Lender Insurance Guide
For
Mortgagee and HUD Staff

Revised May 1, 2013
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# 1. Introduction to the Lender Insurance Program

## Introduction
This chapter contains an introduction to the U.S. Department of Housing and Urban Development’s (HUD) Lender Insurance program for loans insured by the Federal Housing Administration (FHA) including changes to the program effective February 24, 2012. For the purposes of this Guide, the term mortgagee is used interchangeably with lender, and the term loan is used interchangeably with mortgage.

## What is Lender Insurance?
Prior to 2006, all FHA loans were submitted to one of HUD’s four Homeownership Centers (HOC) for the endorsement of the loan for insurance. HOC or contractor staff employed by the HOC would conduct a pre-endorsement review, and determine if the loan met basic FHA requirements necessary for endorsement.

Under Lender Insurance mortgagees conduct pre-endorsement reviews and insure loans. Case binders are submitted to the HOCs for endorsement processing only when a severe case warning has been issued.

## Benefits of Lender Insurance
Lender Insurance offers the following benefits for HUD and mortgagees:

- **Reduced processing times.** Mortgagees do not have to mail case binders to the HOCs and the HOCs do not have to mail back case binders to mortgagees for additional information or corrections, reducing the total time to endorse a loan; and

- **Reduced costs.** Mortgagees benefit from substantial cost savings because they do not bear the expense of mailing case binders to the HOCs. HUD reaps savings because it does not incur costs mailing case binders back to mortgagees when a Notice of Return (NOR) is issued, and from a reduction in contractor costs to endorse loans.

Continued on next page
## Introduction to the Lender Insurance Program, Continued

### Success of Lender Insurance

Over 700 mortgagees are currently participating in the Lender Insurance program and in any given month about eighty percent of all forward loans (all mortgages with the exception of Home Equity Conversion Mortgage loans) are being endorsed under the Lender Insurance program.

### The January 25, 2012 Federal Register Final Rule


- New compare ratio formula based on a comparison of a mortgagee’s two year claim and default rate to the two year claim and rate for the state(s) in which the mortgagee has underwritten loans;
- New standards for initial and continuing eligibility;
- New process and time frames for “ongoing” eligibility assessments for mortgagees with Lender Insurance authority;
- Allowances for Lender Insurance eligibility in cases of mortgagee mergers, acquisitions or reorganizations (including changes among corporate parents and subsidiaries);
- New reinstatement process for mortgagees whose Lender Insurance authority is terminated; and
- Full implementation of statutory authority to demand, rather than request, mortgagee indemnification of loans in instances of fraud, misrepresentation or serious and material violations of HUD requirements.

These changes are reflected in this Guide.

*Continued on next page*
Eligible loan products

All single family (1-4 units) FHA forward loans are eligible for Lender Insurance processing. This includes but is not limited to:

- 203(b): Standard FHA loans;
- 203(h): Loans for disaster victims;
- 203(k): Rehabilitation loans;
- 247: Hawaiian Homelands loans;
- 248: Loans on Indian Reservations and other restricted lands;
- 251: Adjustable rate loans; and
- (EEM): Energy Efficient Mortgages.

Note: Lender Insurance authority for Section 255 Home Equity Conversion Mortgage (HECM) loans is not currently available. At such time as Lender Insurance becomes available for HECM, separate eligibility and application procedures will be issued.

Lender Insurance mandatory for Lender Insurance mortgagees

Once a mortgagee begins participating in Lender Insurance it must process all loans it underwrites using Lender Insurance, including any loans not endorsed as of the date of Lender Insurance authority.

Only those loans subject to a severe case warning can be submitted to the HOCs for endorsement processing.

Case Binders

Case binders contain the processing and closing documents and other documentation necessary to process an FHA loan for insurance endorsement. Requirements for case binders are provided in HUD Handbook 4155.2 Chapter 8.

Lender Insurance mortgagees submit paper or electronic binders to the HOCs for endorsement processing only when required to do so.

Continued on next page
Introduction to the Lender Insurance Program, Continued

Request for Lender Insurance mortgagees to submit case binders

Because Lender Insurance mortgagees insure their own loans, case binders are not submitted to the HOCs on a routine basis. If a case binder is required, it will be specifically requested from the Lender Insurance mortgagee.

Lender Insurance mortgagees may submit requested case binders in paper or electronic format. However, once a mortgagee is approved to submit electronic case binders, all case binders must be submitted to HUD in an electronic format.

Technical standards for electronic case binders


Note: The Electronic Case Binder Developer’s Guide prescribes a stacking order for documents that differs from the stacking order for paper case binders specified in HUD Handbook 4155.2 Chapter 8.

Electronic case binder testing

A mortgagee electing the electronic case binder option will undergo a testing phase designed to ensure that it can correctly format and transmit the electronic case binder.

Continued on next page
Introduction to the Lender Insurance Program, Continued

Electronic case binder standards

As stated in the *Electronic Case Binder Developers Guide*, only those documents that are required for endorsement for the specific type of loan should be included in the electronic case binder. Mortgagees should not include multiple copies or different versions of documents. Only the specific documents referenced in HUD Handbook 4155.2 Chapter 8, upon which the underwriting and insuring decision on the loan was made, should be included in the electronic case binder. Documents provided in electronic case binders must be clear, legible and in the prescribed stacking order specified in the *Electronic Case Binder Developers Guide*.

*Note:* Failure to submit electronic case binders that meet these standards may be cause for suspension or termination of Lender Insurance authority.

Record-keeping

Record-keeping requirements may be found in HUD Handbook 4155.2 Chapter 8.

Lender Insurance mortgagees must maintain their origination case binders in either hard copy or electronic format for a period of two years from the date of endorsement.

Continued on next page
Additional Lender Insurance resources

There are a variety of resources to assist Lender Insurance mortgagees with the required processes. The following documents and other information are available on HUD’s web sites:

- Mortgagee Letter (ML) 2013-XX “Lender Insurance Program”  
http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/index.cfm;
- Electronic Case Binder Developer’s Guide (for those lenders submitting electronic case binders)  
- CHUMS Processing Instructions (available to HUD staff and HUD contractors only)  
http://hudatwork.hud.gov/po/h/hs/sys/chums/chumsf17.cfm;
- Neighborhood Watch  https://entp.hud.gov/sfnw/nw/;
- Lender Insurance Home Page  
http://www.hud.gov/offices/hsg/sfh/lender/lendins.cfm;
- FHA’s Frequently Asked Questions at www.hud.gov/answers; and
- The FHA Resource Center by phone at 1-800-225-5342 (1-800-CALL FHA) or by e-mail to: answers@hud.gov. Persons with hearing or speech impediments may reach this number via TTY by calling the Federal Information Relay Service at 1-800-877-8339.
2. Mortgagee Eligibility for Lender Insurance

Introduction
This chapter contains information on the requirements mortgagees must meet to receive initial approval for Lender Insurance authority and to maintain their eligibility for Lender Insurance authority.

