



# **Lender Insurance Guide** **For** **Mortgagee and HUD Staff**

**Revised May 1, 2013**

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# 1. Introduction to the Lender Insurance Program

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**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.

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**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.

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**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.

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## Introduction to the Lender Insurance Program, Continued

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### **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.

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

In Federal Register Notice FR-5156-F-02, published on January 25, 2012, and effective February 24, 2012, at <http://www.gpo.gov/fdsys/pkg/FR-2012-01-25/pdf/2012-1508.pdf>, HUD made significant changes to the Lender Insurance program. These changes included:

- 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.

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## Introduction to the Lender Insurance Program, Continued

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### 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.

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### 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.

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### 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.

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## Introduction to the Lender Insurance Program, Continued

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### **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.

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### **Lender Insurance mortgagees may submit paper case binders or electronic case binders**

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.

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### **Technical standards for electronic case binders**

Technical standards for electronic case binders can be found in the *Electronic Case Binder Developer's Guide*

<http://www.hud.gov/pub/chums/electronicCaseBinder.pdf>.

*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.

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### **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.

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## Introduction to the Lender Insurance Program, Continued

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### **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.

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### **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.

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## Introduction to the Lender Insurance Program, Continued

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### **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)  
<http://www.hud.gov/pub/chums/electronicCaseBinder.pdf>;
  - 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](http://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](mailto: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.
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## 2. Mortgagee Eligibility for Lender Insurance

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**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.

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**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.

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**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.

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**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.

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**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.

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## Mortgagee Eligibility for Lender Insurance, Continued

### Checking eligibility for Lender Insurance

Access the **Neighborhood Watch/Early Warning System** at:  
<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.

The screenshot shows the "EARLY WARNINGS -- SINGLE LENDER" form. The form has a title bar "EARLY WARNINGS -- SINGLE LENDER" and a "Submit" button. Below the title bar, there is a text input field with the placeholder text "Type first few letters of the lender's name or the 5 or 10 digit lender id:". The input field contains the text "12345". Below the input field, there is a dropdown menu labeled "Loan Portfolio:" with the selected option "2 Year FHA - With Streamlines". The form is set against a blue background with the "Neighborhood Watch" logo in the bottom right corner.

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## Mortgagee Eligibility for Lender Insurance, Continued

### Checking 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*

The screenshot shows the Neighborhood Watch Early Warning System interface. The header includes the logo and navigation tabs: Early Warnings, Servicing, Analysis, Details, Queries, Reporting, Help/About, and Home. The main content area is titled 'EARLY WARNINGS -- SINGLE LENDER' and contains the following fields and options:

- Direct Endorsement Lender:** ACME MORTGAGE CORPORATION - 12345
- Area:** UNITED STATES
- Mortgagee Selections:**
  - Direct Endorsement Lender (selected)
  - Originator by Institution
  - Originator by Branch
- Delinquent Choices:**
  - Seriously Delinquent (selected)
  - Seriously Delinquent within the first year
- 2 Year Performance Period:**
  - Data as of 04/30/2012 (selected)
  - Data as of All Quarter End Dates
  - Data as of 2012Q1
- ☒ **Compare Lenders to Area:**
- ☐ **View Credit Watch data:** (must select HUD Offices from the "Show Data For" box)
- Submit** button
- Output Options:**
  - Show:** All Loans (selected)
  - Show only records between 1 and 9999999
  - and between 0 and 9999999
  - and between 0 and 9999999
  - total loans underwritten (selected)
  - total seriously delinquent and claims
  - compare ratio
- Show Data For:** States (selected)
- Report Options:**
  - ☐ Detail and Totals
  - ☒ Detail Only
  - ☐ Totals Only
- Sort By:** Percent of Seriously Delinquent and Claims (selected)
- Descending** (selected)

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# 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%.

