

CHAPTER 5. CHANGES SUBSEQUENT TO APPROVAL

- 5-1 PURPOSE. This chapter discusses the various changes which may occur following a lender's initial approval by HUD/FHA.
- 5-2 BRANCH OFFICES. All institution types are permitted to use branch offices for all permissible activities provided the branch has been approved by HUD/FHA. Financial institutions are responsible for the actions of their branch offices. The branch office must meet the general approval requirements in Chapter 2 concerning staffing and facilities.
- A. BRANCH MANAGER. Branch managers must be located at the branch office they manage and cannot operate or be the manager of more than one branch office at the same time.
- B. OBTAINING BRANCH OFFICE APPROVAL. Lenders seeking branch office approval must supply the following documentation to HUD/FHA's Lender Approval and Recertification Division at the address noted in paragraph 3-2A:
1. Form HUD 92001-LB - Branch Office Notification.
 2. A copy of the application fee check and the fee transmittal form.
 3. Loan Correspondents that submit branch office applications must provide evidence of the additional required net worth. (See Paragraph 2-4C) A copy of the lender's most current audited financial statement must be submitted. If it is over six months old, a management certified balance statement must accompany the audited financial statement. The audited financial statement must contain evidence of sufficient adjusted net worth to support the branch application(s). Refer to Paragraph 2-4 for a discussion of net worth requirements.
- C. NOTIFICATION OF APPROVAL OR DISAPPROVAL. The Lender Approval and Recertification Division will notify the lender in writing of its decision to approve or disapprove the branch application.
- 5-3 EXTRA-TERRITORY REQUESTS. A Title I lender or Loan

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Correspondent may originate loans only within its approved lending area. (Please refer to Paragraph 2-17.) However, a lender's approved lending area may be extended by making a request for Extra-Territory Approval.

- A. WHY EXTRA-TERRITORY MAY BE NEEDED. With the expansion of the Department's definition of "approved lending area" the need for Extra-Territory approval should diminish. Before submitting a request a lender should consider whether Extra-Territory approval

is really necessary and whether the lender will be able to adequately serve its expanded area without establishing a branch or a loan correspondent relationship. Following are some of the reasons a lender may wish to request Extra-Territory approval:

1. A lender originating dealer loans may be able to serve a larger area due to the network of dealers it has established.
 2. Even with expanded lending areas, in some parts of the country the areas may not cover a large geographic area. In such areas it may be very possible for a lender's main or branch offices to cover areas outside its approved lending area.
 3. The location of the lender's main or branch office may be close to the boundary of its approved lending area so that the lender's market area includes an adjacent field office jurisdiction.
- B. APPROVAL FOR LOAN ORIGINATION ONLY. Extra-Territory approval is granted only for the purpose of loan origination. Title I lenders are permitted to purchase closed loans from other lenders located anywhere in the nation without the need of Extra-Territory approval. The same is true for Sponsors purchasing closed loans from their Loan Correspondents.
- C. EXTRA-TERRITORY PROCESSING. To obtain Extra-Territory approval the lender must send a letter to the Lender Approval and Recertification Division at the address in paragraph 3-2A. The letter must:
1. State the address of the approved home or branch office seeking the Extra-Territory approval as well as that office's ten digit HUD/FHA identification number.

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2. Identify the area into which the lender wishes to expand.
 3. Explain whether the lender will originate dealer or direct loans in the expanded area.
 4. Explain how the lender plans to originate and close loans in the expanded area.
- D. REQUIREMENTS FOR EXTRA-TERRITORY APPROVAL. The lender must satisfy the Department with respect to the following:
1. A lender may apply for Extra-Territory approval only after it has been approved as a Title I lender for at least one year.
 2. The lender has an adequate Quality Control Plan which will address loans originated in the expanded lending area.

3. The lender is operating with an acceptable default and claim rate.
4. The lender can maintain adequate supervision of dealers located in the expanded area.

E. NOTIFICATION OF APPROVAL OR DISAPPROVAL. The Lender Approval and Recertification Division will notify the lender in writing, of its decision whether to approve or disapprove the request.

