

Section C: Lender Insurance (LI) Program Eligibility & Approval

Overview

In this Section This section contains the topics listed in the table below.

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1. General Information on the Lender Insurance (LI) Program

Introduction This topic includes general information on the Lender Insurance (LI) Program, including

- the basics of the LI Program
 - the benefits of the LI Program
 - PETRs on LI loans, and
 - regulations governing LI (reference).
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Change Date March 1, 2011

**4155.2 2.C.1.a
Basics of the LI
Program** The Lender Insurance (LI) Program enables high-performing FHA-approved Direct Endorsement (DE) lenders, with acceptable default and claim rates, to endorse FHA mortgage loans without a pre-endorsement review conducted by FHA.

An LI approved lender performs its own pre-endorsement review and submits loan level data to FHA via the FHA Connection (FHAC), Business to Government (B2G) or other electronic means. [FHAC](#)

- performs an automated verification process to check the data for accuracy and completeness, and
- electronically generates a mortgage insurance certificate, to serve as evidence that the mortgage has been insured, if the loan-level data submission clears all the risk-mitigation edits FHA has in place.

The lender is *not* required to provide a case binder in advance of endorsement, unless the loan does not clear FHA's edits.

If the LI lender has been approved for electronic submission, the lender may submit an electronic case binder (eCB) instead of a hard copy case binder.

References: For more information on

- LI endorsement processing, see [HUD 4155.2 8.C.3](#)
 - requirements for LI lender pre-insurance review, see [HUD 4155.2 8.A.2](#)
 - LI case binder submission, see [HUD 4155.2 8.B.7](#), and
 - LI lender submission requirements for case binders selected for post endorsement technical review (PETR), see [HUD 4155.2 9.B.1.d](#).
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1. 1. General Information on the Lender Insurance (LI) Program, Continued

4155.2 2.C.1.b Benefits of the LI Program

The [LI](#) Program reduces a lender's submission of case binders to FHA and the need to have FHA review the application for mortgage insurance before endorsement. The need to submit case binders to satisfy Notices of Return (NOR) is also dramatically reduced.

If FHA *does* require submission of a case binder, all mailing costs associated with the mortgage insurance endorsement process are eliminated for those lenders that choose to submit case binders electronically.

Reference: For more information in LI endorsement processing, see [HUD 4155.2 8.C.3](#).

4155.2 2.C.1.c PETRs on LI Loans

Under the [LI](#) Program, FHA selects a sample of mortgages for post-endorsement technical review (PETR).

Note: A lender may submit case binders for PETR in paper or electronic format.

Reference: For more information on submission requirements for case binders selected for PETR, see [HUD 4155.2 9.B.1.d](#).

4155.2 C.1.d Regulations Governing LI (Reference)

The regulations governing the [LI](#) Program may be found in

- [24 CFR 203.4](#)
 - [24 CFR 203.6](#), and
 - [24 CFR 203.255\(f\)](#).
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2. Lender Insurance Program Eligibility & Approval Requirements

Introduction This topic contains information on the eligibility requirements for the Lender Insurance (LI) Program, including

- LI Program eligibility
 - acceptable claim/default rate for LI lenders
 - LI Program approval requirements
 - duration of LI Program approval, and
 - termination of LI approval.
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**4155.2 2.C.2.a
LI Program
Eligibility**

To participate in the Lender Insurance (LI) Program, a lender must

- be an unconditionally approved Direct Endorsement (DE) lender, and
- have an acceptable default and claim record, as described in [HUD 4155.2 2.C.2.b](#), for two years prior to its application for participation in the LI Program.

For DE lenders that underwrite as sponsors for third-party originators (TPO), the default and claim rate is the aggregate of both retail originations and mortgages underwritten for their sponsored TPOs.

Lenders must agree to indemnify FHA under the conditions of Section 256(c) of the National Housing Act (NHA).

Note: [LI](#) eligibility is company-specific and not determined at the branch level.

Reference: For information on LI endorsement processing, see [HUD 4155.2 8.C.3](#).

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2. Lender Insurance Program Eligibility & Approval Requirements, Continued

4155.2 2.C.2.b Acceptable Claim/Default Rate for LI Lenders

An acceptable claim/default rate is defined as being at or below 150% of the national average. [DE](#) lenders that operate only in one state have the right to have a compare rate using FHA loans made in that state only rather than the national average.

4155.2 2.C.2.c LI Program Approval Requirements

A [DE](#) lender wishing to participate in the [LI](#) Program must request approval. Access to the LI Program is conditioned upon the lender's certification, executed as an electronic acknowledgement through the FHA Connection (FHAC), that it will comply with the LI Program's procedures and requirements.

Each lender must acknowledge, prior to participating, that it is eligible under the LI Program and will participate according to applicable regulations and other written instructions from FHA.

4155.2 2.C.2.d Duration of LI Program Approval

Approval for the [LI](#) Program is effective for one year. At the end of the one-year period, the lender will be automatically checked by FHA's system of records. If the lender's claim/default performance continues to be acceptable and meets all other criteria, the lender's approval for LI participation will be renewed for another year.

4155.2 2.C.2.e Termination of LI Approval

A lender's approval to participate in the [LI](#) Program may be terminated if the lender

- fails to adopt and employ prudent review techniques
 - loses its [DE](#) approval
 - has a branch office terminated by, or
 - fails to meet the eligibility criteria listed in
 - [HUD 4155.2 2.C.2.a](#)
 - [HUD 4155.2 2.C.2.b](#), and
 - [HUD 4155.2 2.C.2.c](#).
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