
CHAPTER 1. GENERAL PROGRAM INFORMATION

- 1-1 PURPOSE. This Handbook states the policies and procedures of the Direct Endorsement program. The purpose of this program is to simplify and expedite the process by which mortgagees can obtain mortgage insurance endorsements from HUD. Under Direct Endorsement, the mortgagee underwrites and closes the mortgage loan without prior HUD review or approval.
- 1-2 BASIC PROGRAM OUTLINE. The Direct Endorsement underwriting and endorsement process is as follows:
- A. Property Analysis. The mortgagee is responsible for underwriting the property and determining that the property is acceptable for mortgage insurance. If the property is acceptable for mortgage insurance the mortgagee will issue to the applicant Form HUD-92800.5B Conditional Commitment/Direct Endorsement Statement of Appraised Value. The process for underwriting the property will differ depending on whether it is proposed or existing construction.
 - 1) Proposed Construction. A mortgagee may qualify a proposed dwelling for financing in excess of a 90% loan-to-value ratio (high ratio financing) by using one of the following processes before the start of construction of the dwelling:
 - a. Underwriting the plans and specifications and appraisal for an individual property to determine its eligibility and maximum mortgage amount.
 - b. Underwriting the plans and specifications and a Master Appraisal Report (MAR) for a group of two or more properties to determine their eligibility and the maximum mortgage amounts.
 - c. Using a Certificate of Reasonable Value (CRV) or a master Certificate of Reasonable Value (MCRV) issued by the Department of Veterans Affairs to determine eligibility and maximum mortgage amount.

- d. Using a HUD Conditional Commitment or HUD Master Conditional Commitment. The mortgagee must obtain prior approval from the local HUD Office to obtain HUD processed conditional commitments.
- e. Using certified plans and specifications. Each HUD Field Office has a list of builders who are approved to certify that their plans and specifications comply with HUD's Minimum Property Standards (MPS). If the builder makes the certification prior to the start of construction, the property will be eligible for a high ratio loan (i.e., financing in excess of a 90% loan-to-value ratio).

Chapter 3 of HUD Handbook 4145.1 explains the certification process, including how builders are added to the Field Office list and how to handle cases involving builders who are not on the list.

The mortgagee's underwriter reviews the completed appraisal report to determine eligibility and the maximum mortgage amount. The underwriter is also responsible for reviewing compliance inspection reports by fee or staff inspectors.

- 2) 90% Ratio Properties. When the mortgage involves a property which was less than one year old at the time the appraisal was approved by the mortgagee's underwriter, and was neither approved by HUD, the VA or the mortgagee prior to the start of construction, nor covered by an acceptable warranty plan (see paragraph 4, below), the mortgagee must perform the property analysis. The mortgagee cannot use a HUD conditional commitment or a VA CRV.

The mortgagee's underwriter reviews the completed appraisal report to determine eligibility and the maximum mortgage amount. Mortgage loans in this category are limited to 90 percent of appraised value.

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- 3) Existing Construction. When the mortgage involves a property which is at least one year old at the time the appraisal was approved by the mortgagee's underwriter or a property which has been occupied, the mortgagee must perform the property analysis. The mortgagee cannot use a HUD conditional commitment. The mortgagee may use a VA CRV.

The mortgagee's underwriter reviews the completed appraisal report to determine eligibility and the maximum mortgage amount.

There are two kinds of transactions involving existing construction where the mortgagee does not perform the property analysis: a streamline refinance of a HUD-insured mortgage that does not require an appraisal, and sales of properties acquired by HUD through foreclosure. See HUD Handbook 4155.1.

- 4) Warranty Plan. When the mortgage involves a property that is under construction or less than one year old and the plans and specifications were not approved by the mortgagee or HUD, or certified by the builder prior to the start of construction, the mortgagee may obtain high ratio financing if the property is covered by a ten year warranty plan.

Chapter 6 of HUD Handbook 4145.1 describes the construction exhibits, warranty documents, and certifications required when using a warranty plan to qualify for high loan-to-value financing.

- B. Mortgage Credit Analysis. The mortgagee is responsible for the mortgage credit analysis on all Direct Endorsement submissions. The analysis is to be done by the mortgagee's underwriter.

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- C. Underwriter Review. The underwriter reviews the appraisal report and the mortgage credit analysis to determine the acceptability of the conclusions reached by the appraiser and the mortgage credit examiner.

If the conclusions are found to be acceptable, the underwriter determines whether or not the application complies with the specific provisions of the HUD program.

