

CHAPTER 3. MORTGAGEE UNDERWRITING

- 3-1 PURPOSE. The purpose of this chapter is to describe the underwriting process and responsibilities of the mortgagee under the Direct Endorsement program. This chapter also establishes the guidelines for Direct Endorsement underwriting as required by Section 200.163(b)(2) of Title 24 of the Code of Federal Regulations.

For technical underwriting guidance, mortgagees are to follow HUD Handbooks 4145.1, Architectural Processing and Inspections for Home Mortgage Insurance, 4150.1, Valuation Analysis for Home Mortgage Insurance and 4155.1, Mortgage Credit Analysis, as well as mortgagee letters and instructions from the HUD Field Office.

- 3-2 INELIGIBLE PARTICIPANTS AND CREDIT ALERT.

- A. Ineligible Participants. Direct Endorsement mortgagees are to check loan applicants against the Consolidated list of parties debarred or suspended by HUD and against the combined list of parties denied participation in specific programs and geographic areas (see Chapter 5). If the applicant is listed, the application must not be processed. If the mortgagee wishes to obtain permission to process such an application, all original documents must be forwarded to the HUD Field Office. Approval to continue processing will not be given unless HUD determines it to be in the best interest of the Government.
- B. Credit Alert. If HUD's Credit Alert Interactive Voice Response System indicates that the applicant was the mortgagor on another HUD-insured mortgage that is delinquent or went to claim (or if the Credit Report shows a delinquency or foreclosure on a conventional mortgage), the underwriter will have to judge whether extenuating circumstances were involved before continuing to process the application. See HUD Handbook 4155.1.

- 3-3 PROPERTY VALUATION PROCEDURES. With properties classified as proposed construction and properties covered by a construction warranty plan accepted by HUD, the mortgagee has the option of using a HUD conditional commitment or a VA CRV. For those cases not involving a HUD commitment or a VA CRV, the mortgagee is responsible for the property eligibility determination.

For all cases, the mortgagee must calculate the maximum mortgage amount, as explained in this chapter. With the exceptions noted, the mortgagee's property underwriting process is as follows:

- A. Approval of Plans and Specifications. For proposed construction cases, the plans and specifications must be approved prior to the start of construction, or the mortgage must be limited to 90 percent of value plus closing costs.

Certain builders are authorized to certify that their plans and specifications comply with HUD's Minimum Property Standards (MPS). See Chapter 3 of HUD Handbook 4145.1 for details.

- B. Request for Case Number and Appraiser. Mortgagees obtain case numbers and appraisal assignments by using the CHUMS Lender Access System (CLAS), or calling or writing the HUD Field Office. In lieu of requesting assignment, mortgagees using staff appraisers should provide the CHUMS identification number of the appraiser they have assigned. Compliance inspectors, if needed, should be requested with the case number. CLAS users must call for compliance inspectors.

The mortgagee should identify the case as Direct Endorsement (unless requesting a conditional commitment on proposed construction) and provide the property address, type of construction, number of units and other information necessary for the assignment process. If a condominium, the project name must be given. If proposed construction, the name of the subdivision or PUD must be given.

- C. Application Form. The mortgagee completes the Form HUD-92800, Application for Property Appraisal and Conditional Commitment, and retains the Requestor's Copy 2.

When requesting a case number, the mortgagee may be advised (1) that HUD had previously rejected the property or (2) that the property had previously been sold by HUD, the sales price, sales date, and whether it was judged as ineligible for mortgage insurance at that time. In such cases, the mortgagee notes this in the address box of Form HUD-92800.

- D. Sending Appraisal Package to Appraiser. The mortgagee sends to the assigned appraiser a Uniform Residential Appraisal Report (URAR) and the Form HUD-92800 (three parts: Original HUD File Copy 1, Appraiser Copy 3, and HUD CHUMS Copy 4). When using HUD fee appraisers, the package must be clearly identified as a Direct Endorsement case to ensure that the appraiser returns the appraisal to the lender rather than sending it to HUD.
- E. Performing the Appraisal. The appraiser is to complete the appraisal in accordance with HUD instructions.

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- (3-3) F. Returning Appraisal to Mortgagee (and Copy to HUD). After the appraisal report is completed, the appraiser returns the appraisal package (including pictures of the subject property and the comparables) and Copy 1 of Form HUD-92800 to the mortgagee. The appraiser sends a photocopy of the URAR and Copy 4 of Form HUD-92800 to the HUD Field Office. The appraiser keeps Copy 3.

This procedure applies to appraisals performed by mortgagee staff appraisers as well as those performed by HUD fee panel members. HUD fee panel members are expected to return completed appraisals to the mortgagee within five workdays from the day they received the package. Mortgagees must ensure that their staff appraisers submit the HUD copies of the appraisals to HUD at the same time the appraisers forward the originals to the mortgagee.

