
CHAPTER 4. HUD PROCESSING PROCEDURES

4-1 PURPOSE. This chapter explains internal HUD processing procedures for cases submitted under the Direct Endorsement program. HUD's review of the submission consists of two processing cycles. The first is the pre-endorsement review which for an acceptable submission, results in endorsement of the mortgage. The second is the post-endorsement technical review.

In the description of the processing procedures, paragraphs 4-2 through 4-7 are used for all cases in which the mortgagee maintains processing responsibility for the entire case. Included in this category are:

- A. Existing construction cases.
- B. Proposed construction cases meeting one of the following criteria:
 - 1) Mortgagee obtains a certification from the builder that the plans and specifications comply with HUD requirements.
 - 2) Prior to the start of construction, the builder or mortgagee obtains HUD acceptance of the builder's first submission of plans and specifications.
 - 3) The property involves an insured ten-year protection plan (warranty plan) accepted by HUD.
 - 4) Property is limited to low-ratio mortgage (90%).

Alternative procedures for processing proposed construction cases with HUD conditional commitments and VA CRVs are discussed in paragraph 4-10. The processing steps for HUD acceptance of the plans and specifications are in HUD Handbook 4145.1.

4-2 REQUEST FOR CASE NUMBER AND APPRAISER. Mortgagees obtain case numbers and appraisal assignments by using the CHUMS Lender Access System (CLAS), or calling or writing the HUD Field Office. Mortgagees using staff appraisers request a case number and identify the appraiser they have assigned.

- A. Identifying the Case. The mortgagee identifies the case as a candidate for Direct Endorsement and provides information on the property address, type of construction, number of units, and other necessary information. The assignment clerk enters this data on the CHUMS Receiving/Assignment screen or processes the CLAS request.

- B. Verifying Eligibility. CHUMS checks if the mortgagee is eligible, if another application is in process on that property, if HUD had previously rejected the property, or if HUD had previously sold the property through the Property Disposition (PD) Branch. If a prior reject or a PD sale, the assignment clerk advises the mortgagee to note the circumstances in the address field of Form HUD-92800.

The assignment clerk checks whether the subdivision or PUD has been approved, if the application involves proposed construction; or that the condominium project has been approved, if the application is requested under Section 234(c).

- C. Assigning a Case Number and Appraiser. If the mortgagee is eligible, CHUMS assigns the next available case number and the appraiser with the lowest relative caseload who can take assignments in that geographic area. CHUMS ensures the proper rotation of appraisers, giving preference to those appraisers who complete assignments more quickly. Therefore, overriding the system's selection should occur infrequently and only for legitimate reasons. If the mortgagee is using a staff appraiser, the mortgagee furnishes the appraiser's CHUMS number. Compliance inspectors, if needed, should be assigned at this time. The assignment clerk checks the case number assigned off the CHUMS Available Case Number Listing.

4-3 SENDING THE APPRAISAL PACKAGE TO APPRAISER. The mortgagee sends the appraisal package to the appraiser. The appraisal package consists of a URAR and a completed Form HUD-92800 (except, that the mortgagee retains the Requestor's Copy). The package must be clearly identified as a Direct Endorsement case to ensure that the appraiser returns the appraisal to the mortgagee rather than HUD.

4-4 RETURN OF APPRAISAL PACKAGE TO MORTGAGEE. Upon completion, the appraiser returns the appraisal package, including Copy 1 of the Form HUD-92800, to the mortgagee. The appraiser sends a photocopy of the URAR and Copy 4 of the HUD-92800 to the HUD Field Office, and retains Copy 3 of the 92800.

This procedure is applicable to appraisals performed by staff appraisers as well as those performed by HUD fee panel members. It provides the Field Office with notice that the appraiser has completed an assignment for workload purposes and also allows the Field Office to monitor appraisal performance on a regular basis.

4-5 HUD RECEIPT OF THE APPRAISAL COPY. When a copy of the appraisal report is received in the office, the receiving clerk date stamps the copy and enters the appraisal into CHUMS on the Appraisal Received Logging screen. At the discretion of the Field Office, the photocopy may be discarded after logging or used for a field review.