Eligibility requirements
To obtain Lender Insurance authority a mortgagee must:

- Be a HUD approved mortgagee with Unconditional Direct Endorsement approval.
- Have a two year claim and default rate for FHA-insured loans it has underwritten that does not exceed 150% of the two year claim and default rate for all FHA-insured loans in the states in which the mortgagee has underwritten loans.

*Note:* The term *seriously delinquent and claim rate* used in Neighborhood Watch may be used interchangeably with the term *claim and default rate* used in this Lender Insurance Guide.

Example
Model Mortgage Company has underwritten FHA-insured loans in Maryland, Virginia and West Virginia. Its compare ratio for the purposes of Lender Insurance will be calculated by comparing the percentage of all loans it underwrote in those three states that are in claim or default status, to the percentage of all loans underwritten by all mortgagees in those three states that are in claim or default status.

Claim and default rate derived at the corporate level
The claim and default rate is derived at the corporate level of the mortgagee (i.e., 5 digit HUD Approved Lender Identification Number vs. 10 digit HUD Approved Lender Identification Number.) The rate reflects the sum of all insured mortgages underwritten by the mortgagee.

Loans originated by Third Party Originators
A loan originated by a Third Party Originator (mortgagees sponsored by HUD approved Direct Endorsement mortgagees) would be included in the claim and default rate of the sponsoring mortgagee that underwrote the loan.

*Continued on next page*
Access the **Neighborhood Watch/Early Warning System** at: [https://entp.hud.gov/sfnw/nw/](https://entp.hud.gov/sfnw/nw/) and follow these steps:

From the Main Menu select *Early Warnings* then select “Single Lender” to display the *Early Warnings—Single Lender* page.

Enter the 5 digit HUD Approved Lender Identification Number into the *Direct Endorsement Lender* field, then select “2 Year FHA- With Streamlines” in the *Loan Portfolio* field and confirm the selection.
Mortgagee Eligibility for Lender Insurance, Continued

Moving from left to right across the menu:
- Select “Direct Endorsement Lender” from Mortgagee Selection
- Select “Seriously Delinquent” from Delinquent Choices
- Select the most recent date from 2 Year Performance Period
- Select “States” from Show Data For
Mortgagee Eligibility for Lender Insurance, Continued

Checking eligibility for Lender Insurance (continued)

View the Total Compare Ratio. The Compare Ratio for all loans including retail and sponsored must not exceed 150%.

![Image of the Total Compare Ratio table]

**Note:** If the “TOTAL-All States” line does not appear at the bottom of the screen, return to the Early Warnings—Single Lender page and verify that “2 Year FHA-With Streamlines” was selected in the Loan Portfolio field.

Continued on next page
The revised regulations at 24 CFR § 203.4(b)(2) provide for an exception to the requirement that a mortgagee have an acceptable two year claim and default history where a new mortgagee is created by a merger, acquisition or reorganization and is also issued a new HUD Approved Lender Identification Number.

*Note:* Mergers, acquisitions and reorganizations include changes and transfers among corporate parents and subsidiaries where a new HUD Approved Lender Identification Number is issued.

A new mortgagee created by a merger, acquisition or reorganization who is also issued a new HUD Approved Lender Identification Number may be approved for Lender Insurance provided that:

- The new mortgagee has Unconditional Direct Endorsement Authority;
- One or more of the mortgagees participating in the merger, acquisition or reorganization had Lender Insurance approval at the time of the merger, acquisition or reorganization;
- All of the formerly HUD approved mortgagees participating in the merger, acquisition or reorganization that had Lender Insurance authority at the time of the merger, acquisition or reorganization had acceptable claim and default rates for the two years preceding the merger, acquisition or reorganization;
- The two year and claim and default rate of the new mortgagee derived by aggregating the serious delinquencies and claims of the formerly HUD approved mortgagees participating in the merger, acquisition or reorganization, was not more than 150% of the combined two year claim and default rate for the states in which the former mortgagees underwrote loans; and
- The management and staff who were involved with Lender Insurance processing will continue to exercise those responsibilities for the new mortgagee.
3. Mortgagee Application for Lender Insurance

How to apply for initial Lender Insurance authority

The application process for first-time applicants for Lender Insurance authority is entirely automated (except for new mortgagees created through mergers, acquisitions or reorganizations who are also issued a new HUD Approved Lender Identification Number). A decision to apply for Lender Insurance must be made in writing by an owner, officer, principal or other official registered with HUD. Following this written decision and at the direction of such registered officials, application for Lender Insurance is completed by the mortgagee through the following steps:

Note: Mortgagees must maintain documentation regarding the written authorization of application for Lender Insurance and make it available to HUD upon request.

From the main menu of FHA Connection select Lender Functions.
How to apply for initial Lender Insurance authority (continued)

From the Lender Functions menu select *Lender Insurance Acknowledgment.*

Enter the 5 digit HUD Approved Lender Identification Number.

Continued on next page
How to apply for initial Lender Insurance authority (continued)

On the Acknowledgment of Terms and Conditions for LI page check the box stating “I wish to apply for LI Forward.”

The Lender Insurance Contact page will appear. Enter the name, telephone number, fax number, and e-mail address of the primary Lender Insurance contact person.

The entry of a secondary Lender Insurance contact person is optional.

Continued on next page
How to apply for initial Lender Insurance authority (continued)

The Acknowledgment of Terms and Conditions for LI page appears. Check the box stating “I agree and certify to these terms.”

Continued on next page
Mortgagee Application for Lender Insurance, Continued

How to apply for initial Lender Insurance authority (continued)

FHA Connection will check the mortgagee’s Direct Endorsement status and two year claim and default rate. If these system edits are passed, the approval of Lender Insurance appears.

Note: New mortgagees seeking Lender Insurance authority under the provisions of 24 CFR § 203.4(b)(2) will not be able to obtain Lender Insurance authority through this automated process.