- D. Underwriter Certification. The underwriter executes the underwriter certification on the Underwriter/Mortgagee Certification, Form HUD-54113 (see Appendix 2).
- E. Mortgage Loan Closing. Mortgage proceeds are completely disbursed to the mortgagor, or to the mortgagor's creditors for his account. The appropriate mortgage documents are executed. Where applicable, the One-Time Mortgage Insurance Premium is paid to HUD.

- F. Mortgagee Certification. An authorized representative of the mortgagee, who may be the underwriter, executes the mortgagee's certification on Form HUD-54113 (see Appendix 2).
- G. Mortgage Endorsement Submission. The mortgagee sends the mortgage loan package to the HUD Field Office in a HUD-prescribed case binder.
- H. HUD Pre-endorsement Review. HUD staff conducts a pre-endorsement review of the case binder using the Pre-Endorsement Review Checklist (see appendix 17).
- I. Endorsement. If the pre-endorsement review provisions have been met, HUD will endorse the mortgage for insurance, print a Mortgage Insurance Certificate, Form HUD-59100, and send it to the mortgagee. If the pre-endorsement review provisions were not met, HUD will return the file to the mortgagee for correction.
- J. HUD Post-Endorsement Review. After insurance endorsement, HUD reviews the property and mortgage credit analyses. The percentage of cases reviewed depends upon the quality of past underwriting and servicing problems on earlier loans.

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- (1-2) K. Underwriting Report. Should the post-endorsement review reveal underwriting deficiencies, an underwriting report is sent to the mortgagee.

1-3 ASSURANCES OF ENDORSEMENT. The Direct Endorsement program has been designed to give the mortgagee sufficient certainty of HUD endorsement requirements to justify the assumption of the responsibilities involved in originating and closing mortgage loans without prior HUD review. Mortgagees are responsible for complying with all applicable HUD regulations and handbook instructions. If the mortgage loan meets the pre-endorsement review criteria, HUD will endorse the mortgage for insurance. The resulting insurance contract is incontestable except in cases of fraud or misrepresentation by the mortgagee. If, at the time the case is submitted for endorsement, HUD has evidence that there is fraud or misrepresentation on the part of the originating mortgagee, HUD will consider the certifications as fraudulent and will not endorse the mortgage for insurance.

1-4 ELIGIBLE MORTGAGE INSURANCE PROGRAMS:

* Mortgages to be insured under or pursuant to the following sections of the National Housing Act are eligible for Direct Endorsement processing:

SECTION OF ACT	DESCRIPTION	REGULATIONS
203(b)	Basic 1-4 family mortgage insurance	Part 203, Subpart A
203(h)	Housing for Disaster Victims	203.18(e)
203(i)	Housing in Outlying Areas	203.18(d)
203(k)	Rehabilitation loans	203.50 & 203.51
220(d)	Urban Renewal Mortgage Insurance	Part 220, Subpart A
220(h)	Urban Renewal/Home Improvement Loans	Part 220, Subpart A
221(d)(2)	Low Cost and Moderate Income	Part 221, Subpart A
222	Serviceperson's Mortgages	Part 222, Subpart A
234	Condominium	Part 234, Subpart A
235(r)	Refinance of Section 235 Mortgages	Part 235, Subpart H
240	Fee Title Purchases	Part 240, Subpart A
223(a)(1-6) & (8)	Miscellaneous	203.43(b)
223(a)(7)	Refinancing Insured Mortgages	203.43 and 234.52
223(c)	Properties Sold by HUD	203.43(k)
223(e)	Properties in Older Declining Areas	Part 203.43a and 234.68
238(c)	Federally Impacted Area	203.43e and 234.69
245	Graduated Payments (GPM)	203.45 and 234.75
245	Growing Equity Mortgages (GEM)	203.47 and 234.77
247	Hawaiian Home Lands	203.43i
248	Indian Home Lands	203.43h
251	Adjustable Rate Mortgages	3.49 and 234.79

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(1-4) Under all HUD programs, the term of the mortgage must be 30 years or less.

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1-5 MARGINAL CASES. The Department's mortgage insurance programs are designed to serve the credit needs of those homebuyers not adequately served by the private sector. Processing cases under the Direct Endorsement program should not result in lesser consideration of

applications involving marginal locations, properties or credit risks. The program provides mortgagees the necessary assurance of endorsement since subjective underwriting determinations are reviewed only after the mortgage has been endorsed.

1-6 MINIMUM PROPERTY STANDARDS vary by construction status (or age of the property) and the construction type (on-site construction or manufactured housing).

