

## Section B: Direct Endorsement (DE) Program Lender Approval

### Overview

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## 1. General Information on Direct Endorsement Lender Approval

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**Introduction** The topic contains general information on Direct Endorsement (DE) lender approval, including

- two phases of DE Lender approval
  - eligibility for participation in the pre-closing review phase
  - DE authority for the lender, and
  - changes that affect DE lender approval status.
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**Change Date** March 1, 2011

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**4155.2 2.B.1.a Two Phases of DE Lender Approval** The table below describes the two phases of the lender approval process in the Direct Endorsement (DE) Program.

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

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## 1. General Information on Direct Endorsement Lender Approval, Continued

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

A lender is eligible and approved to participate in the pre-closing test case review phase upon satisfactory completion of the entrance conference with the Homeownership Center (HOC).

*Reference:* For more information on the entrance conference, see [HUD 4155.2 2.A.1.d](#).

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### 4155.2 2.B.1.c DE Authority for the Lender

FHA grants [DE](#) authority to the lender, *not* the individual underwriter. If a lender hires a registered DE underwriter who was previously employed by another FHA-approved lender, a 15 case pre-closing review is still required.

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### 4155.2 2.B.1.d Changes That Affect DE Lender Approval Status

An unconditionally approved [DE](#) lender that loses all of its registered DE underwriters automatically loses its DE approval status, and must set up an Authorized Agent or Sponsored Third-Party Originator (TPO) relationship with another lender, or cease originating FHA loans.

Lenders are required to notify FHA whenever there are changes that affect their DE approval status.

*References:* For more information on

- the Principal/Authorized Agent relationship, see [HUD 4155.2 2.B.5](#)
  - Sponsored Third-Party Originators, see [HUD 4155.2 2.B.6](#), and
  - changes affecting DE approval status, see [HUD 4155.2. 1.B.7.g](#).
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## 2. Overview of the Direct Endorsement Lender Approval Process

**Change Date** March 1, 2011

**4155.2 2.B.2.a DE Lender Approval Process** This table outlines steps in the Direct Endorsement (DE) Lender approval process.

Stage	Description
1	<p>A lender that applies for unconditional DE Lender approval must submit a minimum of 15 mortgage loan application “test cases” for review by the Homeownership Center (HOC).</p> <p><i>Note:</i> The test cases may vary by loan type, and must represent expected underwriting situations. Since they are submitted to the jurisdictional HOC prior to closing, the lender’s underwriter cannot fully execute the Underwriter Certification on Page 3 of form <a href="#">HUD 92900-A, HUD/VA Addendum to Uniform Residential Loan Application</a>.</p> <p><i>Reference:</i> For instructions on completing the Underwriter Certification during the pre-closing review phase, see <a href="#">HUD 4155.2 2.B.3.b</a>.</p>
2	<p>The HOC performs a detailed review of each test case application.</p> <p><i>Reference:</i> For more information on the HOC’s test case application review requirements, see <a href="#">HUD 4155.2 2.B.3.c</a>.</p>
3	<p>If the test cases demonstrate</p> <ul style="list-style-type: none"> <li>• <i>acceptable</i> underwriting,                             <ul style="list-style-type: none"> <li>– FHA issues a firm commitment to the lender to insure any of the eligible test cases, and</li> <li>– the process continues with Stage 6, or</li> </ul> </li> <li>• <i>unacceptable</i> underwriting, the process continues with Stage 4.</li> </ul>

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## 2. Overview of the Direct Endorsement Lender Approval Process, Continued

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

Stage	Description
4	<p>If the test cases demonstrate <i>unacceptable</i> underwriting, the HOC may</p> <ul style="list-style-type: none"> <li>• request more cases be submitted as part of the test period, and/or</li> <li>• discontinue accepting test cases while the lender trains its underwriters on FHA requirements.</li> </ul> <p><b>Reference:</b> For more specific information about how the HOC handles unacceptable underwriting, see <a href="#">HUD 4155.2 2.B.3.e</a>.</p>
5	<p>Once the lender properly completes the required test cases, FHA will grant unconditional DE approval.</p>
6	<p>After granting unconditional approval to a lender, the HOC will perform post-endorsement technical reviews (PETR) on the first 30 cases submitted by the lender, to ensure continued compliance with FHA underwriting standards.</p> <p><b>Reference:</b> For more information on PETRs performed by the HOC, see <a href="#">HUD 4155.2 9.B.1</a>.</p>