The Chief Appraiser should review the CHUMS reports showing completed and pending appraisals on a regular basis to ensure that timely appraisals are being performed.

4-6 HUD RECEIPT OF MORTGAGE SUBMISSION. Upon receipt of the case in the Field Office, the receiving clerk date stamps the mortgagee's cover letter and then performs the following processing tasks.

- A. Logs Receipt of the Package into CHUMS.
- B. Verifies Mortgagee Eligibility. The clerk checks whether the mortgagee is unconditionally approved to participate in the program.
- C. Checks Submission Packaging. If the submission is from an unconditionally approved mortgagee, it must be in an acceptable case binder. If not, it should be returned to the mortgagee. Do not check the order of documents.
- D. Routes Case to Pre-Endorsement Review. The package is routed to the closing clerk for pre-endorsement review and insurance endorsement.

4-7 PRE-ENDORSEMENT REVIEW. The pre-endorsement review is confined to those items specified in this paragraph. No further review is required or authorized prior to endorsement unless HUD has reason to suspect fraud in the origination process.

- A. Review Criteria. The following documents are included in the review.
 - 1) Current Payment Letter, if two payment due dates have passed.
 - 2) The payment history, if three payment due dates have passed. If the delay is not considered to be beyond the mortgagee's control, the payment history should show few or no delinquencies and any assumptor must have been underwritten.

Where the mortgagee can show that the delay in submission was outside of its control but was due, in part, to actions or inactions by HUD, the mortgage may be insured even though it is delinquent.

- 3) Form HUD-54113, Underwriter/Mortgagee Certification is properly executed.
 - 4) Special certifications and forms, when applicable, as cited in item numbers 7 through 12 on the Underwriter/Mortgagee Certification.
 - 5) Copies of the note and mortgage. The note must be an approved form without unauthorized variation. The mortgage must be 30 years or less. The mortgage must contain the assumption provision required by HUD.
 - 6) Form HUD-92900. The mortgagee and mortgagor certifications on the back of Forms HUD-92900.1 and either 92900.4 or 92900.5 must be signed.
 - 7) Form HUD-92800, with certifications completed and completed Uniform Residential Appraisal Report.
 - 8) Order of Documents. That the above documents are in the prescribed order. The order of other documents is not to be a reason for denying insurance endorsement.
 - 9) Condominium owner occupancy log.
- B. CHUMS Entries and Reviews. After completing the above reviews, the closing clerk enters required information on the CHUMS Direct Endorsement Mortgage Insurance Certificate Screen.
- 1) The closing clerk visually confirms that the property address in CHUMS matches that on the Request for Insurance Endorsement form.
 - 2) CHUMS verifies that:
 - a. the mortgage amount does not exceed the dollar limitation for the program, number of units and local jurisdiction.
 - b. the monthly payment will amortize the loan.
 - c. sufficient one-time Mortgage Insurance Premium has been credited to the case, where applicable.
 - d. the Underwriter is approved.

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- C. Endorsement. If the review criteria are met, the closing clerk endorses the mortgage for insurance, prints a Mortgage Insurance Certificate, Form HUD-59100, from CHUMS and sends it to the mortgagee.
- D. Deficient Submission. If the review criteria are not all met, reject the case, enter the reason for rejection into CHUMS and print a Notice of Rejection. Return the case binder to the mortgagee along with the Notice of Rejection.
- E. Tracking Processing Times. The CHUMS Workload Status Report, F17IHCC, lists cases received for insurance endorsement processing and the length of time they have been on hand. Other reports that provide information on volumes and processing times are discussed in paragraph 4-14.

4-8 PROCESSING RECONSIDERATIONS. If an insurance endorsement is rejected during the pre-endorsement review and the rejection is upheld after supervisory review, the mortgagee may submit a request for reconsideration.

Upon receipt of the request, the receiving clerk logs the case into CHUMS and routes the binder to the closing clerk for review. If the problems listed on the original non-endorsement notice or Form HUD-92026, have been corrected, the clerk insures the case, prints a Mortgage Insurance Certificate, and sends it to the mortgagee. If the case is selected for review, the case is routed to the appropriate branch to initiate the technical review cycle as described in paragraph 4-9.

