

Chapter 2. DE Lender Application and Approval/Lender Insurance Program (LI) Eligibility & Approval

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Section A: Direct Endorsement (DE) Program Lender Application

Overview

In This Section This section contains the topics listed in the table below.

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1. Overview of the DE Program Lender Application and Approval Process

Introduction This topic contains information on the DE Program lender application and approval process, including

- the privilege of participating in the DE Program
 - the lender code of ethics
 - requirement for HOC establishment of a lender applicant file, and
 - an overview of the DE lender application and approval process.
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**4155.2 2.A.1.a
DE Program
Participation Is
a Privilege** FHA's approval of a lender to participate in the Direct Endorsement (DE) Program is a privilege. To obtain DE approval, a lender must demonstrate it has the qualifications, experience, and expertise to underwrite mortgage loans that satisfy FHA requirements. To maintain approval, a lender must consistently underwrite and close loans that meet all FHA requirements.

An approved DE lender must conduct business in accordance with prudent mortgage lending practices, industry standards and all Federal and state laws applicable to mortgage banking.

**4155.2 2.A.1.b
Lender Code of
Ethics** A DE mortgage lender *must* conduct its business operations in accordance with accepted sound mortgage lending practices, ethics and standards.

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1. Overview of the DE Program Lender Application and Approval Process, Continued

**4155.2 2.A.1.c
Requirement
for HOC
Establishment
of a Lender
Applicant File**

Each Home Ownership Center (HOC) must establish a file for each mortgage lender that applies for DE approval within its jurisdiction. The file must contain

- documentation of the entrance conference with the lender
- copies of the conditional approval letter, or rejection letter if applicable, and
- individual Underwriting Reports for the 15 (or more) pre-closing test cases.

Reference: For information on the pre-closing test case phase, see [HUD 4155.2 2.B.3.](#)

**4155.2 2.A.1.d
DE Lender
Application and
Approval
Process**

The table below describes the stages of the lender application and approval process for the DE Program.

Stage	Description
1	<p>The mortgage lender applies for, and receives, basic DE approval from FHA’s Office of Lender Activities and Program Compliance, located at FHA Headquarters.</p> <p>Reference: For information on the requirements for obtaining basic FHA mortgage lender approval, see HUD 4060.1, <i>Mortgagee Approval Handbook</i>.</p>
2	<p>The mortgage lender applies for pre-closing DE approval by sending to the HOC where their corporate office is located</p> <ul style="list-style-type: none"> • a letter requesting pre-closing DE approval, which includes the DE underwriter’s name and CHUMS ID number, and • a copy of the HUD approval letter, received from the Office of Lender Approval, in HUD Headquarters, granting basic approval.

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1. Overview of the DE Program Lender Application and Approval Process, Continued

DE Lender Application and Approval Process (continued)

Stage	Description
3	<p>Upon receipt of the written request from the lender, the HOC</p> <ul style="list-style-type: none"> • sends out an approval letter for pre-closing that includes the specific requirements that must be met for release to unconditional DE approval • provides reference material to the lender • establishes a lender file, and • sets up an entrance conference with the lender, which is either conducted face-to-face or on a conference-by-phone. <p><i>Note:</i> The purpose of the conference is to</p> <ul style="list-style-type: none"> • educate the lender about the submission and processing procedures used by the HOC for pre-closing test cases • provide the mortgage lender with contact information for the HOC • highlight underwriting requirements, and • allow the HOC to answer questions from the mortgage lender.
4	<p>The mortgage lender submits DE pre-closing test cases.</p> <p><i>Reference:</i> For more information on the pre-closing “test case” review phase, see HUD 4155.2 2.B.3.</p>
5	<p>The lender is either granted unconditional approval or is terminated.</p> <p><i>Reference:</i> For more information on the unconditional approval phase, see HUD 4155.2 2.B.4.</p>

2. Lender Eligibility Requirements

Introduction This topic contains information on lender eligibility requirements, including

- basic eligibility requirements
- the need for quality control plans
- changes in DE approval eligibility
- the use of mortgage lender staff technicians, and
- exceptions to using staff technicians.

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4155.2 2.A.2.a Basic Eligibility Requirements The table below outlines the requirements that mortgage lenders must meet to be eligible for participation in the DE Lender Program.

Requirement	Description
Application	A lender must apply for, and receive, basic FHA mortgage lender approval from FHA’s Office of Lender Activities and Program Compliance.
Lender Status	<p>An eligible lender must either be a</p> <ul style="list-style-type: none"> • supervised or non-supervised mortgage lender, or • governmental institution. <p><i>Note:</i> A lender who is approved by FHA <i>only</i> as a loan correspondent is <i>not</i> eligible to be a DE lender, but may participate to the limited extent as described in HUD 4155.2 2.B.6.</p>
Experience	<p>An eligible DE mortgage lender must have</p> <ul style="list-style-type: none"> • five years experience in origination of single family mortgages, or • a principal officer with a minimum of five years managerial experience in origination of single family mortgages.