- G. Underwriter's Review of Appraisal. The mortgagee's underwriter is to review the appraisal to determine whether or not the appraiser's conclusions are acceptable. If found to be acceptable, the property is eligible for HUD mortgage insurance. The review consists essentially of the following:

- 1) Verification (as possible from available data) that the factual information submitted is correctly reported.
- 2) Determination of the plausibility and consistency of the conclusions based upon data presented in the report.
- 3) Determination of the consistency of the reported conclusions by comparison with other data conclusions reported in similar cases recently processed.
- 4) Compliance with underwriting instructions in HUD Handbooks 4145.1 and 4150.1.

If the underwriter concludes that the appraisal report findings are inconsistent, or are otherwise unacceptable, he may contact the appraiser or return the case to the appraiser for reconsideration.

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The underwriter may also add comments or corrections to modify or amend the report by using the "Direct Endorsement Underwriter/HUD Reviewer Analysis of Appraisal" form (see Appendix 15). Comments or corrections must be supported by HUD valuation policy and adequately documented. This includes the adjusting of value, the removal or addition of repair requirements, and the overall determinations of property approval and rejection. However, it does not include using the Chief Underwriter's prerogative described in HUD Handbook 4125.1; this is only available to HUD staff. The appraisal report itself should not be "marked up" or changed in any way by the DE underwriter.

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Upon completion of the review, if the underwriter has no comments or corrections to make to the appraisal, then the form in Appendix 15 need not be completed. The DE underwriter's execution of the Form HUD 54113 will be sufficient evidence of the underwriter's review of the appraisal report. If the dwelling was previously sold by HUD's Property Disposition (PD) Branch and the appraised value exceeds the PD sales price by ten percent or more, the underwriter must have the property field reviewed before approving the appraisal report.

H. Reconsideration Actions. Except when using a HUD conditional commitment or a VA certificate of reasonable value, mortgagees are to process all requests to reconsider appraisal determinations. All reconsideration actions must be documented. Adequate documentation is determined by the type of reconsideration action involved.

1) A reconsideration of value on existing construction must be supported by evidence of comparable sales. The underwriter or appraiser is to document the existing appraisal report or, if necessary, complete the appropriate sections of a new appraisal report.

- (3-3H.) 2) With the reconsideration of repair requirements, it is the responsibility of the appraiser and the mortgagee's underwriter to ensure that the Department's requirements for existing housing are applied in accordance with outstanding guidelines.

In situations where the appropriateness of the repair requirement is questioned, the mortgagee may either request the appraiser to reconsider the requirement or the mortgagee's underwriter may take the action to remove the requirement. When the mortgagee's underwriter removes a repair requirement, the justification for the action must be adequately documented. Such documentation will normally include inspection of the property.

- 3) Other reconsideration actions or changes to the original appraisal may be necessitated by changes in the legal description or boundaries. A change in the legal description or boundaries will dictate a rework of the appraisal only to the extent that value is affected. Any such changes made to the original appraisal are to be documented by the appraiser or the mortgagee's underwriter.

- * I. Simultaneous Appraisal and Mortgage Credit Review.
Simultaneous appraisal and mortgage credit review is permissible as provided in Handbook 4155.1, paragraph 3-9. *

3-4 EXPIRATION OF THE APPRAISAL. The appraisal is valid for a specific number of months from the date on which the appraiser performed the appraisal and signed the Uniform Residential Appraisal Report (URAR).

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The appraisal has a life of six months for existing construction and, depending on the location of the property, up to 12 months for proposed construction and substantial rehabilitation. The HUD Field Office will advise the underwriter about soft market conditions and the life of proposed construction and substantial rehabilitation

appraisals.

For the purpose of submitting the appraisal as part of a request for mortgage insurance endorsement, the mortgagee must have approved the mortgagor or a valid sales contract must have been executed prior to the expiration of the appraisal. Approval of the mortgagor occurs when the underwriter signs the mortgage credit analysis worksheet.