If the case is still unacceptable, the clerk records the deficiencies in CHUMS, prints another non-endorsement notice and returns the case binder to the mortgagee.

4-9 POST-ENDORSEMENT TECHNICAL REVIEW. The technical review of mortgagee underwriting is critical to the success of the Direct Endorsement program. Since underwriting decisions rely heavily on the subjective interpretation of the mortgagee, it is imperative that Field Offices identify and respond to underwriting problems.

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- A. General. Field Offices must provide meaningful, constructive and legible comments to ensure that quality underwriting is maintained in the future. Review how the underwriter, the

appraiser, and the mortgage credit examiner, arrived at a decision, whether problems were addressed and whether reasonable conclusions were made.

Items that do not affect the quality of analysis must not be reflected in the technical ratings.

- 1) Percentage of Cases to be Reviewed. After the mortgagee has been granted unconditional approval, the Development Division Director or Office manager, or designee, will establish the percentage of the mortgagee's cases that are subject to post-endorsement technical review. For mortgagees that are new to the program, all of the mortgagee's cases should be reviewed for the first six months or through the first 50 cases.

Thereafter, the percentage can range from 5% to 100%, depending on early default and claim rates for the mortgagee, ratings given the mortgagee's underwriter, whether a staff appraiser is employed, results of field reviews, findings of complaints from homebuyers or applicants.

Generally, the percentage should be set at 5% to 10% if the mortgagee's performance meets the norm for the area (i.e., early default and claim rates for the mortgagee are less than or equal to the average for the Field Office).

- 2) Selecting Cases for Review.

- a. The Field Office should select high risk cases for review. High risk factors include: investors, 2-4 unit dwellings, manufactured housing, shared equity mortgages, low mortgage amounts, PD properties, and transactions involving excessive seller buydowns.

Additionally, the applicant may be a high risk because of unusually high expense-to-income ratios or other factors. In certain market areas, a condominium would be a high risk factor.

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If any of these high risk factors are present, the appropriate box will be checked on the front of the case binder.

- b. CHUMS monitors the percentage of each mortgagee's cases selected for review. If the percentage falls below the level established, CHUMS prompts for a post-endorsement review.
- 3) Form HUD-54118. For cases selected for review, the closing clerk prepares an Underwriting Report, Form HUD-54118, attaches it to the front of the binder, and prepares the case for technical review.
- 4) Ratings. The closing clerk reviews the closing package. The appropriate HUD reviewer rates the quality of the appraisal, the mortgage credit processing, the underwriting and the closing. There are three rating levels which can be given, examples are provided for each stage of the review cycle, definitions are as follows:
 - a. Good. Quality processing with no deficiencies as noted below. Comments are minor in nature.
 - b. Fair. Any deficiency that does not change the eligibility determination of the property, the mortgagor, the mortgage amount, or the term.
 - c. Poor. Any deficiency that results in a significant increase in mortgage risk, through either greater credit risk or a decrease in property security, or

An acceptance of a mortgagor, or property, not permitted by HUD policy or statute, or

Any action by the mortgagee to misrepresent either the financial capacity of the applicant mortgagor or the condition of the property offered as security for the mortgage, or

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Any action that results in the omission or improper disclosure of information on the application that does not allow for a complete picture of the applicant's financial position and/or the intended use of the property.

- 5) Supervisory review process.
 - a. A supervisor, or designee, should review a representative sample of "Good" and "Fair"

post-endorsement technical review ratings in order to ensure compliance with review guidelines.

- b. All "Poor" ratings should be reviewed by the supervisor, or designee, before being sent to the mortgagee.
- c. The supervisor, or designee, should document and maintain a record of problems associated with all review ratings categories which will be useful in managing the quality of reviewer's work and in determining training needs.