How to apply for initial Lender Insurance authority – new mortgagees created by mergers, acquisitions or reorganizations that are issued a new HUD approved Lender Identification Number

New mortgagees seeking Lender Insurance authority under the provisions of the revised regulations at 24 CFR § 203.4(b)(2) must submit their request in writing. The request must include the following:

- A hard copy of the Acknowledgment of Terms and Conditions for LI screen from FHA Connection signed by an owner, officer, principal or other official registered with HUD;
- The name and contact information of the Lender Insurance contact person and, at the discretion of the mortgagee, the name and contact information for the back-up Lender Insurance contact person;
- The name and the HUD Approved Lender Identification Number of the new mortgagee;
- The names and, if applicable, HUD Approved Lender Identification Numbers of the mortgagees participating in the merger, acquisition or reorganization; and
- Information identifying the management and staff experienced with Lender Insurance processing at the mortgagee or mortgagees that previously held Lender Insurance authority who will be transferred to the new mortgagee, and describing how they will continue to exercise those responsibilities for the new mortgagee.

The written application should be submitted to:

U.S. Department of HUD
Division Director
Home Mortgage Insurance Division, Room 9266
451 7th Street, SW
Washington, DC 20410

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If the request is approved, the mortgagee will receive a letter to that effect. Lender Insurance authority will be approved as of the date of that letter. If the request is not approved, the mortgagee will receive a letter describing the reasons for the denial of Lender Insurance authority.

HUD Headquarters (HQ) staff will manually update FHA Connection to reflect the mortgagee’s status as a Lender Insurance mortgagee. HUD HQ staff will also enter the mortgagee’s Lender Insurance contact person information.

Once Lender Insurance approval has been issued, the FHA Connection Coordinator must designate the staff that will have the authority to insure mortgages.

From the FHA Connection menu select **ID Maintenance**. For each qualified employee check the **Insuring Authorization** button.
4. Termination and Reinstatement of Lender Insurance Authority

Introduction

This chapter contains information on the causes for termination of Lender Insurance authority, and the process for seeking reinstatement of that authority following termination.

Lender Insurance is an option for high-performing mortgagees able to meet the applicable requirements on an ongoing basis. Lender Insurance authority for mortgagees who cannot meet these requirements will be terminated.

Termination or suspension of Lender Insurance authority

Where a mortgagee fails to remain compliant with eligibility standards or is otherwise in serious violation of HUD requirements, Lender Insurance authority may be terminated by HUD.

Where a mortgagee is in violation of HUD requirements, HUD may also temporarily suspend Lender Insurance authority until the violations have been resolved.

Causes of termination of Lender Insurance authority

Lender Insurance authority may be terminated under the following circumstances:

- Failure to maintain a two year claim and default rate equal to 150% or less of the two year claim and default rate for the states in which the mortgagee has underwritten loans.
- Loss of Unconditional Direct Endorsement authority at the institution level.

Note: The termination of an origination approval agreement or Direct Endorsement approval within a HUD Field Office jurisdiction under the provisions of Credit Watch shall not be grounds for termination of Lender Insurance authority.

Continued on next page
Termination and Reinstatement of Lender Insurance Authority, Continued

Causes of termination of Lender Insurance authority (continued)

Lender Insurance authority may be terminated for the following reasons following the failure of other actions, including suspension of Lender Insurance authority by the HOCs, to result in improved performance:

- Failure to adopt and employ a pre-insurance review process as required by regulations at 24 CFR § 203.255(f).
  Note: A pattern of requests for large numbers of Mortgage Insurance Certificate (MIC) corrections may be viewed as evidence of a mortgagee’s failure to employ an adequate pre-endorsement review process.
- Failure to submit requested case binders to the HOCs within established timeframes.
- Failure to comply with requirements for submission of electronic case binders including submission of clear, legible documents in the prescribed stacking order that is devoid of duplicate documents, multiple versions of documents, and documents not required by HUD.
- Failure to meet any other Lender Insurance requirement.

In addition, Lender Insurance authority may be terminated as a result of action taken by the HUD Mortgagee Review Board (MRB).

Note: See Chapter 7 of this Lender Insurance Guide for more information on termination and suspension of Lender Insurance authority.

Quarterly review of claim and default rate

While HUD reserves the right to address mortgagee performance at any time, two year claim and default rates of mortgagees with Lender Insurance authority will be reviewed quarterly based on data as of March 31, June 30, September 30 and December 31. The Neighborhood Watch data refresh typically occurs during the third weekend following the end of the quarter, so the compare ratio review will take place in April, July, October and January. Mortgagees newly approved for Lender Insurance will be reviewed quarterly starting in the first full quarter following the quarter in which they were approved.

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### Quarterly review of claim and default rate (continued)

If, following the data refresh date, a mortgagee’s compare ratio exceeds 150% of the two year claim and default rate for the states in which the mortgagee has underwritten loans, Lender Insurance authority may be terminated.

### Review of other criteria for continuing eligibility

For mortgagees whose compare ratio exceeds 150%, HUD will monitor compliance with other Lender Insurance requirements by tracking the timeliness of submission of requested case binders, by monitoring mortgagee’s pre-endorsement review through post endorsement technical reviews (PETRs) and requests for MIC corrections, and by the quality of electronic case binder submissions. Failure to comply may result in termination of Lender Insurance authority.

### Effect of termination in FHA Connection

Upon termination of Lender Insurance authority, mortgagees will no longer be able to insure loans and must submit paper case binders to the HOCs for insurance processing. Mortgagees whose Lender Insurance authority has been terminated (or who are not participating in the Lender Insurance program) will not see the option “Insure Yes/No” on the *Insurance Application* screen.

### Written notice of termination

Mortgagees whose Lender Insurance authority has been terminated will receive a letter from the Director of the Home Mortgage Insurance Division in HUD Headquarters formally notifying mortgagees of termination of Lender Insurance approval, and offering the opportunity for an informal conference on this action.

This letter will provide the address to which the request for an informal conference may be sent and the timeframe for the informal conference.

### Right to informal conference

A mortgagee whose Lender Insurance authority has been terminated may request an informal conference with the Deputy Assistant Secretary for Single Family Housing or his/her designee.

*Continued on next page*
## Termination and Reinstatement of Lender Insurance Authority, Continued

### Informal Conference

The informal conference must be requested in writing within 30 days of the notice of termination. Within 30 days after holding the conference, the Deputy Assistant Secretary for Single Family Housing or designee will communicate to the mortgagee in writing the decision to affirm the termination or reinstate Lender Insurance authority.

*Note*: Where the Deputy Assistant Secretary for Single Family Housing or designee makes a decision to reinstate Lender Insurance authority, the six month waiting period following termination referenced below shall not apply. HUD will restore the mortgagee’s Lender Insurance authority as of the date of the letter to the mortgagee communicating the decision.

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### Conference decision represents final agency action

The decision of the Deputy Assistant Secretary for Single Family Housing or designee represents a final agency action pursuant to section 256(d) of the National Housing Act (12 U.S.C. 1715z-21(d)). It is not subject to further appeal or judicial review.

