

CHAPTER 6
CHANGES SUBSEQUENT TO APPROVAL

6-1 Reporting Business Changes. A mortgagee is required to notify the Department within a specified number of business days of any business change that affects its standing as an approved institution, or which changes the information on which it was originally approved. Generally, notification consists of a letter to FHA, signed by an executive officer of the mortgagee. Certain changes may require additional documentation. The notice must be sent or faxed to the Director, Lender Approval and Recertification Division. Failure to notify HUD may lead to processing delays or sanctions by the Mortgage Review Board.

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6-2 Change of Home Office Location or Telephone Number. The Department maintains the following addresses for the home office of a mortgagee:

- * Geographic Address, Address where the office is physically located;
- * Mailing Address, Address to which HUD correspondence is sent;
- * Premium Address, Address of the office to which premiums are to be billed;
- * Payee Address, Address is used to mail Advice of Payment letters;
- * Conditional and Firm Commitment (CHUMS) Address, Address HUD will use to conduct business relating to applications for insurance; and
- * Endorsement Address, Address to which the confirmation will be sent of payment of the "one-time" mortgage insurance premium.

A. Address Changes. Mortgagees update all of their addresses via their FHA Connection account. However, they may not change the "State" part of the Geographic Address of the home office. If an office has relocated to a different State, the mortgagee must submit a request to the Lender Approval and Recertification Division to update the address. A mortgagee whose address is incorrect for delivery of its FHA Connection Coordinator's registration information, should submit a request for correction to the Lender Approval and Recertification Division.

B. Telephone and Fax Numbers and Email Address. Because FHA often has a need to contact mortgagees by telephone or fax or by email, a mortgagee must update this information through the Lender Approval functions of the FHA Connection. The numbers are also displayed on searchable lists of FHA approved mortgagees on HUD's web site.

6-3 Change of Branch Office Location or Telephone Number.

A. Within the Same State. The mortgagee must update the addresses for each branch through the Lender Approval functions under the FHA Connection.

B. To Another State. A mortgagee cannot change the "State" part of the Geographic Address of a branch office. If an office has relocated to a different State, the mortgagee must submit a request to the Lender Approval and Recertification Division to update the address.

6-4 Termination of Principal-Authorized Agent Relationship. If a Principal/Authorized Agent relationship is terminated by either party, then either party must also terminate the relationship in FHA's systems via the Lender Approval functions under the FHA Connection.

6-5 Termination of Loan Correspondent-Sponsor Relationship. If a loan correspondent/sponsor relationship is terminated by either party, then either party must also terminate the relationship in FHA's systems via the Lender Approval functions under the FHA Connection. Because a loan correspondent must have at least one sponsor, loss of all sponsors is grounds for FHA to withdraw the loan correspondent's approval. In such cases, the loan correspondent has 30 days to establish a relationship with at least one new sponsor. If the loan correspondent fails to establish a new Sponsor relationship, then its FHA approval will be withdrawn.

6-6 Permission for Supervised Loan Correspondent to Service. Upon application to the Department, a supervised loan correspondent may be granted permission to service its own FHA-insured mortgages. The "application" consists of a letter to the Lender Approval and Recertification Division. Generally, permission is granted only when the mortgagee has converted from a supervised mortgagee and has an outstanding portfolio of FHA-insured mortgages.

6-7 Change of Fiscal Year. A mortgagee is allowed to change its fiscal year. The mortgagee must submit a written request to the Lender Approval and Recertification Division. HUD may, at its discretion, require the mortgagee to submit financial statements and a computation of adjusted net worth certified by its management. This requirement depends on the length of time since the mortgagee last submitted audited financial statements to the Department. Every period must eventually be audited. In no case may more than 18 months elapse between the dates of audited financial

statements.

6-8 Change of Legal Name. For a change of name, a mortgagee must submit the following to the Lender Approval and Recertification Division

A. Acceptable documentation showing the name change, such as:

- * The amendment to its articles of incorporation;
- * Resolution by the mortgagee's Board of Directors; and
- * Charter amendment for a supervised institution.