- B. Direct Endorsement Post-Endorsement Technical Review Checklist (Mortgage Credit and Valuation). The Post-Endorsement Technical Review Checklist (see Appendix 16) is designed to assist technical reviewers in evaluating and assigning ratings of underwriters. This checklist identifies the most common deficiencies resulting in fair or poor ratings. (Any one element rated poor should result in an overall poor rating. Enter overall ratings on Form HUD-54118.) In addition to providing a means of assigning ratings throughout HUD's Field Office network in a consistent manner, the checklist is designed to alert the reviewer to "warning signs" that may indicate fraud and identify deficiencies that may warrant indemnification. Those deficiencies identified with an asterisk {*} may warrant referral of the loan file to HUD's Mortgagee Monitoring Division for possible indemnification or to the Office of Inspector General for investigation. If such referral is warranted, the Field Office should prepare a referral memorandum and attach a photocopy of the completed checklist as supporting documentation.

Within each of the five categories of the loan file that must be examined, there are generally two areas of evaluation: (1) the documents used to underwrite the loan, and (2) the underwriting analysis itself.

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- 1) Documents. The reviewer must determine if a document used in the processing and underwriting of an insured mortgage meets HUD's requirements and sufficiently conveys the information necessary to adequately analyze creditworthiness.
- 2) Underwriting Analysis.

- a. Fair. Ratings of fair must be accompanied by comments from the reviewer.
 - b. Poor. Poor ratings must be justified by the reviewer. While the checklist indicates elements that may constitute a poor rating, the reviewer is expected to explain how HUD's risk was significantly increased by the deficiency. For example, while cash investment requirements may have been understated in underwriting the loan and is generally ground for assigning a poor rating, the reviewer must explain the increased risk to HUD. In this example, the reviewer must show that the borrower did not have sufficient cash to close and that unsecured borrowing was the likely result.
- C. Closing Review. Includes a review of the settlement sheet, review of the note and, if applicable, a review of escrow forms, in accordance with HUD Handbook 4165.1, Endorsement for Insurance for Home Mortgage Programs. All post-endorsement closing reviews on Direct Endorsement cases are to be detailed reviews. Findings are noted in the closing section of the Underwriting Report. Following closing review, the date is entered into CHUMS and the case binder is routed to the appropriate branch for post-endorsement technical review.

Examples of Poor and Fair Ratings:

- 1) Fair: Appropriate boxes are not checked on the front of the case binder; the documents are significantly out of the prescribed order; certifications on the back of Forms HUD 92900.1 and either 92900.4 or 92900.5 are signed but not dated.

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- 2) Poor: Significant documents are missing, such as the interest rate disclosure or the HUD-1 Settlement Statement.
- D. Architectural Review. For those proposed construction cases meeting the criteria in paragraph 4-1, the closing clerk should send the package to the Architectural Branch for review to determine whether the property meets HUD MPS requirements.

The construction analyst should mark-up the documents accordingly and note comments on the architectural portion of the Underwriting Report, Form HUD-54118. Plans and specifications should remain with the underwriting package throughout the

technical review process. After completing the review, the architectural ratings are entered into CHUMS and the case binder is routed to the Valuation branch.

Examples of Poor and Fair Ratings:

1) Architectural Processing Procedures

- a. Fair: Not all construction exhibits are present; however, there are sufficient exhibits to make an inspection of the property; Builder Certification not properly completed or has incorrect code reference; plans and specifications not signed by the builder; underwriter did not make any specific conditions to the Statement of Appraised Value for missing construction exhibits.
- b. Poor: Construction exhibits are insufficient (or too incomplete) to make an inspection of the property; Builder Certification not provided; construction exhibits accepted but builder not on certification list.

High ratio loan was provided to a builder after construction was started. Statement of Appraised Value was not corrected to show the property was "under construction." "Early start" letter was not provided by underwriter.

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2) Compliance Inspections

- a. Fair: Inspection reports not properly completed; Section III of Form HUD 92051 was not properly completed by the underwriter; inspection fees charged to the borrower were greater than allowed by HUD.
- b. Poor: Inspection reports not signed by the underwriter; loan was closed without the required inspections; the construction exhibits were changed without an acceptance of Form HUD-92577; construction deficiencies were allowed without requiring corrections; required special conditions shown on Form HUD-92800.5B were not properly completed and/or submitted (includes termite certification and individual well and septic letter, etc.)

3) Escrows

- a. Fair: escrows established with insufficient funds

to complete the work, i.e., 1-1/2 times total amount of repair, or insufficient estimate; escrows established on incomplete items that should not have been accepted for an escrow.

