

CHAPTER ONE | Lender Approval and Direct Endorsement Underwriting Authority

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Introduction

Overview

The Federal Housing Administration programs for single family real estate lending are established by Title I and Title II of the National Housing Act. A lender must be approved by HUD in order to originate, purchase, hold or sell HUD-FHA insured mortgages. Title I and Title II each serve a different line of business. A lender can choose to be approved for one or both programs.

Title I

The Title I program insures lenders against losses on loans that are for home improvement, repair, alteration and site improvements. This includes manufactured homes as personal property or placed on a permanent foundation. The program will also insure building alterations and repairs for multi-family property.

Maximum Loan Amount:

- Single family house - \$25,000.
- Manufactured house on permanent foundation \$69,678(classified and taxed as real estate)
- Manufactured house (classified as personal property) - \$7,500.
- Multifamily structure - an average of \$12,000 per living unit, up to a total of \$60,000.

This publication does not cover the Title I program.

Title II (4060.1 REV.2) H.E.R.A. 2008

The Title II program insures lenders against losses on loans that are for the purchase or refinance of an existing residential property as well as end financing for new construction properties. This includes 1-4 unit properties, individual condominium units, PUD and manufactured houses on a permanent foundation, taxed as real estate.

The maximum loan amount is based on the statutory limit established by HUD for the county the property is located in. The maximum loan limits start at 65% of the Freddie Mac maximum loan amount for 1-4 unit properties and go as high as 115% of the local area median home price (determined by HUD) or up to a cap of 150% of the GSE limit in some high cost areas.

The approval steps outlined in this chapter are for a Title II approval.

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Pros & Cons of Being FHA Approved to Originate FHA Loans

The advantages of the FHA program are numerous:

- The FHA 203b program is attractive for first time homebuyers.
- The loan programs serve community needs that can be considered when meeting Community Reinvestment Act initiatives.
- The underwriting guides are more lenient when compared to conforming lending.
- The interest rate pricing and loan terms are typically more advantageous to borrowers in the long run when compared to non-conforming products and/or the cost of mortgage insurance with the same documentation and level of risk.
- The FHA products typically fill a niche that many portfolio products can not due to the higher risk.
- The loans are insured and protect the lender against substantial loss when all program requirements have been fulfilled.

The challenges of the FHA program for mortgage brokers and small banks and lenders are:

- The potential FHA business must offset the expense of audited financial statements or the cost and paperwork to obtain a bond, if applicable
- 'Net branch' and similar arrangements may not meet FHA requirements.
- The program requires annual recertification and fees.
- A comprehensive quality control program must be implemented.
- A company must prepare for additional audit oversight by FHA.
- A company that does not service loans is still accountable for the default rate on originated loans.

The additional challenges of the FHA program for lenders and servicers (including banks and credit unions) wanting to make their own underwriting decisions and/or service are:

- Staffing and procedures for insuring and post closing requirements.
- Additional requirements and oversight in loss mitigation.
- Systems are needed to manage the higher default rate and claims procedures.

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For every company, new to the FHA program, the following additional challenges are common:

- It will be necessary to review the Loan Origination Software (LOS) system to identify if it includes all the necessary tracking information and forms for FHA loans.
- The staff will need training on all FHA requirements.

For many organizations the decision to open FHA loans as a product is driven by market demand and income potential. The challenges must simply be viewed as necessary steps to accomplish a goal.

Every company should review the requirements contained throughout this guide to understand the depth of the new procedures that will be needed in various departments. The only exception is that loan administration (servicing) is not included in this publication. Institutions that wish to service FHA loans must also be approved by HUD.

Steps to FHA Approval

Complete details of all FHA requirements are included in this chapter. This is an overview of the key steps:

1. Determine the Company Classification (Mortgagee Type) of entity that is pursuing approval
2. Determine the Type of Approval for Underwriting
3. Review all FHA General Requirements to determine the entity can be approved and maintain approval.
4. Complete audited financial statements in accordance with FHA requirements
5. Verify the quality control plan has been implemented
6. Complete the application and provide the necessary fee and exhibits using the Application Checklists
7. Submit the application fee to the lockbox and submit the application to the appropriate Homeownership Center (HOC) office (may be done by a sponsor)
8. Receive approval from HOC
9. Set up FHA Connection by requesting a password and ID from FHA
10. Direct Endorsement lenders will coordinate a conference call with the HOC to discuss the next steps for DE.
11. Begin originating FHA loans!