

CHAPTER 7. ANNUAL RECERTIFICATION PROCEDURE

7-1 GENERAL. Every lender must be recertified annually. Failure to submit the required documents and/or fees will result in cancellation of a lender's authority to participate in the Title I program.

7-2 REQUIRED VERIFICATION REPORT.

- A. HUD/FHA uses the Yearly Verification Report to verify data it has on a lender's status and operations. The Lender Approval and Recertification Division mails this report to every approved lender at the close of the lender's fiscal year.
- B. This report must be completed by the lender and returned to HUD/FHA within 30 days after the close of the lender's fiscal year.
- C. Lenders are responsible for verifying the data on the form and correcting any data listed in error. This is done by lining through the old data on the report and inserting the correct information.
- D. The Yearly Verification Report includes a separate page for each branch office that is approved to originate Title I loans. This page(s) must also be reviewed and any changes noted. This report may not be used to add new branch offices. The procedure for adding branches is discussed in Paragraph 5-2.
- E. After the lender has updated the information and a senior corporate officer has signed the Yearly Verification Report, it must be mailed to the following address:

HUD  
P.O. Box 100922  
Atlanta, GA 30384

7-3 ANNUAL RECERTIFICATION FEES. With the Yearly Verification Report, lenders are responsible for paying a recertification fee. The fee is \$150 for the main office and \$50 for each branch office.

A. EXCEPTIONS.

9/95

7-1

4700.02 REV-1

- 1. Governmental Institutions and non-profit organizations are not required to pay this fee.
- 2. Lenders approved within six months prior to the end of their fiscal year are not required to pay the fee. However, they must review and correct the Yearly Verification Report and return it to the address noted in paragraph 7-2 E. above. Additionally, if the lender is a Nonsupervised Lender or Loan Correspondent, an audited financial statement may be required.

Please refer to Paragraph 7-4A.2. for information on financial statements.

- B. SUBMISSION OF FEES. The recertification fee must be sent with the Yearly Verification Report to the address noted in paragraph 7-2 E.
1. The lender must include its HUD/FHA 10 digit lender identification number on the face of the check. The canceled check is evidence of payment of the annual fee.
  2. If a lender is paying an annual fee for more than one approved lender, a separate check must be used for each lender.
  3. Title I lenders who are also approved under the HUD/FHA Title II program must mail separate recertification checks in order to remain approved in each program area.

7-4 AUDITED FINANCIAL STATEMENTS. Nonsupervised Lenders and Loan Correspondents are required to file audited financial statements covering their most recent fiscal year within 90 days of the end of each fiscal year. The statements must be sent to the address in Paragraph 3-2A.

IMPORTANT: The statements themselves or the accompanying cover letter MUST contain the lender's HUD/FHA 10 digit lender identification number.

A. EXCEPTIONS TO FINANCIAL STATEMENTS REQUIREMENT.

1. Governmental Institutions are not required to submit audited financial statements.
2. A lender approved on the basis of financial statements dated within six months of the end of its fiscal year need not submit audited financial statements with its recertification. If the financial statements were more than six months old at

9/95

7-2

4700.02 REV-1

the time of approval, then year-end statements must be submitted with its recertification.

3. Supervised Lenders and Supervised Loan Correspondents are not required to submit audited financial statements.
- B. EXTENSIONS. Requests to extend the 90 day deadline for submission will be granted only in unusual circumstances. As an example, extensions were granted to approved lenders whose home offices were located in the area affected by the Los Angeles earthquake in January 1994. Requests for extensions which meet this requirement must be made in writing and sent to the Lender Approval and Recertification Division at the address noted in paragraph 3-2 A. Extensions will be evaluated on a case-by-case basis, and approval or denial will be sent by the Division Director in writing.

C. AUDIT REPORT REQUIREMENTS. Annual audited financial statements must meet the following requirements:

1. BASIC REQUIREMENTS. Each financial statement must meet the following basic requirements:

- a. They must be prepared in accordance with Generally Accepted Accounting Principles (GAAP), Generally Accepted Auditing Standards (GAAS), and Government Auditing Standards (GAS). The statements must also comply with HUD Handbook 2000.04 as revised, Consolidated Audit Guide for Audits of HUD Programs.
- b. They must cover the period since the date of the last financial statements submitted to the Department.
- c. The audit must be performed by an independent certified public accountant or licensed independent public accountant.
- d. The auditor's opinion must be unqualified.

2. FINANCIAL STATEMENT CONTENT. Each financial statement is expected to contain the following:

- a. Balance sheet.
- b. Statement of operations and retained earnings.

9/95

7-3

4700.02 REV-1

- c. Statement of cash flow.
- d. Notes to the financial statement.
- e. Computation of Adjusted Net Worth for HUD/FHA requirements.
- f. Report on Compliance (refer to HUD Handbook 2000.04 for details).
- g. Report on Internal Control Structure (refer to HUD Handbook 2000.04 for details).

3. DETERMINING ADJUSTED NET WORTH. The lender's net worth must be based only on assets that are acceptable to the Department. Any unacceptable assets must be deducted from the lender's net worth to determine the HUD/FHA adjusted net worth. (Refer to HUD Handbook 2000.04 as revised for a discussion of acceptable assets. A list of unacceptable assets is included in Appendix 1 of this Handbook.)

4. NET WORTH DEFICIT. If the lender's adjusted net worth falls below HUD/FHA requirements, the notes to the financial

statements are analyzed to determine whether a subsequent event has brought the lender's adjusted net worth into compliance with HUD/FHA requirements.