- A. Proposed Construction. The standards for dwellings constructed on-site and classified as proposed construction are in Appendix K of HUD Handbook 4910.1, Minimum Property Standards for Housing.
- B. Existing Construction. The standards for all existing construction, which is defined as construction completed more than one-year at the time of the appraisal or a previously occupied dwelling, are in HUD Handbook 4905.1, Requirements for Existing Housing, One- to Four-Family Living Units.
- C. Condominiums. The standards for units built side-by-side are the same as for detached, semi-detached or row houses. The standards for units built over and under one another are in HUD Handbook 4910.1.
- D. Rehabilitation Construction. When, at the time of the appraisal, the dwelling needs rehabilitation construction in excess of \$5000, the applicable standards are contained in HUD Handbook 4240.4, Rehabilitation Home Mortgage Insurance, Section 203(k).
- E. Manufactured Housing. General eligibility criteria are in HUD Handbook 4145.1, paragraph 3-4.

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1-7 ELIGIBILITY OF CONDOMINIUM PROJECTS AND PUDS. Prior to underwriting a mortgage application, the mortgagee is to determine that a condominium or PUD has been approved by HUD. Refer to Handbook 4150.1 for information about approvals of condominium projects and PUDs.

1-8 MORTGAGE AMOUNT IN PURCHASE TRANSACTIONS. The loan-to-value

ratio depends on the construction type and status, the age of the property, whether the applicant intends to occupy the dwelling as a primary or secondary residence, and if the buyer is affiliated with the seller.

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Except for manufactured housing, in order to qualify for the maximum loan-to-value ratio, the dwelling must be: (1) proposed construction as defined in paragraph 1-2; (2) at least one year old; or (3) covered by a ten-year warranty plan accepted by HUD. See Chapter 2 of HUD Handbook 4155.1.

For manufactured housing to qualify for the maximum loan-to-value ratio, the home (1) must not have been installed or occupied at any other site or location and (2) either: (a) the present site was approved prior to the beginning of on-site work, (b) the home has been installed for at least one year, or (c) the home is covered by a ten-year warranty plan accepted by HUD.

1-9 REFINANCE TRANSACTIONS. With a refinance, the maximum mortgage amount depends on the applicant's intended use of the real estate (occupancy or investment), and the proposed use of the mortgage loan proceeds. In most instances, Section 245(a) cannot be used for refinancing. See Chapter 4 of HUD Handbook 4155.1.

1-10 INTEREST RATE. Under all of the mortgage insurance programs eligible for Direct Endorsement processing, the interest rate and discount points are freely negotiable between the mortgagee and the applicant. The mortgagee may charge a lock-in fee if the terms are guaranteed for a specific period of time, in writing.

1-11 FEES AND CHARGES. No extra fees and charges may be collected from the borrower on the basis of Direct Endorsement processing. Only those fees normally charged the borrower in HUD/FHA transactions lock-in fee, origination fee, appraisal fee, inspection fees (for repairs or improvements to existing dwellings), costs of a credit report, any charges for verifying deposits, and discount points may be charged the borrower in a Direct Endorsement case. No underwriting fee or mortgage credit fee may be charged to the borrower.

The appraisal fee schedule established by the HUD Field Office will apply to Direct Endorsement appraisals. A mortgagee using a staff appraiser or inspector may collect the appraisal and inspection fee.

1-12 AUTHORIZED TECHNICAL PERSONNEL. For property appraisals, inspections and mortgage credit analyses, mortgagees may use their own staff if approved by HUD, or they may use fee

appraisers, fee inspectors and fee mortgage credit examiners assigned from HUD-approved panels. All Direct Endorsement mortgagees must employ a full-time underwriter approved by HUD.

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1-13 BUSINESS RELATIONSHIPS WITH BUILDER, SELLER, OR REAL ESTATE FIRM. A mortgagee which provided the construction loan or has a financial interest in, owns, is owned by, or is affiliated with the building or selling entity or the real estate firm may originate mortgages under this program, provided the appraisal is done by a fee appraiser assigned by HUD rather than an appraiser on the staff of the mortgagee. If inspections are involved, they must be done by fee inspectors assigned by HUD. Mortgagee personnel may perform the mortgage credit analysis.

1-14 LOANS INVOLVING EMPLOYEES OF THE MORTGAGEE. If an employee of the mortgagee will be the mortgagor or seller, that employee cannot be involved in processing the application. The appraisal and any inspections that are required must be done by fee personnel assigned by HUD.

If possible, the application should be processed by a different branch or the mortgagee's main office. The case must be clearly identified in the remarks section of the Mortgage Credit Worksheet and beneath Box F, "Employment," on the front of the case binder.

