

U. S. Department of Housing and Urban Development  
Washington, D.C. 20410-8000

September 28, 1993  
OFFICE OF THE ASSISTANT SECRETARY  
FOR HOUSING-FEDERAL HOUSING COMMISSIONER  
MORTGAGEE LETTER 93-29

TO: ALL APPROVED MORTGAGEES  
SUBJECT: Single Family Loan Production - Miscellaneous Policy Issues

1. Revised Form HUD-54111, Request for Insurance Endorsement Under the Direct Endorsement Program

The Form HUD-54111 (Exhibit A), attached to this letter, has been revised to include information about Veteran Preference loans (box 21) and Energy Efficient Mortgages (EEM) (box 22). This revised Form must be used for all cases submitted to HUD for insurance endorsement on or after November 1, 1993.

The lender must mark the Veterans Preference box if the mortgage was calculated using the reduced downpayment for eligible veterans. The lender must mark the Energy Efficient Mortgage box if either the borrower was qualified using the 2% stretch ratios for energy efficient new homes or the borrower qualified for an EEM under the five state pilot program announced in Mortgagee Letter 93-13.

2. Revised Form HUD-92561 Borrower's Contract with Respect to Hotel and Transient Use of Property

As a result of changes to Notary requirements in some states, the Form HUD-92561 (Exhibit B) has been revised to delete the borrower's oath and replace it with a borrower's certification. The certification is permissible in lieu of the oath. Lenders are reminded that the Form HUD-92561 is required on a two-, three-, or four-family dwelling, or a single-family dwelling which is one of a group of five or more dwellings held by the same borrower. Previous editions may be used until exhausted.

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3. Interest Credit at Closing on Refinances

This mortgagee letter clarifies HUD Handbook 4155.1 REV-4, paragraph 1-9(A) that states to reduce the burden on borrowers whose loans were scheduled to close at the end of the month but did not because of unforeseen circumstances, lenders and borrowers may agree to credit the per diem interest (up to 7 calendar days) to the borrower and have the mortgage payments begin the first of the succeeding month. The 7 calendar day interest credit limit is applicable to mortgages involving the purchase of a residence. However, on refinances, a lender and borrower may agree to a per diem interest credit of up to 30 calendar days (up to the day prior to the first payment date) and have the mortgage payment

begin the first of the succeeding month without regard to unforeseen circumstances. A per diem interest credit may not result in cash back to the borrower.

4. Construction/Permanent Mortgages

Effective immediately, the Construction/Permanent Mortgage Pilot Program formerly limited to properties located in certain states, is now extended nationwide. Refer to Mortgagee Letter 92-25 for processing information.

5. Direct Endorsement Underwriting with a VA/LAPP (Lender Appraisal Processing Program) or VA/CRV (Certificate of Reasonable Value) Approval

Direct Endorsement Underwriters are to underwrite an appraisal under the VA/LAPP or VA/CRV on an existing property the same as if it were an appraisal for HUD. Direct Endorsement Underwriters should contact the appraiser to resolve questions or conflicting data. The underwriter maintains responsibility for the acceptance or rejection of the appraisal. If all avenues of resolution are exhausted, the underwriter must contact the Department of Veterans Affairs to resolve the issue. An FHA appraisal cannot be issued on a property while a valid VA/LAPP or VA/CRV appraisal exists. Lenders are reminded that the Department's requirements relating to lead based paint apply to VA/CRV cases.

6. Section 223 (e) Direct Endorsement

The Valuation Branch in each HUD Field Office is knowledgeable of areas where properties should be underwritten using Section 223 (e). To the extent possible, these areas will be identified by HUD and entered into CHUMS. If known at the time of appraiser assignment, the lender will be advised by HUD that the property may be in a Section 223(e) area and the lender should note this on the appraisal assignment given to the appraiser.

If the appraiser believes that a property is located in an older, declining urban area that does not meet the location eligibility requirements for Section 203(b), the appraiser must contact the Valuation Branch of the local HUD Office. HUD, in consultation with the appraiser, will determine if the application is to be processed under Section 223(e). The appraiser will note in the Appraisal Report whether the property is to be processed under Section 223(e). The DE underwriter will then underwrite the case accordingly.

If an appraiser or DE underwriter has questions about the requirements for Section 223(e) underwriting, the appraiser or underwriter should contact the local HUD Field Office. Field Offices should discuss Section 223(e) in local training sessions with appraisers and DE underwriters.

7. Byrd Amendment Compliance - Correction to ML-93-5

On January 27, 1993, Mortgagee Letter 93-5 was issued reminding lenders of the requirements for compliance with the Byrd Amendment.

However, we have recently learned that Section 320 of the Department of Interior and Related Agencies Appropriations Act for 1991 changed the Byrd Amendment to effectively exempt HUD-insured mortgages from the Byrd Amendment reporting requirements. Accordingly, FHA-insured single family mortgages are exempt from the Byrd Amendment requirements and lenders and borrowers are no longer required to execute the certifications provided in Mortgage Letters 93-5 and 90-31.

8. Direct Endorsement Processing of HUD Employee Streamline Refinances

Any employee or member of the employee's household (spouse, parent, child) may have their Streamline Refinance processed by a Direct Endorsement (DE) lender. Mortgage loans other than a Streamline Refinance must be processed by HUD and not the DE lender.

9. Mortgage Payment Protection Insurance

The Department has received a number of inquiries regarding a new insurance program offered by private insurance companies which will pay the mortgage payment to the lender on behalf of the borrower in the event of involuntary unemployment. While this is a sales concession, the Department will not require an adjustment in the sales price. A lender or seller may pay the premium for this type of insurance and no adjustment need to be made to the sales price of the property. The Department directly benefits from this plan since the mortgage payment protection can avert early payment defaults and potential claims to HUD.

10. Utility Company Incentive to Purchase Energy Efficient Homes

Some utility companies offer cash incentives to new homebuyers for using certain energy efficient items in new homes. These cash incentives can be used by the borrowers as downpayment, i.e., cash requirements provided the following conditions are met:

1. The program must be available to all builders in the area.
2. The program must be available to all mortgage companies in the area.
3. The case payments must be made directly from the utility to the purchaser/borrower. The payment cannot be given to the builder and passed to the borrower in the form of a credit.

Sincerely yours,

Nicolas P. Retsinas  
Assistant Secretary for Housing  
- Federal Housing Commissioner

Attachment



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form HUD-54111 (3/93)  
ref. Handbooks 4000.2, 4000.4, 4155.1, 4165.1