<div> <div>Neighborhood Watch</div> <div>EARLY WARNING SYSTEM</div> <div>US Department of Housing and Urban Development</div> </div>										
<div> <a href="#">Early Warnings</a> <a href="#">Servicing</a> <a href="#">Analysis</a> <a href="#">Details</a> <a href="#">Queries</a> <a href="#">Reporting</a> <a href="#">Help/About</a> <a href="#">Home</a> </div>										
<div> <div>Single Lender - Direct Endorsement Lender</div> <div>ACME MORTGAGE CORPORATION - 12345</div> <div>Loans Underwritten by State</div> <div>Loan Portfolio - 2 Year FHA</div> <div>Delinquent Choice - Seriously Delinquent</div> <div>Performance Period - 04/30/2012</div> <div>Sort Order by Percent Seriously Delinquent and Claims in Descending Order</div> <div>Data shown includes all insured single family loans with beginning amortization date between May 1, 2010 and April 30, 2012</div> </div>										
Rank	State	Compare Ratio	Loans Underwritten	Seriously Delinquent & Claims	% Seriously Delinquent & Claims	Branches	% Loans	Area Loans Underwritten	Area Seriously Delinquent & Claims	Area % Seriously Delinquent & Claims
		Total Retail Sponsored	Total Retail Sponsored	Total Retail Sponsored	Total Retail Sponsored	Retail Sponsored	Retail Sponsored	Total Retail Sponsored	Total Retail Sponsored	Total Retail Sponsored
1	MARYLAND	49% 51% 0%	102 102 0	1 1 0	0.98 0.98 0.00	1 0	100.00 0.00	62,759 50,078 12,681	1,255 955 300	2.00 1.91 2.37
2	VIRGINIA	57% 55% 142%	838 795 43	6 5 1	0.72 0.63 2.33	1 1	94.87 5.13	75,511 58,663 16,848	950 674 276	1.26 1.15 1.64
3	DISTRICT OF COLUMBIA	0% 0% 0%	24 24 0	0 0 0	0.00 0.00 0.00	1 0	100.00 0.00	4,840 3,928 912	52 38 14	1.07 0.97 1.54
4	WEST VIRGINIA	0% 0% 0%	3 3 0	0 0 0	0.00 0.00 0.00	1 0	100.00 0.00	8,531 7,106 1,425	75 60 15	0.88 0.84 1.05
5	NORTH CAROLINA	0% 0% 0%	138 138 0	0 0 0	0.00 0.00 0.00	1 0	100.00 0.00	62,658 52,715 9,943	1,028 854 174	1.64 1.62 1.75
	TOTAL - All States	40% 37% 125%	1,105 1,062 43	7 6 1	0.63 0.56 2.33			214,299 172,490 41,809	3,360 2,581 779	1.57 1.50 1.86
<div> <div>Displaying records 1 to 5 out of a total number of 5 records</div> <div><a href="#">Download this report to an Excel file</a> <a href="#">[Help]</a></div> </div>										
<div> <div>Report Summary</div> <div>Report Run: June 4, 2012</div> <div>Output: Data includes Lender loan types between 1 and 9999999 total originations and between 0 and 9999999 total seriously delinquent &amp; claims and between 0 and 9999999 compare ratio in States.</div> <div>Options: Loan Type(s): All Loans</div> <div><a href="#">Links to a graph displaying Lender's quarterly data.</a></div> </div>										

**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.

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## Mortgagee Eligibility for Lender Insurance, Continued

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**New mortgagees created by mergers, acquisitions or reorganizations and a new HUD Approved Lender Identification Number is issued**

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.

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**Eligibility criteria for new mortgagees created by mergers, acquisitions or reorganizations and 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*.

The screenshot shows the FHA Connection website. At the top is the HUD logo and the text "FHA Connection". Below this is a navigation bar with links: Home, Main Menu, ID Maintenance, E-mail Us, Contact Us, and Sign Off. The main content area features three blue buttons with white text: "Single Family FHA", "Multifamily FHA", and "Lender Functions". Each button has a description of its function and a "MORE" link. Below these buttons is a section titled "FHA Connection Resources" with three sub-sections: "HUDCLIPS", "Lenders Information", and "Mortgagee Letters", each with a brief description. At the bottom is a blue footer bar with links to various HUD pages.

Function	Description	More
Single Family FHA	Provides access to the online business areas used to originate, process, insure and service FHA loans.	<a href="#">MORE</a>
Multifamily FHA	Provides access to MDDR, PASS, and the Web-based eLOCCS system.	<a href="#">MORE</a>
Lender Functions	Provides access to lender-related functions.	<a href="#">MORE</a>

**FHA Connection Resources**

**HUDCLIPS:** The HUD Client Information and Policy System (HUDCLIPS) offers HUD clients free access to HUD's official repository of policies, procedures, announcements, and other materials using full-text online searches.

**Lenders Information:** The Lenders page located on HUD's Internet Web site provides access to information originated and maintained by HUD's Office of Housing on how to become an FHA lender, what FHA lenders need to know, and a comprehensive index of FHA-related information.

**Mortgagee Letters:** The FHA Mortgagee Letters page on HUD's Internet Web site enables you to view online and/or print all mortgagee letters issued since 1976.

HUD/FHA Home Page | HUD Single Family Housing Page  
HUD Multifamily Housing Page | HUDCLIPS | Lenders Information | Mortgagee Letters

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## Mortgagee Application for Lender Insurance, Continued

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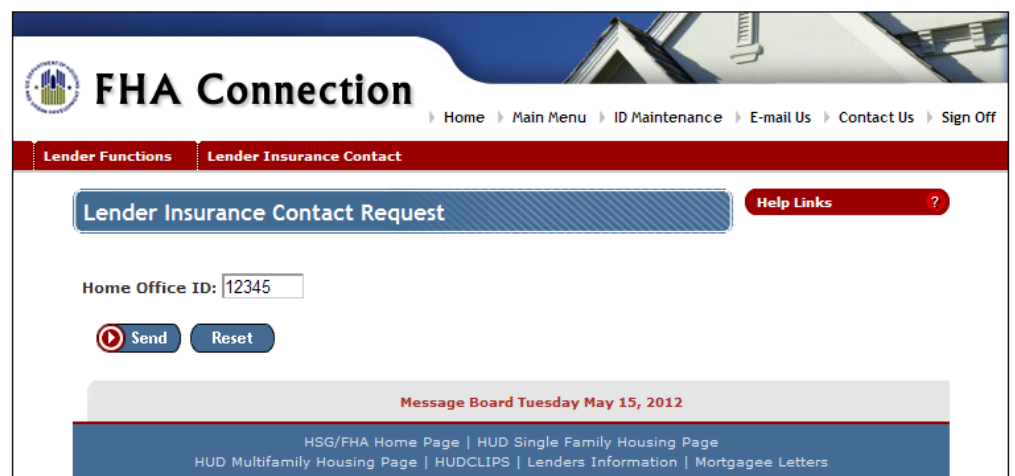
**How to apply  
for initial  
Lender  
Insurance  
authority  
(continued)**

