CHAPTER 1. GENERAL INFORMATION

1-1 PURPOSE. This Handbook sets forth the policies and procedures of the Department for the approval and annual recertification of lenders for participation in the HUD/FHA Title I program. The regulations governing lender approval are in 24 CFR Part 202.

1-2 ENABLING LEGISLATION. Title I, Section 2 of the National Housing Act (12 U.S.C. 1703) authorizes HUD to provide credit insurance to qualified financial institutions for losses on eligible property improvement or manufactured home loans. In this Handbook loans originated under the provisions of this section of the Act are referred to as "Title I loans."

1-3 GENERAL APPROVAL REQUIREMENTS. Before financial institutions may originate, purchase or hold Title I loans, they must obtain written approval from HUD to participate in the Title I program. Separate approval is required to participate in the Title II insured mortgage loan program. Approval requirements for the Title II program are contained in 24 CFR Part 202 and HUD Handbook 4060.1.

A financial institution will be approved to participate in the Title I program upon meeting the Department's approval requirements and submitting an acceptable fee and application as described in Chapters 2 and 3, respectively, of this Handbook. Applications for both the home office and branch office(s) approval are submitted to the Lender Approval and Recertification Division. The application fee is forwarded to the lock box noted in Chapter 3.

1-4 MANUFACTURED HOUSING AND PROPERTY IMPROVEMENT LOANS. Under the provisions of the Title I program, approved lenders may originate and receive insurance on either property improvement loans or loans for manufactured housing. As of the effective date of this handbook, lenders will no longer be required to submit two applications in order to originate loans under both programs. Lenders will be able to originate and submit claims under one lender identification number. The Department will maintain only one reserve account which will cover both manufactured housing and property improvement loans.

1-5 CONTRACT OF INSURANCE. At the time of approval, all types of lenders will receive a letter of approval. With the exception of Loan Correspondents, this letter also constitutes a Contract of Insurance between the lender and the Department. Loan Correspondents do not receive a Contract of Insurance. The Contract is separate and apart from a lender's status as an approved Title I lender. A lender whose Contract is terminated may continue to be approved as a Title I lender, and it continues to be insured with respect to the Title I loans it holds at the time of termination, but it cannot otherwise exercise the rights of an approved lender.

The approval letter for Loan Correspondents and the Contract of Insurance for all other types of lenders constitute an agreement between the institution and the Department which shall govern participation in the Title I program.

Please refer to Paragraph 4-6 for information concerning the effects of termination of a Contract of Insurance.

1-6 TYPES OF APPROVED LENDERS. To qualify for participation in the Title I program, a financial institution must be in one of the categories listed below. Throughout this Handbook the term "lender" generally refers to all categories.

A. SUPERVISED LENDER. A Supervised Lender is a financial institution that is a member of the Federal Reserve System or whose accounts are insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

B. NONSUPERVISED LENDER. A Nonsupervised Lender is a financial institution that has as its principal activity the lending or investing of funds in mortgages, consumer installment notes, or similar advances of credit, or the purchasing of consumer installment contracts and is not a Supervised Lender or a Governmental Institution.

C. LOAN CORRESPONDENT. A Loan Correspondent is a financial institution approved by HUD/FHA to originate Title I direct loans for sale or transfer to a sponsoring financial institution which holds a valid Title I Contract of Insurance and is not under suspension. A Loan Correspondent may be either a Supervised or Nonsupervised Institution.

D. GOVERNMENTAL INSTITUTION. A Federal, State or municipal agency, a Federal Reserve Bank, the Government National Mortgage Association, a Federal Home Loan Bank, the Federal National Mortgage Association, or the Federal Home Loan Mortgage Corporation may be approved as a Title I lender.

E. INVESTING LENDER. An Investing Lender is any financial institution, including a charitable or nonprofit organization or pension fund, that is approved by HUD/FHA to purchase, hold or sell Title I loans that have been originated by another approved Title I institution and insured under the Title I regulations. An investing lender may not originate Title I loans in its own name, and it may not service such loans except with the prior approval of HUD/FHA.

F. NONPROFIT INSTITUTION. While not strictly a lender type, a nonprofit financial institution may apply to become approved to make Title I loans. A nonprofit institution may be approved as a Nonsupervised Lender, a Loan Correspondent or an Investing Lender and must meet the approval requirements for the type of lender for which it is seeking approval.

1-7 LOAN ORIGINATION RESPONSIBILITY. Lenders must originate loans following accepted practices of prudent lending and HUD/FHA requirements which are specified in 24 CFR Part 201.

A. They must obtain and verify information with at least the same thoroughness used for non-insured loans.

B. They are responsible for sound underwriting of Title I loans they originate. This includes, but is not limited to, taking credit applications; interviewing loan applicants; investigating credit; and securing loans with liens when required by 24 CFR Part 201.

1-8 LOAN SERVICING RESPONSIBILITY. While only an approved Title I lender may hold Title I loans, it is not necessary for a slender to be approved by the Department to service Title I loans. However, HUD expects Title I loans to be serviced in accordance with HUD requirements and accepted servicing practices of prudent lending institutions. A Title I lender holding Title I loans is responsible for ensuring they are serviced in this manner whether it services them itself or arranges for a non-HUD-

approved lender to service its loans.

A. Servicers must have adequate systems for contacting borrowers, including persons with disabilities, and are expected to pursue aggressive policies to cure delinquencies and defaults.

B. Lenders are responsible for proper collection efforts even when collection is made through a servicer or agent.

1-9 TRANSFERRING INSURED LOANS. A Title I lender may assign or otherwise transfer a Title I loan only to another approved Title I lender. The transferee may be any lender type except Loan correspondent.

1-10 REPORTING IRREGULARITIES TO HUD. Irregularities, unethical practices and/or fraud, by any participant (including lenders, borrowers, contractors, dealers or any other interested party) must be reported to either HUD's Single Family Monitoring Division in Washington, DC or the Office of Inspector General located in the nearest HUD field office.

1-11 INELIGIBLE PERSONS. A Title I lender may not make an insured loan if any person participating in the transaction is currently under suspension or debarment or a limited denial of participation under the provisions of 24 CFR Part 24 or 25 or similar provisions of any other Federal agency.

1-12 REPORTS AND EXAMINATIONS. HUD/FHA may, at any time, require a Title I lender to report on any matter related to its Title I operations. This may include the inspection of a lender's loan files, reports, records, books or accounts. Representatives of the Office of Inspector General and/or Monitoring Division may periodically visit a lender's office to review its origination and servicing procedures. (See Chapter 4 for additional information.)