- b. Poor: underwriter released escrow money without adequate documentation on a Compliance Inspection Report or a mortgagee's certification, when applicable.

D. Senior Appraiser Review. It is essential that appraisals are reviewed by a senior review appraiser. Lower grade review appraisers should concentrate on HUD processed cases. Included in this underwriting review is an assessment of the quality of the appraisal and the underwriting. The senior review appraiser will conduct the review in accordance with outstanding instructions in HUD Handbook 4150.1.

1) Examples of Poor and Fair Ratings

- a. Comparable Sales

Fair: used outdated comparables, sale occurred more than six months prior to the appraisal, without explanation; numerous, and ordinarily unnecessary, adjustments indicating little similarity between comparables and subject property; failure to include one comparable that was a conventional sale, without explanation; location map omitted.

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Poor: selected comparables located in an entirely different market, which affects final market value; unreasonably large adjustments that affect final value; required pictures not provided and not requested by the underwriter; mathematical miscalculation(s) resulting in over or under valuation.

- b. Completion of Appraisal Report

Fair: Some general information not provided, e.g., location analysis, value and/or rent range, or minor oversights.

Poor: Critical information lacking, e.g., land value or income approach, if appropriate.

- c. Property Analysis

Fair: Failure to report and compare

neighborhood conditions, e.g. heavy traffic and noise, if appropriate.

Poor: conclusion not supported by the data; failure to report location as a 223(e) area; failure to report flood designated area.

d. Neighborhood Data

Fair: Use of subjective factors in judging neighborhood.

Poor: does not apply.

e. Proposed Construction

Fair: not all construction exhibits are present; however, there are sufficient exhibits to make an appraisal of the property; oversight in calculating cost with no significant effect on value.

Poor: construction exhibits are insufficient (or too incomplete) to make an appraisal of the property; replacement cost, when required, not provided on Marshall Swift forms; improper procedure used in arriving at replacement cost; required special conditions shown on Form HUD-92800.5B were not properly submitted.

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- 2) Different Ratings for Appraiser and Underwriter. Ratings for the appraisal and the underwriting may be the same or can vary. If the underwriter modified the appraisal, the underwriter can have a higher or lower rating than the appraiser.

However, if the underwriter did not modify the appraisal, it is possible that a lower rating be given because the underwriter has additional processing responsibilities (i.e., valuation and/or architectural specific conditions).

- 3) Marginal Properties. Since HUD mortgage insurance is designed to assist those homebuyers who are not served by the private sector, review appraisers should take this fact into account in their ratings.

For example, if a mortgagee does a good job underwriting an extremely marginal property on which the reviewer might not agree totally with the final decision, the rating could be a "Good" depending on the remainder of the package. It does not

necessarily have to be a "Fair" or "Poor." On the other hand, a "Poor" rating can be given to a property which offers no risk to the Department. Review appraisers must consider the quality of the appraisal and the underwriting in determining the ratings and not just the potential risk for the Department.

- 4) Field Review Requirement. The 10 percent field review requirement applies to all appraisals, whether by mortgagee staff appraisers or HUD fee panel members. Appraisals that were judged poor based on the desk review, should be field reviewed. It is important that at least five percent of every appraiser's work is reviewed and that the work of every mortgagee is analyzed. Particular attention should also be given to those appraisal reports in which the underwriter made significant adjustments to the appraisal. In the event that a field review has already been completed on a case, this fact should be noted on the Underwriting Report.

Copies of all field reviews performed on mortgagee staff appraisers are to be mailed to the underwriter, the mortgagee's quality control department or appropriate company executives.

- E. Mortgage Credit Review. The senior mortgage credit examiner conducts the review in accordance with outstanding instructions as described in HUD Handbook 4155.1, Mortgage Credit Analysis for Mortgage Insurance on One- to Four-Family Properties.

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- 1) Cursory vs. Detailed Review. While every case receives a cursory review, 10 percent of each mortgagee's cases selected for post-endorsement review should receive a detailed review. The selection of the cases for this in-depth analysis should be based on the examiner's brief evaluation of the case.
- 2) Examples of Poor and Fair Ratings
 - a. Illegal or Improper Loans

Fair: File processed correctly by underwriter but closed incorrectly. Minor prepayment required by HUD.