B. When required by the State, evidence that the name change has been accepted by the State in which the home office is located.

6-9 Changes to Doing Business Asö (dba) Name. A mortgagee makes changes to its doing business asö through the FHA Connection and certify it has the appropriate approval to use the dba name. Although a mortgagee may have more than one dba, each home or branch office is limited to one dba name in the FHA Connection. See paragraph 2-4, regarding names including restricted words such as nationalö or Federal.ö

6-10 Loss of Direct Endorsement Underwriter. If a mortgagee with Direct Endorsement (DE) authority loses its only DE underwriter, it must immediately obtain and register a qualified replacement. Without a registered DE underwriter, the mortgagee will be unable to underwrite FHA mortgages. If it is unable to obtain and register a replacement, then the mortgagee must either enter into a Principal-Authorized Agent relationship or convert to loan correspondent status. For Principal-Authorized Agents, see chapter 5 Part B. For conversion, see paragraph 6 16.

6-11 Change of Senior Officer. If a mortgagee has an addition or substitution of a principal, including but not limited to chairman of the board, president, vice president, director, or LLC member, the mortgagee must notify HUD of the change. A Residential Mortgage Credit Report must be submitted on the new individual. A supervised mortgagee or supervised loan correspondent does not have to comply with the credit report requirement.

6-12 Change in a Partnership. If a managing general partner withdraws or is removed from the partnership, a new managing general partner must be substituted and the Department must be immediately notified of the change. The mortgagee must immediately notify the Department of any amendments to the partnership agreement that would affect the partnership's actions under any of the mortgage insurance programs. Newly admitted partners must agree to the management of the partnership by the designated managing general partner. Before a partnership is terminated, all FHA insured mortgages held by the partnership must be transferred to an approved mortgagee.

6-13 Change of Shareholder, Ownership, or Control. Whenever an individual or entity, that previously owned less than 25 percent of voting stock of a mortgagee, acquires voting stock resulting in ownership of 25 percent or more, the mortgagee must notify HUD. A resume and Residential Mortgage Credit Report must be submitted on any such individual; for a business entity, a commercial credit report, or a Dun & Bradstreet report, must be submitted. If a mortgagee's controlling

ownership changes, a new application and fee may be necessary. The mortgagee should contact the Lender Approval and Recertification Division in advance to determine what will be required. A change of ownership or control resulting from a merger or consolidation is covered in paragraph 6 17; a change of ownership or control resulting from acquisition of the mortgagee is covered in paragraph 6 18.

6-14 Change in Charter or Federal Taxpayer Identifying Number.

A. Change Resulting in New Federal Taxpayer Identifying Number. If a mortgagee reincorporates the approved institution, changes the institution's charter, changes the State where the company is incorporated or otherwise chartered, or completes any other change that results in the company receiving a different Federal Taxpayer Identifying Number, the mortgagee is required to submit a new application for mortgagee approval and pay the fee for a new mortgagee approval as specified in paragraph 2 7. If a new mortgagee identification number is issued, HUD will leave the old mortgagee identification number active for approximately 45 days to allow completion of processing of loans in process under that identification number. When a new mortgagee identification number is issued, the mortgagee must cease originating cases under the old number.

B. Change Not Resulting in Change of Federal Taxpayer Identifying Number. If the change does not result in a new Federal Taxpayer Identifying Number, then the mortgagee must submit the following to the Lender Approval and Recertification Division:

1. Certification as to the nature of the conversion and that there has been no change in the Federal Taxpayer Identifying Number or depositor insurance (in the case of a supervised mortgagee).
2. Certification that the institution will continue to comply with the approval requirements of this Handbook.
3. Certification that the newly chartered entity will continue to be responsible for the assets and liabilities of the former institution. This would include any problems found subsequently by the Department in the origination or servicing of any Title II mortgages originated or serviced by the institution prior to the adoption of the new charter.
4. Copy of the new charter and a complete description of the changes. In lieu of the above, the mortgagee must submit a new application for mortgagee approval and pay the fee for a new mortgagee approval as specified in paragraph 2 7.

