

FHA Extends Procedures for Terminating Underwriting Authority (ML 2010-03)

[Link to Mortgagee Letter »](#)

Notable Date:

Effective Immediately

Industry Participants Affected:

All FHA Approved DE Lenders

Synopsis:

HUD is starting to review all Direct Endorsement ("DE") lenders with default and claim rates on loans that started to amortize within the last 24 months. If a lender has a default and claim rate that exceeds both the national rate and 300 percent of the field office rate as of December 31, 2009, then DE underwriting authority is subject to possible termination. A lender's approval to underwrite loans is separate and apart from any action that may be taken by HUD's Mortgagee Review Board.

Every three months, HUD will review lenders default and claim rate performance using data capture and reported in Credit Watch. The termination threshold of 300 percent as of December 31, 2009 will move to 250 percent as of June 30, 2010, and 200 percent as of December 31, 2010. After December 31, 2010 the threshold will remain constant at 200 percent.

As part of HUD's initial analysis of a lender's performance, loan volume and underserved market areas will be considered. Loans in underserved vs. loans in served census tracks within the same area will be compared to the HUD Field office average for similar loans. HUD will also establish a minimum number of defaults and claims as part of their initial analysis to lessen the impact on lenders that originate a small volume of FHA loans.

If a lender receives a proposed termination notice, the lender has the right to appeal. A lender must request an informal conference with the Deputy Assistant Secretary within 30 days of the date of receipt of the proposed termination notice. At the informal conference, the lender may present an oral or a written presentation to rebut the proposed termination. All presentations must address relevant reasons and factors that were beyond the lender's control, and contributed to the early default and claim rates. If a lender fails to request an informal conference within 30 days of receipt of the notice, then the lender's DE underwriting authority is terminated 60 days from the date of the proposed termination notice.

HUD has established a procedure for a lender to apply to have their underwriting authority reinstated after six months without authority. However, the lender must demonstrate that the reasons for termination have been remediated. The application for reinstatement will require an independent assessment performed by an independent CPA qualified to perform audits under Government Auditing Standards.

How does it change or benefit the industry:

This mortgagee letter outlines HUD's regulatory authority to pursue action against lenders for poor underwriting performance that leads to high early payment default and claim rates. This mortgagee letter also provides FHA DE lenders with clear guidelines to use in evaluating their default and claim rates for branches within the various HUD field offices and comparing them to the national rates.

[Link to Mortgagee Letter »](#)

About this AllRegs HUD Mortgagee Letter Synopsis:

- This synopsis is intended as a "snap-shot" of the ML 2010-03, but should not be substituted for the entire contents of the actual Mortgagee Letter published by HUD.
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