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

Chapter 1. Mortgage Insurance Program Overview

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

Overview 1-A-1
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 Non FHA-Approved Mortgage Brokers 1-A-11

Section B. Fair Housing and Other Regulatory Requirements

Overview 1-B-1
1. General Information on Fair Housing and Other Regulatory Requirements 1-B-2
2. The Fair Housing Act 1-B-4
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. Other Housing Act Requirements 1-B-13
8. Helping Families Save Their Homes Act of 2009 (HFSH Act) 1-B-14
9. Confidential Nature of Credit Information 1-B-18
10. Reporting Fraud and Abuse 1-B-19

Section C. Home Mortgage Insurance Programs

Overview 1-C-1
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-15
7. Section 220(d)(3)(A) Urban Renewal Mortgage Insurance 1-C-17
8. Section 220(h) Insured Improvement Loans-Urban Renewal Areas 1-C-20
9. Section 223(e) Miscellaneous Housing Insurance 1-C-22
10. Section 233 Mortgage Insurance for Experimental Housing 1-C-24
11. Section 234(c) Mortgage Insurance for Condominium Units 1-C-26
12. Section 238(c) Mortgage Insurance in Military Impacted Areas (MIAs) 1-C-28
13. Section 245(a) Graduated Payment Mortgage (GPM) and Growing Equity Mortgage (GEM) 1-C-30

Continued on next page

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

14. Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL) 1-C-34
15. Section 248 Single Family Mortgage Insurance on Indian Lands (IL) 1-C-37
16. Section 251 Adjustable Rate Mortgages (ARMs) 1-C-38
17. Section 255 Home Equity Conversion Mortgage (HECM)..... 1-C-42

Section D. FHA Connection
Overview..... 1-D-1
1. Overview of the FHA Connection 1-D-2
2. Accessing the FHA Connection..... 1-D-6
3. Requests for an FHA Case Number..... 1-D-9
4. Canceling and Reinstating Case Numbers 1-D-10
5. Transferring Case Numbers Between Lenders..... 1-D-11

Chapter 2. DE Lender Application and Approval/Lender Insurance Program (LI) Eligibility & Approval

Section A. Direct Endorsement (DE) Program Lender Application
Overview..... 2-A-1
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

Section B. Direct Endorsement (DE) Program Lender Approval
Overview..... 2-B-1
1. General Information on DE Lender Approval 2-B-2
2. Overview of the DE Lender Approval Process 2-B-4
3. DE Lender Pre Closing Phase 2-B-6
4. DE Lender Unconditional Approval Phase..... 2-B-10
5. Use of the Principal/Authorized Agent Relationship..... 2-B-12
6. Requirements for Sponsors of Loan Correspondents 2-B-14

Section C. Lender Insurance (LI) Program Eligibility & Approval
Overview..... 2-C-1
1. General Information on the Lender Insurance (LI) Program 2-C-2
2. LI Program Eligibility & Approval Requirements 2-C-4

Continued on next page

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

Chapter 3. Mortgage Loan Requirements and Eligibility Criteria

Section A. Loan Application and Finance Related Policies

Overview 3-A-1
1. Maximum Loan Limits, Mortgage Amounts and Mortgage Term 3-A-2
2. Policies on Interest Rates and Related Fees 3-A-6
3. Mortgage Note and Security Instrument Requirements 3-A-7
4. Policies on Prepayment 3-A-8
5. Policy on Assumptions 3-A-9

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

Overview 3-B-1
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

Section C. Mortgage Loan Application Documentation Requirements

Overview 3-C-1
1. General Documentation Standards 3-C-2
2. Mortgage Loan Application Documentation Requirements 3-C-4
3. Mortgage Loan Application Document Processing 3-C-7

Chapter 4. Property Valuation and Appraisals

1. General Information on Property Valuation and Eligibility 4-1
2. General Acceptability Standards and Property Eligibility 4-6
3. Requirements for Properties in Special Flood Hazard Areas (SFHA) 4-10
4. Appraisal Requirements 4-14
5. Appraisal Repair Requirements 4-18
6. Satisfying Repair Requirements 4-21
7. Prohibition on Property Flipping 4-24
8. Seller Concessions and Verification of Sales 4-29
9. Requirements for Second Appraisals on High Balance Loans For Properties in Declining Areas 4-31

Chapter 5. Mortgage Credit Analysis and Borrower Approval

1. General Information on Mortgage Credit Analysis 5-1
2. Borrower Approval or Rejection 5-3
3. Term of the Firm Commitment or Underwriter's Approval 5-6

Continued on next page

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

Chapter 6. Loan Closing

Section A. Loan Closing Policies

Overview 6-A-1
1. General Loan Closing Requirements 6-A-2
2. Loan Closing Documenation Requirements 6-A-6
3. Closing Costs and Other Fees 6-A-9
4. Prohibited Payments and Loans 6-A-11
5. Closing Certifications and Sales Contracts 6-A-13

Section B. Mortgage and Note Forms

Overview 6-B-1
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

Section C. Title Exceptions

Overview 6-C-1
1. General Information on Title Exceptions 6-C-2
2. Waiver of Objections to Title 6-C-4

Chapter 7. Mortgage Insurance Premiums (MIPs)

1. Types of MIPs 7-1
2. Up Front Mortgage Insurance Premiums (UFMIPs) 7-2
3. Annual MIPs 7-7
4. Risk Based Premiums for FHA Mortgage Insurance 7-11

Continued on next page

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

Chapter 8. Loan Endorsement

Section A. Mortgage Loan Submission and Endorsement Process

Overview 8-A-1
1. Overview of the Loan Submission and Endorsement Process 8-A-2
2. Requirements for LI Lender Pre-Insurance Review 8-A-5

Section B. Case Binder Preparation and Submission

Overview 8-B-1
1. General Information on Case Binder Preparation and Submission 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-9
4. Requirements for Case Binder Submission by a Lender Other Than the Originating Lender 8-B-13
5. Requirements for Case Binder Submission by a Lender With Conditional DE Approval 8-B-15
6. Requirements for Case Binder Submission for HUD/FHA Employee Cases 8-B-16
7. Submission of Case Binders by Lenders Participating in the LI Program 8-B-17

Section C. Insurance Endorsement Processing

Overview 8-C-1
1. General Information on FHA Loan Processing and Review 8-C-2
2. Non LI Loan Endorsement Processing 8-C-6
3. LI Loan Endorsement Processing 8-C-8
4. Pre Closing (Test) Case Processing Overview 8-C-11
5. Excessive Loan Amounts 8-C-13
6. Mortgage Insurance Certificates 8-C-16
7. Late Requests for Endorsement 8-C-20

Continued on next page

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

Chapter 9. Monitoring Lender Performance

Section A. Lender Monitoring Overview

Overview 9-A-1
1. General Information on Lender Monitoring 9-A-2

Section B. Lender Monitoring Tools

Overview 9-B-1
1. Post-Endorsement Technical Reviews (PETRs) 9-B-2
2. Lender Performance Reports 9-B-4
3. Underwriting Report System (URS) Reports 9-B-7
4. On-Site and Remote Lender Monitoring Reviews 9-B-10
5. Neighborhood Watch Early Warning System 9-B-12
6. Other Lender Monitoring Tools 9-B-13

Section C. Post Endorsement Technical Review (PETR) Procedures

Overview 9-C-1
1. Targeting Lenders for PETRs 9-C-2
2. PETR Ratings 9-C-3
3. PETR URS Data Entry Requirements 9-C-5
4. Deficiency Letters and Lender Responses 9-C-7

Section D. Lender Sanctions

Overview 9-D-1
1. General Information on Lender Sanctions 9-D-2
2. Lender Probation 9-D-3
3. Withdrawal of Direct Endorsement (DE) 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

Continued on next page

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

Chapter 10. Changes After Insurance Endorsement

Section A. Policies on Changes After Endorsement

Overview 10-A-1
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

Section B. Changes in Home Location After Insurance Endorsement

Overview 10-B-1
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

Chapter 11. Partial Release of Security

1. When FHA Approval Is or Is Not Required for a Partial Release of Security 11-1
2. FHA Procedures for Processing a Request for a Partial Release of Security 11-3

Chapter 12. Exhibits

Section A. Mortgage and Note Form Exhibits

Overview 12-A-1
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

Section B. System Code and Error Exhibits

Overview 12-B-1
1. Exhibit 1: Home Mortgage ADP Codes 12-B-2
2. Exhibit 2: Program Identification Codes 12-B-6
3. Exhibit 3: FHA Common System Errors and Documentation Problems 12-B-10
4. Exhibit 4: PETR Deficiency Codes 12-B-13

Section C. Mortgage Lender Letter Exhibits

Overview 12-C-1
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

Section D. Pre Endorsement Checklist Exhibits

Overview 12-D-1
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

Section E. Other Loan Program Exhibits

Overview 12-E-1
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

Chapter 1. Mortgage Insurance Program Overview

Table of Contents

Section A. General Information on FHA Mortgage Insurance Programs and the Mortgage Insurance Process

Overview 1-A-1
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 Non FHS-Approved Mortgage Brokers 1-A-11

Section B. Fair Housing and Other Regulatory Requirements

Overview 1-B-1
1. General Information on Fair Housing and Other Regulatory Requirements 1-B-2
2. The Fair Housing Act 1-B-4
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. Other Housing Act Requirements 1-B-13
8. Helping Families Save Their Homes Act of 2009 (HFSH Act) 1-B-14
9. Confidential Nature of Credit Information 1-B-18
10. Reporting Fraud and Abuse 1-B-19

Section C. Home Mortgage Insurance Programs

Overview 1-C-1
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-15
7. Section 220(d)(3)(A) Urban Renewal Mortgage Insurance 1-C-17
8. Section 220(h) Insured Improvement Loans-Urban Renewal Areas 1-C-20
9. Section 223(e) Miscellaneous Housing Insurance 1-C-22
10. Section 233 Mortgage Insurance for Experimental Housing 1-C-24
11. Section 234(c) Mortgage Insurance for Condominium Units 1-C-26
12. Section 238(c) Mortgage Insurance in Military Impacted Areas (MIAs) 1-C-28
13. Section 245(a) Graduated Payment Mortgage (GPM) and Growing Equity Mortgage (GEM) 1-C-30
14. Section 247 Single-Family Mortgage Insurance on Hawaiian Home Lands (HHL) 1-C-34
15. Section 248 Single-Family Mortgage Insurance on Indian Lands (IL) 1-C-37
16. Section 251 Adjustable Rate Mortgages (ARMs) 1-C-38

Continued on next page

Table of Contents, Continued

17. Section 255 Home Equity Conversion Mortgage 1-C-42

Section D. FHA Connection

Overview 1-D-1
1. Overview of the FHA Connection 1-D-2
2. Accessing the FHA Connection 1-D-6
3. Requests for an FHA Case Number 1-D-9
4. Canceling and Reinstating Case Numbers 1-D-10
5. Transferring Case Numbers Between Lenders 1-D-11

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 Non FHA-Approved Mortgage Brokers	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. It includes information on

- 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.

Change Date

May 10, 2009

4155.2 1.A.1.a Purpose of FHA Mortgage Insurance Programs

The Federal Housing Administration (FHA) offers various mortgage insurance programs, under which they insure approved lenders against losses on mortgage loans. FHA-insured mortgages may be used to purchase homes, improve homes, and to 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 unit properties that are owner-occupied principal residences only. FHA insures mortgages on properties that consist of

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

FHA will *not* insure mortgages on

- 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.

Continued on next page

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 the FHA's single family programs are authorized by the enabling legislation of Title II of the National Housing Act, and each program is generally referred to by its particular section of the Act (for example, Section 203(b), (the basic program), Section 251 (Adjustable Rate Mortgages (ARMs)), Section 234(c) Condominiums, etc.).

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

In addition to the particular section of the National Housing Act that authorizes each single family mortgage insurance program, various characteristics of each program will reflect the particular insurance fund under which the program is insured.

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

Mortgage Insurance Fund	Description
Mutual Mortgage Insurance (MMI) Fund	The MMI fund covers most programs, including most of the programs authorized under Section 203(b).
General Insurance (GI) Fund	The GI fund covers, among other programs, Section 203(k) and condominiums under Section 234(c).
Special Risk Insurance (SRI) Fund	The SRI fund covers Section 223(e) and several 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 DE program, approved lenders may underwrite and close mortgage loans without prior FHA review or approval. This includes all aspects of the mortgage loan application, the 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
- the Section 233, Mortgage Insurance for Experimental Housing program, and
- mortgage loans for HUD employees, with the exception of streamline refinances.

References: For more information on
- processing requirements of Mortgage Loan Applications, see HUD 4155.2 3.C
- the Section 203(n) program, see HUD 4155.2 1.C.6
- the Section 233 program, see HUD 4155.2 1.C.10, and
- loans for HUD employees, see HUD 4155.2 3.B.

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 provide detailed processing instructions and advise the mortgage industry of major changes to FHA programs and procedures. Additionally, the Home Ownership Centers (HOCs)

- 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 Web site at www.hud.gov.
- For sample HUD forms, HUD Handbooks, and Mortgagee Letters, see HUD's Web site at www.hud.gov/hudclips/.

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

Change Date May 10, 2009

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	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. ***Reference***: For more information on the standard application package and required documentation, see HUD 4155.2 3.C.
3	The lender applies for, and is assigned, an FHA case number through the FHA Connection. ***Reference***: For more information on the FHA Connection, see • HUD 4155.2 1.D, and • the user guide in the FHA Connection.

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	The lender • assigns an appraiser through the FHA Connection 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 in the FHA Connection. ***Reference***: For more information on appraisals and property standards, see HUD 4155.2 4.
5	The lender • instructs their underwriter to perform the mortgage credit analysis to determine the borrower's ability and willingness to repay the mortgage debt, and • enters the borrower income/credit information into FHA Connection. ***Reference***: For more information on performing a mortgage credit analysis, see HUD 4155.1 4.C.
6	The underwriter makes the underwriting decision. If the loan is • approved, the process continues with Stage 7, or • rejected – the borrower is notified, and – this completes the process. ***Reference***: For more information on borrower approval and rejection notification, see HUD 4155.2 5.2.

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	Once the loan is approved, the lender closes the loan with the borrower. ***Reference***: For more information on • 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	After the loan is closed, the lender initiates the loan endorsement process. Lenders *not* participating in Lender Insurance Program (LIP) • complete the Insurance Application function in FHA Connection • submit the case binder to the appropriate HOC for endorsement review • submit the case binder to the HOC in hard copy form. Lenders participating in LIP • insure the loan through FHA Connection, and • submit the case binder in either electronic format (eCB) or in hard copy form. ***Notes***: • Participants in the LIP submit either a paper or electronic case binder (as appropriate) only when requested by the HOC. • The HOC may request the casebinder either because – a severe warning is displayed, or – a post-endorsement technical review (PETR) or appraisal review is required. ***Reference***: For more information on preparation and submission of the case binder, see HUD 4155.2 8.B.

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	Upon receipt of the case binder, the HOC • logs the closing package into the FHA Connection • performs a pre-endorsement review, and • issues either the – Mortgage Insurance Certificate (MIC), or – Non-Endorsement Notice/Notice of Rejection (NOR).
10	The HOC completes insurance endorsement processing using the logging and endorsement functions in the FHA Connection. ***Result***: Once the loan is endorsed, FHA Connection generates an MIC for the lender to download from the FHA Connection. ***Reference***: For more information on • the MIC, see HUD 4155.2 8.C.6, and • FHA Connection, see – HUD 4155.2 1.D, and – the *FHA User Guide* on the FHA Connection.
11	To ensure that mortgage lenders understand and comply with FHA requirements, selected case binders are chosen for a post-endorsement technical review (PETR) by the HOC. ***Reference***: For more information on PETRs, see HUD 4155.2 9.C.

3. Restrictions on the Use of Non FHA-Approved Mortgage Brokers

Introduction

This topic contains information on the restrictions on the use of non FHA-approved mortgage brokers, including

- the FHA policy requiring the use of an FHA-approved lender or broker for loan origination
- RESPA prohibition of duplicative fees
- specific loan origination functions and services that must be provided by an FHA-approved lender or broker, and
- services that may be provided by a non FHA-approved broker.

Change Date

May 10, 2009

4155.2 1.A.3.a FHA Policy Requiring the Use of an FHA Approved Lender or Broker for Loan Origination

FHA loan origination services *must* be performed by either a

- FHA-approved lender, or
- FHA-approved mortgage broker (loan correspondent).

An FHA-approved loan correspondent may be compensated for the actual loan origination services it performs either directly by the consumer or indirectly by the FHA-approved lender without being in violation of either the Real Estate Settlement Procedures Act (RESPA) statute and regulations or FHA regulations.

Note: While FHA regulations permit a borrower to engage a broker who is not FHA-approved to assist him/her in obtaining mortgage financing, the loan origination services may not be performed by that broker and the FHA-approved lender may *not* compensate the broker for such services.

Reference: For information on FHA's policy on a broker assisting a borrower in obtaining a mortgage, see 24 CFR 203.27(e).

4155.2 1.A.3.b RESPA Prohibition of Duplicative Fees

Under no circumstances may a borrower be charged a fee that is not commensurate with the amount normally charged for similar services.

RESPA prohibits the payment of duplicative fees. The payment to an unapproved 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 the FHA-approved lender or loan correspondent, which is in violation of section 8(a) of RESPA.

Continued on next page

3. Restrictions on the Use of Non FHA-Approved Mortgage Brokers, Continued

4155.2 1.A.3.c Specific Loan Origination Functions and Services That Must Be Provided by an FHA Approved Lender or Broker

FHA requires that the following particular origination functions and services be performed by an FHA-approved lender or loan correspondent:

- taking information from the borrower and filling out the loan application
- collecting financial information (tax returns, bank statements) and other related documents that are part of the application process
- initiating/ordering Verifications of Employment and Deposit
- initiating/ordering request for mortgage and other loan verifications
- initiating/ordering appraisals
- initiating/ordering inspections or engineering reports
- providing disclosures (truth in lending, good faith estimate and others) to the borrower(s)
- maintaining regular contact with the borrower, real estate professional, and lender between loan application and closing to apprise them of the status of the application and gather any additional information needed
- ordering legal documents, and
- determining whether the property is in a flood zone or ordering such service.

Continued on next page

3. Restrictions on the Use of Non FHA-Approved Mortgage Brokers, Continued

4155.2 1.A.3.d Services That May Be Provided by a Non FHA Approved Broker

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

Under RESPA, when "counseling type" 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 were ultimately selected, and
- any payment made for the "counseling type" services is reasonably related to the services performed.

Note: In these instances,

- the fee charged must be paid from the mortgagor's own available assets and must be disclosed on the HUD-1 at closing, and
- a copy of the contract for these services must be included in the loan file submitted for insurance endorsement.

Section B. Fair Housing and Other Civil Rights Requirements

Overview

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

Topic	Topic Name	See Page
1	General Information on Fair Housing and Other Civil Rights Requirements	1-B-2
2	The Fair Housing Act	1-B-4
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	Other Housing Act Requirements	1-B-13
8	Confidential Nature of Credit Information	1-B-14
9	Reporting Fraud and Abuse	1-B-15

1. General Information on Fair Housing and Other Civil Rights Requirements

Introduction

This topic contains general information on Fair Housing and other civil rights requirements, including

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

Change Date

May 10, 2009

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 originations 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 7th 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 Civil Rights Requirements, Continued

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
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

July 6, 2009

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 are prohibited by various state and local laws and 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

July 6, 2009

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 units per year or more must comply.

Requirement	Policy
Hiring	Applicants must • 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 (EEO) 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	Applicants must display the Equal Housing Opportunity statement, logotype, and slogan on all • advertising • brochures • site signs, and • other materials.
Affirmative Fair Housing Marketing Plan	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 • 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

May 10, 2009

4155.2 1.B.4.a Purpose of the FCRA

The Fair Credit Reporting Act 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 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 loans.

Change Date

May 10, 2009

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 either

- on the basis of race, color, religion, national origin, sex, martial 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 the 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 creditor 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 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 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 of 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 Loans

Under Regulation B, for loans that are rejected, the lender must

- complete a rejection notice that
  - provides all of the specific reasons for the rejection and any counter proposals to effectuate loan approval (such as a reduced mortgage amount), and
  - otherwise complies with the requirements of Regulation B, and
- retain case binders on the rejected loans for 26 months from the date the application is
  - received by the DE underwriter, or
  - rejected by the appropriate 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.

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

Change Date	May 10, 2009
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. Other Housing Act Requirements

Introduction

This topic contains information on specific sections of the National Housing Act, including descriptions of the requirements of

- Section 527 of the National Housing Act
- Section 535 of the National Housing Act, and
- Section 330(a) of the 1990 National Affordable Housing Act.

Change Date

May 10, 2009

4155.2 1.B.7.a Description of the Section 527 Requirements

Section 527 of the National Housing Act prohibits denial of a federally-related mortgage loan on the basis of sex.

4155.2 1.B.7.b Description of Section 535 Requirements

Under Section 535 of the National Housing Act, lenders are 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.

4155.2 1.B.7.c Description of the Section 330(a) Requirements

Section 330(a) of the 1990 National Affordable Housing Act prohibits a variation in mortgage rates charged ("tiered pricing") that exceeds 2 percent for FHA-insured mortgages made by a lender on dwellings located within a particular area.

Reference: For more information on the prohibition of mortgage rate variation, see 24 CFR 202.12.

8. Confidential Nature of Credit Information

Change Date	May 10, 2009

4155.2 1.B.8.a Confidentiality Policy for Credit Information

Sources of credit information must never be divulged, except as required by the contract or by law. All personnel with access to credit information must ensure that the use and disclosure of information from a credit report complies with

- Title VIII of the Civil Rights Act of 1968
- the Fair Credit Reporting Act, Public Law 91-508
- the Privacy Act, Public Law 93-579
- the Financial Privacy Act, Public Law 95-630, and
- the Equal Credit Opportunity Act, Public Law 94-239 and 12 CFR Part 202.

9. Reporting Fraud and Abuse

Introduction

This topic contains information on reporting fraud and abuse, including

- lender responsibility for reporting violations and program abuses, and
- methods of reporting fraud or abuse.

Change Date

May 10, 2009

4155.2 1.B.9.a Lender Responsibility for Reporting Violations and Program Abuses

A lender or any of its employees who detect any violation of law or regulation, or any false statements or program abuses must report such violations immediately to HUD.

4155.2 1.B.9.b Methods for Reporting Fraud or Abuse

A report of fraud or abuse may be submitted to HUD either by

- email, on the Internet at www.hud.gov
- 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

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-15
7	Section 220(d)(3)(A) Urban Renewal Mortgage Insurance	1-C-17
8	Section 220(h) Insured Improvement Loans-Urban Renewal Areas	1-C-21
9	Section 223(e) Miscellaneous Housing Insurance	1-C-23
10	Section 233 Mortgage Insurance for Experimental Housing	1-C-25
11	Section 234(c) Mortgage Insurance for Condominium Units	1-C-27
12	Section 238(c) Mortgage Insurance in Military Impacted Areas (MIAs)	1-C-29
13	Section 245(a) Graduated Payment Mortgage (GPM) and Growing Equity Mortgage (GEM)	1-C-30
14	Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL)	1-C-35
15	Section 248 Single Family Mortgage Insurance on Indian Lands (IL)	1-C-39
16	Section 251 Adjustable Rate Mortgages (ARMs)	1-C-41
17	Section 255 Home Equity Conversion Mortgage (HECM)	1-C-45

1. General Information on Home Mortgage Insurance Programs

Introduction

This topic contains general information on home mortgage insurance programs, including

- a description of the types of home mortgage insurance programs described in this section, and
- the enabling legislation for these programs.

Change Date

May 10, 2009

4155.2 1.C.1.a Types of Mortgage Insurance Programs

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.

4155.2 1.C.1.b Enabling Legislation for Single Family Insurance Programs

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.

Reference: For more information on FHA's home mortgage insurance programs, see HUD 4155.2 1.A.1.

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

May 10, 2009

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 on 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 percent higher in Alaska, Hawaii, Guam, and the Virgin Islands.

Note: Dollar limitations may be increased by up to 20 percent 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 Web site 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 (such as proposed construction, under construction, or existing home, and
- the appraised value and sales price.

Note: Although the up-front mortgage insurance premium (UFMIP) may be financed, do 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, and
- refinance transaction, see HUD 4155.1 3.B.

Continued on next page

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

4155.2 1.C.2.e Section 203(b) Required Borrower Minimum Down Payment Policy

Borrowers are required to invest the *difference* between

- the total acquisition cost (sales price, cost of any required repairs paid for by the borrower, and total closing costs to be paid by the borrowers), and
- the amount of the mortgage to be insured.

The table below contains additional policies regarding a borrower's minimum investment.

FHA policy regarding the minimum down payment for a(n) ….	States that …
principal residence	the borrower's minimum down payment may not be less than 3.5 percent of the appraised value of the property or the sales price, whichever is less.
occupant borrower at least 60 years old	• the borrower may borrow all or part of the required down payment from a relative, employer or humanitarian organization • the amount borrowed, when added to the mortgage amount, cannot exceed the total of the appraised value, plus prepaid expenses and closing costs • the interest rate on the borrowed down payment cannot exceed the mortgage interest rate, and • the mortgaged property cannot be used as security for the down payment loan. ***Note***: Evidence that these conditions are met must accompany the application.

4155.2 1.C.2.f Section 203(b) Mortgage Term

Under Section 203(b), the mortgage term is any term up to 30 years.

4155.2 1.C.2.g Section 203(b) MIP Payment

Under Section 203(b), mortgage insurance premiums (MIPs) are paid as up-front mortgage insurance premium (UFMIP) and monthly.

4155.2 1.C.2.h Section 203(b) Refinancing Policy

Refinancing is permitted in conjunction with rehabilitation.

3. Section 203(h) Home Mortgage Insurance for Disaster Victims

Introduction

This topic contains information on Section 203(h) Home Mortgage Insurance for Disaster Victims, including

- a description of the Section 203(h) program
- eligibility requirements
- the maximum insurable mortgage/LTV ratio
- closing costs and prepaid expenses
- the minimum borrower cash investment
- the mortgage term
- MIP payment, and
- the refinancing policy.

Change Date

May 10, 2009

4155.2 1.C.3.a Description of Section 203(h) Program

The Section 203(h) Home Mortgage Insurance for Disaster Victims program insures lenders against losses on mortgage loans on principal residences of borrowers who are disaster victims.

Reference: For additional information on the Section 203(h) program, see
- HUD 4240.1, *Section 203(h) Home Mortgage Insurance for Disaster Victims*, and
- 24 CFR 203.18(e).

Continued on next page

3. Section 203(h) Home Mortgage Insurance for Disaster Victims, Continued

4155.2 1.C.3.b Section 203(h) Eligibility Requirements

In order for a home mortgage loan to be eligible under Section 203(h), the loan must meet the following eligibility requirements:

- the loan must be for the purchase or reconstruction of a one-family dwelling
- the previous home (owned or rented) must have been
  - in an area that the President has declared a major disaster area, and
  - destroyed or damaged to such an extent that reconstruction or replacement is necessary, and
- the application must be submitted within one year of the President's declaration.

Notes:
- Documentation attesting to the damage of the previous home must accompany the loan application.
- If purchasing a new home, the home need not be located in the area where the previous home was located.

4155.2 1.C.3.c Section 203(h) Maximum Insurable Mortgage/ LTV Ratio

The Section 203(h) program has the same statutory loan limits as those of the Section 203(b) program. The LTV ratio is 100 percent.

Reference: For the Section 203(b) statutory loan limits, see HUD 4155.2 1.C.2.c.

4155.2 1.C.3.d Section 203(h) Closing Costs and Prepaid Expenses

Under the Section 203(h) program, closing costs and prepaid expenses must be

- paid by the borrower in cash, or
- paid through premium pricing.

4155.2 1.C.3.e Section 203(h) Minimum Borrower Cash Investment

The Section 203(h) insurance program has no minimum borrower cash investment requirement.

Continued on next page

3. Section 203(h) Home Mortgage Insurance for Disaster Victims, Continued

4155.2 1.C.3.f Section 203(h) Mortgage Term

The mortgage term for the Section 203(h) Program is any term up to 30 years.

4155.2 1.C.3.g v203(h) MIP Payment

Under the Section 203(h) program, mortgage insurance premiums (MIPs) are paid as up-front mortgage insurance premium (UFMIP) and monthly.

4155.2 1.C.3.h Section 203(h) Refinancing Policy

Under the Section 203(h) program, refinancing is permitted in conjunction with rehabilitation.

4. Section 203(i) Home Mortgage Insurance for Outlying Areas

Introduction

This topic contains information on Section 203(i) Home Mortgage Insurance for Outlying Areas, including

- a description of Section 203(i) insurance
- the maximum insurable mortgage amount
- the statutory loan limit/LTV
- the minimum borrower investment
- the mortgage term
- MIP payment, and
- the refinancing policy.

Change Date

May 10, 2009

4155.2 1.C.4.a Description of Section 203(i) Insurance

The Section 203(i) Home Mortgage Insurance for Outlying Areas insures lenders against losses on mortgage loans used to

- purchase a proposed, under construction, or existing one-family dwelling (or manufactured home), or
- refinance a mortgage on an existing one-family dwelling in a rural area or a farm home located on 2.5 or more acres of land adjacent to an all-weather public road.

Reference: For more information on Section 203(i), see
- HUD 4240.1, *Section 203(h), Home Mortgage Insurance for Disaster Victims*, and
- 24 CFR 203.18(d).

4155.2 1.C.4.b Section 203(i) Maximum Insurable Mortgage

The maximum insurable mortgage is determined by the *lesser* of

- the statutory loan limit, or
- the applicable LTV ratio.

Continued on next page

4. Section 203(i) Home Mortgage Insurance for Outlying Areas, Continued

4155.2 1.C.4.c Section 203(i) Statutory Loan Limit/ LTV

The statutory loan limit for the Section 203(i) program is 75 percent of the amount available under Section 203(b). The Section 203(b) loan limit is found in HUD 4155.2 1.C.2.c.

The LTV is the same as that of the Section 203(b) program, found in HUD 4155.2 1.C.2.d.

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

References:
- Statutory loan limits are available on the HUD Web site at www.hud.gov.
- For more information on the increase of loan limits and solar energy systems, see HUD 4155.1 6.D.