5-4 ADDITIONAL SPONSORS.

A. A Loan Correspondent may have as many approved sponsoring lenders as it chooses. The only limitation on the number of Loan Correspondents that a Sponsor may have relates to its ability to supervise and monitor their compliance with Title I requirements.

B. ADDITIONAL SPONSOR PROCESSING. Each additional Sponsor must be HUD/FHA-approved. Requests for an additional Sponsor may be completed by either the Sponsor or the Loan Correspondent. The following documentation must be sent to the Lender Approval and Recertification Division at the address in paragraph 3-2A:

1. Form HUD 92001-LE - Application for Approval as a

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Title I Loan Correspondent. The Application must be signed by a senior corporate officer of the Loan Correspondent and must also be signed by a senior corporate officer of the sponsoring lender.

2. A letter from the new Sponsor stating that it agrees to purchase at least \$500,000 in closed Title I loans from the Loan Correspondent.
3. Copy of the application fee check and transmittal form.

5-5 DOCUMENT RETENTION REQUIREMENTS. After closing a Title I loan, the originating lender or Loan Correspondent must retain a copy of the entire loan origination package, including copies of all closing documents, for a two-year period following the loan closing. If the loan is sold, the original copy of the loan file must be sent to the servicing lender and retained for the life of the loan.

5-6 REPORTING BUSINESS CHANGES. Lenders must notify HUD/FHA of any change that affects their standing as an approved institution, or which changes the information on which they were originally approved. Lenders must notify HUD/FHA's Lender Approval and Recertification Division, at the address in paragraph 3-2A., of all corporate changes. Generally notification would consist of a letter to HUD/FHA, signed by a senior corporate officer. Certain changes, however, may require additional documentation.

- A. CHANGE OF NAME. The company must submit evidence the name change has been accepted by the state in which the home office is located and a copy of the amendment to its articles of incorporation (or other document) showing the name change.
- B. CHANGE OF ADDRESS AND TELEPHONE NUMBER. The Department maintains the following addresses for the home office of a lender:

Geographic --	Address where the office is physically located.
Mailing --	Address to which HUD correspondence is sent.
Premium --	Address to which HUD premium billings are sent.
Payee --	Address to which checks for insurance benefits are sent.

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1. The notification letter must indicate which of the above addresses is to be changed. (Only geographic and mailing addresses are maintained for branch offices.)

A change in the geographic address for the main office must be accompanied by the name of the County in which the main office is located. The following information must also be submitted: photographs of the new offices (inside and outside); a floor plan of the new offices; and a certification that the new offices comply with the requirements of Paragraph 2-15 of this Handbook.

When a branch office is closed in one HUD field office jurisdiction and a branch office is opened in another jurisdiction, it is considered to be a new branch, not merely a new location. For this reason, Form HUD 92001-LB, along with the appropriate fee, must be submitted to have the new location approved. If a branch changes location within the same HUD field office jurisdiction, it is acceptable to request only a change of address and for a senior corporate officer to certify that the new office complies with Paragraph 2-15 of this Handbook.

2. Because HUD/FHA often has a need to contact lenders by telephone or fax machine, lenders must keep the Department aware of changes in the telephone and fax numbers of their main offices.
- C. CHANGE OF CORPORATE OFFICER, STOCKHOLDER, OWNERSHIP. If a lender has an addition or substitution of a principal (including the chairman of the board, president, vice president and/or any person or entity that owns 25 percent or more of the lender's voting stock), the lender must provide notification of the change. A Residential Mortgage Credit Report must be submitted on the new

person(s) or entity. The lender must certify that the facilities and staff continue to meet HUD/FHA requirements.

Supervised Lenders or Supervised Loan Correspondents do not have to comply with the credit report requirement. They also need not report a change in principals, except for the addition of a stockholder owning 25 percent or more of the lender's voting stock.

