Homes, Continued

4155.2 4.10.f Termite Control for Manufactured Homes

The steel chassis under a newly-constructed manufactured home unit is not an effective termite barrier. Any one, or a combination of the following methods is required for maximum protection against termites, including

- chemical soil treatment
- EPA-registered bait treatments
- pressure preservative-treated wood, or
- naturally termite-resistant wood.

Termite protection policies for existing manufactured homes will be handled in the same manner as stick-built homes. State or local requirements are to be followed.

Reference: For more information regarding termite protection requirements on existing properties, see [ML 05-48](#).

Chapter 5. [TBD]

[TBD]

Section A. Loan Closing Policies

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	General Loan Closing Requirements	6-A-2
2	Loan Closing Documentation Requirements	6-A-8
3	Closing Costs and Other Fees	6-A-12
4	Prohibited Payments and Loans	6-A-14
5	Closing Certifications and Sales Contracts	6-A-16

1. General Loan Closing Requirements

Introduction This topic contains general information on loan closing requirements, including

- lender responsibilities at loan closing
 - discussion of approval conditions
 - settlement date and endorsement submission
 - per diem interest and interest credits at closing
 - payment factors for principal and interest payments
 - use of power of attorney at closing
 - title insurance
 - lender responsibilities for title objections
 - projecting and collecting real estate tax payments, and
 - title issues for manufactured homes.
-

Change Date December 23, 2010

**4155.2 6.A.1.a
Lender
Responsibilities
at Loan Closing**

At loan closing, the lender is responsible for

- resolving all problems regarding title to the real estate
 - reviewing all documents to ensure compliance with all conditions of the commitment
 - closing the loan before the expiration of the
 - FHA-issued Firm Commitment or Direct Endorsement (DE) approval, and
 - credit documents, and
 - submitting the loan documents for insurance within 60 days of loan closing or funds disbursement, whichever is later.
-

**4155.2 6.A.1.b
Discussion of
Approval
Conditions**

The lender is responsible for discussing the conditions of the [DE](#) lender's approval, or FHA's Firm Commitment, if applicable, with the borrower, and, if applicable, the seller or builder.

Continued on next page

1. General Loan Closing Requirements, Continued

4155.2 6.A.1.c Settlement Date and Endorsement Submission

The date of closing/settlement is generally considered the date on which the note and mortgage are signed by the borrower. This is also the date defined as the settlement date on the [HUD-1 Settlement Statement](#).

However, the 60-day endorsement submission clock begins on the date that the lender relinquishes control of the loan proceeds (disburses the mortgage funds), for both purchase money mortgages and refinance transactions.

This results in a consistent, easily understood start date so that lenders can meet the obligation to submit uniform case binders to FHA for endorsement processing.

The funding/disbursement date must be entered

- on the [HUD-1 Settlement Statement](#), Block I, and
- as the closing date on the
 - Automated Clearing House (ACH) screen, and
 - FHA Connection screen.

Note: On a refinance, the deadline by which the lender must submit any UFMIP is calculated beginning on the funding/disbursement date.

4155.2 6.A.1.d Per Diem Interest and Interest Credits at Closing

The lender may collect interim or per diem interest from the date it disburses, or relinquishes control of the loan proceeds. Interim interest for the period preceding amortization must be computed using a daily factor of $1/365^{\text{th}}$ of the annual rate.

On the purchase of a primary residence, the lender may credit up to seven calendar days of per diem interest to the borrower and have the mortgage payments begin the first day of the succeeding month. This reduces the burden on borrowers whose loans were scheduled to close at the end of the month, but did not, due to unforeseen circumstances.

On a refinance, the lender and borrower may agree to a per diem interest credit of up to 30 calendar days (up to the day prior to the first payment date) and have the mortgage payment begin the first day of the succeeding month.

A per diem interest credit **may not result in cash back** to the borrower.

Continued on next page

1. General Loan Closing Requirements, Continued

4155.2 6.A.1.e Factors for Principal and Interest Payments

Lenders may use a six-digit factor for the monthly principal and interest payment. A tolerance of four cents per thousand is permitted.

4155.2 6.A.1.f Use Power of Attorney At Closing

A borrower may designate an attorney-in-fact to use a power of attorney to sign documents on his/her behalf at closing, including

- page four of form [HUD-92900-A](#), *Addendum to the Uniform Residential Loan Application*, and
- the final [Fannie Mae Form 1003/Freddie Mac Form 65](#), *Uniform Residential Loan Application* (URLA), if signed at closing.

Lenders are required to submit copies of the initial [URLA](#) and form HUD-92900-A if all borrowers did not sign the final version.

Any power of attorney, whether specific or general, must comply with state law, and allow for legal enforcement of the mortgage note in the jurisdiction.

References: For additional information on

- powers of attorney, see [HUD 4155.1 1.B.3.a](#), and
 - requirements for initial and final [URLAs](#) and Addendums, see
 - [HUD 4155.1 1.B.1.a](#), and
 - [HUD 4155.1 1.B.3.c](#)
-

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1. General Loan Closing Requirements, Continued

4155.2 6.A.1.g Title Insurance FHA does not require title insurance for forward mortgages at loan closing. However, the lender is responsible for conveying good, marketable title to FHA when a claim is filed.

Exception: The one exception to this policy involves property that previously had been sold by HUD (REO sale) and FHA has insured the mortgage financing the subsequent purchase of the property. If such a property had a title defect prior to the original conveyance to FHA, the lender is *not* held responsible for any title defects arising prior to the sale by FHA.

References: For more information on

- HUD REO sales and prior title defects, see [24 CFR 203.390](#), and
 - title exceptions, see [HUD 4155.2 6.C](#).
-

4155.2 6.A.1.h Lender Responsibilities for Title Objections

With respect to title objections, the lender is responsible for

- reviewing [24 CFR 203.389](#) for a full description of the General Waiver of Objection to title provisions
- reporting any additional exceptions discovered during the title search to the [DE](#) underwriter before the loan is closed (unless the exceptions are covered by the General Waiver)
- reviewing other title matters *not* covered by the General Waiver
- making decisions about these other title conditions and whether a title condition significantly affects the property's value and/or marketability, and
- ensuring that FHA will accept any conditions of title to the property.

Reference: For more information on title objections and the General Waiver for customary easements, restrictions, and encroachments, see [HUD 4155.2 6.C](#).

Continued on next page

1. General Loan Closing Requirements, Continued

4155.2 6.A.1.i Projecting Real Estate Tax Payments

The lender may project real estate tax payments, and collect those funds as a portion of the monthly escrow account payment without violating the Real Estate Settlement Procedures Act (RESPA).

[RESPA](#) requires that a borrower receive an initial escrow account statement at settlement or within 45 days of settlement. In conducting this analysis, [RESPA](#) permits lenders and mortgage servicers to project the disbursements for real estate taxes for the ensuing 12 months and collect funds based on this projection.

On a newly-constructed dwelling, however, the lender must not predicate a borrower's monthly escrow payments on the value of vacant land when tax authority reassessments are likely to occur within 12 months of mortgage loan closing.

Reference: For more information on estimating property taxes for underwriting purposes, see [HUD 4155.1 4.F.2.d](#).

Continued on next page

1. General Loan Closing Requirements, Continued

4155.2 6.A.1.j Title Issues for Manufactured Homes

All manufactured home units and land must be classified as real estate to be eligible for Title II FHA Insurance. When the land is purchased separately from the manufactured housing unit, there may be two deeds, a

- property deed for the land, and
- chattel deed or motor vehicle title for the unit.

FHA requires one clear title at the time of closing.

Lenders must

- comply with all state or local requirements for proper purging of the title (chattel or other equivalent debt instrument) to the manufactured home, and
- ensure that the subject property is classified or taxed as real estate.

The lender must provide evidence that the title policy specifically states the manufactured home and land are classified as real estate (but need not be treated as real estate for purposes of state taxation).

Certification of purged title of the manufactured home must be provided to show that the unit has been officially converted from chattel to real property. Once the manufactured home unit is permanently attached to land, the lender must file a request or application to purge the manufactured home title with the appropriate state or local authority (i.e. Department of Motor Vehicles).

If the original chattel deed or title is not purged, the property does not have marketable real estate title. In the event of a foreclosure, therefore, **HUD will not accept a conveyance or pay a claim.**

The lender may resolve title issues through services such as the website offered by Fannie Mae, <https://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/manufachousing/index.jsp?from=hp>, which includes state-by-state titling information for loans secured by manufactured housing.

2. Loan Closing Documentation Requirements

Introduction This topic contains information on loan closing documentation requirements, including

- required language for closing documents
 - signature requirements at loan closing
 - final URLA and form HUD-92900-A requirements
 - endorsement package submission
 - required disclosure statement when initial Addendum is not completed, and
 - closing in compliance with loan approval.
-

Change Date December 23, 2010

**4155.2 6.A.2.a
Required
Language for
Closing
Documents**

The forms and/or language prescribed by FHA *must* be used in the legal documents used for loan closing.

Reference: For information on FHA forms and language requirements for the mortgage and note, see [HUD 4155.2 6.B.](#)

Continued on next page

2. Loan Closing Documentation Requirements, Continued

**4155.2 6.A.2.b
Signature
Requirements
at Loan Closing**

All individuals who appear on the loan application must sign and date the mortgage note and all closing documents, where appropriate.

Any individual whose signature is required by state law to create a valid first lien, pass clear title, or waive inchoate rights must sign the security instrument, such as the

- mortgage
- deed of trust, or
- security deed.

All owners of the property who will be vested in title must sign the security instrument, except as described in [HUD 4155.1 4.A.1.i](#). Cosigners and non-occupant borrowers who do not have ownership interest in the property (vested title) are not required to take title or sign the security instrument.

References: For more information on

- electronic signatures on third party documents, see [HUD 4155.1 1.B.1.k](#), and
- cosigner requirements, see [HUD 4155.1 4.A.1.e](#).

Continued on next page

2. Loan Closing Documentation Requirements, Continued

**4155.2 6.A.2.c
Final URLA
and Form
HUD- 92900-A
Requirements**

The underwriter must have the final form [HUD-92900-A](#), *Addendum to the Uniform Residential Loan Application* and final Fannie Mae [Form 1003](#), *Uniform Residential Loan Application* (URLA) before underwriting the loan application, whether or not they have been signed by the borrower at that time.

If the lender uses only one loan application that serves as both the initial and final, the lender must still obtain a completed final Addendum before underwriting the loan.

**4155.2 6.A.2.d
Endorsement
Package
Submission**

In the endorsement package, the lender must submit a

- copy of the final loan application, and
 - satisfactory letter of explanation from the borrower addressing any significant variances between the initial loan application and final application.
-

Continued on next page

2. Loan Closing Documentation Requirements, Continued

4155.2 6.A.2.e Required Disclosure Statement When Initial Addendum Is Not Completed

When the lender chooses *not* to complete an initial form [HUD-92900-A](#), *Addendum to the Uniform Residential Loan Application*, (that is, the lender asks the borrower to sign a completed Addendum before the loan is underwritten), simultaneous appraisal and mortgage credit review is permissible if the lender discloses to the borrower that the lender's Direct Endorsement (DE) underwriter may adjust the appraised value.

The disclosure statement below must be signed by the borrower(s) and becomes part of the official file submitted to FHA for endorsement:

I (we) understand that my (our) application for an FHA-insured mortgage is being processed under the Direct Endorsement (DE) program. The lender has advised me (us) that the appraiser has assigned a value of \$_____ to the property being purchased.

I am (we are) aware that the official determination will be made by the DE underwriter when he/she reviews the report.

It is understood that I (we) may elect to cancel the application or renegotiated with the seller if the DE underwriter reduces the value below the amount set forth in the sales contract, or requires additional repairs for which the seller will not be responsible.

4155.2 6.A.2.f Closing in Compliance With Loan Approval

The loan *must* close in the same manner in which it was underwritten and approved.

FHA may withhold endorsement of the loan if there are additional signatures on the security instruments and/or mortgage note of individuals not reviewed during mortgage credit analysis, except for a non-purchasing spouse or any requirements of a state or local jurisdiction necessary to perfect the lien.

Reference: For additional information on non-purchasing spouse requirements, see [HUD 4155.1 4.A.5](#).

3. Closing Costs and Other Fees

Introduction This topic contains information on closing costs and other fees, including

- collecting customary and reasonable fees
 - other fees and charges
 - closing costs as downpayment, and
 - rejecting charges and fees.
-

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**4155.2 6.A.3.a
Collecting
Customary and
Reasonable
Fees**

The lender may only collect fair, reasonable, and customary fees and charges from the borrower for all origination services. FHA will monitor to ensure that borrowers are not overcharged. Furthermore, the FHA Commissioner retains the authority to set limits on the amount of any fees that a lender may charge a borrower(s) for obtaining an FHA loan.

Aggregate charges may not violate FHA's tiered pricing rules, per [ML 94-16](#).

Additionally, FHA does not allow "mark-ups." The cost for any item charged to the borrower *must not* exceed the cost paid by the lender, or charged to the lender by the service provider.

Only the actual cost for the service may be charged to the borrower.

References: For more information on

- closing costs, see [HUD 4155.1 5.A.2.a](#), and
 - other fees and charges, see [HUD 4155.2 6.A.3.b](#).
-

Continued on next page

3. Closing Costs and Other Fees, Continued

4155.2 6.A.3.b Other Fees and Charges The table below describes fees and charges a lender may assess, but which are not considered *closing costs*.

Type of Fee	Description
Discount Points	<p>Discount points charged by the lender on a purchase transaction may be charged to the buyer, but <i>may not</i> be included in the financed mortgage amount.</p> <p>Reasonable discount points for refinance transactions may be financed into the mortgage amount, subject to equity requirements and other restrictions applied to refinances.</p> <p>Reference: For more information on refinance transaction requirements, see HUD 4155.1 3.A.</p>
<ul style="list-style-type: none"> • Lock-Ins • Rate Locks 	<p>These provide a written guarantee that ensures the loan terms</p> <ul style="list-style-type: none"> • will not change for a definite period of time (for instance not less than 15 days), or • are limited to the extent to which the terms may change. <p>Reference: For more information on rate locks, see HUD 4155.2 3.A.2.b.</p>

4155.2 6.A.3.c Closing Costs as Downpayment Closing costs may not be used to help meet the minimum 3.5% downpayment requirement.

Closing costs are not considered in the mortgage amount or downpayment calculation for purchase money mortgages.

4155.2 6.A.3.d Rejecting Charges and Fees The appropriate Homeownership Center (HOC) may reject charges, based on what is reasonable and customary for the area.

4. Prohibited Payments and Loans

Introduction This topic contains information on prohibited payments and loans, including

- paying unearned fees
 - prohibition on funds advances, and
 - providing below market rate or non-interest loans.
-

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**4155.2 6.A.4.a
Paying
Unearned Fees** A lender is *not* permitted to pay any fee, compensation, or thing of value other than for services actually performed, including

- kick back fees
 - fees above that actually paid for the service
 - finders fees or payments to any party referring the loan
 - payment to a party that has received, or will receive other payment for the service, *unless* it is a commission for selling a hazard insurance policy at the borrower's request, and
 - fees prohibited by the Real Estate Settlement Procedures Act (RESPA).
-

**4155.2 6.A.4.b
Prohibition on
Funds
Advances** Advancing funds in anticipation of commissions on sales being financed with FHA-insured mortgages is prohibited.

Continued on next page

4. Prohibited Payments and Loans, Continued

**4155.2 6.A.4.c
Providing
Below-Market
Rate or Non-
Interest Loans**

A lender may *not* provide below-market rate or non-interest loans to any parties from whom the lender accepts proposals for FHA-insured mortgages, including but not limited to

- real estate brokers or agents
 - mortgage brokers
 - packagers, or
 - builders.
-

5. Closing Certifications and Sales Contracts

Introduction This topic contains information on closing certifications and sales contracts, including

- determining the closing certifications
- lender's certificate
- policy on sales contracts
- amendatory clause in the sales contract
- required language for the amendatory clause
- real estate certification, and
- when the real estate certification is not needed.

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Continued on next page

5. Closing Certifications and Sales Contracts, Continued

4155.2 6.A.5.a Determining the Closing Certifications

The closing certifications that the lender must execute are dictated by the type of processing, such as

- direct endorsement ([DE](#)), or
 - FHA/HUD underwritten.
-

4155.2 6.A.5.b Lender's Certificate

By signing the Lender's Certificate on page 4 of form [HUD-92900-A](#), *Addendum to the Uniform Residential Loan Application*, the lender is stating that

- statements made in the application for insurance and the Certificate are true and correct
- conditions listed or appearing in any outstanding commitment issued under the case number have been fulfilled
- complete disbursement of the loan was made to the borrower, or his/her creditors for his/her account and with his/her consent
- the security instrument has been recorded, and is a good and valid first lien on the property
- no charge has been made to or paid by the borrower, except as permitted under FHA regulations
- copies of the credit and security instruments that are submitted ~~herewith~~ are true and exact copies as executed and filed for record, and
- no one has paid any kickbacks, fee or consideration of any type, directly or indirectly, to any party connected with the transaction, except as permitted under FHA regulations and administrative instructions.

The lender's representative also certifies that, at the time of closing the mortgage loan, he/she has personally reviewed the mortgage loan documents, closing statements, application for insurance endorsement, and all accompanying documents.

Continued on next page

5. Closing Certifications and Sales Contracts, Continued

4155.2 6.A.5.c Policy on Sales Contracts

Except for houses sold by FHA under the REO program, FHA is *not* a party to the sales agreement.

When a sales contract contains conditions that, if performed, would violate FHA's requirements, the lender must obtain an addendum or modification to the purchase agreement that allows conformance to those requirements.

Nevertheless, failure to perform a condition of the sales contract is not grounds for denying loan endorsement, *provided the loan closes in compliance with all regulations and policies.*

Example: The sales contract may require the seller to pay an amount in excess of present seller contribution limitations.

4155.2 6.A.5.d Amendatory Clause to the Sales Contract

An amendatory clause must be included in the sales contract when the borrower has not been informed of the appraised value by receiving a copy of [HUD-92800.5B](#), *Conditional Commitment/DE Statement of Appraised Value* or VA-[NOV](#) before signing the sales contract.

The amendatory clause is *not* required on

- HUD REO sales
- FHA's 203(k) loan program
- sales in which the seller is
 - Fannie Mae
 - Freddie Mac
 - the Department of Veterans Affairs ([VA](#))
 - Rural Housing Services
 - other federal, state, and local government agencies
 - a lender disposing of REO assets, or
 - a seller at a foreclosure sale, and
- those sales in which the borrower will not be an owner-occupant (for example, sales to nonprofit agencies).

Reference: See [HUD 4155.2 6.A.5.e](#) for the required language for the Amendatory Clause to the sales contract.

Continued on next page

5. Closing Certifications and Sales Contracts, Continued

4155.2 6.A.5.e Required Language for the Amendatory Clause

When an amendatory clause to the sales contract is required, as indicated in [HUD 4155.2 6.A.5.d](#), the clause must contain the following language:

“It is expressly agreed that notwithstanding any other provisions of this contract, the purchaser shall not be obligated to complete the purchase of the property described herein or to incur any penalty by forfeiture of earnest money deposits or otherwise, unless the purchaser has been given, in accordance with HUD/FHA or VA requirements, a written statement by the Federal Housing Commissioner, Department of Veterans Affairs, or a Direct Endorsement lender setting forth the appraised value of the property of not less than \$_____. The purchaser shall have the privilege and option of proceeding with consummation of the contract without regard to the amount of the appraised valuation. The appraised valuation is arrived at to determine the maximum mortgage the Department of Housing and Urban Development will insure. HUD does not warrant the value or condition of the property. The purchaser should satisfy himself/herself that the price and condition of the property are acceptable.”

The actual dollar amount to be inserted in the amendatory clause is the sales price stated in the contract. If the borrower and seller agree to adjust the sales price in response to an appraised value that is less than the sales price, a new amendatory clause is *not* required. However, the loan application package must include the original sales contract with the same price as shown in the amendatory clause, along with the revised or amended sales contract.

4155.2 6.A.5.f Real Estate Certification

The borrower, seller, and the selling real estate agent or broker involved in the sales transaction must certify that

- the terms and conditions of the sales contract are true, to the best of their knowledge and belief, and
- any other agreement entered into by any parties in connection with the real estate transaction is part of, or attached to, the sales agreement.

Reference: See [HUD 4155.2 6.A.5.g](#) for circumstances under which the Real Estate Certification is not required.

Continued on next page

5. Closing Certifications and Sales Contracts, Continued

4155.2 6.A.5.g
When the Real
Estate
Certification Is
Not Needed

The certification described in [HUD 4155.2 6.A.5.f](#) is not needed if

- the sales contract contains a provision that
 - there are no other agreements between parties, and
 - the terms constitute the entire agreement between the parties, and
 - all parties are signatories to the sales contract submitted at the time of underwriting.
-

Section B. Mortgage and Note Forms

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	General Information on Mortgage and Note Forms	6-B-2
2	Mortgage Form Requirements	6-B-5
3	Note Requirements	6-B-7
4	Mortgage and Note Form Requirements in Special Circumstances	6-B-8
5	Mortgage and Note Form Special Requirements for Specific States and Localities	6-B-16

1. General Information on Mortgage and Note Forms

Introduction This topic contains general information on mortgage and note forms, including

- definitions of mortgage and note
- obtaining mortgage and note forms
- lender responsibility for determining mortgage and note form compliance
- mortgage and note format, and
- HOC authority to impose additional requirements.

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**4155.2 6.B.1.a
Definitions of
Mortgage and
Note** For purposes of this section, the term

- “*mortgage*” includes any form of security instrument that is commonly used in a jurisdiction in connection with a loan secured by a one to four family residential property, such as a deed of trust or security deed, and
- “*note*” includes any form of credit instrument commonly used in a jurisdiction to evidence a mortgage loan.

**4155.2 6.B.1.b
Obtaining
Mortgage and
Note Forms** The FHA does not provide mortgage and note forms. The lender is responsible for developing or obtaining mortgage and note forms that comply in form and substance with FHA and applicable state and local requirements for a(n)

- recordable and enforceable mortgage, and
- enforceable note.

The mortgage and note *must* be separate documents.

References: For information on the

- FHA [Model Mortgage Form](#), see [HUD 4155.2 6.B.2](#), and
 - FHA [Model Note Form](#), see [HUD 4155.2 6.B.3](#).
-

Continued on next page

1. General Information on Mortgage and Note Forms, Continued

4155.2 6.B.1.c Lender Responsibility for Determining Mortgage and Note Compliance

Lenders should not seek advance approval of mortgage and note forms from FHA or the Homeownership Centers (HOCs). The lender is responsible for determining that the mortgage and note forms comply with the requirements of this section.

Send questions about appropriately interpreting the requirements for mortgage and note forms to:

Assistant General Counsel for Single Family Mortgages
Department of Housing and Urban Development
451 7th Street, S. W., Room 9240
Washington, DC 20410

Note: Any requests for changes to the requirements of this section should also be directed to the address above. The FHA does not expect to grant case-by-case exceptions.

4155.2 6.B.1.d Mortgage and Note Format

A mortgage or note may include the

- lender's business name and/or logotype at the top of the form, and
- last revision date to clarify versions for each form being distributed.

Layout and format are at the lender's discretion, where not specified by FHA.

The type or print font size and style should be similar to the mortgages and notes approved by the

- Federal National Mortgage Association (Fannie Mae (FNMA)), and/or
- Federal Home Loan Mortgage Corporation (Freddie Mac (FHLMC)).

References: For information on the

- FHA [Model Mortgage Form](#), see [HUD 4155.2 6.B.2](#), and
 - FHA [Model Note Form](#), see [HUD 4155.2 6.B.3](#).
-

Continued on next page

1. General Information on Mortgage and Note Forms, Continued

4155.2 6.B.1.e [HOCs](#) have the authority to impose additional requirements regarding mortgage and note provisions, to ensure consistency with state laws appropriate to their jurisdictions.

HOC Authority to Impose Additional Requirements

2. Mortgage Form Requirements

Introduction This topic contains information on the mortgage form requirements, including

- *Model Mortgage Form* format
 - Fannie Mae/Freddie Mac Forms
 - uniform covenants
 - Paragraph 18, Foreclosure Procedure, and
 - non-uniform covenants for the paragraphs subsequent to Paragraph 18.
-

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**4155.2 6.B.2.a
Model
Mortgage Form
Format** Lenders *must* use the [Model Mortgage Form](#), and follow the instructions for completing the form provided in [HUD 4155.2 12.A.2](#).

Lenders can only adapt the form as necessary to conform to state or local requirements.

**4155.2 6.B.2.b
Fannie
Mae/Freddie
Mac Forms** FHA has made heavy use of the approved Fannie Mae/Freddie Mac mortgage forms in preparing FHA forms requirements. The provisions regarding the numbered paragraphs of the [Model Mortgage Form](#) are to be the same as Fannie Mae/Freddie Mac mortgages (except New York and Maine), with the addition of the FHA case number on the first page.

Reference: For specific information about mortgage and note form state requirements, see [HUD 4155.2 6.B.5](#).

Continued on next page

2. Mortgage Form Requirements, Continued

**4155.2 6.B.2.c
Uniform
Covenants**

The lender must use the FHA “Uniform Covenants” in Paragraphs 1-16 on the [Model Mortgage Form](#) verbatim, rather than the Fannie Mae/Freddie Mac “Uniform Covenants,” which are substantially different from FHA policy.

The lender must consult with FHA if it concludes that information in paragraphs 1-16 does not meet state or local requirements. The lender *cannot* make changes without prior FHA approval.

**4155.2 6.B.2.d
Paragraph 18:
Foreclosure
Procedure**

The lender must adapt Paragraph 18, “Foreclosure Procedure,” on the [Model Mortgage Form](#) for each state, as applicable, and as explained in the instructions for the model form provided at [HUD 4155.2 12.A.2](#). Paragraph 18 is intended to address foreclosure procedures only.

**4155.2 6.B.2.e
Non-Uniform
Covenants:
Paragraphs
Subsequent to
Paragraph 18**

The lender may insert additional numbered paragraphs into the [Model Mortgage Form](#) after Paragraph 18, as required, to adapt the mortgage for a specific state.

The text for the remaining paragraphs should be the same as the text of the paragraphs following the foreclosure procedure paragraph on the most recently approved Fannie Mae/Freddie Mac mortgage form, except the paragraph entitled “Riders to this Security Instrument.”

3. Note Requirements

Introduction This topic contains information on the *Model Note Form* requirements, including

- *Model Note Form* format, and
- the note as a negotiable instrument.

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**4155.2 6.B.3.a
Model Note
Form Format** Lenders *must* use the [Model Note Form](#), and footnotes accompanying the form, adapting the form only as necessary to conform to state or local requirements.

A lender is permitted to use a multi-state note form, *except* where special state provisions may be required by state statutes.

Reference: For additional information on state requirements for mortgage and note forms, see [HUD 4155.2 6.B.5](#).

**4155.2 6.B.3.b
Note as a
Negotiable
Instrument** The note must be a negotiable instrument. The [Model Note Form](#) has not been reviewed for compliance with all state laws, which could affect negotiability.

In the case of an Adjustable Rate Mortgage (ARM), the note must meet all negotiability requirements, except that interest rates are determined by reference to an index.

References: For

- the *Model Adjustable Rate Note Form*, see [HUD 4155.2 12.A.4.a](#), and
- additional notes on completing this form, see [HUD 4155.2 12.A.4.b](#).

4. Mortgage and Note Form Requirements in Special Circumstances

Introduction This topic contains information on requirements for mortgage and note forms in special circumstances, including

- mortgage riders and note allonges for special circumstances
 - using additional language in the mortgage and note
 - mortgage and note requirements for ARMs
 - types of ARMs insured by FHA
 - option for form modifications for ARMs
 - *Model Mortgage Form* rider requirements
 - additional requirements for cooperatives
 - *Model Note Form* allonge requirements
 - tax exempt financing
 - open end advances
 - home equity conversion mortgage (HECM), and
 - combined construction and permanent loans.
-

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4155.2 6.B.4.a Mortgage Riders/Note Allonges for Special Circumstances Additional language may be required for a mortgage and/or note, as special situations arise.

The table below lists the mortgage rider and/or note allonge to use in conjunction with the [Model Mortgage Form](#) or [Model Note Form](#), as required.

Mortgage Rider/Note Allonge	Reference
Graduated Payment Rider	HUD 4155.2 12.A.5
Graduated Payment Allonge Amending Note	HUD 4155.2 12.A.6
Growing Equity Allonge Amending Note	HUD 4155.2 12.A.7
Condominium Rider	HUD 4155.2 12.A.8
Rehabilitation Loan Rider	HUD 4155.2 12.A.9

Continued on next page

4. Mortgage and Note Form Requirements in Special Circumstances, Continued

4155.2 6.B.4.a Using Mortgage Riders/Note Allonges for Special Circumstances (continued)

Mortgage Rider/Note Allonge	Reference
Planned Unit Development Rider	HUD 4155.2 12.A.10
Tax-Exempt Financing Rider	HUD 4155.2 12.A.11
Rider for Section 248 Mortgage	HUD 4155.2 12.A.12
Rider for Section 247 Mortgage	HUD 4155.2 12.A.13
Non-Owner Occupancy Rider	HUD 4155.2 12.A.14
Water Purification Equipment Rider	HUD 4155.2 12.A.15
Cooperative Rider	HUD 4155.2 12.A.16
Construction Rider for Construction/Permanent Mortgage	HUD 4155.2 12.A.17

4155.2 6.B.4.b Using Additional Language

When additional language is added to a model note, and a rider or allonge is *not* provided

- print or type the additional language in the body of the document, or
- incorporate the additional language by using a rider, addendum, or similar type of document.

4155.2 6.B.4.c Mortgage and Note Requirements for ARMs

Use the [Model Adjustable Rate Note Form](#) in place of the [Model Note Form](#), if the loan is an adjustable rate mortgage (ARM).

The description of the adjustable rate note found on the first page of the [Model Mortgage Form](#) should be a sufficient description of the debt for recording purposes. However, FHA does allow the lender to add language reflecting the nature of the adjustable rate for the mortgage. The [ARM](#) must be fully amortizing and contain amortization provisions that allow for periodic adjustments in the rate of interest charged.

Reference: For information on [ARMs](#), see [HUD 4155.1 6.B](#).

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4. Mortgage and Note Form Requirements in Special Circumstances, Continued

4155.2 6.B.4.d Types of ARMs Insured by FHA

FHA insures [ARMs](#) that have fixed interest rates for the first one, three, five, seven, or ten years, with adjustment to the rate after the fixed interest rate period.

Reference: For more information on

- ARM annual interest rate adjustments and interest rate caps, see [HUD 4155.1 6.B](#), and
- Section 251 ARMs, see [HUD 4155.2 1.C.16](#).

4155.2 6.B.4.e Options for Form Modifications for ARMs

Lenders have two options for preparing the mortgage for an [ARM](#) loan. The table below describes the two options for changing the [Model Mortgage Form](#) for an [ARM](#) to indicate the adjustable interest rate feature.

Note: These options for an [ARM](#) mortgage form do *not* apply to Adjustable Rate Home Equity Conversion Mortgages (HECM).

Option	Instructions
Option 1	Use the Model Mortgage Form with no special adaptation for adjustable rate loans, if such a mortgage would be fully enforceable under state or local law.

Continued on next page

4. Mortgage and Note Form Requirements in Special Circumstances, Continued

4155.2 6.B.4.e Options for Form Modifications for ARMs (continued)

Option	Instruction
Option 2	<p>Use the Model Mortgage Form with one or more of the following adaptations to the form:</p> <ul style="list-style-type: none"> • change the <ul style="list-style-type: none"> – title to <i>Adjustable Rate Mortgage</i> – first use of the word <i>Note</i> on the first page to <i>Adjustable Rate Note</i> – first use of the word <i>interest</i> on the first page to <i>interest at a rate subject to adjustment</i> • add additional language either to Paragraph 1 or as numbered paragraph(s) at the end of the mortgage, which references, describes, or summarizes the adjustable rate feature of the note <ul style="list-style-type: none"> – to the extent desired, or – as required for enforceability under state or local law.

4155.2 6.B.4.f Model Mortgage Form Rider Requirements

The table below describes which riders to prepare with the [Model Mortgage Form](#) for various types of loans.

When preparing documents for a ...	Use the Model Mortgage Form along with the ...
graduated payment mortgage (GPM)	Graduated Payment Rider

Continued on next page

4. Mortgage and Note Form Requirements in Special Circumstances, Continued

4155.2 6.B.4.f Model Mortgage Form Rider Requirements (continued)

When preparing documents for a ...	Use the Model Mortgage Form along with the ...
Section 203(k) loan involving a release from the Rehabilitation Escrow Account	Rehabilitation Loan Rider Reference: For more information, see HUD 4240.4, 203K, Rehabilitation Home Mortgage Insurance .
condominium	Condominium Rider Note: This information in this section does <i>not</i> supersede HUD 4265.1, Home Mortgage Insurance Condominium Units , <i>except</i> for the following: <ul style="list-style-type: none"> • the security instrument provisions from HUD 4265.1, Home Mortgage Insurance Condominium Units, paragraph 4-2 must not be added to the mortgage and note, and • the <i>Resolution of Inconsistency</i> provisions from HUD 4265.1, Home Mortgage Insurance Condominium Units, paragraphs 12-8 to 12-10 must not be contained in the mortgage.
cooperative mortgage insured under Section 203(n) of the National Housing Act	Cooperative Rider Reference: For additional modification information, see HUD 4155.2 6.B.4.g .
planned unit development (PUD) mortgage	Planned Unit Development Rider

Continued on next page

4. Mortgage and Note Form Requirements in Special Circumstances, Continued

4155.2 6.B.4.f Model Mortgage Form Rider Requirements (continued)

When preparing documents for a ...	Use the Model Mortgage Form along with the ...
non-owner occupant mortgage	Non-Owner Occupancy Rider , when the mortgage involves an exception to the owner occupancy principal residence requirement.
property with individual water purification equipment	Water Purification Equipment Rider when the equipment is permitted by 24 CFR 203.52 .

4155.2 6.B.4.g Additional Requirements for Cooperatives

Modify the property description in the [Model Mortgage Form](#) as needed to describe the property interest in a manner consistent with the language in the [Cooperative Rider](#).

The lender must determine if the [Model Mortgage Form](#) and [Cooperative Rider](#) will result in a first lien, as required by [24 CFR 203.43c\(e\)](#). If necessary to satisfy the requirement of this regulation, the lender must obtain additional security documents, such as a(n)

- Uniform Commercial Code (UCC) security agreement, and/or
- assignment of the borrower’s lease.

The lender should contact the FHA at the address provided in [HUD 4155.2 6.B.1.c](#) if the [Model Mortgage Form](#) and [Cooperative Rider](#) must be modified to establish the required first lien under applicable state law.

Note: The information in this topic supersedes the mortgage form instructions in [HUD 4240.3](#), paragraphs 1-12.

Continued on next page

4. Mortgage and Note Form Requirements in Special Circumstances, Continued

4155.2 6.B.4.h Model Note Form Allonge Requirements

The table below describes the allonges to prepare with the [Model Note Form](#).

When preparing documents for a ...	Use the Model Note Form along with the ...
graduated payment mortgage (GPM)	Graduated Payment Allonge Amending Note
growing equity mortgage (GEM)	<p>Growing Equity Allonge Amending Note</p> <p>Note: There is no Growing Equity rider for a GEM. If required by state law or as otherwise needed to ensure the enforceability and priority of the mortgage, ensure that the mortgage contains a payment schedule consistent with the schedule in the Growing Equity Allonge.</p> <p>Otherwise, the lender has the option of including such a schedule, and may recite the provisions of the note verbatim in a rider.</p>

4155.2 6.B.4.i Tax Exempt Financing

When using the [Tax Exempt Financing Rider](#), refer to HUD Notice 90-76 for

- instructions to request changes to the rider
- other instructions including a notice to be provided to the borrower, and
- guidance when involved in tax-exempt financing using qualified mortgage bonds as defined in the Internal Revenue Code, or any replacement guidance.

The [Tax Exempt Financing Rider](#) does *not* apply to financing through

- qualified veterans mortgage bonds, or
- other public or private mortgage bonds which are not qualified mortgage bonds.

Continued on next page

4. Mortgage and Note Form Requirements in Special Circumstances, Continued

**4155.2 6.B.4.j
Open End
Advances** Refer to [24 CFR 203.44](#) for relevant requirements for open end advances.

**4155.2 6.B.4.k
Home Equity
Conversion
Mortgage
(HECM)** Refer to [HUD 4235.1](#), *Section 255, Home Equity Conversion Mortgages*, for special instructions for mortgages and notes being used in the Home Equity Conversion Mortgage (HECM) program.

Reference: For more information on the HECM program, see [HUD 4155.2 1.C.17](#).

**4155.2 6.B.4.l
Combined
Construction
and Permanent
Loans** The FHA does not prescribe the terms or form of the [Construction Rider](#) when a single closing is used for an uninsured construction loan that will convert to an insured permanent loan when construction is completed.

Exception: All special construction terms do terminate when the construction loan converts to a permanent loan. After conversion to a permanent loan, only the permanent loan terms continue to be effective, using documents meeting the standard requirements.

5. Mortgage and Note Form Special Requirements for Specific States and Localities

Introduction

This topic contains information on special requirements for mortgage and note forms for specific states and localities, including

- applying state laws to mortgage and note forms, and
- special requirements for Northern Mariana Islands and American Samoa
- special requirements for Puerto Rico
- special requirements for Indian reservations
- special requirements for Iowa, North Dakota, and Wisconsin
- special requirements for South Dakota
- special requirements for New York and Maine
- special requirements for New York refinances
- special requirements for Pennsylvania
- special requirements for Texas, and
- special requirements for New Mexico.

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5. Mortgage and Note Form Special Requirements for Specific States and Localities, Continued

4155.2 6.B.5.a Applying State Laws to Mortgage and Note Forms

This section and the instructions for the model forms identify some specific adaptations of the model forms that are needed to comply with state laws. Other state laws may require adaptations. Lenders should consult the Fannie Mae and Freddie Mac instructions for guidance on meeting state law requirements when preparing mortgage and note forms.

The validity and enforceability of the mortgage and note depends on compliance with state law, even if such law is not reflected in this section. For this reason, FHA emphasizes the need for a lender to use mortgages and notes that comply with state law.

Reference: For information on lender responsibility for determining mortgage and note compliance, see [HUD 4155.2 6.B.1.c](#).

4155.2 6.B.5.b Special Requirements for Northern Mariana Islands or American Samoa

The [Model Mortgage Form](#) is not applicable to the Commonwealth of the Northern Mariana Islands or American Samoa.