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2. Lender Eligibility Requirements, Continued

4155.2 2.A.2.a Basic Eligibility Requirements (continued)

Requirement	Description
Staff Requirement	<p>An eligible DE mortgage lender must have on staff a full time employee to serve as underwriter.</p> <p>References:</p> <ul style="list-style-type: none"> • For general information on underwriting/underwriters, see HUD 4155.2 2.A.3. • For a description of the qualification criteria and responsibilities of the underwriter, see HUD 4155.2 2.A.4.
Quality Control Plan	<p>An eligible DE mortgage lender must have a developed and implemented Quality Control Plan.</p> <p>Reference: For more information on quality control plans, see HUD 4155.2 2.A.2.b.</p>
Net Worth	<p>An eligible DE mortgage lender must have the net worth requirements prescribed in HUD 4060.1, <i>Mortgagee Approval Handbook</i>.</p>

4155.2 2.A.2.b Quality Control Plan

In order to qualify for basic FHA approval, a mortgage lender must

- implement a written Quality Control Plan that
 - ensures compliance with the rules, regulations, and other FHA issuances regarding mortgage loan origination and servicing, and
 - is independent of the mortgage loan production function, and
- review and, when necessary, modify existing Quality Control Plans to effectively evaluate and monitor the overall quality of mortgage loans submitted for DE.

Note: Quality Control Plans do *not* have to name the FHA or the DE Program.

Reference: For information on the primary objectives of Quality Control Plans and suggested underwriting and servicing guidelines, see Chapter 7 of [HUD 4060.1](#), Rev-2 *Mortgagee Approval Handbook*.

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2. Lender Eligibility Requirements, Continued

4155.2 2.A.2.c
Notification of
Changes
Affecting DE
Approval
Status

Mortgage lenders must notify FHA of changes that affect DE approval status.

Reference: For information on changes that affect DE lender approval status, see [HUD 4155.2 2.B.1.c](#).

4155.2 2.A.2.d
Use of
Mortgage
Lender Staff
Appraiser and
Inspector

The mortgage lender may use its own staff appraiser and inspector to perform appraisals and inspections, except as noted in [HUD 4155.2 2.A.2.f](#). The table below outlines the requirements for staff appraisers and inspectors.

Role	Requirement
Appraiser	<p>Staff appraisers must be registered on FHA Roster of Appraisers to perform appraisals for FHA loans.</p> <p>Reference: For information on the FHA Roster of Inspectors, see HUD 4150.2, <i>Valuation Analysis for Single Family One to Four Unit Dwellings</i>.</p>
Inspector	<p>Staff inspectors must be registered on FHA Roster of Inspectors to perform inspections for FHA loans.</p> <p>Reference: For information on the FHA Roster of Inspectors, see HUD 4145.1, <i>Architectural Processing and Inspections for Home Mortgage Insurance</i>.</p>

4155.2 2.A.2.e
Use of
Mortgage
Lender Staff
Underwriter

On the same mortgage, a DE underwriter may perform the mortgage credit analysis of the borrower in addition to the full underwriting analysis of the application for the mortgage loan.

When a DE underwriter is also an appraiser on the FHA roster, that underwriter may not perform an appraisal of the property that is to be security for the mortgage loan if that underwriter will perform the mortgage credit analysis of the borrower and/or the full underwriting analysis of the application.

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2. Lender Eligibility Requirements, Continued

4155.2 2.A.2.f Exceptions to Using Staff Technicians

A mortgage lender may originate loans, however, staff technicians may *not* be used, and a qualified independent fee appraiser and fee inspector from the FHA Inspector Roster *must* be used, for mortgage loans in which

- the borrower or seller is an employee of the mortgage lender, or
- the mortgage lender
 - has provided the construction loan, or
 - has a financial interest in, owns, is owned by, or affiliated with the building or selling entity or real estate firm.

Note: The FHA Inspector Roster is a list of inspectors selected by FHA as eligible to determine if the construction quality of a one- to four-unit property is acceptable as security for an FHA-insured loan.

