

CHAPTER 3

MORTGAGEE APPROVAL PACKAGE AND PROCEDURES

Part A. Submission of Application

3-1 Introduction. This part explains the documentation that the mortgagee must submit when applying for FHA approval.

3-2 Required Documentation. The documentation that must be submitted by the mortgagee as part of the application package varies according to the type of mortgagee status for which the applicant seeks approval. The following documentation (indicated by an "X") must be submitted. HUD may request additional documentation.

1 Sponsor cover letter XX
2 Fee*XXXXX
3 Application FormXXXXXX
4 Credit Reports X XX
5 Resumes X XXX
6 Financial statements X X
7 Licenses X XX
8 State DBA approval**XXXXXX
9 Facilities evidence X X
10 Fidelity bondXX XX
11 E&O insuranceXX XX
12 Quality Control PlanXXXX**X
13 Funding program XXXX
14 Sanctions letter X XX

*Not required for non-profits **Where a DBA is used***Only if Servicing

A. Explanation of Required Documentation.

1. Sponsor Cover Letter. An application from a mortgagee applying for approval as a loan correspondent must be accompanied by a letter from an approved direct endorsement mortgagee that will be its Sponsor, signed by an executive officer of the Sponsor, requesting approval of the loan correspondent. The letter must contain the Sponsor's mortgagee Identification Number. The letter may also state the mortgagee will fund all loans where it is the sponsor.

2. Application Fee. Evidence that the application fee has been transmitted: copies of the check and the HUD form, Application Fee for Title II Mortgagee Approval, as transmitted to the lock box (see paragraph 2-7C). If a copy of the check is not included, a copy of the front and back of the canceled check will be requested.

3. Application Form. HUD form 11701, Application for Approval--FHA Lender and/or Ginnie Mae Mortgage Backed Securities Issuer.

4. Credit Reports. An applicant, other than a supervised institution or a governmental institution, must order and pay for credit reports and submit

the complete originals, with the application, directly to the Lender Approval and Recertification Division, HUD Headquarters.

a. Required are:

(1) Personal credit reports for the principals of the applicant, including the chairman of the board, president, vice presidents and any person or entity owning 25 percent or more of the mortgagee's voting stock or a controlling interest. Personal credit reports must be either Residential Mortgage Credit Reports (RMCR) or three-merged reports. Other types, e.g. in-file credit reports, are not acceptable.

(2) A commercial credit report, or a Dun & Bradstreet report, if a principal owner is a business entity.

(3) A commercial credit report or a Dun & Bradstreet report on the applicant. This is required even if the applicant is a start-up company.

b. A written explanation must be submitted by the applicant for all negative items disclosed by any credit report. Credit Reports are evaluated pursuant to the FHA underwriting guidelines as set forth at HUD Handbook 4155.1, including any updates and/or revisions.

5. Resumes. The applicant must submit current resumes on senior officers with qualifying mortgage origination or servicing experience covering at least the previous seven years of employment. A Government Institution must provide resumes on the senior staff person or persons designated to meet staffing and experience requirements. For details regarding experience requirements, refer to paragraph 2 9(B).

Instead of resumes or other documentation of experience, institutions applying to become supervised mortgagees or supervised loan correspondents may submit a list of officers involved with mortgage lending, together with each officer's Social Security Number.

6. Financial Statements. The applicant must submit its most current CPA prepared audited financial statements for the period ended not more than 12 months prior to submission of the application. The financial statements must be supplemented by a computation of adjusted net worth pursuant to chapter 7 of the most recent version of HUD IG Handbook 2000.04, Consolidated Audit Guide for Audits of HUD Programs that also must be audited by the CPA.

For an ongoing business concern, a full set of financial statements is required:

- * Balance sheet;
- * Income statement;
- * Cash flow statement;
- * Retained earnings statement;
- * Footnotes; and
- * Auditor's report containing an unqualified (clean) opinion.