Lenders intending to seek mortgage insurance in these jurisdictions should contact the FHA for further instructions.

Reference: For information on lender responsibility for determining mortgage and note compliance, see [HUD 4155.2 6.B.1.c](#).

4155.2 6.B.5.c Special Requirements for Puerto Rico

The lender should write mortgages, notes, riders and allonges for Puerto Rico in English, interlineated with Spanish, in the same manner as in the Fannie Mae/Freddie Mac forms.

A Spanish translation of required language for the [Model Mortgage Form](#) and [Model Note Form](#) is available from the

- Atlanta Homeownership Center (HOC), or
- HUD Caribbean Field Office.

Reference: For information on lender responsibility for determining mortgage and note compliance, see [HUD 4155.2 6.B.1.c](#).

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5. Mortgage and Note Form Special Requirements for Specific States and Localities, Continued

4155.2 6.B.5.d Special Requirements for Indian Reservations

If the mortgage is insured on Indian land under Section 248 of the National Housing Act, use the [Rider for Section 248 Mortgage](#) with the [Model Mortgage Form](#).

Use the [Construction Rider for Construction/Permanent Mortgage](#) if the Section 248 mortgage also secures a construction loan.

Reference: For information on lender responsibility for determining mortgage and note compliance, see [HUD 4155.2 6.B.1.c](#).

4155.2 6.B.5.e Special Requirements for Iowa, North Dakota, and Wisconsin

The [Model Mortgage Form](#) provides requirements for deficiency judgments. Iowa, North Dakota, and Wisconsin are exempted from these requirements because these states permit short-term redemption periods after foreclosure, if lenders waive their rights to deficiency judgments.

Since it is in its best interest to have a short-term redemption period, FHA requires that mortgages in these states contain the short-term redemption provisions described in the “Non-Uniform Covenants” of the most recently approved Fannie Mae/Freddie Mac mortgage forms, using

- Paragraph 23 for North Dakota and Wisconsin, and
- Paragraph 24 for Iowa.

The North Dakota mortgage must include the following text in bold type in the title: ***Short Term Mortgage Redemption***.

Reference: For information on lender responsibility for determining mortgage and note compliance, see [HUD 4155.2 6.B.1.c](#).

Continued on next page

5. Mortgage and Note Form Special Requirements for Specific States and Localities, Continued

**4155.2 6.B.5.f
Special
Requirements
for South
Dakota**

The table below describes the text that *must* be in the South Dakota mortgage.

Reference: For information on lender responsibility for determining mortgage and note compliance, see [HUD 4155.2 6.B.1.c](#).

Location	Required Text
Included in the Title	<i>One Hundred Eighty Day Redemption</i> in bold type.
Immediately after Paragraph 18	<i>Notice–The parties agree that the provisions of the one hundred eighty day redemption mortgage act govern this mortgage</i> in bold type.
Immediately after the Notice defined above	<p>The following language should be included:</p> <p><i>Borrower agrees that in the event of a foreclosure of this Security Instrument, by action the holder of the certificate of sale issued as a result of the foreclosure may apply to the appropriate court for a reduction of the redemption period if the mortgaged property has been abandoned by Borrower.</i></p> <p><i>Borrower agrees that if, after such notice to the parties as the court may direct, the court finds that the mortgaged property has been abandoned, then the redemption period may be reduced to a period of not less than 60 days from the date of recording of the certificate of sale issued as a result of the foreclosure of this Security Instrument.</i></p>

Continued on next page

5. Mortgage and Note Form Special Requirements for Specific States and Localities, Continued

4155.2 6.B.5.g Special Requirements for New York and Maine

The New York and Maine Fannie Mae/Freddie Mac mortgage forms are written in “plain English” style, which sometimes uses “I” instead of “Borrower.” When adding non-uniform covenants from the New York and Maine Fannie Mae/Freddie Mac forms to the [Model Mortgage Form](#)

- change “I” to “Borrower”, and
- make any necessary conforming verb changes.

The format and language for material preceding the “Uniform Covenants” should be based on the Fannie Mae/Freddie Mac forms for other states, provided that the language is in conformity with applicable law.

Reference: For information on lender responsibility for determining mortgage and note compliance, see [HUD 4155.2 6.B.1.c](#).

4155.2 6.B.5.h Special Requirements for New York Refinances

For New York, FHA permits a lender to modify and extend a previously recorded Security Instrument to secure new financing for the same property, instead of discharging the Security Instrument of record when prepaying existing financing.

The borrower and lender must execute a new note, and either a

- HUD-approved Modification Agreement for refinancing with no increase in principal amount, or
- [Form 3172](#), *Fannie Mae/Freddie Mac Consolidation, Extension and Modification Agreement* for other refinance situations.

Copies of the agreements are available from the HOCs. Lenders may use Form 3172, *Fannie Mae/Freddie Mac Form Consolidation, Extension and Modification Agreements* provided that the form is revised as follows:

- remove all references to “Fannie Mae/Freddie Mac” Notes, Uniform Instruments and Mortgages, and
- replace those references with “Federal Housing Administration.”

Reference: For information on lender responsibility for determining mortgage and note compliance, see [HUD 4155.2 6.B.1.c](#).

Continued on next page

5. Mortgage and Note Form Special Requirements for Specific States and Localities, Continued

4155.2 6.B.5.i
Special
Requirements
for
Pennsylvania

The *Certificate of Residence* is required at the end of the mortgage for Pennsylvania, by 21 P.S. Sec. 625. Use the following format for the *Certificate of Residence*.

<i>CERTIFICATE OF RESIDENCE</i>
<p>I, _____ do hereby certify that the correct address of the within-named lender is</p> <p>_____, witness my hand this _____ day of 2____.</p> <p>_____</p> <p>Agent of Lender</p>

Reference: For information on lender responsibility for determining mortgage and note compliance, see [HUD 4155.2 6.B.1.c](#).

Continued on next page

5. Mortgage and Note Form Special Requirements for Specific States and Localities, Continued

4155.2 6.B.5.j Special Requirements for Texas

The lender must delete Fannie Mae/Freddie Mac Paragraph 26, *Waiver of Notice of Intent to Accelerate* for Texas.

If Paragraph 26 is used, adapt the text since the reference in the paragraph is incorrect and omits FHA notice language.

Reference: For information on lender responsibility for determining mortgage and note compliance, see [HUD 4155.2 6.B.1.c](#).

4155.2 6.B.5.k Special Requirements for New Mexico

For New Mexico, lenders must use a state-specific Deed of Trust that they may create by using the most recently approved Fannie Mae/Freddie Mac New Mexico deed of trust introductory language with some deletions and non-uniform covenants. Lenders are required to make necessary adjustments in order to comply with state law and ensure enforceability of the security instrument.

When creating FHA mortgage forms for New Mexico, delete the following definitions from the Fannie Mae/Freddie Mac introductory language:

- loan
- riders
- applicable law
- community association dues, fees and assessments
- electronic funds transfer
- escrow items
- miscellaneous proceeds
- mortgage insurance
- periodic payment, and
- successor in interest of borrower.

Reference: For information on lender responsibility for determining mortgage and note compliance, see [HUD 4155.2 6.B.1.c](#).

Section C. Title Exceptions

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	General Information on Title Exceptions	6-C-2
2	Waiver of Objections to Title	6-C-4

1. General Information on Title Exceptions

Introduction This topic contains general information on title exceptions, including

- the FHA policy on objections to title for customary easements, restrictions, and encroachments, and
- correcting property address discrepancies.

Change Date December 23, 2010

**4155.2 6.C.1.a
FHA Policy on
Objections to
Title for
Customary
Easements,
Restrictions
and
Encroachments**

Lenders should ensure that any conditions of title to property are acceptable to the FHA. FHA will not object to title because of any common and customary easements, restrictions, encroachments, and other title matters listed in the General Waiver described in [24 CFR 203.389](#). Such matters are considered minor, and have no measurable adverse effect on value. For this reason

- FHA will not object to title in the event the property is conveyed or the mortgage is assigned to FHA
- it is unnecessary to contact FHA after endorsement to report the existence of title objections and other matters within the scope of the General Waiver
- the lender may rely on the opinion of its attorney concerning what is common and customary, rather than obtain a determination from FHA, and
- if a matter of title does not fall under the General Waiver, the lender must obtain a specific waiver of the defect from the appropriate [HOC](#).

Reference: For more information on lender responsibilities regarding title objections, see [HUD 4155.2 6.A.1.h](#).

Continued on next page

1. General Information on Title Exceptions, Continued

4155.2 6.C.1.b
Correcting
Property
Address
Discrepancies

To correct the property address after insurance endorsement, the lender must

- advise the Homeownership Center (HOC) that the street address shown on the application is incorrect, and
- provide the correct address.

The [HOC](#), in all instances, must determine that the underwriting conclusions were based on the correct property. If the change of address is acceptable, the appropriate [HOC](#) signs a statement on the lender's original letter, stating that an objection to title *will not* be made because of the change of street address, and returns the letter to the lender.

Note: The [HOC](#) may need to recall the endorsed uniform case binder from Central Records.

2. Waiver of Objections to Title

Introduction This topic contains information on requests for waivers of objections to title, including

- General Waiver for title conditions
 - processing requests for waivers of objection to title
 - title exceptions not covered by the General Waiver, and
 - processing group title exceptions.
-

Change Date December 23, 2010

**4155.2 6.C.2.a
General Waiver
for Title
Conditions** Under [24 CFR 203.389](#), the General Waiver serves to waive objection to title for customary easements, restrictions and encroachments, or to several specific title objections listed below. Lenders will not request waivers for exceptions specifically noted in this provision of the regulations. The General Waiver includes easements for

- public utilities
- party walls
- driveways, and
- encroachments on adjoining property by hedges, or wooden or wire fences belonging to the subject property.

Note: Refer to the [Code of Federal Regulations](#) (CFR) for the complete list.

Continued on next page

2. Waiver of Objections to Title, Continued

**4155.2 6.C.2.b
Processing
Requests for
Waivers of
Objection to
Title**

Requests for waivers of objection to title are processed by the appropriate Homeownership Center (HOC) as described in the table below.

If the request for waiver of objection to title is received ...	Then the appropriate HOC ...
<i>before</i> insurance endorsement	reviews and processes the request to the extent necessary
<i>after</i> insurance endorsement	<ul style="list-style-type: none"> • reviews the request to ensure that it is within the scope of the General Waiver • stamps the request “<i>Covered by the General Waiver, 24 CFR ...</i>”, and • returns the request to the lender.

Note: No records of requests for waivers of objection to title are kept in the [HOC](#), except for an appropriate notation made on the application, and the underwriting report, if the matter is considered prior to insurance endorsement.

Reference: For more information on title exception to correct discrepancies in property address, see [HUD 4155.2 6.C.1.b](#)

Continued on next page

2. Waiver of Objections to Title, Continued

4155.2 6.C.2.c Title Exceptions not Covered by the General Waiver

Waiver requests not covered by the General Waiver are classified into three groups, as described in the table below.

Request Group	Description
Group 1	Requests involving minor defects that do not impair marketability and value for residential purposes.
Group 2	Requests involving defects having a measurable affect on marketability and value. The existence of title defects in Group 2 does not render the title unmarketable, but may materially affect the value of the property and/or habitability of the home.
Group 3	Requests involving defects in Group 3 are of a character or magnitude that FHA would not accept the title in the event of an insurance claim.

4155.2 6.C.2.d Processing Group Title Exceptions

The table below contains policies for processing title exceptions for Groups 1, 2, and 3.

Group	Title Exception Processing Policy
Group 1	A Direct Endorsement (DE) lender may process and accept Group 1 minor title exceptions with FHA approval. Non- DE lenders must submit a waiver request to the appropriate HOC for review and approval. The HOC notifies the lender in writing when the request is approved.

Continued on next page

2. Waiver of Objections to Title, Continued

4155.2 6.C.2.d Processing Group Title Exceptions (continued)

Group	Title Exception Processing Policy
Group 2	<p>For Group 2 title exceptions, the DE lender submits the waiver request and documentation to the HOC for review.</p> <p>Generally, it is not necessary for the HOC to review the insured uniform case binder. When necessary, the HOC staff</p> <ul style="list-style-type: none"> • consults the General Counsel’s office for legal review of the request, and • notifies the lender in writing of the approval or denial of the request.
Group 3	Waivers for Group 3 title exceptions are not given.

Chapter 7. Mortgage Insurance Premiums (MIP)

1. Types of Mortgage Insurance Premiums (MIP)

Introduction This topic contains information on the types of mortgage insurance premiums (MIP), including

- the purpose of [MIP](#)
 - types of [MIP](#), and
 - locating additional information on [MIP](#).
-

Change Date November 19, 2010

4155.2 7.1.a Purpose of MIP Mortgage insurance premiums (MIP) are used to protect lenders against loss in the event of a foreclosure.

4155.2 7.1.b Types of MIP For most of its mortgage insurance programs, FHA collects an

- upfront mortgage insurance premium (UFMIP), and
- annual insurance premium, which is collected in monthly installments.

Note: The monthly premium varies by program, and based on the outstanding principal balance.

References: For more information on

- [UFMIPs](#), see [HUD 4155.2 7.2](#), and
 - annual [MIP](#), see [HUD 4155.2 7.3](#).
-

4155.2 7.1.c Locating Additional Information on MIP (Reference) For more information on [MIP](#), see

- [24 CFR 203.18c](#)
- [24 CFR 203.259 – 203.288](#), and
- [ML 2008-22](#).

2. Upfront Mortgage Insurance Premiums (UFMIP)

Introduction This topic contains information on upfront mortgage insurance premiums (UFMIP), including

- the [UFMIP](#) amount
 - the FHA policy on [UFMIP](#) payment
 - [UFMIP](#) late fees and interest
 - verification of [UFMIP](#) payment prior to insurance
 - [UFMIP](#) refunds
 - the [UFMIP](#) 5 year refund schedule
 - the [UFMIP](#) 7 year refund schedule
 - cases not endorsed after 18 months, and
 - the elimination of [UFMIP](#) refunds.
-

Change Date March 1, 2011

2. Upfront Mortgage Insurance Premiums (UFMIP), Continued

4155.2 7.2.a
Upfront
Mortgage
Insurance
Premium
(UFMIP)
Amount

Effective for loans with case numbers assigned on or after October 4, 2010, FHA has lowered its upfront mortgage insurance premium (UFMIP) for

- purchase money transactions, and
- refinance transactions, including
 - FHA-to-FHA credit-qualifying refinances, and
 - non-credit qualifying streamlined refinance transactions.

Exception: The upfront premium changes apply to all mortgages insured under FHA’s Single Family Insurance Programs *except* the following:

- Section 223(e), Declining Neighborhoods
- Section 238(c), Military Impact Areas in Georgia and New York
- Section 247, Hawaiian Homelands
- Section 248, Indian Reservations
- Section 255, Home Equity Conversion Mortgages (HECM)
- Title I, and
- HOPE for Homeowners (H4H).

The upfront premium is charged for all amortization terms as described in the table below.

MORTGAGE TYPE	UPFRONT PREMIUM REQUIREMENT
Purchase Money Mortgages and Full Credit Qualifying Refinances	100 BPS
Streamline Refinances (all types)	100 BPS

Reference: For information on [MIP](#) payment for [HECMs](#), see [HUD 4155.2 1.C.17.d](#), and [ML 10-34](#).

Continued on next page

2. Upfront Mortgage Insurance Premiums (UFMIP), Continued

4155.2 7.2.b UFMIP Payment Policy

The [UFMIP](#) remittance period begins on the date of loan settlement or the date of disbursement of the mortgage proceeds, whichever is later. Lenders must pay the [UFMIP](#) to FHA in a lump sum within 10 calendar days after a loan has closed.

The table below describes how the lender determines the mortgage amount based on whether the [UFMIP](#) is financed into the mortgage or paid in cash.

If the UFMIP is...	Then the mortgage amount must be...
entirely financed into the mortgage	rounded down to a whole dollar. <i>Exception:</i> If the borrower chooses to pay up to \$49.99 of the UFMIP in cash, the UFMIP is not reflected in the total mortgage amount.
paid entirely in cash	rounded down to a multiple of \$1.00.

The mortgage amount must be rounded down to a multiple of \$1.00, regardless of whether the [UFMIP](#) is financed or paid in cash.

The [UFMIP](#) amount, that is the total mortgage amount, is not considered when determining compliance with statutory loan limits or loan-to-value (LTV) limits. The base mortgage amount must comply with the requirements. The total mortgage amount may exceed the limit by the financed [UFMIP](#) amount.

Note: Any [UFMIP](#) amounts paid in cash are added to the total cash settlement amount.

References: For information on annual [MIP](#) for mortgages with terms

- more than 15 years, see [HUD 4155.2 7.3.e](#) and
- less than 15 years, see [HUD 4155.2 7.3.f](#).

Continued on next page

2. Upfront Mortgage Insurance Premiums (UFMIP), Continued

4155.2 7.2.c UFMIP Late Fees and Interest

The lender incurs a late fee if it pays the [UFMIP](#) beyond the FHA allowable number of days after closing.

If the [UFMIP](#) is paid more than 30 days after closing, the lender is assessed a late fee plus interest and must pay both charges before FHA will endorse the mortgage for insurance.

FHA reserves the right to take appropriate enforcement measures against lenders that remit [UFMIP](#) late, regardless of the lenders' payment of late fees and interest.

4155.2 7.2.d Verification of UFMIP Payment Prior to Insurance

For those cases requiring payment of a [UFMIP](#), FHA's Computerized Homes Underwriting Management System (CHUMS) verifies whether a lender has paid a sufficient [UFMIP](#). If the [UFMIP](#) amount received by FHA is not sufficient, the case cannot be insured.

4155.2 7.2.e UFMIP Refunds

Borrowers are entitled to a partial refund of the [UFMIP](#) paid at closing if their loan

- closed on or after January 1, 2001, and they were paying off (or refinancing) their FHA loan within 5 years from the date of closing, or
- closed on or after January 1, 1994, but before January 1, 2001, and they were paying off (or refinancing) their FHA loan within 7 years from the date of closing.

If the borrower is refinancing his/her current FHA loan to another FHA loan within 3 years, a refund credit may be applied to reduce the amount of the UFMIP paid on the refinanced loan.

Reference: For more information on

- specific [UFMIP](#) earnings factors and the
 - 5 year [UFMIP](#) refund schedule, see [HUD 4155.2 7.2.f](#), and
 - 7 year [UFMIP](#) refund schedule, see [HUD 4155.2 7.2.g](#), and
 - [UFMIP](#) and annual [MIP](#) amounts, see
 - [HUD 4155.2 7.3.e](#), and
 - [HUD 4155.2 7.3.f](#).
-

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2. Upfront Mortgage Insurance Premiums (UFMIP), Continued

4155.2 7.2.f Below is the 5 year UFMIP refund schedule with [UFMIP](#) earnings factors.
UFMIP 5 Year
Refund
Schedule

FHA MMI FUND												
UPFRONT PREMIUM EARNING FACTORS FOR												
ALL MORTGAGE TERMINATIONS AND REFINANCES												
CLOSED ON OR AFTER JANUARY 1, 2001												
Year	Month of Year											
	1	2	3	4	5	6	7	8	9	10	11	12
1	0.9750	0.9500	0.9250	0.9000	0.8750	0.8500	0.8333	0.8167	0.8000	0.7833	0.7667	0.7500
2	0.7333	0.7167	0.7000	0.6833	0.6667	0.6500	0.6333	0.6167	0.6000	0.5833	0.5667	0.5500
3	0.5333	0.5167	0.5000	0.4833	0.4667	0.4500	0.4333	0.4167	0.4000	0.3833	0.3667	0.3500
4	0.3333	0.3167	0.3000	0.2833	0.2667	0.2500	0.2375	0.2250	0.2125	0.2000	0.1875	0.1750
5	0.1625	0.1500	0.1375	0.1250	0.1125	0.1000	0.0833	0.0667	0.0500	0.0333	0.0167	0.0000

4155.2 7.2.g Below is the 7 year [UFMIP](#) refund schedule with [UFMIP](#) earnings factors.
UFMIP 7 Year
Refund
Schedule

FHA MMI FUND												
UPFRONT PREMIUM EARNING FACTORS FOR												
ALL MORTGAGE TERMINATIONS AND REFINANCES												
CLOSED ON OR AFTER JANUARY 1, 1994 TO DECEMBER 31, 2000												
Year	Month of Year											
	1	2	3	4	5	6	7	8	9	10	11	12
1	0.9917	0.9833	0.9750	0.9667	0.9583	0.9500	0.9417	0.9333	0.9250	0.9167	0.9083	0.9000
2	0.8917	0.8833	0.8750	0.8687	0.8583	0.8500	0.8417	0.8333	0.8250	0.8167	0.8083	0.8000
3	0.7835	0.7870	0.7505	0.7340	0.7175	0.7010	0.6845	0.6680	0.6515	0.6350	0.6185	0.6020
4	0.5840	0.5660	0.5480	0.5300	0.5120	0.4940	0.4760	0.4580	0.4400	0.4220	0.4040	0.3860
5	0.3720	0.3580	0.3440	0.3300	0.3160	0.3020	0.2880	0.2740	0.2600	0.2450	0.2320	0.2188
6	0.2068	0.1967	0.1845	0.1733	0.1622	0.1510	0.1398	0.1287	0.1175	0.1083	0.0952	0.0840
7	0.0770	0.0700	0.0630	0.0560	0.0490	0.0420	0.0350	0.0280	0.0210	0.0140	0.0070	0.0000

Continued on next page

2. Upfront Mortgage Insurance Premiums (UFMIP), Continued

**4155.2 7.2.h
Cases Not
Endorsed After
18 Months**

If a case is not endorsed within 18 months of closing/payment of the [UFMIP](#), the lender is warned, by mail, of a pending refund and is advised to take action on the case.

If the lender

- takes no action, which means that it does not wish to seek insurance, the system generates a refund, or
- wishes to *take action* and seek insurance, the lender is required to contact its [MIP](#) representative for instructions on re-applying the refund.

After the funds have been re-applied, the lender must contact the Homeownership Center (HOC) and request that the case be reinstated. After reinstatement of the case, the lender must forward the case to the appropriate [HOC](#) for insuring.

**4155.2 7.2.i
Elimination of
UFMIP
Refunds**

Effective for those mortgages endorsed for insurance on or after December 8, 2004, Section 223 of the Consolidated Appropriations Act 2005 amended Section 203(c)(2)(A) of the National Housing Act to eliminate refunds of the [UFMIP](#) except when a borrower refinances to another mortgage to be insured by FHA.

The refund schedule for those borrowers who refinance to another FHA-insured mortgage is modified to a 3 year time period, as shown in the table below.

Upfront Mortgage Insurance Premium Refund Percentages												
Month of Year												
Year	1	2	3	4	5	6	7	8	9	10	11	12
1	80	78	76	74	72	70	68	66	64	62	60	58
2	56	54	52	50	48	46	44	42	40	38	36	34
3	32	30	28	26	24	22	20	18	16	14	12	10

3. Annual Mortgage Insurance Premiums (MIP)

- Introduction** This topic contains information on annual mortgage insurance premiums (MIP), including
- annual [MIP](#) payment policy
 - assessment of late fees and interest charges
 - automatic cancellation of the annual [MIP](#)
 - determining when a borrower has reached the loan-to-value (LTV) ratio for annual [MIP](#) cancellation
 - UFMIP and annual MIP for mortgages with terms more than 15 years
 - [UFMIP](#) and annual [MIP](#) for mortgages with terms less than 15 years, and
 - example of annual MIP increase.
-

Change Date March 1, 2011

Continued on next page

3. Annual Mortgage Insurance Premiums (MIP), Continued

4155.2 7.3.a Annual MIP Payment Policy

In addition to the [UFMIP](#) described in [HUD 4155.2 7.2](#), certain mortgages require the payment of an annual premium. The amount of the annual premium is based on the loan-to-value (LTV) ratio and the term of the mortgage.

For programs that require a monthly [MIP](#), FHA must receive payment by the 10th of the month.

Effective April 18, 2011, FHA has increased annual MIPs for forward mortgage amortization terms by 25 basis points.

Exception: This increase applies to all mortgages insured under FHA's Single Family Mortgage Insurance Programs *except*

- Section 223(e), Declining Neighborhoods
- Section 238(c), Military Impact Areas in Georgia and New York
- Section 247, Hawaiian Homelands
- Section 248, Indian Reservations
- Section 255, Home Equity Conversion Mortgages (HECM)
- Title I, and
- HOPE for Homeowners (H4H).

4155.2 7.3.b Assessment of Late Fees and Interest Charges

If the monthly [MIP](#) payment is received

- after the 10th of the month, the lender is assessed a late charge, and
- 30 days or more after loan closing, the lender is assessed interest charges in addition to the late fee.

Continued on next page

3. Annual Mortgage Insurance Premiums (MIP), Continued

**4155.2 7.3.c
Automatic
Cancellation of
the Annual
MIP**

For loans closed on or after January 1, 2001, FHA's annual [MIP](#) is automatically cancelled under the conditions outlined in the table below.

Note: This [MIP](#) cancellation provision *only* applies to loans with a [UFMIP](#).

For mortgages with ...	The annual MIP is ...
terms <i>more</i> than 15 years	<p>cancelled when the LTV ratio reaches 78%, provided the borrower has paid the annual MIP for at least five years.</p> <p>References:</p> <ul style="list-style-type: none"> • For information on how FHA determines when a borrower has reached the 78% LTV ratio, see HUD 4155.2 7.3.d. • For more information on UFMIP and annual MIP for mortgages with terms <i>more</i> than 15 years, see HUD 4155.2 7.3.e.
<ul style="list-style-type: none"> • terms 15 years and less, and • LTV ratios 90% and greater 	<p>cancelled when the LTV ratio reaches 78%, regardless of the length of time the borrower has paid the annual MIP.</p> <p>Reference: For more information on UFMIP and annual MIP for mortgages with terms <i>less</i> than 15 years, see HUD 4155.2 7.3.f.</p>

Continued on next page

3. Annual Mortgage Insurance Premiums (MIP), Continued

4155.2 7.3.c Automatic Cancellation of the Annual MIP (continued)

For mortgages with ...	The annual MIP is ...
<ul style="list-style-type: none"> • terms 15 years and less, and • LTV ratios of 89.99% and less 	not charged.

Notes:

- Although the annual [MIP](#) is cancelled as described above, the contract of insurance remains in force for the loan’s full term.
- Cancellation of the annual [MIP](#) is normally based on the scheduled amortization of the loan. However, in cases where the loan payments have been accelerated or modified, cancellation can be based on the actual amortization of the loan as provided to FHA by the servicing lender.
- Mortgage insurance may be terminated via payment in full, conveyance for insurance benefits, or voluntary termination upon agreement between the borrower and lender.

Reference: For more information on [MIP](#) cancellation and how FHA determines when a borrower has reached the 78% LTV ratio, see [HUD 4155.2 7.3.d](#).

Continued on next page

3. Annual Mortgage Insurance Premiums (MIP), Continued

**4155.2 7.3.d
Determining
When a
Borrower Has
Reached the
LTV Ratio for
Annual MIP
Cancellation**

FHA determines when a borrower has reached the 78% [LTV](#) ratio based on the *lesser* of the

- sales price, or
- appraised value at origination (new appraised values will not be considered).

Example: If the lesser of the sales price or appraised value at origination is \$100,000, when the loan amount reaches \$78,000 FHA no longer collects an annual [MIP](#) on the loan.

Reference: For additional information on [LTV](#) ratios, see [HUD 4155.1 2.A.](#)

**4155.2 7.3.e
UFMIP and
Annual MIP
for Mortgages
With Terms
More Than 15
Years**

For traditional purchase and refinance products, the annual premium is remitted on a monthly basis, and is charged on the initial [LTV](#) ratio and the length of the mortgage according to the schedule in the table below.

The table below contains [UFMIP](#) and annual [MIP](#) information for mortgages with terms more than 15 years.

Mortgage Insurance Premiums		
Loans > 15 years		
UFMIP = 100 bps	Annual Premium	
LTV	Through 4/17/2011	On/After 4/18/2011
≤ 95.00%	85 bps	110 bps
> 95.00 %	90 bps	115 bps

Continued on next page

3. Annual Mortgage Insurance Premiums (MIP), Continued

**4155.2 7.3.f
UFMIP and
Annual MIP
for Mortgages
With Terms
Less Than 15
Years**

The table below contains [UFMIP](#) and annual [MIP](#) information for mortgages with terms 15 years or less.

Mortgage Insurance Premiums		
Loans ≤ 15 years		
UFMIP = 100 bps	Annual Premium	
LTV	Through 4/17/2011	On/After 4/18/2011
≤ 90.00 %	None	25 bps
> 90.00 %	25 bps	50 bps

Continued on next page

3. Annual Mortgage Insurance Premiums (MIP), Continued

4155.2 7.3.g
Example:
Annual MIP
Increase

The table below provides an example of the change/increase in the annual MIP calculation.

Example of Annual Mortgage Insurance Premium Increase 30 year Term		
Average Loan	> 95% LTV	
	October 2010 90 bps	April 2011 115 bps
Sales Price	\$163,000	\$163,000
Minimum Downpayment (3.5%)	\$5,705	\$5,705
Mortgage Amount without UFMIP	\$157,295	\$157,295
FHA Annual MIP (monthly payment)	\$118	\$151
Change in payment (monthly)	---	\$33

4. Risk Based Premiums for FHA Mortgage Insurance

Change Date May 10, 2009

**4155.2 7.4.a
FHA Policy on
Risk Based
Premiums**

FHA implemented risk based premiums on one to four unit single family mortgages effective with new FHA case number assignments on or after July 14, 2008. The premiums were based solely on the prospective borrower's credit bureau score and the loan-to-value ratio.

Effective October 1, 2008, however, FHA announced a moratorium on the implementation of the risk based premium policy.

References: For more information on

- risk based premiums for loans originated between July 14, 2008 and October 1, 2008, see [ML 08-16](#), and
 - the moratorium on the risk based premium policy, see [ML 08-22](#).
-

Section A. Mortgage Loan Submission and Endorsement Process

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	Overview of the Loan Submission and Endorsement Process	8-A-2
2	Requirements for LI Lender Pre-Insurance Review	8-A-9

1. Overview of the Loan Submission and Endorsement Process

Introduction This topic contains an overview of the loan submission and endorsement process, including

- loan submission and endorsement process for non-LI lenders, and
 - loan submission and endorsement process for LI lenders.
-

Change Date December 23, 2010

**4155.2 8.A.1.a
Loan
Submission and
Endorsement
Process for
Non-LI
Lenders** The table below describes the steps that a lender that is not eligible for participation in the Lender Insurance (LI) Program must follow when submitting and endorsing a loan for FHA insurance.

Stage	Description
1	After closing a loan with a borrower, the lender completes the Insurance Application function in the FHA Connection (FHAC).

Continued on next page

1. Overview of the Loan Submission and Endorsement Process, Continued

Loan Submission and Endorsement Process for Non-LI Lenders (continued)

Stage	Description
2	<p>The lender</p> <ul style="list-style-type: none"> • prepares the case binder, making sure all necessary documents are placed in the case binder in the required stacking order, and • submits the case binder to the appropriate Homeownership Center (HOC) in hard copy form in the appropriate FHA case binder (buff-colored for non-LI participants). <p>Reference: For more information on preparation and submission of the case binder, see HUD 4155.2 8.B.</p>
3	<p>Upon receipt of the case binder, the HOC</p> <ul style="list-style-type: none"> • logs receipt of the binder into the Computerized Home Underwriting System (CHUMS)/FHAC, and • performs a pre-endorsement review, ensuring that all necessary forms are present and executed, and that the binder is acceptable.

Continued on next page

1. Overview of the Loan Submission and Endorsement Process, Continued

Loan Submission and Endorsement Process for Non-LI Lenders (continued)

Stage	Description
4	<p>If the loan/case binder is</p> <ul style="list-style-type: none"> • <i>acceptable</i>, the HOC issues an electronic Mortgage Insurance Certificate (MIC) in FHAC that the lender may print as needed, or • <i>unacceptable/ineligible</i> for insurance endorsement as received, the HOC <ul style="list-style-type: none"> – issues an electronic <i>Non-Endorsement Notice</i>, (commonly known as the Notice of Return (NOR)) to the lender – prints a copy for the FHA case binder, and – mails the case binder back to the lender for corrective action. <p>Note: The lender may resubmit the case binder for insurance endorsement reconsideration, in which case the process would begin again at Stage 2.</p> <p>Reference: For more information on the</p> <ul style="list-style-type: none"> • MIC, see HUD 4155.2 8.C.6 • FHA Connection, see <ul style="list-style-type: none"> – HUD 4155.2 1.D, and – the FHA Connection User Guide, available at https://entp.hud.gov/idapp/html/mrtg-pkg.cfm.
5	<p>To ensure that lenders understand and comply with FHA requirements, the HOC chooses selected case binders for post endorsement technical review (PETR) by HOC staff.</p> <p>References: For more information on PETRs, see</p> <ul style="list-style-type: none"> • HUD 4155.2 8.C.1.e, and • HUD 4155.2 9.B.1

Continued on next page

1. Overview of the Loan Submission and Endorsement Process, Continued

**4155.2 8.A.1.b
Loan
Submission and
Endorsement
Process for LI
Lenders**

The table below describes the process that Direct Endorsement (DE) lenders approved to participate in the [LI](#) Program must follow to submit and endorse a mortgage loan for FHA insurance.

References: For more information on

- eligibility for the [LI](#) Program, see [HUD 4155.2 2.C.](#)
- endorsement processing for [LI](#) lenders, see [HUD 4155.2 8.C.3.](#)
- the Lender Insurance Guide, see <http://www.hud.gov/offices/hsg/sfh/lender/guide071907.pdf>.

Stage	Description
1	After closing a loan with a borrower, the lender completes the Insurance Application function in the FHA Connection (FHAC).
2	The lender completes a pre-insurance review to ensure that the loan is in compliance with all applicable HUD requirements. Reference: For more information on lender pre-insurance reviews, see HUD 4155.2 8.A.2

Continued on next page

1. Overview of the Loan Submission and Endorsement Process, Continued

Loan Submission and Endorsement Process for LI Lenders (continued)

Stage	Description
3	<p data-bbox="553 539 1398 611">As a Lender Insurance (LI) Program participant, after completing the Insurance Application function in the FHAC, the lender</p> <ul data-bbox="553 653 1414 825" style="list-style-type: none"><li data-bbox="553 653 1414 724">• insures the mortgage and stores the origination file as required by regulations, or<li data-bbox="553 724 1414 825">• receives a severe warning that prevents insurance endorsement, and FHA requests the case binder. Stage 4 provides instructions on preparing the case binder for submission.

Continued on next page

1. Overview of the Loan Submission and Endorsement Process, Continued

Loan Submission and Endorsement Process for LI Lenders (continued)

Stage	Description
4	<p>The lender</p> <ul style="list-style-type: none"> • prepares the case binder, making sure that all necessary documents are placed in the case binder in the required stacking order, and • submits the case binder to the appropriate Homeownership Center (HOC) either <ul style="list-style-type: none"> – in hard copy form in the appropriate FHA case binder (yellow for LI participants), or – electronically, if the lender is approved for electronic submission. <p>Reference: For more information on preparation and submission of the case binder, see HUD 4155.2 8.B.7</p>
5	<p>Upon receipt of the hard copy or electronic case binder (eCB), the HOC routes the binder appropriately. If the case binder contains a loan that is</p> <ul style="list-style-type: none"> • <i>not insured</i> due to a severe warning, the <ul style="list-style-type: none"> – HOC routes the binder for review and insurance, and – process continues with Stage 6, or • <i>insured</i>, but requires technical review, then the <ul style="list-style-type: none"> – HOC forwards the binder for underwriting (technical) review, and – process continues with Stage 7. <p>Reference: For more information on loan endorsement processing, see HUD 4155.2 8.C.</p>

Continued on next page

1. Overview of the Loan Submission and Endorsement Process, Continued

Loan Submission and Endorsement Process for LI Lenders (continued)

Stage	Description
6	<p>If, upon review, the case binder is</p> <ul style="list-style-type: none"> • <i>acceptable</i>, the HOC issues an electronic MIC in the FHAC that the lender may print as needed, or • <i>unacceptable/ineligible</i> for insurance endorsement as received, the HOC <ul style="list-style-type: none"> – issues an electronic <i>Non-Endorsement Notice</i>, (commonly known as the Notice of Return (NOR)) to the lender – prints a copy for the FHA case binder, and – mails the case binder back to the lender for corrective action. <p>Note: The lender may resubmit the case binder for insurance endorsement reconsideration, in which case the process would begin again at Stage 2.</p> <p>References: For more information on the</p> <ul style="list-style-type: none"> • MIC, see HUD 4155.2 8.C.5 • FHA Connection, see <ul style="list-style-type: none"> – HUD 4155.2 1.D, and – the FHA User Guide on the FHA Connection, available at https://entp.hud.gov/idapp/html/mrtg-pkg.cfm, and • Lender Insurance Guide, see http://www.hud.gov/offices/hsg/sfh/lender/guide071907.pdf.
7	<p>To ensure that lenders understand and comply with FHA requirements, the HOC chooses selected case binders for post endorsement technical review (PETR) by its staff.</p> <p>References: For more information on PETRs, see</p> <ul style="list-style-type: none"> • HUD 4155.2 8.C.1.e, and • HUD 4155.2 9.B.1

2. Requirements for LI Lender Pre-Insurance Review

Introduction on requirements for Lender Insurance (LI) lender pre-insurance review, including

- the FHA policy on LI lender pre-insurance review, and
 - required elements of the lender pre-insurance review.
-

Change Date December 23, 2010

**4155.2 8.A.2.a
FHA Policy on
LI Lender Pre-
Insurance
Review**

LI approval does not alleviate a lender's responsibility for completion of a pre-insurance review, nor does the pre-insurance review negate the lender's obligation to ensure that a loan is in compliance with all applicable HUD requirements.

FHA policy *prohibits* the same staff who originated or underwrote the mortgage for insurance from completing the pre-insurance review.

