

CHAPTER 4. APPROVAL PROCESSING AND ADMINISTRATIVE SANCTIONS

- 4-1 PURPOSE. This chapter explains HUD/FHA's approval process and the procedures and requirements applicable to financial institutions once initial approval is obtained.
- 4-2 DUTIES OF THE LENDER APPROVAL AND RECERTIFICATION DIVISION. HUD/FHA's Lender Approval and Recertification Division is responsible for analyzing lender application packages, and subsequently, approving or disapproving the application. Additionally, the Division maintains a record of all approved lenders on the Department's Institution Master File (IMF) system.
- A. REQUESTS FOR ADDITIONAL INFORMATION. If additional information or documents are required to complete the processing of the application and to make a determination for approval or disapproval, a request may be made to the applicant by telephone or in writing. If the required documents or information cannot be obtained, the application will be returned as incomplete.
- B. APPROVAL OF APPLICATIONS. Lender approval is granted by the Lender Approval and Recertification Division. Subsequent to approval, the following actions are - completed by Division staff:
1. The financial institution is assigned a ten-digit lender identification number.
 2. The financial institution is sent a formal notice of its approval and a copy of the approved application signed by the Division Director or designee.
 3. The local HUD field office is sent a copy of the signed application.
 4. If approved as a Loan Correspondent, the Sponsor will receive a copy of the signed application.
 5. If approved as a Supervised or Nonsupervised Lender, the lender will receive letter which constitutes the lender's Title I Contract of Insurance.
- C. DISAPPROVAL OF APPLICATIONS. An application from a financial

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institution that fails to meet HUD/FHA's approval requirements will be denied. The financial institution will be sent a written notice that explains the reasons for denial. The application package will be retained by the Lender Approval and Recertification Division for a period of time to be used if the financial institution appeals the denial.

The bases for denying an application include, but are not limited to the following:

1. Failure to meet the standards for approval as described in this Handbook and the Department's regulations at 24 CFR part 202.
2. Lack of financial responsibility on the part of the applicant, directors, major stockholders or principals, particularly if demonstrated in areas related to real estate lending, or consumer lending, especially if such irresponsibility has resulted in monetary loss to the Federal government (e.g. foreclosure of a HUD/FHA-insured or VA-guaranteed mortgage or loan, tax liens, defaulted government loans or any other Federal or State debt).
3. Any reason that HUD/FHA determines could seriously affect the financial institution's ability to participate in HUD's insurance programs. For example, a director, officer or principal's previous termination of employment by a financial institution for cause relating to job performance, if the applicant cannot provide a satisfactory explanation.
4. Intentional misrepresentation of a corporation's status regarding its HUD/FHA approval or misrepresentation of the meaning of such status.
5. Suspension, debarment or other restrictions under 24 CFR Part 24 or 25 or under similar procedures of any other Federal agency.
6. Indictment or conviction for a felony if the sentence has not been completed.
7. Any unresolved findings of audits or investigations by HUD/FHA or any other Federal agency relating to the financial institution or the principals of the financial institution.

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- D. APPEAL PROCESS. Upon written notice that the application has been disapproved (for reasons other than an incomplete submission), the applicant has 30 days to appeal the disapproval by requesting a review by the Director, Office of Lender Activities and Land Sales Registration, HUD, 451 Seventh Street, SW, Washington, DC 20410.
 1. DOCUMENTATION REQUIRED. The financial institution's request for appeal must be in writing and accompanied by any documentation which will address the reasons for the disapproval.

2. REVIEW OF THE APPEAL. The Director, after review of the appeal request, will either reverse or affirm the disapproval.
 3. APPLICATION APPROVED. If the Director reverses the disapproval, the applicant will be assigned a lender identification number and receive a copy of the approved application form submitted to HUD/FHA and signed by the Director.
 4. APPLICATION DISAPPROVED. If the Director affirms the disapproval, the applicant will be notified in writing.
- E. FINAL DETERMINATION FOR DISAPPROVED APPLICATIONS. Upon receipt of a letter from the Director denying the appeal and affirming the original disapproval, the applicant has 30 days to request a review of the decision by the Deputy Assistant Secretary for Single Family Housing (DAS).
1. DOCUMENTATION REQUIRED. The lender's request for appeal to the DAS must be in writing and accompanied by any documentation which will address the reasons for disapproval.
 2. REVIEW OF THE APPEAL. The DAS, after review of the appeal request, will either reverse or affirm the disapproval.
 3. APPLICATION APPROVED. If the DAS reverses the disapproval, the applicant will be assigned a lender identification number and receive a copy of the approved application form submitted to HUD/FHA and signed by the DAS or his/her designee.