References: For more information on loans involving a

- business relationship that may constitute a conflict of interest, see [HUD 4155.2 3.B.2](#), and
 - lender employee, see [HUD 4155.2 3.B.3](#).
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3. General Information on Underwriting and Underwriters

Introduction This topic contains general information on underwriting and underwriters. It includes information on

- the importance of the role of the underwriter
 - ensuring the absence of sanctions against an underwriter
 - the requirement to register an underwriter in FHA Connection, and
 - use of an Automated Underwriting System (AUS).
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4155.2 2.A.3.a Importance of the Role of the Underwriter The underwriter's role and responsibilities are critical elements of the DE Program and FHA looks to the underwriter as the focal point of the program. The underwriter must use due diligence in obtaining, and verifying, information for a loan as if the lender was entirely dependent on the property as security to protect its investment.

In order to be eligible to participate in the DE Program, a mortgage lender must have a qualified underwriter on staff.

References:

- For information on the qualification criteria for, and responsibilities of, the underwriter, see [HUD 4155.2 2.A.4.](#)
 - For information on lender eligibility criteria for the DE Lender Program, see [HUD 4155.2 2.A.2.](#)
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4155.2 2.A.3.b Ensuring the Absence of Sanctions Against or Delinquent Federal Debt Owed by an Underwriter The mortgage lender is responsible for ensuring that no sanctions exist against their underwriter. Likewise, the underwriter cannot have any delinquent Federal debt.

An underwriter may *not* be listed on the

- General Services Administration (GSA) List of Parties Excluded from Participation in Federal Government Procurement and Non Procurement Programs
- HUD's Limited Denial of Participation (LDP) List, or
- FHA Credit Alert Interactive Voice Response System (CAIVRS).

References: For more information on

- HUD's LDP List and the GSA List, see [HUD 4155.1 4.A.7](#), and
 - using CAIVRS to determine eligibility for federally-related credit, see [HUD 4155.1 4.A.8.](#)
-

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3. General Information on Underwriting and Underwriters, Continued

4155.2 2.A.3.c
Requirement to
Register
Underwriter in
FHA
Connection

The mortgage lender must register each underwriter in FHA Connection.

By registering the underwriter in FHA Connection, the mortgage lender certifies that the underwriter meets the necessary qualifications, as described in [HUD 4155.2 2.A.4.a](#).

Reference: For more information on FHA Connection, see [HUD 4155.2 1.D](#).

4155.2 2.A.3.d
Use of an AUS

Mortgage lenders may use an Automated Underwriting System (AUS) that employs the FHA Technology Open To Approved Lenders (TOTAL) mortgage scorecard.

These systems evaluate loan application elements, including information on the applicant's

- income
- credit history
- cash reserves, and
- mortgage loan.

AUS data is used to provide an underwriting recommendation that either the

- borrower credit and capacity are acceptable, or
- loan application must be referred to an individual underwriter.

Important: An AUS does *not* evaluate property acceptability; for this, an individual underwriter must review the appraisal.

Reference: For more information on the TOTAL scorecard

- see [HUD 4155.1 6.A.1](#), and
 - Mortgagee Letters (ML) [2004-01](#); [04-44](#); [04-47](#); [05-15](#).
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4. Underwriter Qualification Criteria and Responsibilities

Introduction This topic contains information on

- underwriter qualification criteria, and
- underwriter responsibilities.

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4155.2 2.A.4.a Underwriter Qualifications The table below describes the qualifications necessary for a mortgage lender staff underwriter to be approved by HUD/FHA.

Qualification	Description
General	<p>The underwriter must be a full time employee of the mortgage lender and must be</p> <ul style="list-style-type: none"> • a corporate officer with signatory authority (or otherwise authorized to bind the mortgage lender in matters involving origination of mortgage loans), and • employed by only one mortgage lender. <p><i>Note:</i> The originating mortgage lender may <i>not</i> contract out the underwriter function.</p>
Character	<p>The underwriter must be a reliable and responsible professional who is</p> <ul style="list-style-type: none"> • skilled in mortgage evaluation, and • able to demonstrate knowledge and experience regarding principles of mortgage underwriting. <p><i>Reference:</i> For more information on underwriting responsibilities, see HUD 4155.2 2.A.4.b.</p>

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4. Underwriter Qualification Criteria and Responsibilities, Continued

4155.2 2.A.4.a Underwriter Qualifications (continued)

Qualification	Description
Location	FHA has no requirement regarding the location of an underwriter (for example, the main office or a branch office).
Experience	<p>The underwriter must have a minimum of three years full-time recent experience (or equivalent experience) reviewing both credit applications and property appraisals.</p> <p>This experience should have been with</p> <ul style="list-style-type: none"> • an institutional investor originating for their own portfolio or purchasing these types of mortgage loans, or • an originator selling these types of mortgage loans to investors. <p><i>Notes:</i></p> <ul style="list-style-type: none"> • Experience related solely to either mortgage credit <i>or</i> appraisal review counts for one half of the total requirement. • Other experience may include quality control reviews for investors, or other similar experiences.