4155.2 1.C.4.d Section 203(i) Minimum Borrower Down Payment

The minimum borrower down payment for the Section 203(i) program is the same as that for the Section 203(b) program, found in HUD 4155.2 1.C.2.e. However, the borrower, under certain circumstances, may borrow the required down payment.

Reference: For more information on the minimum borrower down payment, see HUD 4240.1.

4155.2 1.C.4.e Section 203(i) Mortgage Term

Under the Section 203(i) program, the mortgage term is the same as that for the Section 203(b) program, found in HUD 4155.2 1.C.2.f.

4155.2 1.C.4.f Section 203(i) MIP Payment

MIP on Section 203(i) mortgage loans is paid as UFMIP and monthly.

4155.2 1.C.4.g Section 203(i) Refinancing Policy

The refinancing policy under Section 203(i) is the same as that for Section 203(b), found in

- HUD 4155.1 3.A, and
- HUD 4155.1 3.B.

5. Section 203(k) Rehabilitation Home Mortgage Insurance and Streamlined Limited Repair Program

Introduction

This topic contains information on Section 203(k) Rehabilitation Home Mortgage Insurance, including

- a description of the Section 203(k) insurance program
- a description of the Streamline (k) program
- Section 203(k) eligible improvements
- Section 203(k) eligibility for insurance *before* rehabilitation begins
- cases requiring two appraisals (not applicable on Streamline (k))
- collection of a supplemental origination fee
- required Section 203(k) documentation
- the maximum insurable mortgage
- the minimum borrower down payment
- the mortgage term
- MIP payment, and
- the refinancing policy.

Change Date

May 10, 2009

4155.2 1.C.5.a Description of Section 203(k) Insurance

The Section 203(k) Rehabilitation Home Mortgage Insurance insures lenders against losses on mortgage loans used to

- purchase and rehabilitate an existing one- to-four-family dwelling (completed for more than one year) that will be used for residential purposes
- refinance and rehabilitate such a structure and refinance the outstanding indebtedness (not applicable for Streamline (k)), or
- rehabilitate a dwelling after it has been moved from one site to a new foundation (excluding manufactured homes).

Restriction: Section 203(k) should *not* be used unless the rehabilitation or improvement costs total a minimum of $5,000 (not applicable for Streamline (k)).

Reference: For more information on Section 203(k) mortgages, see
- HUD 4240.4, 203(k), *Rehabilitation Home Mortgage Insurance*, and
- 24 CFR 203.50.

Continued on next page

5. Section 203(k) Rehabilitation Home Mortgage Insurance and Streamlined Limited Repair Program, Continued

4155.2 1.C.5.b Description of Streamline 203 (k)

FHA's Streamlined 203(k) program permits borrowers to

- finance up to an additional $35,000 into their mortgage to improve or upgrade their home before move-in, and
- quickly and easily tap into cash to pay for property repairs or improvements, such as those identified by a home inspector or FHA appraiser.

Note: Unlike the standard 203(k) program, any FHA-approved lender may originate a Streamlined 203(k) mortgage.

Reference: For additional information on the Streamlined 203(k) program, see ML 2005-50, *Enhancements to "Streamlined (k)" Limited Repair Program*.

4155.2 1.C.5.c Section 203(k) Eligible Improvements

Section 203(k) eligible improvements include items such as

- structural alterations (not applicable on Streamline (k))
- additions (not applicable on Streamline (k))
- reconstruction (not applicable on Streamline (k))
- remodeling (only minor remodeling allowed on Streamline(k))
- new siding
- plumbing
- painting
- decking
- heating and/or air conditioning
- electrical systems
- roofing
- flooring and carpeting
- energy efficient improvements
- major landscape work (not applicable on Streamline (k)), and
- pool repairs and pool fences.

Note: All health, safety, and energy efficient items must be addressed prior to completing general home improvements.

Continued on next page

5. Section 203(k) Rehabilitation Home Mortgage Insurance and Streamlined Limited Repair Program, Continued

4155.2 1.C.5.d Section 203(k) Eligibility for Insurance Before Rehabilitation Begins

A Section 203(k) mortgage is eligible for insurance *before* rehabilitation begins provided that the mortgage proceeds allocated for the rehabilitation

- go into a Rehabilitation Escrow Account at closing, and
- will be disbursed as work progresses.

4155.2 1.C.5.e 203(k) Cases Requiring Two Appraisals (not required on streamline (k))

In some cases, a Section 203(k) mortgage requires two appraisals (not applicable on Streamline (k)) as follows:

- one on the "as is" value of the property, and
- a second on the estimated market value when the work is complete.

Note: Appraisal is made subject to completion of the proposed repairs and/or improvement.

4155.2 1.C.5.f Section 203(k) Collection of a Supplemental Origination Fee

When the Section 203(k) mortgage involves insurance of advances and partial disbursements of the Rehabilitation Escrow Account, the lender may collect from the borrower a supplemental origination fee which

- compensates the lender for the additional cost of disbursements and inspections of the work, and
- is limited to whichever is *greater* of either
  – 1.5 percent of the portion of the mortgage allocated to rehabilitation, or
  – $350.

4155.2 1.C.5.g Required Section 203(k) Documentation

The 203(k) mortgage application package must include

- drawings and specifications of the proposed improvements (not applicable on Streamline (k))
- the rehabilitation cost estimate, and
- a work write-up that shows that, when the property is completed, it will meet FHA's minimum property standards or, if more stringent, the local codes (not applicable on Streamline (k)).

Continued on next page

5. Section 203(k) Rehabilitation Home Mortgage Insurance and Streamlined Limited Repair Program, Continued

4155.2 1.C.5.h Section 203(k) Maximum Insurable Mortgage

To assure that the mortgage is adequately supported by the property value, the maximum 203(k) mortgage amount must be based on the *lesser* of the following:

- the "as is" property value, plus the cost of repairs and improvements (if an "as is" appraisal is not performed, use the contract sales price on a purchase transaction, plus the repair costs)
- the existing debt on a refinance, plus the repair costs, or
- 110 percent of the "after improved" value.

4155.2 1.C.5.i Section 203(k) Minimum Borrower Down Payment

The Section 203(k) minimum borrower down payment is the same as that of the Section 203(b) program, found in HUD 4155.2 1.C.2.e.

4155.2 1.C.5.j Section 203(k) Mortgage Term

Section 203(k) mortgage term policy is the same as that for the Section 203(b) program found in HUD 4155.2 1.C.2.f.

4155.2 1.C.5.k Section 203(k) MIP Payment

Section 203(k) requires payment of upfront MIP and annual MIP.

4155.2 1.C.5.l Section 203(k) Refinancing Policy

Refinancing on a 203(k) mortgage is permitted in conjunction with rehabilitation.

6. Section 203(n) Single Family Cooperative Program

Introduction

This topic contains information on Section 203(n) Single Family Cooperative Program, including

- a description of the Section 203(n) program
- Section 203(n) occupancy requirements
- the maximum insurable mortgage
- the minimum borrower investment
- the mortgage term
- MIP payment, and
- the refinancing policy.

Change Date

May 10, 2009

4155.2 1.C.6.a Description of Section 203(n) Program

The Section 203(n) Single Family Cooperative program insures lenders against losses on mortgage loans used to acquire corporate certificates (stock or membership) and occupancy certificates in a cooperative housing project covered by a blanket mortgage insured under the National Housing Act.

Note: This program is *not* eligible for Direct Endorsement (DE) processing.

Reference: For more information on Section 203(n), see
- HUD 4240.3, *Application Through Insurance (Single Family) Section 203(n)*, and
- 24 CFR 203.43c.

4155.2 1.C.6.b Section 203(n) Occupancy Requirements

Under Section 203(n), the purchaser

- must intend to occupy the unit, and
- is responsible for his/her share of common expenses or assessments and charges.

Continued on next page

6. Section 203(n) Single Family Cooperative Program, Continued

4155.2 1.C.6.c v203(n) Maximum Insurable Mortgage

The maximum mortgage amount on a Section 203(n) mortgage is

- the remaining balance of the amount calculated per instructions for Section 203(b) in HUD 4155.2 1.C.2.b relating to owner-occupants, *minus*
- the portion of the unpaid balance of the blanket mortgage which is attributable to the dwelling unit.

4155.2 1.C.6.d Section 203(n) Minimum Borrower Investment

The minimum borrower investment on a Section 203(n) mortgage is the same at that of a Section 203(b) mortgage, found in HUD 4155.2 1.C.2.e.

4155.2 1.C.6.e Section 203(n) Mortgage Term

The mortgage term on a Section 203(n) mortgage is not to exceed the *lesser* of

- 30 years
- the remaining term of the blanket mortgage, or
- three-fourths of the remaining economic life of the building improvements.

4155.2 1.C.6.f Section 203(n) MIP Payment

Section 203(n) MIP payment is UFMIP and monthly.

4155.2 1.C.6.g Section 203(n) Refinancing Policy

Refinancing is not available on a Section 203(n) mortgage.

7. Section 220 (d)(3)(A) Urban Renewal Mortgage Insurance

Introduction

This topic contains information on Section 220 (d)(3)(A) Urban Renewal Mortgage Insurance, including

- a description of the Section 220 (d)(3)(A) program
- the area eligibility policy
- the maximum insurable mortgage
- statutory limits
- LTV ratios
- the minimum borrower investment
- the mortgage term
- MIP payment, and
- the refinancing policy.

Change Date

May 10, 2009

4155.2 1.C.7.a Description of the Section 220(d)(3)(A) Program

The Section 220 (d)(3)(A) Urban Renewal Mortgage Insurance program insures lenders against losses on mortgage loans used to rehabilitate one-to eleven-family dwellings, or build new ones in redevelopment areas.

Reference: For more information on Section 220(d)(3)(A) mortgage loans, see HUD 4245.1, *Section 220(d)(3)(A) and Section 220(h) Rehabilitation and Neighborhood Conservation Housing Insurance Program*.

4155.2 1.C.7.b Section 220(d)(3)(A) Area Eligibility Policy

The Section 220(d)(3)(A) program is limited to

- urban renewal or code enforcement areas, and
- areas designated by local government (and approved by FHA) for concentrated housing, physical development, and public service activities under a locally developed comprehensive strategy to upgrade and stabilize the area.

Continued on next page

7. Section 220 (d)(3)(A) Urban Renewal Mortgage Insurance, Continued

4155.2 1.C.7.c Section 220(d)(3)(A) Maximum Insurable Mortgage

The maximum insurable mortgage under the Section 220(d)(3)(A) program is determined by the *lesser* of the statutory loan limit or the appropriate LTV ratio, using the cost of rehabilitation or construction instead of market value.

References: For information on the Section 220 (d)(3)(A)
- statutory loan limits, see HUD 4155.2 1.C.7.d, and
- LTV ratios, see HUD 4155.2 1.C.7.e.

4155.2 1.C.7.d Section 220(d)(3)(A) Statutory Loan Limits

The table below provides information on statutory loan limits for Section 220(d)(3)(A) mortgages.

Dwelling Type	Statutory Loan Limit
One- to four- family structure	The same as that for Section 203(b) found in HUD 4155.2 1.C.2.c.
Five- to eleven-family structure	The applicable Section 203(b) limit for a four-family dwelling, plus $9,165 for each additional family unit over four.

Continued on next page

7. Section 220 (d)(3)(A) Urban Renewal Mortgage Insurance, Continued

4155.2 1.C.7.e Section 220(d)(3)(A) LTV Ratios

The table below provides information on LTV ratios for Section 220(d)(3)(A) mortgages.

Loan Type	LTV Ratio
Principal residence	The same as that for Section 203(b), found in HUD 4155.2 1.C.2.d.
Refinancing	The maximum mortgage is the sum of the following, plus closing costs: • FHA's estimated cost of the rehabilitation, and • the *lesser* of either the – "as is" value, or – amount required to refinance the existing debt. ***Note***: Refinancing is permitted, *except* on proposed construction.

4155.2 1.C.7.f Section 220(d)(3)(A) Minimum Borrower Down Payment

The minimum borrower down payment on a Section 220(d)(3)(A) mortgage is the same as that for a Section 203(b) loan, found in HUD 4155.2 1.C.2.e.

4155.2 1.C.7.g Section 220(d)(3)(A) Mortgage Term

The mortgage term is the same as that for Section 203(b), found in HUD 4155.2 1.C.2.f.

4155.2 1.C.7.h Section 220(d)(3)(A) MIP Payment

MIP is paid annually on a Section 220 (d)(3)(A) loan.

Continued on next page

7. Section 220 (d)(3)(A) Urban Renewal Mortgage Insurance, Continued

4155.2 1.C.7.i Section 220(d)(3)(A) Refinancing Policy

Refinancing on a Section 220(d)(3)(A) loan is permitted in conjunction with rehabilitation.

8. Section 220(h) Insured Improvement Loans Urban Renewal

Introduction

This topic contains information on Section 220(h) Insured Improvement Loans Urban Renewal, including

- a description of the Section 220(h) program
- the property eligibility policy
- the maximum insurable mortgage
- the minimum borrower investment
- the mortgage term
- MIP payment, and
- the refinancing policy.

Change Date

May 10, 2009

4155.2 1.C.8.a Description of Section 220(h) Program

The Section 220(h) program insures lenders against losses on mortgage loans used for alterations, repairs, or improvements to existing one- to eleven-family dwellings in a redevelopment area.

Note: Cost certifications are required for five to eleven family dwellings.

References: For more information on Section 220(h) loans and Section 220 (d)(3)(A) urban renewal loans, see

- HUD 4155.2 1.C.7, and
- HUD 4245.1, *Section 220(d)(3)(A) and Section 220(h) Rehabilitation and Neighborhood Conservation Housing Insurance Program*.

4155.2 1.C.8.b Section 220(h) Property Eligibility Policy

The property involved in a Section 220(h) loan must have been completed not less than 10 years before the date of application, unless the loan will be used primarily for

- major structural improvements
- correcting defects not apparent at completion, or
- correcting defects caused by fire, flood, or other casualty.

Continued on next page

8. Section 220(h) Insured Improvement Loans Urban Renewal, Continued

4155.2 1.C.8.c Section 220(h) Maximum Insurable Mortgage

The maximum insurable mortgage amount on a Section 220(h) mortgage loan cannot exceed the difference between any existing debt on the property and the Section 220(d)(3)(A) statutory loan limit for that size structure. Within this limit, the maximum insurable mortgage is the *lesser* of

- FHA's estimate of the cost of improvements
- $40,000, or
- $12,000 per family unit ($17,400 in high-cost areas).

Reference: For information on the Section 220(d)(3)(A) statutory loan limits, see HUD 4155.2 1.C.7.d.

4155.2 1.C.8.d Section 220(h) Minimum Borrower Investment

There is no minimum borrower investment required on a Section 220(h) loan.

4155.2 1.C.8.e Section 220(h) Mortgage Term

The mortgage term on a Section 220(h) loan can be 10, 15, or 20 years.

4155.2 1.C.8.f Section 220(h) MIP Payment

MIP payments are made monthly on a Section 220(h) loan.

4155.2 1.C.8.g Section 220(h) Refinancing Policy

Refinancing is not available under the Section 220(h) program.

9. Section 223(e) Miscellaneous Housing Insurance

Introduction

This topic contains information on the Section 223(e) Miscellaneous Housing Insurance program, including

- a description of the Section 223(e) program
- the property eligibility policy
- the maximum insurable mortgage
- the minimum borrower investment
- the mortgage term
- MIP payment, and
- the refinancing policy.

Change Date

May 10, 2009

4155.2 1.C.9.a Description of Section 223(e) Program

The Section 223(e) Miscellaneous Housing Insurance program insures lenders against losses on mortgage loans used to finance the repair, rehabilitate, construct or purchase property in an older, declining urban area.

Reference: For more information on the Section 223(e) program, see
- HUD 4260.1, *Section 223(a), (e), and (d), Miscellaneous Type Home Mortgage Insurance*, and
- 24 CFR 203.43a.

4155.2 1.C.9.b Section 223(e) Property Eligibility Policy

Under the Section 223(e) program, the area must be reasonably viable, and the property cannot qualify for other single family programs.

Note: The appraiser must make the initial determination of properties subject to Section 223(e).

4155.2 1.C.9.c Section 223(e) Maximum Insurable Mortgage

The maximum insurable mortgage on a Section 223(e) loan is the same as that of the appropriate section under which the loan is insured.

Continued on next page

9. Section 223(e) Miscellaneous Housing Insurance, Continued

4155.2 1.C.9.d Section 223(e) Minimum Borrower Investment

The minimum borrower investment on a Section 223(e) loan is the same as that of the appropriate section under which the loan is insured.

4155.2 1.C.9.e Section 223(e) Mortgage Term

The mortgage term on a Section 223(e) loan is the same as that of the appropriate section under which the loan is insured.

4155.2 1.C.9.f Section 223(e) MIP Payment

The MIP is paid monthly on a Section 223(e) loan.

4155.2 1.C.9.g Section 223(e) Refinancing Policy

Refinancing is not available under the Section 223(e) program.

10. Section 233 Mortgage Insurance for Experimental Housing

Introduction

This topic contains information on Section 233 Mortgage Insurance for Experimental Housing, including

- a description of the Section 233 program
- the property eligibility policy
- the maximum insurable mortgage
- the minimum borrower investment
- the mortgage term
- MIP payment, and
- the refinancing policy.

Change Date

May 10, 2009

4155.2 1.C.10.a Description of the Section 233 Program

The Section 233 Mortgage Insurance for Experimental Housing program insures lenders against losses on mortgage loans used to build or rehabilitate one to four family dwellings (or one to eleven family dwellings meeting the requirements of Section 203(b), Section 220(d)(3)(A), or Section 220(h) using

- advanced technology in housing design, material or construction, or
- experimental property standards for neighborhood design.

Reference: For more information on Section 233, see HUD 4290.1, *Section 233, Mortgages Involving Experimental Housing for Home Mortgage Insurance*.

4155.2 1.C.10.b Section 233 Property Eligibility Policy

The property in a Section 233 mortgage must be approved for insurance before construction, repair, rehabilitation, or improvement can begin.

Continued on next page

10. Section 233 Mortgage Insurance for Experimental Housing, Continued

4155.2 1.C.10.c Section 233 Maximum Insurable Mortgage

The requirements of the applicable program, such as Section 203(b), 220(d)(3)(A), 220(h), or 234(c) must be met.

Note: The LTV ratios are applied to the estimated replacement cost, rather than value, for new construction or to the estimated rehabilitation cost, using conventional or advanced method, whichever is less.

4155.2 1.C.10.d Section 233 Minimum Borrower Investment

The minimum borrower investment on a Section 233 loan is the same as that of the appropriate section under which the loan is insured.

4155.2 1.C.10.e Section 233 Mortgage Term

The mortgage term on a Section 233 loan is the same as that of the appropriate section under which the loan is insured.

4155.2 1.C.10.f Section 233 MIP Payment

The MIP is paid monthly on a Section 233 mortgage loan.

4155.2 1.C.10.g Section 233 Refinancing Policy

Refinancing is not available under the Section 233 program.

11. Section 234(c) Mortgage Insurance for Condominium Units

Introduction

This topic contains information on Section 234(c) Mortgage Insurance for Condominium Units, including

- a description of the Section 234(c) program
- the project eligibility policy
- the borrower eligibility policy
- the maximum insurable mortgage
- the minimum borrower investment
- the mortgage term
- MIP payment, and
- the refinancing policy.

Change Date

May 10, 2009

4155.2 1.C.11.a Description of the Section 234(c) Program

The Section 234(c) Mortgage Insurance for Condominium Units program insures lenders against losses on mortgage loans used to purchase or refinance individual units in eligible condominium projects.

Reference: For more information on Section 234(c), see
- HUD 4150.1, *Valuation Analysis for Home Mortgage Insurance*, and
- 24 CFR 234.

4155.2 1.C.11.b Section 234(c) Project Eligibility Policy

Under Section 234(c), the condominium project must be on FHA's approved list of condominium projects. In specific circumstances, a loan on a single unit in an unapproved condominium project, known as a "spot loan," may qualify for mortgage insurance.

Note: The lender must certify that a project satisfies the eligibility criteria for a spot loan on a condominium project that has not been approved by FHA.

References: For more information on
- unapproved condominium projects and "spot loans," see ML 96-41, and
- FHA's list of approved condominium projects, see the HUD Web site.

Continued on next page

11. Section 234(c) Mortgage Insurance for Condominium Units, Continued

4155.2 1.C.11.c Section 234(c) Borrower Eligibility Policy

Borrower eligibility is that same as that for Section 203(b).

Reference: For information on Section 203(b) borrower eligibility, see HUD 4155.1 4.A.

4155.2 1.C.11.d Section 234(c) Maximum Insurable Mortgage

The maximum insurable mortgage on a Section 234(c) loan is the same as that for Section 203(b), found in HUD 4155.2 1.C.2.b.

4155.2 1.C.11.e Section 234(c) Minimum Borrower Investment

The minimum borrower investment on a Section 234(c) loan is the same as that for Section 203(b), found in HUD 4155.2 1.C.2.e.

4155.2 1.C.11.f Section 234(c) Mortgage Term

The mortgage term on a Section 234(c) loan is the same as that for Section 203(b), found in HUD 4155.2 1.C.2.f.

4155.2 1.C.11.g Section 234(c) MIP Payment

The MIP on a Section 234(c) loan is paid as UFMIP and monthly.

4155.2 1.C.11.h Section 234(c) Refinancing Policy

The refinancing policy on a Section 234(c) loan is that same as that for Section 203(b).

Reference: For information on Section 203(b) refinancing, see
- HUD 4155.1 3.A, and
- HUD 4155.1 3.B.

12. Section 238(c) Mortgage Insurance in Military Impacted Areas (MIAs)

Introduction

This topic contains information on Section 238(c) Mortgage Insurance in Military Impacted Areas (MIAs), including

- a description of the Section 238(c) program
- the area eligibility policy
- the application eligibility policy, and
- MIP payment.

Change Date

May 10, 2009

4155.2 1.C.12.a Description of the Section 238(c) Program

The Section 238(c) Mortgage Insurance in MIAs program insures lenders against losses on mortgage loans financing the construction, repair, rehabilitation, or purchase of property near any military installation in federally-impacted areas.

Reference: For more information on Section 238(c), see 24 CFR 203.43e.

4155.2 1.C.12.b Section 238(c) Area Eligibility Policy

Under the Section 238(c) program, for an area to be eligible for FHA-insured mortgage loans, the Secretary of Defense must have certified that

- there is a need for additional housing in the area, and
- there are no plans to close or relocate the military base during the five years following the certification.

4155.2 1.C.12.c Section 238(c) Application Eligibility

Application eligibility for a Section 238(c) loan is the same as that of the appropriate section under which the loan is insured.

4155.2 1.C.12.d Section 238(c) MIP Payment

The MIP on a Section 238(c) loan is paid monthly.

13. Section 245(a) Graduated Payment Mortgages (GPMs) and Growing Equity Mortgages (GEMs)

Introduction

This topic contains information on Section 245(a) GPMs and GEMs, including

- a description of GPMs
- eligible occupancy/property types on a GPM
- the maximum insurable mortgage on a GPM
- the GPM mortgage term
- MIP payment on a GPM
- authorized GPM plans
- the refinancing policy on GPMs
- a description of GEMs
- the maximum insurable mortgage on a GEM
- the minimum borrower investment on a GEM
- the GEM mortgage term
- GEM authorized plans
- MIP payment in a GEM, and
- the refinancing policy on a GEM.

Change Date

May 10, 2009

4155.2 1.C.13.a Description of a Section 245(a) GPM

The Section 245(a) Graduated Payment Mortgage (GPM) program insures lenders against loss on a mortgage loan that involves graduated mortgage payments. The program facilitates early home ownership for households that expect their income to rise. Initially, monthly payments are smaller than payments in a level-payment mortgage, and gradually increase over time.

Five plans are available, varying in duration and rate of payment increase. Higher down payments are required under some plans. Mortgages are insured under Section 203(b) or 234(c), pursuant to Section 245(a). The requirements of the applicable section must be met.

Reference: For more information on Section 245(a) GPMs, see
- HUD 4240.2, *The Graduated Payment Mortgage Program*, and
- 24 CFR 203.45.

Continued on next page

13. Section 245(a) Graduated Payment Mortgages (GPMs) and Growing Equity Mortgages (GEMs), Continued

4155.2 1.C.13.b Eligible Occupancy/ Property Types for Section 245(a) GPMs

The GPM program is limited to principal residences. Only one-family dwellings are eligible.

4155.2 1.C.13.c Section 245(a) GPM Maximum Insurable Mortgage

The principal amount of the GPM cannot exceed the *lesser* of

- the Section 203(b) statutory loan limit for the area
- the applicable 203(b) LTV ratio, or
- an amount which, when added to the deferred interest that will be added to the principal, does not exceed 97 percent of the value.

References: For information on the Section 203(b)

- statutory loan limits, see HUD 4155.2 1.C.2.c, and
- LTV ratios, see HUD 4155.2 1.C.2.d.

4155.2 1.C.13.d Section 245(a) GPM Mortgage Term

The GPM mortgage term is the same as that of Section 203(b), found in HUD 4155.2 1.C.2.f.

4155.2 1.C.13.e Section 245(a) GPM MIP Payment

The GPM MIP payment policy is the same as that of the appropriate section under which the loan is insured.

Continued on next page

13. Section 245(a) Graduated Payment Mortgages (GPMs) and Growing Equity Mortgages (GEMs), Continued

4155.2 1.C.13.f Authorized Section 245(a) GPM Plans

On GPM plans, monthly payments increase annually. Starting in the 6th year (for the 5 year plan) or the 11th year (for the 10 year plan), the monthly payments are level for the remaining term.

The table below lists the annual increases for the various plans.

Plan	Annual Increase
Plan I (Code A)	2.5 percent each year for 5 years
Plan II (Code B)	5 percent each year for 5 years
Plan III (Code C)	7.5 percent each year for 5 years
Plan IV (Code D)	2 percent each year for 10 years
Plan V (Code E)	3 percent each year for 10 years

4155.2 1.C.13.g Section 245(a) GPM Refinancing Policy

Section 245(a) *cannot* be used

- to draw equity out of property owned by the borrower, or
- when the present financing does not contain a mandatory prepayment clause.

Refinancing an existing mortgage is *only* permitted when the

- owner is required to pay-in-full a conventional mortgage used to purchase a home and the mortgage required a balloon payment within 3 to 5 years
- borrower has contracted to have a home built and, when construction is complete, the construction loan must be paid-in-full, or
- borrower purchased a home on a land contract or contract for deed.

Borrowers with a GPM *may* refinance at any time to a level-payment mortgage

- if the borrower is eligible for a streamline refinance, without an appraisal, or
- if the unpaid balance, including negative amortization, does not exceed the appropriate LTV ratio, based on a new appraisal.

Continued on next page

13. Section 245(a) Graduated Payment Mortgages (GPMs) and Growing Equity Mortgages (GEMs), Continued

4155.2 1.C.13.h Description of the Section 245(a) GEM Program

The Section 245(a) Growing Equity Mortgage (GEM) program insures lenders against loss on mortgage loans that involve increasing mortgage payments. There is no interest deferral or negative amortization with a GEM. Scheduled increases in monthly payments are applied to reduce the principal, resulting in a shorter term and lower total cost to the borrower.

Mortgages are insured under Section 203(b), 203(k), or 234(c), pursuant to Section 245(a). Requirements of the appropriate section under which the loan is insured must be met.

Reference: For more information on Section 245(a) GEMs, see 24 CFR 203.47.

4155.2 1.C.13.i 245(a) GEM Maximum Insurable Mortgage

The GEM maximum insurable mortgage is the same as that for Section 203(b), found in HUD 4155.2 1.C.2.b.

4155.2 1.C.13.j Section 245(a) GEM Minimum Borrower Investment

The GEM minimum borrower investment is the same as that of Section 203(b), found in HUD 4155.2 1.C.2.e.

4155.2 1.C.13.k Section 245(a) GEM Mortgage Term

The GEM mortgage term varies with each plan and the mortgage interest rate.

4155.2 1.C.13.l Section 245(a) GEM MIP Payment

The GEM MIP payment policy is the same as that of the appropriate section under which the loan is insured.

Continued on next page

13. Section 245(a) Graduated Payment Mortgages (GPMs) and Growing Equity Mortgages (GEMs), Continued

4155.2 1.C.13.m Authorized Section 245(a) GEM Plans and Payment Schedules

Each GEM plan has an annual increase in the monthly payments for the life of the loan. For the initial year, the monthly payments to principal and interest are based on the 30 year level payment amortization schedule. Thereafter, monthly payments increase by a fixed percentage, as outlined in the table below

Plan	Fixed Percentage Increase
Plan I (Code L)	1 percent each year
Plan II (Code M)	2 percent each year
Plan III (Code N)	3 percent each year
Plan IV (Code O)	4 percent each year
Plan V (Code P)	5 percent each year

4155.2 1.C.13.n Section 245(a) GEM Refinancing Policy

The GEM refinancing policy is the same as that of the appropriate section under which the loan is insured.

14. Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL)

Introduction

This topic contains information on Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL), including

- the property eligibility policy
- the borrower eligibility policy
- submitting a request for certificate of eligibility
- obtaining a copy of the homestead lease issued by DHHL
- summary of required loan documents unique to the Section 247 Program
- MIP payment
- the refinancing policy, and
- a reference for locating additional information on the Section 247 program.

Change Date

May 10, 2009

4155.2 1.C.14.a Section 247 Property Eligibility Policy

Section 247 covers one- to four-family dwellings in Hawaii that are under a homestead lease.

Continued on next page

14. Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL), Continued

4155.2 1.C.14.b Section 247 Borrower Eligibility Policy

Borrower eligibility under Section 247 is limited to owner-occupants who are certified as native Hawaiians.

The term "native Hawaiian," as used for mortgages to be insured under Section 247, is defined as "…*any descendant of not less than one-half part of the blood of the races inhabiting the Hawaiian islands before January 1, 1778, or, in the case of an individual who is awarded an interest in a lease of Hawaiian home lands through transfer or succession, such lower percentage as may be established under section 208 or section 209 of the Hawaiian Homes Commission Act of 1920 (42 Stat. 111), or under the corresponding provision of the Constitution of the State of Hawaii*…"

Additionally, Section 215 of the Department of Veteran Affairs (VA), HUD, and Independent Agencies Appropriations Act of 2002 also added subsection (e) to section 247, which provides that possession of a lease issued under section 207(a) of the Hawaiian Homes Commission Act of 1920 is sufficient to certify eligibility for a mortgage to be insured under section 247.