All financial statements must be prepared in accordance with Generally Accepted Accounting Principles (GAAP). The audit must be performed in accordance with Generally Accepted Auditing Standards (GAAS) by a Certified Public Accountant (or a Public Accountant licensed on or before

Dec. 31, 1970) licensed to perform audits in the state in which the applicant's home office is located and who has not been suspended, debarred, or otherwise excluded from performing audits of mortgagees. The audit report must be complete, original and contain the auditor's report on the audit firm's letterhead stationery.

a. New Company. If the applicant is a new company and has had no revenues or cash flow, the income statement and cash flow statement are not required.

b. Audited financial statements over six months old. If the audited financial statements are for a period ended more than six months but less than 12 months prior to submission of the application, additional financial statements must be submitted. This shall be in the form of a full set of financial statements (unaudited) and a computation of adjusted net worth. The unaudited financial statements must be certified by management and be for the most recent interim accounting period, but not older than three months.

c. Corrected Deficiency in Adjusted Net Worth. If the computation of adjusted net worth shows inadequate adjusted net worth at the date of the financial statements and the applicant has corrected this deficiency prior to issuance of the auditor's report, then the auditor will report this as a subsequent event. A new computation of adjusted net worth must be provided and the audit reports shall be dual dated, when subsequent events relate to adjusted net worth. If the auditor's report has already been issued, the auditor must verify that the applicant subsequently met the net worth requirement and issue an opinion on it, including a new computation of adjusted net worth.

7. Licenses. An applicant applying for approval as a non-supervised mortgagee or a non-supervised loan correspondent must obtain all required licenses prior to, or in conjunction with, approval as a FHA mortgagee. Copies must be submitted with the application. If the State does not require that mortgage lenders be licensed, the applicant must certify to that in writing. If a State conditions the issuance of a State license upon the lender having a FHA approval, the Department can evidence its approval by signing the applicant's HUD Form 11701 which can then be provided to the State. However, the FHA ID number will not be issued until FHA receives a copy of the State license.

8. State Approval of "doing business as" (dba) name. If a mortgagee or any of its branch offices is using a "doing business as" (dba) name, it must submit with the application a copy of the DBA statement or assumed name certificate filed with the State. See also paragraph 2 14, regarding prohibited branch arrangements.

9. Evidence of Acceptable Facilities. An applicant applying for approval as a non-supervised mortgagee or a non-supervised loan correspondent must provide sufficient evidence that its facilities meet FHA requirements. See paragraph 2 13. The applicant must submit photographs of its facilities, including its entrance, with evidence of permanent identification to the public. The applicant must submit a floor plan, which may be hand-drawn. The applicant must also submit a certification, signed by a senior officer, that the facilities comply with FHA requirements. These submissions are in lieu of an on-site visit by FHA to the mortgagee's office facilities; however, FHA may still conduct an on-site

visit. Evidence of acceptable facilities is not required for branch offices.

10. Fidelity Bond. All mortgagees, except loan correspondents, are required to maintain base coverage of \$300,000 in fidelity bonds covering the mortgagee's employees and agents. The Department does not require that it be the beneficiary of such coverage. A fidelity bond that is generally acceptable to the secondary market agencies, such as Ginnie Mae, Fannie Mae, and Freddie Mac, will meet FHA's requirement. An applicant must provide evidence of such coverage. A governmental institution may be exempt from this requirement if it maintains alternative insurance coverage approved by the Secretary, that assures the faithful performance of the responsibilities of the mortgagee.

11. Errors and Omissions Insurance. All mortgagees, except loan correspondents, are required to maintain base coverage of \$300,000 in errors and omissions insurance coverage. The Department does not require that it be the beneficiary of such coverage. Errors and omissions insurance that is generally acceptable to the secondary market agencies, such as Ginnie Mae, Fannie Mae or Freddie Mac, will meet FHA's requirement. An applicant must provide evidence of such coverage. A governmental institution may be exempt from this requirement if it maintains alternative insurance coverage approved by the Secretary, that assures the faithful performance of the responsibilities of the mortgagee.