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4. Underwriter Qualification Criteria and Responsibilities, Continued

4155.2 2.A.4.b Underwriter Responsibilities The table below outlines the responsibilities assumed by the underwriter.

Responsibility	Description
Familiarity with Underwriting Procedures	<p>The mortgagee is responsible for ensuring familiarity with</p> <ul style="list-style-type: none"> • HUD 4905.1, <i>Requirements for Existing Housing, One-to-Four-Family Living Units</i> • HUD 4910.1, <i>Minimum Property Standards for Housing</i>, and • the underwriting procedures discussed in principal underwriting handbooks <ul style="list-style-type: none"> – HUD 4145.1, <i>Architectural Processing and Inspections for Home Mortgage Insurance</i> – HUD 4150.1, <i>Valuation Analysis for Home Mortgage Insurance</i>, and – HUD 4155.1, <i>Mortgage Credit Analysis for Mortgage Insurance on One-to-Four Family Properties</i> – HUD 4150.2, <i>Valuation Analysis for Single Family One- to Four-Unit Dwellings</i>, and – all applicable FHA Mortgage Letters that affect appraisals and credit underwriting.
Coordination and Compliance	<p>The underwriter is responsible for</p> <ul style="list-style-type: none"> • coordinating all phases of the underwriting of mortgage loan underwriting, and • ensuring compliance with all FHA instructions. <p><i>Note:</i> Coordination of all phases of the underwriting process enables the underwriter to ensure that prudent underwriting procedures are followed.</p>

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4. Underwriter Qualification Criteria and Responsibilities, Continued

4155.2 2.A.4.b Underwriter Responsibilities (continued)

Responsibility	Description
Verification of Information	The underwriter must ensure that information is obtained and verified with at least the same care that would be exercised if originating a mortgage in which the mortgage lender would be entirely dependent on the property as security to protect its investment.
Appraisal Review and Credit Analysis	Underwriters must <ul style="list-style-type: none"> • review appraisal reports and compliance inspections, and • document all credit analyses performed and/or obtained by fee and staff personnel. Doing so ensures reasonable conclusions, sound reports and compliance with FHA requirements.
Loan Acceptability	The underwriter is responsible for making decisions, with due diligence and in a prudent manner, regarding the <ul style="list-style-type: none"> • acceptability of the <ul style="list-style-type: none"> – appraisal – inspections, and – buyers capacity to repay the mortgage, and • overall acceptability of the mortgage loan for FHA insurance.
Personnel Performance	The underwriter must monitor and evaluate the performance of fee and staff personnel used for the DE Program.

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4. Underwriter Qualification Criteria and Responsibilities, Continued

4155.2 2.A.4.b Underwriter Responsibilities (continued)

Responsibility	Description
Detection of Warning Signs	<p>The underwriter must</p> <ul style="list-style-type: none"> • be attuned to the warning signs that may indicate any irregularities, and • be alert and able to detect fraud.
Certification Page 3, Form HUD-92900-A	<p>By executing page 3 of Form HUD-92900-A, the underwriter certifies that he/she</p> <ul style="list-style-type: none"> • has personally reviewed all application documents • finds compliance with the applicable requirements, and • is approving the loan for closing.
Closing Review	<p>The underwriter (or the lender or lender’s closing department) must</p> <ul style="list-style-type: none"> • review all <ul style="list-style-type: none"> – closing documents – certifications on the closing statements, and – legal instruments and other documents executed at closing, and • certify on page 4 of Form HUD-92900-A to the FHA that <ul style="list-style-type: none"> – the transaction and loan meet statutory and regulatory requirements of the FHA and National Housing Act, and – the loan has been closed in accordance with the terms and sales price as specified in the sales contract.

Section B: Direct Endorsement (DE) Program Lender Approval

Overview

In This Section This section contains the topics listed in the table below.

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6	Requirements for Sponsors of Loan Correspondents	2-B-14

1. General Information on DE Lender Approval

Introduction The topic contains general information on DE lender approval. It includes information on

- the two phases of DE Lender approval
 - eligibility for participation in the pre-closing review phase, and
 - changes that affect DE lender approval status.
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4155.2 2.B.1.a Two Phases of the DE Lender Approval The table below describes the two phases of lender approval in the DE lender Program

- the pre-closing “test case” review phase, and
- the unconditional approval phase.