References: For more information on

- LI Program eligibility & application, see [HUD 4155.2 2.C](#)
 - LI endorsement processing, see [HUD 4155.2 8.C.3](#)
 - LI case binder submission, see [HUD 4155.2 8.B.7](#), and
 - LI lender submission requirements for case binders selected for [PETR](#), see [HUD 4155.2 9.B.1.d](#), and
 - the Lender Insurance Guide, see <http://www.hud.gov/offices/hsg/sfh/lender/guide071907.pdf>.
-

Continued on next page

2. Requirements for LI Lender Pre-Insurance Review, Continued

4155.2 8.A.2.b Required Elements of the Lender Pre- Insurance Review

In addition to certifying that the lender has retained all origination documents in either electronic or paper format, the pre-insurance review must include

- verification that the loan is current for the month preceding submission, for any loan logged for [LI](#) more than 60 days after loan closing
 - a review of the note and security instrument ensuring that the
 - documents were executed on forms that meet HUD’s requirements
 - mortgage maturity meets the requirements of the applicable program, and
 - stated mortgage amount does not exceed the maximum mortgage amount for the area
 - a review of Page 3 of form [HUD-92900-A](#), *HUD/VA Addendum to Uniform Residential Loan Application*, for execution of all appropriate certifications by the underwriter or lender representative
 - a review of the property appraisal and any additional documentation supporting the appraised value
 - a review of form [HUD-92544](#), *Warranty of Completion*, for proposed construction cases
 - an executed form [HUD-92561](#), *Borrower’s Contract With Respect to Hotel and Transient Use of Property*, for all 2-4 unit properties
 - a certificate of intent to occupy by military personnel, when applicable
 - an approval letter from the local health authority indicating approval of the individual water or sewer system, when applicable
 - on proposed construction, and if the mortgage exceeds 90% loan-to-value (LTV) ratio, evidence that the borrower qualifies for a higher ratio loan under one of the applicable provisions in the appropriate regulations
 - verification that no mortgage insurance premium (MIP), late charge or interest is due, and
 - clearance of all applicable case warning messages.
-

Section B. Case Binder Preparation, Submission and Retention

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	General Information on Case Binder Preparation, Submission and Retention	8-B-2
2	Case Binder Assembly Requirements: Direct Endorsement (DE) Cases	8-B- 5
3	Case Binder Assembly Requirements: DE Home Equity Conversion Mortgage (HECM) Cases	8-B-11
4	Requirements for Case Binder Submission by a Lender Other Than the Originating Lender	8-B-17
5	Requirements for Case Binder Submission by a Lender With Conditional DE Approval	8-B-20
6	Requirements for Case Binder Submission for HUD/FHA Employee Cases	8-B-22
7	Submission of Case Binders by Lenders Participating in the LI Program	8-B-23

1. General Information on Case Binder Preparation, Submission and Retention

Introduction	<p>This topic contains general information on case binder preparation, submission and retention, including</p> <ul style="list-style-type: none"> • lender initiation of the endorsement process • timeframe for lender submission of the uniform case binder • requirements when there are delays in the uniform case binder submission • uniform case binder requirements • use of copies in the uniform case binder, and • case binder retention requirements.
Change Date	December 23, 2010
4155.2 8.B.1.a Lender Initiation of the Endorsement Process	<p>To initiate the insurance endorsement process, the lender must</p> <ul style="list-style-type: none"> • complete the Insurance Application function in the FHA Connection (FHAC), and • send the case binder, with all of the necessary documents, to the appropriate Homeownership Center (HOC). <p><i>Note:</i> The lender is responsible for ensuring that the FHAC data is supported by file documentation provided in the case binder.</p>
4155.2 8.B.1.b Timeframe for Lender Submission of the Uniform Case Binder	<p>For lenders not participating in the Lender Insurance (LI) program, the appropriate HOC must receive uniform case binders for endorsement within 60 days of loan settlement or funds disbursement, whichever is later.</p> <p>If the HOC is closed on the 60th day, the first business day thereafter is considered the 60th day.</p> <p><i>Notes:</i></p> <ul style="list-style-type: none"> • The date of entry into the Computerized Homes Underwriting Management System (CHUMS) indicates receipt of the case. • Cases received after the 60th day must follow procedures for late requests for endorsement as described in HUD 4155.2 8.C.7.

Continued on next page

1. General Information on Case Binder Preparation, Submission and Retention, Continued

4155.2 8.B.1.c Requirements When There Are Delays in Uniform Case Binder Submission

When there is a delay in submitting the case binder or in closing the loan, the lender must comply with FHA's policy on late requests for endorsement as described in [HUD 4155.2 8.C.7](#).

4155.2 8.B.1.d Uniform Case Binder Requirements

Lenders must prepare and submit a uniform case binder to the appropriate [HOC](#).

The case binders, which the lender must purchase from private sources, must

- meet FHA specifications, and
- contain documents arranged as described in [HUD 4155.2 8.B.2](#).

The lender must

- complete the front of the binder, and
- write the case number on the side and bottom tabs of the binder.

The lender may use the remaining space on the side tab for its own use (for example, to enter the borrower's name and address, and the loan number).

Reference: For information on case binder assembly requirements for

- [DE HECM](#) cases, see [HUD 4155.2 8.B.3](#)
- cases submitted by a lender other than the originating lender, see [HUD 4155.2 8.B.4](#)
- cases submitted by a lender with conditional [DE](#) approval, see [HUD 4155.2 8.B.5](#), or
- cases for HUD/FHA employees, see [HUD 4155.2 8.B.6](#).

Continued on next page

1. General Information on Case Binder Preparation, Submission and Retention, Continued

4155.2 8.B.1.e Use of Copies in the Uniform Case Binder

FHA considers all documents submitted in the uniform case binder as certified and true copies of the original documents. Therefore, it is not necessary for the lender to

- stamp or otherwise mark that the documents in the case binder are certified and true copies, or
- submit any separate certification for the documents.

The lender may submit in the case binder legible photocopies of the original documents or legible printed copies of imaged or electronic documents.

4155.2 8.B.1.f Case Binder Retention Requirements

Lenders must maintain their origination case binders in either hard copy or electronic format for a period of two years from the date of endorsement. Servicing lenders must maintain the case binder for a period of two years beyond the life of the loan.

2. Case Binder Assembly Requirements: Direct Endorsement (DE) Cases

Introduction This topic contains information on case binder assembly requirements for Direct Endorsement (DE) cases, including

- when to submit [DE](#) cases, and
- requirements for the right and left sides of the DE case binder.

Change Date December 23, 2010

4155.2 8.B.2.a
When to Submit DE Cases The lender submits Direct Endorsement (DE) cases for insurance endorsement after loans are closed. The submitting lender must ensure that all documentation is appropriate and conforms to FHA’s requirements. The lender must

- assemble the processing and closing documents, and
- place the documents in the case binder in the order described in [HUD 4155.2 8.B.2.b](#).

4155.2 8.B.2.b
DE Case Binder Document Requirements The table below describes the order of documents in the DE case binder.

Left Side of Binder	Right Side of Binder
Form HUD-92300 , <i>Mortgage Assurance of Completion</i>	<ul style="list-style-type: none"> • Screen print of Insurance Application screen from FHA Connection (FHAC) showing that the insurance information was accepted by FHAC. • <i>Automated Underwriting Feedback Certificate/Findings Report</i>, if applicable

Continued on next page

2. Case Binder Assembly Requirements: Direct Endorsement (DE) Cases, Continued

4155.2 8.B.2.b DE Case Binder Document Requirements (continued)

Left Side of Binder	Right Side of Binder
<ul style="list-style-type: none"> • Form HUD-92051, <i>Compliance Inspection Report</i>, or other applicable documentation, and • evidence of satisfaction of valuation conditions, if applicable. 	<p><i>Request for Late Endorsement</i>, if applicable.</p> <p><i>Note:</i> The request must be in compliance with HUD 4155.2 8.C.7.</p>
<ul style="list-style-type: none"> • Form NPCA-1, <i>Wood Destroying Insect Infestation Report</i>, or • State mandated infestation report, if applicable 	<p>HUD-92900-LT, <i>FHA Loan Underwriting and Transmittal Summary</i>, with supporting documents, such as</p> <ul style="list-style-type: none"> • Section 203(k) – HUD-92700, <i>Maximum Mortgage Worksheet</i> • Energy Efficient Mortgage (EEM) and/or Section 203(h) program documentation, if applicable • Secondary lien exhibits • Buydown agreements • Attachments, memos and clarifications, if applicable

Continued on next page

2. Case Binder Assembly Requirements: Direct Endorsement (DE) Cases, Continued

4155.2 8.B.2.b DE Case Binder Document Requirements (continued)

Left Side of Binder	Right Side of Binder
<p>Local Health Authority’s Approval for individual water and sewer systems, if applicable</p>	<ul style="list-style-type: none"> • Copy of the note and all applicable riders and allonges • Copy of the security instrument with all applicable riders
<p>New Construction Exhibits:</p> <ul style="list-style-type: none"> • Form HUD-92541, <i>Builder’s Certification</i> • Form HUD-92544, <i>Warranty of Completion of Construction</i> • Evidence of 10-Year Warranty Plan Coverage, if applicable • Inspection Report(s) <ul style="list-style-type: none"> – Form HUD-92051, <i>Compliance Inspection Report</i> – VA-26-1839, <i>Compliance Inspection Report</i>, for Department of Veteran Affairs (VA) loans – VA 26-1843a, <i>Master Certificate of Reasonable Value (MCRV)</i>, or – HUD-approved local building authority inspection, if applicable • NPCA-99a and NPCA-99b, <i>Subterranean Termite Treatment Report</i> 	<ul style="list-style-type: none"> • Form HUD-1, <i>Settlement Statement</i> • HUD-1 Addendum (for purchases) that complies with HUD 4155.2 6.A.4 • Good Faith Estimate (GFE) <p><i>Note:</i> When more than one GFE is issued, all prior GFEs must also be contained in the case binder. This additional documentation will become part of the pre-endorsement review conducted by FHA staff or the LI lender.</p>

Continued on next page

2. Case Binder Assembly Requirements: Direct Endorsement (DE) Cases, Continued

4155.2 8.B.2.b DE Case Binder Document Requirements (continued)

Left Side of Binder	Right Side of Binder
Form HUD-92800.5b , <i>Statement of Appraised Value</i> (Conditional Commitment)	<ul style="list-style-type: none"> • Fannie Mae Form 1003, <i>Uniform Residential Loan Application</i> (URLA), and • Form HUD-92900-A, <i>HUD/VA Addendum to Uniform Residential Loan Application</i>

Continued on next page

2. Case Binder Assembly Requirements: Direct Endorsement (DE) Cases, Continued

4155.2 8.B.2.b DE Case Binder Document Requirements (continued)

Left Side of Binder	Right Side of Binder
<p>Comprehensive Valuation Package (CVP):</p> <ul style="list-style-type: none"> • Fannie Mae form 1004, <i>Uniform Residential Appraisal Report</i> (URAR) • Location map, and photographs of properties, building sketch • VA CRV-VA-26-1841 and MCRV-VA-26-1843a, including all attachments and endorsements, if applicable <p><i>Note:</i> Staple a second copy of the complete CVP and place loose in the binder. A second copy of the appraisal report is no longer required, as per the revision to FHA Appraisal Protocol – ML 05-48.</p>	<p>Credit and Capacity Documentation</p> <ul style="list-style-type: none"> • Credit history documentation • Asset Verification documentation (including gift letters and relevant documents) • Income verification documentation
<p>--</p>	<p>Evidence of</p> <ul style="list-style-type: none"> • Social Security Number (SSN) (such as a printed pay stub, W-2, 1099, Social Security card, Medicare card, etc), or • Tax Identification Number (TIN) for non-profit borrowers.

Continued on next page

2. Case Binder Assembly Requirements: Direct Endorsement (DE) Cases, Continued

4155.2 8.B.2.b DE Case Binder Document Requirements (continued)

Left Side of Binder	Right Side of Binder
<p>Specialized Eligibility Documents (to include, but not limited to):</p> <ul style="list-style-type: none"> • Section 203(k): Rehabilitation Agreement, Work Write-ups, Cost Estimates, form HUD 9746-A, <i>Draw Request</i>, form HUD 92700-A, 203(k) <i>Borrower's Acknowledgment</i>, Borrower's Identity of Interest Certification, Homeowner/Contractor Agreement(s), and 203(k) Consultant Identity- of-Interest Statement • Form HUD-92561, <i>Borrower's Contract with Respect to Hotel and Transient Use of Property</i> • Condominiums–Occupancy Certification regarding 51% owner occupancy 	--
<p>Purchase Contract (if applicable), with all accompanying documents</p> <ul style="list-style-type: none"> • Amendatory Clause executed by all parties • Real Estate Certification executed by all parties • All other contract addenda • Escrow Instructions, if applicable 	--

3. Case Binder Assembly Requirements: DE Home Equity Conversion Mortgage (HECM) Cases

Change Date December 23, 2010

4155.2 8.B.3.a HECM Case Binder The table below describes the order of documents for the Direct Endorsement (DE) Home Equity Conversion Mortgage (HECM) case binder.

Document Requirements *Note:* When recorded originals are received after endorsement, the appropriate Homeownership Center (HOC) should forward these documents to the Asset Management staff to be joined with the certified copy previously provided by the lender.

Left Side of Binder	Right Side of Binder
Choice of insurance options (Assignment or Shared Premium)	<i>Request for Late Endorsement</i> , if applicable.
Copy of Form HUD-92800.5b , <i>Conditional Commitment</i> <i>Direct Endorsement</i> <i>Statement of Appraised Value</i>	Evidence of the borrower’s age.

Continued on next page

3. Case Binder Assembly Requirements: DE Home Equity Conversion Mortgage (HECM) Cases, Continued

4155.2 8.B.3.a HECM Case Binder Document Requirements (continued)

Left Side of Binder	Right Side of Binder
<p>If applicable, copy of form HUD-92051, <i>Compliance Inspection Report</i>.</p> <p><i>Note:</i> This form is used in conjunction with the Repair Rider and certifies that required repairs have been completed.</p>	<ul style="list-style-type: none"> • Certified true copy of <i>Form</i> HUD-92902, <i>Certificate of HECM Counseling</i> – received from a HUD approved counseling agency and signed by the borrower and counselor. • Evidence of lack of borrower competency if HECM counseling is not provided directly to the HECM borrower. <p>If the case involves a HECM to HECM refinance, and the borrower opts out of counseling, the lender must provide a copy of the estimate used to calculate the amount in Block 1 of form HUD-92901, <i>Home Equity Conversion Mortgage (HECM) Anti-Churning Disclosure</i>.</p>

Continued on next page

3. Case Binder Assembly Requirements: DE Home Equity Conversion Mortgage (HECM) Cases, Continued

4155.2 8.B.3.a HECM Case Binder Document Requirements (continued)

Left Side of Binder	Right Side of Binder
<p>Comprehensive valuation package (CVP) for the applicable property type, which should include the current, appropriate valuation form and all exhibits and addenda</p> <ul style="list-style-type: none"> • Fannie Mae form 1004, <i>Uniform Residential Appraisal Report</i> • Fannie Mae form 1073, <i>Individual Condominium Unit Appraisal Report</i> • Fannie Mae form 1025, <i>Small Residential Income Property Appraisal Report</i> • Fannie Mae form 1004C, <i>Manufactured Home Appraisal Report</i>, or • Fannie Mae form 1004MC, <i>Market Conditions Addendum to the Appraisal Report</i>. 	<p>If the case involves a HECM refinance, an original Form HUD-92901 is required.</p>

<p>Specialized Eligibility Documents (to include, but not limited to):</p> <ul style="list-style-type: none"> • Form HUD-92561, <i>Borrower’s Contract with Respect to Hotel and Transient Use of Property</i> required on 2, 3, or 4 unit properties • For condominiums: <ul style="list-style-type: none"> – Separate owner occupancy certification for loans where the Fannie Mae form 1073 does not contain the required data for condominiums, or – Lender certification of Condominium Requirements for the Direct Endorsement Lender Review and Approval Process (DELRAP) or HUD Review and Approval Process (HRAP) condominium project approval processing options. 	<p>Certified true copy of original First (1st) Note.</p> <p>Note: Original maintained by lender.</p>
<ul style="list-style-type: none"> • Purchase contract, if applicable, to include <ul style="list-style-type: none"> – the amendatory clause executed by all parties – the real estate certification executed by all parties – all other contract addenda • Escrow instructions, if applicable 	<p>Certified true copy of original First (1st) Security Instrument (mortgage or Deed of Trust) and all applicable riders.</p> <p>Note: Original maintained by lender.</p>
<p>Evidence of construction completion and certificate of occupancy (CO), if applicable.</p>	<p>Original Second (2nd) Note.</p>

Continued on next page

3. Case Binder Assembly Requirements: DE Home Equity Conversion Mortgage (HECM) Cases, Continued

4155.2 8.B.3.a HECM Case Binder Document Requirements (continued)

Left Side of Binder	Right Side of Binder
Title insurance commitment or other acceptable evidence of title insurance, in an amount not less than the maximum claim amount (MCA)	Copy of HUD-1 , <i>Settlement Statement</i> and HUD-1 Addendum .
If applicable, <ul style="list-style-type: none"> • Copy of <ul style="list-style-type: none"> – Letter of Map Amendment (LOMA), or – Letter of Map Revision (LOMR) • Copy of FEMA form 81-93, <i>Standard Flood Hazard Determination Form (SFHD)</i> • Copy of declaration page of the flood insurance policy 	Notice to Borrower.
Flood Certificate	One original and two copies of the Loan Agreement and the following related exhibits: <ul style="list-style-type: none"> • Schedule of Closing Costs, and • Liens Payment Plan
--	Copy of Fannie Mae Form 1009 , <i>Residential Loan Application for Reverse Mortgages</i>
--	Copy of Good Faith Estimate (GFE), including initial and revised, if applicable.
--	If applicable, one original and two certified true copies of the Repair Rider. Note: Required if repairs are escrowed.

Continued on next page

3. Case Binder Assembly Requirements: DE Home Equity Conversion Mortgage (HECM) Cases, Continued

4155.2 8.B.3.a HECM Case Binder Document Requirements (continued)

Left Side of Binder	Right Side of Binder
--	Certified true copy of Form HUD-92900-A , <i>HUD/VA Addendum to the Uniform Residential Loan Application</i> (all pages)
--	Evidence of calculations for Principal Limit and Monthly Payment Amount <i>Note:</i> A screen print is acceptable.
--	<ul style="list-style-type: none"> • Evidence of Credit Alert Interactive Voice Response System (CAIVRS), which includes the system's authorization code • Copies of a printout for the General Services Administration/Limited Denial of Participation (GSA/LDP) check.
--	Credit report <i>Note:</i> A merged in file report, containing the information currently available from three consumer credit information repositories, is acceptable.
--	Copy of Durable Power of Attorney or legal document appointing a conservator or guardian, if applicable.
--	If applicable, verification of source of funds and/or verification of deposit (VOD). <i>Note:</i> To be used for HECM for Purchase or when borrowers need additional monetary funds to close.

4. Requirements for Case Binder Submission by a Lender Other Than the Originating Lender

Introduction This topic contains information on requirements for case binder submission by a lender other than the originating lender, including

- endorsement submission by the assignee in the name of the originating lender
 - endorsement submission requirement for all approved lenders, and
 - executing certifications.
-

Change Date March 1, 2011

**4155.2 8.B.4.a
Endorsement
Submission by
Assignee in the
Name of the
Originating
Lender** If the originating lender assigns the mortgage to another approved lender before submitting the case for endorsement, the assignee may submit the case for endorsement in the name of the originating lender. However, special handling should be requested to prevent correspondence from being sent to the closing lender, rather than the servicing (submitting) lender.

Continued on next page

4. Requirements for Case Binder Submission by a Lender Other Than the Originating Lender, Continued

4155.2 8.B.4.b Endorsement Submission Requirements for All Approved Lenders

All approved lenders may originate, process, close, fund, and submit loans for endorsement in their own names. A loan may close in the name of the sponsoring lender, the Principal or the Authorized Agent. Third-party originators may *not* close in their own names or perform any functions in FHA Connection (FHAC).

Either the sponsoring lender, Principal or Authorized Agent may

- complete the Mortgage Insurance Premium (MIP) Transmittal Form, send the [MIP](#) to the FHA, and receive the Statement of Account
- submit evidence of assignment of the case for endorsement in the name of the originating lender, and
- transfer the case number to another lender prior to closing, complete the *Lender Transfer* screen in [FHAC](#), and complete the assignment of mortgage after endorsement to a new holding or servicing lender via FHAC.

Exception: See [HUD 4155.2 2.B.6.g](#) and <http://www.hud.gov/office/hsg/sfh/waiver122010.pdf> for information on a temporary extension under which previously FHA-approved loan correspondents may close in their own names until March 31, 2011.

References: For more information on

- the Principal/Authorized Agent relationship, see [HUD 4155.2 2.B.5](#) and [ML 05-37](#)
- sponsoring lenders and third-party originators, see [HUD 4155.2 2.B.6](#), and
- performing functions in FHAC, see [HUD 4155.2 1.D](#).

Continued on next page

4. Requirements for Case Binder Submission by a Lender Other Than the Originating Lender, Continued

4155.2 8.B.4.c Executing Certifications

The FHA-approved originating lender, or its underwriter, if appropriate, must execute all certifications. The purchasing lender may pay any required [MIP](#), late charges, and interest.

FHA will *not* endorse an ineligible mortgage for insurance, or waive MIP payments on any case.

5. Requirements for Case Binder Submission by a Lender With Conditional DE Approval

Introduction This topic contains information on the requirements for case binder submission by a lender with conditional Direct Endorsement (DE) approval, including

- requirement for obtaining firm commitment, and
 - submitting a test case closing package.
-

Change Date December 23, 2010

4155.2 8.B.5.a Requirement for Obtaining Firm Commitment A lender who is not yet unconditionally approved for Direct Endorsement (DE) must submit its loans to the appropriate Homeownership Center (HOC) for review and issuance of a Firm Commitment prior to closing.

The lender must submit the property and credit documents in an FHA case binder, in the order specified in [HUD 4155.2 8.B.2](#) (excluding the closing documents). After FHA staff issues a Firm Commitment, the loan may be closed.

Note: The lender may, at its own risk, choose to close a loan prior to FHA issuing a Firm Commitment. In this circumstance, FHA is not obligated to issue a Firm Commitment or endorse the loan.

Continued on next page

5. Requirements for Case Binder Submission by a Lender With Conditional DE Approval, Continued

4155.2 8.B.5.b Submitting a Test Case Closing Package

After the loan is closed, the lender ensures that required certifications are executed, assembles the closing package, and submits the package to the appropriate [HOC](#) for endorsement processing.

DO NOT

- submit in an FHA case binder, or
- resubmit documents previously submitted for approval, as described in [HUD 4155.2 8.B.5.a](#).

DO

- submit a complete closing package in the order specified in [HUD 4155.2 8.B.2](#)
 - include credit and property approval conditions (place at the bottom of the closing package), and
 - place a cover sheet identifying the loan as a Pre-Closing (test) Case, along with the FHA Case Number, on the top of the package.
-

6. Requirements for Case Binder Submission for HUD/FHA Employee Cases

Change Date December 23, 2010

**4155.2 8.B.6.a
FHA
Underwriting
and Approval
Required for
Employee
Loans**

The lender

- obtains the case number
- follows the pre-closing case instructions (for both the property/credit package, as well as the closing package), and
- submits the case binder to the appropriate Homeownership Center (HOC), to the attention of the Processing and Underwriting Director.

The [HOC](#)

- completes the underwriting review, and
 - issues a Firm Commitment or declination, as appropriate.
-

7. Submission of Case Binders by Lenders Participating in the LI Program

Introduction This topic contains information on the submission of case binders by lenders participating in the Lender Insurance (LI) Program, including

- when an LI lender may need to submit a case binder
 - LI lender electronic case binder (eCB) submission requirements, and
 - lender requirements for record keeping.
-

Change Date December 23, 2010

**4155.2 8.B.7.a
When an LI Lender May Need to Submit a Case Binder** While a lender participating in the Lender Insurance (LI) Program generally does not need to submit case binders for endorsement, there are occasions when the lender may be required to submit a case binder, such as when a

- loan-level data submission does not clear FHA system edits and the lender is unable to correct the deficiency, or
- case binder is selected by FHA for post endorsement technical review (PETR).

References: For more information on

- [LI](#) Program eligibility and approval, see [HUD 4155.2 2.C](#)
 - [LI](#) endorsement processing, see [HUD 4155.2 8.C.3](#)
 - requirements for [LI](#) lender pre insurance review, see [HUD 4155.2 8.A.2](#), and
 - [LI](#) lender submission requirements for case binders selected for [PETR](#), see [HUD 4155.2 9.B.1.d](#).
-

Continued on next page

7. Submission of Case Binders by Lenders Participating in the LI Program, Continued

4155.2 8.B.7.b LI Lender Electronic Case Binder (eCB) Submission Requirements

Lenders participating in the [LI](#) Program may choose to submit either paper or electronic case binders (eCB) to comply with FHA's request.

Once a lender chooses the electronic case binder option, the first five requests for endorsement that the lender submits will result in requests from FHA for the digitized case binders. FHA uses this quality control measure to ensure that the lender is able to transmit an acceptable digitized case binder for review.

The [eCB](#) must include all of the documents previously required in hard copy binders submitted for endorsement, as discussed in

- [HUD 4155.2 8.B.2.b](#), and
- the LI Program page at <http://www.hud.gov/offices/hsg/sfh/lender/lendins.cfm>

Note: The standards for indexing requirements of the documents within the eCB may also be found in the eCB Developers Guide available at <http://www.hud.gov/pub/chums/electronicCaseBinder.pdf>.

Reference: For more information on

- [LI](#) Program eligibility and approval, see [HUD 4155.2 2.C](#)
- [LI](#) endorsement processing, see [HUD 4155.2 8.C.3](#)
- requirements for [LI](#) lender pre insurance review, see [HUD 4155.2 8.A.2](#), and
- [LI](#) lender submission requirements for case binders selected for [PETR](#), see [HUD 4155.2 9.B.1.d](#).

4155.2 8.B.7.c Lender Requirements for Record Keeping

The requirements for maintenance of binders by lenders and servicers are stated in [HUD 4155.2 8.B.1.f](#).

Lenders retaining electronic case binders need not maintain a separate version of the [eCB](#) indexed for electronic submission to HUD. However, if HUD requests a case binder that is maintained electronically, the lender must follow standards and procedures set forth in the [eCB Developers' Guide](#) for submission of the [eCB](#) to HUD.

Section C. Insurance Endorsement Processing

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	General Information on FHA Loan Processing and Review	8-C-2
2	Non-LI Loan Endorsement Processing	8-C-7
3	LI Loan Endorsement Processing	8-C-9
4	Pre-Closing (Test) Case Processing Overview	8-C-13
5	Excessive Loan Amounts	8-C-15
6	Mortgage Insurance Certificates	8-C-18
7	Late Requests for Endorsement	8-C-22

1. General Information on FHA Loan Processing and Review

Introduction This topic contains general information on FHA loan processing and review, including

- Homeownership Center (HOC) loan processing tasks
 - HOC actions upon receipt and review of the uniform case binder
 - types of loan endorsement reviews
 - the purpose of the pre-endorsement review, and
 - the purpose of the post endorsement technical review (PETR).
-

Change Date December 23, 2010

**4155.2 8.C.1.a
HOC Loan
Processing
Tasks** The table below describes the loan processing activities the Homeownership Center (HOC) performs upon receipt of a uniform case binder from the lender.

Stage	Description
1	The HOC logs receipt of the uniform case binder into the Computerized Home Underwriting Management System (CHUMS).
2	The HOC checks to ensure that the case has been submitted in an acceptable case binder that meets FHA requirements. If not, the HOC returns the case binder to the lender. <i>Note:</i> At this point, the HOC does not perform any further processing or analysis of the case file and proceeds as described in HUD 4155.2 8.C.1.b .
3	The HOC routes the case binder to the appropriate personnel for pre-endorsement review and insurance endorsement. <i>References:</i> For more information on <ul style="list-style-type: none"> • the loan submission and endorsement process, see HUD 4155.2 8.A.1, and • pre-endorsement reviews, see HUD 4155.2 8.C.1.d.

Continued on next page

1. General Information on FHA Loan Processing and Review, Continued

**4155.2 8.C.1.b
HOC Actions
Upon Receipt
and Review of
the Uniform
Case Binder**

Upon receipt of the uniform case binder, the [HOC](#) conducts a pre-endorsement review to determine if

- the request for endorsement and the case binder are complete, and
- all of the necessary documents are present and signed.

The table below indicates the ~~actions that~~ the HOC takes upon completing the pre-endorsement review.

If the uniform case binder ...	Then the HOC ...
<i>meets</i> FHA guidelines	<ul style="list-style-type: none"> • completes endorsement processing, and • issues an electronic Mortgage Insurance Certificate (eMIC), acknowledging that FHA has insured the mortgage. <p><i>Note:</i> The lender may print or download the MIC from the FHA Connection (FHAC).</p>
does <i>not meet</i> FHA guidelines	<ul style="list-style-type: none"> • issues a <i>Non-Endorsement Notice/Notice of Return (NOR)</i> to the lender, specifying the deficiencies and corrective action needed, and • returns the case binder to the lender reflected in the FHAC unless special circumstances have been specified.

Continued on next page

1. General Information on FHA Loan Processing and Review, Continued

4155.2 8.C.1.c Types of Loan Endorsement Reviews

FHA monitors lender compliance with its criteria through

- pre-endorsement reviews, performed by
 - FHA staff or contractors, or
 - lender staff, for participants in the Lender Insurance (LI) program, and
- post endorsement technical reviews (PETRs), which are performed
 - after loan closing and endorsement, and
 - by FHA staff or contractors.

Notes:

- FHA determines a specific percentage of endorsed lender files on which to conduct a [PETR](#) and selects lender files electronically, based on
 - risk factor indicators, and
 - other [HOC](#)-identified factors.
- FHA also performs pre-closing “test” case reviews to ensure lender compliance. Pre-closing test files are subject to underwriting review and approval by [HOC](#) staff *prior to* loan closing.

References: For more information on

- pre-endorsement reviews, see [HUD 4155.2 8.C.1.d](#), and
- [PETRs](#), see
 - [HUD 4155.2.8.C.1.e](#)
 - [HUD 4155.2.9.B.1](#).
- Direct Endorsement (DE) lender approval, see [HUD 4155.2 2.A](#)
- the [DE](#) Lender pre-closing phase, see [HUD 4155.2 2.B.3](#), and
- processing pre-closing cases, see [HUD 4155.2 8.C.4](#).

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1. General Information on FHA Loan Processing and Review, Continued

4155.2 8.C.1.d Purpose of the Pre- Endorsement Review

During pre-endorsement reviews, the HOC reviews files to verify

- compliance with FHA documentation requirements
- that forms and certifications are properly executed, and
- data integrity (FHA Connection (FHAC) and Automated Underwriting Systems (AUS), when applicable).

The pre-endorsement review results in approval and endorsement of the mortgage after a satisfactory review of specific documents.

Notes:

- Additional review and documentation may be required if FHA has reason to suspect fraud or misrepresentation, including negligent misrepresentation, in any of the documents submitted.
- The [HOC](#) performs the pre-endorsement review in accordance with the requirements for
 - case binder submission described in [HUD 4155.2 8.B](#), and
 - loan endorsement described in this section.

Continued on next page

1. General Information on FHA Loan Processing and Review, Continued

4155.2 8.C.1.e Purpose of the PETR

The [PETR](#) is one of several monitoring tools that FHA uses to measure lender compliance with FHA regulations. The PETR includes a review of

- property underwriting (a field review of the appraiser/appraisal may be generated as a result of the property underwriting/desk review)
- credit underwriting and loan approval criteria
- risk analysis
- closing in accordance with loan approval
- documentation, and
- data integrity ([FHAC](#) and [AUS](#), if applicable).

The [HOC](#) staff perform the PETR and rate the mortgages as either *Conforming*, *Deficient*, or *Unacceptable* in the categories of

- mortgage credit underwriting, and
- valuation underwriting.

Note: The same process applies to all technical reviews, whether [LI](#) or non-LI.

Reference: For more information on PETRs, see [HUD 4155.2 9.B.1](#).

2. Non-LI Loan Endorsement Processing

Introduction This topic contains information on loan endorsement processing for lenders who do *not* participate in the Lender Insurance (LI) Program, including

- FHA Connection (FHAC) loan endorsement processing
 - the date of loan insurance, and
 - handling loans that are ineligible for endorsement.
-

Change Date December 23, 2010

**4155.2 8.C.2.a
FHAC Loan
Endorsement
Processing** Upon successful completion of a pre-endorsement review, the Homeownership Center (HOC) uses the logging and endorsement functions in FHA Connection (FHAC) to

- verify data integrity
- complete loan endorsement processing, and
- issue an electronic Mortgage Insurance Certificate (MIC).

References: For more information on

- pre-endorsement reviews, see [HUD 4155.2 8.C.1.d](#)
 - FHAC, see
 - [HUD 4155.2 1.D](#), and
 - the FHAC User Guide available at <https://entp.hud.gov/idapp/html/mrtg-pkg.cfm>, and
 - [MICs](#), see [HUD 4155.2 8.C.6](#).
-

**4155.2 8.C.2.b
Date of Loan
Insurance** A case submitted for endorsement is considered insured as of the date that FHA electronically issues the [MIC](#).

Reference: For more information on MICs, see [HUD 4155.2 8.C.6](#).

Continued on next page

2. Non-LI Loan Endorsement Processing, Continued

4155.2 8.C.2.c Handling Loans That Are Ineligible for Endorsement

If the [HOC](#) determines that the mortgage is ineligible for insurance endorsement, FHA issues an electronic *Non-Endorsement Notice/Notice of Return* (NOR) on the Case Query screen in the [FHAC](#), which includes

- the reasons for non-endorsement, and
- any corrective actions that the lender must take.

If the case is permanently rejected for insurance endorsement, the [NOR](#) must include instructions to the lender to notify the borrower

- that he/she does not have an FHA-insured loan, and
- of the circumstances that made the loan ineligible for FHA insurance.

The lender must also

- obtain a refund of both the upfront mortgage insurance premium (UFMIP) and any periodic mortgage insurance premium (MIP) paid by or on behalf of the borrower, and
- apply the refund to the principal balance of the loan.

Note: Space is limited on the Case Query screen, so it is possible that the complete reason for the NOR may not be visible. The lender must wait to receive the return case binder prior to responding to the NOR. Responses are not acceptable without the case binder. In some instances, the HOC may retain the case binder and provide guidance to the lender on how to submit a response.

3. LI Loan Endorsement Processing

Introduction This topic contains information on Lender Insurance (LI) loan endorsement processing, including

- endorsement processing for approved LI lenders, and
 - categories of LI mortgage endorsement processing.
-

Change Date December 23, 2010

4155.2 8.C.3.a Endorsement Processing for Approved LI Lenders A lender approved for the Lender Insurance (LI) Program must process and endorse for insurance all of the loans it originates or underwrites.

References: For more information on

- [LI](#) Program eligibility and approval, see [HUD 4155.2 2.C](#)
 - requirements for [LI](#) lender pre-insurance review, see [HUD 4155.2 8.A.2](#)
 - [LI](#) case binder submission, see [HUD 4155.2 8.B.7](#), and
 - [LI](#) lender submission requirements for case binders selected for post endorsement technical review (PETR), see [HUD 4155.2 9.B.1.d](#).
-

4155.2 8.C.3.b Categories of LI Mortgage Endorsement Processing The table below describes the three mortgage endorsement processing categories under the [LI](#) Program.

Endorsement Processing Category	Description
LI Eligible/No Binder Request	The lender endorses the mortgage, and FHA <ul style="list-style-type: none"> • generates an electronic mortgage insurance certificate (eMIC), which the lender may view online, and • does <i>not</i> request the case binder.

Continued on next page

3. LI Loan Endorsement Processing, Continued

4155.2 8.C.3.b Categories of LI Mortgage Endorsement Processing (continued)

Endorsement Processing Category	Description
LI Eligible/Binder Request	<ul style="list-style-type: none"> • The lender endorses the mortgage • FHA generates an eMIC, and • FHA requests the case binder for PETR purposes. <p><i>Notes:</i></p> <ul style="list-style-type: none"> • The case binder request appears on the <ul style="list-style-type: none"> – FHA Connection (FHAC) Binder List screen or Business to Government (B2G) function, and – Insurance Application screen. • The Case Inquiry screen indicates <ul style="list-style-type: none"> – if FHA requested a binder, and – when FHA received the binder after the lender has sent it. <p><i>Reference:</i> For information on lender requirements when FHA requests a case binder, see HUD 4155.2 9.B.1.</p>

Continued on next page

3. LI Loan Endorsement Processing, Continued

4155.2 8.C.3.b Categories of LI Mortgage Endorsement Processing (continued)

Endorsement Processing Category	Description
LI Deficient	<ul style="list-style-type: none"> • A high level case warning was triggered (for example, a Credit Alert Interactive Voice Response System (CAIVRS) exception), or • The system edits reject the case (for example, the mortgage amount exceeds the statutory limit). <p>The Computerized Homes Underwriting Management System (CHUMS) does not request that the lender send deficient cases to the HOC, but informs the lender that it must resolve any rejection message.</p> <p>FHA requests for review only those files that have severe case warnings, such as</p> <ul style="list-style-type: none"> • a CAIVRS exception • Social Security Number (SSN) not verified, or • some text messages.

Continued on next page

3. LI Loan Endorsement Processing, Continued

4155.2 8.C.3.b Categories of LI Mortgage Endorsement Processing (continued)

Endorsement Processing Category	Description
	<p>Under this exception processing procedure, the lender must submit the case binder to FHA for a pre-endorsement review, unless it is able to correct the deficiency and resubmit the endorsement data through the automated data verification system.</p> <p>If the resubmission is successful, the mortgage is eligible to be processed through LI, and the lender can endorse it for insurance and generate an eMIC.</p> <p>If the lender cannot correct the deficiency, the system withholds the lender's ability to endorse the loan until the stated deficiencies are corrected.</p> <p>Note: For those mortgage insurance applications that the lender is unable to endorse due to system edits or other reasons, FHA requires the case binder for a pre-endorsement review of the file. Such mortgage insurance applications cannot be approved until FHA has reviewed the case binder and determined insurance eligibility.</p>

4. Pre-Closing (Test) Case Processing Overview

Introduction This topic contains information on pre-closing (test) case processing, including

- the purpose of pre-closing (test) cases
 - the timeframe for processing pre-closing (test) cases, and
 - an overview of pre-closing (test) case processing.
-

Change Date December 23, 2010

4155.2 8.C.4.a Purpose of Pre-Closing (Test) Cases The purpose of pre-closing (test) cases is to review loans made by a lender, who is applying for Direct Endorsement (DE) Lender approval, to ensure lender compliance with FHA property and credit underwriting requirements.

References: For more information on the

- [DE](#) Lender application and approval process, see [HUD 4155.2 2.A.1](#), and
 - [DE](#) Lender pre-closing phase, see [HUD 4155.2 2.B.3](#).
-

4155.2 8.C.4.b Timeframe for Processing Pre-Closing (Test) Cases The Homeownership Center's (HOC) Processing and Underwriting Division must give pre-closing (test) cases priority processing and review cases within three business days of receipt.

