



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: March 23, 2017

**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 Government Entity Participants
All Real Estate Brokers
All Closing Agents**

Mortgagee Letter 2017-08

Subject Effective Date of Implementation of the Federal Housing Administration's Loan Review System, and Change in Effective Date for Timeframe for Conducting Pre-Endorsement Mortgage Reviews for Unconditional DE Authority

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

- notify Mortgagees that the implementation date of FHA's Loan Review System and the effective date of changes to selected sections of Handbook 4000.1, *FHA Single Family Housing Policy Handbook*, which were published in ML 2017-03, *Federal Housing Administration (FHA) Loan Review System – Implementation and Process Change* is May 15, 2017; and
- advise Mortgagees of the change in effective date to selected sections of Handbook 4000.1, *FHA Single Family Housing Policy Handbook*, which were initially published in ML 2016-21, *Direct Endorsement Program - Timeframe for Conducting Pre-Endorsement Mortgage Reviews for Unconditional Direct Endorsement Authority*, from April 1, 2017 to May 15, 2017.

Effective Date Unless otherwise noted in the text of this ML, all policy updates are effective on May 15, 2017. All policy updates will be incorporated into a forthcoming update of the FHA Single Family Policy Handbook 4000.1

Affected Programs

This guidance applies to all Mortgagees approved for FHA Title II Single Family programs.

Affected Topics

The Loan Review System implementation date will affect Handbook 4000.1 sections I.A.5.a.iii(A)(3)(a)(ii), *Test Case Phase/Case Binder Submission/Post-closing Submission*, I.A.5.a.iii(A)(3)(b), *Test Case Phase/Test Case Underwriting Report*, I.A.6.b, *Post-Approval Operations/Providing Information to FHA*, V.A.2.d.iv(F), *Fraud, Misrepresentation and Other Findings/External Reporting to FHA/Method of Reporting*, V.C.2.b, *Title II Mortgagee Monitoring Reviews*, V.C.3.b, *Title II Loan Reviews*.

The change in effective date for Timeframe for Conducting Pre-Endorsement Mortgage Reviews for Unconditional Direct Endorsement Authority 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), *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 announced its plan to implement a new Loan Review System on January 11, 2017, in ML 2017-03, *Federal Housing Administration (FHA) Loan Review System – Implementation and Process Changes*. The Loan Review System will be used to manage Title II Single Family Loan Reviews, Title II Single Family Mortgagee Monitoring Reviews, and Mortgagee self-reporting of fraud, misrepresentation and other material findings. This ML provides Mortgagees with the Loan Review System implementation date.

In ML 2016-21, *Direct Endorsement Program - Timeframe for Conducting Pre-Endorsement Mortgage Reviews for Unconditional Direct Endorsement Authority*, FHA announced its plan to implement a change in the pre-endorsement review timeframe from pre-closing to post-closing. This ML was published on December 14, 2016, in conjunction with a Federal Register Notice “FHA Direct Endorsement Program Timeframe for Conducting Pre-Endorsement Review” (FR-5658-N-02).

Summary of Changes

Changes to HUD Handbook 4000.1 affected topics are as follows:

- *Test Case Phase/Case Binder Submission/Pre-closing Submission* (Section I.A.5.a.iii(A)(3)(a)(i)), effective date of changes announced in ML 2016-21 is May 15, 2017; and changes the final date for Mortgagees to obtain a Direct Endorsement Test Case phase approval letter to be able to submit mortgages for review pre-closing to May 14, 2017.
- *Test Case Phase/Case Binder Submission/Post-closing Submission* (Section I.A.5.a.iii(A)(3)(a)(ii)) effective date of changes announced in ML 2017-03 is May 15, 2017; and changes the effective date for Mortgagees who obtain a Direct Endorsement Test Case phase approval letter to submit mortgages for review post-closing to May 15, 2017.
- *Test Case Phase/Test Case Underwriting Report* (Section I.A.5.a.iii(A)(3)(b)) effective date of changes announced in ML 2017-03 is May 15, 2017; and changes the date for certain Mortgagees to review Test Case results in the Loan Review System based on the Mortgagee's Test Case approval letter date.
- *Test Case Closing Package* (Section I.A.5.a.iii(A)(3)(c)), effective date of changes announced in ML 2016-21 is May 15, 2017.
- *Post-Approval Operations/Providing Information to FHA* (Section I.A.6.b) effective date of changes announced in ML 2017-03 is May 15, 2017.
- *Documentation of Final Underwriting Review Decision (Manual)*, (Section II.A.5.d.x.(B)), effective date of changes announced in ML 2016-21 is May 15, 2017; and changes 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.
- *Assembly of Case Binder/Uniform Case Binder Format* (Section II.A.7.d.ii(B)), effective date of changes announced in ML 2016-21 is May 15, 2017; and changes the date to implement the test case binder color to blue for Mortgagees entering the Direct Endorsement Test Case process.
- *Procedures for Endorsement – Mortgagee with Conditional Direct Endorsement Approval (Test Case)*, (Section II.A.7.d.vii), effective date of changes announced in ML 2016-21 is May 15, 2017; and changes the implementation date of 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

- *Fraud, Misrepresentation and Other Findings/External Reporting to FHA/Method of Reporting* (Section V.A.2.d.iv(F)) effective date of changes announced in ML 2017-03 is May 15, 2017.
- *Title II Mortgagee Monitoring Reviews/Notice* (Section V.C.2.b.i) effective date of changes announced in ML 2017-03 is May 15, 2017.
- *Title II Mortgagee Monitoring Reviews/Findings* (Section V.C.2.b.iv) effective date of changes announced in ML 2017-03 is May 15, 2017.
- *Title II Loan Reviews/Notice* (Section V.C.3.b.i) effective date of changes announced in ML 2017-03 is May 15, 2017.
- *Title II Loan Reviews/Findings* (Section V.C.3.b.iv) effective date of changes announced in ML 2017-03 is May 15, 2017.

The above mentioned policy language changes will be incorporated into Handbook 4000.1 as follows:

**HUD Single
Family
Housing
Policy
Handbook
4000.1**

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 May 14, 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 approval letter from HUD's Homeownership Center dated on or after May 15, 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. Review results will be documented in accordance with the [Title II Loan Reviews/Findings](#) section of this *SF Handbook*, and Mortgagees must respond to requests using the functions provided in the [Loan Review System](#).

The HOC will issue either a Firm Commitment (approval) or 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 using the [Loan Review System](#) before the Mortgage can be endorsed.

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

For Mortgagees who receive a DE Program Test Case approval letter from HUD's Homeownership Center dated on or before May 14, 2017, 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.

Mortgagees who receive a DE Program Test Case approval letter from HUD's Homeownership Center dated on or after May 15, 2017, must review all Test Case results in the [Loan Review System](#).

**Documentation of 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 May 14, 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 May 15, 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 May 14, 2017
- 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 May 15, 2017

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

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 May 14, 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.

For Mortgagees who receive a DE program Test Case phase approval letter from HUD’s Homeownership Center dated on or after May 15, 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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**Paperwork
Reduction Act**

The information collection requirements contained in this document are approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005, 2502-0059 and 2502-0600. 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

For additional information on this ML, please visit www.hud.gov/answers or call the FHA 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

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