C. Special Cases. There may be instances where the Federal Taxpayer Identifying Number may not change, but the change in the business entity is such that HUD may require a new application.

6-15 Change in Character of Business (Principal Activity). If there is a change in the character of an approved non-supervised mortgagee's business such that it may no longer qualify under the "principal activity" rule (see paragraph 2 27(D) or 2 29(C), as applicable and 24áCFRá202.7(a) or 202.8(a)(2), as applicable.), and this change in character is permanent, it must withdraw from the program. If the change is temporary, it must notify the Department and provide to the Department a Corrective Action Plan detailing how it will reestablish mortgage lending

as its principal activity.

6-16 Conversion of Mortgagee Type. A mortgagee that converts its status from one type to another during its fiscal year must continue to comply with all annual recertification requirements. To convert its mortgagee type, a mortgagee must complete a new HUD form 11701, Application for Approval, FHA Lender and/or Ginnie Mae Mortgage Backed Securities Issuer, and pay a non-refundable \$300 conversion fee. A mortgagee or loan correspondent must demonstrate that it has adequate net worth to meet the requirements of the type of mortgagee to which it is converting. The conversion application and its supporting documentation must be sent the Director, Lender Approval and Recertification Division. The non refundable \$300 conversion fee must be mailed to HUD's lock box address shown in paragraph 2 7, together with its transmittal form. The mortgagee's 10 digit FHA identification number for its home office must be inserted in the memo section of the check and the transmittal form.

A. Supervised Mortgagee to Supervised Loan Correspondent. In this type of conversion, the mortgagee must submit:

- * Transmittal letter, showing the mortgagee's ID number, name, address and nature of request;
- * Copy of the check for the conversion fee and the transmittal form;
- * Sponsor Letter, in which the sponsor agrees to sponsor the supervised loan correspondent and purchase all FHA mortgages originated by the supervised loan correspondent and underwritten by the Sponsor; and
- * Certification that all FHA-insured mortgages held or serviced has been transferred to another FHA mortgagee that is approved to service FHA-insured mortgages; or a request for permission to hold or service FHA-insured mortgages.

B. Supervised Loan Correspondent to Supervised Mortgagee. In this type of conversion, the mortgagee must submit:

- * Transmittal letter, showing the mortgagee's ID number, name, address and nature of request;
- * Copy of the check for the conversion fee and the transmittal form;
- * Evidence of errors and omissions insurance for a minimum of \$300,000; and
- * Evidence of a fidelity bond for a minimum of \$300,000.

C. Supervised Entity to Non-supervised Entity. In this type of conversion, the mortgagee must submit:

- * Transmittal letter, showing the mortgagee's ID number, name, address and nature of request;
- * Copy of the check for the conversion fee and the transmittal form;
- * A new HUD form 11701, Application for Approval, FHA Lender and/or Ginnie Mae Mortgage-Backed Securities Issuer; and
- * The same documentation as for a new application for approval with all the required documentation for that type of mortgagee.

D. Non-supervised Mortgagee to Non-supervised Loan Correspondent. In this type of conversion the mortgagee must submit:

- * Transmittal letter, showing the mortgagee's ID number, name, address and nature of request;

- * Copy of the check for the conversion fee and the transmittal form;
- * Sponsor letter showing evidence of an acceptable funding agreement; and
- * Certification that all FHA-insured mortgages held or serviced has been transferred to another FHA mortgagee that is approved to hold and service FHA-insured mortgages.

E. Non-supervised Loan Correspondent to Non-supervised Mortgagee. In this type of conversion, the mortgagee must submit:

- * Transmittal letter, showing the mortgagee's ID number, name, address and nature of request;
- * Copy of the check for the conversion fee and the transmittal form;
- * Copy of its most recent audited financial statements and, if these are more than six months old, management certified financial statements and computation of adjusted net worth. (see paragraph 3 2(A)(6);
- * Evidence of an acceptable funding program. (see paragraph 2 27.C);
- * Evidence of errors and omissions insurance for a minimum of \$300,000; and
- * Evidence of a fidelity bond for a minimum of \$300,000.