1-15 CONVERSIONS AND SUBMISSION FOR HUD COMMITMENT PROCESSING

A. Choice of Processing. Direct Endorsement mortgagees should process all cases that they are eligible to process and should reject applicants that clearly do not meet HUD underwriting requirements. A Direct Endorsement approved mortgagee cannot order cases for prior approval processing, unless the HUD Field Office gives its permission. Requests for that permission must be by letter from the underwriter explaining why the case should not be processed under Direct Endorsement.

Of course, this requirement does not apply to cases that are not eligible for Direct Endorsement processing and only applies to the mortgage credit portion of the processing where the mortgagee wishes to obtain individual or master HUD conditional commitments for proposed construction.

B. Converting Cases to HUD Processing. Cases which mortgagees begin to process under Direct Endorsement may be submitted to HUD for conversion to prior approval processing only under certain circumstances. The conversion must be requested in a letter from the main office of the mortgagee, co-signed by the underwriter, stating a legitimate reason for conversion.

Mortgagees which abuse the conversion option may be

sanctioned accordingly. Once a case has been converted from Direct Endorsement to prior approval processing, the prior approval processing must be maintained.

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(1-15B.) Cases may be converted for the following reasons only:

- 1) Veteran Borrower Chooses to use VA Guarantee Program. The mortgagee may submit the appraisal and related documents to the HUD Field Office for issuance of a conditional commitment for submission to the VA.
- 2) Applicant who Defaulted on an Earlier Mortgage. An applicant who was a mortgagor on a mortgage that went into default or foreclosure may be eligible for another insured mortgage. One of several conditions that must be met is that the default or foreclosure was due to well-defined, extenuating circumstances beyond the applicant's control. If the underwriter is unable to decide whether the extenuating circumstances are sufficient to make the applicant eligible, the underwriter may request that the case be converted to HUD prior approval processing.

If the mortgage had been insured by HUD and the property was sold by the applicant to a buyer who took title subject to the mortgage or who assumed it prior to the delinquency of payment of a claim, the application may be converted for HUD prior approval processing.

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- 3) Applicant may be Eligible for Special Credit Risk Program. If the applicant is ineligible under the regular programs because he is unable to meet the credit requirements, but appears to qualify under Section 237, the application must be converted for prior approval processing. In many areas of the country, Section 237 may not be a feasible alternative, as the maximum mortgage amount, \$18,000 (\$21,000 in high cost areas), may not be sufficient.
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- 4) Applicant is an Employee of the Mortgagee. The mortgagee may submit the application to HUD for prior approval processing.
 - 5) Applicant is an Employee of HUD or a Member of the Employee's Household (Spouse, Parent, or Child). The mortgagee must submit the application to HUD for prior approval processing.
 - 6) HUD Requests or Authorizes the Conversion in Writing. *
- C. Converting Cases to Coinsurance Processing. Cases which mortgagees begin to process under Direct Endorsement may be converted to Coinsurance if the mortgagee is approved for Coinsurance processing.
- D. Converting Cases from Coinsurance to Direct Endorsement. Cases which mortgagees begin to process under Coinsurance may be converted to Direct Endorsement, but not if the coinsuring lender selected the appraiser used on the case and the appraisal has been completed. *
- 1-16 TRANSFERRING CASES. An applicant or the seller may have a personal preference or other reasons to request that the application be transferred from one mortgagee to another. In such cases, Direct Endorsement mortgagees are expected to cooperate on a reciprocal basis and complete the transfer of the underwriting package (appraisal report and/or mortgage credit package) upon written request from the applicant or the seller, if an applicant is not involved. Failure to cooperate in the transfer of cases jeopardizes the mortgagee's HUD approval as well as its Direct Endorsement approval.
- A. Receiving Mortgagee
- 1) If approved for Direct Endorsement, processing may continue under Direct Endorsement, provided that the application is eligible for Direct Endorsement. The receiving mortgagee assumes full responsibility for the quality of the underwriting.

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Current credit reports need not be updated, but the mortgagee must interview the applicant(s) either in person or by telephone to ensure that the application (HUD Form 92900) remains an accurate reflection of the applicant's circumstances. Verifications of employment and deposit need not be reordered where the mortgagee contacts the employer and financial institution(s) by telephone and so annotates the forms.

The mortgagee's underwriter must review the Appraisal and Mortgage Credit Worksheet and execute the Underwriter Certification on Form HUD-54113 after reviewing the application. (Refer to 3-3G for guidance when the underwriter concludes that the appraisal report findings are inconsistent or unacceptable.)