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Whenever an individual or entity acquires 25 percent or more of a lender's voting stock the lender must notify the Lender Approval and Recertification Division. When the majority of a lender's ownership changes a new application and fee may be necessary. We advise that the lender contact the Lender Approval and Recertification Division in advance to determine what will be required. Additional information on changes in ownership is provided in paragraphs 5-6E and F.

D. CHANGE IN CORPORATE CHARTER OR FEDERAL TAX IDENTIFICATION NUMBER.

1. If a lender re-incorporates the approved institution; changes the institution's charter; changes the state where the company is incorporated; or completes any other change that results in the company receiving a different Federal tax identification number, the lender is required to submit a new application and fee. The lender's Title I reserves will not be transferred automatically to the newly approved entity.
2. If the change does not result in a new Federal income tax identification number, then the lender must:
 - a. Certify as to the nature of the conversion and that there has been no change in the Federal tax identification number or depositor insurance (in the case of a Supervised Lender).
 - b. Certify that the institution will continue to comply with the approval requirements of this Handbook.
 - c. Certify 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 of any Title I loans originated by the institution prior to the adoption of the new charter.
 - d. Submit a copy of the new charter and a complete description of the changes.

E. CORPORATE MERGERS. Corporate mergers can take a variety of forms which are discussed below.

1. TWO OR MORE HUD/FHA-APPROVED LENDERS MERGE.

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a. THE NONSURVIVING ENTITY MUST:

(1) Submit a letter signed by a senior corporate officer (vice president or above) informing the Department that it is merging with another entity. The letter must indicate which lender will survive; provide the lender identification numbers for each lender involved; provide the date the merger occurred or will occur; and request termination of its approval.

(2) If the nonsurviving lender was a Sponsor of HUD/FHA-approved Loan Correspondents, it is its responsibility to notify its Loan Correspondents of its request for termination.

(3) Once the nonsurviving entity ceases to exist or its approval is terminated (whichever comes first), it must not take any new applications for Title I loans. Applications which are in progress may be closed by the lender only if they were approved by the lender prior to the termination of approval. It also may no longer purchase Title I loans or submit claims to the Department.

(4) When the nonsurviving lender holds a portfolio of Title I loans, it must arrange to sell the loans to the surviving lender or some other lender holding a Title I Contract of Insurance.

b. THE SURVIVING ENTITY MUST:

(1) Submit a letter describing the merger.

(2) Submit a copy of the document which evidences the merger. For Supervised Lenders, this would be the letter from the supervisory authority which approved the merger.

(3) Submit a HUD Form 92001-LB for each of the nonsurviving entity's branch offices which will remain open under the auspices of the surviving entity, plus the fee required by paragraph 2-2A of this Handbook. Any extra-territory approvals held by the nonsurviving entity's branches will be transferred to the surviving entity upon the processing of Form 92001-LB.

(4) Submit Form HUD 92001-LE for each of the nonsurviving entity's Loan Correspondents (if any) which the surviving entity wishes to sponsor, plus the fee required by Paragraph 2-2A. of this Handbook. For each of the Loan Correspondents for which approval is sought, the provisions of Paragraph 3-5C of the Handbook must be followed.

(5) If the surviving lender acquires only a portion of the nonsurviving lender's Title I loans, it must submit Form HUD 27030 Title I Transfer of Note Report for each loan. However, if there is a large number of loans involved, we will accept a computer printout which contains all the information on the form in lieu of the form itself.

(6) If the surviving lender acquires all of the nonsurviving lender's outstanding Title I loans, it is not necessary to submit HUD Form 27030. However, the surviving lender must provide the Department the total unpaid principal balance for all outstanding Title I loans in the portfolio as of the date of the merger or state that there were no outstanding loans. Upon receipt of this information, we will change the premium address in the computer to that of the surviving institution so payment can be remitted in a timely manner. If the unpaid balance information is not received, the Department will place a "hold" on the payment of any claims until the transfers have been completed.