- a. FAILURE TO MEET NET WORTH REQUIREMENT. If analysis of the financial statements and notes reveals that the lender's adjusted net worth does not meet HUD/FHA requirements, the lender is sent a Notice of Violation by the Mortgagee Review Board. The Notice informs the lender that the Board is considering an administrative action based upon its failure to meet HUD/FHA net worth requirements. The lender is provided an opportunity to submit a written response within 30 days from receipt of the Notice. If the lender fails to respond to the Notice, or to bring its net worth into compliance, the lender's HUD/FHA approval will be withdrawn.
- b. FAILURE TO MAINTAIN REQUIRED NET WORTH. If the financial statements disclose that the lender consistently does not maintain the required adjusted net worth throughout the year, the Department may request that the lender submit interim financial statements and may consider further actions. The failure to consistently maintain the

9/95

7-4

4700.02 REV-1

required net worth is grounds for an administrative action by the Mortgagee Review Board against a lender.

5. NOTES TO FINANCIAL STATEMENTS. A review is made of the notes to the financial statements for any indication of fraud or practices not in compliance with HUD/FHA requirements. The review also will provide a means to determine whether Nonsupervised Lenders and Loan Correspondents meet the HUD/FHA principal activity requirement.

If violations of HUD/FHA requirements or fraud are identified, a letter is sent to the lender requesting an explanation, or the lender is referred to the Monitoring Division, the Office of Inspector General, or the Mortgagee Review Board as appropriate, for further action.

6. REPORT ON COMPLIANCE. The auditor's report on compliance and report on internal controls are reviewed to ensure they are prepared in accordance with: HUD Handbook 2000.04 as revised, Government Auditing Standards (GAS) (yellow book), and Statement of Standards (SAS) number 68.
  - a. Where the auditor has reported material weaknesses in the compliance report or in the lender's internal controls, a response from the lender's management will be required to explain the actions to be taken to correct the weaknesses. The response must be submitted with the audited financial statements.

b. Depending on the nature of the findings, the lender may be referred to the Monitoring Division, Office of Inspector General, or the Mortgagee Review Board for appropriate action.

7. REPORT ON INTERNAL CONTROL. This report is reviewed to ensure that the lender has adequate accounting controls and an adequate quality control plan (as discussed in Chapter 6 of this Handbook) that has been fully implemented. Failure to have adequate control systems in place will result in further action as described above.

7-5 CLARIFICATION OF RECERTIFICATION FEES AND FINANCIAL STATEMENTS REQUIREMENTS. Because we receive many inquiries concerning the need for new financial statements and recertification fees, we would like to provide some further guidance.

9/95

7-5

4700.02 REV-1

EXAMPLE 1. An established lender with a fiscal year end of December applies for approval in April of the following year.

This lender would pay the approval fee and submit its December financial statements when it applies for approval.

When this lender recertifies it must submit its verification report and fee by January 30 of the year following its approval. It must submit financial statements dated December 31 of its approval year by March 31 of the year following its approval.

EXAMPLE 2. An established lender with a fiscal year end of December applies for approval in September of the following year.

This lender would pay the approval fee and submit its December financial statements when it applies for approval. Because the statements are dated more than six months prior to the end of its fiscal year, it must also submit a balance sheet prepared and certified by management dated within six months of the time of application.

When this lender recertifies it must submit its verification report by January 30 of the year following its approval. However, no fee will be required since it was approved within six months of the end of its fiscal year. It must submit financial statements dated December 31 of its approval year by March 31 of the year following its approval.

EXAMPLE 3. A newly formed lender with a fiscal year end of December applies for approval in September of the following year.

This lender paid the approval fee and had financial statements prepared as of August 30 for the purpose of applying for approval.

When this lender recertifies it must submit its verification report by January 30 of the year following its approval. However, no fee will be

required since it was approved within six months of the end of its fiscal year. The lender would not need to submit new financial statements since the ones submitted with its approval were less than six months old.

If this lender had financial statements prepared as of May 31, for example, when it applied for approval, it would have had to submit new statements dated December 31 with its recertification.

9/95

7-6

4700.02 REV-1

- 7-6 JOINT TITLE I AND TITLE II RECERTIFICATION. A lender that is approved to participate in both the Title I and Title II programs may recertify under both programs jointly. In the lender's cover letter it must state that it is recertifying under both programs and it must list both the lender identification and mortgagee identification numbers. Only one set of audited financial statements must be submitted. The lender must submit both the Title I and Title II recertification fees as discussed in Paragraph 7-3B.3.
- 7-7 FAILURE TO SUBMIT, OR SUBMISSION OF AN INCOMPLETE OR UNACCEPTABLE AUDIT REPORT. When a lender fails to submit its audit report within 90 days of the close of its fiscal year, or submits an incomplete or unacceptable audit report, the lender will be sent a Notice of Violation by the Mortgagee Review Board. The lender will be provided an opportunity to submit an acceptable audit report or other documents within 30 days after receipt of the Notice. Failure to submit an acceptable audit report within the 30-day period will result in the withdrawal of the lender's HUD/FHA approval.
- 7-8 REQUESTS FOR INFORMATION. Lenders are required under the Department's regulations (24 CFR 202.3(h)) to provide, upon request, a copy of their latest financial statement plus such additional information the Department may request. Lenders are also required to submit to an examination of that portion of their records that relates to their Title I lending activities.
- 7-9 VOLUNTARY WITHDRAWAL OF HUD/ FHA APPROVAL. A lender may request a voluntary withdrawal of its HUD/FHA approval by submitting written notification to the Office of Lender Activities and Land Sales Registration.
- 7-10 CONVERSION OF LENDER TYPE. A lender that converts its status from one type to another during its fiscal year must continue to comply with all annual recertification requirements. Its recertification must continue to be made on the basis of its current fiscal year unless its fiscal year end has changed.

9/95

7-7