If the original mortgagee had rejected the application, it must include a copy of the underwriter's worksheet reflecting the analysis and reason for rejecting the borrower or property. If the receiving mortgagee approves the application and submits the case for endorsement, the case file must include a copy of the original mortgagee's worksheet with explanatory comments from the receiving mortgagee's underwriter.

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- 2) If not approved for Direct Endorsement, the receiving mortgagee must submit the case to HUD for prior approval processing. The Field Office would review the case and issue a conditional commitment or firm commitment, as appropriate, if the application is eligible.

B. Compensation to Original Mortgagee. For the transfer of a

single case, the original mortgagee may request that the applicant pay a pro-rata portion of the origination fee for the reasonable costs incurred in relation to the work performed, but no more than one-half percent if the underwriter has reviewed and signed the appraisal and one percent if the underwriter has reviewed and signed both the appraisal and Mortgage Credit Worksheet. The mortgagor can pay a maximum origination fee of one percent in obtaining an insured mortgage. The mortgagee transferring the case may also retain any lock-in fee collected from the applicant at the time of application as well as reimburse itself for any out-of-pocket expenses, such as the appraisal, surveys, credit reports, etc.

For the transfer of multiple cases, such as a Master Appraisal Report, Master Conditional Commitment or other groups of properties, the original mortgagee may request that the applicant pay a fee for the reasonable costs incurred in relation to the work performed. For each model or base case transferred, the transfer fee will be the same as stated above for single cases, while the fee for the remaining repeat cases should be a much smaller amount. Local HUD Field Offices may establish the transfer fee for the repeat cases or allow this fee to be negotiated between the mortgagees.

If the applicants (including sellers) do not agree to pay the above fees to effect the transfer, the new mortgagee must start processing from the beginning by requesting a new case number and appraiser assignment. This request for a new case number/appraiser assignment must be made in writing to the HUD Field Office by the new mortgagee.

- 1-17 CONSTRUCTION COMPLAINTS. Construction complaints made to a mortgagee involving cases processed under Direct Endorsement are to be initially investigated by the mortgagee. See HUD Handbook 4070.1 for details.

If the defect involves proposed construction and the mortgagee is unable to resolve the matter or if the defect is a structural one which might involve Section 518(a) assistance, the mortgagee is to refer the complaint to HUD for further processing. HUD will determine whether the homeowner is eligible for assistance pursuant to Section 518(a).

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If the complaint involves existing construction, the mortgagee is to resolve the matter to the extent possible. If the complaint involves an item which the mortgagee certified as repaired, it is the responsibility of the mortgagee to satisfactorily resolve the matter. If the complaint involves a

serious deficiency overlooked by the appraiser at the time of the original appraisal, the mortgagee is to report such finding to HUD.

When existing construction is involved, the mortgagee is to inform the mortgagor that HUD has no funds or authority to repair the defect or compensate the mortgagor. If the mortgagee is unable to satisfy the mortgagor, the complaint may be referred to HUD. The number and legitimacy of the complaints will be a factor in HUD's monitoring of a mortgagee's Direct Endorsement performance.

- 1-18 **WAIVER OF TITLE OBJECTIONS.** Section 203.389 of Title 24 of the Code of Federal Regulations states that HUD will not object to title because of common and customary easements, restrictions and encroachments, or to several specific title objections listed in the Regulations. Mortgagees are not to request waivers for exceptions specifically noted in this provision of the Regulations. These include: customary easements for public utilities, party walls, driveways and encroachments on adjoining property by hedges, wooden or wire fences belonging to the subject property. Refer to the Code of Federal Regulations for the complete list.

When the mortgagee becomes aware of a title exception not waived by the Regulations, a waiver request letter should be sent to the HUD Field Office.

- 1-19 **CODE OF FEDERAL REGULATIONS.** Regulations governing the provisions of the Direct Endorsement program are contained in Chapter II of Title 24 of the Code of Federal Regulations under Sections 200.163, 200.164 and 200.164a.

- 1-20 **CASE NUMBER SYSTEM.** The "700" series is used to identify the insurance program instead of the "200" and "500" series for HUD-processed cases. If a Direct Endorsement case involves a CRV, the fact that the case is a Direct Endorsement case supersedes the association with VA. Since the mortgagee does not have the authority to determine whether a case is eligible for Section 223(e) consideration, no adjustment for the "300" series is necessary. In the event a case is converted to HUD for prior approval processing, the applicable "200," "300," or "500" code should be used. For proposed construction cases involving HUD conditional commitments which are processed under this program, the cases are insured under the appropriate Direct Endorsement code. See Form HUD-428, Home Mortgage ADP Code Chart.