Continued on next page

4. Pre-Closing (Test) Case Processing Overview, Continued

4155.2 8.C.4.c Overview of Pre-Closing (Test) Case Processing

The table below describes the pre-closing case review process.

Stage	Description
1	Upon receipt of the case, FHA staff <ul style="list-style-type: none"> • logs the file into the HOC's internal tracking system • logs the case into FHA Connection/Computerized Homes Underwriting System (FHAC/CHUMS), and • routes the file for underwriting review (property and credit).
2	After completing the underwriting review, FHA staff <ul style="list-style-type: none"> • updates FHAC/CHUMS with the underwriting decision, and • completes the Underwriting Report System (URS) report in the FHAC.
3	The lender receives notification of the underwriting decision through FHAC . <i>Note:</i> Lenders must direct requests for a ratings change to the FHA staff underwriter's supervisor, and include documentation to support their requests.
4	FHA documents the case and the lender file with the decision.
5	The HOC retains the case binder. <i>Reference:</i> For instructions on submitting the closing package, see HUD 4155.2 6.A .

Note: The [HOC](#) follows the same process for reconsideration of a file that was either rejected (with an unacceptable rating) or was returned in [FHAC/CHUMS](#) for being incomplete. The processing time for the [HOC](#) on a reconsideration package is five business days from the date of receipt.

5. Excessive Loan Amounts

Introduction

This topic contains information on excessive loan amounts, including

- obtaining a mortgage insurance certificate (MIC) when there is an excessive loan amount
 - loans that exceed the statutory loan limit
 - loans that exceed the maximum allowable amount, and
 - lender advancement of the principal loan reduction.
-

Change Date

December 23, 2010

**4155.2 8.C.5.a
Obtaining a
Mortgage
Insurance
Certificate
(MIC) When
There Is an
Excessive Loan
Amount**

An excessive loan amount occurs when the lender closes a loan in an amount higher than what is permitted by FHA requirements. In order to obtain a Mortgage Insurance Certificate (MIC), the lender may choose to either

- pay down the principal balance, or
- re-close the loan to an insurable amount.

Note: The lender must provide a copy of the payment ledger showing that the principal balance has been paid down to an insurable amount.

Continued on next page

5. Excessive Loan Amounts, Continued

4155.2 8.C.5.b Loans That Exceed the Statutory Loan Limit

If a loan amount exceeds the statutory limit

- FHA Connection/Computerized Homes Underwriting System (FHAC/CHUMS), automatically rejects the case for endorsement
- FHA
 - issues a Non-Endorsement Notice, commonly known as a Notice of Rejection (NOR), to the lender, and
 - returns the case binder and [NOR](#) to the lender with instructions to provide evidence of a principal reduction to an insurable amount, and
- FHA issues the [MIC](#) electronically, with the reduced mortgage amount, upon receipt of evidence of the principal reduction to an insurable amount.

Note: Depending upon the size of the principal reduction, the monthly principal and interest payment amount on the [MIC](#) may or may not match the note. The [MIC](#) must *not* be manually changed to agree with the note. If the lender wants the [MIC](#) to match the note, it must re-close the loan or amend it to an insurable amount.

Continued on next page

5. Excessive Loan Amounts, Continued

4155.2 8.C.5.c Loans That Exceed the Maximum Allowable Amount

If, during the post endorsement technical review (PETR), FHA determines that a loan amount exceeds the maximum allowable (but does not exceed the statutory limit), or exceeds the maximum allowable loan to value (LTV) ratio, the appropriate Homeownership Center (HOC) must require the lender to provide, within 30 days of the date of the letter or notification, evidence that the principal balance has been paid down to an insurable amount.

If the lender does not respond within 30 days (does not return the [MIC](#) to FHA for correction), the [HOC](#) may take appropriate sanctions.

FHA will only consider the existing principal balance and other permissible costs for payment of a claim presented.

Reference: For more information on lender sanctions, see [HUD 4155.2 9.D](#).

4155.2 8.C.5.d Lender Advancement of the Principal Loan Reduction

If the lender advances the principal loan reduction on behalf of the borrower, the lender cannot require borrower repayment, either in a lump sum or monthly payment, if the payment would

- jeopardize the borrower's ability to repay the mortgage, and
 - potentially cause a default.
-

6. Mortgage Insurance Certificates

Introduction This topic contains information on mortgage insurance certificates (MICs), including

- confirming status of the MIC
 - requesting and downloading the MIC
 - requesting corrected and duplicate MICs
 - MIC Section of the Act
 - Automated Data Processing (ADP) Codes
 - correcting case numbers or ADP Codes on the note and security instrument
 - suffix codes for tracking ARM activity
 - Section of the Act ADP codes for ARMs, and
 - ARM type indicators.
-

Change Date March 1, 2011

**4155.2 8.C.6.a
Confirming
Status of the
MIC**

Lenders may confirm the endorsement status of a loan using the FHA Connection (FHAC), or the FHA Connection Business to Government (FHAC-B2G) application. The [B2G](#) application allows lenders to submit case level data from their loan origination system directly to FHA, without rekeying information.

The table below describes how an originator or sponsor can confirm the endorsement status of a loan.

When confirming the endorsement status of ...	Use the ...	And ...
individual loans	<ul style="list-style-type: none"> • FHAC, or • FHAC-B2G Case Query transaction 	<p>determine if the mortgage was endorsed by examining the <i>last action</i> field for <i>INSURED</i>.</p> <p>Note: ECHO Connection Plus (EPC) users should call 1-888-711-2500 for information.</p>

Continued on next page

6. Mortgage Insurance Certificates, Continued

4155.2 8.C.6.a Confirming Status of the MIC (continued)

When confirming the endorsement status of ...	Use the ...	And ...
multiple loans	<ul style="list-style-type: none"> • FHAC MIC/NOR List transaction, or • FHAC-B2G Mass Case Query transaction 	<p>obtain a list of cases endorsed within a specific time period at the branch or corporate level.</p> <p><i>Note:</i> This function provides a list of all case numbers endorsed within a specified date parameter. Users of ECHO Connection Plus (EPC) should call 1-888-711-2500 for information.</p>

4155.2 8.C.6.b Requesting and Downloading the MIC

When requesting the mortgage insurance certificate (MIC), the lender is required to specify whether it is to be prepared in the name of the

- Originator (Principal), or
- Authorized Agent.

When FHA endorses a loan and issues the [MIC](#), the lender downloads the electronic MIC from the [FHAC](#).

Note: The name on the MIC is the name of the originator or Authorized Agent as it appears on HUD’s systems.

4155.2 8.C.6.c Requesting Corrected and Duplicate MICs

The electronically-issued [MIC](#) eliminates the need to request duplicate MICs because lenders can download and print copies as needed.

Lenders *cannot* obtain corrected MICs through [FHAC](#).

Reference: For instructions on obtaining a corrected MIC, see [HUD 4155.2 12.E.3](#).

Continued on next page

6. Mortgage Insurance Certificates, Continued

4155.2 8.C.6.d MIC Section of the Act Automatic Data Processing (ADP) Codes

The section of the Act Automated Data Processing (ADP) Code is an important item on the MIC, which FHA verifies for accuracy. The [ADP Code](#)

- identifies the insuring section and the applicable FHA insurance fund
- indicates an assistance payment contract, if any, and
- identifies the mortgages that do not require payment of an upfront mortgage insurance premium (UFMIP).

Reference: For a list of the Home Mortgage ADP Codes, see [HUD 4155.2.12.B.1](#).

4155.2 8.C.6.e Correcting Case Numbers or ADP Codes on the Note and Security Instrument

The lender must show the HUD case number and the section of the Act [ADP Code](#) on the note and the security instrument. The [ADP Code](#) must be the same as that shown on Form [HUD-92900-A](#), *HUD/VA Addendum to Uniform Residential Loan Application*.

The lender does *not* need to redraw documents to correct the case number or the [ADP Code](#). The lender may draw a line through incorrect numbers, and write in the correct number. The borrower does not need to initial changes to the case number or the [ADP Code](#).

The lender should provide the borrower with a copy of the documents that contain the correct case number.

4155.2 8.C.6.f Suffix Codes for Tracking ARM Activity

Case number suffix codes (Section of the Act [ADP Codes](#)) used to track adjustable rate mortgage (ARM) activity are

- indicated on all Forms [HUD 92900-A](#), *HUD/VA Addendum to Uniform Residential Loan Application*, and
 - printed on computer-generated [MICs](#).
-

Continued on next page

6. Mortgage Insurance Certificates, Continued

4155.2 8.C.6.g Section of the Act ADP Codes for ARMs (Reference)

A complete list of the Section of the Act [ADP](#) suffix codes for [ARM](#) loans is available via the [FHAC](#), or at [HUD 4155.2 12.B.1.a](#).

4155.2 8.C.6.h ARM Type Indicators

In addition to the [ADP](#) suffix codes assigned to [ARMs](#), a hybrid ARM type indicator has been added to [FHAC](#).

When submitting loan data to FHA via the [FHAC](#), or its functional equivalent, if an ARM is indicated by an ADP code, the lender must also identify the type of ARM by selecting the one-, three-, five-, seven-, or ten-year ARM type indicator.

Note: Using this process is likely to result in fewer errors than adding additional ADP codes for each individual hybrid ARM offering.

7. Late Requests for Endorsement

Introduction This topic contains information on late requests for insurance endorsement, including

- FHA criteria for determining late requests for insurance endorsement
- evaluating a late endorsement request
- requirements for the late endorsement request certification
- sanctions for false certifications
- cases submitted for reconsideration after receiving an NOR, and
- examples of late endorsement request processing/certification requirement.

Change Date December 23, 2010

**4155.2 8.C.7.a
FHA Criteria
for
Determining
Late Requests
for Insurance
Endorsement** A request for insurance endorsement is considered “late” when the case binder is received by the Homeownership Center (HOC) more than 60 days after loan settlement or funds disbursement, whichever is later.

Late requests trigger the need for additional documentation. FHA believes that the 60-day timeframe is sufficient for the lender to

- assemble the uniform case binder
- obtain any final documents or signatures, and
- ship the binder to the appropriate [HOC](#) for endorsement processing.

FHA determines whether a mortgage is received late based on the date that the [HOC](#) actually receives the case binder. Lenders must consider mailing and processing times when submitting case binders to the [HOC](#).

Note: Lenders can determine the date the case binder was received by the HOC and logged into FHA Connection/Computerized Homes Underwriting System (FHAC/CHUMS) by reviewing the Case Status screen in [FHAC](#).

Continued on next page

7. Late Requests for Endorsement, Continued

4155.2 8.C.7.b Evaluating a Late Endorsement Request

When a case involving a late request for endorsement is received, FHA reviews the lender's certification and determines whether to accept or reject the request. If the review indicates that the degree of risk to HUD is not greater than that at the time of closing, the mortgage may be endorsed.

A mortgage that is in default when submitted for endorsement will *not* be insured *except* in those instances where FHA was demonstrably responsible for a delayed request. If the appropriate [HOC](#) determines that the delay in submission was FHA's fault, the lender is *not* required to submit the additional documentation described in [HUD 4155.2 8.C.7.c](#).

4155.2 8.C.7.c Requirements for Late Endorsement Request Certification

When submitting a late request for endorsement under the circumstances described below, the lender is required to include a dated certification with an original signature of its representative on company letterhead, which includes the lender's complete address and telephone number.

The certification must be specific to the case being submitted, identifying the FHA case number and the name(s) of the borrower(s) and must state that

- at the time of the certification, no mortgage payment is currently unpaid more than 30 days
- all escrow accounts for taxes, hazard insurance and mortgage insurance premiums are current and intact, except for disbursements that may have been made to cover payments for which the accounts were specifically established, and
- the lender or its agents did not provide the funds to bring and/or keep the loan current or to bring about the appearance of an acceptable payment history.

Important: If the payment due for the month *before* the lender submitted the loan for endorsement has yet to have been received, the loan is *not* eligible for endorsement.

Continued on next page

7. Late Requests for Endorsement, Continued

4155.2 8.C.7.d Sanctions for False Certifications

HUD may impose administrative sanctions against individuals found making false certifications, including, but not limited to

- debarment from participation in HUD's and other Federal agency programs
- civil money penalties, and
- Program Fraud Civil Remedies Act sanctions.

Reference: For more information on lender sanctions, see [HUD 4155.2 9.D.](#)

4155.2 8.C.7.e Cases Submitted for Re- consideration After Receipt of a Notice of Rejection (NOR)

If the appropriate [HOC](#) returns a uniform case binder to the lender by issuing an Receipt of a Notice of Rejection (NOR) or subsequent [NOR](#), the [HOC](#) must receive the reconsideration request for insurance endorsement within the original 60-day period, or 30 days from the date of issuance of the original [NOR](#), whichever is greater.

The lender must comply with the procedures for late requests for endorsement found in [HUD 4155.2 8.C.7.c](#) if either the

- lender's reconsideration request is received after the expiration of the applicable date, or
 - issuance of a subsequent [NOR](#) results in receipt of the lender's resubmission after the applicable date.
-

4155.2 8.C.7.f Examples: Late Endorsement Processing/ Certification Requirement

Mortgage Loan Details:

Mortgage closed on June 4th with first payment due on August 1st.

Lender Case Submission Scenario 1:

No certification is required if the mortgage insurance application is received for endorsement on or before August 31st. However, the certification *is* required if the

- mortgage case binder is sent back to the lender due to a [NOR](#), and
- lender is not able to respond correctly before the later of 30 days or when the certification period begins (September 1st, in this example).

Lender Case Submission Scenario 2:

If the mortgage is received for endorsement in the [HOC](#) on or after September 1st (or the first business day after that date), then the lender must provide the endorsement certification.

Section A. Lender Monitoring Overview

Overview

Introduction

This section contains the topic “*General Information on Lender Monitoring.*”

1. General Information on Lender Monitoring

Introduction This topic contains general information on lender monitoring, including

- the importance of Direct Endorsement ([DE](#)) Lender Program monitoring
- types of lender monitoring tools, and
- types of lender sanctions.

Change Date December 23, 2010

**4155.2 9.A.1.a
Importance of
DE Lender
Program
Monitoring** Because the substantive review of a loan occurs after the mortgage is endorsed, Homeownership Centers (HOCs) must continually monitor lender performance and take necessary action as soon as they identify underwriting deficiencies.

The objective of the [HOC](#) action is to

- reduce the risk of defaults, and claims to FHA
 - improve lender performance, and/or
 - remove non-complying lenders from the program.
-

Continued on next page

1. General Information on Lender Monitoring, Continued

4155.2 9.A.1.b
Types of
Lender
Monitoring
Tools

[HOCs](#) monitor the performance of lenders by

- conducting on-site and remote lender reviews
- conducting post endorsement technical reviews (PETRs) of insured loans
- analyzing Mortgagee Performance Reports and Underwriting Report System ([URS](#)) reports available through FHA Connection (FHAC)
- analyzing default and claims data from Neighborhood Watch Early Warning System reports available through [FHAC](#)
- following up on construction complaints or consumer complaints, and
- sharing information among themselves, FHA Headquarters, and the Mortgagee Review Board ([MRB](#)).

Important: Lenders must regularly update their information in [FHAC](#) regarding their offices and officers, to facilitate reviews and recertification.

Reference: For more information on the data lenders are required to keep current, see [HUD 4060.1](#), *Mortgagee Approval Handbook*.

Continued on next page

1. General Information on Lender Monitoring, Continued

4155.2 9.A.1.c
Types of
Lender
Sanctions

The [HOCs](#) and/or the [MRB](#) may impose the following sanctions:

- lender probation
- withdrawal of DE status
- withdrawal of FHA approval
- indemnification agreements
- civil money penalties
- sanctions against individual program participants
- return of the lender to pre-closing status, and
- return or reimbursement of servicing lender incentives.

Reference: For more information on lender sanctions, see [HUD 4155.2 9.D.](#)

Section B. Lender Monitoring Tools

Overview

Contents

This section contains the following topics.

Topic	Topic Name	See Page
1	Post Endorsement Technical Reviews (PETRs)	9-B-2
2	Mortgagee Performance Reports	9-B-5
3	Underwriting Report System (URS) Reports	9-B-8
4	Onsite and Remote Lender Monitoring Reviews	9-B-11
5	Neighborhood Watch Early Warning System	9-B-14
6	Other Lender Monitoring Tools	9-B-17

1. Post Endorsement Technical Reviews (PETRs)

Introduction This topic contains information on Post Endorsement Technical Reviews (PETRs), including the

- purpose of the PETR
 - importance of the PETR
 - HOC PETR responsibilities, and
 - selection of LI case binders for PETR and LI lender submission requirements.
-

Change Date December 23, 2010

4155.2 9.B.1.a Purpose of the PETR FHA performs a post endorsement technical review (PETR) on selected cases to evaluate the

- risk that loans represent to FHA's insurance funds, and
 - lender's compliance with FHA's
 - underwriting requirements, and
 - documentation requirements.
-

Continued on next page

1. Post Endorsement Technical Reviews (PETRs), Continued

4155.2 9.B.1.b Importance of the PETR

The post endorsement technical review of mortgage lender underwriting is critical to the success of the Direct Endorsement (DE) program. Because underwriting decisions rely heavily on the subjective interpretation of the [DE](#) lender, it is imperative that FHA quickly identify and correct underwriting deficiencies.

4155.2 9.B.1.c HOC PETR Responsibilities

Homeownership Centers (HOCs) must provide meaningful, constructive analysis of each case that is subject to a [PETR](#) to ensure that the risk of the loan is assessed and that lenders continue to perform quality underwriting and closing.

When conducting a [PETR](#), the reviewer

- assesses whether the loan represents an unacceptable level of risk to the FHA insurance funds
- assesses how well the underwriter
 - arrived at his/her decisions
 - addressed inconsistencies and problems
 - made reasonable conclusions, based on the information and documentation in the case, and
 - complied with FHA guidelines
- assigns ratings to the Mortgage Credit and Valuation aspects of the lenders' underwriting and loan closing, and
- enters the rating information into the Underwriting Report System (URS) in FHA Connection (FHAC).

Reference: For more information on PETR ratings, see [HUD 4155.2 9.C.2.](#)

Continued on next page

1. Post Endorsement Technical Reviews (PETRs), Continued

4155.2 9.B.1.d
LI Lender
Submission
Requirements
for Case
Binders
Selected for
PETR

For insurance applications that the lender endorses for insurance through the Lender Insurance (LI) Program that receive an electronic notice of intent to review, the lender must provide the case binder in paper or digitized format (depending on which process it has chosen), within 10 business days of FHA's transmittal of a request.

Failure to submit 5 or more requested case binders to the applicable [HOC](#) will result in a suspension of the lender's eligibility to submit files under the [LI](#) program until the lender submits the case binders in a satisfactory manner.

References: For more information on

- [LI](#) Program eligibility and approval, see [HUD 4155.2 2.C](#)
 - requirements for [LI](#) lender pre-insurance review, see [HUD 4155.2 8.A.2](#)
 - [LI](#) case binder submission, see [HUD 4155.2 8.B.7](#), and
 - the Lender Insurance Guide, see <http://portal.hud.gov/fha/sf/programs/guide011807.pdf>.
-

2. Mortgagee Performance Reports

Introduction

This topic contains information on Mortgagee Performance Reports, including

- a description of the Mortgagee Performance Report, and
 - the sections of the Mortgagee Report.
-

Change Date

March 1, 2011

**4155.2 9.B.2.a
Description of
the Mortgagee
Performance
Report**

FHA generates a monthly statistical report, available to lenders and FHA staff, that details the performance of each Direct Endorsement (DE) lender's underwriting and appraisal.

The report provides

- summary information based on post endorsement technical reviews (PETRs), and
- a picture of the
 - performance of each branch office within the local jurisdiction, and
 - lender's overall performance, both locally and nationally.

Note: The last completed level of review is reported if several levels of review are required. The report is divided into subsections with information for the

- last month
- two months prior to the last reporting month, and
- first nine months of the reporting period.

Reference: For more information on the review levels, see [HUD 4155.2 9.C.3.b.](#)

Continued on next page

2. Mortgagee Performance Reports, Continued

4155.2 9.B.2.b The table below describes the eight sections of the Mortgagee Performance Report.

Sections of the Mortgagee Performance Report

Report Section	Description
Section 1 – Lender Performance by Branch	<p>For each active branch office and sponsored third-party originator, this section lists the</p> <ul style="list-style-type: none"> • number of cases insured • number of cases issued a Notice of Return (NOR), and • NOR rate on endorsement submissions.
Section 2 – Underwriting Performance	<p>This section provides a summary of underwriting ratings based on Valuation/Underwriting and Mortgage Credit (MC) technical reviews for active underwriters employed by the lender.</p> <p><i>Note:</i> The last completed level of review is reported if several levels of review are required.</p>
Section 3 – Cases Rated Unacceptable – Underwriting	<p>This section lists, by FHA case number, the cases that received “Unacceptable” ratings for either the Valuation/Underwriting or Mortgage Credit (MC) technical review. This section also lists the</p> <ul style="list-style-type: none"> • names of the underwriters • reason codes for the “Unacceptable” ratings, and • names of the borrowers.
Section 4 – Cases Rated Mitigated – Underwriting	<p>This section lists, by FHA case number, the cases that received “Mitigated” ratings for either the Valuation/Underwriting or Mortgage Credit (MC) technical review. This section also lists the</p> <ul style="list-style-type: none"> • names of the underwriters • reason codes for the “Unacceptable” ratings that were mitigated, and • names of the borrowers.

Continued on next page

2. Mortgagee Performance Reports, Continued

4155.2 9.B.2.b Sections of the Mortgagee Performance Report (continued)

Report Section	Description
Section 5 – Cases Rated Deficient – Underwriting	<p>This section lists, by FHA case number, the cases that received “Deficient” ratings for either the Valuation/Underwriting or Mortgage Credit (MC) technical review. This section also lists the</p> <ul style="list-style-type: none"> • names of the underwriters • reason codes for the “Deficient” ratings, and • names of the borrowers.
Section 6 – Appraiser Performance Data	<p>This section provides a summary of appraiser reviews for the appraisers used by the lender against whom a sanction or action was imposed (based on field reviews). This section also includes the</p> <ul style="list-style-type: none"> • names of the appraisers • number of field reviews performed, and • sanctions or actions imposed.
Section 7 – Case Actions – Appraisers	<p>This section lists, by FHA case number, the cases for which the lender used an appraiser against whom a sanction or action was imposed (based on field reviews). This section also lists the</p> <ul style="list-style-type: none"> • lender’s case references, and • names of the borrowers.
Section 8 – National Performance – Summary Rates	<p>This section lists, for each HUD field office, the</p> <ul style="list-style-type: none"> • percentage of Unacceptable, Mitigated, and Deficient ratings for the Valuation/Underwriting and Mortgage Credit (MC) technical reviews for all underwriters/lenders • number of appraiser sanctions or actions imposed, based on field reviews, and • overall NOR rate for each HUD field office. <p><i>Note:</i> National totals are provided at the end of each part of this section.</p>

3. Underwriting Report System (URS) Reports

Introduction This topic contains information on Underwriting Report System (URS) reports, including

- a description of the URS reports
 - URS report requests and retrieval, and
 - a listing of the available URS reports.
-

Change Date December 23, 2010

4155.2 9.B.3.a Description of URS Reports The Underwriting Report System (URS) is the system into which all post endorsement technical reviews (PETRs) are entered upon completion. The [URS](#) generates reports that provide detailed and summary data on the results of [PETRs](#).

Reference: For more information on URS and PETR data entry, see [HUD 4155.2 9.C.3](#).

4155.2 9.B.3.b URS Report Requests and Retrieval FHA staff may request [URS](#) reports by using the Report Request function in FHA Connection (FHAC). The Report Retrieval function in [FHAC](#) is used, later in a given day, to either

- retrieve the report, or
- check to see whether the request for the report is completed.

Reports can be retrieved in Portable Document Format (.pdf) or Microsoft Excel file (.xls) format. Completed reports are maintained for fifteen days.

Continued on next page

3. Underwriting Report System (URS) Reports, Continued

4155.2 9.B.3.c The table below lists the [URS](#) reports that are available.

Available URS Reports

Report Number/Name	Description
F17NHCA – URS Ratings Change Report	<p>This report lists, by underwriter review contractor, the cases for which the mortgage credit (MC) analysis review rating and/or the valuation and underwriting documents review (Val) rating for a selected level of review differed from the rating for the initial review.</p> <p>The report includes information on the reviewers, ratings, and deficiency codes for the two levels of review being compared for the selected type of review (post endorsement and/or test (pre-closing) case).</p>
F17NMCA – Lender Summary Report	<p>This report lists, by originator, the number of cases that received Conforming, Deficient, Unacceptable, or Mitigated ratings for the mortgage credit analysis review (MC) and/or the valuation and underwriting documents review (Val) for the selected level of review and type of review (post endorsement and/or test (pre-closing) case).</p> <p>Also included in this report is the percentage of reviewed cases with the specified rating. The report can be requested for a single lender or all lenders with reviewed cases within the jurisdiction of the Homeownership Center’s (HOC) jurisdiction.</p>

Continued on next page

3. Underwriting Report System (URS) Reports, Continued

4155.2 9.B.3 Available URS Reports (continued)

Report Number/Name	Description
F17NNCA – URS Ratings Detail Report	<p>This report lists, by originator and/or sponsor/agent, the case details of the review, including the</p> <ul style="list-style-type: none"> • type of review (post-endorsement and/or test (pre-closing case)) • review level • review ratings, • reviewer (HOC staff and/or contractor), and • deficiency codes. <p>This report can be requested for all lenders, an entire lending institution, or a single lender branch with reviewed cases within the jurisdiction of the HOC.</p>
F17NOCA – URS Lender Letter Report	<p>This report provides information on lender letters that were sent, or should have been sent, due to an “Unacceptable” rating for the mortgage credit analysis review (MC) and/or the valuation and underwriting documents review (Val).</p> <p>The following three different versions of the report can be requested:</p> <ul style="list-style-type: none"> • letters sent and not responded to by the lender • letters sent and responded to by the lender, and • letters that should have been sent. <p>Each version of the report lists, by originator and underwriter, the cases for which a letter was sent, or should have been sent, either</p> <ul style="list-style-type: none"> • within the last 30 days or less • more than 30 days and less than 90 days ago, or • 90 days ago or later.

Continued on next page

4. Onsite and Remote Lender Monitoring Reviews

Introduction This topic contains information regarding onsite and remote lender monitoring reviews, including

- the purpose of onsite and remote lender monitoring reviews
 - basis for targeting lenders
 - the performance of onsite and remote lender monitoring reviews
 - elements of the review, and
 - lender notification at the conclusion of the review.
-

Change Date December 23, 2010

**4155.2 9.B.4.a
Purpose of
Onsite and
Remote Lender
Monitoring
Reviews**

The purpose of the onsite and remote lender monitoring review is to

- ensure that lender practices are in compliance with statutory, regulatory, and administrative loan origination and servicing requirements
 - uncover mortgage finance fraud and abuse of HUD programs
 - identify lenders representing a high risk to FHA's insurance funds and take appropriate action to mitigate losses
 - provide consistency in the resolution of problems relating to lender non-compliance with FHA's loan origination and servicing requirements
 - provide compliance guidance to FHA-approved lenders to increase loan origination and to reduce servicing risks, and
 - provide timely feedback to lenders to enable them to improve performance.
-

**4155.2 9.B.4.b
Basis for
Targeting
Lenders**

FHA targets lenders for onsite and remote monitoring reviews based on

- default and claim rates
 - portfolio loss mitigation scores
 - complaints
 - high risk programs
 - portfolio charges, and
 - other high risk patterns.
-

Continued on next page

4. Onsite and Remote Lender Monitoring Reviews, Continued

- 4155.2 9.B.4.c Performance of Onsite and Remote Lender Monitoring Reviews**
- The Homeownership Center's (HOC) Quality Assurance Division (QAD) conducts onsite and remote reviews that consist of
- interviews with lender officials and their employees
 - interviews with loan participants, including employers, gift donors, buyers, and appraisers
 - an analysis of the lender's FHA-insured portfolios
 - an analysis of the lender's origination and/or servicing policies
 - reviews of
 - individual case files
 - logs and computer records, and
 - the lender's Quality Control (QC) Program, and
 - an exit conference.
-

- 4155.2 9.B.4.d Elements of the Review**
- The areas covered by the onsite and remote review include, but are not limited to
- implementation of a [QC](#) Plan
 - proper verification of all income, assets, and liabilities used to underwrite and approve the loan
 - proper verification of the adequacy and source of funds used for the borrower's required minimum investment
 - proper calculation of the maximum mortgage amount
 - accuracy and completeness of the Form [HUD-1](#), *Settlement Statement*
 - proper endorsement of loans via Lender Insurance (LI) or submission to the [HOC](#)
 - timely payment of mortgage insurance premiums
 - compliance with reporting requirements under the Home Mortgage Disclosure Act (HDMA)
 - evaluation of rejected loans and loan pricing for possible discriminatory practices, and
 - compliance with servicing requirements.
-

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4. Onsite and Remote Lender Monitoring Reviews, Continued

**4155.2 9.B.4.e
Lender
Notification at
Conclusion of
Review**

At the conclusion of the onsite and remote lender monitoring review, [QAD](#) discusses any findings with the lender. [QAD](#) also prepares a letter to the lender that

- outlines any deficiencies or other findings
- specifies any loans for which Indemnification Agreements are requested, and
- states that the lender is required to respond to any identified findings.

Reference: For more information on Indemnification Agreements, see [HUD 4155.2 9.D.4](#) and/or contact the HOC QAD.

5. Neighborhood Watch Early Warning System

Introduction This topic contains information on the Neighborhood Watch Early Warning System, including

- a description of the Neighborhood Watch Early Warning System, and
 - types of Neighborhood Watch reports.
-

Change Date March 1, 2011

Continued on next page

5. Neighborhood Watch Early Warning System, Continued

4155.2 9.B.5.a Description of the Neighborhood Watch Early Warning System

Neighborhood Watch Early Warning System is a web-based application that displays loan performance data for single family mortgages, lenders, and appraisers.

Origination loan information is displayed for a two-year period and is updated on a monthly basis. The default data includes current defaults and defaults within the first two years from endorsement. Servicing data is updated monthly and may be viewed by servicers.

Neighborhood Watch is a tool that aids

- FHA staff in monitoring both lenders and FHA programs, and
- lenders in analyzing their own early default and claim performance, and that of
 - sponsored third-party originators, and
 - other lenders.

The system is designed to highlight exceptions, so that potential problems are readily identifiable. In addition, the system can be used to identify loan programs, geographic areas, and lenders that are performing well.

The system provides the ability to identify and analyze patterns in loans that became 90 days delinquent during their first two years, either by geographic area, or by originating lender.

The default data is based on the first time that loans within the two year loan origination period were first reported to HUD as 90 days or more delinquent. Therefore, the default statistics include loans that were defaulted on, but have been subsequently cured.

Reference: For more information on Neighborhood Watch for sponsored originations, see [HUD 4155.2 2.B.6.e](#).

Continued on next page

5. Neighborhood Watch Early Warning System, Continued

4155.2 9.B.5.b Types of Neighborhood Watch Reports

Neighborhood Watch reports provide the ability to view origination and default data in two principal ways through the use of the following two different types of reports:

- Early Warnings – These reports provide summary data for an individual lender or all lenders within various geographic areas selected by the reviewer.
 - Analysis – These reports provide the ability to compare all or specific lenders within one geographic area to all or specific lenders within another geographic area.
-

6. Other Lender Monitoring Tools

Introduction This topic contains information on other lender monitoring tools, including

- pre-closing test cases
 - complaints, and
 - prior lender sanctions.
-

Change Date December 23, 2010

**4155.2 9.B.6.a
Pre-Closing
Test Cases** Pre-closing test cases provide the ability to review lender underwriting prior to loan closing and endorsement. Whether for new lenders seeking Unconditional DE authority for the first time or lenders who have been placed on probation, pre-closing test cases allow Homeownership Center (HOC) staff to assess the knowledge and judgment of a lender's underwriter(s).

**4155.2 9.B.6.b
Complaints** Complaints received from borrowers, counseling agencies, appraisers, or other lenders can assist [HOC](#) staff in identifying problems, potential fraud, or abuse.

A pattern of complaints may lead to an increase in post endorsement technical reviews (PETRs) or other actions by the [HOC](#).

**4155.2 9.B.6.c
Prior Lender
Sanctions** When problems, complaints, or other performance issues arise, a review of any prior lender sanction imposed may provide background and other helpful information for addressing current issues.

Section C. Post Endorsement Technical Review (PETR) Procedures

Overview

Contents

This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	Targeting Lenders for Post Endorsement Technical Reviews (PETRs)	9-C-2
2	PETR Ratings	9-C-4
3	PETR URS Data Entry Requirements	9-C-6
4	Deficiency Letters and Lender Responses	9-C-10

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

Introduction This topic contains information on targeting lenders for post endorsement technical reviews (PETRs), including

- 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** 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

- the percentage of the lender's cases receiving an Unacceptable rating
 - the recommendation of the Quality Assurance Division (QAD)
 - complaints from
 - borrowers
 - counseling agencies
 - appraisers
 - lender's staff, or
 - other lenders, and
 - other factors considered appropriate by the [HOC](#).
-

Continued on next page

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

4155.2 9.C.1.c
PETR for DE
Lenders
Released From
Probation
Status

When a lender is returned to unconditional DE approval following a period of probation, then

- 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.

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>

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.

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](#).

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	The initial review level is completed for the first PETR of a loan. Note: The initial review level may be completed by Homeownership Center (HOC) staff or by a contractor.

Continued on next page

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

PETR Review Levels (continued)

Review Level	Description
Quality Control	The Quality Control (QC) level is used to enter the results of QC reviews of the initial reviews performed by contractors.
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>

Continued on next page

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

4155.2 9.C.3.c
Entry of
Ratings and
Deficiency
Codes into URS

For both the Mortgage Credit (MC) and Valuation Underwriting (Val/UW) of a loan, the reviewer must enter a rating of either

- 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](#).
-

4155.2 9.C.3.d
Entry of
Narrative
Information
into URS

After conducting a [PETR](#), the reviewer must enter into [URS](#) narrative explanations for

- each deficiency code cited, and
 - any rating changed from a previous review level.
-

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.
-

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.

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.

Continued on next page

4. Deficiency Letters and Lender Responses, Continued

HOC Processing of Lender Responses (continued)

If the lender ...	Then the HOC ...
<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 	<p>forwards a recommendation to the Quality Assurance Division (QAD) for an Indemnification Agreement.</p>

Section D: Lender Sanctions

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	General Information on Lender Sanctions	9-D-2
2	Lender Probation	9-D-3
3	Withdrawal of Direct Endorsement Authority	9-D-6
4	Use of Indemnification Agreements	9-D-9
5	Civil Money Penalties	9-D-10
6	Sanctions Against Individuals and Other Program Participants	9-D-15

1. General Information on Lender Sanctions

Introduction This topic contains general information on lender sanctions, including

- the application of sanctions against a lender, and
 - the types of lender sanctions.
-

Change Date December 23, 2010

**4155.2 9.D.1.a
Application of
Sanctions
Against a
Lender** Various sanctions exist that allow the Homeownership Centers (HOCs) and FHA the flexibility to respond appropriately to any noncompliance action by a Direct Endorsement (DE) lender or other program participant. Noncompliance actions vary significantly in their scope and effect. The more serious the scope and effect of the action, the more serious the sanction applied.

When deciding what sanction to apply against a lender, FHA considers

- the seriousness and extent of the violation(s)
 - the degree of fault on the part of the individual or the mortgage lender, and
 - any mitigating factors.
-

**4155.2 9.D.1.b
Types of
Lender
Sanctions** The following sanctions may be imposed by [HOCs](#) and/or the Mortgagee Review Board (MRB):

- lender probation
 - withdrawal of [DE](#) status
 - withdrawal of FHA approval
 - indemnification agreements
 - civil money penalties, and
 - sanctions against individual program participants.
-

2. Lender Probation

Introduction This topic contains information on lender probation, including

- the applicability of the probation sanction
 - elements of lender probation
 - lender notification of probation
 - the effective date of the probation, and
 - the reasons for returning a lender to pre-closing review status.
-

Change Date December 23, 2010

4155.2 9.D.2.a Applicability of the Probation Sanction The probation sanction is applied to the mortgage lender’s office (branch or main) that submitted the non-complying cases. The sanction generally applies to an

- individual branch or home office of a mortgage lender, and
- individual field office jurisdiction.

However, the Homeownership Center (HOC) has discretion to impose the sanction against all of a lender’s offices, or all offices within a field office jurisdiction.

4155.2 9.D.2.b Elements of Lender Probation When a mortgage lender’s main office or branch office fails to comply with Direct Endorsement (DE) Program requirements, the [HOC](#) may place the office on probation. The sanction imposed under the lender probation depends upon the seriousness of the problems and deficiencies exhibited by the lender. FHA views a return to pre-closing status as the most serious sanction.

The table below lists the various elements that may be involved in a lender’s probation.

Probation Element	Description
Training	The lender’s underwriter, or other technical staff, may be required to attend appropriate training sessions.
Technical Reviews	The HOC may increase the percentage of lender cases subject to technical reviews.

Continued on next page

2. Lender Probation, Continued

4155.2 9.D.2.b Elements of Lender Probation (continued)

Probation Element	Description
Pre-closing Review Status	<p>The HOC may</p> <ul style="list-style-type: none"> • place a lender back in pre-closing review status, and • subject the lender’s cases to technical underwriting reviews and firm commitment processing prior to endorsement. <p>Pre-closing review status continues until the</p> <ul style="list-style-type: none"> • lender corrects underwriting deficiencies, or • lender’s DE approval is withdrawn. <p>Reference: For information on reasons for placing a lender in pre-closing review status, see HUD 4155.2 9.D.2.e.</p>
Lender Audit	<p>The HOC may require the lender to perform a review or audit of its underwriting processes and report results to the HOC.</p> <p>The HOC may also conduct an onsite lender monitoring review.</p>
Quality Control Plan	<p>The HOC may require the lender to make changes to its Quality Control (QC) Plan.</p>

4155.2 9.D.2.c Lender Notification of Probation

The [HOC](#) must send a written notice of the probation action to the mortgage lender. The probation notice explains the

- probation elements being applied, and
- non-complying action that precipitated the probation.

Reference: For more information on the format for the probation letter, see [HUD 4155.2 12.C.4](#).

Continued on next page

2. Lender Probation, Continued

4155.2 9.D.2.d Effective Date of Probation

Lender probation is effective immediately upon the receipt of the [HOC](#) notification letter by the mortgage lender.