Poor: exceeds statutory loan-to-value ratio; cash back on non-owner occupied refinance; ineligible non-owner occupant condominium; 90

percent loan processed as high ratio loan; incorrect MIP (closed as monthly, when should have been one-time; closed as one-time, when should have been monthly; MIP calculated incorrectly); loan amount not rounded down on condominium, Section 221(d)(2), or case with one-time premium not financed in the mortgage.

b. Improperly Computed Income

Fair: miscalculation that does not affect the acceptance of the case; however, points to potentially hazardous underwriting practices.

Poor: improper analysis of financial statements; taxes computed incorrectly; YTD and/or prior year's earnings do not support income used on analysis; nonacceptable use of: overtime, bonus, child support, contract income, car allowance; use of any income that will be curtailed in the near future.

c. Improperly Computed Liabilities

Fair: miscalculations that do not affect acceptance of the case; however, point to potentially hazardous underwriting practices.

Poor: miscalculations that allow acceptance of a case that would otherwise be a reject; child support/alimony not included; any large consumer debt not included; expenses of personal residence for non-owner occupant or co-borrower(s); real estate liabilities not correctly analyzed (real estate schedule).

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d. Unacceptable and/or Unexplained Credit Items

Fair: credit deficiency--explanation, although included, is not considered sufficient to offset the deficiency. Underwriter used questionable judgment.

Poor: recent bankruptcy; deed in lieu of foreclosure; foreclosure; unpaid suits, collections and/or judgments; pattern of consistently late payments; failure to check HUD's Credit Alert Interactive Voice Response System.

e. Large Unacceptable or Unverified Credit toward Downpayment

Fair: does not apply.

Poor: that affects loan amount.

f. Lack of Verified Assets to Close

Fair: does not apply.

Poor: improperly computed settlement requirements on analysis; earnest money note not verified as paid but used as a credit on analysis; no visible documentation of receipt of equity claimed; trade value of personal property not established; repair costs not charged to borrower; value of stock, bonds, other securities not verified; unacceptable secondary financing.

g. Violation of the "7 Unit" Concentration Rule for nonoccupant owners should be a poor.

- 3) Marginal Borrowers. Since HUD mortgage insurance is designed to assist those homebuyers who are not served by the private sector, mortgage credit reviewers should consider this fact in their ratings. For example, if a mortgagee does a good job of underwriting on an extremely marginal borrower offering excellent compensating factors for approving the case, the mortgage credit examiner could give a rating of "Good" even though the examiner might not agree totally with the final decision. Conversely, a "Poor" rating can be given to a case where a substantial number of obligations are omitted even though the Department's risk is not affected in the transaction. Mortgage credit reviewers must consider the quality of underwriting in determining the rating and not just the potential risk to the Department.

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- F. Supervisory Review. When individually serious (a Level 2 or 3 deficiency as described in Chapter 5) or continual problems with a single mortgagee are detected, those cases should be routed to the immediate supervisor over the Architectural, Valuation, and Mortgage Credit Branches. That supervisor is responsible for reviewing the quality of the mortgages underwritten and taking appropriate action to resolve uncovered deficiencies. See Chapter 5.
- G. Conclusion of Technical Review Processing. A copy of the Underwriting Report is placed in the case binder as part of the permanent record. The original is used for entering the ratings into CHUMS, then is filed in the

mortgagee's file if significant errors were found. Another copy is sent to the appraiser if the appraisal was deficient. A photocopy is sent to the compliance inspector if the inspection was deficient. The final copy of the Report is sent to the mortgagee, if significant errors were noted. Send the report to the branch that originated the loan, unless the mortgagee provided a mailing label specifying a different address.

To conclude the processing cycle on Direct Endorsement cases, the the final ratings must be entered into CHUMS from the Underwriting Report. After the data is entered from the Underwriting Report, that copy is filed in the mortgagee's file as described in paragraph 2-15. The case binder can then be prepared for submission to Headquarters unless the binder is needed for further analysis. If any poor ratings were given, the case binder should be retained for 30 days to allow time for an appeal.