12. Quality Control Plan. The applicant must submit a copy of its Quality Control Plan. See chapter 7 for details.

13. Funding Program. The applicant must provide a letter or letters establishing or confirming acceptable funding arrangements totaling not less than \$1 million, unless applying as a supervised mortgagee or Government Institution.

a. A Non-supervised Mortgagee, except a mortgagee approved for participation only in the multifamily mortgage insurance programs, must maintain a warehouse line of credit or other mortgage funding program acceptable to the Department. Acceptable programs include table funding and concurrent funding arrangements. The program must be adequate to fund the mortgagee's average 60-day origination production pipeline, but not less than a \$1 million warehouse line of credit or funding program. The line of credit must be issued directly to the mortgagee. In lieu of a warehouse line of credit, a mortgagee may have a letter from a financial institution stating that it will fund all mortgages originated by the mortgagee.

b. A Non-supervised Loan Correspondent must comply with the same funding requirements as a non-supervised mortgagee or have a written agreement or letter from each of its Sponsors to fund all mortgages that the sponsor underwrites. The application package must include, for each Sponsor, either:

* A separate agreement between the Sponsor and the non-supervised loan correspondent, which includes the funding provisions, or warehouse line of credit, or

* A Sponsor letter containing the written agreement that the Sponsor will fund all mortgages it underwrites that were originated by the non-supervised loan correspondent.

c. A Supervised Loan Correspondent must have a letter or written agreement from each of its Sponsors that the Sponsor will purchase all FHA mortgages that the loan correspondent originates and that the Sponsor underwrites.

d. An Investing Mortgagee must have, or have arranged for, funds sufficient to support a projected investment in real estate mortgages of at least \$1 million.

14. Sanctions Letter. The applicant must certify that neither it nor any of its officers, directors, or principals, has been denied an operating license or otherwise sanctioned by any licensing or regulatory body. A state-licensed mortgagee must submit with its application for approval, a letter certifying to the Department that the mortgagee sought and has not been refused a license, and has not been sanctioned by any State or States in which it will originate insured mortgages. If the mortgagee or any of its officers, directors, or principals has been sanctioned or subject to an action by the State against its license, the applicant must submit a copy of the documents concerning the action together with a written explanation.

3-3 Documentation for Specific Business Forms.

A. Partnership--Additional Documentation Required. A partnership seeking approval as a mortgagee must include the following additional documentation with its application package:

1. Names and Employer Identification Numbers of all general partners.
2. Identity of the designated managing general partner. The officers and directors of the managing general partner must be listed, together with their Social Security Numbers, on the application, HUD form 11701.
3. Principal business activity of managing general partner. Evidence that the principal business activity of the managing general partner is the management of one or more partnerships, all of which are mortgage lenders, property improvement or manufactured home lenders; and that it has exclusive authority to deal with FHA on behalf of each partnership.
4. Partnership term of existence. Evidence that the partnership will exist for a minimum term of ten years and that in the event that a partner withdraws, the partnership is specifically authorized to continue its existence.

If the mortgagee certifies that it meets the requirements for partnerships as described in paragraph 2-2(B), a copy of the Partnership Agreement does not have to be submitted, unless requested by FHA.

B. Limited Liability Company--Additional Documentation Required.

1. Names and Taxpayer Identifying Numbers of all members.
2. Names of managing member and FHA contact.
3. Copy of Operating Agreement.
4. Copy of Articles of Organization.

C. Not-for-profit Entity. A non-depository not-for-profit entity must provide evidence of its not-for-profit status. It may do this by providing a copy of its IRS Exemption Letter.

Part B. Processing of Application

3-4 Introduction. This Part explains the Department's procedures and processing requirements for an application for FHA mortgagee approval. The Lender Approval and Recertification Division in the Office of Lender Activities and Program Compliance, HUD Headquarters, is responsible for analyzing mortgagee application packages received, approving or disapproving applicants, and maintaining a record of approved mortgagees.