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



The screenshot shows the FHA Connection website interface. At the top is the FHA logo and the text "FHA Connection". Below this is a navigation bar with links: Home, Main Menu, ID Maintenance, E-mail Us, Contact Us, and Sign Off. A red banner below the navigation bar contains the text "Lender Functions". Under this banner, a blue box labeled "Lender Functions" contains a list of links: Application Coordinators, Lender Approval, Lender Insurance Acknowledgment, Lender Insurance Contact, Lender Insurance History, and Cash Flow Account Setup. At the bottom of the page, a blue footer bar contains links: HSG/FHA Home Page, HUD Single Family Housing Page, HUD Multifamily Housing Page, HUDCLIPS, Lenders Information, and Mortgagee Letters.

Enter the 5 digit HUD Approved Lender Identification Number.



The screenshot shows the FHA Connection website interface for the "Lender Insurance Contact Request" form. At the top is the FHA logo and the text "FHA Connection". Below this is a navigation bar with links: Home, Main Menu, ID Maintenance, E-mail Us, Contact Us, and Sign Off. A red banner below the navigation bar contains the text "Lender Functions" and "Lender Insurance Contact". Under this banner, a blue box labeled "Lender Insurance Contact Request" contains a form. The form has a label "Home Office ID:" followed by a text input field containing the number "12345". Below the input field are two buttons: "Send" (with a red arrow icon) and "Reset". To the right of the form is a red button labeled "Help Links" with a question mark icon. Below the form, a grey box contains the text "Message Board Tuesday May 15, 2012". At the bottom of the page, a blue footer bar contains links: HSG/FHA Home Page, HUD Single Family Housing Page, HUD Multifamily Housing Page, HUDCLIPS, Lenders Information, and Mortgagee Letters.

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# Mortgagee Application for Lender Insurance, Continued

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## 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 screenshot shows the 'FHA Connection' web portal. The header includes the FHA logo and navigation links: Home, Main Menu, ID Maintenance, E-mail Us, Contact Us, and Sign Off. Below the header is a red navigation bar with 'Lender Functions' and 'Lender Insurance Acknowledgment'. The main content area is titled 'Acknowledgment of Terms and Conditions for LI'. It displays 'Lender ID: 12345' and 'Lender Name: MY MORTGAGE BANK'. The text explains that the FHA-approved Direct Endorsement mortgagee certifies that by participating in the Lender Insurance program, it will: participate under the program as required by 24 CFR §§ 203.4, 203.6, and 203.255(f); conduct a pre-insurance review of each mortgage as required by 24 CFR 203.6; transmit a true, accurate, and complete paper or digitized case binder as prescribed by FHA; maintain a copy of the binder for two years; and comply with any additional HUD/FHA requirements. A note on the right states '5 CFR 1320.3(h)(1) exempt: certification.' Below the terms, it says 'I agree and certify to these terms' followed by two checkboxes: 'The HOC wishes to waive LI Certification rules in order to grant this lender LI Paper Authorization' and 'I wish to apply for LI Forward'. At the bottom are 'Send' and 'Reset' buttons.

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.

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*Continued on next page*

# Mortgagee Application for Lender Insurance, Continued

How to apply  
for initial  
Lender  
Insurance  
authority  
(continued)

**FHA Connection** | Home | Main Menu | ID Maintenance | E-mail Us | Contact Us | Sign Off

**Lender Functions** | **Lender Insurance Contact** | Help Links ?

**Lender Insurance Contact**

Lender Name: MY MORTGAGE BANK

LI Type:	FORWARD	REVERSE
LI Status:	Removed	N/A
LI Status Date:	12/08/2011	N/A

**Primary Contact**

First Name: ROSE  
Last Name: GARDENER  
Telephone Number: 123 - 456 - 7890 Extension: 123  
Fax Number: 123 - 456 - 6789  
E-mail Address: rgardener@mymortgage.com  
Confirm E-mail Address: rgardener@mymortgage.com

**Secondary Contact**

First Name: JULES  
Last Name: DIAMOND  
Telephone Number: 123 - 456 - 1234 Extension:   
Fax Number: 123 - 456 - 2345  
E-mail Address: jdiamond@mymortgage.com  
Confirm E-mail Address: jdiamond@mymortgage.com

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

**FHA Connection** | Home | Main Menu | ID Maintenance | E-mail Us | Contact Us | Sign Off

**Lender Functions** | **Lender Insurance Acknowledgment**

**Acknowledgment of Terms and Conditions for LI**

Lender ID: 12345 Lender Name: MY MORTGAGE BANK

The FHA-approved Direct Endorsement mortgagee, as identified here by the CHUMS Identification number prior to participating under FHA's Lender Insurance program, certifies that by this use and all subsequent transmissions of loan-level data needed to induce the Federal Housing Administration to offer insurance endorsement, that it will:

Participate under the Lender Insurance program in accordance with the requirements described in 24 CFR §§ 203.4, 203.6 and 203.255(f). Conduct a pre-insurance review of each mortgage as required under 24 CFR 203.6; that no staff member who performs this review will have originated or underwritten said mortgage; and that no staff member will who originates or underwrites said mortgage will perform this review. Transmit a true, accurate, and complete paper or digitized case binder in a manner as prescribed by FHA within a time limit as prescribed by FHA following FHA's request; Maintain a copy of said mortgage case binder for a minimum of two years following endorsement, either in hard copy or digitized format, and make it available to FHA within a time limit as prescribed by FHA following FHA's request; Comply with any additional HUD/FHA requirements or procedures that are applicable to the implementing statute (Section 256 of the National Housing Act); those regulations cited above; all pertinent mortgagee letters regarding FHA's Direct Endorsement and Lender Insurance programs and other administrative notices issued by HUD/FHA as well as all other FHA mortgage insurance requirements.