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### Termination of Lender Insurance authority does not affect Direct Endorsement authority

A mortgagee’s Direct Endorsement authority is not affected by the termination of Lender Insurance authority. Mortgagees may continue to underwrite and close FHA loans without prior review by HUD.

*Continued on next page*
## Termination and Reinstatement of Lender Insurance Authority, Continued

### Reinstatement of Lender Insurance authority

A mortgagee whose Lender Insurance authority has been terminated may not apply for reinstatement for at least six months from the date of termination.

A mortgagee seeking reinstatement must, as of the date of application for reinstatement:

- Be a HUD approved Mortgagee with Unconditional Direct Endorsement approval.
- Have a two year claim and default rate for FHA-insured loans it has underwritten that does not exceed 150% of the two year claim and default rate for all FHA-insured loans underwritten in the states in which the mortgagee has underwritten loans.
- Have established a plan addressing the deficiencies that led to termination of Lender Insurance authority, and be able to document changes in internal policies and procedures addressing the causes of termination of Lender Insurance authority.

### Reinstatement application process

Regardless of the reason for termination, mortgagees must submit their application for reinstatement of Lender Insurance authority in writing. The application must include:

- A hard copy of the Acknowledgment of Terms and Conditions for LI page from FHA Connection signed by an owner, officer, principal or other official registered with HUD;
- A corrective action plan identifying the changes in internal policies and procedures that address the issues that resulted in the termination of Lender Insurance authority; and
- Documentation evidencing that the mortgagee has implemented the corrective action plan.

The written application should be submitted to:

U.S. Department of HUD  
Division Director  
Home Mortgage Insurance Division, Room 9266  
451 7th Street, SW  
Washington, DC 20410
5. Mortgagee Processing Using Lender Insurance Authority

| Introduction | This chapter contains information on processing procedures for mortgagees participating in the Lender Insurance program. |
| Processing up to insurance | All standard processing, documentation and data entry requirements up to the point of insurance endorsement processing apply to Lender Insurance loans. This includes the case number assignment, appraisal logging, and insurance application functions in FHA Connection. There are no documentation waivers, revised processing procedures, or any other relief from HUD requirements applicable to Lender Insurance. Lender Insurance applies only to the means by which loans are insured. |
| Endorsing from data under Lender Insurance | Mortgagees submit loan-level data through FHA Connection. Once FHA Connection receives sufficient data to satisfy it of the legitimacy of the mortgage insurance request, it acknowledges receipt of the lender’s data electronically. The submitted loan-level data then undergoes a series of HUD program risk-mitigation edits. If the data passes all of these edits, the mortgagee is not required to provide a case binder to HUD to obtain insurance. Instead, the system electronically generates an electronic MIC to serve as evidence that the loan is insured. |
| Mortgagee pre-endorsement review checklist | Under Lender Insurance, mortgagees perform the pre-endorsement review of loans using the *Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files* in HUD Handbook 4155.2 Chapter 12. |

*Continued on next page*
**Mortgagee Processing Using Lender Insurance Authority,**
Continued

**Mortgagee staff eligible to conduct pre-endorsement review and insure loans**

The pre-endorsement review and insurance of the loan must be conducted by mortgagee staff that neither originated, nor underwrote the loan.

**Conducting pre-endorsement reviews**

The pre-endorsement review is a documentation and data entry validation process. Mortgagees must ensure that required documents are included in the case binder, that they are complete, and that they are executed and dated appropriately.

Mortgagees must verify that the insurance application data has been entered completely and accurately, and that it is consistent with the supporting documents in the case binder. Mortgagees must be confident that all conditions for insurance have been satisfied by the supporting documents and data integrity.

Mortgagees must document the completion of the pre-endorsement review.

*Note:* The pre-endorsement review is not an underwriting review. It is a document and data integrity compliance review.

**Importance of pre-endorsement review**

As a condition of approval of Lender Insurance, the mortgagee commits itself to conducting a pre-endorsement review consistent with the pre-endorsement review conducted by HUD. Mortgagees must exercise due diligence in exercising its pre-endorsement responsibilities in such a manner as to minimize the need for MIC corrections.

**Pre-endorsement review requirements**

In addition to certifying that all origination documents are retained in either electronic or paper format, the mortgagee’s pre-endorsement review must include the following actions:

*Continued on next page*
Mortgagee Processing Using Lender Insurance Authority, Continued

- If the loan being reviewed closed more than 60 days ago, verify that the loan is current for the month preceding submission.
- Ensure that no mortgage insurance premium (MIP) late charge or interest is due.
- Review the note and mortgage/security instrument to ensure:
  - The documents are executed on forms that meet FHA’s requirements;
  - The mortgage maturity meets the requirements of the applicable program; and
  - The loan amount does not exceed the amount approved by the DE underwriter.
- Review Form HUD-92900-A, *HUD/VA Addendum to Uniform Residential Loan Application*, page 3, for completion and execution of all appropriate certifications by the underwriter or mortgagee representative.
- Review the property appraisal and any additional documentation supporting the appraised value.
- For 2-4 unit properties, include an executed Form HUD-92561, *Borrower’s Contract with Respect to Hotel and Transient Use of Property*.
- Include a certificate of intent to occupy by military personnel, when applicable.
- Include an approval letter from the local health authority indicating approval of the individual water or sewer system, when applicable.
- Ensure all case warning messages have been cleared.
- For proposed construction loans:
  - Review Form HUD-92544, *Warrant of Completion of Construction*; and
  - If the loan exceeds 90 percent loan-to-value ratio, include evidence that the borrower qualifies for a higher ratio loan under one of the applicable provisions in the appropriate regulations.

Continued on next page
Mortgagee Processing Using Lender Insurance Authority,
Continued

**Ready to insure**  
Once the mortgagee has completed the entry of all required data, completed the pre-endorsement review, and satisfied itself that the loan meets HUD requirements, it will click “Yes” in the *Insurance Decision* field, enter the FHA Connection ID of the individual insuring the loan, enter the insurance date on the *Insurance Application* screen and click “Send.”

![Mortgage Information](image)

**Endorsement processing outcomes**  
Under Lender Insurance, once the mortgagee submits the loan data, one of four outcomes will occur:

- **Lender Insurance Eligible/No Case Binder Request**: Loan is insured and an electronic MIC is generated. Case is not selected for PETR, so there is no case binder request.
- **Lender Insurance Eligible/Case Binder Request**: Loan is insured and an electronic MIC is generated. The case is selected for a PETR so a case binder request is made of the mortgagee via the inclusion of the case number on the *Insurance Application, Binder Selection*, or *Case Query* pages. These pages also indicate when the case binder is received and its processing status.

