

Section A. General Information on FHA Mortgage Insurance Programs, the Mortgage Insurance Process, and Loan Origination Requirements/Restrictions

Overview

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1. Overview of FHA Single Family Mortgage Insurance Programs

Introduction This topic contains an overview of the FHA single family mortgage insurance programs, including

- the purpose of FHA single family mortgage insurance programs
 - what FHA will and will not insure
 - enabling legislation for FHA's mortgage insurance programs
 - mortgage insurance funds
 - the Direct Endorsement (DE) Program, and
 - FHA insurance program documentation and education.
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4155.2 1.A.1.a Purpose of FHA Mortgage Insurance Programs The Federal Housing Administration (FHA) offers various mortgage insurance programs which insure approved lenders against losses on mortgage loans. FHA-insured mortgages may be used to purchase homes, improve homes, or refinance existing mortgages.

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1. Overview of FHA Single Family Mortgage Insurance Programs, Continued

4155.2 1.A.1.b What FHA Will and Will Not Insure

FHA's programs differ from one another primarily in terms of what types of properties and financing are eligible. Except as otherwise stated in this handbook, FHA's single family programs are limited to one- to four-family properties that are owner-occupied principal residences. FHA insures mortgages secured by

- detached or semi-detached dwellings
- manufactured housing
- townhouses or row houses, or
- individual units within FHA-approved condominium projects.

FHA will *not* insure mortgages secured by

- commercial enterprises
- boarding houses
- hotels and motels
- tourist houses
- private clubs
- bed and breakfast establishments, or
- fraternity and sorority houses.

Reference: For more information on eligibility of primary and secondary residences, see [HUD 4155.1 4.B.](#)

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1. Overview of FHA Single Family Mortgage Insurance Programs, Continued

4155.2 1.A.1.c Enabling Legislation for FHA's Single Family Programs

All of FHA's single family programs are authorized by the enabling legislation of Title II of the National Housing Act (NHA), and each program is generally referred to by its particular section of the Act, such as

- Section 203(b), the basic program
- Section 251, Adjustable Rate Mortgages (ARM), and
- Section 234(c) Condominiums.

The regulations implementing the individual programs are contained in the Code of Federal Regulations (CFR), Title 24. The CFR codifies the general and permanent rules of the Department of Housing and Urban Development (HUD) and is updated by publishing changes to regulations in the Federal Register.

Reference: For information on specific mortgage insurance programs, see [HUD 4155.2 1.C.](#)

4155.2 1.A.1.d Mortgage Insurance Funds

Characteristics of each single family mortgage insurance program reflect the particular insurance fund under which that program is insured.

The table below lists the three mortgage insurance funds and a description of the programs covered by each one.

Name of Mortgage Insurance Fund	Description
Mutual Mortgage Insurance (MMI) Fund	Covers most programs, including most of the programs authorized under Section 203(b).
General Insurance (GI) Fund	Covers • rehabilitation under Section 203(k) • condominiums under Section 234(c), and • other programs.
Special Risk Insurance (SRI) Fund	Covers Section 223(e) and others.

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1. Overview of FHA Single Family Mortgage Insurance Programs, Continued

4155.2 1.A.1.e Direct Endorsement Program

Under FHA's Direct Endorsement (DE) program, approved lenders may underwrite and close mortgage loans without FHA's prior review or approval. This includes all aspects of the mortgage loan application, property analysis, and borrower underwriting.

Note: This assumes that the lender is a [DE](#) lender with unconditional approval. If the lender has only "conditional" FHA approval, and is in the Pre-Closing Review phase, then the lender must submit the loan to FHA for approval *prior* to closing the loan.

All FHA programs described in this handbook are eligible for DE processing *except*

- the Section 203(n), Single Family Cooperative program, and
- mortgage loans for HUD employees, with the exception of streamline refinances.

References: For more information on

- mortgage credit analysis, see [HUD 4155.1 Chapter 1](#)
- conditional DE approval and pre-closing review, see [HUD 4155.2 2.B.3](#)
- the Section 203(n) program, see [HUD 4155.2 1.C.6](#), and
- loans for HUD employees, see [HUD 4155.2 3.B.1](#).