- 3-5 EXTENDING APPRAISALS. Appraisals on proposed construction or substantial rehabilitation may be extended up to 12 months provided that construction or rehabilitation started before the original appraisal expired. A fee or staff appraiser must inspect the property and update the appraisal previously done. Appraisals on existing properties may not be extended.
- 3-6 MASTER APPRAISAL REPORT (MAR). This procedure eliminates the need for an individual Form HUD-92800, Application for Property Appraisal and Commitment, and an individual appraisal report for each case in a group of applications. It is not suitable for individually designed non-repeat cases. Detailed instructions are in HUD Handbook 4115.3.
- 3-7 COMPLIANCE INSPECTIONS. When processing a proposed construction case without a HUD conditional commitment or a VA CRV, and when processing a property under construction, the mortgagee is responsible for the compliance inspections. See Chapter 3 of HUD Handbook 4145.1 for instructions on the number and timing of inspections.
- A. Staff or Fee Inspector. The mortgagee may use its own staff inspector (except as provided in paragraphs 1-13 and 1-14) or a fee inspector assigned by HUD. The mortgagee is to notify the inspector that a Direct Endorsement case is involved to ensure that the Compliance Inspection Report is sent to the mortgagee and not to HUD. Upon receipt of the Report, the underwriter is to review and, if satisfied, sign the Report.
- B. Copy of Compliance Inspection to HUD. Staff and fee inspectors must send a copy of all compliance inspection reports to the HUD Field Office. The copy must show the inspector's signature and must be legible. These copies may be used by HUD to perform field reviews of compliance inspections.

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- 3-8 SATISFYING REPAIR REQUIREMENTS. Repair requirements outstanding on the appraisal report must be satisfied when the mortgage is submitted for endorsement. Satisfaction of repair requirements can take one of three forms.
- A. Compliance Inspection Report. The mortgagee may use an inspection performed by an appraiser or inspector

evidenced by completion of Form [HUD-92051](#), Compliance Inspection Report, certifying that the repairs have been satisfactorily completed.

Generally, since the repair requirements are placed by an appraiser, in most cases the same appraiser (staff or fee) would be able to determine whether the repair has been made. For those inspections which require architectural expertise (structural or basic system repairs), the mortgagee is to use either a staff inspector (approved by HUD) or a HUD fee inspector.

The mortgagee is to contact the HUD Field Office for the assignment of an inspector. When assigning the case to the appraiser or inspector, the mortgagee should advise that the case is being processed under Direct Endorsement so that the Report is sent to the mortgagee and not to the HUD Field Office. Upon receipt of the Report, the underwriter is to review and, if satisfied, sign the Report.

- B. Mortgagee Certification. In instances where the required repair items are minor and uncomplicated such as: (1) replacing broken glass; (2) installing splash blocks; or (3) removing debris, a certification by the mortgagee is acceptable as evidence that the conditions have been satisfied. The mortgagee is to determine whether the repair items can be considered minor and uncomplicated (if the homeowner would do the work himself as normal maintenance, HUD considers the work minor).
- C. Escrow of Funds. To facilitate the insurance of the mortgage prior to completion of repair requirements, in certain situations funds may be escrowed and HUD will accept a Mortgagee's Assurance of Completion at the time of endorsement. For further information on this procedure, see chapter 5 of HUD Handbook 4145.1.

3-9 MONTHLY EXPENSE ESTIMATES AND CLOSING COSTS. The monthly expense estimates (hazard insurance, taxes, maintenance and repairs, heat and utilities) are developed by the appraiser from a schedule made available by the local HUD Office. A schedule is also provided for the closing costs.

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3-10 FLOOD HAZARD AREAS. When a property is located in an area designated as a special flood hazard area, it is required that the mortgagor and mortgagee obtain and maintain flood insurance coverage under the National Flood Insurance Program on the property during such

time as the mortgage is insured. The insurance must be in an amount at least equal to the outstanding balance of the mortgage less estimated land costs or the maximum amount of NFIP insurance available, whichever is less. It is the responsibility of the mortgagee to determine whether or not the property is located in a flood hazard area. If a property is located in a special flood hazard area and NFIP coverage is not available, the property is not eligible for HUD mortgage insurance.

- 3-11 SECTION 223(e). Section 223(e) of the National Housing Act provides flexible program requirements which are not included in other Title II Sections of the Act. A mortgage may be insured pursuant to Section 223(e) for the repair, rehabilitation, construction, or purchase of properties in older declining urban areas. Section 223(e) authority does not require "economic soundness" with respect to location.

Eligibility under Section 223(e) is to be determined by HUD. Upon a determination by the appraiser and the mortgagee's underwriter that a property located in an older, declining urban area does not meet the location eligibility requirements of Section 203(b), the mortgagee must request HUD approval to process using 223(e) consideration.

- * 3-12 MODIFIED COST APPROACH. In certain situations, the HUD Field Office may determine an area to be speculator dominated, which means speculators constitute the principal source of real estate activity. In such areas, the appraiser is to supplement the standard appraisal approach with the modified cost approach to value as presented in HUD Handbook 4150.1, Valuation Analysis for Home Mortgage Insurance. The Field Office is to provide fee appraisers and Direct Endorsement staff appraisers with a list of areas, if any, subject to the modified cost approach.