4155.2 9.D.2.e Reasons for Returning a Lender to Pre- Closing Review Status

The [HOC](#) must return a lender to pre-closing review status under the circumstances listed below.

- A lender's branch or only office has had 20% or more of its post endorsement technical review (PETR) cases rated Unacceptable for two consecutive quarters. (*Note:* The lender must have had at least 50 cases subjected to [PETRs](#) during each quarter, or such lower number as established by the [HOC](#)).
 - After review of a lender's cases, the
 - [HOC](#) identifies a pattern of fraud of which the lender was aware, or should have been aware, and
 - Quality Assurance Division (QAD) has recommended that the lender be returned to pre-closing status based on the results of onsite or other reviews conducted of that lender.
-

3. Withdrawal of Direct Endorsement (DE) Authority

Introduction This topic contains information on the withdrawal of Direct Endorsement (DE) authority, including

- withdrawing DE lender approval status
 - notification of the withdrawal of DE lender status
 - the effective date of the DE lender status withdrawal
 - the lender/Homeownership Center (HOC) informal conference and follow-up
 - Mortgage Review Board (MRB) withdrawal of FHA basic approval
 - the effect of the withdrawal of DE and/or FHA approval on cases in process, and
 - withdrawal of DE authority for excessive default and claim rates.
-

Change Date March 1, 2011

**4155.2 9.D.3.a
Withdrawing
DE Lender
Approval
Status** The Homeownership Center (HOC) may withdraw the Direct Endorsement (DE) lender approval of any lender's branch office that demonstrates a pattern or practice of failing to comply with FHA underwriting guidelines or other program requirements.

Continued on next page

3. Withdrawal of Direct Endorsement (DE) Authority, Continued

4155.2 9.D.3.b Notification of Withdrawal of DE Lender Status

The [HOC](#) must send written notice of the withdrawal of [DE](#) lender status to the lender. The notice

- is sent and applies specifically to the lender's office that submitted the non-complying cases
- states the grounds for action, and
- informs the lender of the right to an informal conference before the decision-making [HOC](#).

Note: Copies of the notice are sent to the

- Office of Lender Activities and Program Compliance (OLAPC), and
- Single Family Development Division.

References: For more information on the

- informal conference with the [HOC](#), see [HUD 4155.2 9.D.3.d](#), and
 - format for the withdrawal letter, see [HUD 4155.2 12.C.6](#).
-

4155.2 9.D.3.c Effective Date of the DE Lender Status Withdrawal

[DE](#) lender status withdrawal is effective immediately upon receipt of the notice by the lender.

4155.2 9.D.3.d Lender/HOC Informal Conference and Follow Up

The purpose of the informal conference between the lender and the [HOC](#) is to provide the lender with the opportunity to

- address the grounds for the action as stated in the notice
- make documentary and oral presentations, and
- advise the [HOC](#) decision-maker as to what actions, if any, the lender has taken to address the problems identified.

Following the informal conference, the [HOC](#) decision-maker advises the lender, in writing, as to whether the withdrawal has been rescinded, modified, or affirmed.

Continued on next page

3. Withdrawal of Direct Endorsement (DE) Authority, Continued

**4155.2 9.D.3.e
MRB
Withdrawal of
Basic FHA
Approval**

The Mortgagee Review Board (MRB) reviews cases of serious non-compliance with [DE](#) program requirements and may issue a letter of reprimand, probation, suspension or withdrawal for any lender in violation of FHA requirements, the non-discrimination requirements of the Equal Credit Opportunity Act (ECOA), the Fair Housing Act, or Executive Order 11063.

Only the [MRB](#), and *not* a [HOC](#), may withdraw a lender's basic FHA approval. Withdrawal of basic FHA approval applies to *all* offices of the mortgage lender.

Withdrawn FHA approval means that the lender may not originate, service, or purchase any FHA-insured mortgages.

References: For information on

- applying for FHA approval, see [HUD 4155.2 2.A.1.d](#), and
 - the Mortgagee Review Board, see [HUD 4060.2](#).
-

**4155.2 9.D.3.f
Effect of
Withdrawal of
DE and/or FHA
Approval on
Cases in
Process**

A mortgage involving a borrower whose application was approved on or before the date that the lender received notification of the withdrawal of its [DE](#) or FHA approval, may be closed under the [DE](#) Program and submitted to FHA for endorsement.

The lender must transfer all other applications in process to another [DE](#)-approved lender for completion of processing, submission and endorsement.

**4155.2 9.D.3.g
Withdrawal of
DE Authority
for Excessive
Default and
Claim Rates**

HUD can use its regulatory authority to terminate a lender's authorization to underwrite single family loans in specific geographic areas where the lender has a high rate of early defaults and claims.

See [ML 10-03](#) for more information on the review, appeal and reinstatement processes, criteria for termination, and mitigating factors.

Reference: For more information on lender approval, see [HUD 4060.1](#) REV-2, *Mortgagee Approval Handbook*.

4. Use of Indemnification Agreements

Introduction This topic contains information on the use of indemnification agreements, including

- use of indemnification agreements
 - who requests indemnification
 - the terms of the indemnification agreement, and
 - the duration of an indemnification agreement.
-

Change Date December 23, 2010

4155.2 9.D.4.a Use of Indemnification Agreements Lender violations that significantly increase FHA's risk, and were caused by fraud or negligence on the part of the lender, should result in an indemnification agreement with the lender.

4155.2 9.D.4.b Who Requests Indemnification Indemnification is requested by either the

- Homeownership Center (HOC), through the Quality Assurance Division (QAD), when appropriate, or
- Office of Lender Activities and Program Compliance (OLAPC), located at FHA Headquarters, in lieu of referring the matter to the Mortgagee Review Board (MRB).

4155.2 9.D.4.c Terms of an Indemnification Agreement Under an indemnification agreement, the originating lender agrees to either

- abstain from filing an insurance claim, or
- reimburse FHA if a subsequent holder of the mortgage files an insurance claim and FHA suffers a financial loss disposing of the property.

4155.2 9.D.4.d Duration of an Indemnification Agreement The term or duration of an indemnification agreement varies according to the severity of the violation. Typically, the agreement is effective for five years from the date of the agreement, but may extend for a longer period at FHA's discretion.

5. Civil Money Penalties

Introduction This topic contains information on civil money penalties, including

- grounds for civil money penalties
 - who may receive a civil money penalty
 - who imposes a civil money penalty
 - referring a case for consideration of a civil money penalty, and
 - examples of program violations warranting civil money penalties.
-

Change Date March 1, 2011

**4155.2 9.D.5.a
Grounds for
Civil Money
Penalties** FHA may impose civil money penalties upon those entities (both individual and corporate) connected with an insured mortgage who *knowingly and materially*

- do *not* implement a Quality Assurance (QA) Plan
- demonstrate a pattern of egregious violations of FHA policy
- submit false information or falsely certify to the FHA, or
- submit a false certification by another person or entity to the FHA.

References:

- For more information on civil money penalties, see [24 CFR 30](#).
 - For examples of program violations warranting civil money penalties, see [HUD 4155.2 9.D.5.e](#), and
 - For a definition of “*knowingly and materially*,” see [HUD 4155.2 9.D.5.d](#).
-

Continued on next page

5. Civil Money Penalties, Continued

4155.2 9.D.5.b Who May Receive a Civil Money Penalty

FHA is authorized to pursue civil money penalties against any owners, officers or directors of an FHA-approved lender for violations of program requirements. FHA may also pursue civil money penalties against any

- non-FHA approved or unauthorized individual or entity that originates an FHA-insured loan
 - participant in FHA programs that causes or participates in any violation set forth in Section 536(b)(1) of the National Housing Act (NHA)
 - other program participants, including but not limited to
 - real estate agents and brokers
 - appraisers and inspectors
 - borrowers
 - mortgage brokers and third-party originators, and
 - closing agents and title companies.
-

4155.2 9.D.5.c Who Imposes a Civil Money Penalty

The imposition of civil money penalties is the responsibility of the

- Mortgagee Review Board ([MRB](#)), for penalties against mortgage lender program participants, and
 - Assistant Secretary for Housing/Federal Housing Commissioner, for penalties against any other participants.
-

Continued on next page

5. Civil Money Penalties, Continued

4155.2 9.D.5.d Referring a Case for Consideration of a Civil Money Penalty

The table below describes the process for referring a case to either the [MRB](#) or the Assistant Secretary for Housing/Federal Housing Commissioner for consideration of a civil money penalty.

Stage	Description
1	<p>The Homeownership Center (HOC) refers a lender or other program participant for consideration of a civil money penalty, making sure that the referral is based upon adequate documentation that the program participant <i>knowingly and materially</i> engaged in violations of the FHA's rules or requirements.</p> <p>Note: The term</p> <ul style="list-style-type: none"> • “<i>knowingly</i>” means that the program participant <ul style="list-style-type: none"> – had actual knowledge of the violations – should have known of the acts, or – was acting with deliberate ignorance or reckless disregard of the FHA's requirements, and • “<i>materially</i>” means that the violations have a financial impact on FHA or may have influenced an FHA decision (such as whether to endorse a mortgage for insurance).

Continued on next page

5. Civil Money Penalties, Continued

4155.2 9.D.5.d Referring a Case for Consideration of a Civil Money Penalty (continued)

Stage	Description
2	<p>The Director of the Office of Lender Activities and Program Compliance (OLAPC) located at FHA Headquarters reviews the HOC referral for</p> <ul style="list-style-type: none"> • full factual background of the violations • citation(s) of violated FHA regulations or requirements • all supporting documentation of the violations, and • all information that the program participant previously submitted to the HOC.
3	<p>The Director of the OLAPC coordinates the referral and, if appropriate, submits the case to the MRB or to the Assistant Secretary for Housing/Federal Housing Commissioner for action.</p>

Continued on next page

5. Civil Money Penalties, Continued

4155.2 9.D.5.e
Examples:
Program
Violations
Warranting
Civil Money
Penalties

Examples of “*knowingly and materially*” engaging in program violations include the

- transfer of an insured mortgage to a mortgage lender not approved by FHA
 - use of escrow funds for any purpose other than that for which they were received
 - falsely certifying or submitting a false certification by another person
 - failure to comply with mortgage servicing requirements
 - submission of false information in connection with any insured mortgage transaction
 - hiring or employing an individual such as an officer, director, principal or employee, whose duties involve programs administered by the FHA, while that individual is under suspension or debarment by the FHA
 - failure to comply with any agreement, certification or condition set forth or applicable to the application of a mortgage lender for approval by the FHA
 - failure by a mortgage lender to segregate escrow funds received from borrowers and to deposit such funds in a special account with a federally-insured depository institution
 - hiring or retaining an agent whose duties involve programs administered by the FHA while such agent is under suspension or debarment by the FHA
 - failure to remit, or timely remit, Mortgage Insurance Premiums (MIPs), loan insurance charges, late charges or interest penalties
 - failure to timely submit documents that are complete and accurate in connection with a conveyance of property or a claim for insurance benefits, and
 - failure to comply with the provisions of the Real Estate Settlement Procedures Act (RESPA) and the Home Mortgage Disclosure Act (HMDA).
-

6. Sanctions Against Individuals and Other Program Participants

Introduction This topic contains information on sanctions against individuals and other program participants, including

- the policy on imposing sanctions
 - employee improprieties may be attributed to the organization
 - the types of sanctions
 - the Limited Denial of Participation ([LDP](#)) sanction, and
 - debarment.
-

Change Date December 23, 2010

4155.2 9.D.6.a Policy on Imposing Sanctions FHA may impose sanctions upon individuals and companies involved in FHA programs who demonstrate a lack of business responsibility.

Examples:

- Direct Endorsement ([DE](#)) underwriters
- FHA Roster appraisers or inspectors
- real estate agents or brokers, pest control operators, and so on, or
- companies who participate in FHA programs, such as
 - real estate companies, and
 - appraisal and inspection companies.

Reference: For more information on imposing sanctions on individuals and companies, see 24 CFR 24.

4155.2 9.D.6.b Employee Improprieties May Be Attributed to the Organization Criminal, fraudulent or other seriously improper conduct by DE underwriters or other mortgage lender employees may be attributed to the organization with which the employee is connected when the impropriety is performed within the course of the employee's official duty.

Such impropriety may result in appropriate administrative sanctions against the DE mortgage lender.

Continued on next page

6. Sanctions Against Individuals and Other Program Participants, Continued

4155.2 9.D.6.c Types of Sanctions

The two types of sanctions to be imposed on individuals and other program participants (companies) include

- Limited Denial of Participation ([LDP](#)), and
- debarment.

References: For more information on

- the [LDP](#) sanction, see [HUD 4155.2 9.D.6.d](#), and
- Debarment, see [HUD 4155.2 9.D.6.e](#).

Continued on next page

6. Sanctions Against Individuals and Other Program Participants, Continued

4155.2 9.D.6.d LDP Sanction An [LDP](#) excludes a specific person from participating in a specific program, or programs, within a Homeownership Center’s ([HOC](#)) geographic jurisdiction, for a specific period of time. An [LDP](#) is normally issued by a [HOC](#), but may be issued by a HUD Headquarters office.

The table below provides details on the LDP sanction.

LDP Information	Description
Causes for Issuing an LDP	<p>An LDP may be issued against an individual, a contractor, or other program participant based upon adequate evidence of any of the following:</p> <ul style="list-style-type: none"> • approval of an applicant who is an unsatisfactory risk • irregularities in a person’s past performance in an FHA program • failure of a person to maintain the prerequisites of eligibility to participate in an FHA program • failure to honor contractual obligations or to proceed in accordance with contract specifications or HUD regulations • failure to satisfy, upon completion, the requirements of an assistance agreement or contract • deficiencies in ongoing construction projects • falsely certifying in connection with any FHA program, whether or not the certification was made directly to FHA • commission of an offense as listed in 24 CFR 24.800 • imposition of an LDP by any other HUD office • violation of any law, regulation, or procedure relating to the application for financial assistance, insurance, or guarantee, or to the performance of obligations incurred pursuant to a grant of financial assistance or pursuant to a conditional or final commitment to insure or guarantee • failure to proceed in accordance with DE underwriting guidelines in all aspects of loan origination, such as architectural review, property analysis, mortgage credit analysis, underwriting guidelines, and closing requirements • making or procuring to be made any false statement for the purpose of influencing in any way an action of the Department, and • debarment or suspension by another Federal agency for any cause substantially the same as provided in 24 CFR 24.800

Continued on next page

6. Sanctions Against Individuals and Other Program Participants, Continued

4155.2 9.D.6.d LDP Sanction (continued)

LDP Information	Description
Causes for Issuing an LDP (cont.)	<p>Exceptions: FHA-approved mortgage lenders are not eligible for LDP.</p> <p>Note: A decision to order an LDP is discretionary and should be imposed only in the best interest of Government.</p> <p>Reference: For more information on LDPs, see 24 CFR 24.1100 through 24.1165.</p>
Scope of LDP	<p>An LDP generally extends only to participation in the program under which the cause arose. However, an LDP may, at the discretion of the authorized official, extend to other programs, initiatives, or functions within the jurisdiction of an Assistant Secretary.</p> <p>The authorized official may determine that a sanction will apply to all programs throughout HUD when the sanction is based on an indictment or conviction.</p>
Duration of LDP	The LDP sanction may be imposed for a period not to exceed 12 months, and is limited to the geographic jurisdiction of the HOC imposing the sanction.
LDP Processing and Appeal Procedures	LDP processing and appeal procedures are set forth in 24 CFR 24.1100 through 24 CFR 24.1165

Continued on next page

6. Sanctions Against Individuals and Other Program Participants, Continued

4155.2 9.D.6.e The table below provides details regarding debarment.
Debarment

Debarment Information	Description
Who May Impose Debarment	A HOC , or the Deputy Assistant Secretary for Single Family Housing may refer persons or companies to FHA Headquarters for proposed debarment proceedings. Only the Assistant Secretary for Housing/Federal Housing Commissioner may actually impose debarment.
Causes for Proposing a Debarment	Reasons for imposing debarment are listed in 24 CFR 24.800 and include <ul style="list-style-type: none"> • criminal conviction or civil judgment for commission of fraud • violation of the terms of a public agreement or transaction so serious as to affect the integrity of an agency program • any other serious or compelling cause that affects the present responsibility of a person, or • material violation of a statutory or regulatory provision or program requirement.
Scope of Debarment	Debarment excludes the party being debarred from all Federal Government programs.
Duration of Debarment	Debarment should be commensurate with the cause of the debarment, but generally does not exceed 3 years.
Debarment Processing and Appeal Procedures	Debarment processing and appeal procedures are set forth in 24 CFR 24.805 through 24 CFR 24.885

Section A: Policies on Changes After Endorsement

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	General Information on Changes After Insurance Endorsement	10-A-2
2	Changes Allowed/Not Allowed After Insurance Endorsement	10-A-3
3	Handling Corrections to Original Instruments After Insurance Endorsement	10-A-6

1. General Information on Changes After Insurance Endorsement

Introduction This topic contains general information on changes after mortgage insurance endorsement, including

- the effect of changes on the existing contract of insurance, and
 - compliance with regulations when allowing changes.
-

Change Date March 24, 2011

4155.2 10.A.1.a Effect of Changes on the Existing Contract of Insurance The lender and borrower may agree to change the mortgage terms (loan modification) or otherwise change the nature of the obligation or the security (property) after the mortgage has been insured.

When this occurs, and such practice is acceptable under state laws, the existing contract of insurance remains in effect.

Reference: For information on forbearance agreements, see [HUD 4330.1](#), *Administration of Insured Home Mortgages*, REV-5, Chapter 8.

4155.2 10.A.1.b Compliance With Regulations When Allowing Changes Lenders are reminded that when deciding whether or not to allow a change to an existing mortgage, they are expected to abide by

- the Fair Housing Act
- the Equal Credit Opportunity Act (ECOA)
- Executive Order 11063, and
- FHA regulations issued pursuant to these authorities.

Reference: For information on the Fair Housing Act, [ECOA](#) and Executive Order 11063, see [HUD 4155.2 1.B](#).

2. Changes Allowed/Not Allowed After Insurance Endorsement

Introduction This topic contains information on changes allowed/not allowed after insurance endorsement, including

- types of changes that *may* be allowed but which require prior FHA approval
- approving a change in first payment or maturity date
- requests for an increase in value, and
- requests to amend an application to include special assessments.

Change Date March 24, 2011

4155.2 10.A.2.a The table below lists

Types of Changes Requiring Prior FHA Approval

- the types of changes made to the mortgage terms or property after insurance endorsement that may be allowed but which require prior FHA approval, and
- references for locating additional information.

Mortgage Change	Reference
A mortgage modification for more than 10 years beyond the original maturity date.	See HUD 4330.1 Rev-5 , Chapter 3 for processing procedures.
A partial release of security <i>not</i> resulting from condemnation.	See HUD 4155.2 11 for processing procedures.

Continued on next page

2. Changes Allowed/Not Allowed After Insurance Endorsement, Continued

4155.2 10.A.2.a Types of Changes Requiring Prior FHA Approval (continued)

Mortgage Change	Reference
A partial release of security resulting from condemnation, but the condemnation does not meet the requirements of 24 CFR 203.389(n) .	See HUD 4155.2 11 for processing procedures.
A change in the location of the dwelling (moving the dwelling to another lot) in other than emergency circumstances.	See HUD 4155.2 10.B for processing procedures.

4155.2 10.A.2.b Approving a Change in First Payment or Maturity Date

If, after the loan is insured, a request is received to postpone the first payment date and/or maturity date, it is the policy of FHA to approve, in justified cases, the correction of delinquencies that occurred prior to insurance. This is done by postponing the date of the first payment. However, FHA does *not* approve the correction of delinquencies that occur *after* insurance.

To effectuate requests for a postponement of the first monthly payment due date, the appropriate Homeownership Centers (HOC) are authorized to consent to a postponement of said date not to exceed 30 days after the date of endorsement. The new first monthly payment due date must be entered into the Computerized Homes Underwriting Management System (CHUMS).

When occupancy of the property by the borrower is delayed because of delays in construction or other circumstances beyond the borrower's control, and the mortgage has already been recorded, the lender may request FHA approval to change the maturity date of the mortgage.

If a request for FHA approval is received *prior* to insurance and appears to be reasonable, the appropriate [HOC](#) may authorize insurance of the mortgage.

4155.2 10.A.2.c Requests for an Increase in Value

FHA does *not* accept requests for an increase in value after a mortgage is insured.

Continued on next page

2. Changes Allowed/Not Allowed After Insurance Endorsement, Continued

4155.2 10.A.2.d Requests to Amend an Application to Include Special Assessments

It is impossible for FHA to grant a request to amend an application to include special assessments (which were liens prior to endorsement for insurance), received after the mortgage has been insured. The terms of the regulations under which a mortgage is insured govern the rights of the lender from the date of such insurance.

For previously-insured mortgages, some lenders

- require a waiver letter in connection with customary building and use restrictions, and
- also include requests for statements that certain special assessments payable in future installments have been considered by the FHA in determining value.

In reply to such requests, it is important that these statements be limited to the building and use restrictions, and *not* include the assessments.

[HOCs](#) are *not* authorized to provide waivers on assessments after the mortgage is insured.

3. Handling Corrections to Original Instruments After Insurance Endorsement

Introduction

This topic contains information on handling corrections to original instruments after insurance endorsement, including

- corrections to original instruments, and
 - correcting two common types of errors.
-

Change Date

March 24, 2011

**4155.2 10.A.3.a
Corrections to
Original
Instruments**

Certain types of errors can be corrected in some jurisdictions without destroying the identity of the original note and, therefore, without requiring the submission of new instruments for endorsement.

Because all types of errors cannot be described in this handbook, lenders must request guidance from the appropriate Homeownership Center (HOC) for individual cases.

Continued on next page

3. Handling Corrections to Original Instruments After Insurance Endorsement, Continued

4155.2 10.A.3.b Correcting Two Common Types of Errors The table below describes the procedure for handling two common types of errors.

Type of Error	Procedural Guidelines
Incorrect Legal Description	<p>When there is an incorrect legal description, the</p> <ul style="list-style-type: none"> • lender may submit a new mortgage or deed of trust, executed by the interested parties, containing a recital to the effect that the instrument has been given for the purpose of correcting the error in the previous instrument of record, or • transaction must be handled as a new case if it is necessary to present a new credit instrument for insurance. <p>The final determination of the method used to correct the errors in such cases should be left to the discretion of the lender, which is responsible for being able to complete foreclosure in the event of default, and otherwise comply with the insurance contract.</p> <p><i>Note:</i> If the change in the legal description involves a release of land intentionally included by the interested parties as part of the original security, follow the procedure for the partial release of security found in HUD 4155.2 11.</p>
Incorrect or Discrepant Signature on Mortgage or Note	<p>A lender may notify the HOC that a discrepancy in the signatures on the various instruments exists, but that the parties are the same. Such letters should be</p> <ul style="list-style-type: none"> • marked with the case number, and • submitted to the appropriate HOC. <p>Upon receipt and review of the letter, the appropriate HOC will notify the lender of any further action that must be taken.</p>

Section B: Changes in Home Location After Insurance Endorsement

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	Non-Emergency Procedure for Change in Home Location After Insurance	10-B-2
2	Emergency Procedure for Change in Home Location After Insurance	10-B-5

1. Non-Emergency Procedure for Change in Home Location After Insurance

Introduction This topic contains the procedures for a non-emergency change in home location after mortgage insurance, including

- background information on a change in home location after insurance
 - lender request requirements, and
 - processing a non emergency request for a change in home location after insurance.
-

Change Date March 24, 2011

4155.2 10.B.1.a Background Information on a Change in Home Location Following insurance endorsement of a mortgage, it may be to the advantage of the borrower, lender, and the FHA to remove the home from the lot upon which the appraisal for mortgage insurance was based.

Reference: For more information on relocating a home, see [HUD 4150.1, Valuation Analysis for Home Mortgage Insurance](#).

4155.2 10.B.1.b Lender Request Requirements To request a change in the location of a home after insurance, the lender must

- prepare a supplementary case binder containing
 - the lender’s request, and
 - supporting documentation (such as architectural exhibits, a copy of the permit, and a description of materials), and
 - submit the binder/request to the Homeownership Center (HOC) for processing.
-

Continued on next page

1. Non-Emergency Procedure for Change in Home Location After Insurance, Continued

**4155.2 10.B.1.c
Processing a
Non-
Emergency
Request for a
Change in
Home Location**

The [HOC](#) will follow the steps in the table below to process a request from a lender for a change in the location of a home after insurance.

Step	The HOC will ...
1	Upon receipt of the request from the lender, obtain any additional information, if needed.
2	Analyze the proposal.
3	Determine whether or not the change of home location is acceptable to FHA. Is the change of location acceptable to FHA? <ul style="list-style-type: none"> • If <i>yes</i>, go to Step 5. • If <i>no</i>, go to Step 4.
4	If the change in location is <i>unacceptable</i> <ul style="list-style-type: none"> • notify the lender • not maintain the supplementary binder • retain a copy of the HOC decision in the loan servicing file. This step completes this procedure if the change is <i>unacceptable</i> .

Continued on next page

1. Non-Emergency Procedure for Change in Home Location After Insurance, Continued

4155.2 10.B.1.c Processing a Non-Emergency Request for a Change in Home Location (continued)

Step	The HOC will ...
5	<p>If the change of location is <i>acceptable</i></p> <ul style="list-style-type: none"> • prepare a letter to the lender stating that <ul style="list-style-type: none"> – the lender has the responsibility for maintaining a good and valid first lien – approval is conditioned upon the completion of the move and installation of the house in a manner satisfactory to FHA, and – FHA will make appropriate property inspections to determine if the conditions upon which FHA based its approval have been met, and • go to Step 6. <p><i>Note:</i> If, after issuance of the letter, it is found that the structure will not be moved, it is not necessary to maintain the supplementary binder.</p>
6	<p>Once the home is relocated</p> <ul style="list-style-type: none"> • arrange for an inspection of the property to determine if the move of the structure has been satisfactorily accomplished, and • ensure that a certificate of occupancy is obtained from the local jurisdiction. <p><i>Note:</i> A comprehensive engineering report is needed to ensure that the dwelling is structurally sound. A compliance inspection by an FHA Roster inspector is required to ensure that utilities are hooked up, proper foundations are used, there is satisfactory grading and drainage, repairs of damage are made, and any other necessary corrections are completed.</p>
7	<p>Upon completion of a satisfactory inspection</p> <ul style="list-style-type: none"> • recall from Central Records the original insured case binder • merge the supplementary case binder documentation into the original case binder, and • return the original case binder to Central Records.

2. Emergency Procedure for Change in Home Location After Insurance

Introduction This topic contains information on emergency changes of location after mortgage insurance, including

- reasons for an emergency request for a change in home location after insurance, and
 - processing an emergency request for a change in home location after insurance.
-

Change Date March 24, 2011

**4155.2 10.B.2.a
Reasons for an
Emergency
Request for a
Change of
Location After
Insurance** Following an earthquake or other disaster

- a structure located on a property that is security for an insured mortgage may be hazardous, even if undamaged or only slightly damaged, or
 - the surrounding area may be so hazardous as to preclude continued occupancy of the residence.
-

**4155.2 10.B.2.b
Processing an
Emergency
Request for a
Change in
Home Location
After Insurance** Upon receipt of the lender's request and supplementary case binder, as described in [HUD 4155.2 10.B.1.b](#), the appropriate Homeownership Center (HOC) will

- prepare and sign a letter to the lender that
 - states that the move is acceptable to FHA, and
 - requests that the necessary information regarding the move to the permanent lot be supplied as soon as possible, and
 - follow the procedures set forth in [HUD 4330.1](#), *Administration of Insured Home Mortgages*, for further processing of the request.
-

Chapter 11. Partial Release of Security

1. When FHA Approval Is or Is Not Required for a Partial Release of Security

Introduction

This topic contains general information on when FHA approval is or is not required for a partial release of the property securing an insured mortgage, including

- the lender's rights under the original contract
 - conditions under which FHA approval is not required
 - government actions for which FHA approval is not required, and
 - requirements for release requests when FHA approval is required.
-

Change Date

May 10, 2009

4155.2 11.1.a Lender's Rights Under the Original Contract

When FHA approves the release of a portion of the property securing an insured mortgage, the lender's rights under the original contract for insurance are *not* affected.

4155.2 11.1.b Conditions Under Which FHA Approval Is Not Required

Per [24 CFR 203.389\[n\]](#), FHA approval is *not* required for the voluntary or involuntary partial release of the security provided that *all* of the following conditions are met:

- the portion of the property being conveyed does not exceed 10 percent of the area of the mortgaged property
- there is no damage to existing structures or other improvements, and there is no unrepaired damage to sewer, water, or paving
- all of the payment received as compensation for the taking of the property is applied to reduce the unpaid principal balance of the mortgage, and
- the conveyance occurs *after* insurance of the mortgage.

Note: If the lender files a claim for mortgage insurance benefits, the claim must be accompanied by the lender's certification that the above listed requirements have been met.

Continued on next page

1. When FHA Approval Is or Is Not Required for a Partial Release of Security, Continued

4155.2 11.1.c Government Actions for Which FHA Approval Is Not Required

FHA approval is *not* required when there is a release of a portion of security as a result of governmental action.

When the lender receives a request to join with the borrower in conveying a portion of the security for an insured mortgage to a governmental agency of use in connection with a road, highway or park project, or for other public purposes, the lender may consent to the release without the prior approval of FHA provided that

- the consideration is \$300 or less, all of which will be applied to reduce the outstanding balance of the insured mortgage, and
 - the lender notifies the appropriate Home Ownership Center (HOC) of the release by letter within 30 days of the lender's signing of the release.
-

4155.2 11.1.d Requirements for Release Requests When FHA Approval Is Required

Per [24 CFR 203.343\[a\]](#), when FHA approval *is* required, the lender must send the request for approval of release in writing to the HOC with jurisdiction over the property.

The written request must contain the following information:

- whether or not the mortgage is in good standing
 - the amount of the outstanding principal balance
 - the due date of the last unpaid installment and, if the mortgage is delinquent, the number of delinquent payments
 - a list of unpaid special assessments, if any, and the total amount payable
 - a complete legal description of the property to be released
 - the borrower's reasons for requesting that the lender make the release, including how the land to be released will be used
 - the monetary consideration, if any, to be received by borrower
 - the amount of a prepayment, if any, to the mortgage principal
 - any restrictions to be imposed on the land to be released
 - a survey or sketch of the property showing
 - dimensions of portion to be released
 - the location of existing and proposed improvements, and
 - the relation of the property to surrounding properties
 - plans and specifications, including cost estimates of any alterations proposed for the remaining property after the release, and
 - the case number of the mortgaged property.
-

2. FHA Procedures for Processing a Request for a Partial Release of Security

Introduction This topic contains information on FHA procedures for processing a partial release of security, including

- information required from the lender
- procedures for processing a partial release of security request, and
- requirements for insurance check endorsement by FHA.

Change Date May 10, 2009

4155.2 11.2.a Information Required From the Lender For cases requiring FHA approval, the lender must submit to the appropriate HOC

- the written request for the partial release of security , and
- separate appraisals that reflect the
 - value *before* the partial release of security, and
 - value of the remaining property *after* the partial release of security.

Reference: For information on the required information for the release request, see [HUD 4155.2 11.1.d](#).

4155.2 11.2.b Processing a Partial Release of Security Request Follow the steps in the table below to process a request for a partial release of security.

Note: A partial release of security must *only* be approved when the remaining property is an acceptable risk in *all* respects.

Step	Action
1	Conduct an initial review to determine if the lender request contains the required information as listed in HUD 4155.2 11.1.d . <i>Note:</i> If the request does <i>not</i> contain all of the required information, send a letter to the lender, specifying the missing information, and return the uncompleted lender letter of request and attached documentation.

Continued on next page

2. FHA Procedures for Processing a Request for a Partial Release of Security, Continued

4155.2 11.2.b Processing a Partial Release of Security Request (continued)

Step	Action
2	<p>Determine if any architectural processing and/or a site inspection is necessary and, if necessary, send the request to the valuation branch for an opinion.</p> <p><i>Note:</i> Notify the lender of any necessary architectural processing and/or required site inspection of the remaining property after release.</p>
3	<p>Conduct and document an analysis that includes development of the following information:</p> <ul style="list-style-type: none"> • the estimated value <i>before</i> release • the estimated value of the <i>area to be released</i>, estimating the value as follows: <ul style="list-style-type: none"> – if the area is <i>not</i> capable of separate utilization, indicate its value as a fragmental portion of the entire property – if the area <i>is</i> capable of separate utilization, indicate its value as a building site for highest and best use to typical purchasers for long term use, and – if there is <i>no</i> area involved because the release involves a property right only, indicate its value • the loss in value attributed to severance, if any (this is in addition to the value of the part to be released) • the total loss in value • the estimated cost of proposed improvements to the remaining property • the estimated value of the property remaining <i>after</i> release and <i>after</i> completion of any proposed improvements, and • the amount of special assessments for off-site improvements, including accrued interest as of this date, which will remain unpaid.
4	<p>Determine whether the remaining mortgage security is less marketable as a result of the severance at the Estimate of Value determined in Step 3.</p>

Continued on next page

2. FHA Procedures for Processing a Request for a Partial Release of Security, Continued

4155.2 11.2.b Processing a Partial Release of Security Request (continued)

Step	Action
5	<p>Determine if a reduction in the mortgage amount is necessary.</p> <p><i>Note:</i> A reduction to the principal mortgage amount is <i>not</i> necessary if the loan to value (LTV) ratio is 75 percent or less. Apply the LTV percentage to the maximum mortgage amount available <i>after</i> the release and <i>after</i> any proposed improvements are completed.</p>
6	<p>Complete a disposition of the lender’s request. If the lender’s request is</p> <ul style="list-style-type: none"> • <i>approved</i>, go to Step 7, or • <i>rejected</i>, go to Step 8.
7	<p>If the lender’s request is approved,</p> <ul style="list-style-type: none"> • notify the lender in writing that <ul style="list-style-type: none"> – FHA approves of the release, and – the lender still has continued responsibility for maintaining a valid first lien on the mortgaged property, less the portion of property conveyed under the FHA agreement, and • this completes this procedure.

Continued on next page

2. FHA Procedures for Processing a Request for a Partial Release of Security, Continued

4155.2 11.2.b Processing a Partial Release of Security Request (continued)

Step	Action
8	<p>If the lender's request is</p> <ul style="list-style-type: none"> • <i>rejected</i>, notify the lender in writing and place the papers in the HOC general correspondence file, or • <i>rejected, but alternative methods may be suggested which will allow for approval</i>, then send a letter to the lender suggesting either <ul style="list-style-type: none"> – that the loan amount could be reduced to bring the LTV ratio within the maximum legal limitation at the time of severance, or – that, in the event that the property is offered in exchange for insurance benefits, the lender could agree to accept an amount in insurance benefits that is calculated by subtracting the amount necessary to bring the loan within the LTV ratio limitation, effective at the time of severance, from the amount to which the lender would be entitled were there no release. <p>Reference: For information on the requirements for insurance check endorsement by FHA, see HUD 4155.2 11.2.c.</p>

4155.2 11.2.c Requirements for Insurance Check Endorsement by FHA

When an insurance company check in the settlement of losses is presented and requires the endorsement of FHA as one of the payees, the check is not deposited, but must be endorsed as follows by the appropriate HOC:

Pay to the Order of [Named Borrower], Without Recourse

Assistant Secretary-FHA Commissioner

By _____
Home Ownership Center Director

Section A. Mortgage and Note Form Exhibits

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	Exhibit 1: Model Mortgage Form	12-A-2
2	Instructions for Completing the Model Mortgage Form	12-A-12
3	Exhibit 2: Model Note Form	12-A-16
4	Exhibit 3: Model Adjustable Rate Note Form	12-A-17
5	Exhibit 4: Graduated Payment Rider	12-A-22
6	Exhibit 5: Graduated Payment Allonge Amending Note	12-A-24
7	Exhibit 6: Growing Equity Allonge Amending Note	12-A-26
8	Exhibit 7: Condominium Rider	12-A-27
9	Exhibit 8: Rehabilitation Loan Rider	12-A-29
10	Exhibit 9: Planned Unit Development Rider	12-A-31
11	Exhibit 10: Tax-Exempt Financing Rider	12-A-33
12	Exhibit 11: Rider for Section 248 Mortgage	12-A-35
13	Exhibit 12: Rider for Section 247 Mortgage	12-A-37
14	Exhibit 13: Non-Owner Occupancy Rider	12-A-38
15	Exhibit 14: Water Purification Equipment Rider	12-A-40
16	Exhibit 15: Cooperative Rider	12-A-42
17	Exhibit 16: Construction Rider for Construction/Permanent Mortgage	12-A-44

1. Exhibit 1: Model Mortgage Form

Change Date March 1, 2011

4155.2 12.A.1.a The following is an example of the *Model Mortgage Form*.
Model
Mortgage Form
Example (pg.1)

FHA Case #

_____ Space Above This Line for Recording Data _____

MORTGAGE

THE MORTGAGE (Security Instrument) is given on _____, 20____. The
_____ whose address is
_____ (Borrower).

This Security Instrument is given to _____, which is org
existing under the laws of _____, and whose address is
_____ (Lender). Borrower owes Lender the principal sum of
Dollars (U.S. \$_____). This debt is evidenced by Borrower's note dated the same date a
Security Instrument (Note), which provides for monthly payments, with the full debt, if not p
due and payable on _____.

This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by th
interest, and all renewals, extensions and modifications of the Note; (b) the payment of all oth
with interest, advanced under Paragraph 7 to protect the security of this Security Instrument, ;
performance of Borrower's covenants and agreements under this Security Instrument and the
this purpose, Borrower does hereby mortgage, warrant, grant and convey to the Lender with
the following described property located in _____ County, Mic
which has the address of _____ [Street] _____ [City],
_____ [State] _____ [Zip Code], (Property Addr

TOGETHER WITH all the improvements now or hereafter erected on the property, and a
easements, appurtenances, and fixtures now or hereafter a part of the property. All replaceme
additions shall also be covered by this Security Instrument. All of the foregoing is referred to
Security Instrument as the "Property."

BORROWER COVENANTS that borrower is lawfully seized of the estate hereby convey
the right to mortgage, grant and convey the Property and that the Property is unencumbered, e
encumbrances of record. Borrower warrants and will defend generally the title to the Propert
claims and demands, subject to any encumbrances or record.

Continued on next page

1. Exhibit 1: Model Mortgage Form, Continued

4155.2 12.A.1.a Model Mortgage Form Example (pg.2)

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

Borrower and Lender covenant agree as follows:

UNIFORM COVENANTS:

1. **Payment of Principal, Interest and Late Charge**

Borrower shall pay when due the principal of, and interest on, the debt evidenced by the Note and late charges due under the Note.