*Continued on next page*
Mortgagee Processing Using Lender Insurance Authority,
Continued

Endorsement processing outcomes (continued)

- **Lender Insurance Deficient/Mortgagee Can Resolve**: Loan is not insured because system edits rejected the case (for example, the loan amount exceeds the statutory limit). In these cases, warnings display informing the mortgagee of the issues that it must resolve prior to re-submitting the loan for insurance. If upon the second submission, HUD’s system accepts the case, the electronic MIC will be generated. If the mortgagee still cannot resolve the reason for the denial, insurance will be withheld until such time as the stated deficiencies are corrected. This may result in the request for the case binder for HOC pre-endorsement review.

- **Lender Insurance Deficient/Mortgagee Unable to Resolve or Severe Case Warning**: Loan is not insured because a severe case warning was triggered, such as a Credit Alert Verification Reporting System (CAIVRS) exception. The mortgagee must submit the case binder to the jurisdictional HOC (the HOC whose jurisdiction includes the state in which the property is located) for pre-endorsement review. The mortgagee is required to submit the case binder for pre-endorsement review to the jurisdictional HOC even if the mortgagee determines the loan is ineligible for insurance endorsement.

Endorsement Information

If the data entered passes all FHA Connection edits and processing is successful, the *Insurance Application Results* page appears with data in the *Insurance Decision*, *Insurance Date* and *Insured by* fields.

<table>
<thead>
<tr>
<th>Endorsement Information *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical Review:</td>
</tr>
<tr>
<td>Technical Review Processing:</td>
</tr>
<tr>
<td>HOC:</td>
</tr>
<tr>
<td>Insurance Decision:</td>
</tr>
<tr>
<td>Insured by:</td>
</tr>
</tbody>
</table>

**Note**: The *Insurance Application Results* page will display the FHA Connection user ID of the person who endorsed the loan for insurance.

*Continued on next page*
## Mortgagee Processing Using Lender Insurance Authority,

Continued

### Case warnings

Case warnings are issued by FHA Connection based on system edits. They identify issues that must be addressed before the loan can be insured. There are two kinds of case warnings: non-severe and severe.

### Non-severe case warnings

Non-severe case warnings provide guidance to mortgagees that conditions have been detected that must be researched before the loan can be endorsed. If, after researching the matter, the mortgagee determines that HUD requirements have not been violated, it may re-submit the loan for insurance.

FHA Connection will bypass the system edits when the loan is re-submitted and the loan can be insured by the Lender Insurance mortgagee without further data entry.

### Example of non-severe case warning

Multiple loan is an example of a non-severe case warning. The case warning indicates that two or more case numbers are associated with the borrower’s Social Security Number.

Upon further research the mortgagee determines that the additional case numbers reflected earlier loan applications that have been canceled. The loan may be resubmitted and insured by the Lender Insurance mortgagee.

### Severe case warnings

Severe case warnings make the loan ineligible for Lender Insurance. The case binder must be submitted to the jurisdictional HOC for pre-endorsement review and endorsement processing.

*Continued on next page*
## Mortgagee Processing Using Lender Insurance Authority, Continued

### Types of severe case warnings
Severe case warnings include the following:

- A borrower failed or is pending Social Security Number validation.
- A borrower has a record in CAIVRS.
- The *Pre-Endorsement Delinquency Status* is “Delinquent.”
- A deficiency exists causing risk to HUD. The requesting HOC will add text to the case warning message screen identifying the reason(s) requiring submission of the case binder to the HOC for a pre-endorsement review.

### Requirements for submitting case binders prior to endorsement
As the loans are being insured based upon the data entered, mortgagees do not submit case binders to the HOC for endorsement processing unless loan-level edits resulting in a severe case warning require them to do so.

### HOC processing of loans with severe case warnings
Upon receipt of the case binder the HOC will perform a pre-endorsement review. The HOC will either insure the loan making the electronic MIC available to the mortgagee, or issue a NOR. If a NOR is issued the loan may not be endorsed until the mortgagee submits additional information to the HOC addressing the causes for the NOR.

Mortgagees may access the electronic MIC or NOR from FHA Connection through the *MIC/NOR List Page*, or through the *Mortgage Insurance Certificate* or *Notice of Return Pages*.
6. Submitting and Tracking Case Binders

Introduction
This chapter contains information on the submission of case binders by Lender Insurance mortgagees. Once a case binder has been requested, mortgagees and HOC staff may track its submission and receipt through FHA Connection.

Use of yellow case binders
Lender Insurance mortgagees required to submit paper case binders to the HOC must use yellow case binders.

Requirements for submitting case binders after endorsement
Lender Insurance mortgagees are required to submit case binders to the HOC under the following circumstances:

- The loan has been selected for a PETR;
- The loan has been selected for an Appraisal Review;
- The loan is the subject of a Freedom of Information Act (FOIA) request or a Congressional inquiry;
- The loan is the subject of a request from HUD’s Inspector General;
- The loan is the subject of a request from HUD’s Quality Assurance Division;
- The loan is the subject of a borrower complaint; or
- The loan is required for review for other reasons.

Notification to submit case binders
Case binders requiring endorsement processing will always be submitted to the jurisdictional HOC. Requests for case binders required for other reasons will not necessarily be submitted to the jurisdictional HOC.

When a case binder is requested, a daily e-mail notification is sent to the mortgagee using the Lender Insurance contact person’s contact information. That e-mail will identify the HOC to which the case binder must be submitted. A requested case binder must be submitted to the HOC that requested it within ten business days of the request date.

Note: Mortgagees may be required to submit case binders at other times, not just immediately following endorsement.

Continued on next page
## Submitting and Tracking Case Binders, Continued

### Failure to submit case binders in a timely manner
Mortgagees will receive an e-mail notification warning them that 5 binders are late by 10 business days or more. Continued failure to submit case binders in a timely manner may result in the suspension or termination of Lender Insurance authority.

### Tracking requests for case binders
Mortgagees and HOC staff can determine if a case binder has been requested in the following ways:

- Case Query;
- Insurance Application; or
- Binder Selection.

### Tracking requests for case binders – Case Query
The *Case Query Results* Page will indicate in the *Binder Status* field the status of the case binder. The *Binder Status* field appears only for Lender Insurance loans. For insured loans, the entity that insured the loan (mortgagee or HOC) is also displayed.

The *Binder Status* field will indicate one of the following:

- Awaiting receipt;
- Electronic binder received;
- Paper binder received; or
- Not requested.