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- 3-13 HOMEBUYER'S STATEMENT OF APPRAISED VALUE. When not using a HUD conditional commitment or a VA CRV, the mortgagee is to provide appraised value information to the applicant. After the mortgagee's underwriter has reviewed the appraisal report and determined that the property is eligible for HUD mortgage insurance, it is the responsibility of the mortgagee to immediately

provide the applicant with the copy of the Form HUD-92800.5B marked "Home Buyer". The mortgagee is not required to provide a copy of the appraisal report to the applicant, but must provide it when asked.

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In cases involving proposed or new dwellings that were not approved prior to the start of construction or covered by an early start letter, the Statement of Appraised Value must indicate that the property is not eligible for correction of defects under Section 518(a).

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LEAD-BASED PAINT HAZARD. If the property was constructed before 1978, the appraiser must check for defective paint and condition for its repair. See HUD Handbook 4150.1. In accordance with Mortgagee Letter 92-24, the borrower must have executed the HUD prescribed "Notice about Lead" on or before the date the borrower executed the sales contract.

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MORTGAGE CREDIT ANALYSIS PROCEDURES. The purpose of mortgage credit analysis is to determine the mortgage credit risk in the mortgage transaction to be insured, and to limit the probabilities of foreclosure or collection difficulties through the application of predetermined standards with respect to acceptable risks.

In addition, mortgage credit analysis is used to determine compliance with many provisions of the National Housing Act. Under Direct Endorsement, it is the responsibility of the mortgagee to perform the mortgage credit analysis, to determine if the mortgagor is an acceptable credit risk, and to determine if the terms of the mortgage comply with the Section of the National Housing Act under which insurance is requested.

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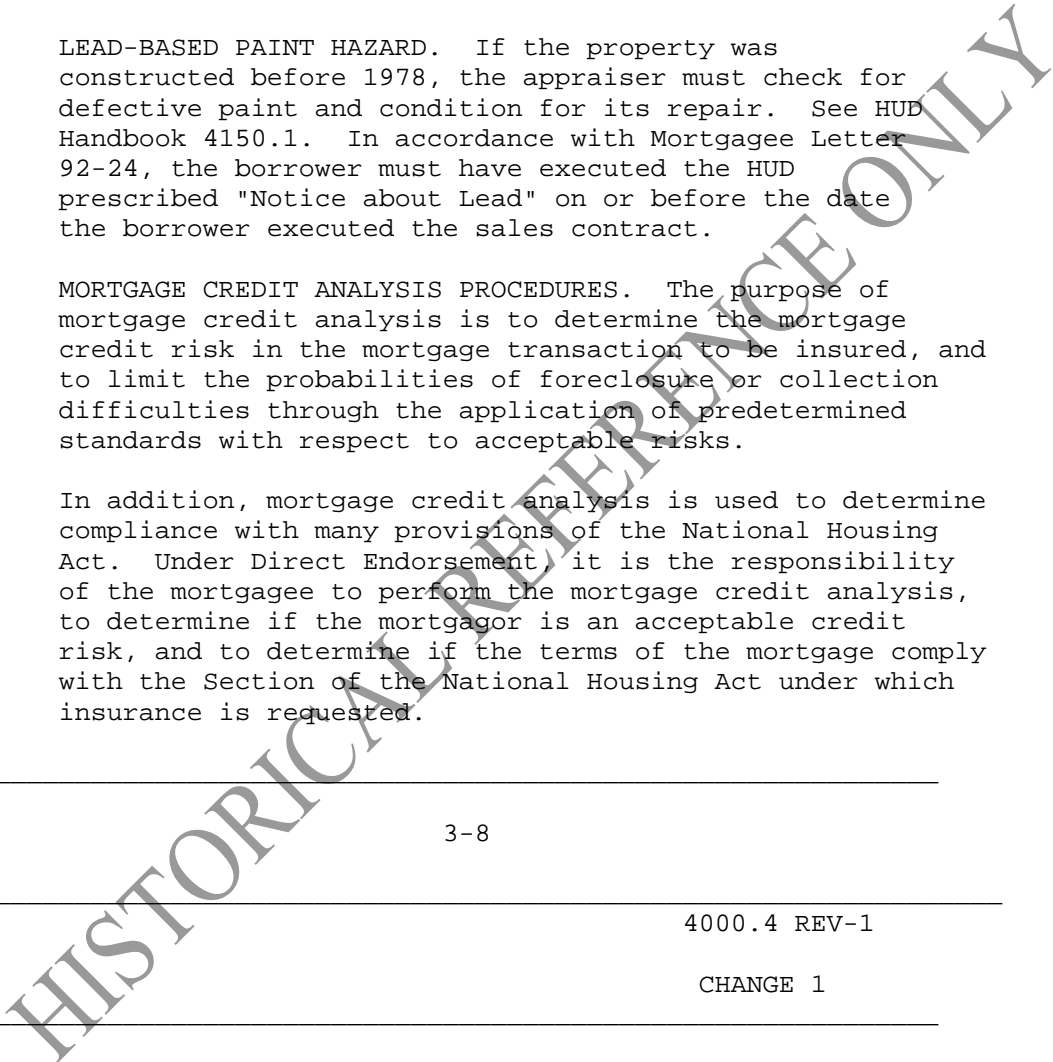
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The purpose of this paragraph is to provide program participants with the procedures to be followed under Direct Endorsement when performing the mortgage credit analysis. For technical guidance, refer to HUD Handbooks 4155.1, Mortgage Credit Analysis Handbook, and 4020.1, HUD/FHA Underwriting Analysis (Chapter 3), mortgagee letters, and instructions from the HUD Field Office.