DE Lender Approval Phase	Description
Pre closing “test case” review phase	Phase in which a lender who has pre closing approval submits “test case” mortgage loans, prior to closing, for FHA review. <i>References:</i> For more information on the <ul style="list-style-type: none"> • DE lender approval process, see HUD 4155.2 2.B.2 • pre-closing review phase, see HUD 4155.2 2.B.3, and
Unconditional approval phase	Phase in which the mortgage lender, who has successfully completed the pre closing review phase, receives unconditional approval from FHA and may close loans prior to submitting the loans to FHA for endorsement. <i>Reference:</i> For more information on the unconditional approval phase, see HUD 4155.2 2.B.4 .

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1. General Information on DE Lender Approval, Continued

**4155.2 2.B.1.b
Eligibility for
Participation in
the Pre Closing
Review Phase**

A mortgage lender is eligible and approved to participate in the pre closing “test case” review phase upon satisfactory completion of the entrance conference with FHA.

**4155.2 2.B.1.c
Changes That
Affect DE
Lender
Approval
Status**

A mortgage lender that loses all of its registered DE underwriters automatically loses DE approval and must set up an authorized agent relationship or cease doing FHA loans. Mortgage lenders are to notify FHA whenever there is a change that affects the DE approval status.

If a mortgage lender hires a registered DE underwriter who was previously employed with another mortgage lender, a 15 case pre closing review is required. FHA grants DE authority to the mortgage lender, *not* the underwriter.

2. Overview of the DE Lender Approval Process

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4155.2 2.B.2.a DE Lender Approval Process

The table below describes the stages of the DE lender approval process.

Stage	Description
1	<p>The mortgage lender, who has applied for unconditional DE Lender approval, submits a minimum of 15 mortgage loan application “test cases” for review by the Home Ownership Center (HOC).</p> <p><i>Note:</i> The 15 mortgage loan applications may vary in loan types. Since the loan applications are submitted prior to closing, the mortgage lender’s underwriter cannot fully execute the Underwriter Certification.</p> <p><i>Reference:</i> For instructions on completing the Underwriter Certification during the pre-closing review phase, see HUD 4155.2 2.B.3.b.</p>
2	<p>The HOC performs a detailed review of each loan application.</p> <p><i>Reference:</i> For more information on the HOC loan application review requirements, see HUD 4155.2 2.B.3.c.</p>
3	<p>If the loan application submissions demonstrate</p> <ul style="list-style-type: none"> • <i>acceptable</i> underwriting, <ul style="list-style-type: none"> – FHA issues a firm commitment to the mortgage lender to insure any of the eligible loan applications, and – the process continues with Stage 6, or • <i>unacceptable</i> underwriting, the process continues with Stage 4.
4	<p>If the loan application submissions demonstrate <i>unacceptable</i> underwriting, the HOC</p> <ul style="list-style-type: none"> • may request that more cases be submitted as part of the test period and, • may discontinue accepting test cases while the lender trains their underwriters on FHA requirements. <p><i>Reference:</i> For more detail on how the HOC handles unacceptable underwriting, see HUD 4155.2 2.B.3.e.</p>

Continued on next page

2. Overview of the DE Lender Approval Process, Continued

4155.2 2.B.2.a DE Lender Approval Process (continued)

Stage	Description
5	Once the lender properly completes the required test cases, FHA grants unconditional approval.
6	<p>After granting unconditional approval to a mortgage lender, the HOC performs a post-technical review (PETR) on the first 30 cases submitted by the lender to ensure continued acceptable underwriting.</p> <p><i>Reference:</i> For more information on PETRs performed by the HOC, see HUD 4155.2 9.B.1.</p>

3. DE Lender Pre Closing Phase

Introduction The topic contains information on pre closing phase. It includes information on

- loan application submission to the HOC
 - completion and submission instructions for the Underwriter Certification
 - the HOC application review requirements
 - the 15 test case review requirement
 - documentation requirements for test cases, and
 - special underwriting requirements for particular mortgages.
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**4155.2 2.B.3.a
Loan
Application
Submission to
the HOC** During the Pre-Closing Review Phase, the mortgage lender must submit complete loan applications to the HOC for review prior to closing.