Once this conversion is approved, the mortgagee will no longer have any sponsors and needs to contact the appropriate Homeownership Center for obtaining approval as a DE mortgagee if they wish to underwrite single family loans.

F. Conversion to Investing Mortgagee. In this type of conversion, the mortgagee must submit:

- * Transmittal letter, showing the mortgagee's ID number, name, address and nature of request;
- * Copy of the check for the conversion fee and the transmittal form;
- * A new HUD form 11701, Application for Approval, FHA Lender and/or Ginnie Mae Mortgage-Backed Securities Issuer;
- * Evidence that it meets the requirements specified in paragraph 2 30(B), regarding legal authority to purchase insured mortgages and availability of funding; and
- * Certification that all servicing of FHA-insured mortgages has been transferred to another approved FHA mortgagee that is approved to service FHA-insured mortgages.

G. Conversion from Investing Mortgagee. In this type of conversion, the mortgagee must submit:

- * Transmittal letter, showing the mortgagee's ID number, name, address and nature of request;
- * Copy of the check for the conversion fee and the transmittal form;
- * Submit the same documentation as for a new application for approval with all the required documentation for that type of mortgagee; and
- * If conversion is to a loan correspondent, certify that all FHA-insured mortgages held or serviced have been transferred to another FHA mortgagee that is approved to hold and service FHA-insured mortgages.

6-17 Merger or Consolidation. Mergers can take a variety of forms.

A. Two or More HUD/FHA-Approved Mortgagees Merge.

1. Non-surviving Entity. The non-surviving entity must:

a. Submit a letter signed by an executive officer informing the Department that it is merging with another entity. The letter must:

- * Indicate which mortgagee will survive;
- * Provide the mortgagee identification numbers for each mortgagee involved;
- * Provide the date the merger occurred or will occur; and
- * Request termination of its approval.

b. If the non-surviving mortgagee was a Sponsor of FHA-approved loan correspondents, it must notify its loan correspondents of its request for termination.

c. Once the non-surviving entity ceases to exist or its approval is terminated, whichever comes first:

- * It may not accept any new applications for Title II mortgages;
- * It may no longer purchase Title II mortgages;
- * It may no longer service Title II mortgages; and
- * It may no longer submit claims to the Department.

d. When the non-surviving mortgagee holds a portfolio of Title II mortgages, it must arrange to transfer the loans to the surviving mortgagee or some other approved FHA mortgagee approved to service FHA mortgages. See paragraphs 6-17(A)(2)(e) and (f). There is a continued obligation to pay insurance premiums due and to meet all other obligations associated with the insured mortgages.

2. Surviving Entity. The surviving entity must:

a. Submit a letter describing the merger and certifying that 1) any loan correspondents not continuing with sponsorship have been notified, 2) all loan correspondents of the non-surviving mortgagee will be sponsored by the surviving mortgagee or 3) the non-surviving mortgagee was not the sponsor of any loan correspondents.

b. Submit a copy of the document which evidences the merger. A supervised mortgagee, must submit a copy of the letter from the supervisory authority which approved the merger.

c. Submit a list identifying each of the non-surviving entity's branch offices which will remain open under the auspices of the surviving entity, and pay the branch office registration fee specified in paragraph 2 7.

d. Register each of the non-surviving entity's loan correspondents, if any, that the surviving entity will continue to sponsor in the FHA Connection. Sponsorship is not automatically transferred. Each of the non-surviving entity's loan correspondents, for which the surviving entity will not continue sponsorship, must be given 30 days written notice by the Sponsor.

e. If the surviving mortgagee acquires only a portion of the non-surviving mortgagee's Title II mortgages, one of the parties must submit a Mortgage Record Change transaction for each mortgage that will not be acquired by the surviving mortgagee.

f. If the surviving mortgagee acquires all of the non-surviving mortgagee's outstanding Title II mortgages, it is not necessary to submit Mortgage Record Changes. All loans will be transferred to the surviving entity by HUD when the merger is processed.