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1. Overview of FHA Single Family Mortgage Insurance Programs, Continued

4155.2 1.A.1.f FHA Insurance Program Documentation and Education

HUD Handbooks and Mortgagee Letters (ML) provide detailed processing instructions and advise the mortgage industry of major changes to FHA programs and procedures. Additionally, the Homeownership Centers (HOC)

- issue Circular Letters
- conduct seminars
- lead industry meetings
- distribute other program information, and
- maintain online reference guides.

References:

- For HOC-specific information, see HUD's website at www.hud.gov.
 - For HUD forms, Handbooks and Mortgagee Letters, see HUD's website at www.hud.gov/hudclips/.
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2. Overview of the Mortgage Loan Application and Insurance Endorsement Process

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**4155.2 1.A.2.a
Loan
Application and
Endorsement
Process
Overview**

The table below describes the stages of the mortgage loan application and endorsement process.

Stage	Description
1	A borrower contacts a lender regarding a mortgage loan, and the lender determines if the loan would be eligible for FHA insurance.
2	The borrower, along with the lender's representative, completes the loan application. The loan officer collects all supporting documentation from the borrower and submits the application and documentation to the lender. Reference: For more information on the standard application package and required documentation, see HUD 4155.1 1.B.1.
3	The lender applies for, and is assigned, an FHA case number through the FHA Connection (FHAC). References: For more information on the FHA Connection, see • HUD 4155.2 1.D, and • the FHA Connection Guide.

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2. Overview of the Mortgage Loan Application and Insurance Endorsement Process, Continued

4155.2 1.A.2.a Loan Application and Endorsement Process Overview (continued)

Stage	Description
4	Through FHAC, the lender • assigns an appraiser to perform a property appraisal, to determine the value of the property that is to be security for the mortgage loan, and • completes the appraisal logging. Reference: For more information on appraisals and property standards, see HUD 4155.2 4.
5	The lender • instructs its underwriter to perform the mortgage credit analysis to determine the borrower's ability and willingness to repay the mortgage debt, and • enters the borrower's income/credit information into FHAC. Reference: For more information on performing a mortgage credit analysis, see HUD 4155.1 4.C.
6	The underwriter makes the underwriting decision. If the loan is • approved, the process continues with Stage 7, or • rejected – the borrower is notified, – the underwriter updates FHAC via the <i>Mortgage Credit Reject Screen</i>, and – this completes the process. Reference: For more information on borrower approval and rejection notification, see HUD 4155.2 5.2.

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2. Overview of the Mortgage Loan Application and Insurance Endorsement Process, Continued

4155.2 1.A.2.a Loan Application and Endorsement Process Overview (continued)

Stage	Description
7	Once the loan is approved, the lender closes the loan with the borrower. Reference: For more information on • loan closing, see HUD 4155.2 6.A • DE Lender Program application, see HUD 4155.2 2.A, and • DE lender approval, see HUD 4155.2 2.B.
8	After the loan is closed, the lender initiates the loan endorsement process. Lenders <i>not</i> participating in Lender Insurance Program (LI) • complete the Insurance Application function in FHAC • submit the case binder to the appropriate HOC for endorsement review, and • submit the case binder to the HOC in hard copy form. Lenders participating in LI • insure loans through FHAC, and • submit case binders in either electronic format (eCB) or in hard copy form, if requested by the HOC. Note: The HOC may request the case binder because a severe warning is displayed for a post-endorsement technical review (PETR), or to perform an appraisal review. References: For more information on • preparation and submission of the case binder, see HUD 4155.2 8.B, and • the Lender Insurance Program, see HUD 4155.2 2.C and the Lender Insurance Guide.

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2. Overview of the Mortgage Loan Application and Insurance Endorsement Process, Continued

4155.2 1.A.2.a Loan Application and Endorsement Process Overview (continued)

Stage	Description
9	Upon receipt of the case binder from a non-LI lender, the HOC • logs the closing package into FHAC • performs a pre-endorsement review, and • issues the – Mortgage Insurance Certificate (MIC), or – Non-Endorsement Notice/Notice of Rejection (NOR).
10	The HOC completes insurance endorsement processing using the logging and endorsement functions in FHAC. Result: Once the loan is endorsed, FHAC generates an MIC for the lender to download. References: For more information on • the MIC, see HUD 4155.2 8.C.6, and • FHA Connection, see – HUD 4155.2 1.D, and – the FHA Connection Guide.
11	To ensure that mortgage lenders understand and comply with FHA requirements, selected case binders are chosen for PETR by the HOCs. Reference: For more information on PETRs, see HUD 4155.2 9.C.