### 3. Direct Endorsement Pre-Closing Test Case Review Phase

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**Introduction** The topic contains information on the pre-closing phase of the Direct Endorsement (DE) Lender Approval process, including

- test case submission to the HOC
  - instructions for completing the Underwriter Certification on test cases
  - HOC test case review requirements
  - granting DE approval
  - unacceptable underwriting on test cases
  - test case review underwriting report, and
  - special test case requirements for HECMs.
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**Change Date** March 1, 2011

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**4155.2 2.B.3.a Test Case Submission to the HOC** To be granted unconditional Direct Endorsement (DE) approval for forward mortgages, the lender must submit 15 pre-closing test cases within a period of 12 consecutive months to the Homeownership Center (HOC) for review prior to closing.

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

- lender is responsible for making any corrections and providing any documents required by the HOC prior to insurance endorsement, and
  - HOC is *not* obligated to insure the mortgage if the review requirements cannot be met.
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### 3. Direct Endorsement Pre-Closing Test Case Review Phase, Continued

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**4155.2 2.B.3.b  
Instructions for  
Completing the  
Underwriter  
Certification on  
Test Cases**

Because the lender must submit the test case application package to the [HOC](#) prior to closing the mortgage loan, the Underwriter/Mortgagee Certification on Page 3 of form [HUD-92900-A](#), *HUD/VA Addendum to Uniform Residential Loan Application*, cannot be fully executed. During the pre-closing review phase, the lender must

- complete all information on the Underwriter/Mortgagee Certification with the exception of the closing date
- *not* sign the certification, since the underwriter cannot make the closing certifications
- *not* have the lender's representative sign the certification, and
- submit Page 4 of the form with the closing documents.

**Reference:** For instructions on completing each page of form [HUD-92900-A](#), *HUD/VA Addendum to Uniform Residential Loan Application*, see [HUD 4155.1 1.B.3.c](#).

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**4155.2 2.B.3.c  
HOC Test Case  
Review  
Requirements**

During the pre-closing review phase, the [HOC](#) must review in detail each test case application received from the lender, including

- 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 lender.

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### 3. Direct Endorsement Pre-Closing Test Case Review Phase, Continued

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**4155.2 2.B.3.d  
Granting DE  
Approval**

Unconditional [DE](#) approval will be granted when the lender has successfully underwritten and processed 15 test cases, as evidenced by the issuance of firm commitments by the [HOC](#).

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**4155.2 2.B.3.e  
Unacceptable  
Underwriting  
on Test Cases**

The [HOC](#) may request that additional cases be submitted as part of the test period if the first 15 test cases do *not*

- demonstrate acceptable underwriting, or
- represent expected underwriting situations, including no fewer than five streamline refinances or automated underwritten loans.

If the lender has submitted 30 test cases and still has not met the standards for unconditional approval, the HOC may

- inform the lender that no additional 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, or
  - discontinue accepting cases.
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### 3. Direct Endorsement Pre-Closing Test Case Review Phase, Continued

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#### 4155.2 2.B.3.f Test Case Review Underwriting Report

An Underwriting Report must be completed on all test cases and maintained in the lender file at the [HOC](#).

Any deficiencies will be noted on the Underwriting Report, regardless of whether or not a firm commitment is issued. This report, which should be reviewed by the [DE](#) underwriter/lender, is available through the FHA Connection (FHAC).

**References:** For information on

- the contents of the HOC's lender file, see [HUD 4155.2 2.A.1.c](#), and
  - Underwriting Report requirements, see the FHA Connection – *Underwriter Review Functions – Underwriter Activity*.
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#### 4155.2 2.B.3.g Special Test Case Requirements for HECMs

For lenders wishing to receive unconditional [DE](#) approval status for Home Equity Conversion Mortgages (HECM), a separate request is required. Additionally, there must be

- an entrance conference, which may be held separately or in conjunction with the entrance conference for forward loans, and
- a minimum of five pre-closing test case reviews.

