



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: December 14, 2016

To: All FHA-approved Mortgagees
All Direct Endorsement Underwriters
All FHA Roster Appraisers
All FHA Roster Inspectors
All FHA-approved 203(k) Consultants
All HUD-approved Housing Counselors
All HUD-approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Mortgagee Letter 2016-21

Subject Direct Endorsement Program - Timeframe for Conducting Pre-Endorsement Mortgage Reviews for Unconditional Direct Endorsement Authority

Purpose The purpose of this Mortgagee Letter (ML) is to:

- notify Mortgagees of the change in timeframe for pre-endorsement mortgage review during the test case phase of the Direct Endorsement Unconditional Authority process from pre-closing to post-closing, and
- update related guidance to associated policy and processes

Effective Date This guidance is effective for Mortgagees approved by HUD's Homeownership Centers to enter the Direct Endorsement Unconditional Authority Test Case process on or after April 1, 2017.

All policy updates will be incorporated into a forthcoming update of the HUD Single Family Housing Policy Handbook 4000.1 (Handbook 4000.1).

Affected Programs This guidance applies to all FHA Approved Title II Mortgagees applying for Direct Endorsement Unconditional Authority.

Affected Topics This guidance will affect Handbook 4000.1 sections I.A.5.a.iii(A)(3), *Test Case Phase*, I.A.5.a.iii(A)(3)(a)(i), *Pre-closing Submission*, I.A.5.a(A)(3)(a)(ii), *Post-closing Submission*, I.A.5.a.iii(A)(3)(b), *Test Case Underwriting Report*, I.A.5.a.iii(A)(3)(c),

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Test Case Closing Package, II.A.5.d.x(B), Documentation of Final Underwriting Review Decision (Manual), ii.A.7.d.ii(B), Uniform Case Binder Format, II.A.7.d.vii, Procedures for Endorsement Mortgagee with Conditional Direct Endorsement Authority (Test Case).

Background

FHA grants Mortgagees Unconditional Direct Endorsement (DE) authority to close mortgages without prior FHA approval in accordance with the terms and conditions of HUD's regulations in 24 CFR § 203.3. Under the DE program, the Mortgagee underwrites and closes the mortgage without prior FHA review or approval. To obtain Unconditional DE authority, the Mortgagee must successfully complete the Test Case phase, which permits FHA to evaluate the Mortgagee's qualifications, experience, and expertise to underwrite and close mortgages that satisfy FHA requirements.

At present, FHA generally conducts this review of the test case files prior to closing and, if acceptable, issues a commitment to the Mortgagee at that time. After closing, the closing package is then submitted to FHA for review of the closing documents and endorsement for insurance. While this is the general procedure utilized by Mortgagees seeking Unconditional DE approval, FHA currently allows Mortgagees to close the mortgages before submission for Test Case review. A Mortgagee is eligible for Unconditional DE authority once FHA has reviewed and found acceptable the requisite number of test case files, at either pre-closing or post-closing pre-endorsement review provided that the Mortgagee has met the other requirements for DE approval under 24 CFR § 203.3.

Federal Register Notice FR-5658-N-01, issued March 21, 2013, proposed moving the timeframe that FHA conducts its pre-endorsement review of mortgages originated by DE Mortgagees during the Test Case phase from pre-closing to post-closing. This Mortgagee Letter, in conjunction with Federal Register Notice FR-5658-N-02, issued December 14, 2016, implements the change in the pre-endorsement review timeframe from pre-closing to post-closing for mortgages originated by Mortgagees who receive a DE program Test Case phase approval letter from HUD's Homeownership Center dated on or after April 1, 2017.

Summary of Changes

Changes to HUD Handbook 4000.1 affected topics are as follows:

- *Test Case Phase* (Section I.A.5.a.iii(A)(3), clarifies FHA's review of Test Cases includes closing requirements.
- *Pre-closing Submission* (Section I.A.5.a.iii(A)(3)(a)(i), includes the final date for Mortgagees entering the Direct Endorsement Test Case process to be able to submit mortgages for review pre-closing.

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- *Post-closing Submission* (Section I.A.5.a.(A)(3)(a)(ii), includes the effective date for Mortgagees entering the Direct Endorsement Test Case process to submit mortgages for review post-closing.
- *Test Case Underwriting Report* (Section I.A.5.a.iii. (A)(3)(b), clarifies that Mortgagees may submit mitigating documentation for test case reviews that receive an unacceptable rating during test case file review.
- *Test Case Closing Package* (Section I.A.5.a.iii(A)(3)(c), implements a change in the Title from *Test Case Closing Package* to *Test Case Closing Documents*.
- *Documenting Final Underwriting Review Decision (Manual)*, (Section II.A.5.d.x.(B), clarifies the timeframe, pre-closing or post-closing, for submitting final underwriting review decision documents based on the date the Mortgagee enters the Direct Endorsement Test Case process.
- *Uniform Case Binder Format* (Section II.A.7.d.ii(B), implements a change in the test case binder color to blue for Mortgagees entering the Direct Endorsement Test Case process on or after April 1, 2017.
- *Procedures for Endorsement – Mortgagee with Conditional Direct Endorsement Approval (Test Case)*, (Section II.A.7.d.vii), implements changes to the timeframe for when documents are submitted for review from pre-closing to post-closing based on the date the Mortgagee enters the Direct Endorsement Test Case process.