*Continued on next page*
Tracking requests for case binders – Case Query (continued)

If the loan has been selected for a PETR or an Appraisal Review, the Technical Review field on the Insurance Application Page will reflect “Yes.” If the case binder has not been requested, it will reflect “No.”

Continued on next page
Submitting and Tracking Case Binders, Continued

Binder Selection Page

The Binder Selection Page enables mortgagees and HOC staff to determine the status of all case binders requested. Requested case binders fall into one of six categories.

<table>
<thead>
<tr>
<th>Binder Category</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requested</td>
<td>Case binders requested that have not yet been received by the requesting HOC. This includes case binders that were submitted but found unacceptable and must be resubmitted.</td>
</tr>
<tr>
<td>Received</td>
<td>Case binders that were received by the HOCs and were acceptable.</td>
</tr>
<tr>
<td>Not Accepted</td>
<td>Case binders that were received by the HOCs and were unacceptable.</td>
</tr>
<tr>
<td>Awaiting Endorsement</td>
<td>Case binders for non-endorsed mortgages with severe case warnings that were received and are acceptable.</td>
</tr>
<tr>
<td>Requested Addition Documents</td>
<td>Missing documents were requested by the HOC.</td>
</tr>
<tr>
<td>Received Additional Documents</td>
<td>Missing documents were received by the HOC.</td>
</tr>
</tbody>
</table>

Binder status - Requested

Requested includes case binders that were:

- Requested by the HOC for pre-endorsement or post-endorsement review;
- Requested by HUD in support of a review or audit; and
- Received by the HOC but were found unacceptable and must be resubmitted.

The reason the case binder was requested is also displayed.

Binder status - Received

Received includes case binders that were requested which have been received and which were acceptable.

Continued on next page
## Submitting and Tracking Case Binders, Continued

<table>
<thead>
<tr>
<th>Binder status – Not Accepted</th>
<th>Not Accepted includes case binders that were received but which were not acceptable for one of the following reasons:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• The paper case binder or electronic case binder does not belong to the mortgagee that submitted it;</td>
</tr>
<tr>
<td></td>
<td>• The paper case binder or electronic case binder documents do not reflect the same loan for which the case binder was requested;</td>
</tr>
<tr>
<td></td>
<td>• The electronic case binder cannot be separated into sections; or</td>
</tr>
<tr>
<td></td>
<td>• The electronic case binder formatting was incorrect, or the file was badly formatted.</td>
</tr>
</tbody>
</table>

| Binder status – Awaiting Endorsement | Awaiting Endorsement includes case binders with severe case warnings that were received by the HOC and are in processing. |

| Binder status – Requested Additional Documentation | Requested Additional Documentation includes case binders for which additional documentation has been requested by the HOC. |

| Binder status – Received Additional Documentation | Additional Documentation Received includes case binders for which additional documentation was requested and has been received. |

Continued on next page
Submitting and Tracking Case Binders, Continued

Example of Using Binder Selection

When mortgagees or HOC staff select *Binder Selection* they will be presented with a menu of options based on the status of the requested case binder, the reason it was requested, and the HOC that requested it. First, make a selection from the *Binder Status* menu.

From the *Binders Requested* menu mortgagees should enter the HOC (or all HOCs) requesting case binders, their 5 digit HUD Approved Lender Identification Number, the reason(s) for the request, and the type of mortgagee (Originator or Sponsor). HOC staff may select a particular mortgagee by entering the 5 digit HUD Approved Lender Identification Number, or they may leave that field blank to obtain a list of all case binders requested by their HOC.

*Continued on next page*
Example of Using Binder Selection (continued)

The screen will display all case binders requested by that HOC (or HOCs) and their status.

Note: The Requested screen will identify if the case binders are overdue, or the number of days late.
7. HUD Processing Responsibilities

Introduction
This chapter provides information on HUD responsibilities for Lender Insurance loans. These responsibilities include:

- Entering severe case warnings;
- Researching and clearing severe case warnings;
- Conducting the pre-endorsement review and insuring loans where severe case warnings have been cleared;
- Requesting case binders;
- Monitoring case binder receipt;
- Suspending or terminating Lender Insurance authority; and
- Issuing letters of suspension or termination of Lender Insurance authority.

Entering case warnings
If HOC staff receive information that a loan potentially poses an unacceptable risk they may enter text in the Comments field on the Case Warning Update Page. In order for the text message to generate a severe case warning (preventing the loan from being endorsed through Lender Insurance) check “Yes” in the LI Deficiencies Detected field.

If HOC staff want to add comments without triggering a severe case warning, they may do so by checking “No” in the LI Deficiencies Detected field.
Clearing case warnings

If HOC staff determine that the condition that resulted in text being entered and the *LI Deficiencies Detected* box being checked “Yes” has been resolved, they may check the box *Delete all warning data for this case.*

*Note:* System-generated case warnings (Mortgage Credit Reject, Multiple Loan, etc.) are not deleted by this action.

Pre-endorsement review of loans with severe case warnings

Pre-endorsement reviews of Lender Insurance loans with severe case warnings, whether paper binder or electronic case binder, shall be conducted in accordance with outstanding policy and procedures for non-Lender Insurance loans.

If the pre-endorsement review results in a determination that the loan is insurable, HOC or contractor staff shall insure.

Logging and routing paper case binders

Paper case binders received must be logged using the *Closing Package Logging* screen. Following the entry of the case number the screen will indicate if the case binder should be routed for pre-endorsement, post-endorsement or appraisal review.

Continued on next page
Logging and routing electronic case binders

When an electronic case binder is received for pre-insurance review by the electronic case binder system the Closing Package Logging process is performed automatically. Once the electronic case binder is logged into the system Next eBinder Case displays. By clicking on this link the following processes occur:

- The Insurance Application Update page with data from the next electronic case binder awaiting processing displays;
- The displayed case is assigned to the staff person who opened it; and
- The “Assigned date” is set to the current date.

A hyperlink to view the electronic case binder is displayed. Staff can access and view the electronic case binder in .pdf format through this link.

Continued on next page
Viewing electronic case binder documents

After clicking View Electronic Documents the electronic case binder is downloaded. On the left-hand side is a table of contents that staff can use to move among the documents.

The electronic case binder is displayed as a .pdf. Links to the electronic case binder are provided from the Insurance Application page and, if applicable, the Underwriter Reporting System (URS) and the Appraiser Review System (ARS).

Processing electronic case binders

After reviewing the documents, as well as information on the Insurance Application page, and (if applicable) the Case Warning Page in accordance with pre-endorsement review policies and procedures, staff will either insure the loan or issue a NOR in accordance with outstanding procedures.