5 CFR 1320.3(h)(1) exempt: certification.

☐ I agree and certify to these terms

Current LI **Forward** Status: Approval LI Paper , requested on 04/28/2011 by MDL123, HARRISON, HARRY H

*Continued on next page*

## Mortgagee Application for Lender Insurance, Continued

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### 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 7<sup>th</sup> Street, SW  
Washington, DC 20410

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*Continued on next page*

## Mortgagee Application for Lender Insurance, Continued

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### Approval of Lender Insurance authority – new mortgagees created by mergers, acquisitions or reorganizations

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.

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### Authorizing mortgagee staff to insure

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.

Authorization for CHUMS Applications:			
<input checked="" type="checkbox"/> CAIVRS Authorization	<input checked="" type="checkbox"/> Case Query	<input checked="" type="checkbox"/> Mortgage Insurance Certificate	
<input checked="" type="checkbox"/> Case Transfer	<input checked="" type="checkbox"/> Refinance Authorization	<input checked="" type="checkbox"/> Underwriter Registry	
<input checked="" type="checkbox"/> Underwriters	<input checked="" type="checkbox"/> Origination Reports	<input checked="" type="checkbox"/> MIC/NOR List	
<input checked="" type="checkbox"/> Mortgagee Performance Report			
Appraisal Processing:	<input checked="" type="radio"/> Add/Update <input type="radio"/> Query (Read-Only) <input type="radio"/> Not Authorized	Case Number Assignment:	<input checked="" type="radio"/> Add/Update <input type="radio"/> Query (Read-Only) <input type="radio"/> Not Authorized
Insurance Application:	<input type="radio"/> Insuring Authorization <input checked="" type="radio"/> Add/Update <input type="radio"/> Query (Read-Only) <input type="radio"/> Not Authorized	Inspector Assignment:	<input checked="" type="radio"/> Add/Update <input type="radio"/> Query (Read-Only) <input type="radio"/> Not Authorized
Non-Profits:	<input checked="" type="radio"/> Query (Read-Only) <input type="radio"/> Not Authorized	203k Case Close-Out:	<input checked="" type="radio"/> Add/Update <input type="radio"/> Not Authorized
203K Consultants:	<input checked="" type="radio"/> Query (Read-Only) <input type="radio"/> Not Authorized	Mortgage Credit Reject:	<input checked="" type="radio"/> Add/Update <input type="radio"/> Query (Read-Only) <input type="radio"/> Not Authorized
Notice of Return:	<input checked="" type="radio"/> Query (Read-Only) <input type="radio"/> Not Authorized	Borrower/Address Change:	<input checked="" type="radio"/> Update <input type="radio"/> Query (Read-Only) <input type="radio"/> Not Authorized

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## 4. Termination and Reinstatement of Lender Insurance Authority

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### 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.

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### 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.

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### 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.

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# Termination and Reinstatement of Lender Insurance Authority, Continued

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## 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.

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## 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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*Continued on next page*

## Termination and Reinstatement of Lender Insurance Authority, Continued

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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.

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### 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.

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### 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.

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### 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.

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### 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.

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*Continued on next page*

## Termination and Reinstatement of Lender Insurance Authority, Continued

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### **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.

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*Continued on next page*

# Termination and Reinstatement of Lender Insurance Authority, Continued

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## 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 7<sup>th</sup> Street, SW  
Washington, DC 20410

## 5. Mortgagee Processing Using Lender Insurance Authority

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<b>Introduction</b>	This chapter contains information on processing procedures for mortgagees participating in the Lender Insurance program.
<b>Processing up to insurance</b>	<p>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.</p> <p>There are no documentation waivers, revised processing procedures, or any other relief from HUD requirements applicable to Lender Insurance. Lender Insurance applies <u>only</u> to the means by which loans are insured.</p>
<b>Endorsing from data under Lender Insurance</b>	<p>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.</p> <p>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.</p>
<b>Mortgagee pre-endorsement review checklist</b>	Under Lender Insurance, mortgagees perform the pre- endorsement review of loans using the <i>Pre-Endorsement Review Approval/Rejection Checklist for Non-HECM Files</i> in HUD Handbook 4155.2 Chapter 12.

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*Continued on next page*

# Mortgagee Processing Using Lender Insurance Authority,

Continued

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<b>Mortgagee staff eligible to conduct pre-endorsement review and insure loans</b>	The pre-endorsement review and insurance of the loan must be conducted by mortgagee staff that neither originated, nor underwrote the loan.
<b>Conducting pre-endorsement reviews</b>	<p>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.</p> <p>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.</p> <p>Mortgagees must document the completion of the pre-endorsement review.</p> <p><b>Note:</b> The pre-endorsement review is not an underwriting review. It is a document and data integrity compliance review.</p>
<b>Importance of pre-endorsement review</b>	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.
<b>Pre-endorsement review requirements</b>	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:

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# Mortgagee Processing Using Lender Insurance Authority,

Continued

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## **Pre-endorsement review requirements** (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.

