January 5, 2011

To: All Approved Mortgagees

Subject Revised Audited Financial Statement Reporting Requirements for Supervised Lenders in Parent-Subsidiary Structures and New Financial Reporting Requirements for Multifamily Mortgagees

Purpose The purpose of this Mortgagee Letter is to announce changes to the annual audited financial statement reporting requirements for supervised lenders in parent-subsidiary structures and new requirements for reporting loan fees for participants in the Federal Housing Administration’s (FHA) Multifamily Programs.

Effective Date All requirements contained in this Mortgagee Letter are effective immediately.


Financial Statement Reporting Requirements for Supervised Lenders As announced in Mortgagee Letter 2009-31, “Strengthening Counterparty Risk Management,” supervised lenders are now required to electronically submit audited financial statements within 90 days of their fiscal year end as part of the annual FHA renewal process. Likewise, supervised lenders seeking FHA approval are now required to include audited financial statements as part of their initial application package.

Mortgagee Letter 2009-31 requires supervised lenders to submit audited financial statements prepared in accordance with all requirements outlined in OIG Handbook 2000.04. This Mortgagee Letter amends certain requirements referenced in the OIG’s Consolidated Audit Guide for Audits of HUD Programs only for supervised lenders in parent-subsidiary relationships.
Effective immediately, FHA-approved supervised lenders in parent-subsidiary structures (i.e., subsidiaries) are permitted to submit the audited consolidated financial statements of a parent company, accompanied by internally prepared consolidating schedules, if one of the following conditions is met:

(1) the FHA-approved subsidiary accounts for at least 40% of the parent company’s assets,

or

(2) the FHA-approved subsidiary provides FHA with an executed corporate guarantee agreement, acceptable to the Secretary of HUD, between it and the parent company in which the parent company guarantees the ongoing net worth and liquidity compliance of the FHA-approved subsidiary.

An FHA-approved lender electing to submit audited consolidated financial statements pursuant to one of the above mentioned conditions must also submit its fourth quarter Call Report as an attachment to its annual audited financial statements submission in HUD’s Lender Assessment Subsystem (LASS). Please be reminded that a Compliance Report and Internal Control Report must still be prepared and included as an attachment to the FHA-approved lender’s audited financial statements submission in LASS. The Compliance Report and Internal Control Report must reflect compliance with FHA’s requirements at the FHA-approved subsidiary’s level.

Apart from the changes explicitly stated above, supervised lenders must submit acceptable audited financial statements via LASS within 90 days of their fiscal year end and in conformance with all other requirements provided for non-supervised institutions as outlined in HUD’s Office of Inspector General’s Handbook 2000.04, “Consolidated Audit Guide for Audits of HUD Programs.”

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<th>Reporting of Loan Fees for Multifamily Mortgagees</th>
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<td>Mortgagees participating in FHA’s Multifamily programs are now required to report loan fees earned that exceed five percent (5%) of the insured loan amount on each FHA-insured loan over $2,000,000 endorsed during the Mortgagee’s fiscal year period covered in its audited financial statements. Loan fees include:</td>
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(a) origination and placement fees as permitted by the MAP Guide, plus (b) trade profit, trade premium or marketing gain earned on the sale of the Government National Mortgage Association (GNMA) security at a
value above par, even if the security sale is delayed until after endorsement, **minus**
(c) loan fees applied by the Mortgagee to its legal expenses incurred in connection with loan closing.

Loan fees should be reported on a separate schedule included with the Mortgagee’s annual audited financial statements submitted to HUD via LASS. Mortgagees are not required to separately report on total loan fees that do not exceed five percent (5%). For each loan where the Mortgagee earned loan fees over five percent (5%), the schedule must list: (a) the FHA loan number; (b) the loan amount at Initial or Final Endorsement, and (c) the amount of total loan fees earned above five percent (5%), both in dollar amount and as a percentage of the FHA-insured loan amount.

If, on a single loan endorsement, the trade profit, trade premium or marketing gain earned on the sale of the GNMA security is received by the Mortgagee during a fiscal year reporting period that is subsequent to the period in which the origination and placement fees were received, and if the total of the fees earned requires reporting under this Mortgagee Letter, the Mortgagee shall disclose the total loan fees it earned that are above five percent (5%) of the loan amount on the schedule filed during the subsequent fiscal year. Please note that Mortgagees’ annual audited financial statements are not subject to Freedom of Information Act (FOIA) requests.

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**Information Collection Requirements**

Paperwork reduction information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB Control Number 2502-0005. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.

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**FONSI Requirements**

A Finding of No Significant Impact (FONSI) under the National Environmental Policy Act is not required.
Questions
If you have questions concerning this Mortgagee Letter, please call 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483).

Signature
David H. Stevens

Assistant Secretary for Housing-Federal Housing Commissioner