- H. **Appealing Poor Ratings.** Appraisers, inspectors, underwriters and mortgagees may appeal poor ratings, in writing, to the HUD Field Office within 30 days of receiving the Underwriting Report. The Field Office must respond within 30 days.
- I. **Tracking Processing Times.** As each phase of the review cycle is completed, a clerk in the branch enters the ratings into CHUMS. The CHUMS Workload Status Report, F17IHCT, lists cases in each branch for review, the length of time the case has been in the branch and the target date for completing the technical review cycle. Other CHUMS reports are described in Chapter 5.

4-10 **PROCESSING PROPOSED CONSTRUCTION CASES WITH HUD CONDITIONAL COMMITMENTS AND VA CRVS.** In addition to presenting the processing procedures for these two forms of property approval, this paragraph also addresses mortgagee and builder requests for HUD approval of the plans and specifications.

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- A. **Conditional Commitments.** Processing of the conditional commitment should be consistent with established procedures for regular HUD processed cases. The mortgagee must send a case binder to the HUD Field Office at the same time it sends the appraisal package to the appraiser.

When the Direct Endorsement package is submitted, the receiving clerk date stamps the mortgagee's cover letter, verifies that the mortgagee is unconditionally approved to participate in the program, logs the case into CHUMS, and retrieves the conditional commitment binder from the files. The clerk adds the mortgage credit documents and the closing documents to the case binder and routes it to

the closing clerk.

The endorsement process should follow the procedures outlined in paragraphs 4-6 and 4-7. The only difference for the remainder of the process is that the case does not have to be reviewed by the Architectural and Valuation Sections if the case is selected for a post-endorsement Technical Review. When preparing the Underwriting Report, Form HUD-54118, the clerk should write "HUD conditional commitment" in the property section of the report and route the case to the Mortgage Credit Section.

- B. VA CERTIFICATES OF REASONABLE VALUE. Prior to the submission of the insurance endorsement request, the mortgagee calls HUD to obtain a case number and places it on the appropriate documents.

When the Direct Endorsement package is submitted, the receiving clerk date stamps the mortgagee's cover letter, verifies that the mortgagee is unconditionally approved to participate in the program, logs the case into CHUMS, and routes the case to the closing clerk. The pre-endorsement review is completed consistent with paragraph 4-7.

These cases should then go to the Valuation Branch for clerical review. The clerk notes any findings on the Underwriting Report. There is no need for any appraiser review unless the clerk discovers a problem which requires the attention of a technician. (No appraisal rating should be given for these cases.) After the appropriate clerical processing duties are performed, the case should be directed to the Mortgage Credit Branch for further processing. Similar to cases with HUD conditional commitments, the only entry made into CHUMS is the mortgage credit rating.

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- C. HUD Review of Plans and Specifications. If the builder is not authorized to certify that his plans and specifications comply with HUD's MPS, the mortgagee/builder may request HUD review of the builder's first submission of plans and specifications. Detailed instructions are in Chapter 3 of HUD Handbook 4145.1.
- 4-11 PROCESSING CONVERSIONS. The mortgagee may convert the case to HUD processing only under certain circumstances (see paragraph 1-15). Once converted, processing should be consistent with established procedures for regular HUD processed cases.
- 4-12 PROCESSING PRE-CLOSING CASES. These cases must be given priority and have a three-day processing goal. After the mortgagee is given conditional approval, a card or a Pre-Closing Submission Log, Form HUD-54110, should be placed in

the new mortgagee file to track the 15 case (or more) trial period. The procedures described in paragraphs 4-2 through 4-5 apply to cases in this category.

- A. HUD Receipt of the Underwriting Package. The receiving clerk date stamps the package and checks the new mortgagee file to verify that the mortgagee is eligible for the Direct Endorsement program. For proposed construction cases involving conditional commitments, VA CRVs, or review of plans and specifications, appropriate processing steps described in paragraph 4-10 should be followed.

The clerk should note the fact that the mortgagee has conditional approval and the number of cases which have been submitted to date on the first line of the section for other review comments.

To better manage the pre-closing review cycle, Field Offices may elect to maintain a log in the mortgagee's file, showing cases submitted for pre-closing review. Appendix 5 contains an optional form. If used, the log should be pulled and attached to the front of the file, beneath the Underwriting Report.