2. **Monthly Payment of Taxes, Insurance, and Other Charges**

Borrower shall include in each monthly payment, together with the principal and interest as set forth in the Note and any late charges, a sum for

- (a) taxes and special assessments levied or to be levied against the Property,
- (b) leasehold payments or ground rents on the Property, and
- (c) premiums for insurance required under Paragraph 4. In any year in which the Lender must pay a mortgage insurance premium to the Secretary of Housing and Urban Development ("Secretary"), or in any year in which such premium would have been required if Lender still held the Security Instrument, each monthly payment shall also include either
 - (i) a sum for the annual mortgage insurance premium to be paid by Lender to the Secretary, or
 - (ii) a monthly charge instead of a mortgage insurance premium if this Security Instrument is held by the Secretary, in a reasonable amount to be determined by the Secretary. Except for the monthly charge by the Secretary, these items are called "Escrow Items" and the sums paid to Lender are called "Escrow Funds."

Lender may, at any time, collect and hold amounts for Escrow Items in an aggregate amount not to exceed the maximum amount that may be required for Borrower's escrow account under the Real Estate Settlement Procedures Act of 1974, 12 U.S.C. Sec. 2601 et seq. and implementing regulations, 24 CFR Part 3500, as they may be amended from time to time (RESPA), except that the cushion or reserve permitted by RESPA for unanticipated disbursements or disbursements before the Borrower's payments are available in the account may not be based on amounts due for the mortgage insurance premium.

If the amounts held by Lender for Escrow Items exceed the amounts permitted to be held by RESPA, Lender shall deal with the excess funds as required by RESPA. If the amounts of funds held by Lender at any time are not sufficient to pay the Escrow Items when due, Lender may notify the Borrower and require Borrower to make up the shortage as permitted by RESPA.

Continued on next page

1. Exhibit 1: Model Mortgage Form, Continued

4155.2 12.A.1.a Model Mortgage Form Example (pg.3)

2. **Monthly Payment of Taxes, Insurance, and Other Charges** (continued)
The Escrow Funds are pledged as additional security for all sums secured by this Security Instrument. If Borrower tenders to Lender the full payment of all such sums, Borrower's account shall be credited with the balance remaining for all installment items (a), (b), and (c) and any mortgage insurance premium installment that Lender has not become obligated to pay to the Secretary, and Lender shall promptly refund any excess funds to Borrower. Immediately prior to a foreclosure sale of the Property or its acquisition by Lender, Borrower's account shall be credited with any balance remaining for all installments for items (a), (b), and (c).
3. **Application of Payments**
All payments under Paragraphs 1 and 2 shall be applied by Lender as follows:
 - First, to the mortgage insurance premium to be paid by Lender to the Secretary or to the monthly charge by the Secretary instead of the monthly mortgage insurance premium;
 - Second, to any taxes, special assessments, leasehold payments or ground rents, and fire, flood and other hazard insurance premiums, as required;
 - Third, to interest due under the Note;
 - Fourth, to amortization of the principal of the Note; and
 - Fifth, to late charges due under the Note.
4. **Fire, Flood, and Other Hazard Insurance**
Borrower shall insure all improvements on the Property, whether now in existence or subsequently erected, against any hazards, casualties, and contingencies, including fire, for which Lender requires insurance. This insurance shall be maintained in the amounts and for the periods that Lender requires. Borrower shall also insure all improvements on the Property, whether now in existence or subsequently erected, against loss by floods to the extent required by the Secretary. All insurance shall be carried with companies approved by Lender. The insurance policies and any renewals shall be held by Lender and shall include loss payable clauses in favor of, and in a form acceptable to, Lender.

In the event of loss, Borrower shall give Lender immediate notice by mail. Lender may make proof of loss if not made promptly by Borrower. Each insurance company concerned is hereby authorized and directed to make payment for such loss directly to Lender, instead of to Borrower and to Lender jointly. All or any part of the insurance proceeds may be applied by Lender, at its option, either
 - (a) to the reduction of the indebtedness under the Note and this Security Instrument, first to any delinquent amounts applied in the order in Paragraph 3, and then to prepayment of principal, or

Continued on next page

1. Exhibit 1: Model Mortgage Form, Continued

4155.2 12.A.1.a Model Mortgage Form Example (pg.4)

4. **Fire, Flood, and Other Hazard Insurance** (continued)
- (b) to the restoration or repair of the damaged Property. Any application of the proceeds to the principal shall not extend or postpone the due date of the monthly payments which are referred to in Paragraph 2, or change the amount of such payments. Any excess insurance proceeds over an amount required to pay all outstanding indebtedness under the Note and this Security Instrument shall be paid to the entity legally entitled thereto.

In the event of foreclosure of this Security Instrument or other transfer of title to the Property that distinguishes the indebtedness, all right, title and interest of Borrower in and to insurance policies in force shall pass to the purchaser.

5. **Occupancy, Preservation, Maintenance and Protection of the Property; Borrower's Loan Application; Leaseholds**
- Borrower shall occupy, establish, and use the Property as Borrower's principal residence within sixty days after the execution of this Security Instrument (or within sixty days of a later sale or transfer of the Property) and shall continue to occupy the Property as Borrowed principal residence for at least one year after the date of occupancy, unless Lender determines that requirement will cause undue hardship for Borrower, or unless extenuating circumstances exist which are beyond Borrower's control. Borrower shall notify Lender of any extenuating circumstances. Borrower shall not commit waste or destroy, damage or substantially change the Property or allow the Property to deteriorate, reasonable wear and tear excepted. Lender may inspect the Property if the Property is vacant or abandoned or the loan is in default. Lender may take reasonable action to protect and preserve such vacant or abandoned property. Borrower shall also be in default if borrower, during the loan application process, gave materially false or inaccurate information or statements to Lender (or failed to provide Lender with any material information) in connection with the loan evidenced by the Note, including, but not limited to, representations concerning Borrower's occupancy of the Property as a principal residence. If this Security Instrument is on a leasehold, Borrower shall comply with the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and fee title shall not be merged unless Lender agrees to the merger in writing.
6. **Condemnation**
- The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of any part of the Property, or for conveyance in place of condemnation, are hereby assigned and shall be paid to Lender to the extent of the full amount of the indebtedness that remains unpaid under the Note and this Security Instrument. Lender shall apply such proceeds to the reduction of the Indebtedness under the Note and this Security Instrument, first to any delinquent amounts applied in the order provided in Paragraph 3, and then to prepayment of principal. Any application of the proceeds to the principal shall not extend or postpone the due date of the monthly payments, which are referred to in Paragraph 2, or change the amount of such payments. Any excess proceeds over an amount required to pay all outstanding indebtedness under the Note and this Security Instrument shall be paid to the entity legally entitled thereto.

Continued on next page

1. Exhibit 1: Model Mortgage Form, Continued

4155.2 12.A.1.a Model Mortgage Form Example (pg.5)

7. Charges to Borrower and Protection of Lender's Rights in the Property

Borrower shall pay all governmental or municipal charges, fines and impositions that are not included in Paragraph 2. Borrower shall pay these obligations on time directly to the entity which is owed the payment. If failure to pay would adversely affect Lender's interest in the Property, upon Lender's request Borrower shall promptly furnish to Lender receipts evidencing these payments.

If Borrower fails to make these payments or the payments required by Paragraph 2, or fails to perform any other covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, for condemnation or to enforce laws or regulations), then Lender may do and pay whatever is necessary to protect the value of the Property and Lender's rights in the Property, including payment of taxes, hazard insurance and other items mentioned in Paragraph 2.

Any amounts disbursed by Lender under this Paragraph shall become an additional debt of Borrower and be secured by this Security Instrument. These amounts shall bear Interest from the date of disbursement at the Note rate, and at the option of Lender shall be immediately due and payable.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower:

- (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender;
- (b) contests in good faith the lien by, or defends against enforcement of the lien in, legal proceedings which in the Lenders opinion operate to prevent the enforcement of the lien; or
- (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one or more of the actions set forth above within 10 days of the giving of notice.

8. Fees

Lender may collect fees and charges authorized by the Secretary.

9. Grounds for Acceleration of Debt

- (a) **Default.** Lender may, except as limited by regulations issued by the Secretary in the case of payment defaults, require immediate payment in full of all sums secured by this Security Instrument if:
 - (i) Borrower defaults by failing to pay in full any monthly payment required by this Security Instrument prior to or on the due date of the next monthly payment, or
 - (ii) Borrower defaults by failing, for a period of thirty days, to perform any other obligations contained in this Security Instrument.

Continued on next page

1. Exhibit 1: Model Mortgage Form, Continued

4155.2 12.A.1.a Model Mortgage Form Example (pg.6)

9. **Grounds for Acceleration of Debt** (continued)
- (b) **Sale Without Credit Approval.** Lender shall, if permitted by applicable law (including Section 341(d) of the Garn-St Germain Depository Institutions Act of 1982, 12 U.S.C 1701j-3(d)) and with the prior approval of the Secretary, require immediate payment in full of all sums secured by this Security Instrument if:
- (i) All or part of the Property, or a beneficial interest in a trust owning all or part of the Property, is sold or otherwise transferred (other than by devise or descent), and
 - (ii) The Property is not occupied by the purchaser or grantee as his or her principal residence, or the purchaser or grantee does so occupy the Property, but his or her credit has not been approved in accordance with the requirements of the Secretary.
- (c) **No Waiver.** If circumstances occur that would permit Lender to require immediate payment in full, but Lender does not require such payments, Lender does not waive its rights with respect to subsequent events.
- (d) **Regulations of HUD Secretary.** In many circumstances regulations issued by the Secretary will limit Lender rights, in the case of payment defaults, to require immediate payment in full and foreclose if not paid. This Security Instrument does not authorize acceleration or foreclosure if not permitted by regulations of the Secretary.
- (e) **Mortgage Not Insured [OPTIONAL].** Borrower agrees that if this Security Instrument and the Note are not determined to be eligible for insurance under the National Housing Act within _____ from the date hereof, Lender may, at its option require immediate payment in full of all sums secured by this Security Instrument. A written statement of any authorized agent of the Secretary dated subsequent to from the date hereof, declining to insure this Security Instrument and the Note, shall be deemed conclusive proof of such ineligibility. Notwithstanding the foregoing, this option may not be exercised by Lender when the unavailability of insurance is solely due to Lender's failure to remit a mortgage insurance premium to the Secretary.

Note: Lenders are authorized, but not required, to add Paragraph 9(e). Any period may be inserted in the two blanks, expressed either in number of days or months, which is not shorter than sixty days and not longer than eight months.

Continued on next page

1. Exhibit 1: Model Mortgage Form, Continued

4155.2 12.A.1.a Model Mortgage Form Example (pg.7)

10. Reinstatement

Borrower has a right to be reinstated if Lender has required immediate payment in full because of Borrower's failure to pay an amount due under the Note or this Security Instrument. This right applies even after foreclosure proceedings are instituted. To reinstate the Security Instrument, Borrower shall tender in a lump sum all amounts required to bring Borrowed account current including, to the extent they are obligations of Borrower under this Security Instrument, foreclosure costs and reasonable and customary attorney's fees and expenses properly associated with the foreclosure proceeding. Upon reinstatement by Borrower, this Security Instrument and the obligations that it secures shall remain in effect as if Lender had not required immediate payment in full. However, Lender is not required to permit reinstatement if:

- (i) Lender has accepted reinstatement after the commencement of foreclosure proceedings within two years immediately preceding the commencement of a current foreclosure proceeding,
- (ii) reinstatement will preclude foreclosure on different grounds in the future, or
- (iii) restatement will adversely affect the priority of the lien created by this Security Instrument.

11. Borrower Not Released: Forbearance by Lender Not a Waiver

Extension of the time of payment or modification of amortization of the sums secured by this Security Instrument granted by Lender to any successor in interest of Borrower shall not operate to release the liability of the original Borrower or Borrower's successor in interest. Lender shall not be required to commence proceedings against any successor in interest or refuse to extend time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the original Borrower or Borrower's successors in interest. Any forbearance by Lender in exercising any right or remedy shall not be a waiver of or preclude the exercise of any right or remedy.

12. Successors and Assigns Bound; Joint and Several Liability; Co-Signers

The covenants and agreements of this Security Instrument shall bind and benefit the successors and assigns of Lender and Borrower, subject to the provisions of Paragraph 9(b). Borrowers covenants and agreements shall be joint and several. Any Borrower who co-signs this Security Instrument but does not execute the Note:

- (a) is co-signing this Security Instrument only to mortgage, grant and convey that Borrower's interest in the Property under the terms of this Security Instrument,
- (b) is not personally obligated to pay the sums secured by this Security Instrument; and
- (c) agrees that Lender and any other Borrower may agree to extend, modify, forbear or make any accommodations with regard to the term of this Security Instrument or the Note without that Borrower's consent.

Continued on next page

1. Exhibit 1: Model Mortgage Form, Continued

4155.2 12.A.1.a Model Mortgage Form Example (pg.8)

13. Notices

Any notice to Borrower provided for in this Security Instrument shall be given by delivering it or by mailing it by first class mail unless applicable law requires use of another method. The notice shall be directed to the Property Address or any other address Borrower designates by notice to Lender. Any notice to Lender shall be given by first class mail to Lender's address stated herein or any address Lender designates by notice to Borrower. Any notice provided for in this Security Instrument shall be deemed to have been given to Borrower or Lender when given as provided in this paragraph.

14. Governing Law; Severability

This Security Instrument shall be governed by Federal law and the law of the jurisdiction in which the Property is located. In the event that any provision or clause of this Security Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision. To this end, the provisions of this Security Instrument and the Note are declared to be severable.

15. Borrower's Copy

Borrower shall be given one conformed copy of the Note and of this Security Instrument.

16. Hazardous Substances

Borrower shall not cause or permit the presence, use, disposal, storage, or release of any Hazardous Substances on or in the Property. Borrower shall not do, nor allow anyone else to do, anything affecting the Property that is in violation of any Environmental law. The preceding two sentences shall not apply to the presence, use, or storage on the Property of small quantities of Hazardous Substances that are generally recognized to be appropriate to normal residential uses and to maintenance of the Property.

Borrower shall promptly give Lender written notice of any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Property and any Hazardous Substance or Environmental Law of which Borrower has actual knowledge. If Borrower learns, or is notified by any governmental or regulatory authority, that any removal or other remediation of any Hazardous Substances affecting the Property is necessary, Borrower shall promptly take all necessary remedial actions in accordance with Environmental Law.

As used in this paragraph 16, "Hazardous Substances" are those substances defined as toxic or hazardous substances by Environmental law and the following substances: gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or formaldehyde, and radioactive materials. As used in the paragraph 16, "Environmental law" means federal laws and laws of the jurisdiction where the Property is located that relate to health, safety or environmental protection.

Continued on next page

1. Exhibit 1: Model Mortgage Form, Continued

4155.2 12.A.1.a Model Mortgage Form Example (pg.9)

NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

17. Assignment of Rents

Use the following language unless prohibited by state law:

Borrower unconditionally assigns and transfers to Lender all the rents and revenues of the Property. Borrower authorizes Lender or Lender agents to collect the rents and revenues and hereby directs each tenant of the Property to pay the rents to Lender or Lender agents. However, prior to Lender notice to Borrower of Borrower's breach of any covenant or agreement in the Security Instrument, Borrower shall collect and receive all rents and revenues of the Property as trustee for the benefit of Lender and Borrower. This assignment of rents constitutes an absolute assignment and not an assignment for additional security only.

If Lender gives notice of breach to Borrower:

- (a) all rents received by Borrower shall be held by Borrower as trustee for benefit of Lender only, to be applied to the sums secured by the Security Instrument;
- (b) Lender shall be entitled to collect and receive all of the rents of the Property, and
- (c) each tenant of the Property shall pay all rents due and unpaid to Lender or Lender agent on Lender's written demand to the tenant.

Borrower has not executed any prior assignment of the rents and has not and will not perform any act that would prevent Lender from exercising its rights under this Paragraph 17.

Lender shall not be required to enter upon, take control of or maintain the Property before or after giving notice of breach to Borrower. However, Lender or a judicially appointed receiver may do so at any time there is a breach. Any application of rents shall not cure or waive any default or invalidate any other right or remedy of Lender. This assignment of rents of the Property shall terminate when the debt secured by the Security Instrument is paid in full.

Note: If changes are necessary to create an assignment of rents enforceable under state law, the lender should make necessary changes but the revised paragraph should grant the lender the maximum interest in rents permitted by law.

18. Foreclosure Procedure

For illustration only. The text needs state adaptation, as provided in 4155.2 6.B.2.d.

If Lender requires immediate payment in full under Paragraph 9, Lender may invoke the power of sale and any other remedies permitted by applicable law. Lender shall be entitled to collect all expenses incurred in pursuing the remedies provided in this Paragraph 18, including, but not limited to, reasonable attorney's fees and costs of title evidence.

Continued on next page

1. Exhibit 1: Model Mortgage Form, Continued

**4155.2 12.A.1.a
Model
Mortgage Form
Example
(pg.10)**

18. Foreclosure Procedure (continued)

If Lender invokes the power of sale, Lender shall give notice of sale to Borrower in the manner provided in Paragraph 13. Lender shall publish and post the notice of sale, and the Property shall be sold in the manner prescribed by applicable law. Lender or its designee may purchase the Property at any sale. The proceeds of the sale shall be applied in the following order:

- (a) to all expenses of the sale, including, but not limited to, reasonable attorney's fees;
- (b) to all sums secured by this Security Instrument; and
- (c) any excess to the person or persons legally entitled to it.

The following language is mandatory in all cases:

If the Lender's interest in this Security Instrument is held by the Secretary and the Secretary requires immediate payment in full under Paragraph 9, the Secretary may invoke the nonjudicial power of sale provided in the Single Family Mortgage Foreclosure Act of 1994 ("Act") (12 U.S.C 3751 et seq.) by requesting a foreclosure commissioner designated under the Act to commence foreclosure and to sell the Property as provided in the Act. Nothing in the preceding sentence shall deprive the Secretary of any rights otherwise available to a Lender under this Paragraph 18 or applicable law.

State Specific Paragraphs

Add any state-specific paragraphs in accordance with instructions for completing the *Model Mortgage Form*, and the current edition of HUD 4155.2.

Number the following as the final paragraph or leave unnumbered but place after numbered paragraphs.

Riders to This Security Instrument

If one or more riders are executed by Borrower and recorded together with this Security Instrument, the covenants of each such rider shall be incorporated into and shall amend and supplement the covenants and agreements of this Security Instrument as if the rider(s) were a part of this Security Instrument. [Check applicable box(es)].

- Condominium Rider Growing Equity Rider Other [specify]
- Planned Unit Development Rider Graduated Payment Rider

BY SIGNING BELOW, Borrower accepts and agrees to the terms contained in this Security Instrument and in any rider(s) executed by Borrower and recorded with it.

Witnesses:

_____ (SEAL)
Borrower

_____ (SEAL)
Borrower

_____ [Space Below This Line for Acknowledgement] _____

2. Instructions for Completing the Model Mortgage Form

Introduction This topic provides instructions for completing the *Model Mortgage Form*, including

- form and content of the security instrument
 - language preceding uniform covenants
 - uniform covenants
 - non-uniform covenants
 - paragraph 18 instructions
 - instructions for additional paragraphs, and
 - signatures on the Model Mortgage Form.
-

Change Date March 24, 2011

4155.2 12.A.2.a Form and Content of the Security Instrument HUD requires that a security instrument follow the form and content of the approved Fannie Mae/Freddie Mac (FNMA/FHLMC) security instrument for the jurisdiction, except where HUD has determined that differences are needed to reflect HUD policy and practice.

Reference: For more information on mortgage and note forms, see [HUD 4155.2 6.B.](#)

4155.2 12.A.2.b Language Preceding Uniform Covenants The lender should use [FNMA/FHLMC](#) language, but add a box for the FHA Case Number, as shown on the *Model Mortgage Form*.

The language in the *Model Mortgage Form* is an example using text for Michigan. The form may include variations to the standard language that have been approved by FNMA/FHLMC.

The format and language for Maine and New York, where FNMA and FHLMC approved “plain English” forms, should be based on FNMA/FHLMC forms for other states, provided that the language conforms to applicable law.

Reference: For more information on requirements for Maine and New York, see [HUD 4155.2 6.B.5.g.](#)

Continued on next page

2. Instructions for Completing the Model Mortgage Form,

Continued

4155.2 12.A.2.c
Uniform
Covenants

The lender should designate the paragraphs preceding Paragraph 17, “*Assignment of Rents*” as *Uniform Covenants*.

Use the text as presented in the *Model Mortgage Form* without any change. Do *not* substitute [FNMA/FHLMC](#) language. If a change to the text is needed to meet the requirements of state or local law, or practice, obtain written approval from HUD before making the change.

4155.2 12.A.2.d
Non-Uniform
Covenants

The lender should designate the paragraphs beginning with Paragraph 17, “*Assignment of Rents*” as *Non-Uniform Covenants*.

Continued on next page

2. Instructions for Completing the Model Mortgage Form,

Continued

**4155.2 12.A.2.e
Paragraph 18
Instructions**

The lender should adapt [FNMA/FHLMC](#) Paragraph 18, “*Foreclosure Procedures*” in the jurisdiction, to reflect HUD policy. The *Model Mortgage Form* contains adapted language for Michigan.

Following the phrase, “*If Lender requires immediate payment in full under Paragraph 9,*” use the current approved [FNMA/FHLMC](#) foreclosure procedures, including language regarding payment of costs, such as attorney’s fees, as a guide and adapt as necessary.

Omit language regarding notice and acceleration. For Maine and New York, use foreclosure language based on these instructions, and other FNMA/FHLMC forms that are not “plain English”, provided that the language authorizes foreclosure in conformance with applicable law.

The mortgage must include the lender’s right to a public sale of property, including a power of sale, if legally permissible under the law of the jurisdiction in which the property is located, even if mortgages are usually foreclosed through a judicial proceeding.

All rights to a deficiency must be preserved to the extent legally permissible, except as provided in special instructions for Iowa, North Dakota, or Wisconsin.

New language is required at the end of Paragraph 18 regarding the new Single Family Mortgage Foreclosure Act, which provides an alternative foreclosure procedure under Federal law.

Reference: For more information on special requirements for specific states and localities, see [HUD 4155-2 6.B.5](#).

Continued on next page

2. Instructions for Completing the Model Mortgage Form,

Continued

4155.2 12.A.2.f Instructions for Additional Paragraphs

Paragraphs following Paragraph 18 should contain provisions required to adapt the mortgage to the laws and practices of the particular jurisdiction in which the property is located.

The text of these paragraphs should be the same as the [FNMA/FHLMC](#) non-uniform covenants for the jurisdiction in which the property is located. Changes to the FNMA/FHLMC paragraphs, and additional material, may be included if needed, to conform to requirements of state law or practice.

The lender should use the language in the paragraph titled “*Riders to this Security Instrument*” as shown in the *Model Mortgage Form*, not as shown in the [FNMA/FHLMC](#) forms.

Any special language or notices required by applicable law should follow the non-uniform covenants, using the FNMA/FHLMC form for the jurisdiction as a guide.

4155.2 12.A.2.g Signatures on the Model Mortgage Form

For signatures and other authorizations, the lender should use the [FNMA/FHLMC](#) format at the end of the mortgage, with the following exceptions:

- Witness lines may be omitted if state and local law do not require witnesses for mortgages.
 - HUD does not require the Borrower’s Social Security Number to appear on the mortgage.
-

3. Exhibit 2: Model Note Form

Change Date March 24, 2011

4155.2 12.A.3.a The following is an example of the *Model Note Form*.
Model Note
Form Example

FHA

NOTE

[Date]

[Property Address]

A

1. **Parties**

“Borrower” means each person signing at the end of this Note, and the person’s su assigns. “Lender” means and its successors, and assigns.

2. **Borrower’s Promise to Pay; Interest**

In return for a loan received from Lender, Borrower promises to pay the principal Dollars (U.S. \$____), plus interest, to the order of Lender. Interest will be charge principal, from the date of disbursement of the loan proceeds by lender, at the rate percent (____%) per year until the full amount of principal has been paid.

3. **Promise to Pay Secured**

Borrower’s promise to pay is secured by a mortgage, deed of trust or similar secur is dated the same date as this Note and called the “Security Instrument.” The Secu protects the lender from losses which might result if Borrower defaults under this .

4. **Manner of Payment**

(A) **Time**

Borrower shall make a payment of principal and interest to Lender on the fir month beginning on _____, 20___. Any principal and interest remaining _____, 20 will be due on that date, which is called the maturity date.

(B) **Place**

Payment shall be made at _____ as Lender may designate in writing by notice to Borrower.

4. Exhibit 3: Model Adjustable Rate Note Form

Change Date March 24, 2011

4155.2 12.A.4.a The following is an example of the *Model Adjustable Rate Note Form*.
Model
Adjustable
Rate Note
Form Example

FHA

ADJUSTABLE RATE NOTE

[Date]

[Property Address]

1. Parties

“Borrower” means each person signing at the end of this Note, and the person’s assigns. “Lender” means and its Successors and assigns.

2. Borrower’s Promise to Pay; Interest

In return for a loan received from Lender, Borrower promises to pay the principal Dollars (U.S. \$___), plus interest, to the order of Lender. Interest will be charge principal, from the date of disbursement of the loan proceeds by Lender, at a rate per year until the full amount of principal has been paid. The interest rate may ch with Paragraph 5(C) of this Note.

3. Promise to Pay Secured

Borrower’s promise to pay is secured by a mortgage, deed of trust or similar secur is dated the same date as this Note and called the “Security Instrument.” That Sec protects the Lender from losses which might result if Borrower defaults under this

4. Manner of Payment

(A) Time

Borrower shall make a payment of principal and interest to Lender on the fir month beginning on _____, 20___. Any principal and interest remainin _____ 20___, will be due on that date, which is called the mat

Notes:

- For Maryland, the Note may be amended if the borrower does not voluntarily e interest at closing

Continued on next page

4. Exhibit 3: Model Adjustable Rate Note Form, Continued

4155.2 12.A.4.b The lender should include any required or customary form or authentication.

**Additional
Information
About the
Model
Adjustable
Rate Note
Form**

The model form is a multistate form which must be adapted for some jurisdictions to reflect the laws and practices of the particular jurisdiction in which the property is located.

The form should not be adapted for jurisdictions in which the multistate version of the [FNMA/FHMLC](#) note is used. For other jurisdictions, adaptations should generally follow the corresponding provisions in the FNMA/FHMLC note form approved for use in the jurisdiction, with any additional adaptations that may be necessary to conform to requirements of law and practices in the jurisdiction.

For Puerto Rico, see the special instructions in [HUD 4155.2 6.B.5](#).

5. Exhibit 4: Graduated Payment Rider

Change Date May 10, 2009

4155.2 12.A.5.a Graduated Payment Rider Example The following is an example of the *Graduated Payment Rider*.

THIS GRADUATED PAYMENT RIDER is made this _____, 20____, and is incorporated into and shall be deemed to amend the Mortgage, Deed of Trust or Security Deed (Security Instrument) of the same date covering the property described in the Security Instrument and located at:

[Property Address]

THIS NOTE PROVIDES FOR DEFERRED INTEREST AND INCREASED INSTALLMENTS ACCORDING TO A SCHEDULE IN THE NOTE. DEFERRED INTEREST MAY INCREASE THE PRINCIPAL BALANCE TO _____ DOLLARS (u.s. \$_____.)

The payment schedule in the Note is as follows:

- \$ _____ during the 1st note year.
- \$ _____ during the 2nd note year.
- \$ _____ during the _____ note year and thereafter.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants of this Graduated Payment Rider.

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS]

Continued on next page

5. Exhibit 4: Graduated Payment Rider, Continued

**4155.2 12.A.5.b
Additional
Instructions for
the Graduated
Payment Rider**

Completing the Principal Balance Text

When completing the text "... the PRINCIPAL BALANCE TO ____ DOLLARS (U.S. \$____.)", insert the maximum principal balance, not the amount by which the principal balance may be increased.

Completing the Note text

In the text "during the _____ note year and thereafter," complete the schedule until payments stop increasing.

This paragraph is optional, and should be included if required by state law or as otherwise needed to ensure the enforceability and priority of the mortgage.

Lenders may use the exact note text as provided in this document.

6. Exhibit 5: Graduated Payment Allonge Amending Note

Change Date May 10, 2009

**4155.2 12.A.6.a
Graduated
Payment
Allonge
Amending Note** The following is an example of the Graduated Payment Allonge Amending Note.

THIS GRADUATED PAYMENT ALLONGE is an AMENDMENT made this _____ day of _____, 20____, and is incorporated into and shall amend and supplement the Note (Note) of the same date, given by the undersigned (Borrower) in evidence of Borrower's indebtedness to _____ (Lender), which indebtedness is secured by a Mortgage, Deed of Trust or Security Deed (Security Instrument) of the same date and covering the property described in the Security Instrument at:

[Property Address]

Notwithstanding anything to the contrary set forth in the Note, Borrower hereby agrees:

1. AS AMENDED, THE NOTE PROVIDES FOR DEFERRED INTEREST AND TWO (2) MONTHLY INSTALLMENTS. DEFERRED INTEREST SHALL BE ADDED TO EACH MONTHLY INSTALLMENT AND SHALL INCREASE THE PRINCIPAL BALANCE OF THE NOTE BY MORE THAN _____ DOLLARS (U.S. \$_____.)
2. The payment amount in Paragraph 4(C) of the Note is applicable only during the following schedule of monthly payments of principal and interest is as follows:
 - \$ _____ during the 1st note year.
 - \$ _____ during the 2nd note year.
 - \$ _____ during the 3rd note year.
 - \$ _____ during the 4th note year.
 - \$ _____ during the _____ note year and thereafter.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Amendment.

Continued on next page

6. Exhibit 5: Graduated Payment Allonge Amending Note, Continued

4155.2 12.A.6.b
Additional
Instructions for
the Graduated
Payment
Allonge
Amending Note

Completing the Principal Balance Text

When completing the text "... the PRINCIPAL BALANCE TO NOT MORE THAN ____ DOLLARS (U.S. \$____.)", insert the maximum principal balance, not the amount by which the principal balance may be increased.

Completing the Note text

In the text "during the _____ note year and thereafter," complete the schedule until payments stop increasing, through the

- sixth note year for Plans I, II, and III, and
 - eleventh note year for Plans IV and V.
-

7. Exhibit 6: Growing Equity Allonge Amending Note

Change Date May 10, 2009

4155.2 12.A.7.a Growing Equity Allonge Amending Note Example The following is an example of the *Growing Equity Allonge Amending Note*.

THIS GROWING EQUITY ALLONGE is an AMENDMENT made this _____, 20____, and is incorporated into and shall be deemed to amend and : Note (Note) of the same date, given by the undersigned (Borrower) to evidence indebtedness to _____ (Lender), which indebtedness is se Mortgage, Deed of Trust or Security Deed (Security Instrument) of the same d the property described in the Security Instrument and located at:

[Property Address]

Notwithstanding anything to the contrary set forth in the Note, Borrower heret following:

1. AS AMENDED, THE NOTE PROVIDES FOR INCREASING MONTHLI INSTALLMENTS.
2. The payment amount in Paragraph 4 (C) of the Note is applicable only dur year. This schedule of monthly payments of principal and interest is as fol
 - \$ during the 1st note year.
 - \$ during the 2nd note year.
 - \$ during the 3rd note year.
 - \$ during the 4th note year.
 - (Continue this schedule for each of the remaining note years.)

BY SIGNING BELOW, Borrower accepts and agrees to the terms and cov in this Amendment.

8. Exhibit 7: Condominium Rider

Change Date May 10, 2009

**4155.2 12.A.8.a
Condominium
Rider Example
(Pg. 1)**

The following is an example of the *Condominium Rider*.

THIS CONDOMINIUM RIDER is made this _____ day of _____, 20____, incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust Deed {Security Instrument} of the same date given by the undersigned (Borrower) to secure Note (Note) to _____ (Lender) of the same date and covering Property described in the Security Instrument and located at:

[Property Address]

The Property includes a unit in, together with an undivided interest in the common elements condominium project known as:

[Name of Condominium Project]

(Condominium Project). If the owners association or other entity which acts for the Condominium (Owners Association) holds title to property for the benefit or use of its members or shareholders, the Property also includes Borrower's interest in the Owners Association and the uses, proceeds and income of Borrower's interest.

CONDOMINIUM COVENANTS. In addition to the covenants and agreements made in this Security Instrument, Borrower and Lender further covenant and agree as follows:

- A. So long as the Owners Association maintains, with a generally accepted insurance carrier, a "blanket" policy insuring all property subject to the condominium documents, including improvements now existing or hereafter erected on the Property, and such policy is satisfactory to Lender and provides insurance coverage in the amounts, for the periods, and against the risks that the lender requires, including fire and other hazards included within the term "extended coverage" in the policy, then:
 - (i) Lender waives the provision in Paragraph 2 of this Security Instrument for the month of _____ to Lender of one-twelfth of the yearly premium installments for hazard insurance on _____ and _____

Continued on next page

8. Exhibit 7: Condominium Rider, Continued

**4155.2 12.A.8.a
Condominium
Rider Example
(Pg. 2)**

CONDOMINIUM COVENANTS (A) (continued)

- (ii) Borrower's obligation under Paragraph 4 of this Security Instrument to maintain hazard insurance coverage on the Property is deemed satisfied to the extent that the required coverage is provided by the Owners Association policy. Borrower shall give Lender prompt notice of any lapse in required hazard insurance coverage and of any loss occurring from a hazard. In the event of a distribution of hazard insurance proceeds in lieu of restoration or repair following a loss to the Property, whether to the condominium unit or to the common elements, any proceeds payable to Borrower are hereby assigned and shall be paid to Lender for application to the sums secured by this Security Instrument, with any excess paid to the entity legally entitled thereto.
- B. Borrower promises to pay all dues and assessments imposed pursuant to the legal instruments creating and governing the Condominium Project.
- C. If Borrower does not pay condominium dues and assessments when due, then Lender may pay them. Any amounts disbursed by Lender under this paragraph C shall become additional debt of Borrower secured by the Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and provisions contained in this Condominium Rider.

(SEAL)
Borrower

(SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

9. Exhibit 8: Rehabilitation Loan Rider

Change Date May 10, 2009

4155.2 12.A.9.a The following is an example of the *Rehabilitation Loan Rider*.
Rehabilitation
Loan Rider
Example (Pg. 1)

THIS REHABILITATION LOAN RIDER is made this _____ day of _____ is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed or Security Deed (Security Instrument) of the same date given by the undersigned (Lender) to secure Borrower's Note (Note) to _____ (Lender) of the _____ and covering the property described in the Security Instrument and located at:

[Property Address]

ADDITIONAL COVENANTS. In addition to the covenants and agreements in the Security Instrument, Borrower and Lender further covenant and agree as follows:

- A. Loan proceeds are to be advanced for the premises in accordance with the Rehabilitation Loan Agreement dated _____, 20__, between Borrower and Lender. This Agreement is incorporated by reference and made a part of this Security Instrument. No advance shall be made unless approved by the Secretary of Housing and Urban Development or a Federal Endorsement Underwriter.
- B. If the rehabilitation is not properly completed, performed with reasonable diligence, or discontinued at any time except for strikes or lockouts, the Lender is vested with authority to take the necessary steps to protect the rehabilitation improvements a from harm, continue existing contracts or enter into necessary contracts to complete the rehabilitation. All sums expended for such protection, exclusive of the advances made, shall be added to the principal indebtedness, and secured by this Security Instrument and be due and payable on demand with interest as set out in the Rehabilitation Loan Agreement.
- C. If Borrower fails to perform any obligation under the loan, including the commencement, progress and completion provisions of the Rehabilitation Loan Agreement, and the loan continues for a period of 30 days, the loan shall, at the option of Lender, be in default.
- D. The Property covered by this Security Instrument shall include all of Borrower's funds held by Lender in escrow under the Rehabilitation Loan Agreement.

Continued on next page

9. Exhibit 8: Rehabilitation Loan Rider, Continued

4155.2 12.A.9.a
Rehabilitation
Loan Rider
Example (Pg. 2)

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Rehabilitation Loan Rider.

_____(SEAL)
Borrower

_____(SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

10. Exhibit 9: Planned Unit Development Rider

Change Date May 10, 2009

4155.2
12.A.10.a
Planned Unit
Development
Rider Example
(Pg. 1)

The following is an example of the *Planned Unit Development Rider*.

THIS PLANNED UNIT DEVELOPMENT RIDER is made this _____ day of _____ is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust Security Deed (Security Instrument) of the same date given by the undersigned (Borrower) to Borrower's Note (Note) to _____ "Lender" of the same date and covering the P described in the Security Instrument and located at:

[Property Address]

The Property Address is a part of a planned unit development (PUD) known as

[Name of Planned Unit Development]

PUD COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

- A. So long as the Owners Association (or equivalent entity holding title to common areas and acting as trustee for the homeowners, maintains, with a generally accepted insurance carrier "master" or "blanket" policy insuring the property located in the PUD, including all improvements existing or hereafter erected on the mortgaged premises, and such policy is satisfactory and provides insurance coverage in the amounts, for the periods, and against the hazards L requires, including fire and other hazards included within the term "extended coverage," as flood, to the extent required by the Secretary, then:
- (i) Lender waives the provision in Paragraph 2 of this Security Instrument for the monthly to Lender of one-twelfth of the yearly premium installments for hazard insurance on the Property and
 - (ii) Borrower's obligation under Paragraph 4 of this Security Instrument to maintain hazard coverage on the Property is deemed satisfied to the extent that the required coverage is provided by the Owners Association policy.

Borrower shall give Lender prompt notice of any lapse in required hazard insurance coverage or any loss occurring from a hazard. In the event of a distribution of hazard insurance proceeds of restoration or repair following a loss to the Property or to common areas and facilities of the PUD, any proceeds payable to Borrower are hereby assigned and shall be paid to Lender for application of the sums secured by this Security Instrument, with any excess paid to the entity legally entitled thereto.

Continued on next page

10. Exhibit 9: Planned Unit Development Rider, Continued

4155.2
12.A.10.a
Planned Unit
Development
Rider Example
(Pg. 2)

PUD COVENANTS (continued)

- B. Borrower promises to pay all dues and assessments imposed pursuant to the legal instruments creating and governing the PUD.
- C. If Borrower does not pay PUD dues and assessments when due, then Lender may pay them. Any amounts disbursed by Lender under this paragraph C shall become additional debt of Borrower secured by the Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and provisions contained in this PUD Rider.