Note: Eligibility requires a certificate of eligibility issued by the Department of Hawaiian Home Lands.

4155.2 1.C.14.c Submitting a Request for Certificate of Eligibility on a Section 247 Mortgage

The Department of Hawaiian Home Lands (DHHL) has prepared a form, entitled "Request for Certification of Eligibility," on which DHHL will certify that the native Hawaiian possesses a homestead lease in good standing (not cancelled or in default.

The lender or processing agency must complete the DHHL form and submit it directly to DHHL for completion. DHHL will issue the completed form to the lender who must keep it in the case file.

Note: DHHL is solely responsible for determining eligibility for a "Certificate of Eligibility" and its subsequent issuance.

Continued on next page

14. Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL), Continued

4155.2 1.C.14.d Obtaining a Copy of the Homestead Lease Issued by DHHL for a Section 247 Mortgage

The lender must obtain a copy of the homestead lease issued by DHHL that identifies the proposed mortgagor as the lessee. This must be either

- an original homestead lease issued to the proposed mortgagor, or
- an original homestead lease, along with documentation showing succession or assignment of the homestead lease to the mortgagor and DHHL's consent to each and every transfer of the homestead lease.

Any amendments to the original homestead lease must be included as part of the documentation. All homestead lease documents must bear evidence of having been recorded at the DHHL.

4155.2 1.C.14.e Summary of Required Loan Documents Unique to the Section 247 Program

The loan documents unique to the Section 247 program that must be collected by the lender to establish the borrower's eligibility and included in the insurance binder submitted to FHA are as follows:

- DHHL Certification of native Hawaiian eligibility and status of the homestead lease used as security
- Homestead lease issued by DHHL and any amendments and assignments of the homestead lease, with DHHL's Consent to each amendment or assignment
- DHHL Mortgage Insurance Program Rider
- Department of Hawaiian Home Land Mortgage form, and
- DHHL Consent to Mortgage.

Continued on next page

14. Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands (HHL), Continued

4155.2 1.C.14.f Section 247 MIP Payment

The MIP payment on a Section 247 loan is a one-time MIP only.

4155.2 1.C.14.g Section 247 Refinancing Policy

Refinancing is available under the Section 247 program.

4155.2 1.C.14.h Locating Additional Information on Section 247

For more information on the Section 247 program, see 24 CFR 203.43i.

15. Section 248 Single Family Mortgage Insurance on Indian Lands (IL)

Introduction

This topic contains information on Section 248 Single Family Insurance on Indian Lands (IL), including

- the property eligibility policy
- the borrower eligibility policy
- the policy on eviction procedures
- MIP payment
- the refinancing policy, and
- a reference for locating additional information.

Change Date

May 10, 2009

4155.2 1.C.15.a Section 248 Eligibility Policy

Section 248 covers one to four family dwellings on Indian lands, which are trust lands or otherwise restricted lands.

4155.2 1.C.15.b 248 Borrower Eligibility Policy

Under Section 248, the borrower must be

- a member of an Indian tribe, or
- the tribe itself.

4155.2 1.C.15.c Section 248 Policy on Eviction Procedures

The Indian tribe must have adopted eviction procedures acceptable to FHA in order to qualify for a mortgage under Section 248.

4155.2 1.C.15.d 248 MIP Payment

The MIP payment on a Section 248 loan is paid monthly.

4155.2 1.C.15.e Section 248 Refinancing Policy

Refinancing is available under the Section 248 program.

Continued on next page

15. Section 248 Single Family Mortgage Insurance on Indian Lands (IL), Continued

4155.2 1.C.15.f Additional Information on Section 248

For more information on the Section 248 program, see 24 CFR 203.43h.

16. Section 251 Adjustable Rate Mortgages (ARMs)

Introduction

This topic contains information on Section 251 ARMs, including

- a description of the Section 251 program
- the property eligibility policy
- the limitation on the number of ARMs that FHA may insure
- the maximum insurable mortgage
- the minimum borrower investment
- the mortgage term
- interest rate adjustments
- required disclosures
- MIP payment, and
- the refinancing policy.

Change Date

May 10, 2009

4155.2 1.C.16.a Description of the Section 251 Program

The Section 251 ARMs program insures lenders against losses on variable rate mortgages. Mortgages are insured under Section 203(b), 203(h), 203(k) or 234(c), pursuant to Section 251.

Note: Requirements of the appropriate section must be met.

4155.2 1.C.16.b Section 251 Property Eligibility Policy

To be eligible under Section 251, properties must be one- to four-family dwellings or condominium units.

4155.2 1.C.16.c Limitation on the Number of ARMs That FHA May Insure Under Section 251

The number of ARMs that FHA may insure in a year is limited to 30 percent of the total number of mortgages insured under Title II during the preceding fiscal year.

Continued on next page

16. Section 251 Adjustable Rate Mortgages (ARMs), Continued

4155.2 1.C.16.d Section 251 Maximum Insurable Mortgage

The maximum insurable mortgage on a Section 251 mortgage loan is the same as that of the appropriate section under which the loan is insured.

4155.2 1.C.16.e Section 251 Minimum Borrower Investment Policy

The minimum borrower investment on a Section 251 mortgage loan is the same as that of the appropriate section under which the loan is insured.

4155.2 1.C.16.f Section 251 Mortgage Term

Under Section 251, *only* 30-year mortgages are permitted.

4155.2 1.C.16.g Section 251 Interest Rate Governing Index

The interest rate governing index is the weekly average yield on U.S. Treasury Securities, adjusted to a constant maturity of one year (published in the Federal Reserve Board's Statistical Release H.15(519)), which is available on the Federal Reserve System Web site at www.federalreserve.gov. The rate must be the one effective 30 calendar days before the Change Date.

Reference: For more information on the governing index, see HUD 4155.1 6.B.4.

4155.2 1.C.16.h Allowable Interest Rate Adjustments and Caps Under Section 251

The allowable interest rate adjustments and caps under the Section 251 program are as follows:

- the 1, 3, and 5 year ARMs allow
  - a one percentage point annual interest rate adjustment after the initial fixed interest rate period, and
  - a five percentage point interest rate cap over the life of the loan, and
- the 7 and 10 year ARMs allow
  - a two percentage point annual interest rate adjustment after the initial fixed interest rate period, and
  - a six percentage point interest rate cap over the life of the loan.

Continued on next page

16. Section 251 Adjustable Rate Mortgages (ARMs), Continued

4155.2 1.C.16.i Section 251 Interest Rate Adjustment Frequency

Interest rate adjustments occur on an annual basis. However, there are restrictions regarding the time frame during which the first adjustment must occur.

The table below indicates the time period within which the first adjustment must occur.

ARM Type	Required Time Frame for First Adjustment
1-year ARM	No sooner than 12 months nor later than 18 months
3-year ARM	No sooner than 36 months nor later than 42 months
5-year ARM	No sooner than 60 months nor later than 66 months
7-year ARM	No sooner than 84 months nor later than 90 months
10-year ARM	No sooner than 120 months nor later than 126 months

Note: The date of the first adjustment to the interest rate and the frequency of adjustments must be specified in the mortgage documents.

4155.2 1.C.16.j Section 251 Required Disclosures

The table below lists the various required disclosures for Section 251 mortgages.

Timing/Frequency of Disclosure	Requirement
At Application	Before signing the application, the borrower must receive and sign an ARM disclosure statement prescribed by the Federal Reserve Board.
Annually	The lender must send the borrower a notice at least 25 days before the change date (that is, 25 days before the new payment amount is due). The notice must include • the prior year's interest rate, monthly payments and governing index • the current value of the index, loan margin, new interest rate and new monthly payments, and • an explanation of how the new interest rate was calculated.

Continued on next page

16. Section 251 Adjustable Rate Mortgages (ARMs), Continued

4155.2 1.C.16.k Section 251 MIP Payment

The MIP payment policy on a Section 251 loan is the same as that of the appropriate section under which the loan is insured.

4155.2 1.C.16.l Section 251 Refinancing Policy

Owner-occupants may refinance any loan to an FHA ARM.

Reference: For more information on ARM underwriting details, see HUD 4155.1 6.B.3.

17. Section 255 Home Equity Conversion Mortgage (HECM)

Introduction

This topic contains information on the Section 255 Home Equity Conversion Mortgage (HECM), including

- a description of the Section 255 program
- the borrower and property eligibility policy
- plan payments and interest rates
- MIP payment, and
- the refinancing policy.

Change Date

October 26, 2009

4155.2 1.C.17.a Description of the Section 255 Program

The Section 255 HECM program insures lenders against loss on reverse mortgages, which convert equity into monthly income or lines of credit.

Reference: For complete Section 255 programmatic instructions, see HUD Handbook 4235.1, *Home Equity Conversion Mortgages*.

4155.2 1.C.17.b Section 255 Borrower and Property Eligibility Policy

Under Section 255

- borrowers must be 62 years of age or older, and must occupy the property as their primary residence (unless one of the borrower(s) is temporarily or permanently in a nursing home.
- one to four dwellings are eligible. However, the maximum claim amount can not exceed that of a one family dwelling.

4155.2 1.C.17.c Section 255 Plan Payments and Interest Rates

Plans include line of credit and/or monthly payments for a term (fixed period) or tenure (life). Interest rates may be fixed or adjustable.

Continued on next page

17. Section 255 Home Equity Conversion Mortgage (HECM), Continued

4155.2 1.C.17.d Section 255 MIP Payment

The MIP is paid as

- two percent of the maximum claim amount prior to insurance endorsement, and
- a monthly MIP based on the outstanding balance thereafter.

4155.2 1.C.17.e Section 255 Refinancing Policy

Refinancing is permitted on FHA/HECM loan to another FHA/HECM.

References: For additional information on Refinancing Existing Home Equity Conversion Mortgages, see

- ML 09-21**,** and
- HUD 4235.1, *Home Equity Conversion Mortgages*.

Section D. FHA Connection

Overview

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

Topic	Topic Name	See Page
1	Overview of the FHA Connection	1-D-2
2	Accessing the FHA Connection	1-D-6
3	Requests for an FHA Case Number	1-D-9
4	Canceling and Reinstating Case Numbers	1-D-10
5	Transferring Case Numbers Between Lenders	1-D-11

1. Overview of the FHA Connection

Introduction

This topic contains general information on the FHA Connection, including

- a description of FHA Connection
- the requirement that Direct Endorsement (DE) lenders use the FHA Connection
- FHA Connection functionality
- FHA Connection Help Screen information
- FHA Connection error messages
- the requirement to enter appraisal information into FHA Connection, and
- FHAC B2G.

Change Date

May 10, 2009

4155.2 1.D.1.a Description of FHA Connection

The FHA Connection 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 User Guide on the FHA Connection.

4155.2 1.D.1.b Requirement That DE Lenders Use FHA Connection

Direct Endorsement (DE) lenders must use FHA Connection to electronically

- process case number assignments, inspector assignments, appraisal information, and case cancellations (until the process is updated), and
- receive
  – insurance, and
  – loan data.

Note: Home Ownership Centers (HOCs) will *not* accept telephone or mail requests for case numbers, case status, or other actions that can be performed by the lender through the FHA Connection.

Continued on next page

1. Overview of the FHA Connection, Continued

4155.2 1.D.1.c FHA Connection Functionality

The FHA Connection 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 (until the process is updated)
  - Credit Alert Interactive Voice Response System (CAIVRS) authorizations
  - Reports, and
  - 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, and
  - automated underwriting systems
- change IMF addresses
- inquiry IMF addresses, and
- add Title I and Title II branches.

Continued on next page

1. Overview of the FHA Connection, Continued

4155.2 1.D.1.d Help Screen Information

A Help ? icon is located on the upper right hand corner of each FHA Connection screen to assist the user. The Help window describes the system

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

Note: The Help screens should be consulted prior to calling FHA for help with the data entry fields.

4155.2 1.D.1.e FHA Connection Error Messages

FHA Connection users receive immediate feedback, in the form of an electronic error message, on reasons for possible non-insurance. Lenders must correct any errors before cases are submitted for insurance.

Reference: For information on the types of error messages that must be corrected by the lender prior to submitting the case binder for insurance, see the *FHA Connection User Guide*.

4155.2 1.D.1.f Requirement to Enter Appraisal Information Into FHA Connection

For all cases, including Home Equity Conversion Mortgages (HECMs)

- the appraiser must send his/her appraisal and one copy to the lender (the appraiser should not mail the appraisal to the HOC), and
- the lender is required to enter the appraisal information into the FHA Connection 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 FHA Connection in order for the system to calculate the mortgage insurance premium (MIP).

Continued on next page

1. Overview of the FHA Connection, Continued

4155.2 1.D.1.g 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 rekeying data into the FHA Connection or functional equivalent.

B2G reduces the data entry burden for lenders and allows for 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
- the user ID requirement and types of IDs, and
- the process for obtaining user IDs.

Change Date

May 10, 2009

4155.2 1.D.2.a Where to Access FHA Connection

The FHA Connection is accessed on the Internet

- from the HUD Web site at www.hud.gov, or
- at https://entp.hud.gov/clas.

Also available at the HUD Web site are the

- *FHA User Guide*, with in-depth instructions on using the portal, and
- *Mortgagee Packet*, which describes the functions available to lenders.

4155.2 1.D.2.b User ID Requirement and Types of IDs

A user ID is necessary to sign onto the FHA Connection portal. The two types of user IDs that are issued are the

- Application Coordinator ID, and
- Standard ID.

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

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

Continued on next page

2. Accessing FHA Connection, Continued

4155.2 1.D.2.c Process for Obtaining User IDs

The table below describes the stages in the process for obtaining Application Coordinator and standard user IDs.

Stage	Description
1	The lender designates an Application Coordinator (or a maximum of two Coordinators).
2	The Application Coordinator obtains an ID by completing the FHA Application Coordinator Registration Form on the FHA Connections Web site with the following information: • 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	After successfully completing the form • the system generates a user ID which is mailed to the lender President/CEO, and • the President/CEO forwards the ID upon receipt to the Application Coordinator. ***Note***: If the President/CEO feels that the applicant should not receive this ID, he/she may contact the Help Line to have the ID terminated.
4	Once the Application Coordinator has his/her ID, other lender employees may request standard IDs for themselves by • completing the FHA Connection ID Registration form, indicating that they are requesting standard IDs, and • providing the same information as in Stage 2.

Continued on next page

2. Accessing FHA Connection, Continued

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

Stage	Description
5	After the employees successfully complete the registration • 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 FHA Connection Maintenance Screen to • grant company employees the proper authorizations and access to the different applications (such as Case Query, Appraiser Reassignment, Insurance Processing, and so on), and • remove IDs, when necessary, from the system.

3. Requests for an FHA Case Number

Change Date	May 10, 2009
4155.2 1.D.3.a Requesting an FHA Case Number	Lenders must request and obtain an FHA case number using the FHA Connection or its functional equivalent. The lender must also use the FHA Connection to transmit any additional FHA information on a particular property.

4. Canceling and Reinstating Case Numbers

Introduction

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

- notification of case number cancellation
- automatic case number cancellations by the system, and
- the reinstatement of case numbers.

Change Date

May 10, 2009

4155.2 1.D.4.a Notification of Case Number Cancellation

Lenders must fax a cancellation request, specifying the reason for cancellation, to the appropriate HOC to close outstanding files and cancel an 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.

4155.2 1.D.4.b Automatic Case Number Cancellations by the System

FHA's systems (FHAC/CHUMS) automatically cancel an uninsured case number 13 months after the last action taken on the loan/case.

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.

5. Transferring Case Numbers Between Lenders

Introduction

This topic contains information on transferring case numbers between lenders, including

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

Change Date

May 10, 2009

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

Transferring lenders are expected to cooperate in the transfer of case numbers. At a borrower's request, the lender must assign the case number to the new lender using the Case Transfer function in the FHA Connection. 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 a 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 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 Between Lenders, Continued

4155.2 1.D.5.b New Borrower Using an 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 FHA Connection 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 a lender may have provided 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 mortgage lender.

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

Chapter 2. DE Lender Application and Approval/Lender Insurance Program (LI) Eligibility & Approval

Table of Contents

Section A. Direct Endorsement (DE) Program Lender Application
Overview 2-A-1
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

Section B. Direct Endorsement (DE) Program Lender Approval
Overview 2-B-1
1. General Information on DE Lender Approval 2-B-2
2. Overview of the DE Lender Approval Process 2-B-4
3. DE Lender Pre-Closing Phase 2-B-6
4. DE Lender Unconditional Approval Phase 2-B-10
5. Use of the Principal/Authorized Agent Relationship 2-B-12
6. Requirements for Sponsors of Loan Correspondents 2-B-14

Section C. Lender Insurance (LI) Program Eligibility & Approval
Overview 2-C-1
1. General Information on the Lender Insurance (LI) Program 2-C-2
2. LI Program Eligibility & Approval Requirements 2-C-4

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 DE Program Lender Application and Approval Process

Introduction

This topic contains information on the DE Program lender application and approval process, including

- the privilege of participating in the DE Program
- the lender code of ethics
- requirement for HOC establishment of a lender applicant file, and
- an overview of the DE lender application and approval process.

Change Date

May 10, 2009

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.

An approved DE lender must conduct business in accordance with prudent mortgage lending practices, industry standards and all Federal and state laws applicable to mortgage banking.

4155.2 2.A.1.b Lender Code of Ethics

A DE mortgage lender *must* conduct its business operations in accordance with accepted sound mortgage lending practices, ethics and standards.

Continued on next page

1. Overview of the DE Program Lender Application and Approval Process, Continued

4155.2 2.A.1.c Requirement for HOC Establishment of a Lender Applicant File

Each Home Ownership Center (HOC) must establish a file for each mortgage 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 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	The mortgage lender applies for, and receives, basic DE approval from FHA's Office of Lender Activities and Program Compliance, located at FHA Headquarters. ***Reference***: For information on the requirements for obtaining basic FHA mortgage lender approval, see HUD 4060.1, *Mortgagee Approval Handbook*.
2	The mortgage lender applies for pre-closing DE approval by sending to the HOC where their corporate office is located • a letter requesting pre-closing DE approval, which includes the DE underwriter's name and CHUMS 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 DE Program Lender Application and Approval Process, Continued

DE Lender Application and Approval Process (continued)

Stage	Description
3	Upon receipt of the written request from the lender, the HOC • sends out an approval letter for pre-closing that includes the specific requirements that must be met for release to 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 on a conference-by-phone. ***Note***: The purpose of the conference is to • educate the lender about the submission and processing procedures used by the HOC for pre-closing test cases • provide the mortgage lender with contact information for the HOC • highlight underwriting requirements, and • allow the HOC to answer questions from the mortgage lender.
4	The mortgage lender submits DE pre-closing test cases. ***Reference***: For more information on the pre-closing "test case" review phase, see HUD 4155.2 2.B.3.
5	The lender is either granted unconditional approval or is terminated. ***Reference***: For more information on the unconditional approval phase, see HUD 4155.2 2.B.4.

2. Lender Eligibility Requirements

Introduction

This topic contains information on lender eligibility requirements, including

- basic eligibility requirements
- the need for quality control plans
- changes in DE approval eligibility
- the use of mortgage lender staff technicians, and
- exceptions to using staff technicians.

Change Date

May 10, 2009

4155.2 2.A.2.a Basic Eligibility Requirements

The table below outlines the requirements that mortgage lenders must meet to be eligible for participation in the 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	An eligible lender must either be a • supervised or non-supervised mortgage lender, or • governmental institution. ***Note***: A lender who is approved by FHA *only* as a loan correspondent is *not* eligible to be a DE lender, but may participate to the limited extent as described in HUD 4155.2 2.B.6.
Experience	An eligible DE mortgage lender must have • five years experience in origination of single family mortgages, or • a principal officer with a minimum of five years managerial experience in origination of single family mortgages.

Continued on next page

2. Lender Eligibility Requirements, Continued

4155.2 2.A.2.a Basic Eligibility Requirements (continued)

Requirement	Description
Staff Requirement	An eligible DE mortgage lender must have on staff a full time employee to serve as underwriter. ***References***: • 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	An eligible DE mortgage lender must have a developed and implemented Quality Control Plan. ***Reference***: For more information on quality control plans, see HUD 4155.2 2.A.2.b.
Net Worth	An eligible DE mortgage lender must have the net worth requirements prescribed in HUD 4060.1, *Mortgagee Approval Handbook*.

4155.2 2.A.2.b Quality Control Plan

In order to qualify for basic FHA approval, a mortgage 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 mortgage loan production function, and
- review and, when necessary, modify existing Quality Control Plans to effectively evaluate and monitor the overall quality of mortgage 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 Notification of Changes Affecting DE Approval Status

Mortgage lenders must notify FHA of changes that affect DE approval status.

Reference: For information on changes that affect DE lender approval status, see HUD 4155.2 2.B.1.c.

4155.2 2.A.2.d Use of Mortgage Lender Staff Appraiser and Inspector

The mortgage 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	Staff appraisers must be registered on FHA Roster of Appraisers to perform appraisals for FHA loans. ***Reference***: For information on the FHA Roster of Inspectors, see HUD 4150.2, *Valuation Analysis for Single Family One to Four Unit Dwellings*.
Inspector	Staff inspectors must be registered on FHA Roster of Inspectors to perform inspections for FHA loans. ***Reference***: For information on the FHA Roster of Inspectors, see HUD 4145.1, *Architectural Processing and Inspections for Home Mortgage Insurance*.

4155.2 2.A.2.e Use of Mortgage Lender Staff Underwriter

On the same mortgage, a DE underwriter may perform the mortgage credit analysis of the borrower in addition to the full underwriting analysis of the application for the mortgage loan.

When a DE underwriter is also an appraiser on the FHA roster, that underwriter may not perform an appraisal of the property that is to be security for the mortgage loan if that underwriter will perform the mortgage credit analysis of the borrower and/or the full underwriting analysis of the application.

Continued on next page

2. Lender Eligibility Requirements, Continued

4155.2 2.A.2.f Exceptions to Using Staff Technicians

A mortgage lender may originate loans, however, staff technicians may *not* be used, and a qualified independent fee appraiser and fee inspector from the FHA Inspector Roster *must* be used, for mortgage loans in which

- the borrower or seller is an employee of the mortgage lender, or
- the mortgage 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.

Note: The FHA Inspector Roster is a list of inspectors selected by FHA as eligible to determine if the construction quality of a one- to four-unit property is acceptable as security for an FHA-insured loan.

***References*:** For more information on loans involving a
- business relationship that may constitute a conflict of interest, see HUD 4155.2 3.B.2, and
- lender employee, see HUD 4155.2 3.B.3.

3. General Information on Underwriting and Underwriters

Introduction

This topic contains general information on underwriting and underwriters. It includes information on

- the importance of the role of the underwriter
- ensuring the absence of sanctions against an underwriter
- the requirement to register an underwriter in FHA Connection, and
- use of an Automated Underwriting System (AUS).

Change Date

May 10, 2009

4155.2 2.A.3.a Importance of the Role of the Underwriter

The underwriter's role and responsibilities are critical elements of the DE Program and FHA looks to the underwriter as the focal point of the program. The underwriter must use due diligence in obtaining, and verifying, information for a loan as if the lender was entirely dependent on the property as security to protect its investment.

In order to be eligible to participate in the DE Program, a mortgage lender must have a qualified underwriter on staff.

References:
- For information on the qualification criteria for, and responsibilities of, the underwriter, see HUD 4155.2 2.A.4.
- For information on lender eligibility criteria for the DE Lender Program, see HUD 4155.2 2.A.2.

4155.2 2.A.3.b Ensuring the Absence of Sanctions Against or Delinquent Federal Debt Owed by an Underwriter

The mortgage lender is responsible for ensuring that no sanctions exist against their underwriter. Likewise, the underwriter cannot have any delinquent Federal debt.

An underwriter may *not* be listed on the

- General Services Administration (GSA) List of Parties Excluded from Participation in Federal Government Procurement and Non Procurement Programs
- HUD's Limited Denial of Participation (LDP) List, or
- FHA Credit Alert Interactive Voice Response System (CAIVRS).

References: For more information on
- HUD's LDP List and the GSA List, see HUD 4155.1 4.A.7, and
- using CAIVRS to determine eligibility for federally-related credit, see HUD 4155.1 4.A.8.

Continued on next page

3. General Information on Underwriting and Underwriters, Continued

4155.2 2.A.3.c Requirement to Register Underwriter in FHA Connection

The mortgage lender must register each underwriter in FHA Connection.

By registering the underwriter in FHA Connection, the mortgage lender certifies that the underwriter meets the necessary qualifications, as described in HUD 4155.2 2.A.4.a.

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 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.

Reference: For more information on the TOTAL scorecard
- see HUD 4155.1 6.A.1, and
- Mortgagee Letters (ML) 2004-01; 04-44; 04-47; 05-15.

4. Underwriter Qualification Criteria and Responsibilities

Introduction

This topic contains information on

- underwriter qualification criteria, and
- underwriter responsibilities.

Change Date

May 10, 2009

4155.2 2.A.4.a Underwriter Qualifications

The table below describes the qualifications necessary for a mortgage lender staff underwriter to be approved by HUD/FHA.

Qualification	Description
General	The underwriter must be a full time employee of the mortgage lender and must be • 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 mortgage lender. ***Note***: The originating mortgage lender may *not* contract out the underwriter function.
Character	The underwriter must be a reliable and responsible professional who is • skilled in mortgage evaluation, and • able to demonstrate knowledge and experience regarding principles of mortgage underwriting. ***Reference***: For more information on underwriting responsibilities, see HUD 4155.2 2.A.4.b.

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	The underwriter must have a minimum of three years full-time recent experience (or equivalent experience) reviewing both credit applications and property appraisals. This experience should have been with • an institutional investor originating for their own portfolio or purchasing these types of mortgage loans, or • an originator selling these types of mortgage loans to investors. ***Notes***: • Experience related solely to either mortgage credit *or* appraisal review counts for one half of the total requirement. • Other experience may include quality control reviews for investors, or other similar experiences.

Continued on next page

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	The mortgagee is responsible for ensuring familiarity with • HUD 4905.1, *Requirements for Existing Housing, One-to-Four-Family Living Units* • HUD 4910.1, *Minimum Property Standards for Housing*, and • the underwriting procedures discussed in principal underwriting handbooks – HUD 4145.1, *Architectural Processing and Inspections for Home Mortgage Insurance* – HUD 4150.1, *Valuation Analysis for Home Mortgage Insurance*, and – HUD 4155.1, *Mortgage Credit Analysis for Mortgage Insurance on One-to-Four Family Properties* – HUD 4150.2, *Valuation Analysis for Single Family One- to Four-Unit Dwellings*, and – all applicable FHA Mortgage Letters that affect appraisals and credit underwriting.
Coordination and Compliance	The underwriter is responsible for • coordinating all phases of the underwriting of mortgage loan underwriting, and • ensuring compliance with all FHA instructions. ***Note***: Coordination of all phases of the underwriting process enables the underwriter to ensure that prudent underwriting procedures are followed.

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 mortgage lender would be entirely dependent on the property as security to protect its investment.
Appraisal Review and Credit Analysis	Underwriters must • review appraisal reports and compliance inspections, and • document all credit analyses performed and/or obtained by fee and staff personnel. Doing so ensures reasonable conclusions, sound reports and compliance with FHA requirements.
Loan Acceptability	The underwriter is responsible for making decisions, with due diligence and in a prudent manner, regarding the • acceptability of the – appraisal – inspections, and – buyers 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 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	The underwriter must • be attuned to the warning signs that may indicate any irregularities, and • be alert and able to detect fraud.
Certification Page 3, *Form HUD-92900-A*	By executing page 3 of Form HUD-92900-A, the underwriter certifies that he/she • has personally reviewed all application documents • finds compliance with the applicable requirements, and • is approving the loan for closing.
Closing Review	The underwriter (or the lender or lender's closing department) must • review all – 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 to the FHA that – the transaction and loan meet statutory and regulatory requirements of the FHA and National Housing Act, and – the loan has been closed in accordance with the terms and sales price as 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 DE Lender Approval	2-B-2
2	Overview of the DE Lender Approval Process	2-B-4
3	DE Lender Pre-Closing Phase	2-B-6
4	DE Lender Unconditional Approval Phase	2-B-10
5	Use of the Principal/Authorized Agent Relationship	2-B-12
6	Requirements for Sponsors of Loan Correspondents	2-B-14

1. General Information on DE Lender Approval

Introduction

The topic contains general information on DE lender approval. It includes information on

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

Change Date

May 10, 2009

4155.2 2.B.1.a Two Phases of the DE Lender Approval

The table below describes the two phases of lender approval in the DE lender Program

- the pre-closing "test case" review phase, and
- the unconditional approval phase.

DE Lender Approval Phase	Description
Pre closing "test case" review phase	Phase in which a lender who has pre closing approval submits "test case" mortgage loans, prior to closing, for FHA review. ***References***: For more information on the • 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	Phase in which the mortgage lender, who has successfully completed the pre closing review phase, receives unconditional approval from FHA and may close loans prior to submitting the loans to FHA for endorsement. ***Reference***: For more information on the unconditional approval phase, see HUD 4155.2 2.B.4.

Continued on next page

1. General Information on DE Lender Approval, Continued

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

A mortgage lender is eligible and approved to participate in the pre closing "test case" review phase upon satisfactory completion of the entrance conference with FHA.

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

A mortgage lender that loses all of its registered DE underwriters automatically loses DE approval and must set up an authorized agent relationship or cease doing FHA loans. Mortgage lenders are to notify FHA whenever there is a change that affects the DE approval status.

If a mortgage lender hires a registered DE underwriter who was previously employed with another mortgage lender, a 15 case pre closing review is required. FHA grants DE authority to the mortgage lender, *not* the underwriter.

2. Overview of the DE Lender Approval Process

Change Date May 10, 2009

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

The table below describes the stages of the DE lender approval process.

