



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: April 29, 2014

To: All FHA-Approved Mortgagees

Mortgagee Letter 2014-08

Subject Guidance on Nonprofits Assisting Government Entities in Providing Secondary Financing in Conjunction with FHA-Insured Mortgages

Purpose This Mortgagee Letter clarifies whether nonprofit organizations assisting with a government entity's secondary financing program require HUD approval and placement on the Nonprofit Organization Roster.

Effective Date The guidance in this Mortgagee Letter is effective upon publication. FHA-approved mortgagees must comply with the documentation requirements and data entry instructions for secondary financing information in the Federal Housing Administration Connection (FHAC) system no later than 60 days from the publication of this ML.

Affected Topics This guidance updates and where it conflicts supersedes HUD Handbook 4155.1 5.C.3.

Background HUD currently requires nonprofit organizations and nonprofit instrumentalities of government ("Nonprofits") to be HUD approved and placed on the Nonprofit Organization Roster before engaging in secondary financing activities for closing costs, prepaids, and down payment assistance when the nonprofit is doing so on behalf of the government entity.

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Background (continued)

In Mortgagee Letter 2013-14, FHA recognized that some government entities could not legally or operationally ensure that secondary financing is “made” by the government entity and permitted the secondary financing component to be made by an FHA-approved mortgagee or HUD-approved nonprofit on behalf of the governmental entity provided the mortgagee or nonprofit was not a prohibited source and the government entity held the secondary financing prior to endorsement of the first mortgage for FHA insurance until further notice.

Nonprofits Assisting the Government Entity in Providing Secondary Financing

Where a government entity uses a nonprofit to assist in the operation of the government entity’s secondary assistance programs, HUD approval and placement on the Nonprofit Organization Roster are not required so long as there is a documented agreement that (1) the functions performed are limited to the government entity’s secondary financing program and (2) the secondary financing legal documents (Note and Deed of Trust) name the government entity as the Mortgagee.

Where a nonprofit closes secondary financing in its own name, that nonprofit is required to be both HUD approved and placed on the Nonprofit Organization Roster even if the secondary financing will be held by the government entity.

Government entities that have nonprofits close the secondary financing in the name of the nonprofit must verify that the nonprofit is both HUD approved and on the Nonprofit Organization Roster at <https://entp.hud.gov/idapp/html/f17npdata.cfm>.

A nonprofit participating in another HUD program that requires approval must obtain approval for the subject purpose from HUD and be placed on the Nonprofit Organization Roster.

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Documentation Requirements

An FHA-approved mortgagee is required to include a letter from the government entity evidencing the relationship between the government entity and nonprofit in the case binder for each FHA-insured mortgage. The letter must be on the government entity's letterhead (signed by an authorized official for the government entity) and contain the following information:

- the FHA case number for the first mortgage;
- the complete property address;
- the name, address and Tax ID for the nonprofit;
- the name of the borrower(s) to whom the nonprofit is providing secondary financing;
- the amount and purpose for the secondary financing provided to the borrower; and
- a statement indicating whether the secondary financing:
 - 1) will close in the name of the government entity, or
 - 2) will be closed in the name of the nonprofit and held by the government entity.

FHA-Approved Mortgagee Responsibilities

FHA-approved mortgagees are required to enter secondary financing information in FHAC in accordance with Attachment A: Nonprofit Matrix.

FHA-approved mortgagees must verify that nonprofits closing the secondary financing in the name of the nonprofit, even if the secondary financing is made in partnership with a government entity, are both HUD approved and on the Nonprofit Organization Roster. The Nonprofit Organization Roster may be found at <https://entp.hud.gov/idapp/html/f17npdata.cfm>.

For all secondary financing programs used in conjunction with FHA-insured mortgage financing, regardless of whether the program is operated or administered by a government agency, instrumentality of government, nonprofit, or nonprofit instrumentality of government, it is the FHA-approved mortgagee's responsibility to confirm that the second mortgage loan documents comply with all HUD requirements.

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**Information
Collection
Requirements**

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501- 3520) and assigned an OMB control number of 2502-0059. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.

Questions

Please address any questions about the topics in this Mortgagee Letter to the FHA Resource Center at (800) 225-5342. Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Information Relay Service at (800) 877-8339. For additional information on this Mortgagee Letter, please visit www.hud.gov/answers.

Signature

Carol J. Galante
Assistant Secretary for Housing-Federal Housing Commissioner

Attachment

Attachment A: Nonprofit Matrix

Secondary Financing Legal Documents	HUD Approval and Roster Placement Required	Government Entity (GE) Must Satisfy Documentation Requirements of ML 2014-08	Information Entered by FHA-Approved Mortgagee in FHAC
The secondary financing legal documents are in the name of the GE.	No	Yes	Enter information on GE only.
The secondary financing legal documents are in the name of the nonprofit and will be held by the GE prior to issuance of FHA insurance.	Yes	Yes	Enter information on the nonprofit and the GE. If there is more than one nonprofit, enter information on all nonprofits.
The secondary financing legal documents are in the name of the nonprofit and will be held by the nonprofit prior to issuance of FHA insurance.	Yes	No	Enter information on the nonprofit. If there is more than one nonprofit, enter information on all nonprofits.