_____ (SEAL)
Borrower

_____ (SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

11. Exhibit 10: Tax-Exempt Financing Rider

Change Date March 24, 2011

4155.2
12.A.11.a
Tax-Exempt
Financing
Rider Example
(Pg.1)

The following is an example of the *Tax-Exempt Financing Rider*.

THIS TAX-EXEMPT FINANCING RIDER is made this _____ day of _____ incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Deed (Security Instrument) of the same date given by the undersigned (Borrower) to secure a Note (Note) to _____ (Lender) of the same date and covering the property described in the Security Instrument and located at:

[Property Address]

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in this Security Instrument, Borrower and Lender further covenant and agree to amend Paragraph 9 of the Security Instrument, entitled "Grounds for Acceleration of Debt," by adding additional grounds for acceleration as follows:

Lender, or such of its successors or assigns as may by separate instrument assume responsibility for, shall require compliance by the Borrower with the provisions of this Tax-Exempt Financing Rider and require immediate payment in full of all sums secured by this Security Instrument if:

- (a) All or part of the Property is sold or otherwise transferred by Borrower to a purchaser or transferee:
 - (i) Who cannot reasonably be expected to occupy the property as a principal residence for a reasonable time after the sale or transfer, all as provided in Section 143(c) and (i) of the Internal Revenue Code; or
 - (ii) Who has had a present ownership interest in a principal residence during any part of a one-year period ending on the date of the sale or transfer, all as provided in Section 143(d) of the Internal Revenue Code (except that "100 percent" shall be substituted for "more" where the latter appears in Section 143(d)(1)); or
 - (iii) At an acquisition cost which is greater than 90 percent of the average area purchase price (greater than 110 percent for targeted area residences), all as provided in Section 143(i)(2) of the Internal Revenue Code; or
 - (iv) Who has a gross family income in excess of the applicable median family income for the area, all as provided in Section 143(f) and (i)(2) of the Internal Revenue Code; or

Continued on next page

11. Exhibit 10: Tax-Exempt Financing Rider, Continued

4155.2
12.A.11.a
Tax-Exempt
Financing
Rider Example
(Pg.2)

ADDITIONAL COVENANTS (a) (continued)

(b) Borrower fails to occupy the property described in the Security Instrument without prior written consent of Lender or its successors or assigns described at the beginning of this Tax-Exempt Financing Rider, or

(c) Borrower omits or misrepresents a fact that is material with respect to the provisions of Section 143 of the Internal Revenue Code in an application for the loan secured by this Security Instrument.

References are to the Internal Revenue Code as amended and in effect on the date of issuance of bonds, the proceeds of which will be used to finance the purchase of the Security Instrument and are deemed to include the implementing regulations.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Tax-Exempt Financing Rider.

(SEAL)
Borrower

(SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

4155.2
12.A.11.b
Note on
Paragraph (c)
Sentence 2

The description of the bonds should be amended as needed, if the bond proceeds are used for purposes other than the mortgage purchase, such as for

- direct loans to homeowners, or
- loans to lenders who lend to borrowers.

12. Exhibit 11: Rider for Section 248 Mortgage

Change Date May 10, 2009

4155.2
12.A.12.a
Rider for
Section 248
Mortgage
Example (Pg. 1)

The following is an example of the *Rider for Section 248 Mortgage*.

THIS RIDER FOR SECTION 248 MORTGAGE is made this _____ day of _____, 20__, and is incorporated into and shall be deemed to amend and supplement Mortgage, Deed of Trust or Security Deed (Security Instrument) of the same date given and undersigned (Borrower) to secure Borrower's Note (Note) to _____ (Lender) of the same date and covering the property described in the Security Instrument located at:

[Property Address]

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

- A. The interests of the Borrower in the property described above were created by a lease agreement from _____ as lessor dated _____, 20__, and reference to the "Property" shall be construed as referring only to the interest of Borrower created by such lease or any replacement lease.
- B. If the Security Instrument is assigned to the Secretary of Housing and Urban Development (Secretary), any foreclosure proceeding may take place in a tribal court, Federal district court, or other court of competent jurisdiction. Section 248(f)(5) of the National Housing Act grants to any such court the jurisdiction to convey to the Secretary the remaining lease on the property and to order eviction of the delinquent Borrower.
- C. Any purchaser at foreclosure sale other than the Secretary must receive the written consent of the lessor or, if lessor is not an Indian tribe, the tribe of which lessor is a member. If the purchaser shall receive a lease for the remaining term of the existing lease unless the lessor consents to an assumption of the existing lease.
- D. This Security Instrument may be assumed, subject to credit approval by the Lender and the consent of the tribe to an assumption of the existing lease or the grant of the new lease. Assumption shall not cause any adjustment of the interest rate.

Continued on next page

12. Exhibit 11: Rider for Section 248 Mortgage, Continued

4155.2
12.A.12.a
Rider for
Section 248
Mortgage
Example (Pg. 2)

E. A sale of property subject to the Security Instrument without an assumption of the Security Instrument may be made if a new lease for the remaining term of the existing lease is granted.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants in this Rider for Section 248 Mortgage.

_____(SEAL)
Borrower

_____(SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

13. Exhibit 12: Rider for Section 247 Mortgage

Change Date May 10, 2009

**4155.2
12.A.13.a
Rider for
Section 247
Mortgage
Example**

The following is an example of the *Rider for Section 247 Mortgage*.

IT IS HEREBY agreed that the lease to which this rider is attached is hereby amended as follows:

Notwithstanding any provisions to the contrary, this lease may serve as security for a mortgage insured or held by the Secretary of the Department of Housing and Urban I following shall apply during such time as the lease serves as such security:

- (1) Any condemnation compensation due the Lessee shall be paid to the mortgagee t same manner as condemnation proceeds under the terms of the mortgage.
- (2) Assignment of this lease is restricted to those persons who have received certifica Department of Hawaiian Home Lands certifying that the assignee or assignees ar as defined in Section 247 of the National Housing Act.
- (3) The Lessor will not cancel this lease without the consent of the Department of H Development.
- (4) Any casualty insurance proceeds are to be applied in accordance with the provisi mortgage.

IN WITNESS WHEREOF, the parties have executed this rider to acknowledge the at said lease and the annotation of said lease with the following statement:

Additional provisions pertaining to the lease when the lease serves as security for a n held by the Secretary of Housing and Urban Development are contained in the Depar Home Lands Mortgage Insurance Program Rider, which is attached to this lease and

Dated: _____, 20____

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN

By: _____
LESSEE

By: _____
CHAIRMAN COMMISSION
HAWAIIAN HOMES COM
LESSOR

LEASE NO. _____

LOT NO. _____

HOMESTEADER _____

14. Exhibit 13: Non-Owner Occupancy Rider

Change Date May 10, 2009

4155.2
12.A.14.a
Non-Owner
Occupancy
Rider Example
(Pg. 1)

The following is an example of the Non-Owner Occupancy Rider.

THIS NON-OWNER OCCUPANCY RIDER is made this _____ day of _____ is incorporated into and shall be deemed to amend and supplement the Mortgage Deed Security Deed (Security Instrument) of the same date given by the undersigned (Borrower) to _____ (Lender) of the same date, and covering the property described in the Security Instrument and located at:

[Property Address]

ADDITIONAL COVENANTS. In addition to the covenants and agreements in the Borrower and Lender further covenant and agree as follows:

- A. Borrower represents that, notwithstanding the provisions of Paragraph 5 of the Security Instrument, he/she does not intend to occupy the property described in the Security Instrument as the primary residence, and [mark applicable item(s)]:
1. The Security Instrument is for a streamline refinance of a loan which was previously insured.
 2. The Security Instrument is for a loan to be insured under Section 203(k) of the National Housing Act.
 3. The Security Instrument applies to property sold under the HUD Single Family Homeownership Program and meets the requirements thereof.
 4. The Borrower is an Indian Tribe as provided in Section 248 of the National Housing Act or a serviceperson who is unable to occupy the property because of his or her duty as provided in Section 216 or Subsection (b)(4) or (f) of Section 222 of the National Housing Act.
 5. The Security Instrument is for property sold to a state or local government agency or organization (qualified under Section 501(c)(3) of the Internal Revenue Code) or lease the property to low or moderate income persons.
 6. The Security Instrument is for property that is or will be a secondary residence eligible for an FHA-Insured mortgage in order to avoid undue hardship for Borrower.

Continued on next page

14. Exhibit 13: Non-Owner Occupancy Rider, Continued

4155.2
12.A.14.a
Non-Owner
Occupancy
Rider Example
(Pg. 2)

ADDITIONAL COVENANTS (continued)

- B. Lender shall not require immediate payment in full, notwithstanding the provisions of Paragraph 9(b) of the Security Instrument, solely because all or part of the Property, or a beneficial interest in a trust owning all or part of the Property is sold or otherwise transferred to a purchaser or grantee who does not occupy the Property as his or her principal residence.

BY SIGNING BELOW, Borrower agrees to the representations contained in this Non-Owner Occupancy Rider.

Borrower (SEAL)

Borrower (SEAL)

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

15. Exhibit 14: Water Purification Equipment Rider

Change Date May 10, 2009

4155.2
12.A.15.a
Water
Purification
Equipment
Rider Example
(Pg. 1)

The following is an example of the *Water Purification Equipment Rider*.

THIS WATER PURIFICATION EQUIPMENT RIDER is made this _____
_____ 20____, and is incorporated into and shall be deemed to amend and supple-
Mortgage Deed of Trust or Security Deed (Security Instrument) of the same date gi-
undersigned (Borrower) to secure Borrower's Note (Note) to _____
(Lender) of the same date and covering the property described in the Security Instru-
located at:

[Property Address]

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the
Security Instrument, Borrower and Lender further covenant and agree as follows:

Borrower shall include in each monthly payment, together with items described in Part
of the Security Instrument, an amount to be held by Lender to assure proper servicing,
maintenance, repair and replacement of individual residential water purification equip-
the Property. Each monthly amount shall equal \$_____, unless and until the amount
by Lender as provided herein.

At least annually, Lender shall determine whether any adjustment is necessary to ensure
sufficient funds will be accumulated to make anticipated disbursements in a timely
inform Borrower of any adjustment. This determination shall be performed without
other items for which Lender maintains an escrow account such as taxes and hazard
premiums.

Lender shall accumulate the amounts received from the Borrower to be held in trust until
disbursements are required as follows:

1. Disbursements from the account are limited strictly to costs associated with the
servicing, maintenance, repair and replacement of the water purification equip-
2. Disbursements shall be made solely to [maintenance organization named in serv-
or its successor, [agent approved by local health authority to perform testing or
on its behalf], [other payees named in Plan.]

Continued on next page

15. Exhibit 14: Water Purification Equipment Rider, Continued

4155.2
12.A.15.a
Water
Purification
Equipment
Rider Example
(Pg. 2)

ADDITIONAL COVENANTS (continued)

- 3. Disbursements shall be made at the request of borrower supported by documentation costs. If Borrower tenders to Lender the full payment of all sums secured by this Security Instrument, or if the equipment is no longer needed because of a change in water source, or immediately prior to a foreclosure sale of the Property or its acquisition by Lender, Borrower's account shall be credited with the balance remaining from amounts accumulated by lender under the additional covenants in the Water Purification Equipment Rider, and lender shall promptly refund any excess funds to Borrower.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and provisions in this Water Purification Equipment Rider.

(SEAL)
Borrower

(SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

16. Exhibit 15: Cooperative Rider

Change Date May 10, 2009

4155.2
12.A.16.a
Cooperative
Rider Example
(Pg. 1)

The following is an example of the *Cooperative Rider*.

THIS COOPERATIVE HOUSING PROJECT RIDER is made this _____ day of _____, 20___, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed (Security Instrument) of _____ given by the undersigned (Borrower) to secure Borrower's Note (Note) to _____ (Lender) of the same date and covering the Property described in the security instrument located at:

[Property Address]

The Property includes Borrower's right of occupancy for a dwelling unit in, together with membership (or stock ownership) in the Corporation of, a project known as:

[Name of Cooperative]

(Cooperative). The Property includes the uses, proceeds and benefits of Borrower's interest in the Cooperative.

COOPERATIVE COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

- A. So long as the Cooperative maintains, with a generally accepted insurance carrier or "blanket" policy insuring all properties located in the project, including all improvements now existing or hereafter erected on the Property, and such policy is satisfactory to the Lender and provides insurance coverage in the amounts, for the periods, and against the risks the Lender requires, including fire and other hazards included within the term "extended coverage," and loss by flood, to the extent required by the Secretary, then:
- (i) Lender waives the provision in Paragraph 2 of this Security Instrument for the payment to Lender of one-twelfth of the yearly premium installments for hazard insurance on the Property, and
 - (ii) Borrower's obligation under Paragraph 4 of this Security Instrument to maintain insurance coverage on the Property is deemed satisfied to the extent that the coverage is provided by the Cooperative's policy.

Continued on next page

16. Exhibit 15: Cooperative Rider, Continued

4155.2
12.A.16.a
Cooperative
Rider Example
(Pg. 2)

COOPERATIVE COVENANTS (continued)

Borrower shall give Lender prompt notice of any lapse in required hazard insurance coverage and of any loss occurring from a hazard. In the event of a distribution of hazard insurance proceeds in lieu of restoration or repair following a loss to the Property, whether to the unit or to the common elements, and facilities of the project, any proceeds payable to Borrower are hereby assigned and shall be paid to Lender for application to the sums secured by this Security Instrument, with any excess paid to the entity legally entitled thereto.

- B. Borrower promises to pay Borrower’s allocated share of the common expenses or assessments and charges imposed by the Cooperative, as provided in the Cooperative documents.
- C. If Borrower does not pay Cooperative dues and assessments when due, Lender may pay them. Any amounts disbursed by Lender under this paragraph C shall become additional debt of Borrower secured by the Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and provisions contained in this Cooperative Rider.

_____ (SEAL)
Borrower

_____ (SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

17. Exhibit 16: Construction Rider for Construction/Permanent Mortgage

Change Date May 10, 2009

4155.2
12.A.17.a
Construction
Rider Example
(Pg. 1)

The following is an example of the Construction Rider for Construction/Permanent Mortgage.

CONSTRUCTION LOAN ADDENDUM TO NOTE MODEL DOCUMENT

FHA CASE Number _____ Date: _____

THIS IS A MODEL DOCUMENT FOR USE IN MORTGAGE LOAN TRANSACTIONS. IT IS PROVIDED AS AN EXAMPLE AND IS NOT VALID AND ENFORCEABLE IN ALL JURISDICTIONS. LENDERS SHOULD CONSULT WITH LEGAL COUNSEL TO DETERMINE WHICH OF ALL FORMS USED TO ORIGINATE LOANS ARE APPROPRIATE, AND THAT ALL INSTRUMENTS ARE COMPLETED CORRECTLY AND IN COMPLIANCE WITH APPLICABLE LAW.

CONSTRUCTION LOAN ADDENDUM AMENDING NOTE

THIS CONSTRUCTION LOAN ADDENDUM (the Addendum) is made this _____ day of _____, _____, and is incorporated into and shall be deemed to amend and supplement the note made by the undersigned Borrower, (I, me, my) to evidence my indebtedness (the Note) and its successors and assigns (the Note Holder) dated as this Addendum (the Note). The Note is secured by a security instrument, as modified in favor of the Lender dated the same date as this Addendum (the Security Instrument) in the Note shall have the same meaning in this Addendum.

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Note, the Borrower and I further covenant and agree as follows:

1. CONSTRUCTION/PERMANENT LOAN

The Note, as amended by this Addendum, is for a construction loan and a permanent mortgage. During the Construction Phase of the Loan, Note Holder will advance funds in accordance with the Construction Loan Agreement dated the same date as this Addendum (the Construction Loan Agreement). The "Construction Phase" is the period beginning on the date the Loan is closed (the Closing Date) until the first day of the month following the Completion Date of the Construction Loan Agreement. The Completion Date is _____

Continued on next page

17. Exhibit 16: Construction Rider for Construction/Permanent Mortgage, Continued

4155.2
12.A.17.a
Construction
Rider Example
(Pg. 2)

ADDITIONAL COVENANTS (continued)

The "Permanent Phase" is the period beginning on the first day of the month following the Completion Date specified in the Construction Loan Agreement. On the first day of the month following the Completion Date (Permanent Mortgage Date), the Loan will be a permanent mortgage loan. The Permanent Mortgage Date for my Loan is _____, _____. My first payment of principal and interest during the Permanent Phase will be due on the first day of the second month following the Completion Date which is _____, _____, as stated in Section 3(A) of the Note.

2. INTEREST AND PAYMENTS

(A) Construction Phase Interest Rate

During the Construction Phase of the Loan, I will pay interest only on the amount of the Loan proceeds Lender disburses under the Construction Loan Agreement (each, an Advance). I will pay interest at the rate:

Check applicable box:

- Stated in Section 2 of the Note (Note Rate)
 At _____% per annum

(B) Permanent Phase Rate

During the Permanent Phase, I will pay interest (Permanent Phase Rate) at the rate stated in Section 2 of the Note (Note Rate).

(C) Interest Only Payments

Interest on Advances shall be calculated from the date each Advance is made. My Construction Phase interest payments will be:

Check applicable box:

- Due and payable fifteen (15) days after being billed by Note Holder, or
 Paid directly from the "Interest Reserve Account" established at the time of closing in the amount reflected in Schedule of Advances, attached as Exhibit "B" to the Construction Loan Agreement.

(D) Interest Reserve Payments

If I choose to establish an Interest Reserve Account, (1) Construction Phase interest will be advanced by Note Holder from the Interest Reserve Account on the first day of the month following the month in which the interest is billed, (2) Construction Phase interest advanced will be added to Principal and (3) I:

Check applicable box:

- Will pay interest on all Principal, including Advances from the Interest Reserve Account.
 Will pay interest on all Principal, other than Advances from the Interest Reserve Account

Continued on next page

17. Exhibit 16: Construction Rider for Construction/Permanent Mortgage, Continued

4155.2
12.A.17.a
Construction
Rider Example
(Pg. 3)

2. **INTEREST AND PAYMENTS** (continued)

In the event that the Interest Reserve Account is depleted prior to the Completion Date, I agree to pay directly to Note Holder from my own funds any and all interest, which accrues prior to the Completion Date.

Note Holder shall pay no interest on the Interest Reserve Account.

(E) **Principal Prepayments; Permanent Phase Interest and Principal Payments**

Any portion of a payment Note Holder receives in excess of the interest due during the Construction Phase or any funds Note Holder does not advance under the Construction Loan Agreement may, at Note Holder's option, be used to pay costs associated with the Construction Phase or may be credited as a partial prepayment of the Principal amount of the Loan. The partial prepayment will reduce the

- amount of
- number of my monthly payments.

Beginning on the Permanent Mortgage Date, principal and interest will be due and payable as set forth in the Note.

3. **NOTICE OF NO ORAL AGREEMENT.**

THE NOTE, THIS ADDENDUM, THE CONSTRUCTION LOAN AGREEMENT, AND THE SECURITY INSTRUMENT, AS AMENDED, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND TO THE EXTENT PERMITTED BY LAW, MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENT OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

BY SIGNING BELOW, I accept and agree to the terms and covenants contained in this Addendum.

DATED this _____ day of _____, _____.

Borrower

Borrower

Section B. System Code and Error Exhibits

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	Exhibit 1: Home Mortgage ADP Codes	12-B-2
2	Exhibit 2: Program Identification Codes	12-B-8
3	Exhibit 3: FHA Common System Errors and Documentation Problems	12-B-12
4	Exhibit 4: PETR Deficiency Codes	12-B-15

1. Exhibit 1: Home Mortgage ADP Codes

Change Date March 1, 2011

4155.2 12.B.1.a ADP Codes The table below lists the Automated Data Processing (ADP) codes commonly used in processing FHA-insured home mortgages, presented according to the Section of the National Housing Act under which the loans are insured.

Notes:

- The column entitled “ADP Code If Pursuant to 223(e)” refers to the code for mortgages insured pursuant to Section 223(e), which are all obligations of the Special Risk Insurance (SRI) Fund.
- The column entitled “ADP Code for HUD” refers to the code for FHA-processed cases.

Section of the Act	Description	ADP Code for DE	ADP Code for VA-CRV	ADP Code If Pursuant to 223(e)	ADP Code for HUD
203(b)	Basic Home Mortgage Insurance	703	503	303	203
	ARM	729	529	---	229
	Fannie Mae (FNMA) Direct Financing	---	550	---	250
	HHL	759	---	---	259
	Alternate GPM	761	561	---	261
	HHL/ARM	780	---	---	280
	Site Condominium (ARM)	731	---	---	203
	Site Condominium	734	---	---	203

Continued on next page

1. Exhibit 1: Home Mortgage ADP Codes, Continued

4155.2 12.B.1.a ADP Codes (continued)

Section of the Act	Description	ADP Code for DE	ADP Code for VA-CRV	ADP Code If Pursuant to 223(e)	ADP Code for HUD
203(b)	VA-CRV 223(e) Mortgage	792	---	392	
	IL	783	583	---	283
	IL/ARM	788	588	---	288
	HHL/Interest Buy-Down (IBD)	811	---	---	411
	223(e) ARM	829	---	---	---
	IL (Salamanca, NY)	---	591	---	291
	Refinance of Borrower in Negative Equity Position	821	---	---	---
	Refinance of Borrower in Negative Equity Position (ARM)	822	---	---	---
203(b)/ 283(c)	MIA/Alternate GPM	---	568	---	268
	MIA	774	574	374	274
203(b)/ 283(c) 245(a)	MIA/GPM	776	576	---	276

Continued on next page

1. Exhibit 1: Home Mortgage ADP Codes, Continued

4155.2 12.B.1.a ADP Codes (continued)

Section of the Act	Description	ADP Code for DE	ADP Code for VA-CRV	ADP Code If Pursuant to 223(e)	ADP Code for HUD
203(b)/ 245(a)	GPM/GEM	741	541	341	241
	GPM/IBD	763	563	---	263
	GPM	770	570	---	270
	GPM/IL/GEM	782	582	---	282
	GPM/IL	787	587	---	287
	GPM/HHL	793	---	---	293
203(k)	Rehabilitation Home Mortgage Insurance	702	502	302	202
	Escrow Commitment	707	---	---	207
	ARM	730	530	---	230
	Second Lien	753	553	353	253
	IL	801	---	---	401
	223(e)/DE	802	---	---	---
	Condominium	804	---	---	404
203(k)	HHL/IBD	805	---	---	405
	Energy Efficiency Mortgage (EEM)	807	507	307	---
	HHL	808	---	---	408
	Condominium/IBD	812	---	---	412
	IBD	813	---	---	413
	Condominium/ARM	815	---	---	415
203(k)/ 245(a)	GPM/GEM	754	554	---	254
203(n)	Cooperative – Individual Unit	---	560	360	260
203(n)/ 245(a)	GPM/GEM	---	547	---	247
213	Cooperative – Sales – Type Releases	---	513	313	213
220(d)(3)	Urban Renewal	720	520	320	220
220(h)	Improvements	719	519	---	219

Continued on next page

1. Exhibit 1: Home Mortgage ADP Codes, Continued

4155.2 12.B.1.a ADP Codes (continued)

Section of the Act	Description	ADP Code for DE	ADP Code for VA-CRV	ADP Code If Pursuant to 223(e)	ADP Code for HUD
234(c)	Condominium	734	534	334	234
	ARM	731	531	---	231
	Refinance of Borrower in Negative Equity Position	831	---	---	---
	Refinance of Borrower in Negative Equity Position (ARM)	832	---	---	---
234(c)/ 238(c)/ 245(a)	MIA/GPM	777	577	---	277
234(c)/ 238(c)	MIA/Alternate GPM	---	569	---	269
234(c)/ 245(a)	GPM/GEM	742	542	342	242
	GPM	771	571	---	271
234(c)	Alternate GPM	762	562	---	262
235(r) REV	Homeownership Assistance/Refinance	765	---	---	165
	Refinance of Ten-Year Subsidy Mortgage	746	---	---	146
	Refinance (Special Allocation No. 1)	755	---	---	155
	Refinance (Recap/Special Allocation No. 1)	756	---	---	156
	Refinance (Recap/Other than Special Allocation No. 1)	766	---	---	166
240	Fee Simple Title	740	540	---	240

Continued on next page

1. Exhibit 1: Home Mortgage ADP Codes, Continued

4155.2 12.B.1.a ADP Codes (continued)

Section of the Act	Description	ADP Code for DE	ADP Code for VA-CRV	ADP Code If Pursuant to 223(e)	ADP Code for HUD
255	HECM Assignment/Fixed (HECM Standard)	951	---	---	911
	HECM Assignment/ARM (HECM Standard)	952	---	---	912
	HECM Shared Premium/Fixed	953	---	---	913
	HECM Shared Premium/ARM	954	---	---	914
	HECM Shared Appreciation/Fixed	955	---	---	915
	HECM Shared Appreciation/ARM	956	---	---	916
	HECM Condominium/Fixed (HECM Standard)	957	---	---	917
	HECM Condominium/ARM (HECM Standard)	958	---	---	918
	HECM Assignment/Fixed (HECM Saver)	971	---	---	
	HECM Assignment/ARM (HECM Saver)	972	---	---	
	HECM Condominium/Fixed (HECM Saver)	977	---	---	
	HECM Condominium/ARM (HECM Saver)	978	---	---	

Continued on next page

1. Exhibit 1: Home Mortgage ADP Codes, Continued

4155.2 12.B.1.a ADP Codes (continued)

Section of the Act	Description	ADP Code for DE	ADP Code for VA-CRV	ADP Code If Pursuant to 223(e)	ADP Code for HUD
Other Sections - MIA	All MMI Sections-3% Downpayment Program (3% DPMT)	748	548	348	248
	All GI Section-3% DPMT	749	549	349	249
	Other Sections-MIA	779	579	379	279
	All MMI Sections-IBD excluding 245(a)	796	596	---	296
	All GI Sections-IBD	797	597	---	297
	All SRI Sections-IBD	798	598	398	298

2. Exhibit 2: Program Identification Codes

Change Date December 23, 2010

4155.2 12.B.2.a Program Identification Codes

The table below describes the Program Identification Codes used to identify special programs. These codes also apply when insurance is pursuant to Section 223(e), Department of Veterans Affairs Certificates of Reasonable Value (VA-CRV), and Direct Endorsement (DE) cases.

Code	Program	Description
01	Section 203(b) (9)	Housing for the elderly
02	Section 203(h)	Disaster housing
03	Sections 203(i) & 222	Low-cost housing in suburban area (Obsolete)
04	Section 203(i)	Farm homes on 5 or more acres (Obsolete)
05		Reserved for inactive program
06		Reserved for inactive program
07	For all home mortgage transactions pursuant to Section 223(a) involving public housing properties sold by Federal, State, or local governments, or agencies thereof.	Inactive
08	For all home mortgage and home improvement loan transactions involving properties located in redevelopment or urban renewal areas.	---
09	Section 809	<ul style="list-style-type: none"> • Case not guaranteed by the military • Inactive <p><i>Note:</i> Code 00 will be applicable for guaranteed cases.</p>

Continued on next page

2. Exhibit 2: Program Identification Codes, Continued

4155.2 12.B.2.a Program Identification Codes (continued)

Code	Program	Description
10	Sections 203(b) (2) & 234(c)	Housing for veterans
11	Section 809	<ul style="list-style-type: none"> • Special veteran provision, guaranteed Inactive
12		<ul style="list-style-type: none"> • Special veteran provision, not guaranteed Inactive
13	Sections 220(d)(3)	Special veteran provision
14	Sections 203, 220, & 809	<ul style="list-style-type: none"> • Veteran in urban renewal area • Inactive
15		<ul style="list-style-type: none"> • Veteran in model city area • Inactive
16		<ul style="list-style-type: none"> • Veteran in model city area in urban renewal area • Inactive
17		<ul style="list-style-type: none"> • Veteran in periphery of model city area • Inactive
18		<ul style="list-style-type: none"> • Veteran in periphery of model city area in urban renewal area • Inactive
19	All home mortgage, home improvement, and fee simple title loan transactions	<ul style="list-style-type: none"> • Located in model city area • Inactive
20		<ul style="list-style-type: none"> • Veteran in periphery of model city area in urban renewal area • Inactive
21		<ul style="list-style-type: none"> • Veteran in periphery of model city area • Inactive
22		<ul style="list-style-type: none"> • Veteran in periphery of model city area in urban renewal area • Inactive

Continued on next page

2. Exhibit 2: Program Identification Codes, Continued

4155.2 12.B.2.a Program Identification Codes (continued)

Code	Program	Description
23	Sections 235(i) & 235(i) REV	Family unit in condominium
24		<ul style="list-style-type: none"> • Family unit in condominium in urban renewal area • Inactive
25		<ul style="list-style-type: none"> • Family unit in condominium in model city area • Inactive
26		<ul style="list-style-type: none"> • Family unit in condominium in model city area in urban renewal area • Inactive
27		<ul style="list-style-type: none"> • Family unit in condominium in periphery of model city area • Inactive
28		<ul style="list-style-type: none"> • Family unit in condominium in periphery of model city area in urban renewal area • Inactive
29	Section 235(i) REV	Family unit in a cooperative project
30	Section 234(c)	<ul style="list-style-type: none"> • Resale of a conventionally financed unit – veteran • Inactive
31		<ul style="list-style-type: none"> • Resale of a conventionally financed unit – non-veteran • Inactive
35	Sections 235(i) & 235(i) REV	Cases originated by Department of Agriculture
36	All home mortgage transactions involving construction/perm properties including manufactured homes	
40	All home mortgage sections	Secretary-held sale - substantial rehabilitation
46		Indian claims area

Continued on next page

2. Exhibit 2: Program Identification Codes, Continued

4155.2 12.B.2.a Program Identification Codes (continued)

Code	Program	Description
48	Sections 203(b), 203(b)-ARM, 203(b)/245(a), 203(k), 203(k) – ARM, & 203(k)/245(a)	Indian Reservations <i>Note:</i> Obsolete; Section of the Act ADP Codes now apply.
50	Sections 203(b), 203(k) 203(n), 233, 244, & 245	Solar Energy dwellings for veterans
51	Sections 203(b), 203(k), 203(n), 233, 244, 245, & 809	Solar Energy dwellings for non-veterans
52	All home mortgage sections	IBD provision
53		State-purchase property mortgages - formerly Secretary-held (Inactive)
60		Subject to Section Trust
65	All home mortgage sections except 222 & 235	Shared Equity mortgages
70	Section 245(a)	Obsolete: Section of the Act ADP Codes now apply
77	All home mortgage sections	Manufactured Housing NOT processed as construction-permanent loans
88	Section 8	Section 8 Homeownership Programs
90	Sections 203(b), 203(b)-ARM, 203(b)/245(a) - GPM, & 203(b)/245(a) – GPM/GEM	Operative Builder Firm Commitment
00	All cases not in program codes shown above	---

3. Exhibit 3: FHA Common System Errors and Documentation Problems

Change Date December 23, 2010

4155.2 12.B.3.a The table below describes common FHA system errors, and provides
Common information for their resolution.
System
Problems

When the Problem Error Message is ...	Then ...
Mortgage Amount cannot exceed \$XXXX for a value of \$YYYYY	verify <ul style="list-style-type: none"> • that the question <i>MIP Financed?</i> is correctly answered • that the <i>UFMIP</i> amount is paid in the case • the <i>ADP</i> code • that the <i>previous REO case</i> is correct, and • the mortgage amount and value entries.
Monthly <i>P&I</i> not within acceptable range of \$XXX.XX to \$YYY.YY	verify the <ul style="list-style-type: none"> • mortgage term, and • mortgage amount and interest rate entries.
Mortgage Amount exceeds statutory limit	verify <ul style="list-style-type: none"> • the number of units • the county code • that the question <i>MIP Financed?</i> is correctly answered, and • if it is an Emergency Efficient Mortgage.
Address mismatch (refinance)	<ul style="list-style-type: none"> • verify <ul style="list-style-type: none"> – the address with the one on the payoff statement, and – that the old case number is the borrower's, and • contact the <i>HOC</i> for instructions if the error persists.

Continued on next page

3. Exhibit 3: FHA Common System Errors and Documentation Problems, Continued

4155.2 12.B.3.a Common System Problems (continued)

When the Problem Error Message is ...	Then ...
Borrower cited on CAIVRS Multiple Loans	submit a print-out of a clear CAIVRS screen, if obtained at case number assignment and the borrower is cited later.
Borrower cited on Multiple Loans	<ul style="list-style-type: none"> • research all case numbers cited, and • provide updated status of each case in the binder. <p><i>Note:</i> If the property was sold, provide the HUD-1.</p>

4155.2 12.B.3.b **Common Documentation Problems** The table below describes common documentation problems and provides information for their resolution.

When the documentation problem message is ...	Then ...
Appraisal and HUD-92900-LT , <i>FHA Loan Underwriting and Transmittal Summary</i> information not entered in FHA Connection	prior to shipment, verify that the information in the system is for the correct case number.
UFMIP and netted MIP incorrectly submitted	verify that the transmission references the correct numbers.
UFMIP and netted MIP submitted late	verify ten (10) days of closing.
Second copy of appraisal not provided loose in binder	ensure that one appraisal is fastened, and one is loose.
Late letter and payment history not provided	this means that the late letter and history are required as of the 60 th day, if not received by the HOC .
Missing ADP codes on appropriate documents and allonges	verify that the case numbers have the appropriate codes included.

Continued on next page

3. Exhibit 3: FHA Common System Errors and Documentation Problems, Continued

4155.2 12.B.3.b Common Documentation Problems (continued)

When the documentation problem message is ...	Then ...
203(k) cases not closed out in system prior to refinance	follow the close-out procedures prescribed by the HOC.
Case number not in binder	verify the case number.
92900a not completed and appropriately signed	review the form for proper signatures.
HUD-1 and HUD-1 Addendum not signed and dated by all parties	review the forms for proper signatures, particularly the seller and settlement agent.

4. PETR Deficiency Codes

Change Date December 23, 2010

4155.2 12.B.4.a When conducting the Post Endorsement Technical Review (PETR), the FHA reviewer assigns one or more technical review reason deficiency codes from the table below to identify the risk element, documentation deficiency or processing error present in the loan.

Code	Category	Deficiency
AU01	Automated Underwriting Systems/ TOTAL	Data integrity deficiencies. File documentation does not support Accept/Approve decision in AUS .
AU02	Automated Underwriting Systems/TOTAL	Documentation does not support credit waivers of AUS.
AU05	Automated Underwriting Systems/TOTAL	AUS invalid or missing.
CH03	Credit History	Mortgage verification missing, mortgage not current, or mortgage history not satisfactory.
CH10	Credit History	Credit report unacceptable source or format.
CH21	Credit History	Concerns related to bankruptcies, judgments, liens and/or foreclosures.
CH40	Credit History	Concerns related to poor credit pattern, major derogatory credit and/or recent material inquiries.
CH41	Credit History	CAIVRS , LDP/GSA authorization and/or delinquent federal debt issued not properly documented or satisfied.
CH42	Credit History	Credit report or non-traditional credit not obtained or illegible.
CL32	Closing	Unallowable, excessive costs/credit to borrower, or other HUD-1 inaccuracies.
CL37	Closing	HUD-1, HUD-1 Addendum (if applicable), and/or Good Faith Estimate (GFE) missing, not the final copy, incomplete or illegible.
DC10	Documentation	Uniform Residential Loan Application (URLA) not properly completed or missing.
DC11	Documentation	Form HUD-92900-A not properly completed or missing.
DC12	Documentation	Quality of imaged documentation insufficient to permit review.
DC13	Documentation	Questionable documentation.

Continued on next page

4. PETR Deficiency Codes, Continued

4155.2 12.B.4.a PETR Deficiency Codes (continued)

Code	Category	Deficiency
DC14	Documentation	Concerns related to electronic documents.
DC15	Documentation	Case binder indexing errors/deficiencies.
EQ01	Eligibility & Qualification	Invalid Social Security number (SSN) or Tax Identification number (TIN).
EQ02	Eligibility & Qualification	Legal residency for non-US citizens not adequately documented.
EQ03	Eligibility & Qualification	Borrower not owner-occupant, property not principal residence, possible investor issues and/or eligibility requirement for principal residence not met (including identity of interest concerns).
EQ04	Eligibility & Qualification	Qualifying ratios exceeded without acceptable compensating factors for manually-approved loans.
EQ05	Eligibility & Qualification	Borrower deleted on streamline refinance loan without credit qualifying.
EQ07	Eligibility & Qualification	Payoff demand missing for refinance transaction.
EQ08	Eligibility & Qualification	Streamline refinance eligibility criteria not met.
FD10	Funds	Unacceptable, unsupported or insufficient source of funds.
FD20	Funds	Concerns related to assets derived from gift(s).
FD30	Funds	Secondary financing: source or terms unacceptable, not documented or inadequately documented.
FD60	Funds	Borrower did not make the required minimum cash investment (downpayment).
FP01	Flipping	Sales contract dated fewer than 91 days from acquisition date by seller.
FP02	Flipping	Requirements for properties sold within 91-180 days not documented.
FP03	Flipping	Waiver requirements not met to permit a property sales contract date less than 91 days with a sales price increase of 20% or greater above the seller's acquisition cost.
HM01	HECM	Borrower not eligible or eligibility not established/documented.
HM04	HECM	Counseling requirement not satisfied/acceptably documented.
HM05	HECM	Anti-Churning Disclosure and/or supporting calculation missing or inaccurate.

Continued on next page

4. PETR Deficiency Codes, Continued

4155.2 12.B.4.a PETR Deficiency Codes (continued)

Code	Category	Deficiency
HM06	HECM	Loan Agreement missing, incorrect or illegible.
HM07	HECM	Maximum Claim Amount incorrect.
HM08	HECM	Acceptable title insurance commitment not provided/documented.
HM10	HECM	Average Expected Mortgage Interest Rate (Expected Rate) incorrect.
HM11	HECM	Principal limit incorrect.
HM12	HECM	Payment Plant incorrectly calculated and/or disagrees with HUD-1.
HM13	HECM	Excess servicing set-aside.
HM25	HECM	Concerns related to repair set-aside.
HM26	HECM	HECM for Purchase – no third party contributions exist.
IC02	Income	Income improperly calculated or from an unacceptable source.
IC20	Income	Income improperly documented.
IC22	Income	IRS Form 4506 or Form 8821 required, but missing, inaccurate or incomplete.
IC30	Income	Stability of income insufficient and/or unsupported.
LA04	Liabilities	Obligations of borrower(s) (non-purchasing spouses included) omitted, inaccurate, unsupported, undisclosed and/or illegible.
LI01	LI Loans	Lender Insured (LI) data integrity concerns: insured loan data entered in FHA Connection not supported by file documents.
LI02	LI Loans	Documentation and/or compliance errors/concerns for LI case which were not resolved prior to insurance.
MA04	Maximum Mortgage Amount	Mortgage amount incorrect, LTV limit and/or statutory limit exceeded.
MA05	Maximum Mortgage Amount	Secondary Financing: maximum CLTV and/or statutory limit of combined mortgages exceeded.
PG10	Program	Concerns related to Hawaiian Homelands financing transactions.
PG20	Program	Concerns related to 203(k) mortgages.
PG30	Program	Concerns related to construction-to-permanent financing transactions.
PG40	Program	Concerns related to Energy Efficient mortgages.