3-5 Requests for Additional Information. If additional documentation or information is needed to complete the processing of the application and to determine approval or disapproval, FHA may request it directly from the applicant. If the required documentation or information is not submitted within a reasonable time, as prescribed by FHA, the application review will be terminated. Application fees are not refundable. If the application is resubmitted, the applicant must pay a new fee.

3-6 Mortgagee Approval Processing. Applications for mortgagee approval are reviewed by the Lender Approval and Recertification Division. This includes, but is not limited to, reviewing:

A. The mortgagee's application package. The HUD Form 11701 and the required documentation, are reviewed for completeness, consistency, and accuracy.

B. Application fees. Fees are examined for accuracy and correctness of the amounts remitted.

C. Credit Reports. Credit reports are reviewed in accordance with FHA underwriting guidelines to ascertain financial responsibility.

D. Financial Statements. When a mortgagee is required to submit financial statements, the financial statements are reviewed to ascertain the financial soundness of the applicant and the potential risk to FHA.

1. Form

* The financial statements were audited by a Certified Public Accountant (or a Public Accountant licensed on or before Dec. 31, 1970), licensed to practice in the state in which the applicant has its home office, and who has not been suspended, debarred, or otherwise excluded from performing audits of mortgagees;

* The financial statements are current or supplemented by un-audited financial statements certified by management as described in paragraph 3 2(A)(6)(b);

* The audit was performed in accordance with Generally Accepted Auditing Standards (GAAS);

* The financial statements are in accordance with Generally Accepted Accounting Principles (GAAP);

* The Certified Public Accountant has issued an unqualified opinion on the financial statements;

* The financial statements are complete as appropriate to the applicant. A Computation of Adjusted Net Worth must always be included; and

* The audit report is complete, original, and contain the auditor's report on the audit firm's letterhead stationery.

2. Content

* Revenues must be more than one-half from mortgage lending (for an existing business applying as a non-supervised mortgagee or loan correspondent);

* Adjusted net worth must meet FHA requirements;

* Liquid assets must meet FHA requirements; and

* The financial statements are accurate and consistent.

E. Evidence of Acceptable Home Office Facilities. Evidence submitted regarding facilities is reviewed to ascertain that FHA's requirements have been met, including that appropriate permanent signage is in place.

F. Principals. The reviewer checks the principals of the mortgagee in the Department's automated credit alert system (CAIVRS) which lists defaulted Federal debts; the Department's LDP lists; the Government-wide list of debarred and suspended parties; and other databases containing information on criminal, civil, Federal debts, enforcement, or disciplinary actions taken by Federal or State regulators in the mortgage and financial services industry, and reports of serious misconduct. If any derogatory information is disclosed, the application may be disapproved.

3-7 Approval Notifications. Upon approval, a mortgagee will be assigned an identification number, notified, and provided with various materials. For details, see Part D of this chapter.

3-8 Disapproval. If a mortgagee fails to meet the Department's approval requirements, its application will be disapproved. The mortgagee will be sent a written notice that sets forth the reasons for the disapproval. The basis for disapproving an application may include, but is not limited to the following examples:

* Failure to meet the standards for approval as described in this Handbook or the Department's regulations at 24 CFR Part 202;

* Lack of financial responsibility by the applicant, directors, major stockholders, or principals, particularly in areas related to real estate lending and especially if such irresponsibility has resulted in monetary loss to the Federal government (e.g. foreclosure of a FHA insured or VA guaranteed mortgage, tax liens (State and county included), defaulted government loans, or any other Federal debt.) This includes bankruptcy discharged within the prior year and adverse credit report findings;

* Any reason that FHA determines could adversely affect the mortgagee's ability to participate in FHA's mortgage insurance programs. For example, a director's or principal's previous participation or termination of employment by a mortgage lender for cause relating to job performance if the applicant cannot provide a satisfactory explanation;

* Misrepresentation of a corporation's status regarding its FHA approval or misrepresentation of the meaning of such status;

* Using in its name certain words that are proscribed by law, which could

mislead a person to believe that the mortgagee is a Federal agency or has a relationship with or is endorsed by the Federal government. For details, see paragraph 2 4;

* Suspension, debarment, or other restrictions under 24áCFRáPart 24 or 25 or under similar procedures of any other Federal agency;

* Indictment for, or conviction of, a felony; and

* Unresolved material findings of HUD or other Government audits or investigations.