Stage	Description
1	The mortgage lender, who has applied for unconditional DE Lender approval, submits a minimum of 15 mortgage loan application "test cases" for review by the Home Ownership Center (HOC). ***Note***: The 15 mortgage loan application may vary in loan types. Since the loan applications are submitted prior to closing, the mortgage lender's underwriter cannot fully execute the Underwriter Certification. ***Reference***: For instructions on completing the Underwriter Certification during the pre-closing review phase, see HUD 4155.2 2.B.3.b.
2	The HOC performs a detailed review of each loan application. ***Reference***: For more information on the HOC loan application review requirements, see HUD 4155.2 2.B.3.c.
3	If the loan application submissions demonstrate • *acceptable* underwriting, – FHA issues a firm commitment to the mortgage lender to insure any of the eligible loan applications, and – the process continues with Stage 6, or • *unacceptable* underwriting, the process continues with Stage 4.
4	If the loan application submissions demonstrate *unacceptable* underwriting, the HOC • may request that more cases be submitted as part of the test period and, • may discontinue accepting test cases while the lender trains their underwriters on FHA requirements. ***Reference***: For more detail on how the HOC handles unacceptable underwriting, see HUD 4155.2 2.B.3.e.

Continued on next page

2. Overview of the DE Lender Approval Process, Continued

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

Stage	Description
5	Once the lender properly completes the required test cases, FHA grants unconditional approval.
6	After granting unconditional approval to a mortgage lender, the HOC performs a post-technical review (PETR) on the first 30 cases submitted by the lender to ensure continued acceptable underwriting. ***Reference***: For more information on PETRs performed by the HOC, see HUD 4155.2 9.B.1.

3. DE Lender Pre Closing Phase

Introduction

The topic contains information on pre closing phase. It includes information on

- loan application submission to the HOC
- completion and submission instructions for the Underwriter Certification
- the HOC application review requirements
- the 15 test case review requirement
- documentation requirements for test cases, and
- special underwriting requirements for particular mortgages.

Change Date

May 10, 2009

4155.2 2.B.3.a Loan Application Submission to the HOC

During the Pre-Closing Review Phase, the mortgage lender must submit complete loan applications to the HOC for review prior to closing.

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

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

Continued on next page

3. DE Lender Pre Closing Phase, Continued

4155.2 2.B.3.b Completion and Submission Instructions for the Underwriter Certification

Because the lender should submit the application package prior to closing the mortgage loan, the Underwriter/Mortgagee Certification (Addendum to the URLA, Form HUD-92900-A) cannot be fully executed. During the pre-closing review phase, the lender should

- complete all information on the Underwriter/Mortgagee Certification form with the exception of the closing date
- *not* sign the certification, since the underwriter cannot make the closing certifications contained on the Addendum to the URLA, Form HUD-92900-A. The form must be signed by lender, and page 3 of HUD 92900-A must be signed by DE underwriter
- *not* have the mortgage lender's representative sign the certification, and
- submit Page 4 of the Underwriter/Mortgagee Certification (Addendum to URLA) with the closing documents.

4155.2 2.B.3.c HOC Application Review Requirements

During the pre closing review phase, the HOC must review, in detail, each loan application received from the mortgage lender. This review includes

- 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 mortgage lender.

Note: Any deficiencies will be noted on the Underwriting Report, regardless of whether or not a firm commitment is issued, and should be reviewed by the DE underwriter/lender. The Underwriting Report is available through the FHAC.

Continued on next page

3. DE Lender Pre Closing Phase, Continued

4155.2 2.B.3.d 15 Test Case Review Requirement

In order to be granted unconditional approval as a DE lender (with the exception of HECM approval), the mortgage lender must submit 15 pre closing test cases for review by the HOC within 12 consecutive months for

- underwriting analysis
- appraisal review, and
- issuance of the firm commitment.

Unconditional approval may be granted if the lender has successfully underwritten and processed 15 test cases as evidenced by issuance of a firm commitment by the HOC.

4155.2 2.B.3.e When Unacceptable Underwriting Is Demonstrated on the 15 Test Cases

The HOC may request that more cases be submitted as part of the test period if the

- 15 test cases do *not* demonstrate acceptable underwriting, or
- first 15 cases do not represent expected underwriting situations (the HOC will count a combination of five streamline refinances or automated underwritten loans as part of the first 15 test cases).

Once the mortgage lender has submitted 30 cases and has not met the standards for unconditional release, the HOC may

- inform the lender that no 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, and
- discontinue accepting cases.

Continued on next page

3. DE Lender Pre Closing Phase, Continued

4155.2 2.B.3.f Test Case Review Documentation Requirements

An Underwriting Report must be completed on all test cases and maintained in the lender's file at the HOC.

References:

- For information on the requirements for the establishment of a lender file at the HOC, see HUD 4155.2 2.A.1.c.
- For information on Underwriting Report requirements, see the FHA Connection Underwriter Review Functions – Underwriter Activity.

4155.2 2.B.3.g Special Underwriting Requirements for HECMs

For Section 255, Home Equity Conversion Mortgages (HECMs), a separate request for unconditional DE authority is required. In addition

- an entrance conference is required which may be held separate or in conjunction with the other entrance conference, and
- there must be a pre-closing test case review on a minimum of five test cases.

Reference: For more information on the Section 255 program, see HUD 4155.2 1.C.17.

4. DE Lender Unconditional Approval Phase

Introduction

This topic contains information on the DE lender unconditional approval phase. It includes information on

- granting unconditional approval
- post endorsement technical reviews (PETRs)
- requirements for the addition of a new underwriter, and
- unconditional approval accepted at other HOCs.

Change Date

May 10, 2009

4155.2 2.B.4.a Granting Unconditional Approval

Upon satisfactory completion of the pre closing test case review phase, the mortgage lender receives a letter of unconditional approval.

4155.2 2.B.4.b Requirement to Perform PETRs

After the mortgage lender properly completes the pre closing test case review phase and is granted unconditional approval, the HOC performs a post-endorsement technical review (PETR) of

- the first thirty cases submitted by the lender, and
- a percentage of the lender's cases after the first thirty.

Reference: For more information on PETRs, see HUD 4155.2 9.B.1 and HUD 4155.2 9.C.

Continued on next page

4. DE Lender Unconditional Approval Phase, Continued

4155.2 2.B.4.c Requirements for the Addition of a New Underwriter

A new underwriter joining the staff of an unconditionally approved DE mortgage lender does *not* need to go through any pre-closing review phase.

In such cases, the mortgage lender is responsible for ensuring that the new underwriter

- meets basic eligibility requirements
- is registered for their company in FHA Connection, and
- does acceptable work.

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
- the FHA Connection, see HUD 4155.2 1.D.

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

Once a mortgage lender has successfully completed the pre-closing review phase and received unconditional approval in one HOC, subsequent HOCs will accept that approval. HOCs rely on the experience of other HOCs in determining lender eligibility.

HOCs may call to verify that a mortgage lender is performing acceptably with at least one HOC that has granted unconditional approval.

5. Use of the Principal/Authorized Agent Relationship

Introduction

This topic contains information on the use of the principal/authorized agent relationship, including

- the designation of a lender as an authorized agent
- the roles in the principal/authorized agent relationship
- an agent request for approval by the local HOC
- who may perform an appraisal, and
- who may close and fund.

Change Date

May 10, 2009

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

A DE approved mortgage lender may designate another DE approved mortgage lender as its authorized agent for underwriting and submitting insurance applications on its behalf to FHA.

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

In the principal/authorized agent relationship, the DE approved mortgage lender who originates the loan is the principal, and the DE approved mortgage lender who underwrites the loan is the authorized agent.

Note: Loan correspondents may *not* utilize authorized agents when they are not DE approved lenders.

Reference: For more information on the principal/authorized agent relationship, see HUD 4060.1, *Mortgagee Approval Handbook*.

Continued on next page

5. Use of the Principal/Authorized Agent Relationship, Continued

4155.2 2.B.5.c Agent Request for Approval by the Local HOC

Both the principal and authorized agent must be approved to originate loans in the lending area where the properties are located.

If the authorized agent does *not* have DE approval from the local HOC, the authorized agent must submit a written request to the HOC requesting DE approval.

References: For information on
- requesting DE lender approval, see HUD 4155.2 2.A.1, and
- lender eligibility requirements, see HUD 4155.2 2.A.2.

4155.2 2.B.5.d Who May Perform an Appraisal

In a principal/authorized agent relationship, a staff appraiser employed by either the principal or its authorized agent may perform the appraisal.

4155.2 2.B.5.e Who May Close and Fund

The loan must be closed and funded by the principal/originator.

6. Requirements for Sponsors of Loan Correspondents

Introduction

This topic contains information on the requirements for sponsors of loan correspondents, including

- the general policy on loan correspondents
- who may perform underwriting and appraisals
- the policy on DE approval through a HOC other than the local field office, and
- the policy on loan correspondents closing a loan.

Change Date

May 10, 2009

4155.2 2.B.6.a General Loan Correspondent Policy

A loan correspondent must be sponsored by an approved DE mortgage lender within the HOC jurisdiction where the sponsor is approved to originate loans.

4155.2 2.B.6.b Who May Perform the Underwriting and Appraisal

The DE approved sponsor must perform the underwriting of the property and the borrower. An FHA-approved staff appraiser employed by the sponsor may perform the appraisal, unless an employee of the mortgage lender is the borrower or seller.

4155.2 2.B.6.c Policy on DE Approval Through a HOC Other Than the Local Field Office

If the sponsor's DE approval is through a HOC other than the local HOC, the mortgage lender must

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

4155.2 2.B.6.d Policy on Loan Correspondents Closing a Loan

A loan correspondent may close a loan, but the sponsor needs to fund the loan.

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

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
- requirements for PETRs on loans from LI Program lenders, and
- mortgage loan eligibility for the LI Program.

Change Date

May 10, 2009

4155.2 2.C.1.a Basics of the LI Program

The LI Program was offered beginning on January 1, 2006. The 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, Business to Government (B2G) or other electronic means. FHAC

- performs an automated verification process to check the data for accuracy and completeness, and
- for those loan level data submissions that clear all of the risk-mitigation edits that FHA has in place
  - the system generates a mortgage insurance certificate electronically to serve as evidence that the mortgage has been insured, and
  - the lender is not required to provide a case binder in advance of endorsement.

Note: If a loan does not clear the FHA edits, a lender may need to submit a case binder to FHA. If the LI lender has been approved for electronic submission, the lender may submit an electronic case binder (eCB) as opposed to a hard copy case binder.

Reference: 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 PETR, see HUD 4155.2 9.B.1.d.

Continued on next page

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 FHA endorsement of the mortgage for insurance. The need to submit case binders to satisfy Notices of Return (NORs) is also dramatically reduced.

In those instances in which FHA *does* require submission of a case binder, for lenders choosing to submit case binders electronically, all mailing costs associated with the mortgage insurance endorsement process are eliminated.

Reference: For more information in LI endorsement processing, see HUD 4155.2 8.C.3.

4155.2 2.C.1.c Requirement for PETRs on Loans From LI Program Participants

Under the LI Program, despite the fact that lenders do not need to have an FHA pre-endorsement review of loans, FHA *does* select 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 Lender Insurance

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 LI Program, including

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

Change Date

May 10, 2009

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

In order to be eligible to participate in the LI Program, a lender must

- be an unconditionally approved 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 FHA-approved loan correspondents, the default and claim rate is the aggregate of both retail originations and mortgages underwritten for their loan correspondents.

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

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

The acceptable claim/default rate is defined as at or below 150 percent 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

DE lenders 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, 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 approval criteria for LI participation, the lender's approval 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 when

- the lender fails to adopt and employ prudent review techniques
- DE approval for the lender or any branch is terminated (termination of DE approval also results in LI termination for the lender or any branch), and/or
- the lender 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.

Chapter 3. Mortgage Loan Requirements and Eligibility Criteria

Table of Contents

Section A. Loan Application and Finance-Related Policies
Overview 3-A-1
1. Maximum Loan Limits, Mortgage Amounts and Mortgage Term 3-A-2
2. Policies on Interest Rates and Related Fees 3-A-6
3. Mortgage Note and Security Instrument Requirements 3-A-7
4. Policies on Prepayment 3-A-8
5. Policy on Assumptions 3-A-9

Section B. Loans Involving HUD Employees, Relationships Posing a Possible Conflict of Interest, and Lender Employees
Overview 3-B-1
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

Section C. Mortgage Loan Application Documentation Requirements
Overview 3-C-1
1. General Documentation Standards 3-C-2
2. Mortgage Loan Application Documentation Requirements 3-C-4
3. Mortgage Loan Application Document Processing 3-C-7

Section A. Loan Application and Finance-Related Policies Overview

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

Topic	Topic Name	See Page
1	Maximum Loan Limits, Mortgage Amounts and Mortgage Term	3-A-2
2	Policies on Interest Rates and Related Fees	3-A-6
3	Mortgage Note and Security Instrument Requirements	3-A-7
4	Policies on Prepayment	3-A-8
5	Policy on Assumptions	3-A-9

1. Maximum Loan Limits, Mortgage Amounts and Mortgage Term

Introduction

This topic contains information on maximum loan limits, mortgage amounts and mortgage terms, including

- the National Housing Act provisions on loan limits
- basic nationwide loan limits
- loan limits for high cost areas
- appeals for higher loan limits
- additional information on loan limit appeals
- maximum LTV ratios, and
- maximum mortgage terms.

Change Date

May 10, 2009

4155.2 3.A.1.a National Housing Act Provisions on Loan Limits

The statutory provisions of the National Housing Act establish the maximum loan limits and mortgage amounts for all FHA mortgage insurance programs. Maximum loan limits vary depending upon the

- specific program under which a loan is insured
- number of units with the dwelling (one to four units), and
- geographic location of the property.

Under most programs, the maximum insurable mortgage is the *lesser* of

- the statutory loan limit for the area, or
- a percentage of the *lesser* of the
  – appraised value, or
  – sales price.

Reference: For more information on calculating maximum mortgage amounts and maximum loan to value (LTV) ratios, see HUD 4155.1 2.A.

Continued on next page

1. Maximum Loan Limits, Mortgage Amounts and Mortgage Term, Continued

4155.2 3.A.1.b Basic Nationwide Loan Limits

FHA's single family mortgage limits are set by county and are tied to increases in the loan limits established by the Federal Home Loan Mortgage Corporation (Freddie Mac) in accordance with Section 203(b)(2)(A) of the National Housing Act, as amended by 12 United States Code (U.S.C.) 1709.

Under Section 203(b), the nationwide basic mortgage limits ("the floor") may not be less than 65 percent of the dollar amount limitation of Freddie Mac.

References: For more information on

- the specific loan limits for each county in the United States, Guam, and the Virgin Islands, see HUD's Web site at www.hud.gov, and
- calculating maximum mortgage amounts and maximum LTV ratios, see HUD 4155.1 2.A.

4155.2 3.A.1.c Loan Limits for High Cost Areas

Section 203(b)(2)(A) of the National Housing Act states that mortgage limits in high cost areas ("the ceiling") may increase to 150 percent of the dollar amount limitation as described under Section 305(a)(2) of Freddie Mac for a residence of applicable size.

In these high cost areas, the loan limit is equal to the *lesser* of

- 115 percent of the area median house price, or
- the statutory ceiling for the high cost areas.

Section 214 of the National Housing Act provides that mortgage limits for Alaska, Hawaii, Guam, and the Virgin Islands may be adjusted up to 150 percent of the new FHA ceilings.

Continued on next page

1. Maximum Loan Limits, Mortgage Amounts and Mortgage Term, Continued

4155.2 3.A.1.d Appeals for Higher Loan Limits

Anyone may appeal for a higher loan limit for a

- county within a Metropolitan Statistical Area (MSA) or
- non-metro county not part of an MSA.

It should be noted, however, that legislation enacted in 1998 provided that the county with the highest median house price in an MSA determines the mortgage limits of all counties within that MSA. For this reason, any request for an increase must be accompanied by sufficient housing sales price data to justify higher limits. The sales price data submitted to support an increase must be a listing of all one-family properties sold in the area for a period of time that will vary depending on the volume of sales.

Note: FHA will *not* consider an appeal for an area smaller than a county.

4155.2 3.A.1.e Additional Information on Loan Limit Appeals

Contact the local Home Ownership Center (HOC) for additional information on appeals of FHA mortgage limits.

4155.2 3.A.1.f Maximum LTV Ratios

A mortgage that is to be insured by FHA cannot exceed a certain percentage of property value. The maximum LTV ratios vary depending upon the

- type of borrower
- type of transaction (purchase or refinance), and
- stage of construction.

References: For more information on
- maximum LTV ratios for purchase transactions, see HUD 4155.1 2.A
- transactions that affect maximum mortgage calculations, see HUD 4155.1 2.B, and
- maximum mortgage amounts on refinance transactions, see HUD 4155.1 3.B.

Continued on next page

1. Maximum Loan Limits, Mortgage Amounts and Mortgage Term, Continued

4155.2 3.A.1.g Maximum Mortgage Terms

The maximum mortgage term may not exceed 30 years from the date that amortization begins. In the case of adjustable rate mortgages (ARMs), the term must be for 30 years. FHA does not require that loan terms be in five year multiples.

Note: Some programs require a shorter term, including certain streamline refinances made without appraisals.

Reference: For more information on streamline refinances without appraisals, see HUD 4155.1 3.C.2.

2. Policies on Interest Rates and Related Fees

Introduction

This topic contains information on FHA policies regarding mortgage loan interest rates and related fees, including

- establishment of the interest rate
- fees for lock-ins or rate locks
- the required borrower disclosure, and
- circumstances requiring borrower requalification.

Change Date

May 10, 2009

4155.2 3.A.2.a Establishment of the Interest Rate

Under all currently active FHA single family mortgage insurance programs, the interest rate and any discount points are negotiated between the borrower and the lender.

4155.2 3.A.2.b Fees for Lock Ins or Rate Locks

Lenders are permitted to charge a commitment fee to guarantee, in writing, the interest rate and discount points for a specific period of time or to limit the extent to which they may change.

The minimum time for lock ins or rate locks is 15 days. The loan may close in less than 15 days at the convenience of the borrower, and the lock in fees may still be earned. Lenders *must* honor all such commitments.

4155.2 3.A.2.c Required Borrower Disclosure

The lender must provide the borrower with HUD-92900-B, *HUD Interest Rate Disclosure Statement* to explain that the loan terms are negotiable.

4155.2 3.A.2.d Circumstances Requiring Borrower Requalification

A borrower must be requalified if there is any increase in either

- discount points, or
- the interest rate.

3. Mortgage Note and Security Instrument Requirements

Change Date May 10, 2009

4155.2 3.A.3.a FHA Requirement for Mortgage 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 mortgage instrument, or
- the use of FHA-approved uniform language, for cases in which FHA does *not* prescribe the complete mortgage instrument.

Reference: For more information on the mortgage note and security instrument, see HUD 4155.2 6.B.

4. Policies on Prepayment

Introduction

This topic contains information on FHA policies on prepayment, including

- the FHA prepayment policy, and
- mortgages on which advance notice of prepayment is required.

Change Date

May 10, 2009

4155.2 3.A.4.a FHA Prepayment Policy

For FHA-insured mortgages, neither a prepayment penalty nor a due on sale clause is permitted, *except* for cases in which FHA approves a due-on-sale clause in connection with

- tax exempt bond financing by State or local governments, or
- the implementation of statutory restrictions on assumptions.

A borrower may prepay a mortgage, in whole or in part, on the first of any month. If the payment is received *after* the first of the month, the lender may, at its discretion, collect the remainder of the month's interest.

Note: Mortgage insurance may be terminated via payment in full, conveyance for insurance benefits, and voluntary termination upon agreement between the borrower and lender.

4155.2 3.A.4.b Mortgages on Which Advance Notice of Prepayment Is Required

If a mortgage was insured

- *before* August 2, 1985,
  - the borrower must provide 30 days written notice to the lender or be charged one extra month's interest, and
  - the payment must also reach the lender by the first of the month, or
- *on or after* August 2, 1985,
  - if the payment is received after the first of the month, the lender may, at its option, collect the remainder of the month's interest, and
  - advance notice is not required.

5. Policy on Assumptions

Change Date	May 10, 2009
4155.2 3.A.5.a FHA Policy on Assumptions	FHA-insured Mortgage originated before December 1, 1986 generally contain no restrictions on assumability. For mortgages originated *after* that date, the loan *may* be assumable under certain conditions. ***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

- who processes HUD/FHA employee loan applications, and
- DE processing ineligibility.

Change Date

May 10, 2009

4155.2 3.B.1.a Who Processes HUD Employee Applications

The jurisdictional HOC is responsible for processing HUD/FHA employee loan applications.

4155.2 3.B.1.b DE Processing Ineligibility

Loan applications from HUD/FHA employees are *not* eligible for DE processing. For loan applications involving HUD/FHA employees, the lender must

- process the loan application, and
- submit the complete underwritten loan package to the attention of the Processing and Underwriting Division Director for commitment processing and approval.

The HOC reviews the loan package, and approves or rejects the loan for the HUD/FHA employee.

Exception: For streamline refinances *only*, any HUD/FHA employee or member of their household (for example, spouse, parent, or child) may have their streamline refinance processed 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 May 10, 2009

4155.2 3.B.2.a Policy on DE Program Participation by Entities With a Possible Conflict of Interest

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

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

Mortgage lender personnel may perform the mortgage credit analysis.

3. Loans Involving Lender Employees

Change Date May 10, 2009

4155.2 3.B.3.a Requirements for Mortgage Loans Involving Lender Employees

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

- the employee *cannot* be involved in processing the application
- an independent, FHA appraiser, who is not affiliated with the mortgagee, 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 mortgage lender's main office, and
- the case must be clearly annotated with "Employment" on the HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*, and on the front of the case binder.

Section C. Mortgage Loan Application Documentation Requirements

Overview

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

Topic	Topic Name	See Page
1	General Documentation Standards	3-C-2
2	Mortgage Loan Application Documentation Requirements	3-C-4
3	Mortgage Loan Application Document Processing	3-C-7

1. General Documentation Standards

Introduction

This topic contains information on the general documentation standards for mortgage loans, including

- signing mortgage loan application forms
- verification form authorization
- establishing a borrower's financial position
- using self-adhesive labels, and
- signing in blank.

Change Date

May 10, 2009

4155.2 3.C.1.a Signing Mortgage Loan Application Forms

Mortgage loan application forms must be signed and dated by all borrowers

- applying for the mortgage, and
- assuming responsibility for the mortgage debt.

4155.2 3.C.1.b Verification Form Authorization

Instead of requiring borrowers to sign multiple verification forms, the lender may ask the borrower to sign a general authorization form giving the lender blanket authority to verify information needed to process the mortgage loan application, including

- past and present employment records
- bank accounts, and/or other investment accounts.

If the lender uses a general authorization form, he/she must attach a copy of the authorization to each verification form sent out.

Continued on next page

1. General Documentation Standards, Continued

4155.2 3.C.1.c Documentation of a Borrower's Financial Position

To get a complete picture of a borrower's financial position, the lender *must* ask the borrower, and document borrower responses, to questions regarding the

- source of funds for the transaction, and
- intended use of the property.

Note: The lender is also responsible for verifying, and documenting verification of, the borrower's identity.

4155.2 3.C.1.d Using Self Adhesive Labels

Lenders may use self adhesive signature labels for laser printed verifications. Each label must

- completely and clearly indicate its use, and
- contain the Privacy Act notification.

4155.2 3.C.1.e Signing in Blank

Lenders may not ask borrowers to sign documents in blank, or on blank sheets of paper.

2. Mortgage Loan Application Documentation Requirements

Introduction

This topic contains information on the requirements for mortgage loan application documentation, including

- who completes the loan application
- loan application name requirements
- contents of the loan application package
- age of the loan application documentation
- verifying the age of the loan application documentation
- VOD and VOE authenticity

Change Date

May 10, 2009

4155.2 3.C.2.a Who Completes the Mortgage Loan Application

All borrowers must complete the mortgage loan application and all additional FHA documents.

4155.2 3.C.2.b Mortgage Loan Application Name Requirements

Except for nonprofit corporations that provide assistance to low and moderate income families, all mortgage loan applications *must* be in one or more individual's name.

Mortgage loan applications from a corporation, partnership, sole proprietorship, or trust *must*

- *also* provide the name of one or more individuals, and
- be analyzed on the basis of the individual *and* the organization.

Reference: For more information on the eligibility of nonprofit organizations to apply for an FHA-insured mortgage, see HUD 4155.1 4.A.6.

Continued on next page

2. Mortgage Loan Application Documentation Requirements, Continued

4155.2 3.C.2.c Contents of the Mortgage Loan Application Package

The mortgage loan application package must contain all documentation that supports the lender's decision to approve the mortgage loan.

When standard documentation does not provide enough information to support the approval decision, the lender must provide additional, explanatory statements that are consistent with information in the application. The explanatory statements must clarify or supplement the documentation submitted by the borrower.

4155.2 3.C.2.d Age of the Mortgage Loan Application Documentation

At the time that the loan closes, all documents in the mortgage loan application may be up to 120 days old, or 180 days old for new construction, unless

- a different time frame is specified in this HUD handbook or in other applicable HUD instructions, or
- the nature of the documents is such that validity for underwriting purposes is not affected by the prescribed time frame, such as with
  - divorce decrees, or
  - tax returns.

If the age of documents exceeds the above limits, written verification of the documentation must be obtained as described in HUD 4155.2 3.C.2.e.

Continued on next page

2. Mortgage Loan Application Documentation Requirements, Continued

4155.2 3.C.2.e Written Verification of the Age of Mortgage Loan Application Documents

Updated, written verification of the mortgage loan application documentation must be obtained when the documents exceed the time frames described in HUD 4155.2 3.C.2.d.

Verification forms, or documents used as an alternate to written verification forms, must pass directly between the lender and provider without being handled or transmitted by any third party or using any third party's equipment.

No document used to process or underwrite a loan may be handled or transmitted by or through an interested third party to the transaction.

4155.2 3.C.2.f VOD/VOE Authenticity

The Verification of Deposit (VOD) and Verification of Employment (VOE) may be faxed documents or printed pages from the Internet if they clearly identify the source, such as containing the names of the borrower's employer or depository/investment firm.

The lender *must* ascertain the authenticity of the documents by examining the information included in the document's header and footer. A printed Web page must show the

- uniform resource locator (URL) address, and
- the date and time the document was printed.

4155.2 3.C.2.g Requirement to Provide HUD-92564-CN to Borrower

Lenders are required to provide form HUD-92564-CN, "*For Your Protection: Get a Home Inspection*" to borrowers at first contact, be it pre-qualification, pre-approval, or initial application. In any case, the lender must provide the form to the borrower *no later than* initial loan application.

A copy of the form in a PDF file format is available online at http://www.hudclips.org

3. Mortgage Loan Application Document Processing

Introduction

This topic contains information on document processing of the mortgage loan application, including

- signing and dating mortgage insurance applications
- using a signed initial URLA and Addendum
- who signs the Addendum, and
- use of a power of attorney (POA) for loan application execution.

Change Date

May 10, 2009

4155.2 3.C.3.a Signing and Dating Mortgage Insurance Applications

The application for mortgage insurance must be signed and dated by the borrower(s) before underwriting the loan, due to

- various disclosure requirements, and
- the belief that borrowers are best served when required certifications are divulged as early as possible in the loan application process.

4155.2 3.C.3.b Using a Signed Initial URLA and Addendum

FHA recognizes the burden on lenders and borrowers of having to resign various documents after the loan application is taken. To alleviate this burden, lenders are permitted to process and underwrite the loan after the borrower completes an *initial* Uniform Residential Loan Application (URLA), and *initial* Addendum.

If the lender asks the borrower to complete an initial Addendum based on the preliminary information obtained when he/she applies for the loan, the final loan application or Addendum does *not* need to be signed before underwriting.

The underwriter must condition the loan approval for the final URLA and Addendum to be signed and dated by the borrower(s) anytime before or at loan closing.

Continued on next page

3. Mortgage Loan Application Document Processing, Continued

4155.2 3.C.3.c Who Signs the Addendum

The table below describes the signatures required on different pages of the Addendum.

Page …	Must be signed by …
one of the *initial* Addendum	the interviewer.
one of the *final* Addendum	anyone authorized to bind the company in its business dealing with HUD.
two of the *initial* Addendum	the borrower(s) in two places • Part IV the borrower(s) is providing consent for the SSA to verify their own SSN, and • Part V the borrower(s) is acknowledging the certifications.
three of the *final* Addendum	must be signed and dated the DE underwriter, or the mortgagee representative's for "accept" or "approved" for manually or AUS approved loans, approval of loan term with the approval date and expiration date.
four of the Addendum	the borrower at loan closing.

Reference: For more information on requirements regarding an initial and/or final URLA and Addendum, see HUD 4155.2 3.C.3.b.

3. Mortgage Loan Application Document Processing, Continued

4155.2 3.C.3.d Use of a Power of Attorney for Mortgage Loan Application Execution

The *initial* mortgage loan application *may not* be executed by using a power of attorney, *except* in circumstances as indicated in the table below.

Note: Either the *initial* application or the final, if one is used, must contain the signatures of all borrowers.

Reference: For information on the use of a power of attorney for closing documents, see HUD 4155.2 6.A.1.f.

Permissible Use of a Power of Attorney for a Loan Application	Policy Description
Military personnel	A power of attorney may be used for military personnel on overseas duty or on an unaccompanied tour. The lender should obtain the service person's signature on the application by mail or fax machine.
Incapacitated borrowers	A power of attorney may be used for incapacitated borrowers who are unable to sign the mortgage application. The lender must provide evidence that the signer has authority to purchase the property and to obligate the borrower. Acceptable evidence includes a durable power of attorney specifically designed to survive incapacity and avoid the need to court proceedings. The incapacitated individual must occupy the property to be insured, except on eligible investment property. ***Reference***: For information on eligible investment properties, see HUD 4155.1 4.B.4.

Chapter 4. Property Valuation and Appraisals

Table of Contents

Chapter 4. Property Valuation and Appraisals

1. General Information on Property Valuation and Eligibility 4-1
2. General Acceptability Standards and Property Eligibility 4-6
3. Requirements for Properties in Special Flood Hazard Areas (SFHA) 4-11
4. Appraisal Requirements 4-15
5. Appraisal Repair Requirements 4-19
6. Satisfying Repair Requirements 4-22
7. Prohibition on Property Flipping 4-25
8. Seller Concessions and Verification of Sales 4-29
9. Reporting Requirements for Appraisals in Declining Markets 4-31
10. Requirements for Second Appraisals on High Balance Loans For Properties in Declining Areas 4-34

Chapter 4. Property Valuation and Appraisals

1. General Information on Property Valuation and Eligibility

Introduction

This topic contains general information on property valuation, including

- the purpose of property valuation
- verification of compliance with property requirements
- determination of eligibility
- variations in the property appraisal and underwriting process
- property eligibility for FHA insurance, and
- compliance inspection requirements.