Continued on next page
The HOC CHUMS Coordinator, with the approval of the HOC Processing and Underwriting Division (PUD) Director, may update a Lender Insurance mortgagee’s status using the Lender Insurance History screen. From the FHA Connection main menu select Lender Functions and then click on Lender Insurance History and enter the 5 digit HUD Approved Lender Identification Number of the mortgagee.

The Lender Insurance history for that mortgagee will be displayed.
The status of the Lender Insurance mortgagee may be changed by clicking on the *Add Forward LI Action* button and then making a selection from the *Action* menu.

As described in Chapter 4, when a mortgagee’s two year claim and default rate exceeds 150% of the two year claim and default rate for the states in which it has underwritten loans at the time of the quarterly review, Lender Insurance authority may be terminated.

HUD Headquarters will monitor Lender Insurance mortgagee compare ratios on a quarterly basis based on data as of March 31, June 30, September 30 and December 31. The Neighborhood Watch data refresh typically occurs during the third weekend following the end of the quarter, so the compare ratio review will take place in April, July, October and January.

If a mortgagee has a compare ratio in excess of 150%, HUD Headquarters may issue a letter terminating Lender Insurance authority, and provide notice of the mortgagee’s right to an informal conference.

*Continued on next page*
**HUD Processing Responsibilities, Continued**

<table>
<thead>
<tr>
<th>Monitoring Lender Insurance performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>For lenders whose compare ratios exceed 150%, HUD Headquarters will also monitor Lender Insurance mortgagee performance on a quarterly basis. Included in this review will be the mortgagee’s performance in:</td>
</tr>
<tr>
<td>• Employing a pre-insurance review process as required by regulations at 24 CFR § 203.255(f). Large numbers of Mortgage Insurance Certificate corrections may be viewed as evidence of a mortgagee’s failure to employ an adequate pre-endorsement review process.</td>
</tr>
<tr>
<td>• Submitting requested case binders to the HOCs within established timeframes.</td>
</tr>
<tr>
<td>• Complying with requirements for submission of electronic case binders including submission of clear, legible documents in the prescribed stacking order that is devoid of duplicate documents, multiple versions of documents, and documents not required by HUD.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Termination of Lender Insurance authority based on loss of Unconditional Direct Endorsement authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withdrawal of Unconditional Direct Endorsement authority at the institution level by the MRB will be cause for automatic termination of Lender Insurance authority.</td>
</tr>
<tr>
<td>The termination of Lender Insurance authority due to withdrawal of Unconditional Direct Endorsement authority will be processed by HUD HQ staff.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Termination of Lender Insurance authority based on other MRB actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actions taken by the MRB, other than withdrawal of Unconditional Direct Endorsement authority, may also result in termination of Lender Insurance authority.</td>
</tr>
<tr>
<td>The termination of Lender Insurance authority due to MRB actions will be processed by HUD HQ staff.</td>
</tr>
</tbody>
</table>

*Continued on next page*
HUD Processing Responsibilities, Continued

Termination of Lender Insurance authority for other reasons

HOCs may recommend to the Home Mortgage Insurance Division in HUD Headquarters the termination of Lender Insurance authority if the mortgagee:

- Fails to submit requested case binders in a timely manner;
- Fails to submit electronic case binders that are clear, legible, and in the prescribed stacking order, and include only the documents appropriate for the loan type; or
- Fails to adequately employ a pre-endorsement review as evidenced by a large number of requests for MIC corrections.

Termination recommendations by the HOCs may only be made where other measures previously taken by the HOCs, including suspensions of mortgagees’ Lender Insurance authority, have failed to result in improved performance.

The HOC whose jurisdiction includes the home office of the mortgagee shall be responsible for making the termination recommendation following consultations with any other HOCs in whose jurisdictions the mortgagee underwrites loans.

HUD Headquarters will make the final determination regarding termination of Lender Insurance authority and will prepare the letter to the mortgagee formally advising them of the termination action, and providing them with the right to an informal conference.

Suspension of Lender Insurance authority by the HOC

The suspension of Lender Insurance authority is a temporary measure designed to formally notify the mortgagee of HUD’s concerns with its performance, and to encourage prompt improved performance.

Lender Insurance authority may be suspended by the HOC if the mortgagee:

- Fails to submit requested case binders in a timely manner;
- Fails to submit electronic case binders that are clear, legible, and in the prescribed stacking order, and include only the documents appropriate for the loan type; or
- Fails to adequately employ a pre-endorsement review as evidenced by a large number of requests for MIC corrections.

Continued on next page
HUD Processing Responsibilities, Continued

**Suspension of Lender Insurance authority by the HOC (continued)**

The suspension of Lender Insurance authority may be lifted by the HOC when the HOC has determined that the issues associated with the cause for suspension have been satisfactorily resolved.

*Note:* Suspension of Lender Insurance authority does not constitute termination. Mortgagees are not required to wait six months or to otherwise comply with the reinstatement provisions referenced in Chapter 4 of this Guide.

**Suspension based on late submission of case binders**

If a mortgagee has five or more requested case binders outstanding within the established timeframe, the HOC PUD Director may suspend the mortgagee from the Lender Insurance program. The suspension will remain in effect until all requested case binders have been received.

If, after six months, suspension has not been lifted, termination of Lender Insurance may be imposed. HUD Headquarters will make the final determination regarding termination of Lender Insurance authority and will prepare the letter to the mortgagee formally advising them of the termination action, and providing them with the right to an informal conference.

**Suspension based on poor quality of electronic case binders**

If a mortgagee has five or more requested electronic case binders outstanding that contain documents that are not clear, legible and in the prescribed stacking order, that contain extraneous documents not required by HUD, or that contain multiple copies or versions of the same documents, the PUD Director may suspend the mortgagee from the Lender Insurance program. The suspension will remain in effect until the quality of the electronic case binders has sufficiently improved.

If, after six months, suspension has not been lifted, termination of Lender Insurance may be imposed. HUD Headquarters will make the final determination regarding termination of Lender Insurance authority and will prepare the letter to the mortgagee formally advising them of the termination action, and providing them with the right to an informal conference.

*Continued on next page*
Suspension based on failure to employ an adequate pre-endorsement review process

Where a mortgagee requests MIC corrections that are excessive considering the number of loans insured by the mortgagee and reflect routine processing errors and a lack of attention to detail inconsistent with a thorough pre-endorsement review, the PUD Director may suspend the mortgagee from the Lender Insurance program. The suspension will remain in effect until the quality of the mortgagee’s pre-endorsement review has sufficiently improved, as measured by declines in requests for MIC corrections.