The package is then routed to the appropriate branch to begin the technical review cycle.

- B. Technical Reviews. The reviews and processing performed in the branches is almost identical to those outlined in the post-endorsement review process. If eligible, a firm commitment is issued to the mortgagee; but, the case binder is retained in the Field Office.

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- C. Conclusion of the Pre-Closing Review. After the various sections complete their reviews, one copy of the Underwriting Report is retained in the case binder and the original is placed in the mortgagee's file. Deficiencies should be brought to the attention of the mortgagee, appraiser or inspector, as appropriate.

As the mortgagee approaches the end of the conditional review period, the Mortgagee Approval Specialist should review the mortgagee's file to determine whether the mortgagee's work is acceptable. If it is not, the Field Office should advise the mortgagee that the trial period will be extended for a certain number of cases before a decision is made. Should the mortgagee exhibit extremely poor performance, a meeting should be held to discuss the deficiencies. If no improvement is seen, the mortgagee's conditional approval can be withdrawn.

- D. Reconsiderations. In the event that the mortgagee

disagrees with the Field Office's revisions during the pre-closing review, it may request reconsideration. The mortgagee must submit documentation to support its request. Upon receipt, the clerk logs the case into CHUMS and routes the case to the appropriate branch for review.

- E. HUD Receipt of Mortgage Submission. The receiving clerk assembles the Case Binder and follows the instructions in paragraph 4-6.
- F. Pre-Endorsement Review. Follow instructions in paragraph 4-7.
- G. Post-Endorsement Review. These cases are subject to pre-closing review; no post-endorsement technical review is necessary. However, the ratings from the pre-closing review must be entered into CHUMS.

4-13 PROCESSING GOALS. To promote prompt processing, HUD's Regional Management Plan establishes processing goals which apply to Direct Endorsement cases. Accomplishment of these goals is tracked by the CHUMS Summary of Single Family Operations, F17JLCA.

- A. Insurance Endorsement Processing. Insurance endorsement requests are to be insured or rejected within the number of workdays established in the Management Plan objectives.
- B. Pre-Closing Reviews. Ninety percent of all cases subject to a pre-closing review are to be processed within 3 workdays. This goal does not apply to cases from lenders which are returned to pre-closing review status because of unacceptable underwriting performance.

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- C. Technical Review Cycle. Complete technical reviews on insured Direct Endorsement cases in accordance with Management Plan objectives.

4-14 ACTIVITY AND INVENTORY TRACKING. CHUMS automatically monitors all program activity from case number assignment through the completion of the technical review cycle by entry of the quality ratings developed by the technical branches. The following reports are generated by CHUMS to assist Field Offices meet their goals. Detailed descriptions are in the CHUMS User Handbook.

- A. Manager's Activity/Backlog Report, F17ILCB. This report is produced weekly and monthly. It provides Field Offices with a brief summary of work processed during the preceding week (or month) and the number of cases awaiting processing. Both HUD-processed and Direct Endorsement cases are shown on the report. Field Office Managers

should review this report closely.

B. Activity Summary Report, F17IFCA. This report is produced twice a week to provide the Valuation and Mortgage Credit Branch Chiefs with information about the types of processing steps completed.

C. Summary Case Status Report, F17IMCA. This report is produced twice a week to provide the Valuation and Mortgage Credit Branch Chiefs with information about cases awaiting processing by HUD, fee or staff appraisers, fee examiners, or awaiting submission by the mortgagee.

Specific cases numbers are shown on the various Workload Status Reports, F17IHC series and the Pending Cases Report (which is sorted by mortgagee), F17JACA.

D. Summary of Single Family Operations, F17JLCA. This report is the principal source of information on single family activities. It shows work processed, processing times, the number and age of cases awaiting processing.

This report is produced semi-monthly, monthly, quarterly, and fiscal-year-to-date.

E. Activity by Location/Mortgagee, F17NDCA. This report shows the volume of applications and endorsements by individual mortgagees. It is produced quarterly and provides Field Offices with a tool to monitor requests for HUD-processing by mortgagees approved under Direct Endorsement.