Change Date

October 26, 2009

4155.2 4.1.a Purpose of Property Valuation

The purpose of the property valuation process is to

- determine eligibility for mortgage insurance based on the *condition* and *location* of a property, and
- estimate the *value* of the property for mortgage insurance purposes.

The appraisal is the lender's tool for making this determination.

4155.2 4.1.b Lender Responsibility for Appraisers

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.

Lenders must accept responsibility, equally with the appraisers, for the integrity, accuracy and thoroughness of the appraisals, and will be held accountable by HUD.

Lenders that submit appraisals to HUD that do not meet FHA requirements are subject to the imposition of sanctions by the HUD Mortgagee Review Board.

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

Continued on next page

1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.c 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).

Lenders accept responsibility, equally with the appraisers, for the integrity, accuracy and thoroughness of the appraisals, and will be held accountable by HUD.

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, *Requirements for Existing Housing One- to Four-Family Living Units,* Appendix D.

4155.2 4.1.d Determination of Property Eligibility

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

References: For more information on property eligibility, see
- HUD 4155.1 4.B, and
- HUD 4150.2, *Valuation Analysis for Single Family One to Four Unit Dwellings, Appendix D.*

Continued on next page

1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.e 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.

4155.2 4.1.f 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.g 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.

Continued on next page

1. General Information on Property Valuation and Eligibility, Continued

4155.2 4.1.h 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 or manufactured home).

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

Reference: For more information on compliance inspections, see

- HUD 4145.1, *Architectural Processing and Inspections for Home Mortgage Insurance*
- HUD 4150.1, *Valuation Analysis for Home Mortgage Insurance*
- HUD 4150.2, *Valuation Analysis for Single-Family One- to Four-Unit Dwellings*, and
- required inspections on newly-constructed manufactured homes, 4155.2 4.11.e.

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*.

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

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	Eligible housing includes • detached or semi-detached dwellings • row houses • multiplex dwellings, and • individual condominium units. ***Important***: If *not* detached • 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
Manufactured Homes	A manufactured home is a structure that is • 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). To be eligible for FHA mortgage insurance, the manufactured home must • 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 – 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. ***References***: For additional information on manufactured homes, see • HUD 4145.1, *Architectural Processing and Inspections for Home Mortgage Insurance* • HUD 4150.2, *Valuation Analysis for Single-Family One- to Four-Unit Dwellings* • flood insurance for manufactured homes, 4155.2 4.3.g. • property eligibility requirements specific to manufactured homes, 4155.2 4.11, and • manufactured housing condominium projects, 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.

Reference: For more information on flood insurance requirements, see HUD 4150.1, *Valuation Analysis for Home Mortgage Insurance*.

Continued on next page

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

4155.2 4.3.b Properties in SHFA 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 4150.1, *Valuation Analysis for Home Mortgage Insurance*, and
- 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, and
  – appraisal extensions
- appraisal and inspection fees, and
- lender responsibility for providing appraised value documentation to the borrower.

Change Date

May 10, 2009

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 4150.1, *Valuation Analysis 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.

Continued on next page

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.

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 • 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 • 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.

Continued on next page

4. Appraisal Requirements, Continued

4155.2 4.4.d Term of an Appraisal

The appraisal has a term of

- six months for existing construction, and
- 12 months for new construction and those undergoing substantial rehabilitation.

However, if the appropriate HOC determines that soft market conditions exist in certain areas or markets, it may shorten the term of appraisals for proposed construction and substantial rehabilitation to a period of less than 12 months 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*.

Continued on next page

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.

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

May 10, 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.h.

Continued on next page

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	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. 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.
Required repairs	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. Required repairs must be limited to those required to • 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).

Continued on next page

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.h
- 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

May 10, 2009

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
- 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.h.

Continued on next page

6. Satisfying Repair Requirements, Continued

4155.2 4.6.b Compliance Inspection Report

A Compliance Inspection Report (HUD-92051)

- certifies that the repairs have been completed satisfactorily, and
- 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/.

Reference: For more information on compliance inspection requirements, see HUD 4155.2 4.1.h.

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".

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.

Continued on next page

6. Satisfying Repair Requirements, Continued

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*.

7. Prohibition on Property Flipping

Introduction

This topic contains information on the prohibition of property flipping, including the

- definition of ***property flipping***
- inapplicability of property flipping restrictions to new construction
- requirement that a sale must be by 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.

Change Date

May 10, 2009

4155.2 4.7.a Definition: Property Flipping

The term ***property flipping*** 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.

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 *not* apply to a builder selling a newly built home or building a home for a borrower wishing to use FHA-insured financing.

Continued on next page

7. Prohibition on Property Flipping, Continued

4155.2 4.7.c Sale Must Be by 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. Requirements for Second Appraisals on High Balance Loans for Properties in Declining Areas

Introduction

This topic contains information on the requirements for a second appraisal on high balance loans for properties in declining markets, including

- the policy requiring a second appraisal on high balance loans in declining areas
- the criteria for requiring a second appraisal, and
- a reference for additional information on required second appraisals for high balance loans in declining areas.

Change Date

May 10, 2009

4155.2 4.10.a Policy Requiring a Second Appraisal on High Balance Loans in Declining Areas

FHA requires a second appraisal for higher balance loans secured by properties in declining markets, as indicted by the

- appraiser on the appraisal report, or
- lender, using other sources.

4155.2 4.10.b Criteria for Requiring a Second Appraisal

A second appraisal is required when the

- loan amount, excluding the UFMIP, exceeds $417,000
- LTV, excluding UFMIP, equals or exceeds 95%, and
- property is determined by the appraiser or lender to be in a declining market.

4155.2 4.10.c Additional Information on Required Second Appraisals for High Balance Loans in Declining Areas Reference

For additional information on the requirements for second appraisals on high balance loans secured by properties in declining areas, see ML 08-09.

11. 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

October 26, 2009

4155.2 4.11.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 4.11.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

11. Property Eligibility Requirements Specific to Manufactured Homes, Continued

4155.2 4.11.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 4.11.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.

Reference: 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.

Continued on next page

11. Property Eligibility Requirements Specific to Manufactured Homes, Continued

4155.2 4.11.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.

References: For more information on
- inspection requirements, see HUD 4145.1, *Architectural Processing and Inspections for Home Mortgage Insurance*, and
- the *Compliance Inspection Report*, see form HUD-92051.

4155.2 4.11.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. Mortgage Credit Analysis and Borrower Approval

Table of Contents

Chapter 5. Mortgage Credit Analysis and Borrower Approval

1. General Information on Mortgage Credit Analysis..... 5-1
2. Borrower Approval or Rejection..... 5-3
3. Term of the Firm Commitment or Underwriter's Approval 5-6

Chapter 5. Mortgage Credit Analysis and Borrower Approval

1. General Information on Mortgage Credit Analysis

Introduction

This topic contains general information on mortgage credit analysis, including

- the purpose of a mortgage credit analysis
- the importance of verifying a borrower's credit information, and
- verifying a borrower's financial position.

Change Date

May 10, 2009

4155.2 5.1.a Purpose of a Mortgage Credit Analysis

A mortgage credit analysis is used

- to determine
  – a borrower's credit and his/her capacity to repay the mortgage
  – whether or not there are sufficient funds to close, and
- to limit foreclosures or collection difficulties.

Reference: For additional information about completing a mortgage credit analysis, see HUD 4155.1 4.C.

4155.2 5.1.b Verifying Borrower Credit Information

Lenders must obtain and verify a borrower's information with as much care as would be taken if the mortgage was entirely dependent on the property as security.

The credit report and verification forms *cannot* pass through the hands of

- the borrower
- a real estate agent, or
- another interested third party.

Continued on next page

1. General Information on Mortgage Credit Analysis, Continued

4155.2 5.1.c Verifying a Borrower's Financial Position

The lender must

- verify a borrower's identity, and
- ask sufficient questions of the borrower in order to get a complete picture of
  - his/her financial position
  - the source of funds for the mortgage transaction, and
  - the intended use of the property.

References: For more information on
- borrower credit analysis, see HUD 4155.1 4.C
- borrower income, see HUD 4155.1 4.D and HUD 4155.1 4.E
- acceptable sources of borrower funds, see HUD 4155.1 5.B, and
- borrower's completion of the loan application, see HUD 4155.2 3.C.2.b.

2. Borrower Approval or Rejection

Introduction

This topic contains information on approving or rejecting a borrower for a mortgage, including

- the DE underwriter responsibility for determining if a borrower is creditworthy
- actions taken for approved borrowers
- lender notification to approved borrowers
- requirements when the borrower is rejected on the basis of credit report information, and
- required notifications for rejected borrowers.

Change Date

May 10, 2009

4155.2 5.2.a DE Underwriter Responsibility for Determining if a Borrower Is Creditworthy

The DE underwriter is responsible for determining the creditworthiness of the borrower(s), including analyzing a borrower's overall pattern of credit behavior.

Reference: For guidelines on analyzing a borrower's credit, see HUD 4155.1 4.C.1.

Continued on next page

2. Borrower Approval or Rejection, Continued

4155.2 5.2.b Actions Taken for Approved Borrowers

When a borrower is approved, the DE underwriter

- records the results of the credit analysis on the HUD-92900-LT
- enters any modification of the mortgage amount or approval conditions under "Underwriter Comments" on the form, and
- approves the borrower and authorizes closing, if the case is a DE case.

Note: If the case involves a HUD/FHA employee loan

- the lender submits the complete underwritten loan application to FHA prior to closing, and
- FHA issues a Firm Commitment to the lender, which obligates FHA to insure the mortgage.

Reference: For more information on loans for HUD/FHA employees, see HUD 4155.2 3.B.

4155.2 5.2.c Lender Notification to Approved Borrowers

The lender is responsible for notifying the borrower of the approval, either in writing or verbally, immediately after receiving the underwriter's decision.

4155.2 5.2.d Requirements When a Borrower Is Rejected on the Basis of Credit Report Information

When a borrower is rejected for unacceptable credit characteristics on the basis of information contained in a credit report, he/she must be notified and given the name, address, and where available, the telephone number of the credit reporting agency.

Note: This is a requirement of the Fair Credit Reporting Act (FCRA).

Reference: For more information on the FCRA, see HUD 4155.2 1.B.4.

Continued on next page

2. Borrower Approval or Rejection, Continued

4155.2 5.2.e Required Notifications on Rejected Borrowers

When a borrower's application is rejected, the following notifications are required:

- FHA issues to the lender HUD- 59100, *Mortgage Insurance Certificate/Non-Endorsement Notice*, showing all reasons for ineligibility, plus any counterproposal to effectuate loan approval (such as a reduced mortgage amount), and
- the lender must immediately deliver to the borrower
  – a copy of the HUD-59100 notice, and
  – when required, an Equal Credit Opportunity Act (ECOA) notice.

Reference: For more information on the ECOA, see HUD 4155.2 1.B.5.

3. Term of the Firm Commitment or Underwriter's Approval

Change Date	May 10, 2009
4155.2 5.3.a Term of the Firm Commitment or Underwriter's Approval of the Borrower	The term of the firm commitment or underwriter's approval of the borrower is 90 days or the remaining life of the Conditional Commitment, VA CRV or underwriter's approval of the property, as appropriate, whichever is greater.

Chapter 6. Loan Closing

Table of Contents

Section A. Loan Closing Policies
Overview 6-A-1
1. General Loan Closing Requirements 6-A-2
2. Loan Closing Documentation Requirements 6-A-7
3. Closing Costs and Other Fees 6-A-10
4. Prohibited Payments and Loans 6-A-12
5. Closing Certifications and Sales Contracts 6-A-14

Section B. Mortgage and Note Forms
Overview 6-B-1
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

Section C. Title Exceptions
Overview 6-C-1
1. General Information on Title Exceptions 6-C-2
2. Waiver of Objections to Title 6-C-4

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-7
3	Closing Costs and Other Fees	6-A-10
4	Prohibited Payments and Loans	6-A-12
5	Closing Certifications and Sales Contracts	6-A-14

1. General Loan Closing Requirements

Introduction

This topic contains general information on loan closing requirements, including

- general lender responsibilities at loan closing
- discussion of lender's approval conditions
- date of closing
- date for collecting interest
- payment factors for principal and interest payments
- power of attorney
- title insurance
- lender responsibilities regarding title objections
- projecting and collecting real estate tax payments, and
- title issues for manufactured homes.

Change Date

October 26, 2009

4155.2 6.A.1.a General 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-insured certificate of commitment or 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 Lender 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 Date of Closing

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, to establish the date on which the 60-day endorsement submission clock begins, FHA relies 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 the uniform case binder to FHA for endorsement processing.

This date must be entered

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

4155.2 6.A.1.d Date For Collecting Interest

The date from which interest may be collected is the date when the lender disburses, or relinquishes control of the loan proceeds.

Interim interest for the period preceding amortization must be computed using the daily factor of 1/365th of the annual rate.

4155.2 6.A.1.e Payment 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.

The 365-day year is used to calculate the interim (per diem) interest.

Continued on next page

1. General Loan Closing Requirements, Continued

4155.2 6.A.1.f Power of Attorney

Power of attorney may be used for closing documents, including

- Page four of the Addendum to the Uniform Residential Loan Application (URLA), and
- the final URLA, if signed at closing.

Lenders are required to submit copies of the initial URLA and the Addendum if all borrowers did not sign the finals.

Any power of attorney, whether specific or general, must comply with state law, and allow for the mortgage Note to be legally enforced in the jurisdiction.

Ultimately, it is the lender's responsibility for ensuring that clear title is conveyed in the event of foreclosure.

References: For additional information on
- power of attorney, see HUD 4155.2 3.C.3.d, and
- requirements for initial and final URLAs and Addendums, see HUD 4155.2 3.C.3.c.

4155.2 6.A.1.g Title Insurance

Title insurance is not required 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.

Reference: For more information on HUD REO sales and prior title defects, see 24 CFR 203.390.

Continued on next page

1. General Loan Closing Requirements, Continued

4155.2 6.A.1.h Lender Responsibilities Regarding 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 the 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.

4155.2 6.A.1.i Projecting and Collecting Real Estate Tax Payments

Projecting real estate tax payments, and collecting those funds as a portion of the monthly escrow account payment, does *not* violate the Real Estate Settlement Procedures Act (RESPA).

RESPA requires that a borrower receive an initial escrow account statement at settlement or within 45 days. In conducting this analysis, RESPA permits lenders and mortgage servicers to project the disbursements for real estate taxes for the ensuing twelve months and collect funds based on this projection.

However, lenders 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.

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 a

- property deed for the land, and
- chattel deed or motor vehicle title for the unit.

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).

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) to the manufactured home or
  - equivalent debt
- ensure that the subject property is classified or taxed as real estate.

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, HUD will not accept a conveyance nor pay a claim. Lenders 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).

Reference: For more information on state-by-state titling information for loans secured by manufactured housing, see https://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/manufachousing/index.jsp?from=hp

2. Loan Closing Documentation Requirements

Introduction

This topic contains information on loan closing documentation requirements, including

- closing instrument forms and language requirement
- signature requirements at loan closing
- final URLA and Addendum requirement
- endorsement package submission
- required disclosure statement when initial Addendum is not completed, and
- closing in compliance with loan approval.

Change Date

May 10, 2009

4155.2 6.A.2.a Closing Instruments Requirement

The forms and/or language prescribed by FHA *must* be used for loan closing.

Reference: For information on FHA forms and language requirements for the mortgage and Note, see HUD 4155.2 6.B.

4155.2 6.A.2.b Signature Requirements at Loan Closing

All individuals appearing 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 laws must sign the security instruments and/or note in order to create a valid first lien, to pass clear title, or to waive inchoate rights.

All owners of the property to be vested in title must sign the security instruments, such as the

- mortgage
- deed of trust, or
- security deed.

Continued on next page

2. Loan Closing Documentation Requirements, Continued

4155.2 6.A.2.c Final URLA and Addendum Requirement

The underwriter must have the final Addendum and URLA before underwriting the loan application, whether or not they are 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

The following must be submitted as part of the endorsement package:

- a copy of any initial and final loan application, and
- a 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 Addendum (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 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.

Except for non-purchasing spouses, additional signatures on the security instruments and/or mortgage note for individuals not reviewed during mortgage credit analysis may be grounds for withholding endorsement.

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 that the lender may charge the borrower at loan closing, including

- collecting customary and reasonable fees
- other fees and charges, and
- rejecting charges and fees.

Change Date

May 10, 2009

4155.2 6.A.3.a Collecting Customary and Reasonable Fees

The lender may collect customary and reasonable fees and charges from the borrower. Due to existing requirements, borrowers may not pay a tax service fee, and may not be charged an origination fee more than

- *one percent* on forward mortgages (plus the supplemental origination fee on Section 203(k) rehabilitation mortgages, or
- *two percent* on FHA's Home Equity Conversion Mortgages (HECMs).

Aggregate charges may not violate FHA's tiered pricing rules.

Additionally, FHA does not allow "mark-ups," or charges to the borrower of a fee amount greater than that charged the lender by the service provider. Only the actual cost for the service may be charged to the borrower. Except for discount points, these fees may be

- used to meet the minimum investment requirement for purchases, or
- added to the existing indebtedness for refinances.

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.

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 other fees and charges that may be assessed, but are not considered *closing cost* fees and cannot be used to meet the borrower's minimum investment.

Type of Fee	Description
Discount Points	Discount points charged by the lender on a purchase transaction may be charged to the buyer, but *may not* be included into the financed mortgage amount. Reasonable discount points for refinance transactions may be financed into the mortgage amount, subject to equity requirements and other restrictions applied to refinances. ***Reference***: For more information on refinance transaction requirements, see HUD 4155.1 3.A.
• Lock-Ins • Rate Locks	Provide a written guarantee that ensures the loan terms • will not change for a definite period of time, such as not less than 15 days, or • are limited to the extent to which the terms may change. ***Reference***: For more information on rate locks, see HUD 4155.2 3.A.2.b.

4155.2 6.A.3.c Rejecting Charges and Fees

The appropriate 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
- paying for advances, and
- providing below-market/non-interest loans.

Change Date

May 10, 2009

4155.2 6.A.4.a Paying Unearned Fees

A lender is *not* permitted to pay any fee, compensation, or thing of value including

- fees other than for services actually performed
- 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 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 Advancing Funds Is Prohibited

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/Non Interest Loans

A lender may *not* provide below-market or non-interest loans to any parties from whom the lender accepts proposals for FHA-insured mortgages, including

- 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
- closing certification statements
- policy on sales contracts
- amendatory clause in the sales contract
- required language in the amendatory clause to the sales contract
- real estate certification, and
- when the real estate certification is not needed.

Change Date

May 10, 2009

4155.2 6.A.5.a Determining the Closing Certifications

The closing certifications that must be executed by the lender are dictated by the type of processing, such as

- direct endorsement (DE)
- direct endorsement pre closing, or
- FHA/HUD underwritten.

Continued on next page

5. Closing Certifications and Sales Contracts, Continued

4155.2 6.A.5.b Closing Certification Statements

When the lender signs the closing certification, 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 which 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 sales 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 limits. Provided the lender closes the loan in accordance with FHA requirements

- endorsement will not be withheld, and
- the sales contract does not need to refer to FHA financing to be valid.

4155.2 6.A.5.d Requirement for an 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
- 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).

Continued on next page

5. Closing Certifications and Sales Contracts, Continued

4155.2 6.A.5.e Required Language for the Amendatory Clause to the Sales Contract

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 on 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
- that any other agreement entered into by any parties in connection with the real estate transaction is part of, or attached to, the sales agreement.

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.d 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

- terminology use in this section
- 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.

Change Date

May 10, 2009

4155.2 6.B.1.a Terminology Use in This Section

For purposes of this section, the term

- "*mortgage*" includes any form of security instrument commonly used in a jurisdiction in connection with loans 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 recordable and enforceable mortgage, and
- an enforceable Note.

The mortgage and Note *must* be separate documents.

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 HOCs. Lenders are responsible for determining that the mortgage and Note comply with the requirements in this section.

Direct 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), and
- Federal Home Loan Mortgage Corporation (Freddie Mac).

Continued on next page

1. General Information on Mortgage and Note Forms, Continued

4155.2 6.B.1.e HOC Authority to Impose Additional Requirements

HOCs have the authority to

- impose additional requirements regarding mortgage and Note provisions to ensure consistency with state laws appropriate to their jurisdictions, and
- advise lenders of any such requirements through a Circular Letter.

2. Mortgage Form Requirements

Introduction

This topic contains information on the *Model 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.

Change Date

May 10, 2009

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.

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 those of the Fannie Mae/Freddie Mac mortgages (except New York and Maine), with the addition of the FHA case number on the first page.

Reference: For 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

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 contain substantial differences from FHA policy.

Consult FHA if the lender concludes that information in these paragraphs 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

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. Paragraph 18 is intended to address foreclosure procedures only.

4155.2 6.B.2.e Non-Uniform Covenants: Paragraphs Subsequent to Paragraph 18

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 recent 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.

Change Date

May 10, 2009

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 about 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 Note, the Note must meet all negotiability requirements, except that interest rates are determined by reference to an index.

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

- using 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, and
- combined construction and permanent loans.

Change Date

May 10, 2009

4155.2 6.B.4.a Using 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 allonges to use when modifying the *Model Mortgage Form* or *Model Note Form*, when special circumstances occur.

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 has an adjustable interest rate (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.

Continued on next page

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 one, three, five, seven, and ten years, with adjustment to the rates 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: The options for an ARM do *not* apply to Adjustable Rate Home Equity Conversion Mortgages (HECMs).

Option	Instruction
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	Use the Model Mortgage Form with one or more of the following adaptations to the form: • change the – title to *Adjustable Rate Mortgage* – first use of the word *Note* on the first page to *Adjustable Rate Note* – first use of the word *interest* on the first page to *interest at a rate subject to adjustment* • 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 – 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 the riders to prepare with the *Model Mortgage Form*.

Reference: For locating sample copies of the riders listed in the table below, see HUD 4155.2 6.B.4.a.

When preparing a loan 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 a loan 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*.
condominium	*Condominium Rider*. ***Note***: This information in this section does *not* supersede HUD 4265.1, *except* for the following: • the security instrument provisions from HUD 4265.1, paragraph 4-2 must not be added to the mortgage and Note, and • the *Resolution of Inconsistency* provisions from HUD 4265.1, paragraph 12-8 (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 for the *Cooperative Rider*, see HUD 4155.2 6.B.4.g.
planned unit development (PUD) mortgage	*Planned Unit Development* (PUD) *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 a loan 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.
a 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 *Uniform Commercial Code* (UCC) security agreement, and/or
- an 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, paragraph 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 a loan for a ...	Use the Model Note Form along with the ...
graduated payment mortgages (GPM)	*Graduated Payment Allonge Amending Note*.
growing equity mortgage (GEM)	*Growing Equity Allonge Amending Note*. ***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. Otherwise, the lender has the option of including such a schedule, and may recite the provisions of the Note verbatim in a rider.

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

Refer to HUD 4235.1, *Section 255, Home Equity Conversion Mortgages*, for special instructions for mortgages and Notes being used in the Section 255 Home Equity Conversion Mortgage program.

Reference: For more information on the Section 255 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
  - Puerto Rico
  - Indian reservations
  - Iowa, North Dakota, and Wisconsin
  - South Dakota
  - New York and Maine
  - New York
  - Pennsylvania
  - Texas, and
  - New Mexico.

Change Date

October 26, 2009

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.

4155.2 6.B.5.b Special Requirements for Northern Mariana Islands

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.

Continued on next page

5. Mortgage and Note Form Special Requirements for Specific States and Localities, Continued

4155.2 6.B.5.c Special Requirements for Puerto Rico

Write mortgages and Notes, and 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 HOC, or
- HUD Caribbean Field Office.

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.

References: For information on the

- *Rider for Section 248 Mortgage*, see HUD 4155.2 12.A.12, and
- *Construction Rider for Construction/Permanent Mortgage*, see HUD 4155.2 12.A.17.

Continued on next page

5. Mortgage and Note Form Special Requirements for Specific States and Localities, Continued

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 the department's 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 current 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.

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.

Location	Required Text
Included in the Title	*One Hundred Eighty Day Redemption* in bold type.
Immediately after Paragraph 18	*Notice–The parties agree that the provisions of the one hundred eighty day redemption mortgage act govern this mortgage* in bold type.

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 (continued)

Location	Required Text
Immediately after the Notice	The following language should be included: *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.* *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.*

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.

Continued on next page

5. Mortgage and Note Form Special Requirements for Specific States and Localities, Continued

4155.2 6.B.5.h Special Requirements for New York

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 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."

Note: Form 3172 is for use on refinance transactions only.

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 text on the *Certificate of Residence*:

CERTIFICATE OF RESIDENCE I, _____ do hereby certify that the correct address of the within-named lender is _____, witness my hand this _____ day of 2-___.

_____
Agent of Lender

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

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.

4155.2 6.B.5.k Special Requirements for New Mexico

For New Mexico, lenders must use a state-specific Deed of Trust which 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 Model 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.

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

May 10, 2009

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 policy states that

- 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

The HOC, in all instances, must determine that the underwriting conclusions were based on the correct property, when the lender, after insurance endorsement

- advises the HOC that the street address shown on the application is incorrect, and
- provides the correct address.

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 1 title exceptions
  - group 2 title exceptions, and
  - group 3 title exceptions.

Change Date

May 10, 2009

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 of 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 HOC as described in the table below.

If the request for waiver of objection to title is received …	Then the appropriate HOC …
before insurance endorsement	reviews and processes the request to the extent necessary
after insurance endorsement	• reviews the request to ensure that it is within the scope of the General Waiver • stamps the request "*Covered by the General Waiver, 24 CFR …*", 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	For Group 2 title exceptions, the DE lender submits the waiver request and documentation to the HOC for review. Generally, it is not necessary for the HOC to review the insured uniform case binder. When necessary, the HOC staff • 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 (MIPs)

Table of Contents

Chapter 7. Mortgage Insurance Premiums (MIPs)

1. Types of MIPs 7-1
2. Up Front Mortgage Insurance Premiums (UFMIPs) 7-2
3. Annual MIPs 7-7
4. Risk Based Premiums for FHA Mortgage Insurance 7-11

Chapter 7. Mortgage Insurance Premiums (MIPs)

1. Types of MIPs

Introduction

This topic contains general information on mortgage insurance premiums (MIPs), including

- the purpose of MIPs
- types of MIPs collected by FHA, and
- locating additional information on payment of MIPs.

Change Date

May 10, 2009

4155.2 7.1.a Purpose of MIPs

Mortgage insurance premiums are used to protect lenders against mortgage loss in the event of a foreclosure.

4155.2 7.1.b Types of MIPs Collected by FHA

In most of the FHA mortgage insurance programs, FHA collects an

- up front mortgage insurance premium (UFMIP), and
- annual insurance premium, which is collected in monthly installments.

Notes:
- Most FHA-insured mortgages require payment of a UFMIP.
- The monthly premium varies by program and outstanding principal balance.

References: For more information on
- UFMIPs, see HUD 4155.2 7.2, and
- annual MIPs, see HUD 4155.2 7.3.

4155.2 7.1.c Additional Information on MIPs (Reference)

For more information on MIPs, see

- 24 CFR 203.18c, and
- 24 CFR 203.259 – 203.288, and
- ML 2008-22

2. Up Front Mortgage Insurance Premiums (UFMIPs)

Introduction

This topic contains information on UFMIPs, 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
- non-endorsed cases after 18 months, and
- the elimination of refunds.

Change Date

May 10, 2009

4155.2 7.2.a UFMIP Amount

The table below lists the percentage of the mortgage amount that FHA charges for a UFMIP for the particular type of mortgage.

Type of Mortgage Loan	UFMIP
Purchase Money Mortgages and Full-Credit Qualifying Refinances	1.75%
Streamline Refinances (all types)	1.50%

Note: The total FHA-insured first mortgage on a property is limited to 100% of the appraised value, and the UFMIP is required to be included within that limit.

Reference: For more information on mortgage insurance premiums, see
- ML 08-16, and
- ML 08-22.

Continued on next page

2. Up Front Mortgage Insurance Premiums (UFMIPs), 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. UFMIP must be paid to FHA in a lump sum within 10 calendar days after the loan is closed.

The UFMIP must be either

- entirely financed into the mortgage, with the mortgage amount rounded down to a whole dollar (with the exception of instances in which the borrower chooses to pay up to 49.99 of the UFMIP in cash, in which case it would not then be reflected in the total mortgage amount), or
- paid entirely in cash and all mortgage amounts must be 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 LTV limits. The base mortgage amount must comply with the requirements. The total mortgage amount may exceed this limit by the financed UFMIP amount.

Note: Any UFMIP amounts paid in cash are added to the total cash settlement amount.

Reference: 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. Up Front Mortgage Insurance Premiums (UFMIPs), Continued

4155.2 7.2.c UFMIP Late Fees and Interest

If the lender pays the UFMIP beyond the FHA allowable number of days after closing, the lender incurs a late fee. If the UFMIP is paid more than 30 days after closing, the lender incurs a late fee plus interest and both must be paid before FHA will endorse the mortgage for insurance.

FHA also reserves the right to take appropriate enforcement proceedings against lenders paying UFMIPs late, regardless of the lender's 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 Home Underwriting Management System (CHUMS) verifies whether sufficient UFMIP has been paid. If a sufficient UFMIP has not been received by FHA, 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
- their loan 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 their 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.

Continued on next page

2. Up Front Mortgage Insurance Premiums (UFMIPs), Continued

4155.2 7.2.f UFMIP 5 Year Refund Schedule

Below is the 5 year UFMIP refund schedule with UFMIP earnings factors.