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A. Mortgage Credit Analysis. The mortgage credit analysis may be performed by either a mortgage



credit examiner on the mortgagee's staff, by a fee mortgage credit examiner assigned by HUD on a rotation basis, or the mortgagee's underwriter.

- B. Mortgage Credit Application and Worksheet. The forms to be used are: Freddie Mac Form 65/Fannie Mae Form 1003, Uniform Residential Loan Application (URLA), HUD/VA Addendum to the URLA (HUD-92900-A), and the Mortgage Credit Analysis Worksheet (HUD-92900-WS). The application and addendum are completed according to the instructions in Mortgagee Letter 92-7 issued March 2, 1992. The examiner should sign and date the worksheet which is to be included in the submission for endorsement. Instructions for the HUD-92900-WS are found in Mortgagee Letter 91-24 issued May 28, 1991. *
- C. Underwriter's Review. When the mortgage credit analysis is not performed by the underwriter, the underwriter must review the analysis. The underwriter may modify the conclusions of the mortgage credit examiner, provided such modifications are supported by the mortgage credit source documents. The underwriter is to sign and date the worksheet. Once the underwriter has reviewed the mortgage credit application, determined that the applicant is eligible for the specific mortgage amount, and that the mortgage complies with all applicable HUD guidelines, the mortgage loan may be closed. See Handbook 4155.1, paragraph 3-2, for the expiration date on credit documents.
- D. Mortgage Loan Closing. If the loan approval is expected to expire before the loan is closed, the underwriter must reexamine the application and determine whether the approval should be extended for 90 days.

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3-16 UNDERWRITER/MORTGAGEE CERTIFICATION. The underwriter is responsible for the quality of decisions made by the mortgagee under the program. For endorsement purposes, the Department relies upon certifications by the mortgagee and the mortgagee's underwriter that the mortgage loan complies with HUD regulations and underwriting instructions.

* Two independent certifications must accompany the

mortgagee's request for mortgage insurance. Both are executed on form HUD-54113; one by the underwriter who personally reviews the appraisal, credit application, and all associated documents, the other by a duly designated official of the mortgagee. These certifications serve to establish that the insurance application and all supporting documents are accurate and complete to the best of the signer's knowledge.

- A. Use of Certification. Appendix 3 lists the underwriter certifications and Appendix 4 lists the mortgagee certifications which are required by applicable provisions of the National Housing Act and the Code of Federal Regulations (CFR).

These regulatory provisions include the items that HUD reviews on all cases submitted for prior approval processing. Under Direct Endorsement, this responsibility is assumed by the mortgagee and carried out by the underwriter.

The underwriter should use Appendix 3 during the underwriting process to ensure compliance with applicable laws and regulations. After approving the loan, the underwriter completes Form HUD-54113 by executing the Underwriter Certification. The underwriter must sign, date and include his/her CHUMS ID number on the form.

Following mortgage loan closing, an authorized representative (which may be the underwriter) completes the mortgagee's section of the Form HUD-54113. In transactions involving loan correspondents, the loan correspondent (not the underwriter) must complete the mortgagee's section of the certification form.

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- (3-16B.) B. List of Underwriter/Mortgagee Certifications. The certifications listed in Appendix 3 and 4 contain all provisions of the National Housing Act and Code of Federal Regulations applicable to mortgage loans which can be originated under Direct Endorsement. Underwriting requirements are explained in greater detail in the HUD Handbooks listed in the Foreword.

- 1) Coastal Barrier Resource System. Underwriter Certification number eleven (11) states that the property is not located in a coastal area which is part of the Coastal Barrier Resource System. That system consists of coastal barriers on the Atlantic and Gulf coasts of the United States that are identified and generally depicted on maps entitled "Coastal Barrier Resource System."

There are such areas in the following states: Texas, Louisiana, Mississippi, Alabama, Florida, Georgia, South Carolina, North Carolina, Virginia, Delaware, New York, Connecticut, Rhode Island, Massachusetts and Maine. If the mortgagee is underwriting an application in a coastal area, the underwriter should contact the HUD Field Office to check for the specific locations of these coastal barriers.