B. An Approved Mortgagee Merges with a Non-approved Mortgagee.

1. Non-approved Mortgagee Survives.

a. The non-surviving mortgagee must comply with the provisions of paragraph 6 17(A)(1).

b. If the surviving mortgagee wishes to originate or hold Title II mortgages or submit claims for mortgages previously held by the non-surviving mortgagee, it must become FHA-approved. To become approved, it must follow the approval procedures of this Handbook. The mortgagee should include with its application a letter describing the merger, and, if applicable, its intentions regarding the non-surviving mortgagee's outstanding Title II mortgages and sponsored loan correspondents. Immediately after becoming approved, the mortgagee should register each of the non-surviving entity's branch offices which will remain open under the auspices of the surviving entity, and pay the branch registration fee specified in paragraph 2-7. The mortgagee must register each of the loan correspondents it is sponsoring in the FHA Connection.

2. Approved Mortgagee Survives. The surviving mortgagee must:

a. submit a letter describing the merger.

b. Submit a copy of the document which evidences the merger. A supervised mortgagee, must submit a copy of the letter from the supervisory authority which approved the merger.

6-18 Sale or Acquisition. The sale or acquisition of a FHA-approved mortgagee may take the form of stock, assets or operations being acquired or some combination of these. The mortgagee may cease to exist, becoming part of the acquiring company, it may continue as a subsidiary or affiliate of the acquiring company, or may become an independent company. Each of these is handled differently.

A. An Approved Mortgagee Acquired by Another Approved Mortgagee. The necessary action depends upon whether the acquired mortgagee will cease to exist or will continue as a subsidiary or affiliate of the acquiring mortgagee.

1. Continuation as Subsidiary or Affiliate. If the mortgagee being acquired will continue to operate as a subsidiary or affiliate of the acquiring mortgagee, the acquiring mortgagee must submit a letter describing the transaction including the names of all parties, their FHA mortgagee identification numbers, and the date of the acquisition. The letter must also explain that the acquired entity will continue as a subsidiary or affiliate of the acquiring entity. The acquired mortgagee must notify the Department by letter that it has been acquired and will continue to operate as a subsidiary or affiliate of the acquiring mortgagee. The acquired mortgagee may continue to operate under its existing Title II mortgagee Identification Number.

2. Dissolution of Mortgagee. If the mortgagee being acquired will be dissolved,

a. The non-surviving entity must submit a letter signed by an executive officer informing the Department of details regarding its acquisition and requesting termination of its approval. The mortgagee must comply with the provisions of paragraphs 6 17(A)(1).

b. The surviving entity must submit to HUD a copy of the articles of dissolution and a letter describing the acquisition and, if applicable, its intended disposition or sale of FHA insured loans held or serviced by the non-surviving mortgagee. The letter must also certify that 1) any loan correspondents not continuing with sponsorship have been notified, 2) all loan correspondents of the non-surviving mortgagee will be sponsored by the surviving mortgagee or 3) the non-surviving mortgagee was not the sponsor of any loan correspondents. The surviving mortgagee must comply with paragraphs 6 17(A)(2)(c) through (f).

B. An Approved Mortgagee Acquired by an Entity that is Not Approved.

1. Acquiring Entity Requires Approval to Participate in Program. If the acquiring entity wishes to be able to originate, hold, or service Title II mortgages, it must apply for approval under the applicable provisions of this Handbook.

If the acquired mortgagee will not be continuing as a subsidiary or affiliate, the acquiring entity should include with its application a letter describing the acquisition and, if applicable, its intentions regarding the non-surviving mortgagee's outstanding Title II mortgages and sponsored loan correspondents. Immediately after becoming approved, the mortgagee should register each of the non-surviving entity's branch offices which will remain open under the auspices of the surviving entity, and pay the branch registration fee specified in paragraph 2-7(A). The mortgagee may electronically register each of the loan correspondents it is sponsoring or follow the alternate procedures described in paragraph 5-12.