If, after six months, suspension has not been lifted, termination of Lender Insurance may be imposed. HUD Headquarters will make the final determination regarding termination of Lender Insurance authority and will prepare the letter to the mortgagee formally advising them of the termination action, and providing them with the right to an informal conference.
8. Indemnification

Introduction
This chapter contains information on the circumstances under which HUD may demand the Lender Insurance mortgagee indemnify HUD against possible loss.

Lender Insurance and Indemnification
Through Federal Register Notice FR-5156-F-02, published on January 25, 2012, HUD is exercising its authority under the National Housing Act to demand Lender Insurance mortgagees indemnify HUD against possible losses in instances of fraud, misrepresentation, or serious and material violations of HUD requirements.

Previously, HUD sought the mortgagee’s agreement to indemnify HUD.

Definition of indemnification
Loans involving fraud, misrepresentation, or serious and material violations of HUD policies and procedures that significantly increase HUD’s risk may result in a demand for indemnification by the Lender Insurance mortgagee. In cases involving a principal and authorized agent where the principal insured the loan, HUD may also request indemnification by the authorized agent.

Under the terms of an indemnification, the Lender Insurance mortgagee is required to:

- Abstain from filing an insurance claim; or
- If an insurance claim has been paid and the property has been conveyed to HUD, accept reconveyance of the property and reimburse HUD for any expenses or claims paid to date; or
- If an insurance claim has been paid to the Lender Insurance mortgagee or a subsequent holder of the loan, and the property has been sold to a third party, reimburse HUD for any financial loss suffered in disposing of the property.

Continued on next page
Indemnification, Continued

Identifying loans requiring indemnification

HUD reviews loans through, among other methods, PETRs, appraisal reviews, on-site mortgagee monitoring reviews and through audits conducted by HUD’s Office of Inspector General. When fraud, misrepresentation, or serious and material violations of HUD policies and procedures are uncovered during the course of these reviews, HUD notifies the Lender Insurance mortgagee that a preliminary assessment based on file documentation indicates that the loan contains material findings such that HUD is exposed to an unacceptable level of risk. HUD provides the Lender Insurance mortgagee an opportunity to present additional documentation to address the review findings.

If the Lender Insurance mortgagee is unable to respond (or fails to respond) to the material findings, HUD will demand that the Lender Insurance mortgagee indemnify HUD against any possible financial loss stemming from that loan pursuant to 24 CFR § 203.255(g).

Indemnification periods

If the Lender Insurance mortgagee knew or should have known of serious and material violations of HUD requirements such that the loan should not have been approved and endorsed, the Lender Insurance mortgagee shall indemnify HUD for any loss on a loan which goes into default within five years of mortgage insurance endorsement.

If the Lender Insurance mortgagee knew or should have known of fraud or misrepresentation in connection with the loan the Lender Insurance mortgagee shall indemnify HUD for any loss for the life of the loan.

Continued on next page
Indemnification, Continued

**Indemnification standards**

HUD may require indemnification if the Lender Insurance mortgagee knew or should have known of serious and material violations of HUD requirements. Actions which may be considered serious and material violations of HUD requirements include, but are not limited to:

- Failing to ensure that the borrower meets applicable eligibility requirements in accordance with HUD requirements;
- Failing to verify the creditworthiness, income, and/or employment of a borrower in accordance with HUD requirements;
- Failing to verify the assets used by the borrower for down payment and/or closing costs, or to meet applicable reserve requirements, in accordance with HUD requirements;
- Failing to ensure that the amount of the loan insured is consistent with the loan type, property value and other applicable HUD requirements;
- Failure to ensure that the loan was current and met any applicable payment history requirements at the time of insurance endorsement in accordance with HUD requirements;
- Failing to address property deficiencies identified in the appraisal affecting the health and safety of the occupants or the structural integrity of the property in accordance with HUD requirements; and
- Failing to ensure that the appraisal of the property satisfies FHA appraisal requirements and other HUD requirements.

Indemnification may also be required if the Lender Insurance mortgagee knew or should have known of fraud or misrepresentation in connection with the loan.

**Indemnification of loans and the TOTAL Scorecard**

Lender Insurance mortgagees are reminded that receiving a risk recommendation of “Accept” or “Approve” from HUD’s TOTAL Scorecard does not absolve Lender Insurance mortgagees from their responsibility to consider information beyond that considered by the TOTAL Scorecard, as well as responsibility for the decisions to approve and insure loans through the Lender Insurance process. HUD may demand indemnification of loans that meet the standards for indemnification described above regardless of the risk recommendation provided by the TOTAL Scorecard.

*Continued on next page*
**Indemnification, Continued**

<table>
<thead>
<tr>
<th>Indemnification and causes of default</th>
<th>Indemnification will be demanded irrespective of whether fraud or misrepresentation caused the default.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-credit qualifying Streamline refinances of indemnified loans</td>
<td>Indemnified loans are eligible for Streamline refinances. Where HUD pays a claim on a non-credit qualifying Streamline refinance loan, HUD will continue to hold the mortgagee that indemnified the original loan responsible for any loss suffered by HUD. However, HUD will only seek to hold the originating mortgagee of the non-credit qualifying Streamline refinance responsible for any new serious and material violations of HUD requirements or fraud or misrepresentation in connection with its origination of the streamline refinanced loan.</td>
</tr>
<tr>
<td>Credit-qualifying refinances of indemnified loans</td>
<td>Where a new credit-qualifying determination has been made, including credit qualifying Streamline refinance loans, the indemnification on the previous loan is terminated. The underwriting mortgagee of the credit-qualifying loan shall be responsible for any serious and material violations of HUD requirements or for fraud or misrepresentation that result in indemnification of the refinanced loan.</td>
</tr>
<tr>
<td>Mortgagee responsible for indemnification</td>
<td>HUD will seek indemnification to hold the underwriting mortgagee responsible for deficiencies in origination regardless of how the loan was originated or how the loan was insured. HUD will demand indemnification from the underwriting mortgagee where the loan was insured by the LI lender.</td>
</tr>
<tr>
<td>Indemnification and holders of loans</td>
<td>In instances where an outstanding indemnification exists at the time of claim for insurance benefits, FHA will pay insurance benefits to the holder of the loan, as long as they are not the same entity that was named in the indemnification agreement.</td>
</tr>
</tbody>
</table>

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## Indemnification, Continued

<table>
<thead>
<tr>
<th>Demands for indemnification</th>
<th>Demands for indemnification may be made by the Director of the Quality Assurance Division in the HOCs, by the Office of Lender Activities and Program Compliance or by the MRB.</th>
</tr>
</thead>
</table>
| Information on indemnification | For more information on indemnification mortgagees should contact the Office of Lender Activities and Program Compliance. }