If a loan was closed *prior* to the review by the HOC

- the mortgage lender is responsible for making any corrections and providing documents required by the HOC prior to insurance endorsement, or
 - if requirements cannot be met, the HOC is *not* obligated to insure the mortgage.
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3. DE Lender Pre Closing Phase, Continued

**4155.2 2.B.3.b
Completion and
Submission
Instructions for
the
Underwriter
Certification**

Because the lender should submit the application package prior to closing the mortgage loan, the Underwriter/Mortgagee Certification (Addendum to the URLA, Form [HUD-92900-A](#)) cannot be fully executed. During the pre-closing review phase, the lender should

- complete all information on the Underwriter/Mortgagee Certification form with the exception of the closing date
 - *not* sign the certification, since the underwriter cannot make the closing certifications contained on the Addendum to the URLA, Form HUD-92900-A. The form must be signed by lender, and page 3 of HUD 92900-A must be signed by DE underwriter
 - *not* have the mortgage lender's representative sign the certification, and
 - submit Page 4 of the Underwriter/Mortgagee Certification (Addendum to URLA) with the closing documents.
-

**4155.2 2.B.3.c
HOC
Application
Review
Requirements**

During the pre closing review phase, the HOC must review, in detail, each loan application received from the mortgage lender. This review includes

- the property appraisal
- value determination
- the mortgage credit analysis, and
- ensuring lender compliance with any requirements specific to the mortgage insurance program.

If the application is eligible, a firm commitment is issued to the mortgage lender.

Note: Any deficiencies will be noted on the Underwriting Report, regardless of whether or not a firm commitment is issued, and should be reviewed by the DE underwriter/lender. The Underwriting Report is available through the FHAC.

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3. DE Lender Pre Closing Phase, Continued

**4155.2 2.B.3.d
15 Test Case
Review
Requirement**

In order to be granted unconditional approval as a DE lender (with the exception of HECM approval), the mortgage lender must submit 15 pre closing test cases for review by the HOC within 12 consecutive months for

- underwriting analysis
- appraisal review, and
- issuance of the firm commitment.

Unconditional approval may be granted if the lender has successfully underwritten and processed 15 test cases as evidenced by issuance of a firm commitment by the HOC.

**4155.2 2.B.3.e
When
Unacceptable
Underwriting Is
Demonstrated
on the 15 Test
Cases**

The HOC may request that more cases be submitted as part of the test period if the

- 15 test cases do *not* demonstrate acceptable underwriting, or
- first 15 cases do not represent expected underwriting situations (the HOC will count a combination of five streamline refinances or automated underwritten loans as part of the first 15 test cases).

Once the mortgage lender has submitted 30 cases and has not met the standards for unconditional release, the HOC may

- inform the lender that no test cases may be submitted for a period of up to 180 days to allow the lender time to train its underwriters on FHA requirements, and
 - discontinue accepting cases.
-

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3. DE Lender Pre Closing Phase, Continued

4155.2 2.B.3.f
Test Case
Review
Documentation
Requirements

An Underwriting Report must be completed on all test cases and maintained in the lender's file at the HOC.

References:

- For information on the requirements for the establishment of a lender file at the HOC, see [HUD 4155.2 2.A.1.c](#).
 - For information on Underwriting Report requirements, see the FHA Connection Underwriter Review Functions – Underwriter Activity.
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4155.2 2.B.3.g
Special
Underwriting
Requirements
for HECMs

For Section 255, Home Equity Conversion Mortgages (HECMs), a separate request for unconditional DE authority is required. In addition

- an entrance conference is required which may be held separate or in conjunction with the other entrance conference, and
- there must be a pre-closing test case review on a minimum of five test cases.

Reference: For more information on the Section 255 program, see [HUD 4155.2 1.C.17](#).

4. DE Lender Unconditional Approval Phase

Introduction This topic contains information on the DE lender unconditional approval phase. It includes information on

- granting unconditional approval
 - post endorsement technical reviews (PETRs)
 - requirements for the addition of a new underwriter, and
 - unconditional approval accepted at other HOCs.
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Change Date May 10, 2009

4155.2 2.B.4.a Granting Unconditional Approval Upon satisfactory completion of the pre closing test case review phase, the mortgage lender receives a letter of unconditional approval.

4155.2 2.B.4.b Requirement to Perform PETRs After the mortgage lender properly completes the pre closing test case review phase and is granted unconditional approval, the HOC performs a post-endorsement technical review (PETR) of

- the first thirty cases submitted by the lender, and
- a percentage of the lender's cases after the first thirty.

Reference: For more information on PETRs, see [HUD 4155.2 9.B.1](#) and [HUD 4155.2 9.C](#).

Continued on next page

4. DE Lender Unconditional Approval Phase, Continued

4155.2 2.B.4.c Requirements for the Addition of a New Underwriter

A new underwriter joining the staff of an unconditionally approved DE mortgage lender does *not* need to go through any pre-closing review phase.

In such cases, the mortgage lender is responsible for ensuring that the new underwriter

- meets basic eligibility requirements
- is registered for their company in FHA Connection, and
- does acceptable work.