3. Restrictions on the Use of Sponsored Third-Party Originators

Introduction	This topic contains information on the restrictions on the use of sponsored third-party originators, including • role of the sponsored third-party originator (TPO) • RESPA prohibition of duplicative fees • loan origination functions that may not be performed by a third-party originator, and • counseling services that may be provided by a broker.
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4155.2 1.A.3.a Role of the Sponsored Third-Party Originator (TPO)	Loan correspondents (also referred to as sponsored third-party originators (TPO)) may participate in FHA programs by establishing a sponsorship relationship with an FHA-approved Direct Endorsement (DE) lender. The lender may permit its sponsored TPO to perform all loan application and processing tasks related to an FHA-insured loan transaction, except for underwriting and any tasks executed directly in FHA Connection (FHAC). Sponsoring FHA-approved lenders will determine the exact origination and processing duties their sponsored TPO may perform. The lender may permit a sponsored TPO to originate Home Equity Conversion Mortgages (HECM), provided that the TPO adheres to all HECM origination requirements. Reference: For more information on loan origination services that may not be performed by a sponsored TPO lender, see HUD 4155.2 1.A.3.c.
4155.2 1.A.3.b RESPA Prohibition of Duplicative Fees	A TPO may be compensated for the actual loan origination services it performs, either directly by the borrower or indirectly by the FHA-approved lender, without being in violation of either the Real Estate Settlement Procedures Act (RESPA) or FHA regulations. RESPA does, however, prohibit the payment of duplicative fees. The payment to a broker for duplicated services amounts to an unearned fee in violation of Section 8(b) of RESPA. Further, this payment may also act as a disguised referral fee for steering the borrower to an FHA-approved lender, a violation of section 8(a) of RESPA.

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3. Restrictions on the Use of Sponsored Third-Party Originators Continued

**4155.2 1.A.3.c
Loan
Origination
Functions That
May Not be
Performed by a
Third-Party
Originator**

FHA requires that for mortgage loan applications originated by a sponsored [TPO](#), *only* an FHA-approved [DE](#) lender may

- underwrite
- approve
- close in the lender's name
- insure or submit for endorsement, and
- perform any tasks executed directly in [FHAC](#).

Notes:

- Loans *must* close in the name of the sponsoring underwriting lender.
- Only approved lenders may order FHA case numbers.

References: For more information on

- sponsored TPOs, see [HUD 4155.2 2.B.6](#), and
- FHA case numbers and FHA Connection, see [HUD 4155.2 1.D](#).

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3. Restrictions on the Use of Sponsored Third-Party Originators

Continued

**4155.2 1.A.3.d
Counseling
Services That
May Be
Provided by a
Broker**

Services that are considered counseling in nature (such as educating a prospective borrower in the home-buying and financing process, advising the borrower about different types of loan products available, and demonstrating how closing costs and monthly payments could vary under each product), may be performed by a mortgage broker, so long as the services provided constitute meaningful counseling, and not steering.

Under [RESPA](#), when “counseling” services are performed, HUD also looks at whether

- counseling gave the borrower the opportunity to consider products from at least three different lenders
- the entity performing the counseling would receive the same compensation regardless of which lender’s product was ultimately selected, and
- any payment made for the counseling services is reasonably related to the services performed.

Notes:

- The fee charged must be paid from the borrower’s own available assets and must be disclosed on the HUD-1 [Settlement Statement](#) at closing.
- A copy of the contract for these services must be included in the loan file submitted for insurance endorsement.
- Under no circumstances may a borrower be charged a fee that is not commensurate with the amount normally charged for similar services.

Reference: For more information on sponsored third-party originators, see [HUD 4155.2 2.B.6](#).