FHA MMI FUND UPFRONT PREMIUM EARNING FACTORS FOR ALL MORTGAGE TERMINATIONS AND REFINANCES CLOSED ON OR AFTER JANUARY 1, 2001												
	Month of Year											
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 UFMIP 7 Year Refund Schedule

Below is the 7 year UFMIP refund schedule with UFMIP earnings factors.

FHA MMI FUND UPFRONT PREMIUM EARNING FACTORS FOR ALL MORTGAGE TERMINATIONS AND REFINANCES CLOSED ON OR AFTER JANUARY 1, 1994 TO DECEMBER 31, 2000												
	Month of Year											
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. Up Front Mortgage Insurance Premiums (UFMIPs), Continued

4155.2 7.2.h Non Endorsed Cases After 18 Months

FHA's systems (FHAC/CHUMS) automatically cancel a case number 13 months after the last action. If a case in not endorsed within 18 months of closing/payment, the lender is warned by mail of a pending refund and advised to take action on the case. If the lender

- takes *no* action (the lender does not wish to seek insurance, a refund is generated, or
- wishes *to take action* and seek insurance, the lender is required to contact their MIP representative for instructions on re-applying the refund.

After the funds have been re-applied, the lender must contact the 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 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 FHA's UFMIP except when the 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											
	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 MIPs

Introduction

This topic contains information on annual MIPs, including

- annual MIP payment policy
- assessment of late fees and interest charges
- automatic cancellation of the annual MIP
- determining when a borrower reaches the LTV ratio for annual MIP cancellation
- UFMIP and Annual MIP for Mortgages With Terms More Than 15 Years, and
- UFMIP and Annual MIP for Mortgages With Terms Less Than 15 Years.

Change Date

May 10, 2009

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 percentage amount of the annual premium is based upon the LTV and the term of the mortgage.

For programs that require a monthly MIP, FHA must receive payment by the 10th of the month.

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, a late charge is assessed. If the payment is received 30 days or more after loan closing, interest charges are also assessed.

Continued on next page

3. Annual MIPs, 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 *more* than 15 years	cancelled when the LTV ratio reaches 78 percent, provided the borrower has paid the annual MIP for at least five years. ***References***: • For information on how FHA determines when a borrower has reached the 78 percent LTV ratio, see HUD 4155.2 7.3.d. • For more information on UFMIP and annual MIP for mortgages with terms *more* than 15 years, see HUD 4155.2 7.3.e.
• terms 15 years and less, and • LTV ratios 90 percent and greater	cancelled when the LTV ratio reaches 78 percent, regardless of the length of time the borrower has paid the annual MIP. ***Reference***: For more information on UFMIP and annual MIP for mortgages with terms *less* than 15 years, see HUD 4155.2 7.3.f.
• terms 15 years and less, and • LTV ratios of 89.99 percent 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.

Reference: For more information on MIP cancellation and how FHA determines when a borrower has reached the 78 percent LTV ratio, see HUD 4155.2 7.3.d.

Continued on next page

3. Annual MIPs, Continued

4155.2 7.3.d Determining When a Borrower Reaches the LTV Ratio for Annual MIP Cancellation

FHA determines when a borrower has reached the 78 percent 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 Reference Chart: UFMIP and Annual MIP for Mortgages With Terms More Than 15 Years

The table below contains UFMIP and annual MIP information for mortgages with terms more than 15 years.

REFERENCE CHART FOR UPFRONT AND ANNUAL MIP FOR MORTGAGES WITH TERMS MORE THAN 15 YEARS			
Upfront	LTV Ratio	Premium	Years
1.50 percent	All LTVs	.50 percent	*
*Years will be determined when the loan balance equals 78 percent, provided the borrower has paid the annual MIP for at least 5 years (scheduled or actual).			

Continued on next page

3. Annual MIPs, Continued

4155.2 7.3.f Reference Chart: 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.

REFERENCE CHART FOR UPFRONT AND ANNUAL MIP FOR MORTGAGES WITH TERMS 15 YEARS AND LESS			
Upfront	LTV Ratio	Premium	Years
1.50 percent	89.99 and under	None	N/A
1.50 percent	90.00 and over	.25 percent	**
** Years will be determined when the loan balance equals 78 percent (scheduled or actual).			

4. Risk Based Premiums for FHA Mortgage Insurance

Change Date May 10, 2009

4155.2 7.4.a FHA Policy on Risk Based Premiums

Effective with new FHA Case number assignments on or after July 14, 2008, FHA implemented risk based premiums on one to four unit single family mortgages. The premiums were based solely on the prospective borrower's credit bureau score and the loan-to-value ratio.

However, effective October 1, 2008, 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.

Chapter 8. Loan Endorsement

Table of Contents

Section A. Mortgage Loan Submission and Endorsement Process
Overview 8-A-1
1. Overview of the Loan Submission and Endorsement Process 8-A-2
2. Requirements for LI Lender Pre-Insurance Review 8-A-5

Section B. Case Binder Preparation and Submission
Overview 8-B-1
1. General Information on Case Binder Preparation and Submission 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-9
4. Requirements for Case Binder Submission by a Lender Other Than the Originating Lender 8-B-13
5. Requirements for Case Binder Submission by a Lender With Conditional DE Approval 8-B-15
6. Requirements for Case Binder Submission for HUD/FHA Employee Cases 8-B-16
7. Submission of Case Binders by Lenders Participating in the LI Program 8-B-17

Section C. Insurance Endorsement Processing
Overview 8-C-1
1. General Information on FHA Loan Processing and Review 8-C-2
2. Non-LI Loan Endorsement Processing 8-C-6
3. LI Loan Endorsement Processing 8-C-8
4. Pre-Closing (Test) Case Processing Overview 8-C-11
5. Excessive Loan Amounts 8-C-13
6. Mortgage Insurance Certificates (MICs) 8-C-16
7. Late Requests for Endorsement 8-C-20

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-7

1. Overview of the Loan Submission and Endorsement Process

Change Date May 10, 2009

4155.2 8.A.1.a Loan Submission and Endorsement Process for Non LI Lenders

The table below describes the stages in the process of submitting and endorsing a mortgage loan for FHA insurance for lenders who are not eligible for participation in the Lender Insurance (LI) Program.

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 • prepares the case binder, making sure that all necessary documents are placed in the case binder in the appropriate order, and • submits the case binder to the appropriate Home Ownership Center (HOC) in hard copy form in the appropriate FHA case binder (buff-colored for non-LI participants). ***Reference***: For more information on preparation and submission of the case binder, see HUD 4155.2 8.B.
3	Upon receipt of the case binder, the HOC • 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

4155.2 8.A.1.a Loan Submission and Endorsement Process for Non LI Lenders (continued)

Stage	Description
4	If the loan/case binder is • *acceptable*, the HOC, issues an electronic MIC in the FHAC (the lender may print the MIC as needed), or • unacceptable/ineligible for insurance endorsement as received, the HOC – issues an electronic Form HUD- 59100, *Non-Endorsement Notice*, (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. ***Note***: The lender may resubmit the case binder for insurance endorsement reconsideration (and the process would begin again at Stage 2). ***Reference***: For more information on the • MIC, see HUD 4155.2 8.C.6 • FHA Connection, see – HUD 4155.2 1.D, and – the FHA User Guide on the FHA Connection.
5	To ensure that mortgage lenders understand and comply with FHA requirements, selected case binders are chosen for a post endorsement technical review (PETR) by the HOC. The HOC staff perform the PETR and rate the underwriting of mortgages as either Conforming, Deficient, or Unacceptable in two categories: • mortgage credit underwriting; and • valuation underwriting. ***Note***: The same process applies to all technical reviews, whether LI or non LI, when deficiencies are noted. ***Reference***: For more information on PETRs, see 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 stages in the process of submitting and endorsing a mortgage loan for FHA insurance for FHA-approved Direct Endorsement (DE) lenders who have been approved to participate in the Lender Insurance (LI) Program.

Reference: 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.

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
3	As a Lender Insurance (LI) Program participant, after completing the Insurance Application function in the FHAC, the lender either • insures the mortgage and stores the origination file as required by regulations, or • if a severe warning prevents insurance endorsement and FHA requests the case binder, the lender prepares the case binder as instructed in Stage 4.

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 (continued)

Stage	Description
4	The lender • prepares the case binder, making sure that all necessary documents are placed in the case binder in the appropriate order, and • submits the case binder to the appropriate Home Ownership Center (HOC) either – in hard copy form in the appropriate FHA case binder (yellow for Lender Insurance participants), or – electronically, if the lender is approved for electronic submission. ***Reference***: For more information on preparation and submission of the case binder, see HUD 4155.2 8.B.7
5	Upon receipt of the hard copy or electronic case binder, the HOC routes the binder appropriately. If the case binder contains a loan that is • *not insured* due to a severe warning – the HOC routes the binder for review and insurance, and – the process continues with Stage 6, or • *insured*, but requires technical review, then – the HOC forwards the binder for underwriting (technical) review, and – the process continues with Stage 7. ***Reference***: For more information on loan endorsement processing, see HUD 4155.2 8.C.

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 (continued)

Stage	Description
6	If, upon review, the loan/case binder is • *acceptable*, the HOC, issues an electronic MIC in the FHAC (the lender may print the MIC as needed), or • unacceptable/ineligible for insurance endorsement as received, the HOC – issues an electronic Form HUD- 59100, *Non-Endorsement Notice*, (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. ***Note***: The lender may resubmit the case binder for insurance endorsement reconsideration (and the process would begin again at Stage 2). ***Reference***: For more information on the • MIC, see HUD 4155.2 8.C.5 • FHA Connection, see – HUD 4155.2 1.D, and – the FHA User Guide on the FHA Connection.
7	To ensure that mortgage lenders understand and comply with FHA requirements, selected case binders are chosen for a post-endorsement technical review (PETR) by the HOC. The HOC staff perform the PETR and rate the underwriting of mortgages as either Conforming, Deficient, or Unacceptable in two categories: • mortgage credit underwriting; and • valuation underwriting. ***Note***: The same process applies to all technical reviews, whether LI or non LI, when deficiencies are noted. ***Reference***: For more information on PETRs, see HUD 4155.2 9.B.1

2. Requirements for LI Lender Pre Insurance Review

Introduction

This topic contains information on requirements for pre-insurance reviews conducted by lenders participating in the LI Program. It includes information on

- the FHA policy on LI lender responsibility for pre insurance review, and
- required elements of the lender pre insurance review.

Change Date

May 10, 2009

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 requires that the same staff that originated or underwrote the mortgage for insurance *cannot* complete the pre insurance review.

Reference: 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.

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 all origination documents are retained in either electronic or paper format, the pre-insurance review must consist of the following:

- verification that the loan is current for the month previous to submission for all loans logged by the lender for lender insurance more than 60 days after loan closing
- review of the note and mortgage/security instrument ensuring that
  - the documents are executed upon forms which meet the requirements of the Secretary
  - the mortgage maturity meets the requirements of the applicable program, and
  - the stated mortgage amount does not exceed the maximum mortgage amount for the area
- review of form HUD-92900-A, Page 3 for execution of all appropriate certifications by the underwriter or lender representative
- review of the property appraisal and any additional documentation supporting the appraised value
- review of form HUD-92544, Warranty of Completion, for proposed construction cases
- inclusion of an executed form HUD-92561, *Borrower's Contract With Respect to Hotel and Transient Use of Property*, for all 2-4 unit properties, when applicable
- inclusion of a certificate of intent to occupy by military personnel, when applicable
- inclusion of an approval letter from the local health authority indicating approval of the individual water or sewer system
- inclusion on proposed construction, if the mortgage exceeds 90 percent loan-to-value ratio, of evidence that the lender 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 and Submission

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 and Submission	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-9
4	Requirements for Case Binder Submission by a Lender Other Than the Originating Lender	8-B-13
5	Requirements for Case Binder Submission by a Lender With Conditional DE Approval	8-B-15
6	Requirements for Case Binder Submission for HUD/FHA Employee Cases	8-B-16
7	Submission of Case Binders by Lenders Participating in the LI Program	8-B-17

1. General Information on Case Binder Preparation and Submission

Introduction

This topic contains general information on preparing and submitting the case binder, including

- lender initiation of the endorsement process
- timeframe for submitting 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
- HOC actions upon receipt and review of the uniform case binder.

Change Date

May 10, 2009

4155.2 8.B.1.a Lender Initiation of the Endorsement Process

To initiate the insurance endorsement process, the lender must

- complete the Insurance Application function in the FHA Connection, and
- send the case binder, with all of the necessary documents, to the appropriate HOC.

Note: The lender is responsible for ensuring that the FHAC data is supported by file documentation provided in the case binder.

4155.2 8.B.1.b Timeframe for Submitting the Uniform Case Binder

The appropriate HOC must receive the case binder for endorsement within 60 days of loan settlement or funds disbursement, whichever is later.

Continued on next page

1. General Information on Case Binder Preparation and Submission, 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 binder must be purchased from private sources and 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, for entering the borrower's name and address, and 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 and Submission, Continued

4155.2 8.B.1.e Use of Copies in the Uniform Case Binders

FHA considers all documents submitted in the uniform case binder as the 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 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 presented and signed.

The table below indicates the actions taken by the HOC upon conclusion of the pre endorsement review.

If the uniform case binder …	**Then the HOC …**
meets FHA guidelines	• completes endorsement processing, and • issues an electronic MIC, acknowledging that FHA has insured the mortgage. ***Note***: The lender may print or download the MIC from the FHA Connection.
does *not meet* FHA guidelines	• issues HUD- 59100, *Non-Endorsement Notice/Notice of Return (NOR)*, 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.

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

May 10, 2009

4155.2 8.B.2.a When to Submit DE Cases

The lender submits DE cases for insurance endorsement after the loan is closed. The submitting lender has the duty to ensure that all documentation is appropriate and conforms to the requirements of this handbook. The lender must

- assemble the processing and closing documents, and
- place the documents in the case binder in the order depicted 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, *Mortgage Assurance of Completion*	• Screen print of Insurance Application screen from FHA Connection showing that the insurance information was accepted by FHA Connection. • *Automated Underwriting Feedback Certificate/Findings Report*, if applicable
• Form HUD-92051, *Compliance Inspection Report*, or other applicable documentation, and • evidence of satisfaction of valuation conditions, if applicable.	*Request for Late Endorsement*, if applicable. ***Note***: The request must be in compliance with HUD 4155.2 8.C.7.

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 NPCA-1, *Wood Destroying Insect Infestation Report*, or • State mandated infestation report, if applicable	HUD-92900-LT, *FHA Loan Underwriting and Transmittal Summary*, with supporting documents, such as • Section 203(k) – HUD-92700, *Maximum Mortgage Worksheet* • Energy Efficient Mortgage (EEM) and/or 203 (h) program documentation, if applicable • Secondary lien exhibits • Buydown agreements • Attachments, memos and clarifications, if applicable
Local Health Authority's Approval for individual water and sewer systems, if applicable	• Copy of the Mortgage Note and all applicable riders and allonges • Copy of the Security Instrument with all applicable riders
New Construction Exhibits: • *Form* HUD-92541, *Builder's Certification* • *Form* HUD-92544, *Builder's Warranty of Completion* • Evidence of 10-Year Warranty Plan Coverage, if applicable • Inspection Report(s) – Form HUD-92051, *Compliance Inspection Report* – VA-26-1839 *for the Department of Veteran Affairs (VA), Certificate of Reasonable Value (CRV)* – VA 26-1843a, *Master Certificate of Reasonable Value (MCRV)*, or – HUD-approved local building authority inspection, if applicable • NPCA-99a *and* NPCA-99b, *Subterranean Termite Treatment Report*	• *Form* HUD-1 *Settlement Statement/Good Faith Estimate* for pre-closing, and • HUD-1 Addendum (for purchases) that comply with HUD 4155.2 6.A.4

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, *Statement of Appraised Value* (Conditional Commitment)	• Uniform Residential Loan Application (URLA), and • *Form* HUD-92900-A, *Addendum to URLA*
Comprehensive Valuation Package (CVP): • Uniform Residential Appraisal Report (URAR) • Location map, and photographs of properties, building sketch • *Form HUD-91322*, *Master Appraisal Reports* (MAR), and all attachments, if applicable. • VA CRV-VA-26-1841 and MCRV-VA-26-1843a, including all attachments and endorsements, if applicable ***Note***: Staple a second copy of the complete CVP and place loose in the binder. However, a second copy of the appraisal report is no longer required, as per the revision to FHA Appraisal Protocol – ML 05-48.	**Credit and Capacity Documentation** • Credit history documentation • Asset Verification documentation (including gift letters and relevant documents) • Income verification documentation
---	Evidence of • Social Security Number (SSN) (such as on a printed pay stub, W-2, 1099, SS card, Medicare card, etc), or • Tax Identification Number 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
Specialized Eligibility Documents (to include, but not limited to): • 203(k): Rehabilitation Agreement, Plans, Work Write-ups, Cost Estimates, Initial Draw Request • *Form* HUD-92561, *Borrower's Contract with Respect to Hotel and Transient Use of Property* • Condominiums–Occupancy Certification regarding 51 percent owner occupancy, and Spot Condominium documents, if applicable	---
Purchase Contract (if applicable) • 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 May 10, 2009

4155.2 8.B.3.a HECM Case Binder Document Requirements

The table below describes the order of documents for the DE HECM case binder.

Notes:

- When recorded originals are received after endorsement, the appropriate HOC should forward these documents to the Asset Management staff to be joined with the certified copy previously provided by the lender.
- HOCs may *not* delay endorsement by requesting additional documents.

Left Side of Binder	Right Side of Binder
Choice of insurance options (Assignment or Shared)	If required, late submission explanation
Certified True Copy of *Form* HUD-92561, *Borrower's Contract with Respect to Hotel and Transient Use of Property* required on 2-, 3-, or 4-unit properties	Certified true copy of *Form* HUD-92902, *Certificate of HECM Counseling* – received from a HUD approved counseling agency and signed by the borrower. If the case involves a HECM refinance, and the borrower opts out of counseling, evidence in accordance with ML 04-18 that the borrower meets the waiver requirements must be included.
Certified true copy of *Form* HUD-92800.5b, *Conditional Commitment Direct Endorsement Statement of Appraised Value*	If the case involves a HECM refinance, original *Form* HUD-92901, *Home Equity Conversion Mortgage (HECM) Anti-Churning Disclosure*
If applicable, certified true copy of *Form* HUD-92051, *Compliance Inspection Report*. ***Note***: This form is used in conjunction with the Repair Rider and certifies that required repairs have been completed	Certified true copy of original First (1st) Note ***Note***: Original maintained by mortgagee.

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 *Fannie Mae* Form 1004, *Comprehensive Valuation Package* (all pages) Uniform Residential Appraisal Report (URAR) prepared in accordance with FHA minimum property standards/ requirements.	Certified true copy of original First (1st) Security Instrument (mortgage or Deed of Trust) and all applicable riders ***Note***: Original maintained by mortgagee.
Title insurance commitment or other acceptable title evidence at least equal to the maximum claim amount	Original Second (2nd) Note
---	Original of Second (2nd) Security Instrument (Mortgage or Deed of Trust) and all applicable riders. ***Note***: A Certified Copy of the 2nd security instrument is acceptable if the original 2nd Security instrument is not available from the recorder's office at the time endorsement request package is prepared. Once received, forward the original recorded 2nd Security Instrument to HUD when obtained from the recorder's office.
---	Certified true copy of *Form* HUD-1, *Settlement Statement* and HUD-1 Addendum.
---	Notice to Borrower
---	One original and two certified true copies of the Loan Agreement and the following related exhibits: • Schedule of Closing Costs and Liens • Payment Plan

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
---	If applicable, one original and two certified true copies of the Repair Rider. ***Note***: Required if repairs are escrowed.
---	• Certified true copy of *Fannie Mae Form 1009, Residential Loan Application for Reverse Mortgages, or* • certified true copy of *Fannie Mae* Form 1003, *Uniform Residential Loan Application*
---	Certified true copy of *Form* HUD-92900-A, *HUD/VA Addendum to the Uniform Residential Loan Application* (all pages)
---	Evidence of calculations for Principal Limit and Monthly Payment Amount ***Note***: A screen print is acceptable.
---	Evidence of Credit Alert Interactive Voice Response System (CAIVRS that states the borrower does not have any credit issues. A printout for the GSA/LDP check.
---	Credit report ***Note***: A merged in file report, containing the information currently available from three consumer credit information repositories.

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
	Identification of the borrower. Evidence of a SSN and DOB is required. Acceptable documents may include, but are not limited to • Social Security card • birth certificate, or • 1099.
	If applicable, verification of assets. ***Note***: To be used 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 the case binder submission requirements from a lender who is not the originator, including

- submission by the assignee in the name of the originating lender
- submission requirement for all approved lenders, and
- executing certifications.

Change Date

May 10, 2009

4155.2 8.B.4.a 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.

4155.2 8.B.4.b Submission Requirement for All Approved Lenders

All approved lenders, including loan correspondents, may originate process, close, fund, and submit loans for endorsement in their own name. A loan may close in either the Loan Correspondent or Sponsor name. However, loans must close in the Principal's name when a Principal/Agent relationship is used. Regulation Section 202.3(a) (3) permits this relationship and requires the loan to close in the name of the principal, and allows the authorized agent to submit the closed loan for insurance on behalf of the principal.

Either the originating or underwriting lender (the Loan Correspondent or Sponsor) 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 the FHA Connection, and complete the assignment of mortgage after endorsement to a new holding or servicing lender via the FHA Connection.

Reference: For more information on the principal-authorized agent relationship, see ML 05-37.

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 originating lender, or his/her underwriter if appropriate, must execute all certifications. The purchasing lender may pay any required MIP, late charges, and interest.

The FHA will *not* endorse an ineligible mortgage for insurance, or waive MIP payments in any case.

5. Requirements for Case Binder Submission by a Lender With Conditional DE Approval

Introduction

This topic contains information on the case binder submission requirements made by a lender with conditional DE approval, including

- underwriting pre close or test cases, and
- submitting a test case closing package.

Change Date

May 10, 2009

4155.2 8.B.5.a Requirement for Obtaining Firm Commitment

An underwriting lender who is not yet unconditionally approved for DE must submit their loans to the appropriate HOC for review and issuance of a Firm Commitment prior to closing. The property and credit documents must be submitted 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.

4155.2 8.B.5.b Submitting a Test Case Closing Package

After the loan is closed, the lender ensures 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
- submit a duplicate property/credit pack.

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	May 10, 2009
4155.2 8.B.6.a FHA Underwriting and Approval Required for Employee Loans	The lender • pulls the case number • follows the pre-closing case instructions (for both the property/credit package, as well as the closing package) • submits the case binder to the appropriate HOC, to the attention of the Processing and Underwriting Director The HOC • completes the underwriting review • 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

- requirements for electronic case binder (eCB) submission by LI lenders, and
- lender requirements for record keeping.

Change Date

May 10, 2009

4155.2 8.B.7.a When an LI Lender May Need to Submit a Case Binder

While a lender participating in the LI Program generally does not need to submit case binders for endorsement, there may be occasions when the lender may be required to submit a case binder, such as instances in which

- a loan-level data submission does not clear FHA system edits and the lender is unable to correct the deficiency, or
- a case binder is selected by FHA for PETR.

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 eCB Submission Requirements

Lenders participating in the LI Program may choose to submit either paper or electronic case binders (eCB) to HUD when a case binder is requested.

Once a lender chooses the electronic case binder option, the first five requests for endorsement that the lender submits result in a request from FHA for the digitized case binder. This quality control measure is used to make certain that the lender is able to transmit an acceptable digitized case binder for FHA 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.

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.

Continued on next page

7. Submission of Case Binders by Lenders Participating in the LI Program, Continued

4155.2 8.B.7.b Lender Requirements for Record Keeping

Each LI lender must maintain their origination binder in either hard copy or electronic format for 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.

Lenders retaining electronic case binders (eCB) need not maintain a separate version of the eCB indexed for electronic submission to HUD. However, if HUD requests a case binder which 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-6
3	LI Loan Endorsement Processing	8-C-8
4	Pre Closing (Test) Case Processing Overview	8-C-11
5	Excessive Loan Amounts	8-C-13
6	Mortgage Insurance Certificates	8-C-16
7	Late Requests for Endorsement	8-C-20

1. General Information on FHA Loan Processing and Review

Introduction

This topic contains overview information on FHA loan processing, including

- HOC loan processing tasks
- timeframe for case binder receipt by the HOC
- types of loan endorsement reviews
- the purpose of the pre endorsement review, and
- the purpose of the post endorsement technical review (PETR).

Change Date

May 10, 2009

4155.2 8.C.1.a HOC Loan Processing Tasks

The table below describes the stages of loan processing performed by the HOC 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 mortgage lender. ***Note***: At this point in processing, the HOC does not do any processing or analysis of the case file.

Continued on next page

1. General Information on FHA Loan Processing and Review, Continued

4155.2 8.C.1.a HOC Loan Processing Tasks (continued)

Stage	Description
3	The HOC routes the case binder to the appropriate personnel for pre-endorsement review and insurance endorsement. ***References***: For more information on • 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.

4155.2 8.C.1.b Timeframe for Case Binder Receipt by the HOC

FHA should receive the uniform case binder from the lender within 60 days of loan closing.

If the HOC is closed on the 60th day, the first business day thereafter is considered the 60th day.

Note:
- Receipt of the case is indicated by the date of entry into CHUMS.
- Cases received after the 60th day after loan closing 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 FHA Loan Processing and Review, Continued

4155.2 8.C.1.c Types of Loan Endorsement Reviews

Lender compliance with FHA criteria is monitored via

- pre endorsement reviews, which are performed by either
  - FHA staff or contractors, or
  - lender staff, for participants in the Lender Insurance 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 by computer based on
  - risk factor indicators, and
  - other HOC-identified factors.
- FHA also uses 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.
- DE Program 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.

Continued on next page

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 review, files are reviewed to ensure

- that they comply with FHA documentation requirements
- that forms and certifications are properly executed, and
- the integrity of the data (FHAC and 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 pre endorsement review is performed in accordance with
  – the requirements for case binder submission described in HUD 4155.2 8.B, and
  – the requirements for loan endorsement described in this section.

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 risk analysis and underwriting approval criteria as well as closing conditions and 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
- risk analysis
- closing, in accordance with loan approval
- documentation, and
- data integrity (FHAC and AUS, if applicable).

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. It includes information on

- FHAC loan endorsement processing
- the date of loan insurance, and
- handling loans that are ineligible for endorsement.

Change Date

May 10, 2009

4155.2 8.C.2.a FHAC Loan Endorsement Processing

Upon successful completion of a pre-endorsement review, the HOC uses the logging and endorsement functions in FHAC to

- verify data integrity
- complete loan endorsement processing, and
- issue an electronic 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 on the FHAC, 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 an insured loan as of the date that FHA electronically issues the Mortgage Insurance Certificate (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 it is determined 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 and 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 an instruction to the lender to notify the borrower

- that he/she does not have an FHA-insured loan, and
- about 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 MIP paid by the borrower, 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.

3. LI Loan Endorsement Processing

Introduction

This topic contains information on insurance endorsement processing for lenders who have been approved to participate in the Lender Insurance (LI) Program. It includes information on

- endorsement processing for approved LI lenders, and
- categories for LI mortgage endorsement processing.

Change Date

May 10, 2009

4155.2 8.C.3.a Endorsement Processing for Approved LI Lenders

Once a lender is approved for the LI Program, the lender must process and endorse for insurance all of the loans it originates or underwrites through LI.

Reference: 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 PETR, see HUD 4155.2 9.B.1.d.

4155.2 8.C.3.b Categories for 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 • generates an electronic mortgage insurance certificate (eMIC), which the lender may view on-line, and • does *not* request that a case binder be sent to FHA.

Continued on next page

3. LI Loan Endorsement Processing, Continued

4155.2 8.C.3.b Categories for LI Mortgage Endorsement Processing (continued)

Endorsement Processing Category	Description
LI Eligible/Binder Request	• The lender endorses the mortgage • FHA generates an eMIC, and • FHA requests the case binder for PETR purposes. ***Notes***: • The case binder request appears on – the FHAC Binder List screen or B2G function, and – on the Insurance Application screen. • The Case Inquiry screen – indicates if FHA has requested a binder, and – after sending the binder, indicates when FHA received the binder. ***Reference***: For information on lender requirements when FHA requests a case binder, see HUD 4155.2 9.B.1.

Continued on next page

3. LI Loan Endorsement Processing, Continued

4155.2 8.C.3.b Categories for LI Mortgage Endorsement Processing (continued)

Endorsement Processing Category	Description
LI Deficient	A high level case warning was triggered (for example, a CAIVRS exception) or the system edits reject the case (for example, the mortgage amount exceeds the statutory limit). FHAC/CHUMS does not request that deficient cases be sent to the HOCs, but informs the lender that it must resolve any rejection message. Only cases that FHA's data system detects have severe case warnings (for example, a CAIVRS exception, SSN not verified, some text messages) are requested for FHA review. Under this exception processing procedure, the case binder must be submitted to FHA for a pre-endorsement review, unless the lender is able to correct the deficiency and resubmit the endorsement data through the automated data verification. 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. If the lender cannot correct the deficiency, the system withholds the lender's ability to endorse the mortgage loan until the stated deficiencies are corrected. ***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 FHA to conduct 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.

4. Pre Closing (Test) Case Processing Overview

Introduction

This topic contains information on pre-closing (test) case processing, including

- the purpose of using pre closing (test) cases
- the timeframe for processing pre closing (test) cases, and
- an overview of pre closing (test) case processing.

Change Date

May 10, 2009

4155.2 8.C.4.a Purpose of Using Pre Closing (Test) Cases

The purpose of using pre closing (test) cases is to review loans made by a lender, who is applying for DE Lender approval, to ensure that the lender is complying with FHA underwriting (property and credit) 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 HOCs must give pre closing (test) cases priority processing. The Processing and Underwriting Division must review the case within 3 business days of receipt.

Continued on next page

4. Pre Closing (Test) Case Processing Overview, Continued

4155.2 8.C.4.c Pre Closing (Test) Case Processing

The table below describes the stages of pre closing case processing.