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*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.”

Exempt from SSN: <input type="button" value="No"/>	Number of Dependents: <input type="text"/>	Marital Status: <input type="button" value="Unmarried"/>
Self-employed: <input type="radio"/> Yes <input checked="" type="radio"/> No	Years at Current Job: <input type="text" value="5"/>	Years Renting: <input type="text" value="0"/>
Renting: <input checked="" type="radio"/> Yes <input type="radio"/> No	Counsel Type: <input type="button" value="Not Counseled"/>	Counsel TIN: <input type="text"/>
First Time Home Buyer: <input checked="" type="radio"/> Yes <input type="radio"/> No	Application Received by: <input type="button" value="Telephone"/>	
Veterans Preference: <input type="radio"/> Yes <input checked="" type="radio"/> No		
<b>* Mortgage Information *</b>		
Mortgage Amount: <input type="text" value="72300"/> .00	Interest Rate (%): <input type="text" value="4.25"/>	Maturity Date: <input type="text" value="09"/> /2041
Mortgage Amount: (with financed UFMIP) <input type="text" value="73550"/> .00	Warranty: <input type="text"/>	First Payment: <input type="text" value="10"/> /2011
Monthly Payment: <input type="text" value="417.61"/>	ARM Index: <input type="button" value="N/A"/>	ARM Index: <input type="button" value="N/A"/>
Term of Loan: <input type="text" value="360"/>	Loan-to-value (%): <input type="text" value="91.30"/>	CLTV (%): <input type="text" value="93.37"/>
Amortization: <input type="button" value="N/A"/>	Principal Reduction Amount: <input type="text"/>	Closing / Disbursement Date: <input type="text" value="08"/> /22/11
ARM Type: <input type="button" value="N/A"/>	Principal Reduction Amount: <input type="text"/>	Appraiser Name: <input type="text" value="JOE, JOSEPH J"/>
ARM Margin: <input type="text"/>	203k Name: <input type="text"/>	Pre-endorsement Delinquency Status: <input type="text" value="None"/>
Qualifying Rate: <input type="text"/>		
Principal Reduction: <input type="radio"/> Yes <input checked="" type="radio"/> No	<b>* Endorsement Information *</b>	
UFMIP Financed: <input checked="" type="radio"/> Yes <input type="radio"/> No	TECHNICAL REVIEW REQUIRED FOR ALGORITHM (FORWARD)	
Appraiser License ID: <input type="text" value="NY12340001234"/>	Insurance Date: <input type="text" value="09/30/11"/>	
203k Consultant ID: <input type="text"/>		
Technical Review: <input type="text" value="Yes"/>		
Technical Review Processing HOC: <input type="text" value="Philadelphia"/>		
Insurance Decision: <input type="text" value="Yes"/>		
Insured by: <input type="text" value="MU1234"/>		

### 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.

Endorsement Information *			
Technical Review:	Yes	TECHNICAL REVIEW REQUIRED FOR ALGORITHM (FORWARD)	
Technical Review Processing HOC:	Denver		
Insurance Decision:	Yes	Insurance Date:	09/30/11
Insured by:	X12345		

**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

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<b>Case warnings</b>	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.
<hr/>	
<b>Non-severe case warnings</b>	<p>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.</p> <p>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.</p>
<hr/>	
<b>Example of non-severe case warning</b>	<p><u>Multiple loan</u> 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.</p> <p>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.</p>
<hr/>	
<b>Severe case warnings</b>	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.

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# Mortgagee Processing Using Lender Insurance Authority,

Continued

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## **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.

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## **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*.

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## 6. Submitting and Tracking Case Binders

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**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.

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

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**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.

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## Submitting and Tracking Case Binders, Continued

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### **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*

## Submitting and Tracking Case Binders, Continued

### Tracking requests for case binders – Case Query (continued)

TRACY CA 953040000			
Originator Name:	<b>BANKS 'R US</b>		
Case Type:	REGULAR DIRECT ENDORSEMENT (ADP Code 729)		
Endorsement Processed by:	LENDER	Binder Status:	ELECTRONIC BINDER RECEIVED
Appraiser License:	CAAR123456	Case Number Assigned Date:	02/17/12
Appraiser Name:	WILL, WILLIAMS	Appraisal Logged Date:	03/08/12
Closing Package Received Date:	04/16/12	Appraisal Update Processing Date:	
Insurance Date:	04/16/12	Closing Date:	03/20/12
Upfront MIP Due:	\$2,219.50	Upfront MIP Received Date:	03/23/12
Upfront MIP Received:	\$2,219.50	Upfront MIP Late Due?	No
Upfront MIP Factor:	1.000%	Annual MIP Factor:	1.150%
Appraised Value:	\$230,000.00	TOTAL Score Processed:	Yes
Loan Term:	360	Mortgage Amount:	\$224,169.00
Last Action Date:	04/16/12	Principal Reduction:	
Last Action:	INSURED		
Unpaid Balance @ 78%:	\$181,194.00		
Final Bill Date:	06/20		
<a href="#">New Request</a>			

### Tracking requests for case binders – Insurance Application

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.”