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Pre-closing Submission (I.A.5.a.iii(A)(3)(a)(i))

Mortgagees who receive a DE program Test Case phase approval letter from HUD's Homeownership Center dated on or before March 31, 2017, may continue to submit the case binder prior to closing. If the Mortgagee submits the case binder before closing, the HOC will either issue a Firm Commitment (approval) or Firm Reject (denial). The Mortgagee may close and submit for endorsement any Mortgage that has received a Firm Commitment.

Post-closing Submission (I.A.5.a.iii(A)(3)(a)(ii))

Mortgagees who receive a DE program Test Case phase approval letter from HUD's Homeownership Center dated on or after April 1, 2017, must submit all Test Case binders for review post-closing. The HOC will perform a review for compliance with FHA underwriting and closing guidelines. The HOC will issue either a Firm Commitment (approval) or a Firm Reject (denial) via a Notice of Return (NOR). Once a Firm Commitment is issued, the HOC will process the case for endorsement. If a NOR is issued, the Mortgagee must make all necessary corrections and provide all required documentation to the HOC before the mortgage can be endorsed.

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Test Case Underwriting Report (I.A.5.a.iii(A)(3)(b))

The Mortgagee, or its underwriter, must review the Underwriting Report completed by the HOC available through FHA Connection (FHAC) on all Test Cases. For Test Cases with an Unacceptable rating, the Mortgagee may submit mitigating documentation to the HOC that processed the Test Case. The Mortgagee must include all relevant documentation to support its request.

Documenting Final Underwriting Review Decision (Manual)

(II.A.5.d.x.(B))

The underwriter must complete the following documents to evidence their final underwriting decision.

For cases involving Mortgages to HUD employees, the Mortgagee completes the following and then submits the complete underwritten mortgage application to FHA for review and issuance of a Firm Commitment or Rejection Notice prior to closing.

For cases involving Mortgagees that receive a DE Program Test Case approval letter from HUD's Homeownership Center on or before March 31, 2017, and are processing the case as a pre-closing or post-closing submission, the Mortgagee completes the following, ensuring that all required documents evidencing the final underwriting decision are included in the initial submission package to FHA, and then submits the complete underwritten mortgage application to FHA for review and issuance of a Firm Commitment or Rejection Notice.

For cases involving Mortgagees that receive a DE program Test Case phase approval letter from HUD's Homeownership Center dated on or after April 1, 2017, the Mortgagee completes the following and then submits the complete underwritten mortgage application post-closing to FHA for review and issuance of a Firm Commitment or Rejection Notice.

Uniform Case Binder Format (II.A.7.d.ii(B))

The uniform case binder must be color coded as follows:

- Yellow – Cases submitted for Mortgagees with Lender Insurance authority
- Manila – Cases submitted for Mortgagees without Lender Insurance authority
- Green – Test Cases submitted for Mortgagees who receive a DE program Test Case phase approval letter from HUD's Homeownership Center dated on or before March 31, 2017

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- Blue – Test Cases submitted for Mortgagees who receive a DE program Test Case phase approval letter from HUD’s Homeownership Center dated on or after April 1, 2017

The Mortgagee must complete the front of the binder and write the case number on the side and bottom tabs of the binder.

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Procedures for Endorsement - Mortgagee with Conditional Direct Endorsement Approval (Test Case) (II.A.7.d.vii)

For Mortgagees who receive a DE program Test Case phase approval letter from HUD’s Homeownership Center dated on or before March 31, 2017, the Mortgagee must ensure that:

- All required certifications are executed,
- A complete closing package is submitted in the order specified in the Closing Documents Requirements Checklist that is provided to the Mortgagee during the Entrance Conference,
- All credit and property approval conditions are placed at the bottom of the closing package,
- A cover sheet identifying the mortgage as a Test Case, along with the FHA case number, is included as the top cover sheet within the case binder, and
- The documents are placed in a manila folder with “TEST CASE” written in large letters on the front of the folder.

The Mortgagee is not required to resubmit documents originally submitted for underwriting approval.

Procedures for Endorsement for Mortgagee with Conditional Direct Endorsement Approval (Test Case) (II.A.7.d.vii) *Continued*

For Mortgagees who receive a DE program Test Case phase approval letter from HUD’s Homeownership Center dated on or after April 1, 2017, the Mortgagee must ensure that:

- All required certifications are executed
- A complete case file post-closing is submitted that includes all required origination, underwriting and closing documents in the order specified in the Case Binder Documents Requirements Checklist that is provided to the Mortgagee during the Entrance Conference,
- The documents are placed in a blue folder with a completed front cover, the FHA case number written on the side and bottom tab of the folder, and “TEST CASE” written in large letters on the front of the folder.

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Questions For additional information on this ML, please visit www.hud.gov/answers or call FHA's Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Relay Service at 1-800-877-8339.

Signature Edward L. Golding
Principal Deputy Assistant Secretary for Housing