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4. PETR Deficiency Codes, Continued

PETR Deficiency Codes (continued)

Code	Category	Deficiency
RH11	Rehab/ Construction	Inadequate description of improvements/costs.
UW16	Underwriting	Excess cash back on No Cash-Out refinance.
UW20	Underwriting	Purchase contract, Real Estate Certification and/or Amendatory Clause missing, illegible or incorrect.
UW22	Underwriting	Concerns related to short sales and/or short payoffs.
UW23	Underwriting	Concerns related to Help for Homeowners or other loan modification program.
VA01	Valuation	Concerns related to the Neighborhood, Site, and/or Improvements sections of the appraisal report.
VA02	Valuation	Illegal zoning.
VA03	Valuation	Existing construction in Special Flood Hazard Area (A or V Zone) without evidence of flood insurance.
VA04	Valuation	New Construction and/or Manufactured Home in Special Flood Hazard Area (A or V Zone) without LOMA , LOMR , or an elevation certificate with evidence of flood insurance.
VA06	Valuation	Property does not meet Minimum Property Requirements.
VA07	Valuation	Appraisal expired.
VA08	Valuation	Allowable commercial space in mixed-use property exceeded.
VA13	Valuation	Concerns related to Cost Approach of the appraisal report.
VA14	Valuation	Concerns related to Sales Comparison Approach section of the appraisal report.
VA15	Valuation	Concerns related to Income Approach section of the appraisal report.
VA17	Valuation	Concerns related to the Market Conditions Addendum to the appraisal report, including: missing, incomplete, incorrect and/or illegible.
VA18	Valuation	Owner of record not documented.
VA20	Valuation	Sales are not sufficiently comparable to the subject property.
VA22	Valuation	Form HUD-92800.5B substantially incomplete, incorrect or missing.
VA23	Valuation	Repairs not acceptably addressed.
VA24	Valuation	The Wood Destroying Insect Inspection report is missing or incomplete, or inadequate documentation exists to reflect that infestation was acceptably treated.

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4. PETR Deficiency Codes, Continued

4155.2 12.B.4.a PETR Deficiency Codes (continued)

Code	Category	Deficiency
VA25	Valuation	Compliance inspections, certifications, or local government approvals are missing or incomplete.
VA26	Valuation	Form HUD-92051 or its equivalent is substantially incomplete or incorrect.
VA27	Valuation	Form HUD-92300 , <i>Mortgagee Assurance of Completion</i> , is missing, incomplete and/or incorrect.
VA29	Valuation	Manufactured home does not meet eligibility guidelines.
VA30	Valuation	Value not supported.
VA34	Valuation	Newly-constructed or newly-rehabilitated home, does not meet requirements.
VA36	Valuation	Condo project not approved by DELRAP/HRAP .
VA41	Valuation	Concerns related to photos, map and/or sketch missing or illegible.
VA42	Valuation	Concerns related to the subject and contract section of the appraisal report.
VA43	Valuation	Responsibility for MPS repairs not detailed.
VA44	Valuation	Incorrect appraisal form used for property type.
V25A	Valuation	Manufactured home does not meet guidelines.
V26A	Valuation	Condo project, spot condo not approved.
V26B	Valuation	Condo 51% owner-occupancy not met.
V26C	Valuation	Condo – other deficiencies.
V27A	Valuation	Newly-constructed home does not meet requirements.

Section C. Mortgage Lender Letter Exhibits

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	Exhibit 1: Mortgage Lender Approval Format	12-C-2
2	Exhibit 2: Unconditional Direct Endorsement Approval Letter Format	12-C-4
3	Exhibit 3: Mortgage Lender Disapproval Letter Format	12-C-6
4	Exhibit 4: Mortgage Lender Probation Letter Format	12-C-7
5	Exhibit 5: Pre-Closing Sanction Letter Format	12-C-9
6	Exhibit 6: Withdrawal of DE Lender Approval Letter Format	12-C-12

1. Exhibit 1: Mortgage Lender Approval Format

Change Date March 24, 2011

4155.2 12.C.1.a Purpose of the Mortgage Lender Approval The purpose of the *Mortgage Lender Approval* is to notify applicant mortgage lenders of acceptance into the Direct Endorsement (DE) Program on pre-closing review status.

4155.2 12.C.1.b Who Prepares the Mortgage Lender Approval The Lender Approval Specialist, with appropriate assistance from technical branches, prepares the letter for the signature of the decision maker.

4155.2 12.C.1.c Mortgage Lender Approval Text Format The Lender Approval Specialist uses the following format for the *Mortgage Lender Approval* letter:

[Mortgage Lender Name]
 [Mortgage Lender Address]
 [Mortgage Lender’s Ten-digit Lender Number ID]

We have reviewed the qualifications of your organization and have determined that the DE mortgage lender eligibility requirements have been met. With respect to the staff personnel you have nominated, those listed below meet the necessary requirements and have satisfactorily completed the appropriate training sessions.

NAME	EXPERTISE	CHUMS ID
_____	UNDERWRITER	_____
_____	_____	_____
_____	_____	_____

Continued on next page

1. Exhibit 1: Mortgage Lender Approval Format, Continued

4155.2 12.C.1.d
Mortgage
Lender
Approval
Letter Text

The text below is included in the *Mortgage Lender Approval* letter.

Accordingly, the office noted above is approved to submit mortgages in the DE Program on the pre-closing review status to this Home Ownership Center (HOC) Office. During the pre-closing review period, we will perform a complete technical review of each submission. If found to be eligible, a firm commitment will be issued. This pre-closing review will include at least 15 submissions. Should these 15 submissions fail to demonstrate acceptable underwriting, the pre-closing review status will be extended. We will notify you when the pre-closing review period has been successfully completed.

The FHA's receipt and review of the Quality Control Plan are solely for the purposes of determining whether the plan addresses the DE Program requirements. The FHA's review was not for the purpose of approving the adequacy of any other provisions. Please be advised that participation in the DE Program is a privilege accorded only to those mortgage lenders who have demonstrated the ability to originate mortgage loans in accordance with FHA underwriting policy. Accordingly, should the mortgage loans submitted for DE indicate unsatisfactory underwriting, the privilege will be reduced or withdrawn.

2. Exhibit 2: Unconditional Direct Endorsement Approval Letter Format

Change Date March 24, 2011

4155.2 12.C.2.a Purpose of the Unconditional Direct Endorsement Letter The purpose of the *Unconditional DE Approval* letter is to notify applicant mortgage lenders of successfully completing the pre-closing review.

4155.2 12.C.2.b Who Prepares the Unconditional Direct Endorsement Letter The Lender Approval Specialist, with appropriate assistance from technical branches, prepares the Unconditional Direct Endorsement letter for the signature of the decision maker.

4155.2 12.C.2.c Unconditional Direct Endorsement (DE) Approval Letter Text Format The Lender Approval Specialist uses the following format for the *Unconditional DE Approval Letter*:

[Mortgage Lender Name]
[Mortgage Lender Address]
[Five-digit Lender Number ID]

The purpose of this letter is to inform you YOUR COMPANY has satisfactorily completed the pre-closing review period of the Direct Endorsement (DE) Program.

Accordingly, YOU may now begin to underwrite and close mortgage loans without prior FHA review. Upon submission to the FHA, the case will undergo a pre-endorsement review as outlined in HUD 4155.2, *Single Family Handbook*.

Continued on next page

2. Exhibit 2: Unconditional Direct Endorsement Approval Letter Format, Continued

4155.2 12.C.2.d
Unconditional
Direct
Endorsement
(DE) Approval
Letter Text
Format
(continued)

Please be advised that participation in the DE Program is a privilege accorded only to mortgage lenders who continue to demonstrate the ability to originate mortgage loans in accordance with FHA underwriting policy. Some of the mortgage loans that you submit will be subject to post-endorsement technical reviews. Should the reviews indicate unsatisfactory underwriting, the privilege of participating will be reduced or withdrawn.

Mortgage lenders are required to notify the FHA of any changes to the elements (reduction in net worth; staff underwriter, appraiser, inspector, mortgage credit examiner) upon which this approval was based.

3. Exhibit 3: Mortgage Lender Disapproval Letter Format

Change Date March 24, 2011

**4155.2 12.C.3.a
Purpose of the
Mortgage
Lender
Disapproval
Letter** The purpose of the *Mortgage Lender Disapproval Letter* is to notify applicant mortgage lenders that their applications are not eligible for approval. The Letter describes the reasons for the disapproval.

**4155.2 12.C.3.b
Who Prepares
the Mortgage
Lender
Disapproval
Letter** The Lender Approval Specialist, with appropriate assistance from technical branches, prepares the *Mortgage Lender Disapproval Letter*.

Continued on next page

3. Exhibit 3: Mortgage Lender Disapproval Letter Format, Continued

**4155.2 12.C.3.c
Mortgage
Lender
Disapproval
Letter Text
Format**

The Lender Approval Specialist uses the following format for the Mortgage Lender Disapproval Letter:

- [Mortgage Lender Name]
- [Mortgage Lender Address]
- [Ten-digit Lender Number ID]

The purpose of this letter is to inform you that we have received and reviewed your application to participate in the Department's DE Program.

Based on the information you have provided, we have determined that your office is not eligible for approval. The following requirements of the program have not been satisfied:

[List the requirements not met, with appropriate references from the HUD 4155.2 handbook.]

4. Exhibit 4: Mortgage Lender Probation Letter Format

Change Date March 24, 2011

**4155.2 12.C.4.a
Purpose of the
Mortgage
Lender
Probation
Letter** The purpose of the *Mortgage Lender Probation Letter* is to provide official notification from the FHA to the mortgage lender that probationary sanctions are being applied.

**4155.2 12.C.4.b
Who Prepares
the Mortgage
Lender
Probation
Letter** The Lender Approval Specialist prepares the letter for the signature of the decision maker.

**4155.2 12.C.4.c
Sending the
Mortgage
Lender
Probation
Letter** The Lender Approval Specialist sends the letter Registered/Certified Mail, Return Receipt Requested.

Continued on next page

4. Exhibit 4: Mortgage Lender Probation Letter Format,

Continued

4155.2 12.C.4.d The Lender Approval Specialist uses the following format for the *Mortgage Lender Probation Letter Text Format*

[Mortgage Lender Name]
[Mortgage Lender Address]
[Ten-digit Lender Number ID]

The purpose of this letter is to inform you that the above noted mortgage lender office has been placed in probation status in the Department's Direct Endorsement (DE) Program.

As a result of the failure to underwrite mortgage loans in accordance with FHA underwriting policy, the probationary actions described below are being imposed against the office of your company noted above. The probationary action is effective as of your receipt of this letter. This action is taken pursuant to Title 24, Part 200.164(h) of the Code of Federal Regulations, as detailed in HUD 4155.2. *Single Family Handbook*.

[Provide the grounds for actions, including case numbers and deficiencies.]

[If probation involves the pre-closing review of cases, the letter must provide for DE cases in process.]

This action does not affect your eligibility to submit applications for commitments to insure mortgages.

5. Exhibit 5: Pre-Closing Sanction Letter Format, Continued

**4155.2 12.C.5.b
Pre-Closing
Sanction Letter
Text Format
(Pg. 2)**

- The percentage of loans with a default reported during the first twenty-four months for FHA-insured loans originated by your organization, exceed comparable rates for the nation as a whole, the Philadelphia Homeownership Center jurisdiction, and those for the offices and states in which you do the majority of your business, as evidenced by the following:

**LOANS WITH A BEGINNING AMORTIZATION DATE
BETWEEN _____ AND _____**

Area	Area Default/ Claim Rate	Mortgage Lender Default/Claim Rate
United States	_____	_____
HOC	_____	_____
_____ Office	_____	_____

Effective thirty (30) days after the date of this letter, your organization will be returned to pre-closing review status for the Direct Endorsement program. As a result, applications for HUD/FHA mortgage insurance which have not been underwritten and finally approved by your organization on or after this date are subject to technical underwriting review and firm commitment processing by this office prior to closing and endorsement.

Submissions should be placed in yellow case binders (provided under separate cover), and mailed to the following address:

U.S. Department of Housing and Urban Development
 _____ Home Ownership Center
 ATTN: Insuring and Underwriting Branch

Please mark both the envelope and the yellow case binder itself with the words "TEST CASE" in large block letters, to ensure expeditious handling in our office. While we attempt to process all pre-closing review cases within three working days after receipt, workload volume may cause delays. You should allow at least seven workdays from your mailing date for our response.

Continued on next page

5. Exhibit 5: Pre-Closing Sanction Letter Format, Continued

4155.2 12.C.5.b
Pre-Closing
Sanction Letter
Text Format
(Pg. 3)

You are encouraged to use the next thirty days to enter into FHA Connection closing information for any loans already underwritten and closed. Following the effective date of your return to pre-closing status, you will be unable to enter closing information into FHA Connection. Closing information must be entered directly by HUD, and cases will then be processed for endorsement. In order to avoid incorrect routing in our offices, please place these cases in the yellow case binders as well, label them in large block letters "TEST CASE - FOR ENDORSEMENT ONLY," and forward them to the address noted above.

The term of your probation will continue until your organization demonstrates satisfactory performance. If you have any questions concerning this matter, you may contact _____, Chief, Insuring and Underwriting Branch, at _____, extension _____.

Sincerely,

Division Director

Processing and Underwriting

6. Exhibit 6: Withdrawal of DE Lender Approval Letter Format

Change Date March 24, 2011

**4155.2 12.C.6.a
Purpose of the
Withdrawal of
DE Lender
Approval
Letter** The purpose of the *Withdrawal of DE Lender Approval* letter is to notify the lender of the withdrawal of DE lender approval status.

**4155.2 12.C.6.b
Prepared By
who prepares
the Withdrawal
of DE Lender
Approval
Letter** The Lender Approval Specialist, with appropriate assistance from the technical branches, prepares the letter for the signature of the decision maker.

**4155.2 12.C.6.c
Sending the
Withdrawal of
DE Lender
Approval
Letter** The Lender Approval Specialist sends the letter Registered/Certified Mail, Return Receipt Requested.

Continued on next page

6. Exhibit 6: Withdrawal of DE Lender Approval Letter Format, Continued

4155.2 12.C.6.d The Lender Approval Specialist uses the following format for the *Withdrawal of DE Lender Approval* letter.

**Withdrawal
Letter Text
Format**

[Mortgage Lender Name]
[Mortgage Lender Address]
[Ten-digit Lender Number (ID)]

The purpose of this letter is to advise you that the approval of the above noted lender office to participate in the Department's Direct Endorsement program is withdrawn. This action is effective as of your receipt of this letter. This action is taken pursuant to Title 24, Part 200.164(h) of the Code of Federal Regulations, as detailed in HUD 4155.2 9.D.3.

[Provide grounds for action, including case numbers and deficiencies.
Also provide for conversion of Direct Endorsement cases in process.]

You have the right to an informal hearing before the decision maker to discuss this matter. You may make documentary and oral presentations and advise what, if any, corrective action you may have taken to address the problems identified. You may be represented by counsel. If requested, the hearing will be arranged within 15 days of your request.

Section D. Pre-Endorsement Checklist Exhibits

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	Exhibit 1: Pre-Endorsement Review Approval/Rejection Checklist for HECM Files	12-D-2
2	Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files	12-D-5

1. Exhibit 1: Pre-Endorsement Review Approval/Rejection Checklist for HECM Files

Change Date March 24, 2011

4155.2 12.D.1.a Documents Needed for Pre-Endorsement Review of HECM File The following documents should be identified during the review, and fastened to the left side of the uniform case binder:

- Second Note
- Second Mortgage/Deed of Trust
- three original Loan Agreements, and
- Notice to the Borrower.

4155.2 12.D.1.b Pre-Endorsement Review Approval/Rejection Checklist for HECM The following is an example of the Pre-Endorsement Review Approval/Rejection Checklist for HECM Files.

Place a checkmark in the Approved or Rejected column, as appropriate.

Case Number:	By:
---------------------	------------

Approved (Please Check)	Rejected (Please Check)	Document
		Late Submission Explanation, if received more than 60 days after closing
		Copy of signed first Note

Continued on next page

1. Exhibit 1: Pre-Endorsement Review Approval/Rejection Checklist for HECM Files, Continued

4155.2 12.D.1.a Pre-Endorsement Review Approval/Rejection Checklist for HECM (continued)

Approved (Please Check)	Rejected (Please Check)	Document
		Copy of signed first Security Instrument, such as the Mortgage or Deed of Trust
		Signed ORIGINAL second Note
		Signed Original or certified true copy of second Security Instrument, such as the Mortgage or Deed of Trust
		Signed Form HUD-1 , <i>Settlement Statement</i>
		Notice to Borrower
		Signed Loan Agreement <i>Note:</i> There should be three originals.
		Choice of Insurance Options
		Certification regarding Hotel and Transient Use for 2-, 3-, or 4-unit properties
		Evidence of Calculations, for <ul style="list-style-type: none"> • principal limit, and • monthly payment amount
		Final Fannie Mae Form 1009 , <i>Residential Loan Application for Reverse Mortgages</i> , signed by all borrowers
		Form HUD-92900-A , <i>HUD/VA Addendum to Uniform Residential Loan Application</i> signed and dated by the appropriate parties. <i>Note:</i> Obtain the DE Underwriter’s name and ID No. from Page 3.
		Credit Report
		Evidence the borrower received counseling (Form HUD-92902 , <i>Certificate of HECM Counseling</i>)
		Evidence of Social Security Number, such as <ul style="list-style-type: none"> • Social Security Card • driver’s license, or • 1099 form.
		Title Insurance Commitment, or other acceptable title evidence.
		Form HUD-92800.5b , <i>Conditional Commitment Direct Endorsement Statement of Appraised Value</i>

Continued on next page

1. Exhibit 1: Pre-Endorsement Review Approval/Rejection Checklist for HECM Files, Continued

4155.2 12.D.1.a Pre-Endorsement Review Approval/Rejection Checklist for HECM (continued)

Approved (Please Check)	Rejected (Please Check)	Document
		Form HUD-92051 , <i>Compliance Inspection Report</i> prepared by an appraiser or fee inspector certifying satisfactory completion of the repairs.
		<ul style="list-style-type: none"> • Final <i>Uniform Residential Appraisal Report</i> (URAR), and • complete appraisal package

2. Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files

Change Date March 24, 2011

4155.2 12.D.2.a Statutory and Regulatory Requirements The contents of the Pre-Endorsement Review Approval/Rejection Checklist for non-HECM Files

- are required by [24 CFR 203.255](#), and
- represent Statutory and Regulatory requirements.

4155.2 12.D.2.b Right Side of Binder Checklist for Non-HECM Files The following is an example of the right side of the binder Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files.

Place a checkmark in the Approved or Rejected column, as appropriate.

Case Number:	By:
---------------------	------------

Approved (Please Check)	Rejected (Please Check)	Document
		Automated Underwriting Feedback Certification
		First-Time Home Buyer Counseling Certificate, for Hawaiian Homeland Loans only

Continued on next page

2. Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files, Continued

4155.2 12.D.2.b Right Side of Binder Checklist for Non-HECM Files (continued)

Approved (Please Check)	Rejected (Please Check)	Document
		<p>Late Submission Letter/Payment History, per HUD 4155.2</p> <ul style="list-style-type: none"> • Confirm if the case was submitted more than 60 days <i>after</i> the loan closing date. • If yes, determine if the case meets the requirements of late submission processing, per HUD 4155.2 8.C.7. <p>Note: The loan must be current to be endorsed.</p>
		<p>Form HUD 92900-LT, <i>FHA Loan Underwriting and Transmittal Summary</i></p> <p>Confirm the following:</p> <ul style="list-style-type: none"> • Form is signed and dated by the Direct Endorsement (DE) Underwriter • Underwriter ID Number is included, and • Form HUD-92700, <i>203(k) Worksheet</i>, <i>EEM Worksheet</i>, or 203(h) documentation is included, if applicable. <p>IMPORTANT: For Automated Underwriting Systems (AUS) loans, Form 92900-LT should reflect the system used and the appropriate ID number. The DE Underwriter's signature is not required.</p>

Continued on next page

2. Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files, Continued

4155.2 12.D.2.b Right Side of Binder Checklist for Non-HECM Files (continued)

Approved (Please Check)	Rejected (Please Check)	Document
		<p>Note, including the note for the secondary mortgage, when applicable. Confirm the following:</p> <ul style="list-style-type: none"> • the note is a copy • the note contains <ul style="list-style-type: none"> – the same borrower(s) names(s) that appear on form HUD-92900-LT and form HUD 92900.4, <i>Firm Commitment</i>, and – all nine paragraphs of the <i>Model Note</i> • the face page of the note is <ul style="list-style-type: none"> – marked certified copy, and – signed, conformed, or executed • the mortgage amount is not higher than approved by the DE underwriter, per <ul style="list-style-type: none"> – form HUD 92900-LT – form HUD-92900-A, <i>HUD/VA Addendum to Uniform Residential Loan Application</i>, Page 3 • the term of the mortgage is the same as on the Uniform Residential Loan Application (URLA), and reflects the correct FHA Case Number and Automatic Data Processing (ADP) Code, and • all applicable Allonges, Agreements, riders are signed or conformed, such as the <ul style="list-style-type: none"> – 796 Buydown – ARM Disclosure, or – 203(k) Rehabilitation Loan Agreements.

Continued on next page

2. Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files, Continued

4155.2 12.D.2.b Right Side of Binder Checklist for Non-HECM Files (continued)

Approved (Please Check)	Rejected (Please Check)	Document
		<p>Security Instrument such as the mortgage or deed of trust. Confirm the following:</p> <ul style="list-style-type: none"> • the security instrument is a copy • the security instrument is <ul style="list-style-type: none"> – marked <i>certified copy</i>, and – signed, conformed, or executed • the principal mortgage amount or maturity date on the security instrument is not higher than that approved by the DE Underwriter • the security instrument contains <ul style="list-style-type: none"> – Paragraph 9 - <i>Ground for Acceleration of Debt</i>, and – Paragraph 18 - <i>Foreclosure Procedures</i> • the property address is the same as on the URAR, and • all riders indicated on the last page of the security instrument are completed, signed or conformed, such as the <ul style="list-style-type: none"> – Condominium Rider – ARM Disclosure, or – 203(k) Rehabilitation Loan Agreements.

Continued on next page

2. Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files, Continued

4155.2 12.D.2.b Right Side of Binder Checklist for Non-HECM Files (continued)

Approved (Please Check)	Rejected (Please Check)	Document
		<p>Form HUD-1, <i>Settlement Statement</i> and HUD-1 Addendum. Confirm the following:</p> <ul style="list-style-type: none"> • legible copies of Pages 1 and 2 are included, and • HUD-1 documents are complete and signed by the <ul style="list-style-type: none"> – borrower – seller, and – settlement agent. <p>Notes:</p> <ul style="list-style-type: none"> • HUD, as the seller, does not sign on REO Sales. • Refinances may be a one-page form and the Addendum is <i>not</i> required.
		<p>Final Uniform Residential Loan Application (URLA). Confirm the URLA is signed and dated by the mortgage lender and all borrowers.</p> <p><i>Note:</i> Ensure the mortgage lender’s signature on the initial application is acceptable, in lieu of his/her signature on the final URLA.</p>

Continued on next page

2. Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files, Continued

4155.2 12.D.2.b Right Side of Binder Checklist for Non-HECM Files (continued)

Approved (Please Check)	Rejected (Please Check)	Document
		Form HUD-92900-A , <i>HUD/VA Addendum to Uniform Residential Loan Application</i> . Confirm the following: <ul style="list-style-type: none"> • all four pages of the Addendum are complete, and signed and dated by the appropriate parties, and • Page 3 is signed by the DE Underwriter, or identified as AUS with the appropriate ID.
		Credit Report(s)
		Asset Verification. Confirm that the Verification of Deposit (VOD) and/or bank statements are included.
		Gift Letter, if the gift is shown on form HUD 92900-LT , <i>FHA Loan Underwriting and Transmittal Summary</i> . <i>Note:</i> If AUS accepted, a letter is not needed. The gift can be noted on the URLA , in lieu of the Gift Letter.
		Income Verification. Can include any of the following: <ul style="list-style-type: none"> • written or verbal verification of employment (VOE) • pay stub • Federal tax returns, or • evidence of a pension or retirement.

Continued on next page

2. Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files, Continued

4155.2 12.D.2.b Right Side of Binder Checklist for Non-HECM Files (continued)

Approved (Please Check)	Rejected (Please Check)	Document
		Evidence of the Social Security Number (SSN), such as <ul style="list-style-type: none"> • a copy of the Social Security Card • a pay stub, or • W-2, etc.

Continued on next page

2. Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files, Continued

4155.2 12.D.2.c The following is an example of the left side of the binder Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files.

Left Side of

Binder

Checklist

Place a checkmark in the Approved or Rejected column, as appropriate.

Approved (Please Check)	Rejected (Please Check)	Document
		Form HUD-92300 , <i>Mortgagee Assurance of Completion</i> , if applicable. Confirm the form is completed and signed.
		Form HUD-92051 , <i>Compliance Inspection Report</i> . Confirm the <i>Compliance Inspection Report</i> is <ul style="list-style-type: none"> • countersigned by the Direct Endorsement (DE) Underwriter, and • completed, signed and dated by an approved inspector. <p><i>Note:</i> Local government inspection, with the <i>Underwriter Certification</i> may be accepted.</p>
		Form NPMA-33 , <i>Wood Destroying Insect Infestation Report</i> , or state mandated infestation report is included, as applicable.
		Local Health Authority's approval for individual water and sewer systems is included, when applicable.

Continued on next page

2. Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files, Continued

4155.2 12.D.2.c Left Side of Binder Checklist (continued)

Approved (Please Check)	Rejected (Please Check)	Document
		<p>The following New Construction Exhibits are included:</p> <ul style="list-style-type: none"> • Form HUD-92541, <i>Builder’s Certification</i> is complete, and signed and dated by the builder. • Form HUD-92544, <i>Builder’s One-Year Warranty</i>. • Correct evidence, as applicable, of <ul style="list-style-type: none"> – a <i>Ten Year Warranty Insurance</i> application, including the unit number if a condominium or planned unit development (PUD), or – <i>Early Start Letter</i>, and – three inspections completed by the local authority or FHA fee inspector for footings, frame, and final. • Form NPCA-99a and NPCA-99b, Subterranean Termite Treatment Report.
		Form HUD-92800.5b , <i>Statement of Appraised Value</i> .
		Engineer’s Certificate for Manufactured Housing Foundation.

Continued on next page

2. Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files, Continued

4155.2 12.D.2.c Left Side of Binder Checklist (continued)

Approved (Please Check)	Rejected (Please Check)	Document
		Confirm that the original <i>Uniform Residential Appraisal Report</i> (URAR) is complete and contains the appraiser's signature and date.
		For VACRV/VAMCRV loans, form VA-26-1841 or VA-26-1843a with all attachments and endorsements. <i>Note:</i> Include the VACRV if the case involves a VA conversion.

Continued on next page

2. Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files, Continued

4155.2 12.D.2.c Left Side of Binder Checklist (continued)

Approved (Please Check)	Rejected (Please Check)	Document
		<p>Specialized Eligibility Documents, such as but not limited to the following:</p> <ul style="list-style-type: none"> • 203(k), Rehabilitation Agreement, Plans, Work Write-Ups, Cost Estimates, and Initial Draw Request • Form HUD-92561, <i>Borrower’s Contract With Respect to Hotel Transient Use of Property</i> for 2- to 4-unit properties, and • Condominiums: Occupancy Certification regarding 51% owner occupancy.
		<p>Purchase Contract and Addenda. Confirm the following:</p> <ul style="list-style-type: none"> • The contract and addenda are signed by all buyers and sellers. • The Amendatory Clause is signed by the buyers and sellers. <p><i>Note:</i> The Amendatory Clause is not required on REO Sales, or 203(k) loans.</p> <ul style="list-style-type: none"> • Real Estate Certification is signed by buyers, sellers, and selling real estate agent or broker if his/her signature is not contained within the purchase agreement.

Continued on next page

2. Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files, Continued

4155.2 12.D.2.c Left Side of Binder Checklist (continued)

Approved (Please Check)	Rejected (Please Check)	Document
		<p>Form HUD-92564-CN, <i>For Your Protection</i>.</p> <p><i>Note:</i> This item is not required for</p> <ul style="list-style-type: none"> • proposed or under construction properties, or • VACRV/VAMCRV loans.

4155.2 12.D.2.d The following documentation may also be included. Additional Documentation

Approved (Please Check)	Rejected (Please Check)	Document
		<p>Form HUD-54111, <i>DE Request for Insurance Endorsement</i> or an alternative such as the 9100 screen. Confirm the form or screen is included and completed.</p> <p>If this documentation is included, confirm the 9100 screen is sufficiently pre-filled to complete the CHUMS screens.</p>
		<p>Special Certification and Forms, as applicable. Confirm the following is executed:</p> <ul style="list-style-type: none"> • well or septic local approval letter, or • local code letter for 221(d)(2).

Section E. Other Loan Program Exhibits

Overview

In This Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	Exhibit 1: Single-Family Homeownership Center Jurisdictions	12-E-2
2	Exhibit 2: Single Family Originating Lending Areas	12-E-3
3	Exhibit 3: Request for MIC Correction Format	12-E-12

1. Exhibit 1: Single-Family Homeownership Center Jurisdictions

Change Date May 10, 2009

4155.2 12.E.1.a The table below lists the Homeownership Center (HOC) jurisdictions and
HOC representative states.
Information

HOC	Representative States		
Atlanta	Alabama Florida Georgia Illinois	Indiana Kentucky Mississippi North Carolina	Puerto Rico South Carolina Tennessee Virgin Islands
Denver	Arkansas Colorado Iowa Kansas Louisiana Minnesota	Missouri Montana Nebraska New Mexico North Dakota Oklahoma	South Dakota Texas Utah Wisconsin Wyoming
Philadelphia	Connecticut Delaware District of Columbia Maine Maryland Massachusetts	Michigan New Hampshire New Jersey New York Ohio	Pennsylvania Rhode Island Vermont Virginia West Virginia
Santa Ana	Alaska Arizona California	Guam Hawaii Idaho	Nevada Oregon Washington

2. Exhibit 2: Single Family Originating Lending Areas

Change Date May 10, 2009

4155.1 12.E.2.a Lending Areas The table below lists the Single Family originating lending areas.

Location of Lender Office	Lending Areas
Alabama	Alabama Florida Georgia Mississippi Tennessee
Alaska	Alaska
Arizona	Arizona California Nevada New Mexico
Arkansas	Arkansas Louisiana Tennessee Texas
California	Arizona California Nevada
Colorado	Colorado Kansas Nebraska New Mexico Utah Wyoming
Connecticut	Connecticut New York Maine Massachusetts New Hampshire New Jersey Pennsylvania Rhode Island Vermont

Continued on next page

2. Exhibit 2: Single Family Originating Lending Areas, Continued

4155.1 12.E.2.a Lending Areas (continued)

Location of Lender Office	Lending Areas
District of Columbia	Delaware District of Columbia Maryland New Jersey Pennsylvania Virginia West Virginia
Delaware	Delaware District of Columbia Maryland New Jersey New York Pennsylvania Virginia
Florida	Alabama Florida Georgia Mississippi
Georgia	Alabama Florida Georgia South Carolina Tennessee
Hawaii	America Samoa Guam Hawaii Northern Marianas
Idaho	Idaho Montana Oregon Utah Washington

Continued on next page

2. Exhibit 2: Single Family Originating Lending Areas,
Continued

4155.1 12.E.2.a Lending Areas (continued)

Location of Lender Office	Lending Areas
Indiana	Illinois Indiana Kentucky Michigan Ohio Tennessee
Illinois	Illinois Indiana Kentucky Michigan Missouri Tennessee Wisconsin
Iowa	Iowa Kansas Minnesota Nebraska South Dakota Wisconsin
Kansas	Colorado Iowa Kansas Nebraska Missouri Oklahoma
Kentucky	Illinois Indiana Kentucky Ohio Tennessee Virginia
Louisiana	Arkansas Louisiana Mississippi Texas

Continued on next page

2. Exhibit 2: Single Family Originating Lending Areas, Continued

4155.1 12.E.2.a Lending Areas (continued)

Location of Lender Office	Lending Areas
Maine	Connecticut Maine Massachusetts New Hampshire Vermont
Maryland	Delaware District of Columbia Maryland New Jersey Pennsylvania Virginia West Virginia
Massachusetts	Connecticut Maine Massachusetts New Hampshire New Jersey New York Rhode Island Vermont
Michigan	Illinois Michigan Indiana Ohio
Minnesota	Iowa Minnesota North Dakota South Dakota Wisconsin
Mississippi	Arkansas Alabama Florida Louisiana Mississippi Tennessee

Continued on next page

2. Exhibit 2: Single Family Originating Lending Areas,
Continued

4155.1 12.E.2.a Lending Areas (continued)

Location of Lender Office	Lending Areas
Missouri	Illinois Kansas Missouri
Montana	Idaho Montana Wyoming
Nebraska	Colorado Iowa Kansas Nebraska South Dakota
Nevada	Arizona California Nevada Utah
New Hampshire	Connecticut Maine Massachusetts New Hampshire New York Vermont Rhode Island
New Jersey	Connecticut Delaware District of Columbia Maryland Massachusetts New Jersey New York Pennsylvania Rhode Island Virginia
New Mexico	Arizona Colorado New Mexico Texas

Continued on next page

2. Exhibit 2: Single Family Originating Lending Areas, Continued

4155.1 12.E.2.a Lending Areas (continued)

Location of Lender Office	Lending Areas
New York	Connecticut Delaware Massachusetts New Hampshire New Jersey New York Ohio Pennsylvania Rhode Island Vermont
North Carolina	North Carolina South Carolina Tennessee Virginia
North Dakota	North Dakota Minnesota South Dakota
Ohio	Indiana Kentucky Michigan New York Ohio Pennsylvania West Virginia
Oklahoma	Kansas Oklahoma Texas
Oregon	Idaho Oregon Washington

Continued on next page

2. Exhibit 2: Single Family Originating Lending Areas,
Continued

4155.1 12.E.2.a Lending Areas (continued)

Location of Lender Office	Lending Areas
Pennsylvania	Connecticut Delaware District of Columbia Maryland New Jersey New York Ohio Pennsylvania Virginia West Virginia
Puerto Rico	Puerto Rico Virgin Islands
Rhode Island	Connecticut Massachusetts New Hampshire New Jersey New York Rhode Island
South Carolina	Georgia North Carolina South Carolina Tennessee
South Dakota	Iowa Minnesota Nebraska North Dakota South Dakota

Continued on next page

2. Exhibit 2: Single Family Originating Lending Areas, Continued

4155.1 12.E.2.a Lending Areas (continued)

Location of Lender Office	Lending Areas
Tennessee	Alabama Arkansas Georgia Illinois Indiana Kentucky Mississippi North Carolina South Carolina Tennessee
Texas	Arkansas Louisiana New Mexico Oklahoma Texas
Utah	Colorado Idaho Nevada
Vermont	Connecticut Maine Massachusetts New Hampshire New York Vermont
Virgin Islands	Puerto Rico Virgin Islands
Virginia	Delaware District of Columbia Maryland New Jersey North Carolina Pennsylvania Virginia West Virginia

Continued on next page

2. Exhibit 2: Single Family Originating Lending Areas,
Continued

4155.1 12.E.2.a Lending Areas (continued)

Location of Lender Office	Lending Areas
Washington	Idaho Oregon Washington
West Virginia	District of Columbia Kentucky Maryland Ohio Pennsylvania Virginia West Virginia
Wisconsin	Illinois Iowa Minnesota Wisconsin
Wyoming	Colorado Idaho Utah Wyoming

3. Exhibit 3: Request for MIC Correction Format, Continued

**4155.2 12.E.3.a
Format for
Requesting an
MIC
Correction
(Cont.)**

Request Correction To:		Required Documentation	
		Address Correction	URAR and Note
		Borrower Names(s)	
		ADP Code	Other supporting documentation, such as <ul style="list-style-type: none"> • Buydown Agreement • 203(k) Worksheet
		Maturity Date	Note
		First Payment Date	Note
		P & I	<ul style="list-style-type: none"> • Note • HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary
		Interest Rate	<ul style="list-style-type: none"> • Note • HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary
Request Correction To:		Required Documentation	
		Addition of Coborrower	<ul style="list-style-type: none"> • Note • URLA • HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary
		Social Security Number	Social Security Card, Pay Stub, or W-2
		Other (Identify)	Appropriate Supporting Documentation

Continued on next page

3. Exhibit 3: Request for MIC Correction Format, Continued

4155.2 12.E.3.a Format for Requesting an MIC Correction (Cont.) (continued)

Request Correction To:		Required Documentation
	Increased Mortgage Amount	<ul style="list-style-type: none"> • Note • HUD-1 • HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary Full Payment History
	FHA Case Number	<ul style="list-style-type: none"> • Note • URLA • HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary
	ADP Code for a Major Change, such as 703 to 704	<ul style="list-style-type: none"> • Note • URLA • HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary

Continued on next page

3. Exhibit 3: Request for MIC Correction Format, Continued

4155.2 12.E.3.b Additional Instructions for MIC Correction The table below describes additional instructions to follow when requesting an MIC correction.

Type of Correction	Instruction
Address Correction	<ul style="list-style-type: none"> • Some states require that the Deed of Trust be submitted. • Contact the appropriate HOC for additional information.
<ul style="list-style-type: none"> • Increased Mortgage Amount • FHA Case Number • ADP Code Major Change 	Requires <ul style="list-style-type: none"> • recalled case binders from a Records Holding Center, and • additional processing time.
Increased Mortgage Amount	<ul style="list-style-type: none"> • Check Payment History for a Principal Reduction. • Requests for an additional mortgage amount require payment of the difference in UFMIP, before the correction can be made.
ADP Code, including a major change	<ul style="list-style-type: none"> • The LTV cannot be changed because CHUMS <ul style="list-style-type: none"> – computes the LTV, and – does not allow manual overrides, and • ADP code 748 is <i>only</i> for purchases with a value of \$50,000 or less.