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4. APPLICATION DISAPPROVED. If the DAS affirms the disapproval, the applicant will be notified in writing. The DAS's decision is final.

4-3 LENDER MONITORING. The Office of Lender Activities and Land Sales Registration is responsible for monitoring the origination and servicing performance of HUD/FHA-approved lenders. The Monitoring Division, located within this Office, directs and supervises a staff of both Headquarters and out-stationed employees to perform this function.

- A. ON-SITE REVIEWS. On-site reviews are conducted at a lender's office to ensure compliance with HUD/FHA's loan origination and servicing requirements. These reviews consist of interviews with lender officials and employees and an analysis of the portfolio, as well as the origination and/or servicing policies and procedures.
- B. PROVISION OF LOAN FILES. Lenders are expected to provide loan files for review by Monitoring Division staff within 24 hours of receiving a request. While hard copies of files are preferred, microfilm copies are also acceptable. Under most circumstances the staff tries to provide adequate notice so that a lender has sufficient time to locate and supply the files.

C. REPORTS AND CORRESPONDENCE. At the conclusion of a review, findings are, discussed with the lender. Depending upon the nature and extent of the findings, the Monitoring Division will prepare the appropriate correspondence and/or referrals. Where significant violations of regulatory or handbook requirements are discovered, referrals may be made to the Office of Inspector General, Mortgagee Review Board, Participation and Compliance Division, Lender Approval and Recertification Division, Title I Insurance Division, Office of Fair Housing and Equal Opportunity, and/or the local HUD Field Office.

4-4 ADMINISTRATIVE SANCTIONS AND CIVIL MONEY PENALTIES. The Department's Mortgagee Review Board and Housing Civil Penalty Panel are authorized to take administrative action against approved lenders that do not comply with HUD/FHA requirements; the nondiscrimination requirements of the Equal Credit Opportunity Act, the Fair Housing Act, or Executive Order 11063; or the Real Estate Settlement Procedures Act (RESPA)

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A. MORTGAGEE REVIEW BOARD. The Board may issue a letter of reprimand, place a lender on probation, suspend or withdraw a lender's approval, or enter into a Settlement Agreement with a lender. The Board may also issue a cease and desist order where there is a reasonable cause to believe that a lender is violating, or has violated, the Department's requirements. The nature and extent of the violations determines the type of administrative action that the Board may impose. The Board's regulations as well as the grounds for administrative sanctions are discussed in 24 CFR Part 25.

B. CIVIL MONEY PENALTIES. The Board and the Housing Civil Penalties Panel (HCPP) are authorized to impose a civil money penalty whenever an approved lender knowingly and materially violates HUD/FHA program regulations or requirements. A civil money penalty may be imposed in addition to any other administrative action taken by the Board. The maximum amount of penalties may not exceed \$5,000 for each violation by the lender, and a maximum penalty for all violations by a lender during any one-year period may not exceed \$1 million. The Department's regulations on civil money penalties as well as a list of violations subject to civil money penalties are discussed in 24 CFR Part 30.

4-5 OTHER ACTIONS AND REMEDIES. In addition to the sanctions and penalties described in paragraphs 4-4A. and 4-4B., the Department may seek such other legal and equitable relief as may be available.

4-6 TERMINATION OF INSURANCE CONTRACT. The DAS may terminate a lender's Contract of Insurance upon five business days prior written notice.

A. INFORMAL MEETING. If requested, a lender is entitled to an informal meeting with the DAS or his/her designee before the

expiration of the 5-day notice period. Such a meeting will be for the purpose of giving the lender an opportunity to discuss its Title I program participation.

B. EFFECTS OF TERMINATION. Termination has the following effects:

1. A lender cannot obtain insurance coverage for new loans under the terminated contract.

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2. The insurance reserve on loans previously accepted for insurance is not adversely affected except for loans involving fraud or misrepresentation.
3. The lender is not relieved of the liability to pay future insurance premiums or other obligations owed to the Department.
4. Insurance reserves earned by the lender as of the date of termination, under the terminated contract, remain to its credit unless exhausted by filing of claims.

C. AFFECT ON APPROVAL STATUS. Termination of the contract does not affect a lender's approval status or ability to apply for, and hold, a new Contract of Insurance provided the requirements of this Handbook and 24 CFR Part 202 are met and provided the underlying reasons for the contract termination are remedied.

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