References: For information on

- the pre closing review phase, see [HUD 4155.2 2.B.3](#)
 - underwriter eligibility criteria and qualifications, see [HUD 4155.2 2.A.4](#), and
 - the FHA Connection, see [HUD 4155.2 1.D](#).
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4155.2 2.B.4.d Unconditional Approval Accepted by Other HOCs

Once a mortgage lender has successfully completed the pre-closing review phase and received unconditional approval in one HOC, subsequent HOCs will accept that approval. HOCs rely on the experience of other HOCs in determining lender eligibility.

HOCs may call to verify that a mortgage lender is performing acceptably with at least one HOC that has granted unconditional approval.

5. Use of the Principal/Authorized Agent Relationship

Introduction This topic contains information on the use of the principal/authorized agent relationship, including

- the designation of a lender as an authorized agent
- the roles in the principal/authorized agent relationship, and
- who may close and submit the loan for FHA insurance.

Change Date December 8, 2009

**4155.2 2.B.5.a
Designation of
a Lender as an
Authorized
Agent** A DE approved supervised, nonsupervised, or government mortgage lender (principal) may designate a DE approved supervised or nonsupervised mortgage lender as its authorized agent.

The relationship must be documented in FHA Connection by the authorized agent.

**4155.2 2.B.5.b
Roles in the
Principal/
Authorized
Agent
Relationship** Either the principal or the agent may originate or underwrite the loan. The loan must, however, close in the name of the principal, and its FHA ID number must be entered in the “Originator” field of the FHA case file and FHA Connection.

Note: Loan correspondents may *not* act as principal or authorized agent.

Reference: For more information on the principal/authorized agent relationship, see [HUD 4060.1](#), *Mortgage Approval Handbook*.

Continued on next page

5. Use of the Principal/Authorized Agent Relationship, Continued

4155.2 2.B.5.c The loan must close in the name of the principal. Either the principal or
Who May Close authorized agent can submit the closed loan for insurance.
and Submit the
Loan for
Insurance

6. Requirements for Sponsors of Loan Correspondents

Introduction This topic contains information on the requirements for sponsors of loan correspondents, including

- the general policy on loan correspondents
- who may perform underwriting and appraisals
- the policy on DE approval through a HOC other than the local field office, and
- the policy on loan correspondents closing a loan.

Change Date December 8, 2009

**4155.2 2.B.6.a
General Loan
Correspondent
Policy** A loan correspondent must be sponsored by an approved DE mortgage lender. The loan correspondent can originate loans, which must be underwritten by one of its sponsors. Loan correspondents can not underwrite, own, or service FHA-insured loans.

Reference: For more information on approved loan correspondents, see Chapter 1 of [HUD 4060.1](#), *Mortgage Approval Handbook*.

**4155.2 2.B.6.b
Who May
Perform the
Underwriting
and Appraisal** The DE approved sponsor must perform the underwriting of the property and the borrower. An FHA-approved staff appraiser employed by the sponsor may perform the appraisal, unless an employee of the mortgage lender is the borrower or seller.

**4155.2 2.B.6.c
Policy on DE
Approval
Through a
HOC Other
Than the Local
Field Office** If the sponsor's DE approval is through a HOC other than the local HOC, the mortgage lender must

- write to the local HOC and request DE approval, and
- enclose a copy of the unconditional approval letter from the other HOC.

Continued on next page

6. Requirements for Sponsors of Loan Correspondents, Continued

4155.2 2.B.6.d A loan correspondent may close a loan, but the sponsor needs to fund the
Policy on Loan loan.
Correspondents
Closing a Loan

Section C: Lender Insurance (LI) Program Eligibility & Approval

Overview

In this Section This section contains the topics listed in the table below.

Topic	Topic Name	See Page
1	General Information on the Lender Insurance (LI) Program	2-C-2
2	LI Program Eligibility & Approval Requirements	2-C-4

General Information on the Lender Insurance (LI) Program

Introduction This topic includes general information on the Lender Insurance (LI) Program, including

- the basics of the LI Program
 - the benefits of the LI Program
 - requirements for PETRs on loans from LI Program lenders, and
 - mortgage loan eligibility for the LI Program.
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Change Date May 10, 2009

**4155.2 2.C.1.a
Basics of the LI
Program** The LI Program was offered beginning on January 1, 2006. The LI Program enables high-performing FHA-approved Direct Endorsement (DE) lenders, with acceptable default and claim rates, to endorse FHA mortgage loans without a pre-endorsement review conducted by FHA.

An LI approved lender performs its own pre-endorsement review and submits loan level data to FHA via the FHA Connection, Business to Government (B2G) or other electronic means. FHAC

- performs an automated verification process to check the data for accuracy and completeness, and
- for those loan level data submissions that clear all of the risk-mitigation edits that FHA has in place
 - the system generates a mortgage insurance certificate electronically to serve as evidence that the mortgage has been insured, and
 - the lender is not required to provide a case binder in advance of endorsement.