- 2) Loan-to-Value Limitations. All HUD mortgage insurance programs in Direct Endorsement are subject to loan-to-value ratio limitations as well as statutory maximum mortgage limits. The underwriter is certifying that the mortgage does not exceed the not exceed the loan-to-value ratios or mortgage limits. Refer to HUD Handbook 4000.2 for details.

3-17 INVESTOR APPLICATIONS. As a result of the Department of Housing and Urban Development Reform Act of 1989, private investors are no longer eligible for insured mortgages under HUD's single family mortgage insurance programs, except under the circumstances listed in Paragraphs 1-4 and 1-5 of HUD Handbook 4155.1.

- A. Processing. Lenders will process the transactions for eligible investors unless instructed otherwise by the local HUD Field Office.

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- B. Seven Unit Limitation. See Handbook 4155.1, paragraph 3-10, for additional information.

3-18* CONDOMINIUMS. Section 234(c) cases may be processed under Direct Endorsement. Because the National Housing Act requires that at least eighty percent of HUD insured mortgages in a condominium project must be

owner-occupants, underwriters have primary responsibility for ensuring compliance with this requirement in Direct Endorsement cases. Investor mortgages can still be insured for public agencies and non-profits.

Therefore, after the mortgage credit analysis has been completed, but prior to approving any borrower (occupant or eligible investor), the Direct Endorsement underwriter must contact the jurisdictional HUD Field Office for approval of an investor mortgagor and to record an occupant mortgagor.

3-19 ADJUSTABLE RATE MORTGAGES. The National Housing Act limits the number of adjustable rate mortgages (ARMS) HUD can insure to a percentage of the overall insurance activity in the prior fiscal year.

ARMs may be processed under Direct Endorsement. However, after the mortgage credit analysis has been completed, but prior to notifying the applicant, the Direct Endorsement underwriter must contact the HUD Field Office for approval and to record the application against the ARM allocation in CHUMS.

3-20* SALE OF HUD-OWNED PROPERTIES. Since no appraisal is necessary, Forms HUD-92800 and HUD-92800.5B are not required. The signed copy of the Standard Retail Sales Contract ([Form HUD-9548](#)) becomes HUD's conditional commitment for the property. The agreed purchase price of the property (item 3, Form HUD-9548) will be treated as the estimate of value. The Direct Endorsement underwriter is not responsible for any valuation review on these properties. *

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(3-20) A. Processing Steps.

- 1) HUD's Property Disposition Branch issues a notice of contract acceptance to the broker and attaches the purchaser's copy of the accepted contract. The sales contract will specify the maximum mortgage amount.
- 2) The broker provides the Direct Endorsement mortgagee with copies of the acceptance notice and the contract that has been signed by HUD.

- 3) The mortgagee must review the acceptance notice to make sure that the property is eligible for HUD/FHA insured financing.
- 4) The mortgagee calls the HUD Field Office for a case number.
- 5) The mortgagee completes the application for mortgage insurance and the underwriter signs the worksheet after analyzing the application. HUD's Property Disposition Branch determined the maximum mortgage amount which appears on the sales contract. The sales price set forth in item 3 of the sales contract is used as the estimate of value for the purpose of calculating the loan-to-value ratio only.
- 6) HUD's Property Disposition Branch may elect to have the Direct Endorsement mortgagee perform the sales closing. In such cases, specific instructions must be provided by Property Disposition, including wire transfer of sales proceeds and time frames for completing the sale.

If Property Disposition chooses another closing agent, it will advise the mortgagee.

- 7) The closing agent, if other than the Direct Endorsement mortgagee, returns the closed loan package to the Direct Endorsement underwriter.

- * 8) The Direct Endorsement underwriter and mortgagee properly certify and submit the loan package to HUD for endorsement. *

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3-21 ESCROW PROCEDURE FOR DEFERRED IMPROVEMENTS. In certain circumstances, it is not possible to complete all new construction items or all required repairs prior to submission for insurance endorsement. To facilitate the insurance of mortgages before the completion of on-site improvements, a Mortgagee's Assurance of Completion (Form [HUD-92300](#)) may be used in some circumstances. Details are in chapter 5 of HUD Handbook 4145.1.

- 3-22 MORTGAGE ENDORSEMENT SUBMISSION. Following mortgage closing, the mortgagee is to submit the case to the HUD Field Office for endorsement. The case should be submitted for endorsement within 30 days after closing.

When there is a delay in submitting the case or a delay in closing the loan, the mortgagee must submit additional documentation to obtain a Mortgage Insurance Certificate. If the mortgage is submitted more than 30 days after closing, the mortgagee must explain the delay in a cover letter. On loans where the first mortgage payment was due more than 30 days prior to the submission to HUD, the mortgagee must certify that the loan is current.