2. Acquired Mortgagee to Continue as Subsidiary or Affiliate. If the acquired entity will continue to operate as a subsidiary or affiliate of the acquiring mortgagee, it may continue to operate as a Title II mortgagee under its own name, whether or not the acquiring entity becomes FHA-approved. The mortgagee must submit a letter describing the acquisition and its future operating status.

3. Acquired Mortgagee Ceases to Exist. If the acquired entity will cease to exist, it must comply with the provisions of paragraph 6 18(A)(2)(a).

C. The Approved Mortgagee Becomes Independent. When an approved mortgagee, which has been a subsidiary or part of a larger entity, becomes independent, it must notify HUD and provide details of the change. Based on this, HUD may require additional information. For changes in senior officers, directors, or ownership, the mortgagee must submit documentation as specified in paragraphs 6 11 and 6 13.

D. The Approved Mortgagee Acquires an Entity that is Not Approved.

If the acquired entity will operate as a subsidiary or affiliate of the acquiring mortgagee and wishes to be able to originate, hold or service Title II mortgage, it must apply for approval under the applicable provisions of this Handbook.

6-19 Termination of Supervision. A supervised mortgagee is required to notify the Department in writing within 10 business days after the termination of supervision by its supervising agency. If the mortgagee qualifies for approval as another type of mortgagee, it must submit a new application, with the appropriate non-refundable fee, for approval to participate in the Department's mortgage insurance programs.

6-20 Termination of Fidelity Bond or Errors and Omissions Insurance. If a mortgagee's fidelity bond or errors and omissions insurance is terminated and the mortgagee is unable to obtain a new policy within ten business days, to continue as a FHA approved mortgagee, it must convert to a loan correspondent (see paragraph 6 16).

6-21 Net Worth Deficiency. An approved mortgagee must maintain at least the minimum required adjusted net worth at all times. If at any time it falls below the required minimum, the mortgagee must notify the Lender Approval and Recertification Division and submit a Corrective Action Plan. Failure to comply is grounds for an administrative action by the Mortgagee Review Board.

6-22 Liquid Assets Deficiency. An approved mortgagee must maintain at least the minimum required liquid assets at all times. If at any time it falls below the required minimum, the mortgagee must notify the Lender Approval and Recertification Division and submit a Corrective Action Plan. Failure to comply is grounds for an administrative action by the Mortgagee Review Board.

6-23 Operating Loss. A mortgagee must submit financial statements within 30 days of the end of each fiscal quarter in which the mortgagee experiences an operating loss of 20 percent or greater of its net worth. The interim financial statements may be either audited or un-audited, and the mortgagee must continue to submit them until it shows an operating profit for two consecutive quarters, or until its next annual recertification by FHA, whichever is later.

6-24 Bankruptcy or Liquidation.

A. Business. A mortgagee must submit a statement of Adjusted Net Worth within 30 days of commencement of voluntary or involuntary bankruptcy, conservator ship, receivership or any transfer of control to a Federal or State supervisory agency. A current original Dun and Bradstreet or business credit report must be submitted. HUD must be notified of each change of status in the bankruptcy proceedings. HUD reserves the right to require the mortgagee to submit court documents.

B. Personal. If an officer or principal of the mortgagee commences voluntary or involuntary bankruptcy, within 30 days the mortgagee must notify HUD. A current original credit report for that officer or principal must be submitted. HUD must be notified of each change of status in the bankruptcy proceedings.

6-25 Voluntary Withdrawal of HUD/FHA Approval. A mortgagee may request a voluntary withdrawal of its FHA approval by submitting written notification, signed by a senior officer, to the Lender Approval and Recertification Division. The request will not be honored while there is an administrative action or Mortgagee Review Board action pending against the mortgagee. Any mortgagee whose approval is voluntarily withdrawn may reapply for FHA approval at any time after its withdrawal.

6-26 All Other Business Changes. Any other business change that affects a mortgagee's approval status or its conduct of business with the Department must be reported in writing to the Lender Approval and Recertification Division within 10 days.