Stage	Description
1	Upon receipt of the case, FHA staff • logs the file into the HOC's internal tracking system • logs the case into FHAC/CHUMS, and • routes the file for underwriting (property and credit)
2	After completion of underwriting, FHA staff • updates FHAC/CHUMS with the underwriting decision, and • completes the Underwriting Report System (URS) report in the FHAC.
3	The lender is notified through FHAC of the decision. ***Note***: Requests for a ratings change must • be directed to the FHA staff underwriter's supervisor, and • include documentation to support the request.
4	FHA documents the case and the lender file with the decision.
5	The HOC retains the case binder. ***Reference***: For instructions on submitting the closing package, see HUD 4155.2 6.A.

Note: The same process is followed for a reconsideration of a file that was either rejected (with an unacceptable rating) or was returned in FHAC/CHUMS due to an incomplete file being submitted. The processing time for the HOC on a reconsideration package is 5 business days from the date or receipt.

5. Excessive Loan Amounts

Introduction

This topic contains information on handling excessive loan amounts when submitting a case for endorsement, including

- obtaining an MIC when there is an excessive loan amount
- loans exceeding the statutory loan limit
- loans exceeding the maximum allowable amount, and
- lender advancement of the principal loan reduction.

Change Date

May 10, 2009

4155.2 8.C.5.a Obtaining an 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 amount, 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 Exceeding the Statutory Loan Limit

For loans in which the loan amount exceeds the statutory loan limit

- 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 uniform case binder to the lender with instructions to provide evidence that the principal balance is reduced to an insurable amount, and
- upon receipt of the evidence that the principal balance has been reduced to an insurable amount, FHA electronically issues the MIC with the reduced mortgage 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, the loan must be reclosed or amended to an insurable amount.

4155.2 8.C.5.c Loans Exceeding the Maximum Allowable Amount

If, during the post endorsement technical review, FHA determines that a loan amount exceeds the maximum allowable (but does not exceed the statutory limit), or exceeds the maximum allowable LTV ratio, the appropriate HOC must require the lender to provide, within 30 days of the date of the letter or notification, evidence that the principal loan 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.

If a claim is presented to FHA, only the existing principal balance and other permissible costs will be considered by FHA for payment of the claim.

Reference: For more information on lender sanctions, see HUD 4155.2 9.D.

Continued on next page

5. Excessive Loan Amounts, Continued

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 the borrower to repay the amount, 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, including

- confirming status of the MIC
- requesting and downloading the MIC
- requesting corrected and duplicate MICs
- MIC section of ACT Codes
- correcting case numbers or ADP Codes on the note and security instrument
- ARM suffix codes for tracking ARM activity
- DE case suffix codes, and
- ARM type indicators.

Change Date

May 10, 2009

4155.2 8.C.6.a Confirming Status of the MIC

Lenders may confirm the endorsement status using the FHA Connection, 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	• FHAC, or • FHAC-B2G Case Query transaction	determine if the mortgage was endorsed by examining the *last action* field for *INSURED*. ***Note***: ECHO Connection Plus (EPC) users should call 1-888-711-2500 for information.

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	• FHAC MIC/NOR List transaction, or • FHAC-B2G Mass Case Query transaction	obtain a list of cases endorsed within a specific time period at the branch or corporate level. ***Note***: 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.

4155.2 8.C.6.b Requesting and Downloading the MIC

When requesting the MIC, the lender is required to specify whether the MIC is to be prepared in the name of the

- Originator (Loan Correspondent), or
- Sponsor.

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 either the originator or sponsor 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 the FHA Connection.

Reference: For instructions for 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 ACT Code

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 UFMIP.

Reference: For 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 security instrument. The ADP Code must be the same as that shown on the Addendum to the loan application (HUD-92900-A).

Documents do *not* need to be redrawn to correct the case number or 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 of the ADP Code.

The lender should provide the borrower with a copy of the documents containing the correct case number.

4155.2 8.C.6.f ARM Suffix Codes for Tracking ARM Activity

In order to track ARM activity, case number suffix codes (Section of the Act ADP Codes) are

- indicated on all HUD application addendums (Form HUD-92900-A), and
- printed on computer-generated MICs (Form HUD- 59100).

Continued on next page

6. Mortgage Insurance Certificates, Continued

4155.2 8.C.6.g DE Case Suffix Codes

The table below lists some of the suffix codes for DE cases.

Note: A complete list can be obtained via the FHAC.

Eligible Program	Section of the Act Suffix Code
203(b)	729
223(e)	829
203(k)	730
234(c)	731
247 Hawaiian Homelands	780
248 Indian Lands	788
203(k) Condominium	815

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 the FHA Connection.

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

May 10, 2009

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 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 of that the case binder was received and logged into FHAC/CHUMS by the HOC by reviewing the Case Status screen using the FHA Connection.

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 FHA review indicates that the degree of risk to HUD is not greater than what existed 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 a representative of the lender 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

Individuals found making false certifications may have administrative sanctions taken against them, 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 Reconsideration After Receiving an NOR

If the appropriate HOC returns a uniform case binder to the lender by issuing an 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
- the issuance of a subsequent NOR results in the lender's resubmission being received 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
- the 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.

Chapter 9. Monitoring Lender Performance

Table of Contents

Section A. Lender Monitoring Overview
Overview 9-A-1
1. General Information on Lender Monitoring 9-A-2

Section B. Lender Monitoring Tools
Overview 9-B-1
1. Post-Endorsement Technical Reviews (PETRs) 9-B-2
2. Lender Performance Reports 9-B-4
3. Underwriting Report System (URS) Reports 9-B-7
4. On-Site and Remote Lender Monitoring Reviews 9-B-10
5. Neighborhood Watch Early Warning System 9-B-12
6. Other Lender Monitoring Tools 9-B-13

Section C. Post-Endorsement Technical Review (PETR) Procedures
Overview 9-C-1
1. Targeting Lenders for PETRs 9-C-2
2. PETR Ratings 9-C-3
3. PETR URS Data Entry Requirements 9-C-5
4. Deficiency Letters and Lender Responses 9-C-7

Section D. Lender Sanctions
Overview 9-D-1
1. General Information on Lender Sanctions 9-D-2
2. Lender Probation 9-D-3
3. Withdrawal of Direct Endorsement (DE) 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-14

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 DE Lender Program monitoring
- lender monitoring tools, and
- types of lender sanctions.

Change Date

October 26, 2009

4155.2 9.A.1.a Importance of DE Lender Program Monitoring

Because the FHA substantive review of a loan occurs after the mortgage is endorsed, it is imperative that the lender's performance be continually monitored, and that action, when necessary, be taken by the appropriate Homeownership Center HOC as soon as underwriting deficiencies are identified.

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.

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 REV-2.

Continued on next page

1. General Information on Lender Monitoring, Continued

4155.2 9.A.1.c Types of Lender Sanctions

The following sanctions may be imposed by HOCs and/or the MRB:

- 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	Lender Performance Reports	9-B-4
3	Underwriting Report System (URS) Reports	9-B-7
4	Onsite and Remote Lender Monitoring Reviews	9-B-10
5	Neighborhood Watch Early Warning System	9-B-12
6	Other Lender Monitoring Tools	9-B-13

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

May 10, 2009

4155.2 9.B.1.a Purpose of the PETR

FHA performs a PETR on selected cases to evaluate

- the risk that the loan represents to FHA's insurance funds, and
- the compliance of the lender with FHA's
  – underwriting requirements, and
  – documentation requirements.

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 DE program. Because underwriting decisions rely heavily on the subjective interpretation of the DE mortgage lender, it is imperative that FHA quickly identify and correct mortgage lender underwriting deficiencies.

Continued on next page

1. Post Endorsement Technical Reviews (PETRs), Continued

4155.2 9.B.1.c HOC PETR Responsibilities

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 quality underwriting and closing is maintained. 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.

Reference: For more information on PETR ratings, see HUD 4155.2 9.C.2.

4155.2 9.B.1.d LI Lender Submission Requirements for Case Binders Selected for PETR

For those mortgage insurance applications that the lender endorses for insurance through the LI program that receive an electronic notice of intent to review, the lender must provide the case binder, either in paper or digitized format, depending on which process the lender has chosen, within 5 business days of FHA's transmittal of its 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.

Reference: 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, and
- LI case binder submission, see HUD 4155.2 8.B.7.

2. Lender Performance Reports

Introduction

This topic contains information on lender Performance Reports, including

- a description of the Lender Performance Report, and
- the sections of the Lender Performance Report.

Change Date

May 10, 2009

4155.2 9.B.2.a Description of the Lender Performance Report

FHA generates a monthly statistical report, available to lender and FHA staff, that details each DE lender's underwriting and appraisal performance.

The report provides

- summary information based on PETRs, and
- a picture as to
  - how well each branch office is performing within the local jurisdiction, and
  - the 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
- the two months prior to the last reporting month, and
- the 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. Lender Performance Reports, Continued

4155.2 9.B.2.b Sections of the Lender Performance Report

The table below describes the eight sections of the Lender Performance Report.

Report Section	Description
Section 1 – Lender Performance by Branch	For each active branch office and loan correspondent, this section lists the • number of cases insured • number of cases issued a Notice of Return (NOR), and • NOR rate on endorsement submissions.
Section 2 – Underwriting Performance	This section provides a summary of underwriting ratings based on Underwriter/Valuation and Mortgage Credit technical reviews for active underwriters employed by the lender. ***Note***: The last completed level of review is reported if several levels of review are required.
Section 3 – Cases Rated Unacceptable – Underwriting	This section lists, by FHA case number, the cases that received "Unacceptable" ratings for either the Underwriter/Valuation or Mortgage Credit technical review. This section also lists the • names of the underwriters • reason codes for the "Unacceptable" ratings, and • names of the borrowers.
Section 4 – Cases Rated Mitigated – Underwriting	This section lists, by FHA case number, the cases that received "Mitigated" ratings for either the Underwriter/Valuation or Mortgage Credit technical review. This section also lists the • names of the underwriters • reason codes for the "Unacceptable" ratings that were mitigated, and • names of the borrowers.

Continued on next page

2. Lender Performance Reports, Continued

4155.2 9.B.2.b Sections of the Lender Performance Report (continued)

Report Section	Description
Section 5 – Cases Rated Deficient – Underwriting	This section lists, by FHA case number, the cases that received "Deficient" ratings for either the Underwriter/Valuation or Mortgage Credit technical review. This section also lists the • names of the underwriters • reason codes for the "Deficient" ratings, and • names of the borrowers.
Section 6 – Appraiser Performance Data	This section provides a summary of appraiser reviews for the appraisers used by the lender for whom a sanction or action was imposed (based on field reviews). This section also includes the • names of the appraisers • number of field reviews performed, and • sanctions or actions imposed.
Section 7 – Case Actions – Appraisers	This section lists, by FHA case number, the cases for which the lender used an appraiser for whom a sanction or action was imposed (based on field reviews). This section also lists the • lender's case references, and • names of the borrowers.
Section 8 – National Performance – Summary Rates	For each HUD field office, this section lists • the percentage of Unacceptable, Mitigated, and Deficient ratings for the Underwriter/Valuation and Mortgage Credit technical reviews for all underwriters/lenders • the number of appraiser sanctions or actions imposed, based on field reviews, and • the overall NOR rate for each HUD field office. ***Note***: National totals are provided at the end of each part of this section.

3. Underwriting Report System (URS) Reports

Introduction

This topic contains information on URS reports, including

- a description of the URS reports
- URS report requests and retrieval, and
- a listing of the available URS reports.

Change Date

May 10, 2009

4155.2 9.B.3.a Description of URS Reports

The Underwriting Report System (URS) is the system into which all PETRs are entered upon completion of the review. 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 FHAC. The FHAC Report Retrieval function 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.

4155.2 9.B.3.c Available URS Reports

The table below lists the URS reports that are available.

Report Number/Name	Description
F17NHCA – URS Ratings Changed Report	This report lists, by underwriter review contractor, the cases for which the mortgage credit analysis review (M/C) 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. Included are 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).

Continued on next page

3. Underwriting Report System (URS) Reports, Continued

4155.2 9.B.3 Available URS Reports (continued)

Report Number/Name	Description
F17NMCA – Lender Summary Report	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). 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 HOC.
F17NNCA – URS Ratings Detail Report	This report lists, by originator and/or sponsor/agent, the case details of the review, including the • type of review (post-endorsement and/or test (pre closing) case) • review level • review ratings, • reviewer (HOC staff and/or contractor), and • deficiency codes. 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.

Continued on next page

3. Underwriting Report System (URS) Reports, Continued

4155.2 9.B.3 Available URS Reports (continued)

Report Number/Name	Description
F17NOCA – URS Lender Letter Report	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). The following three different versions of the report can be requested: • letters sent and not responded to by the lender • letters sent and responded to by the lender, and • letters that should have been sent. Each version of the report lists, by originator and underwriter, the cases for which a letter was sent, or should have been sent, either • within the last 30 days or less • more than 30 days and less than 90 days ago, or • 90 days ago or later.

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 (e.g. random or comprehensive)
- the performance of onsite and remote lender monitoring reviews
- elements of the review, and
- lender notification at the conclusion of the review.

Change Date

May 10, 2009

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 HOC Quality Assurance Division (QAD) conducts onsite and remote reviews. These reviews 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, and
- an analysis of the lender's origination and/or servicing policies.

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 Quality Control Plan
- proper verification of all income, assets, and liabilities utilized to underwrite and approve the loan
- proper verification as to 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 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.

4155.2 9.B.4.e Lender Notification at Conclusion of Review

At the conclusion of the onsite and remote lender monitoring review, any findings are discussed 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
- stating 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

May 10, 2009

4155.2 9.B.5.a Description of the Neighborhood Watch Early Warning System

Neighborhood Watch is intended to aid

- FHA staff in monitoring both lenders and FHA programs, and
- lenders in analyzing their own and other's early default and claim performance.

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 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, but have been subsequently cured.

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 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

May 10, 2009

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 HOC staff to assess the knowledge and judgment of lender underwriters.

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 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 following topics.

Topic	Topic Name	See Page
1	Targeting Lenders for PETRs	9-C-2
2	PETR Ratings	9-C-3
3	PETR URS Data Entry Requirements	9-C-5
4	Deficiency Letters and Lender Responses	9-C-7

1. Targeting Lenders for PETRs

Introduction

This topic contains information on targeting lenders for PETRs, including the requirement for the percentage of cases reviewed for

- new DE lenders
- existing DE lenders, and
- DE lenders released from probation status.

Change Date

May 10, 2009

4155.2 9.C.1.a Requirement for Percentage of Cases Reviewed for New DE Lenders

When a new lender is granted unconditional DE approval, 100 percent of the first 30 cases are reviewed.

4155.2 9.C.1.b Requirement for Percentage of Cases Reviewed for Existing DE Lenders

The percentage of cases reviewed for existing DE lenders is established at 5 percent of endorsed loans originated by each lender's home and branch offices. A higher percentage of reviews may be set at the HOC's discretion, based on

- the percentage of the lender's cases receiving an Unacceptable rating
- the recommendation of QAD
- complaints from borrowers, and
- other factors considered appropriate by the HOC.

4155.2 9.C.1.c Requirement for Percentage of Cases Reviewed 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
- 100 percent of the first 30 cases.

2. PETR Ratings

Introduction

This topic contains information on the PETR ratings, including

- risk-based evaluation of loans, and
- PETR ratings.

Change Date

May 10, 2009

4155.2 9.C.2.a Risk-Based Evaluation of Loans

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 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	The loan presents an acceptable level of risk, and no documentation deficiencies or processing errors were identified. The basic eligibility of the borrower and/or property for FHA mortgage insurance are not questioned.

Continued on next page

2. PETR Ratings, Continued

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

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

Note: There are no automatic ratings. Rather, the reviewer must make an overall determination of the level of risk represented by the loan, and assign a rating accordingly.

3. PETR URS Data Entry Requirements

Introduction

This topic contains information on the requirements for entry of PETR data into URS, 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

May 10, 2009

4155.2 9.C.3.a Accessing the URS Module

All data in connection with PETRs must be entered 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.

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 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 HOC staff or by a contractor.
Quality Control	The Quality Control level is used to enter the results of quality control reviews of the initial reviews performed by contractors.

Continued on next page

3. PETR URS Data Entry Requirements, Continued

4155.2 9.C.3.b PETR Review Levels (continued)

Review Level	Description
Supervisory/GTR	The Supervisory/Government Technical Representative (GTR) review level is used to confirm or revise changes in ratings made at the Quality Control level.
Other	The "other" level of review is used to • enter changes in ratings based on lender responses to ratings from earlier level reviews, or • otherwise confirm or change ratings from earlier review levels.

4155.2 9.C.3.c Entry of Ratings and Deficiency Codes into URS

For both the Mortgage Credit and Valuation underwriting 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

May 10, 2009

4155.2 9.C.4.a Requirement for Issuing a Deficiency Letter

The HOC *must* issue a deficiency letter to the lender for *each* loan receiving a rating of Unacceptable for Mortgage Credit and/or Valuation underwriting. The letter must

- identify the specific deficiencies upon which the unacceptable rating was based, and
- provide the lender with 30 days, unless an extension is granted, to submit a response, including any explanations or documentation explaining the decision to approve the mortgage.

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 the Department 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	• changes the Unacceptable rating to Mitigated in URS, and • notifies the lender that the PETR has been closed.
• does *not* respond to the deficiency letter, or • does not provide a response that adequately addresses the deficiencies on which the Unacceptable rating was based	forwards a recommendation to QAD for an Indemnification Agreement.

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 (DE) 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-14

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

May 10, 2009

4155.2 9.D.1.a Application of Sanctions Against a Lender

Various sanctions exist that allow the HOCs and FHA the flexibility to respond appropriately to any noncompliance action by a 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, consider

- 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

May 10, 2009

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 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 or branch office fails to comply with DE Program requirements, the HOC may place the office on probation. The sanction imposed under the lender probation must depend upon the seriousness of the problems and deficiencies exhibited by the lender. A return to pre closing status is viewed 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 mortgage 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	The HOC may • place a mortgage lender back in pre-closing review status, • subject the lender's cases to technical underwriting reviews and firm commitment processing prior to endorsement. Pre closing review status continues until the • mortgage lender corrects underwriting deficiencies, or • mortgage lender's DE approval is withdrawn. ***Reference***: For information on reasons for placing a lender in pre closing review status, see HUD 4155.2 9.D.2.e.
Lender Audit	The HOC may require the mortgage lender to perform a review or audit of its underwriting processes and report results to the HOC. The HOC may also conduct an on-site mortgage lender monitoring review.
Quality Control Plan	The HOC may require the mortgage lender to make changes to its Quality Control Plan.

4155.2 9.D.2.c Lender Notification of Probation

A written notice of the probation action must be sent by the HOC 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 percent or more of its 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
  - QAD has recommended that the lender be returned to pre closing status based on the results of on-site or other reviews conducted of that lender.

3. Withdrawal of Direct Endorsement (DE) Authority

Introduction

This topic contains information on the withdrawal of DE lender status and/or FHA approval, including

- the policy on withdrawing DE lender approval status
- notification of the Withdrawal of DE lender status
- the effective date of the DE lender status withdrawal
- the lender/HOC informal conference and follow-up
- MRB withdrawal of FHA basic approval, and
- the effect of the withdrawal of DE and/or FHA approval on cases in process.

Change Date

May 10, 2009

4155.2 9.D.3.a Policy on Withdrawing DE Lender Approval Status

The HOC may withdraw the DE lender approval of any mortgage lender 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 mortgage lender. The notice

- is sent and applies specifically to the mortgage lender office that submitted the non-complying cases
- states the grounds for action, and
- informs the mortgage 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
- the 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 mortgage 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, if any, actions have been taken to address the problems identified.

Following the informal conference, the HOC decision-maker advises the mortgage lender, in writing, as to whether the withdrawal is 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 of any lender in violation of FHA requirements or the non-discrimination requirements of the 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 mortgage lender may not originate, service, or purchase any FHA-insured mortgages.

Reference: For information on applying for basic FHA approval, see HUD 4155.2 2.A.1.d.

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 mortgage lender received notification of the withdrawal of its DE approval or FHA approval, may be closed under the DE Program and submitted to FHA for endorsement.

All other applications in process must be transferred to another DE-approved mortgage lender for completion of processing, submission and endorsement.

4. Use of Indemnification Agreements

Introduction

This topic contains information on the use of an indemnification agreement, including

- the policy on the use of an indemnification agreement
- who requests indemnification
- the terms of the indemnification agreement, and
- the duration of an indemnification agreement.

Change Date

May 10, 2009

4155.2 9.D.4.a Policy on the Use of Indemnification Agreements

Mortgage lender violations that significantly increase FHA's risk, and were caused by fraud or negligence on the part of the mortgage lender, should result in an indemnification agreement with mortgage lender.

4155.2 9.D.4.b Who Requests Indemnification

Indemnification is requested by either the

- HOC, through the Quality Assurance Division, when appropriate, or
- Office of Lender Activities and Program Compliance, located at FHA Headquarters, in lieu of referring the matter to the MRB.

4155.2 9.D.4.c Terms of an Indemnification Agreement

Under an indemnification agreement, the originating mortgage 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 the FHA's discretion.

5. Civil Money Penalties

Introduction

This topic contains information on civil money penalties, including

- grounds for levying civil money penalties
- who may receive a civil money penalty
- who imposes a civil money penalty
- the process for referring a case for consideration of a civil money penalty, and
- examples of civil money penalty infractions.

Change Date

May 10, 2009

4155.2 9.D.5.a Grounds for Civil Money Penalties

FHA may impose civil money penalties upon those (both individual and corporate) connected with an insured mortgage who knowingly and materially

- do *not* implement a Quality Assurance 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 civil money penalty infractions, see HUD 4155.2 9.D.5.e.

4155.2 9.D.5.b Who May Receive a Civil Money Penalty

Civil money penalties may be imposed upon mortgage lenders and other program participants, such as

- real estate agents
- real estate brokers
- appraisers
- inspectors, and
- closing agents.

Continued on next page

5. Civil Money Penalties, Continued

4155.2 9.D.5.c Who Imposes a Civil Money Penalty

The imposition of civil money penalties is the responsibility of the

- MRB, for penalties against mortgage lender program participants, and
- Assistant Secretary for Housing/Federal Housing Commissioner for penalties against any other participants.

4155.2 9.D.5.d Process for Referring a Case for Consideration of a Civil Money Penalty

The table below describes the stages of 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	The HOC refers a mortgage 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 *knowingly* and *materially* engaged in violations of the FHA's rules or requirements. ***Note***: The term • "*knowingly*" means that the program participant had actual knowledge of the violations or was acting with deliberate ignorance or reckless disregard of the FHA's requirements, and • "*materially*" 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 Process for Referring a Case for Consideration of a Civil Money Penalty (continued)

Stage	Description
2	The Director of the Office of Lender Activities and Program Compliance (OLAPC) located at FHA Headquarters reviews the HOC referral for • 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	The Director of the OLAPC coordinates the referral and, if appropriate, submits the case to the MRB or Assistant Secretary for Housing/Federal Housing Commissioner for action.

Continued on next page

5. Civil Money Penalties, Continued

4155.2 9.D.5.e Examples: Civil Money Penalty Infractions

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

May 10, 2009

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:
- 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 HOC's 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	An LDP may be issued against an individual, other program participant or contractor based upon adequate evidence of any of the following: • 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.)	***Exceptions***: FHA-approved mortgage lenders are not eligible for LDP. ***Note***: A decision to order an LDP is discretionary and should be imposed only in the best interest of Government. ***Reference***: For more information on LDPs, see 24 CFR 24.1100 through 24.1165.
Scope of LDP	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. 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**.**
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 Debarment

The table below provides details regarding 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 • 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

Chapter 10. Changes After Insurance Endorsement

Table of Contents

Section A. Policies on Changes After Endorsement
Overview 10-A-1
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

Section B. Changes in Home Location After Insurance Endorsement
Overview 10-B-1
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

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

May 10, 2009

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 making decisions as to whether 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
- the FHA regulations issued pursuant to these authorities.

Reference: For information on the Fair Housing Act, the 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 that require prior FHA approval
- the FHA policy on approving a change in first payment date and/or maturity
- the FHA policy on requests for an increase in value, and
- requests to amend an application to include special assessments.

Change Date

May 10, 2009

4155.2 10.A.2.a Types of Changes Requiring Prior FHA Approval

The table below lists

- the types of changes made to the mortgage terms or property after insurance that may be allowed but that 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 *not* 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 (removing 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 FHA Policy on Approving a Change in First Payment Date/Maturity

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 HOCs 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 CHUMS.

When occupancy of the property by the borrower is delayed because of delays of 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 FHA Policy on 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

If a request to amend an application to include special assessments (which were liens prior to endorsement for insurance) is received after the mortgage has been insured, the lender must be advised that it is impossible to grant such a request. 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 lender requests for these statements, 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

- the policy on seeking guidance from the HOC for corrections to original instruments, and
- correcting two common types of errors.

Change Date

May 10, 2009

4155.2 10.A.3.a Seek Guidance From the HOC for 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 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	When there is an incorrect legal description • a 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 • if it is necessary to present a new credit instrument for insurance, the transaction must be handled as a new case. The final determination of the method used to correct the errors in such cases should be left to the discretion of the lender, who would have the responsibility of being able to complete foreclosure in the event of default, and otherwise comply with the insurance contract. ***Note***: 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.
Incorrect or Discrepant Signature on Mortgage or Note	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 • marked with the case number, and • submitted to the appropriate HOC. Upon receipt and review of the letter, the appropriate HOC notifies the lender of any further action that must be taken by the lender.

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

May 10, 2009

4155.2 10.B.1.a Background Information on a Change in Home Location

Following insurance 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 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

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.

Note: The HOC performs this procedure.

Step	Action
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? • If *yes*, go to Step 5. • If *no*, go to Step 4.
4	If the change in location is *unacceptable* • notify the lender • do not maintain the supplementary binder • retain a copy of the HOC decision in the loan servicing file, and • this completes this procedure.

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	Action
5	If the change of location is *acceptable* • prepare a letter to the lender stating that – 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. ***Note***: 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.
6	Once the home is relocated • 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. ***Note***: 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.
7	Upon completion of a satisfactory inspection • 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

May 10, 2009

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

- 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.

Reference: For information on the requirements for the lender's request and the supplementary case binder, see HUD 4155.2 10.B.1.b.

Chapter 11. Partial Release of Security

Table of Contents

Chapter 11. Partial Release of Security

1. When FHA Approval Is or Is Not Required for a Partial Release of Security 11-1
2. FHA Procedures for Processing a Request for a Partial Release of Security 11-3

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. ***Note***: If the request does *not* 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	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. ***Note***: Notify the lender of any necessary architectural processing and/or required site inspection of the remaining property after release.
3	Conduct and document an analysis that includes development of the following information: • the estimated value *before* release • the estimated value of the *area to be released*, estimating the value as follows: – if the area is *not* capable of separate utilization, indicate its value as a fragmental portion of the entire property – if the area *is* 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 *no* 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 *after* release and *after* 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	Determine whether the remaining mortgage security is less marketable as a result of the severance at the Estimate of Value determined in Step 3.

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	Determine if a reduction in the mortgage amount is necessary. ***Note***: A reduction to the principal mortgage amount is *not* necessary if the loan to value (LTV) ratio is 75 percent or less. Apply the LTV percentage to the maximum mortgage amount available *after* the release and *after* any proposed improvements are completed.
6	Complete a disposition of the lender's request. If the lender's request is • *approved*, go to Step 7, or • *rejected*, go to Step 8.
7	If the lender's request is approved, • notify the lender in writing that – 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	If the lender's request is • *rejected*, notify the lender in writing and place the papers in the HOC general correspondence file, or • *rejected, but alternative methods may be suggested which will allow for approval*, then send a letter to the lender suggesting either – 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. ***Reference***: For information on the requirements for insurance check endorsement by FHA, see HUD 4155.2 11.2.c.

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

Chapter 12. Exhibits

Table of Contents

Section A. Mortgage and Note Form Exhibits

Overview 12-A-1
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

Section B. System Code and Error Exhibits

Overview 12-B-1
1. Exhibit 1: Home Mortgage ADP Codes 12-B-2
2. Exhibit 2: Program Identification Codes 12-B-6
3. Exhibit 3: FHA Common System Errors and Documentation Problems 12-B-10
4. Exhibit 4: PETR Deficiency Codes 12-B-13

Section C. Mortgage Lender Letter Exhibits

Overview 12-C-1
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

Continued on next page

Table of Contents, Continued

Section D. Pre-Endorsement Checklist Exhibits

Overview 12-D-1
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

Section E. Other Loan Program Exhibits

Overview 12-E-1
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

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 May 10, 2009

4155.2 12.A.1.a Model Mortgage Form Example (pg.1)

The following is an example of the *Model Mortgage Form*.

FHA Case No.

_____ Space Above This Line for Recording Data _____

MORTGAGE

THE MORTGAGE (Security Instrument) is given on _____, 20___. The Borrower is _____ whose address is _____ (Borrower). This Security Instrument is given to _____, which is organized and 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 as this Security Instrument (Note), which provides for monthly payments, with the full debt, if not paid earlier, due and payable on _____.

This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, with interest, and all renewals, extensions and modifications of the Note: (b) the payment of all other sums, with interest, advanced under Paragraph 7 to protect the security of this Security Instrument; and (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Note. For this purpose, Borrower does hereby mortgage, warrant, grant and convey to the Lender with power of sale the following described property located in _____County, Michigan: which has the address of _____ [Street] _____ [City], _____ [State] _____ [Zip Code], (Property Address);

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, appurtenances, and fixtures now or hereafter a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that borrower is lawfully seized of the estate hereby conveyed and has the right to mortgage, grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all 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, Borrowers 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 describes the 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
- additional paragraph instructions, and
- signatures.

Change Date

May 10, 2009

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 FNMA/FHLMC security instrument for the jurisdiction, except where HUD has determined that differences are needed to reflect HUD policy and practice.

Reference: For additional instructions about the security instrument, see HUD 4155.2 6.B.

4155.2 12.A.2.b Language Preceding Uniform Covenants

Use FNMA/FHLMC language, but add a box for the FHA Case No., 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 and/or 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.

Continued on next page

2. Instructions for Completing the Model Mortgage Form,
Continued

4155.2 12.A.2.c Uniform Covenants

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

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

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 or Paragraph 18 regarding the new Single Family Mortgage Foreclosure Act, which provides an alternative foreclosure procedure under Federal law.

Continued on next page

2. Instructions for Completing the Model Mortgage Form, Continued

4155.2 12.A.2.f Additional Paragraphs Instructions

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.