Note: If a loan does not clear the FHA edits, a lender may need to submit a case binder to FHA. If the LI lender has been approved for electronic submission, the lender may submit an electronic case binder (eCB) as opposed to a hard copy case binder.

Reference: For more information on

- LI endorsement processing, see [HUD 4155.2 8.C.3](#)
 - requirements for LI lender pre insurance review, see [HUD 4155.2 8.A.2](#)
 - LI case binder submission, see [HUD 4155.2 8.B.7](#), and
 - LI lender submission requirements for case binders selected for PETR, see [HUD 4155.2 9.B.1.d](#).
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Continued on next page

General Information on the Lender Insurance (LI) Program, Continued

4155.2 2.C.1.b Benefits of the LI Program

The LI Program reduces a lender's submission of case binders to FHA and the need to have FHA review the application for mortgage insurance before FHA endorsement of the mortgage for insurance. The need to submit case binders to satisfy Notices of Return (NORs) is also dramatically reduced.

In those instances in which FHA *does* require submission of a case binder, for lenders choosing to submit case binders electronically, all mailing costs associated with the mortgage insurance endorsement process are eliminated.

Reference: For more information in LI endorsement processing, see [HUD 4155.2 8.C.3.](#)

4155.2 2.C.1.c Requirement for PETRs on Loans From LI Program Participants

Under the LI Program, despite the fact that lenders do not need to have an FHA pre-endorsement review of loans, FHA *does* select a sample of mortgages for post endorsement technical review (PETR).

Note: A lender may submit case binders for PETR in paper or electronic format.

Reference: For more information on submission requirements for case binders selected for PETR, see [HUD 4155.2 9.B.1.d.](#)

4155.2 C.1.d Regulations Governing Lender Insurance

The regulations governing the LI Program may be found in

- [24 CFR 203.4](#)
 - [24 CFR 203.6](#), and
 - [24 CFR 203.255\(f\)](#).
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2. Lender Insurance Program Eligibility & Approval Requirements

Introduction This topic contains information on the eligibility requirements for the LI Program, including

- LI Program eligibility requirements
 - the acceptable claim/default rate for LI lenders LI Program approval requirements
 - duration of LI Program approval, and
 - termination of LI approval.
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Change Date May 10, 2009

**4155.2 2.C.2.a
LI Program
Eligibility
Requirements**

In order to be eligible to participate in the LI Program, a lender must

- be an unconditionally approved DE lender, and
- have an acceptable default and claim record, as described in [HUD 4155.2 2.C.2.b](#), for two years prior to its application for participation in the LI Program.

For DE lenders that underwrite as sponsors for FHA-approved loan correspondents, the default and claim rate is the aggregate of both retail originations and mortgages underwritten for their loan correspondents.

Lenders must agree to indemnify FHA under the conditions of Section 256(c) of the National Housing Act.

Note: LI eligibility is company-specific and not determined at the branch level.

Reference: For information on LI endorsement processing, see [HUD 4155.2 8.C.3](#).

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2. Lender Insurance Program Eligibility & Approval Requirements, Continued

4155.2 2.C.2.b Acceptable Claim/Default Rate for LI Lenders

The acceptable claim/default rate is defined as at or below 150 percent of the national average. DE lenders that operate only in one state have the right to have a compare rate using FHA loans made in that state only rather than the national average.

4155.2 2.C.2.c LI Program Approval Requirements

DE lenders wishing to participate in the LI Program must request approval. Access to the LI Program is conditioned upon the lender's certification, executed as an electronic acknowledgement through the FHA Connection, that it will comply with the LI Program's procedures and requirements.

Each lender must acknowledge, prior to participating, that it is eligible under the LI Program and will participate according to applicable regulations and other written instructions from FHA.

4155.2 2.C.2.d Duration of LI Program Approval

Approval for the LI Program is effective for one year. At the end of the one-year period, the lender will be automatically checked by FHA's system of records. If the lender's claim/default performance continues to be acceptable and meets all other approval criteria for LI participation, the lender's approval will be renewed for another year.

4155.2 2.C.2.e Termination of LI Approval

A lender's approval to participate in the LI Program may be terminated when

- the lender fails to adopt and employ prudent review techniques
 - DE approval for the lender or any branch is terminated (termination of DE approval also results in LI termination for the lender or any branch), and/or
 - the lender fails to meet the eligibility criteria listed in
 - [HUD 4155.2 2.C.2.a](#)
 - [HUD 4155.2 2.C.2.b](#), and
 - [HUD 4155.2 2.C.2.c](#).
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