<b>* Mortgage Information *</b>			
Mortgage Amount: (without financed UFMIP)	91190.00	Interest Rate (%):	4.000
Mortgage Amount: (with financed UFMIP)	92101.00	Maturity Date:	11/2041
Monthly Payment:	439.71	Warranty:	
Term of Loan:	360	First Payment:	12/2011
Amortization:	N/A	ARM Index:	N/A
ARM Type:	N/A	Loan-to-value (%):	96.49
ARM Margin:		CLTV (%):	0.00
Qualifying Rate:		Principal Reduction Amount:	
Principal Reduction:	<input type="radio"/> Yes <input checked="" type="radio"/> No	Closing / Disbursement Date:	10/27/11
UFMIP Financed:	<input checked="" type="radio"/> Yes <input type="radio"/> No	Appraiser Name:	SHELDON, SHELLEY S
Appraiser License ID:	AZ12345	203k Name:	
203k Consultant ID:		Pre-endorsement Delinquency Status:	None
<b>* Endorsement Information *</b>			
Technical Review:	Yes	TECHNICAL REVIEW REQUIRED FOR EARLY PYMNT DEFAULT	
Technical Review Processing HOC:	Philadelphia	Insurance Date:	12/15/11
Insurance Decision:	Yes		
Insured by:	MAQ123		
<b>Details</b>			
Error(s) Detected: <a href="#">[Top]</a>			
<a href="#">[More Details]</a> SUBMIT CASE TO PHILADELPHIA HOC FOR TECHNICAL REVIEW PROCESSING			
<a href="#">[More Details]</a> ALL BORROWERS PASSED SSN VALIDATION-NAME, SSN OR DOB CHANGES WILL REVALIDATE			
<a href="#">[More Details]</a> TECHNICAL REVIEW REQUIRED FOR EARLY PYMNT DEFAULT			

Continued on next page

## Submitting and Tracking Case Binders, Continued

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### **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.

<b>Binder Category</b>	<b>Definition</b>
Requested	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.
Received	Case binders that were received by the HOCs and were acceptable.
Not Accepted	Case binders that were received by the HOCs and were unacceptable.
Awaiting Endorsement	Case binders for non-endorsed mortgages with severe case warnings that were received and are acceptable.
Requested Addition Documents	Missing documents were requested by the HOC.
Received Additional Documents	Missing documents were received by the HOC.

---

### **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

---

**Binder status – Not Accepted**     *Not Accepted* includes case binders that were received but which were not acceptable for one of the following reasons:

- The paper case binder or electronic case binder does not belong to the mortgagee that submitted it;
- The paper case binder or electronic case binder documents do not reflect the same loan for which the case binder was requested;
- The electronic case binder cannot be separated into sections; or
- The electronic case binder formatting was incorrect, or the file was badly formatted.

---

**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.



The screenshot displays the FHA Connection web application interface. At the top, the header includes the FHA logo and the text "FHA Connection". Below this, a navigation bar contains links: Home, Main Menu, ID Maintenance, E-mail Us, Contact Us, and Sign Off. A red banner below the navigation bar reads "Single Family FHA Single Family Origination Case Processing Binder Selection". The main content area features a "Binder Selection" section with a dropdown menu labeled "Binder Status:". The dropdown menu is open, showing options: Select Binder Status, Requested, Received, Not Accepted, Awaiting Endorsement, Requested Additional Documents, and Received Additional Documents. Below the dropdown are "Send" and "Reset" buttons. A "Help Links" button with a question mark icon is also present. At the bottom, a "New" message board announcement for Monday June 04, 2012, is displayed. The footer contains links to HSG/FHA Home Page, HUD Single Family Housing Page, HUD Multifamily Housing Page, HUDCLIPS, Lenders Information, and Mortgagee Letters.

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*

## Submitting and Tracking Case Binders, Continued

### Example of Using Binder Selection (continued)

**FHA Connection**

Home Main Menu ID Maintenance E-mail Us Contact Us Sign Off

Single Family FHA Single Family Origination Case Processing Binder Selection

**Binder Selection - Binders Requested** Help Links ?

Binder Status: Requested

Sorted by: Case Number

Request Reason: All Reasons

HOC: Philadelphia

Lender ID: Lender Type: Select Lender Type

Send Reset

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.

**Binder Selection Results - Binders Requested** Help Links ?

☒ **SUCCESS**

BINDER SELECTION HAS BEEN SUCCESSFULLY COMPLETED

**Selection Criteria**

Binder Status: Requested

Sort by: Case Number

Request Reason: All Reasons

HOC: Philadelphia

Lender ID: 11223

Lender Type: Originator

**Note:** Binders must be submitted within 10 business days of the requested date.

Binder Selection as of 06/04/2012  
(4 records were selected, 4 records displayed.)

Download Report to Excel File

Case Number	Submit Binder to HOC	Originator	Sponsor	Requested Date	Requested Reason	Days Since Request	Forward/Reverse	Requested By
011-1231231	PHILADELPHIA	1122301061	N/A	04/19/2012	POST ENDORSEMENT REVIEW	32 Late	Forward	System
042-2345678	PHILADELPHIA	1122305431	N/A	04/20/2012	POST ENDORSEMENT REVIEW	64 Late	Forward	System
048-6876786	PHILADELPHIA	1122304970	N/A	04/19/2012	POST ENDORSEMENT REVIEW	26 Late	Forward	System
137-1234567	PHILADELPHIA	1122300168	N/A	04/19/2012	POST ENDORSEMENT REVIEW	32 Late	Forward	System

New Request

Continued on next page

## 7. HUD Processing Responsibilities

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### 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.