If the loan was closed after the underwriter's approval had expired or the mortgage was submitted to HUD for endorsement more than 60 days after closing, HUD's retroactive endorsement procedures apply. Requests for retroactive endorsement must include an explanation and justification for the delay and a certification that the loan is current and that escrows are intact except for authorized disbursements.

On loans where three or more payments have come due, the mortgagee must supply a copy of the payment ledger showing the date each payment was received by the mortgagee.

Except in those instances where HUD was demonstrably responsible for a delayed request for endorsement, a mortgage will not be insured if it is in default. If, in the HUD Field Office's judgment, the delay in submission was entirely HUD's fault, the mortgagee is not required to certify that the loan is current.

The mortgagee must place the HUD case number on the side and bottom tabs of the case binder. The mortgagee may use the remaining space on the side tab for intra-office information (e.g., borrower's name, address and loan number). Check the appropriate boxes on the front cover of the HUD case binder. The submission should include the following documents in the listed order. Any supplementary documents, such as explanatory letters, that pertain to a major exhibit should be placed behind the listed exhibit.

A. Right Side of Case Binder (top to bottom):

On Master Conditional Commitments or Master Appraisal Reports, in lieu of items 13 through 16, provide copies of Form HUD-91322, properly prepared for closing. On VA CRVs, it is not necessary to submit items 13 and 15.

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- 1) Cover letter or transmittal letter, if used. Include a mailing label for the Direct Endorsement Underwriting Report if HUD should send it to an address other than the branch office that originated the loan.
- 2) Letter of Assignment, where applicable.
- 3) Request for Insurance Endorsement Under the Direct Endorsement program, Form [HUD-54111](#).
- 4) Current payment letter, if two payment due dates have passed. Payment history, if three or more payment due dates have passed.
- 5) One-Time MIP Statement of Account, if applicable.
- 6) Underwriter/Mortgagee Certification, HUD-54113, with signatures, CHUMS identification and date.
- 7) Special certifications or forms, if any, cited on the Underwriter/Mortgagee Certification (except for Forms [HUD-92544](#) and HUD-92753 which should be placed on the left side of the binder). Certain mortgage loan types may require one or more of the following documents.
 - a. Escrow documents, when the repairs or construction have not been completed as of mortgage loan closing.
 - b. Form [HUD-92561](#), Mortgagor's Contract With Respect to Hotel and Transient Use of Property, when the property contains more than one dwelling unit.
 - c. Minimum Property Standards certification (copy), when proposed construction eligibility is not based on prior approval by HUD or VA.
 - d. A statement of future intent to occupy, when a high loan-to-value ratio is involved for a mortgagor in military service.
 - e. A veterans certificate of eligibility when the mortgage involves the minimum investment provision for veterans.
 - f. When the mortgage is to be insured under Section 221(d)(2), a letter from the local government authority stating that either the property complies with local codes or that there are no local codes relating to existing properties.

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- 8) Certified true copy of the note, with appropriate riders (allonges).
- 9) Certified true copy of the mortgage instrument.
- 10) Copy of the HUD-1 Settlement Statement, plus addendum, if certifications required by HUD are not printed on the form.
- 11) Form HUD-92900 (copy 1 and either copy 4 or 5), Application for HUD/FHA Insured Mortgage, with mortgagee and mortgagor certifications signed on the reverse of these forms.

Copy of Disclosure Statement(s) (a) HUD's disclosure statement regarding interest rates and discount points and, when applicable, the Federal Reserve Board disclosure statement regarding Adjustable Rate Mortgages or (b) HUD's ARM disclosure . Mortgage Credit condition sheet.

- 12) Form HUD-92900-WS, Mortgage Credit Worksheet (original). Include Attachment A, if the transaction involved any amount of seller or lender contribution.
- 13) The case binder copy of the Form HUD-92800.5B, Statement of Appraised Value, and Architectural and/or Valuation condition sheets.
- 14) Uniform Residential Appraisal Report (original) or a photocopy of the VA CRV, where applicable.
- 15) Photographs of property and comparable sales data.
- 16) Copy 1 of the Form HUD-92800, Application for Property Appraisal and Commitment.

B. Left Side of Case Binder (top to bottom):

- 1) Form HUD-92900 (copy 7), Application for Insurance.
- 2) Form HUD-92900-WS, Mortgage Credit Worksheet (carbon or photocopy).
- 3) Uniform Residential Appraisal Report (photocopy).
- 4) Mortgagee's Assurance of Completion (Form [HUD-92300](#)), where escrow was established for incomplete work.
- 5) Affirmative Fair Housing Marketing Plan (required only on proposed construction cases).