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

For signatures and other authorizations, 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 May 10, 2009

4155.2 12.A.3.a Model Note Form Example

The following is an example of the *Model Note Form*.

FHA Case No.

NOTE

[Date]

[Property Address]

A

1. **Parties**
"Borrower" means each person signing at the end of this Note, and the person's successors and 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 sum of _____ Dollars (U.S. $_____), plus interest, to the order of Lender. Interest will be charged on unpaid principal, from the date of disbursement of the loan proceeds by lender, at the rate of _____ 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 security instrument that is dated the same date as this Note and called the "Security Instrument." The Security Instrument protects the lender from losses which might result if Borrower defaults under this Note.

4. **Manner of Payment**
(A) **Time**
Borrower shall make a payment of principal and interest to Lender on the first day of each month beginning on _____, 20__. Any principal and interest remaining on the first day of _____, 20 will be due on that date, which is called the maturity date.
(B) **Place**
Payment shall be made at _____ or at such place as Lender may designate in writing by notice to Borrower.

4. Exhibit 3: Model Adjustable Rate Note Form

Change Date May 10, 2009

4155.2 12.A.4.a Model Adjustable Rate Note Form Example

The following is an example of the *Model Adjustable Rate Note Form*.

FHA Case No.

ADJUSTABLE RATE NOTE

[Date]

[Property Address]

1. **Parties**
"Borrower" means each person signing at the end of this Note, and the person's successors and 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 sum of _____ Dollars (U.S. $____), plus interest, to the order of Lender. Interest will be charged on unpaid principal, from the date of disbursement of the loan proceeds by Lender, at a rate of ___ percent (%) per year until the full amount of principal has been paid. The interest rate may change in accordance 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 security instrument that is dated the same date as this Note and called the "Security Instrument." That Security Instrument protects the Lender from losses which might result if Borrower defaults under this Note.

4. **Manner of Payment**
(A) **Time**
Borrower shall make a payment of principal and interest to Lender on the first day of each month beginning on _____, 20__. Any principal and interest remaining on the first day of _____ 20 ___, will be due on that date, which is called the maturity date.

Notes:
- For Maryland, the Note may be amended if the borrower does not voluntarily elect to pay interim interest at closing

Continued on next page

4. Exhibit 3: Model Adjustable Rate Note Form, Continued

4155.2 12.A.4.b Additional Notes About the Model Adjustable Rate Note Form

Include any required or customary form or authentication.

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/FHLMC 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 _____ 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 the same date given by the undersigned _____ (Borrower) to secure Borrower's Note to _____ (Lender) of the same date (Note) and covering the property described in the Security Instrument and located at:

[Property Address]

THIS NOTE PROVIDES FOR DEFERRED INTEREST AND INCREASING MONTHLY INSTALLMENTS ACCORDING TO A SCHEDULE IN THE NOTE. DEFERRAL OF 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 contained in this Graduated Payment Rider.

_____ (SEAL)
Borrower

_____ (SEAL)
Borrower

[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 be deemed to amend and supplement the Note (Note) of the same date, given by the undersigned (Borrower) to evidence 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 and located at:

[Property Address]

Notwithstanding anything to the contrary set forth in the Note, Borrower hereby agrees to the following:

1. AS AMENDED, THE NOTE PROVIDES FOR DEFERRED INTEREST AND INCREASING MONTHLY INSTALLMENTS. DEFERRED INTEREST SHALL BE ADDED TO THE PRINCIPAL MONTHLY AND SHALL INCREASE THE PRINCIPAL BALANCE TO NOT MORE THAN _____ DOLLARS (U.S. $_____.)

2. The payment amount in Paragraph 4(C) of the Note is applicable only during the first note year. The 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.

_____ (SEAL)
Borrower

_____ (SEAL)
Borrower

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 _____ day of _____, 20__, and is incorporated into and shall be deemed to amend and supplement the Note (Note) of the same date, given by the undersigned (Borrower) to evidence 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 and located at:

[Property Address]

Notwithstanding anything to the contrary set forth in the Note, Borrower hereby agrees to the following:

1. AS AMENDED, THE NOTE PROVIDES FOR INCREASING MONTHLY INSTALLMENTS.

2. The payment amount in Paragraph 4 (C) of the Note is applicable only during the first note year. This 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.
   (Continue this schedule for each of the remaining note years.)

   BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Amendment.

_____ (SEAL)
Borrower

_____ (SEAL)
Borrower

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__, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed {Security Instrument} of the same date 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 and located at:

[Property Address]

The Property includes a unit in, together with an undivided interest in the common elements of, a condominium project known as:

[Name of Condominium Project]

(Condominium Project). If the owners association or other entity which acts for the Condominium Project (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 benefits of Borrower's interest.

CONDOMINIUM 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 maintains, with a generally accepted insurance carrier, a "master" or "blanket" policy insuring all property subject to the condominium documents, including all 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 hazards 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 monthly payment to Lender of one-twelfth of the yearly premium installments for hazard insurance on the Property, 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 Rehabilitation Loan Rider Example (Pg. 1)

The following is an example of the *Rehabilitation Loan Rider*.

THIS REHABILITATION LOAN 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 the same date 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 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 advances shall be made unless approved by the Secretary of Housing and Urban Development or a Direct Endorsement Underwriter.

B. If the rehabilitation is not properly completed, performed with reasonable diligence, or is discontinued at any time except for strikes or lockouts, the Lender is vested with full authority to take the necessary steps to protect the rehabilitation improvements and property from harm, continue existing contracts or enter into necessary contracts to complete the rehabilitation. All sums expended for such protection, exclusive of the advances of the principal indebtedness, shall be added to the principal indebtedness, and secured by the Security Instrument and be due and payable on demand with interest as set out in the Note.

C. If Borrower fails to perform any obligation under the loan, including the commencement, progress and completion provisions of the Rehabilitation Loan Agreement, and such failure 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 interest in 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 _____, 20__, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed (Security Instrument) of the same date 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 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 facilities), acting as trustee for the homeowners, maintains, with a generally accepted insurance carrier, a "master" or "blanket" policy insuring the property located in the PUD, including all improvements now existing or hereafter erected on the mortgaged premises, and such policy is satisfactory to Lender and provides insurance coverage in the amounts, for the periods, and against the hazards 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 monthly 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 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 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 to 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 does 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 May 10, 2009

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 _____, 20__, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed (Security Instrument) of the same date 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 and 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 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 assuring compliance by the Borrower with the provisions of this Tax-Exempt Financing Rider, may 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 other transferee:

(i) Who cannot reasonably be expected to occupy the property as a principal residence within a reasonable time after the sale or transfer, all as provided in Section 143(c) and (i)(2) of the Internal Revenue Code; or

(ii) Who has had a present ownership interest in a principal residence during any part of the three-year period ending on the date of the sale or transfer, all as provided in Section 143(d) and (i)(2) of the Internal Revenue Code (except that "100 percent" shall be substituted for "95 percent or 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(e) and (i)(2) of the Internal Revenue Code; or

(iv) Who has a gross family income in excess of the applicable median family income 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 homebuyers.

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 the Mortgage, Deed of Trust or Security Deed (Security Instrument) of the same date 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 and located at:

[Property Address]

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and under 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__. Any 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 life of a 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. The purchaser shall receive a lease for the remaining term of the existing lease unless the tribe 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 and supplemented as follows:

Notwithstanding any provisions to the contrary, this lease may serve as security for any leasehold mortgage insured or held by the Secretary of the Department of Housing and Urban Development, and the 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 to be applied in the same manner as condemnation proceeds under the terms of the mortgage.
(2) Assignment of this lease is restricted to those persons who have received certificates issued by the Department of Hawaiian Home Lands certifying that the assignee or assignees are native Hawaiians 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 Housing and Urban Development.
(4) Any casualty insurance proceeds are to be applied in accordance with the provisions of the leasehold mortgage.

IN WITNESS WHEREOF, the parties have executed this rider to acknowledge the attachment hereof to 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 mortgage insured or held by the Secretary of Housing and Urban Development are contained in the Department of Hawaiian Home Lands Mortgage Insurance Program Rider, which is attached to this lease and made a part thereof.

Dated: _____, 20_____

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

By: _____
LESSEE

By: _____
CHAIRMAN COMMISSIONER
HAWAIIAN HOMES COMMISSION
LESSOR

LEASE NO. _____ LOT NO. _____

HOMESTEADER _____

Revised May 2004

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 _____, 20__, and is incorporated into and shall be deemed to amend and supplement the Mortgage Deed of Trust or Security Deed (Security Instrument) of the same date given by the undersigned (Borrower) to secure Borrower's 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 in the Security Instrument, 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 a principal residence, and [mark applicable item(s)]:

1. The Security Instrument is for a streamline refinance of a loan which was previously FHA 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 Property Disposition 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 assignment as provided in Section 216 or Subsection (b)(4) or (f) of Section 222 of the National Housing Act.

5. The Security Agreement is for property sold to a state or local government agency or a non-profit organization (qualified under Section 501(c)(3) of the Internal Revenue Code) that intends to sell 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 of Borrower and is 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.

_____ (SEAL)
Borrower

_____ (SEAL)
Borrower

[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 _____ 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 the same date 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 and 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 Paragraph 2 of the Security Instrument, an amount to be held by Lender to assure proper servicing, maintenance, repair and replacement of individual residential water purification equipment for the Property. Each monthly amount shall equal $_____, unless and until the amount is adjusted by Lender as provided herein.

At least annually, Lender shall determine whether any adjustment is necessary to ensure that sufficient funds will be accumulated to make anticipated disbursements in a timely manner, and inform Borrower of any adjustment. This determination shall be performed without regard to other items for which Lender maintains an escrow account such as taxes and hazard insurance 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 normal servicing, maintenance, repair and replacement of the water purification equipment.

2. Disbursements shall be made solely to [maintenance organization named in service contract] or its successor, [agent approved by local health authority to perform testing or other services 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 the same date 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 and 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 membership 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, a "master" 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 Lender and provides insurance coverage in the amounts, for the periods, and against the hazards 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 monthly 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 hazard insurance coverage on the Property is deemed satisfied to the extent that the required 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. THIS FORM IS PROVIDED AS AN EXAMPLE AND IS NOT VALID AND ENFORCEABLE IN ALL JURISDICTIONS. LENDERS SHOULD CONSULT WITH LEGAL COUNSEL TO ENSURE THAT ALL FORMS USED TO ORIGINATE LOANS ARE APPROPRIATE, AND THAT ALL LEGAL 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 Loan) to _____ and its successors and assigns (the Note Holder) and dated the same date as this Addendum (the Note). The Note is secured by a security instrument, as modified or amended, in favor of the Lender dated the same date as this Addendum (the Security Instrument). All terms defined in the Note shall have the same meaning in this Addendum.

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Note, Note Holder 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 loan. 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 consummates (the Closing Date) until the first day of the month following the Completion Date specified in 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-6
3	Exhibit 3: FHA Common System Errors and Documentation Problems	12-B-10
4	Exhibit 4: PETR Deficiency Codes	12-B-13

1. Exhibit 1: Home Mortgage ADP Codes

Change Date May 10, 2009

4155.2 12.B.1.a ADP Codes

The table below lists the ADP codes commonly used in processing FHA-insured home mortgages. The codes are presented according to the Section of the National Housing Act under which FHA 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
	Federal National Mortgage Association (FNMA) Direct Financing	---	550	---	250
	HHL	759	---	---	259
	Alternate GPM	761	561		261
	HHL/ARM	780	---	---	280
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
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
234(c)	ARM	731	531	---	231
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
255	**HECM Assignment/Fixed**	951	---	---	911
	HECM-Assignment/ARM	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	957	---	---	917
	HECM-Condominium/ARM	958	---	---	918

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 percent Down Payment Program (3 percent DPMT)	748	548	348	248
	All GI Section-3 percent 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 October 26, 2009

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), VA-CRV, and 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	• Case not guaranteed by the military • Inactive ***Note***: Code 00 will be applicable for guaranteed cases.

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	• Special veteran provision, guaranteed Inactive
12		• Special veteran provision, not guaranteed Inactive
13	Sections 220(d)(3)	Special veteran provision
14	Sections 203, 220, & 809	• Veteran in urban renewal area • Inactive
15		• Veteran in model city area • Inactive
16		• Veteran in model city area in urban renewal area • Inactive
17		• Veteran in periphery of model city area • Inactive
18		• Veteran in periphery of model city area in urban renewal area • Inactive
19	All home mortgage, home improvement, and fee simple title loan transactions	• Located in model city area • Inactive
20		• Veteran in periphery of model city area in urban renewal area • Inactive
21		• Veteran in periphery of model city area • Inactive
22		• 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		• Family unit in condominium in urban renewal area • Inactive
25		• Family unit in condominium in model city area • Inactive
26		• Family unit in condominium in model city area in urban renewal area • Inactive
27		• Family unit in condominium in periphery of model city area • Inactive
28		• 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)	• Resale of a conventionally financed unit–veteran • Inactive
31		• 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 ***Note***: Obsolete; Section of the Act ADP Codes now apply.
50	Sections 203(b), 203(k) 203(n), 233, 244, & 245	Solar Energy dwelling for veterans
51	Sections 203(b), 203(k), 203(n), 233, 244, 245, & 809	Solar Energy dwelling 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 May 10, 2009

4155.2 12.B.3.a Common System Problems

The table below describes the common FHA system problems, and provides information for resolving the problems.

When the Problem Error Message is ...	Then ...
Mortgage Amount cannot exceed $XXXX for a value of $YYYYY	verify • that the question *MIP Financed?* is correctly answered • that the UFMIP amount is paid in the case • the ADP code • that the *previous REO case* is correct, and • the mortgage amount and value entries.
Monthly P & I not within acceptable range of $XXX.XX to $YYY.YY	verify the • mortgage term, and • mortgage amount and interest rate entries.
Mortgage Amount exceeds statutory limit	verify • the number of units • the county code • that the question *MIP Financed?* is correctly answered, and • if it is an Emergency Efficient Mortgage.
Address mismatch (refinance)	• verify – the address with the one on the payoff statement, and – that the old case number is the borrower's, and • contact the HOC 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	• research all case numbers cited, and • provide updated status of each case in the binder. ***Note***: If the property was sold, provide the HUD-1.

4155.2 12.B.3.b Common Documentation Problems

The table below describes common documentation problems and provides information for resolving the problems.

When the documentation problem message is ...	Then ...
Appraisal and HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary 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	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 60th 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 May 10, 2009

4155.2 12.B.4.a PETR Deficiency Codes

When conducting the PETR, the reviewer assigns one or more deficiency codes from the table below to identify the risk element, documentation deficiency or processing error present in the loan.

Code	Deficiency
M01A	Invalid SSN or TIN
M01B	Legal Residency for non-U.S. citizens
M01C	Borrower not occupant, property not principal residence
M01D	Qualifying ratios exceeded
M01E	Borrower deleted on streamline loan
M01F	Other borrower eligibility/qualification deficiencies
M02A	Major derogatory credit not explained
M02B	CAIVRS, LDP/GSA not documented
M02C	Extenuating circumstances for bankruptcies/foreclosures
M02D	Credit/alternative credit not obtained
M02E	Other credit deficiencies
M03A	Obligations of all borrowers not supported
M03B	Other liability deficiencies
M04A	Insufficient total assets
M04B	Unacceptable, unsupported source of funds
M04C	Other asset deficiencies
M05A	Stability of income insufficient or not supported
M05B	Effective income insufficient or not supported
M05C	Other income deficiencies
M06A	Borrower did not make minimum cash investment
M06B	Mortgage amount incorrect, LTV exceeded
M06C	Other mortgage amount deficiencies
M07A	Form HUD 92564-CN not properly signed
M07B	Documentation deficiencies on refinances
M07C	Documentation deficiencies on Construction-to-Permanent
M07D	Documentation deficiencies on ARMs
M07E	Documentation deficiencies 203Ks
M07F	Documentation deficiencies on HECMs
M07G	Documentation deficiencies on EEMs
M07H	Documentation deficiencies on Hawaiian Homelands loans

Continued on next page

4. PETR Deficiency Codes, Continued

4155.2 12.B.4.a PETR Deficiency Codes (continued)

Code	Deficiency
M07I	Documentation deficiencies on build-on-own-land loans
M07J	URLA not properly completed
M07K	Form HUD-92900-A not properly completed
M07L	Other documentation deficiencies
M08A	Unallowable costs/credits/ to borrower
M08B	Lender credits not itemized
M08C	Excessive cash back to borrower
M08D	Other deficiencies on HUD-1 or HUD-1 Addendum
M09A	Data integrity decisions on TOTAL cases
M09B	Documentation does not support waivers on TOTAL cases
M09C	Other requirements not addressed on TOTAL cases
M09D	Other TOTAL deficiencies
M10A	Data integrity on Lender Insurance program
V20A	Allowable commercial space exceeded
V20B	Illegal zoning
V20C	Existing construction in flood hazard area
V20D	New construction in special flood hazard area
V20E	Property flipping – property not owned 90 days
V20F	Property does not meet MPR
V20G	Appraisal expired
V20H	Major repair items not addressed
V20I	Value not supported
V20J	Other property deficiencies
V21A	Neighborhood, site description deficiencies
V21B	Cost approach deficiencies
V21C	Sales comparison approach deficiencies
V21D	Income approach deficiencies
V22A	Owner of record not documented
V22B	Property flipping – 91-180 day deficiencies
V22C	Property flipping – other deficiencies
V23A	Form HUD-92800.5b not properly completed
V24A	VC Conditions not addressed
V24D	Form HUD-92051 not properly completed
V24E	Form HUD-92300 not properly completed

Continued on next page

4. PETR Deficiency Codes, Continued

4155.2 12.B.4.a PETR Deficiency Codes (continued)

Code	Deficiency
V25A	Manufactured home does not meet guidelines
V26A	Condo project, spot condo not approved
V26B	Condo 51 percent owner occupancy not met
V26C	Condo – other deficiencies
V27A	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 May 10, 2009

4155.2 12.C.1.a Purpose

The purpose of the *Mortgage Lender Approval* is to notify applicant mortgage lenders of acceptance into Direct Endorsement (DE) Program on pre-closing review status.

4155.2 12.C.1.b Prepared By

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

Use 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 Instructions

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 May 10, 2009

4155.2 12.C.2.a Purpose

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 Prepared By

The Lender Approval Specialist, with appropriate assistance from technical branches, prepares the letter for the signature of the decision maker.

4155.2 12.C.2.c Unconditional Direct Endorsement (DE) Approval Letter Text Format

Use 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 May 10, 2009

4155.2 12.C.3.a Purpose

The purpose of the *Mortgage Lender Disapproval Letter* is to notify applicant mortgage lenders the application is not eligible for approval. The Letter describes the reasons for the disapproval.

4155.2 12.C.3.b Prepared By

The Lender Approval Specialist, with appropriate assistance from technical branches.

4155.2 12.C.3.c Mortgage Lender Disapproval Letter Text Format

Use 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	May 10, 2009
4155.2 12.C.4.a Purpose	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 Prepared By	The Lender Approval Specialist prepares the letter for signature of the decision maker.
4155.2 12.C.4.c Sending the Letter	Send 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 Mortgage Lender Probation Letter Text Format

Use the following format for the *Mortgage Lender Probation Letter*:

[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

Change Date May 10, 2009

4155.2 12.C.5.a Sending the Sanction Letter

Send the *Pre-Closing Sanction Letter* by Certified Mail, Return Receipt Requested.

4155.2 12.C.5.b Pre-Closing Sanction Letter Text Format (Pg. 1)

Use the following format for the *Pre-Closing Sanction Letter*:

Subject: Placement into Pre-Closing Status
[Lender ID Number]

Dear:

This is to advise you that effective thirty (30) days after the date of this letter, your company is being placed in pre-closing review status under the Department's Direct Endorsement Program.

As a result of your company's failure to underwrite FHA-insured mortgage loans in accordance with HUD underwriting policies, we are suspending your authority to underwrite loans on an unconditional Direct Endorsement basis. This action is being taken pursuant to Title 24, Part 200.164(h) of the Code of Federal Regulations and as detailed in HUD 4155.2 9.D.3.

The basis for this action are as follows:

1. Our internal post-endorsement technical review system indicates that between _____ and _____ FHA-insured loans originated by your organization were reviewed. Of that total, __ received ratings of Fair and __ received ratings of Poor for the Mortgage Credit underwriting, and __ received ratings of Fair and __ received ratings of Poor for the Valuation underwriting.

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. 2)

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 May 10, 2009

4155.2 12.C.6.a Purpose

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

The Lender Approval Specialist, with appropriate assistance from the technical branches, prepares the letter for signature of the decision maker.

4155.2 12.C.6.c Sending the Letter

Send the letter Registered/Certified Mail, Return Receipt Requested.

4155.2 12.C.6.d Withdrawal Letter Text Format

Use the following format for the *Withdrawal of DE Lender Approval* letter.

[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 May 10, 2009

4155.2 12.D.1.a Documents Needed During the Review

Pull the following documents during the review, and fasten them 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 (✓)	**Rejected (✓)**	**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 (✓)	Rejected (✓)	Document
		Copy of signed first Security Instrument, such as the Mortgage or Deed of Trust
		Signed ORIGINAL second Note
		Singer Original or certified true copy of second Security Instrument, such as the Mortgage or Deed of Trust
		Signed Form HUD-1, *Settlement Statement*
		Notice to Borrower
		Signed Loan Agreement ***Note***: 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 • principal limit, and • monthly payment amount
		Final Uniform Residential Loan Application (URLA), signed by all Borrowers
		Form HUD-92900-A, *Addendum for URLA*, signed and dated by the appropriate parties. ***Note***: Obtain the DE Underwriter's name and ID No. from Page 3.
		Credit Report
		Evidence the Borrower received counseling
		Evidence of Social Security Number, such as • Social Security Card • driver's license, or • 1099 form.
		Title Insurance Commitment, or other acceptable title evidence.
		Form HUD-92800.5b, *Statement of Appraised Value*

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 (✓)	Rejected (✓)	Document
		Form HUD-92051, *A Compliance Inspection Report* prepared by an appraiser or fee inspector certifying satisfactory completion of the repairs.
		• *Final Uniform Residential Appraisal Report* (URAR), and • complete appraisal package

2. Exhibit 2: Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files

Change Date May 10, 2009

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

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 (✓)	**Rejected (✓)**	**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 (continued)

Approved (✓)	Rejected (✓)	Document
		Late Submission Letter/Payment History, per HUD 4155.2 • Confirm if the case was submitted more than 60 days *after* the loan closing date. • If yes, determine if the case meets the requirements of late submission processing, per HUD 4155.2 8.C.7. ***Note***: The loan must be current to be endorsed.
		Form HUD-92900-WS or HUD 92900-PUR, *Mortgage Credit Analysis Worksheet*. Confirm the following: • Worksheet is signed and dated by the DE Underwriter. • Underwriter ID Number is included. • Form HUD-92700, *203(k) Worksheet*, *EEM Worksheet*, or 203(h) documentation is included, if applicable. ***IMPORTANT***: For AUS loans, the Worksheet should reflect the system used and the appropriate ID number. The DE Underwriter's signature is not required.

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 (continued)

Approved (✓)	Rejected (✓)	Document
		Note, including the Note for the Secondary Mortgage, when applicable. Confirm the following: • the Note is a copy • the Note contains – the same borrower(s) names(s) that appear on Form HUD-92900 and the *Firm Commitment*, and – all nine paragraphs of the model Note • the face page of the Note is – marked certified copy, and – signed, conformed, or executed • the mortgage amount is not higher than approved by the DE Underwriter, per – Form HUD-92900-WS – Form HUD 92900-PUR 3c, or – Form HUD HUD-92900-A, Page 3 • the term of the mortgage is the same as on the URAR, and reflects the correct FHA Case Number and ADP Code, and • all applicable Allonges/Agreements/riders are signed or conformed, such as the – 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 (continued)

Approved (✓)	Rejected (✓)	Document
		Security Instrument such as the mortgage or deed of trust. Confirm the following: • the Security Instrument is a copy • the Security Instrument is – marked *certified copy*, 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 – Paragraph 9 - *Ground for Acceleration of Debt*, and – Paragraph 18 - *Foreclosure Procedures* • 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 – Condominium – 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 (continued)

Approved (✓)	Rejected (✓)	Document
		Form HUD-1, Settlement Statement and HUD-1 Addendum. Confirm the following: • legible copies of Pages 1 and 2 are included, and • HUD-1 documents are complete and signed by the – borrower – seller, and – settlement agent. ***Notes***: • HUD, as the seller, does not sign on REO Sales. • Refinances may be a one-page form and the Addendum is *not* required.
		Final Uniform Residential Loan Application (URLA). Confirm the URLA is signed and dated by the mortgage lender and all borrowers. ***Note***: Ensure the mortgage lender's signature on the initial application is acceptable, in lieu of his/her signature on the final URLA.

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 (continued)

Approved (✓)	Rejected (✓)	Document
		Form HUD-92900-A, *Addendum to the URLA*. Confirm the following: • 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 VOD and/or bank statements are included.
		Gift Letter, if the gift is shown on the *Mortgage Credit Analysis Worksheet*. ***Note***: 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: • written or verbal 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 (continued)

Approved (✓)	Rejected (✓)	Document
		Evidence of the Social Security number (SSN), such as • 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 Left Side of Binder Checklist

The following is an example of the left 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.

Approved (✓)	Rejected (✓)	Document
		Form HUD-92300, *Mortgagee Assurance of Completion*, if applicable. Confirm the form is completed and signed.
		Form HUD-92051, *Compliance Inspection Report*. Confirm the *Compliance Inspection Report* is • countersigned by the DE Underwriter, or *Evidence of VC Requirements are Cleared*, and • complete, signed and dated by an approved inspector. ***Note***: Local government inspection, with the *Underwriter Certification* may be accepted.
		Form NPMA-33, *Wood Destroying Insect Infestation Report*, 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 (✓)	Rejected (✓)	Document
		The following New Construction Exhibits are included: • Form HUD-92541, *Builder's Certification* is complete, and signed and dated by the builder. • Form HUD-92544, *Builder's One-Year Warranty*. • Correct evidence, as applicable, of – a *Ten Year Warranty Insurance* application, including the unit number if a condominium or PUD, or – *Early Start Letter*, 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, *Statement of Appraised Value*.
		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 (✓)	Rejected (✓)	Document
		Comprehensive Valuation Package (CVP). Confirm the following is complete, and signed and dated by the appropriate parties: • Original *Uniform Residential Appraisal Report* (URAR) is complete and contains the appraiser's signature and date. ***Note***: These items are not required for • proposed, or under construction properties, or • MAR/MCC, or VACRV/VAMCRV loans.
		Form HUD-91322, and HUD-91322.3, *MAR/MCC Documentation*. Confirm all attachments and amendments are included.
		Form VA-26-1841, or VA-26-1843a, *VACRV/MCRV Documentation*. Confirm all attachments and endorsements are included. ***Note***: 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 (✓)	Rejected (✓)	Document
		Specialized Eligibility Documents, such as but not limited to the following: • 203(k), Rehabilitation Agreement, Plans, Work Write-Ups, Cost Estimates, and Initial Draw Request • Form HUD-92561, *Borrower's Contract With Respect to Hotel Transient Use of Property* for 2- to 4-unit properties • Condominiums-Occupancy Certification regarding 51 percent owner occupancy, if not included in the VC, and • Spot Condominium documentation, if a spot approval.
		Purchase Contract and Addenda. Confirm the following: • The contract and addenda are signed by all buyers and sellers. • The Amendatory Clause is signed by the buyers and sellers. ***Note***: The Amendatory Clause is not required on REO Sales, or 203(k) loans. • 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 (✓)	Rejected (✓)	Document
		Form HUD-92564-CN, *For Your Protection*. ***Note***: This item is note required for • proposed or under construction properties, or • MAR/MCC or VACRV.VAMCRV loans.

4155.2 12.D.2.d Additional Documentation

The following documentation may also be included.

Approved (✓)	Rejected (✓)	Document
		Form HUD-54111, *DE Request for Insurance Endorsement* or an alternative such as the 9100 screen. Confirm the form or screen is included and completed. If this documentation is included, confirm the 9100 screen is sufficiently pre-filled to complete the CHUMS screens.
		Special Certification and Forms, as applicable. Confirm the following is executed: • 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 HOC Information

The table below lists the Homeownership Center (HOC) jurisdictions and representative states.

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

Change Date May 10, 2009

4155.2 12.E.3.a Format for Request for MIC Correction

The following is an example of the format to use for the *Request for MIC Correction* form.

Date: _____

To: _____HOC (MIC Corrections)

From: _____ _____ _____
(Lender's Name) (Contact Person) (Phone Number

_____
(Lender's ID Number)

Address to send MIC: _____

We are requesting a corrected Mortgage Insurance Certificate (MIC) for FHA Case #: _____
The required documentation is provided as indicated below as well as the original MIC.

Continued on next page

3. Exhibit 3: Request for MIC Correction Format, Continued

4155.2 12.E.3.a Format for Request for MIC Correction (Cont.)

Request Correction To:			**Required Documentation**
		Address Correction	URAR and Note
		Borrower Names(s)	
		ADP Code	Other supporting documentation, such as • Buydown Agreement • 203(k) Worksheet
		Maturity Date	Note
		First Payment Date	Note
		P & I	• Note • HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary
		Interest Rate	• Note • HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary
Request Correction To:			**Required Documentation**
		Addition of Coborrower	• 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

Format for Request for MIC Correction (Cont.) (continued)

Request Correction To:			**Required Documentation**
		Increased Mortgage Amount	• Note • HUD-1 • HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary Full Payment History
		FHA Case Number	• Note • URLA • HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary
		ADP Code for a Major Change, such as 703 to 704	• 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 MIC Instructions

The table below describes additional instructions to follow when requesting an MIC correction.

Type of Correction	Instruction
Address Correction	• Some states require that the Deed of Trust be submitted. • Contact the appropriate HOC for additional information.
• Increased Mortgage Amount • FHA Case Number • ADP Code Major Change	Requires • recalled case binders from a Records Holding Center, and • additional processing time.
Increased Mortgage Amount	• 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	• The LTV cannot be changed because CHUMS – computes the LTV, and – does not allow manual overrides, and • ADP code 748 is *only* for purchases with a value of $50,000 or less.