2. A HUD/FHA-APPROVED LENDER MERGES WITH A NON-APPROVED LENDER AND THE NON-APPROVED LENDER SURVIVES.

- a. The nonsurviving lender must comply with the provisions of paragraph E.1.a. above.
- b. If the surviving lender wishes to originate or hold Title I loans or submit claims for loans previously held by the nonsurviving lender, it must become HUD/FHA-approved. To become approved, it must follow the approval procedures discussed in this Handbook and in Paragraph E.1.b. above.

F. ACQUISITIONS. The acquisition of a HUD/FHA-approved lender may take the form of common stock, assets or operations being acquired or some combination of these.

The lender may cease to exist, becoming part of the acquiring

company, or it may continue as a subsidiary or affiliate of the acquiring company. Each of these is handled differently.

1. A HUD/FHA-APPROVED LENDER IS ACQUIRED BY ANOTHER APPROVED LENDER. The necessary action depends upon whether the acquired lender will cease to exist or will continue as a subsidiary or affiliate of the acquiring lender.
 - a. If the lender being acquired will continue to operate as a subsidiary or affiliate of the acquiring lender, the acquiring lender must submit a letter describing the transaction including the names of all parties, their HUD/FHA lender 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 lender must notify the Department by letter that it has been acquired and will continue to operate as a subsidiary or affiliate of the acquiring lender. The acquired lender may continue to operate under its existing Title I Contract of Insurance.

Because the acquired lender will continue to operate, no change to the acquired lender's reserves is necessary.

- b. If the lender being acquired will be dissolved, then the acquiring lender must submit a statement of the future operating status of the acquired lender and must comply with Paragraph E.1.b. above. The acquired lender must comply with the provisions of Paragraph E.1.a.
2. THE ACQUIRED ENTITY IS A HUD/FHA-APPROVED LENDER AND THE ACQUIRING ENTITY IS NOT APPROVED.
 - a. If the acquiring entity wishes to be able to make Title I loans, then it must apply for approval under the provisions of this Handbook and comply with the other provisions of Paragraph E.1.b. above.
 - b. If the acquired entity will cease to exist, then it must comply with the provisions of Paragraph E.1.a. above.

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- c. If the acquired entity will continue to operate as a subsidiary or affiliate of the acquiring lender, then it may continue to operate as a Title I lender under its own name, whether or not the acquiring entity becomes HUD/FHA-approved.
- G. FISCAL YEAR. There is no prohibition against lenders changing their fiscal year. However, a lender may be required to submit a balance sheet and computation of adjusted net worth certified to by management. This requirement will depend upon the length of time

since the lender last submitted financial statements to the Department. Because each case is different, lenders are advised to consult with the staff of the Lender Approval and Recertification Division to determine whether a balance sheet will be necessary and the most appropriate date.

H. "DOING BUSINESS AS." Whenever a change occurs to a lender's "doing business as" name, a copy of the State or local governmental approval must be submitted. Each branch office may have no more than one "doing business as" identity.

5-7 CONVERSION OF LENDER TYPE. If a lender wishes to convert its institution type (e.g. an approved Supervised Lender wishes to convert to a Supervised Loan Correspondent), it must complete Form HUD 92001-L and submit the fee discussed in Paragraph 2-2A. of this Handbook. If the lender is converting to become a Loan Correspondent, it must complete Form HUD 92001-LE and submit evidence of an acceptable funding agreement. If converting to a Nonsupervised Lender, it must complete Form HUD 92001-L and submit evidence of an acceptable funding program. This documentation along with a copy of the fee check and transmittal form must be sent to HUD/FHA at the address noted in paragraph 3-2A.

When converting, a Lender or Loan Correspondent must demonstrate that it has adequate net worth to meet the requirements of the type of lender to which it is converting. To expedite the process we recommend a Lender or Loan Correspondent submit a copy of its most recent financial statements. If the statements are more than six months old, a management certified balance sheet and calculation of adjusted net worth must also be submitted.

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5-8 VOLUNTARY WITHDRAWAL OF HUD/FHA APPROVAL. A lender that wishes to withdraw its HUD/FHA-approval must send a letter to the Department at the address in paragraph 3-2A, signed by a senior corporate officer.

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