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- 6) Copy of Builder Certification (required only for proposed construction and new construction cases involving high loan-to-value ratios).
 - 7) Form [HUD-92051](#), Compliance Inspection Report(s), if applicable, for an existing or proposed construction case. Include photographs of site grading and drainage (Refer to HUD Handbook 4145.1).
 - 8) Form [HUD-92577](#), Request for Change to Plans and Specifications, if applicable.
 - 9) Form [HUD-92544](#), Warranty of Substantial Completion with Plans and Specifications. Include One-Year Performance Guaranty from builder on workmanship and materials.
 - 10) Specific Condition(s) clearance documentation (i.e., local health authority approval letter or Form HUD-92573, termite inspection report or soil treatment certification, certificate of occupancy, amendatory clause, etc.).
 - 11) Ten-Year Warranty Insurance Certification, if applicable.
 - 12) Credit Report.
 - 13) Verification of Deposit.
 - 14) Copy of bank statement.
 - 15) Verification of Employment.
 - 16) Salary statement or pay stub.
 - 17) Picture identification of applicant(s).
 - 18) Evidence of Social Security Number(s) of applicant(s), if not on pay stub(s).
 - 19) Sales contract, if applicable.
 - 20) Remaining documents in any order.
- C. Construction Exhibits. On individual new construction cases involving high loan-to-value ratios, construction exhibits are stapled together, folded to fit in the binder and left loose in the case binder. Generally, plans should be no larger than 18 inches by 24 inches.

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Half size (or scale) photocopies of the drawings are acceptable provided they are legible and lettering is no smaller than 1/16 inch. Ensure that a Builder Certification (original) is attached to the front sheet of the exhibits.

- 3-23 PRE-CLOSING REVIEW SUBMISSIONS. While in this approval status, the mortgagee is to underwrite mortgage loans in accordance with all provisions of Direct Endorsement processing, with the exception that, prior to closing, the application package is to be submitted to HUD for an underwriting review.

Because the application package is submitted prior to closing the mortgage loan, the Underwriter/Mortgagee Certification form cannot be formally executed. The underwriter should complete all the information on the form with the exception of the closing date. Because the loan has not been closed, the mortgagee cannot make the certifications contained on the bottom of the form. Neither certification should be signed.

The documents required in blocks 7 and 8 of the Certification form may be submitted with the firm commitment application, or they may be submitted after closing with the submission for endorsement. The documents required in blocks 9 and 12 must be submitted with the firm commitment application.

- A. Case Binder. Send the case binder, with the documents assembled inside in the order required in paragraph 3-22 above, include all copies of Form HUD-92900, but omit the closing documents.

If the application is approved, HUD will retain the binder, issue a firm commitment to the mortgagee, and return the Underwriter/Mortgagee Certification, Form HUD-54113. If the application is rejected, HUD will return the binder to the mortgagee for correction.

- B. Closing Package. After closing the loan, the mortgagee executes the closing certification on Form HUD-54113. The mortgagee should submit the closing documents, two hole punched and fastened together at the top with a metal fastener. The mortgagee should not submit another case binder. The closing documents should be arranged in the following order (top to bottom):

- 1) Transmittal letter indicating that the package contains closing documents for a Direct Endorsement pre-closing case.
- 2) Underwriter/Mortgagee Certification, Form HUD-54113.
- 3) One-Time MIP Statement of Account, if applicable.

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- 4) Certified true copy of the note with appropriate riders (allonges).
- 5) Certified true copy of the mortgage instrument.
- 6) Copy of the HUD-1 Settlement Statement.
- 7) HUD-92900 (copy 4 or 5), with all certifications.
- 8) Remaining documents, if any.

3-24 CANCELLING CASES. When the mortgagee has started Direct Endorsement processing (obtained HUD case number) and determines that the case will be neither submitted for endorsement nor converted to HUD processing, the mortgagee is to advise the HUD Field Office to cancel the case. If the applicant was rejected, a copy of the Mortgage Credit Worksheet, HUD-92900-WS, should be sent to the HUD Field Office.

3-25 MORTGAGES WITHOUT EXECUTED UNDERWRITER/MORTGAGEE CERTIFICATIONS. Mortgages originated and processed under the Direct Endorsement program that do not have the Underwriter/Mortgagee Certification completed by the originating lender because the originating mortgagee was terminated or is no longer in business, may be submitted for insurance by another mortgagee (for example, a wholesale mortgagee or a mortgagee that purchased the mortgage), provided the mortgagee is Direct Endorsement approved and its underwriter reunderwrites the mortgage and executes the Underwriter Certification on Form HUD-54113. The mortgagee must execute the Mortgagee Certification on Form HUD-54113, but should line through the words "mortgagee at the time of closing" on the form.

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