Part C. Appeals of Disapproval

3-9 Initial Appeal. Upon written notice that the application has been disapproved (for reasons other than an incomplete submission), the applicant has 30 days to submit a written appeal of the disapproval to the Director, Office of Lender Activities and Program Compliance.

A. Documentation Required. The mortgagee's appeal must be in writing and include any documentation requested in the disapproval letter.

B. Review of Appeal. The Director, Office of Lender Activities and Program Compliance, after review of the appeal, either rescinds or affirms the disapproval.

* Application Approved. If the Director reverses the disapproval, the applicant will be assigned a mortgagee identification number and notified; or

* Disapproval Affirmed. If the Director affirms the disapproval, the applicant will be notified in writing.

3-10 Final Appeal. Upon receipt of a letter from the Director affirming the disapproval, the applicant has 30 days to submit an appeal of that decision to the Deputy Assistant Secretary (DAS) for Single Family Housing.

A. Documentation Required. The appeal must be in writing and accompanied by all previous correspondence concerning the case.

B. Review of Appeal. The Deputy Assistant Secretary (DAS) for Single Family Housing, after review of the appeal, either rescinds or affirms the disapproval.

* Application Approved. If the DAS reverses the disapproval, the applicant will be assigned a mortgagee identification number and notified; or.

* Disapproval Affirmed. If the DAS affirms the disapproval, the applicant will be notified in writing. The DAS's decision is the final agency action. The applicant may re-apply in one year from the date of the disapproval letter.

Part D. Newly Approved Mortgages

3-11 Introduction. This Part describes what happens and what is required once a mortgagee receives its initial approval.

3-12 Immediately Upon Approval.

A. Mortgage Identification Number. FHA assigns a 10-digit mortgagee identification number. This number must be used in all correspondence regarding FHA mortgages and in dealing with FHA.

B. Notification of Approval. The Lender Approval and Recertification Division will notify the mortgagee of its approval and provide the mortgagee with its FHA mortgagee ID number. It will then send the formal approval package consisting of an approval letter, copy of the signed approved application, a FHA lender seal, Equal Housing Opportunity decals, Equal Housing Opportunity posters and additional information on participating in the FHA loan programs.

C. FHA Connection Registration. All mortgagees are required to sign up for a FHA Connection account which can be done as soon as they are notified of their approval at: <https://entp.hud.gov/clas>.

D. FHA Lender List. All mortgagees and their registered branches will be added to HUD's web site at: <http://www.hud.gov/ll/code/llslcrit.html>.

E. Notification to Sponsor. If the mortgagee is a loan correspondent, a copy of the signed approved application is sent to the initial Sponsor and to all other sponsors processed with the application.

F. Starter Kit. FHA maintains a Starter Kit page on its website at <http://www.hud.gov/offices/hsg/sfh/lender/mtgeekit.cfm> which provides links to all relevant HUD Handbooks and Mortgage Letters.

G. Forms. Specific forms are required for FHA mortgage insurance transactions. Forms are not included in the Starter Kit; however, forms can be downloaded from the forms section of HUDCLIPS.

3-13 FHA Mortgage Insurance Premiums and Claims. All financial transactions by mortgagees with regard to FHA mortgage insurance (premiums and claims) are done electronically via of the FHA Connection.

3-14 Direct Endorsement (DE). After a mortgagee has been approved as a supervised mortgagee or as a non-supervised mortgagee, it may apply to the appropriate Homeownership Center for DE authority. See HUD Handbook 4000.4, Single Family Direct Endorsement Program for details.