The screenshot displays the 'Case Warning Update' form. At the top, there are two input fields: 'Conditional Commitment ID:' (empty) and 'Endorsement Processing ID:' (containing 'C12345'). Below these are two columns of checkboxes for various deficiencies. The left column includes: Mortgage Credit Reject, Indemnification, Multiple loan, Underwriter not employed, ZIP problems, SSN Validation, Borrower has mult. residences, and Borrower fraud alert. The right column includes: Credit Alert Sanction, Units or Lots/Blocks rejected, Monitored ZIP, Manual underwriting required, Borrower not owner occupant, Multiple living units, and Pre-endorsement Delinquency. Below the checkboxes is a 'Comments:' section with a text area containing 'Borrower complaint'. At the bottom, there is a dropdown menu for 'LI Deficiencies Detected?' set to 'Yes'. Three buttons are at the bottom: 'Send' (with a red arrow icon), 'Reset', and 'New Request'.

Conditional Commitment ID:	Endorsement Processing ID:
	C12345

<input type="checkbox"/> Mortgage Credit Reject	<input type="checkbox"/> Credit Alert Sanction
<input type="checkbox"/> Indemnification	<input type="checkbox"/> Units or Lots/Blocks rejected
<input type="checkbox"/> Multiple loan	<input type="checkbox"/> Monitored ZIP
<input type="checkbox"/> Underwriter not employed	<input type="checkbox"/> Manual underwriting required
<input type="checkbox"/> ZIP problems	<input type="checkbox"/> Borrower not owner occupant
<input type="checkbox"/> SSN Validation	<input type="checkbox"/> Multiple living units
<input type="checkbox"/> Borrower has mult. residences	<input type="checkbox"/> Pre-endorsement Delinquency
<input type="checkbox"/> Borrower fraud alert	

Comments:

Borrower complaint

LI Deficiencies Detected? Yes

*Continued on next page*

## HUD Processing Responsibilities, Continued

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### 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.

**FHA Connection**

Home Main Menu ID Maintenance E-mail Us Contact Us Sign Off

Single Family FHA Single Family Origination > Case Processing > Closing Package Logging

**Closing Package Logging** Help Links ?

Assign To: [Dropdown]

FHA Case Number	Pre/Resub	Lender ID	Borrower Name	Results
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

*Continued on next page*

## HUD Processing Responsibilities, Continued

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### 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.

**FHA Connection**

Home Main Menu ID Maintenance E-mail Us Contact Us Sign Off

Single Family FHA Single Family Origination Case Processing Insurance Application

**Insurance Application Update**

**WARNING**  
Existing conditions may affect processing.  
[\[See message\(s\) below\]](#)

[View Electronic Documents](#)

FHA Case Number: 123-8765432

**\* General Information \***

Property Address:  
234 MAIN ST  
MONTEREY, CA 95304-0000

County Code: 077

PUD/Condo: PUD

Originator/Principal ID: 8888801234  
HAPPY LENDERS BANK

NMLS ID:  
Not on File

Loan Officer Name  
First, MI: JAMES  
Last, Suffix: JAMISON

Loan Officer NMLS ID: 456789

ADP Code: 729

Program ID: (00)-Default

*Continued on next page*

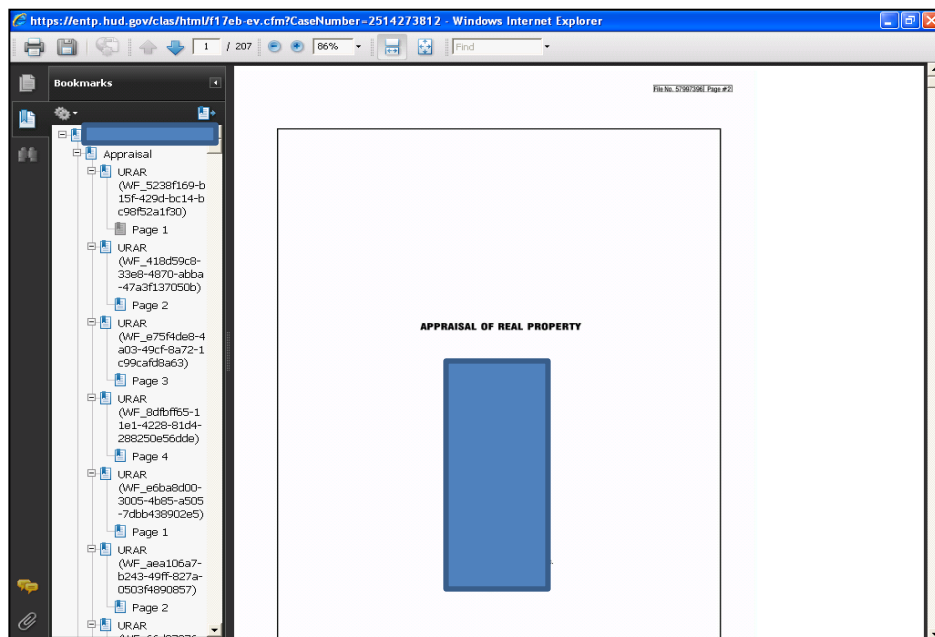
## HUD Processing Responsibilities, Continued

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### 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*

## HUD Processing Responsibilities, Continued

### Updating Lender Insurance status

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.

**FHA Connection**

Home Main Menu ID Maintenance E-mail Us Contact Us Sign Off

**Lender Functions LI History**

**LI History Request** Help Links ?

Lender ID:

OR

Lender Name:

Send Reset

Message Board Tuesday May 15, 2012

HSG/FHA Home Page | HUD Single Family Housing Page  
HUD Multifamily Housing Page | HUDCLIPS | Lenders Information | Mortgage Letters

The Lender Insurance history for that mortgagee will be displayed.

**FHA Connection**

Home Main Menu ID Maintenance E-mail Us Contact Us Sign Off

**Lender Functions LI History**

**LI History Details** Help Links ?

Lender ID: 45678

Lender Name: HOME MORTGAGE BANK NA

Lender Address: 1234 WATER WAY  
MINNEAPOLIS, MN 55467

Home Office ID: 4567809990

Home Office HOC: DENVER

LI Type:	FORWARD	REVERSE
LI Status:	Approval LI Paper	N/A
LI Status Date:	11/18/2011	N/A

	Start	End	Type	Compare Ratio	Compare Ratio Date	Processed by	Comments Exist
1	11/18/2011	N/A	Approval LI Paper	119%	10/31/2011	MCE123 - DENISON, DENISE	No

Add FORWARD LI Action

Lender not authorized for REVERSE LI activity

New Request

Continued on next page

## HUD Processing Responsibilities, Continued

### Updating Lender Insurance status (continued)

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.

The screenshot shows the 'FHA Connection' web interface. At the top, there's a navigation bar with links: Home, Main Menu, ID Maintenance, E-mail Us, Contact Us, and Sign Off. Below this is a red header with 'Lender Functions' and 'LI History'. The main content area is titled 'LI History Update' and includes a 'Help Links' button. The form displays the following information:

Lender ID:	45678	LI Type:	FORWARD	REVERSE
Lender Name:	HOME MORTGAGE BANK NA	LI Status:	Approval LI Paper	N/A
Lender Address:	1234 WATER WAY MINNEAPOLIS, MN 55467	LI Status Date:	11/18/2011	N/A
Home Office ID:	4567809990			
Home Office HOC:	DENVER			

Below this, the 'LI Activity Type' is set to 'FORWARD'. The 'Action' dropdown menu is open, showing options: Select Action, Withdrawn (Lender), Withdrawn (HUD), Removed by Annual Review, Sanction - Late Submission (Initial), Sanction - No pre endorse review, Sanction - QAD or OIG Referral, Sanction - Late Submission (Repeated), and Sanction - Other. There are also fields for 'Start Date', 'End Date', and 'Comments'. At the bottom, there are buttons for 'Send', 'Reset', and 'New Request'.

### Monitoring Lender Insurance compare ratios

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

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### **Monitoring Lender Insurance performance**

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 mortgagees performance in:

- 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.
  - Submitting requested case binders to the HOCs within established timeframes.
  - 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.
- 

### **Termination of Lender Insurance authority based on loss of Unconditional Direct Endorsement authority**

Withdrawal of Unconditional Direct Endorsement authority at the institution level by the MRB will be cause for automatic termination of Lender Insurance authority.

The termination of Lender Insurance authority due to withdrawal of Unconditional Direct Endorsement authority will be processed by HUD HQ staff.

---

### **Termination of Lender Insurance authority based on other MRB actions**

Actions taken by the MRB, other than withdrawal of Unconditional Direct Endorsement authority, may also result in termination of Lender Insurance authority.

The termination of Lender Insurance authority due to MRB actions will be processed by HUD HQ staff.

---

*Continued on next page*

## HUD Processing Responsibilities, Continued

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### **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

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**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.

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*Continued on next page*

## HUD Processing Responsibilities, Continued

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**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

<b>Introduction</b>	This chapter contains information on the circumstances under which HUD may demand the Lender Insurance mortgagee indemnify HUD against possible loss.
<b>Lender Insurance and Indemnification</b>	<p>Through Federal Register Notice FR-5156-F-02, published on January 25, 2012, HUD is exercising its authority under the National Housing Act to <i>demand</i> Lender Insurance mortgagees indemnify HUD against possible losses in instances of fraud, misrepresentation, or serious and material violations of HUD requirements.</p> <p>Previously, HUD sought the mortgagee's agreement to indemnify HUD.</p>
<b>Definition of indemnification</b>	<p>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.</p> <p>Under the terms of an indemnification, the Lender Insurance mortgagee is required to:</p> <ul style="list-style-type: none"><li>• Abstain from filing an insurance claim; or</li><li>• 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</li><li>• 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.</li></ul>

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*Continued on next page*

## Indemnification, Continued

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### **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.

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*Continued on next page*

## Indemnification, Continued

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### **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.

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### **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.

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## Indemnification, Continued

<b>Indemnification and causes of default</b>	Indemnification will be demanded irrespective of whether fraud or misrepresentation caused the default.
<b>Non-credit qualifying Streamline refinances of indemnified loans</b>	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.
<b>Credit-qualifying refinances of indemnified loans</b>	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.
<b>Mortgagee responsible for indemnification</b>	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.
<b>Indemnification and holders of loans</b>	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.

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## Indemnification, Continued

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<b>Demands for indemnification</b>	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.
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<b>Information on indemnification</b>	For more information on indemnification mortgagees should contact the Office of Lender Activities and Program Compliance.
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