**Reference:** For more information on the Section 255 HECM program, see [HUD 4155.2 1.C.17](#), and [HUD 4235.1](#), *Home Equity Conversion Mortgages*.

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## 4. Direct Endorsement Unconditional Approval Phase

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**Introduction** This topic contains information on the unconditional approval phase for a Direct Endorsement (DE) lender, including

- granting unconditional DE approval
  - post-endorsement technical reviews of DE lenders
  - adding a new underwriter, and
  - unconditional approval acceptance by other HOCs.
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**Change Date** March 1, 2011

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**4155.2 2.B.4.a Granting Unconditional DE Approval** Upon satisfactory completion of the pre-closing test case review phase, as described in [HUD 4155.2 2.B.3](#), the lender receives a letter evidencing unconditional approval for Direct Endorsement (DE).

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**4155.2 2.B.4.b Post-Endorsement Technical Reviews on DE Lenders** After the lender is granted unconditional [DE](#) approval, the Homeownership Center (HOC) performs post-endorsement technical reviews (PETR) of

- the first 30 cases submitted by the lender, and
- a percentage of subsequent cases.

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

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## 4. Direct Endorsement Unconditional Approval Phase, Continued

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### 4155.2 2.B.4.c Adding a New Underwriter After Approval

A new underwriter joining the staff of an unconditionally-approved [DE](#) lender does *not* need to go through the pre-closing test case review phase. In such cases, the lender is responsible for ensuring that the new underwriter

- meets basic eligibility requirements
- is registered with his/her new company in FHA Connection, and
- performs the underwriting function in a manner consistent with FHA guidelines.

**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
  - FHA Connection, see [HUD 4155.2 1.D](#).
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### 4155.2 2.B.4.d Unconditional Approval Acceptance by Other HOCs

Once a lender has received unconditional [DE](#) approval in one [HOC](#), all other HOCs will recognize that approval. HOCs rely on the experience and judgment of other HOCs in determining lender eligibility.

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## 5. The Principal/Authorized Agent Relationship

**Introduction** This topic contains information on the Principal/Authorized Agent relationship, including

- designation of a lender as an Authorized Agent, and
- Principal/Authorized Agent roles and relationship.

**Change Date** March 1, 2011

**4155.2 2.B.5.a Designation of a Lender as an Authorized Agent** Any Direct Endorsement (DE) approved lender, be it supervised, non-supervised, or a qualified government mortgage lender may, when acting as the Principal, designate a DE-approved supervised or non-supervised mortgage lender to be its Authorized Agent.

The table below describes the type of underwriting approval each entity must possess as of effective July 1, 2011. An FHA-approved lender that has not obtained unconditional DE approval by July 1, 2011 will no longer be able to act as a Principal. It may continue to pursue unconditional approval and participate in FHA programs as a sponsored third-party originator (TPO).

For this mortgage type...	the Principal may have either...	and the Authorized Agent <i>must</i> have...
Forward mortgage	unconditional • DE approval, or • HECM approval	unconditional DE approval.
HECM	unconditional • DE approval, or • HECM approval	unconditional HECM approval.

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**Note:** The relationship must be documented in FHA Connection (FHAC) by the Authorized Agent.

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## 5. The Principal/Authorized Agent Relationship, Continued

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### 4155.2 2.B.5.b Principal/ Authorized Agent Roles and Relationship

The Principal must originate the loan and the Authorized Agent must underwrite the loan. The loan may close in either party's name, and either may submit the loan for insurance endorsement.

The Principal's FHA ID number must be entered in the "Originator" field on the FHA case file and in [FHAC](#).

**Note:** [TPOs](#) may *not* act as Principal or Authorized Agent.

**References:** For more information on the

- Principal/Authorized Agent relationship, see [HUD 4060.1](#), *Mortgagee Approval Handbook* and [ML 2010-20](#), and
  - FHA Connection, see [HUD 4155.2 1.D](#).
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## 6. Requirements for Sponsors of Third-Party Originators

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**Introduction** This topic contains information on the requirements for sponsors of third-party originators, including

- general policy guidelines governing third-party originators (TPO)
  - TPO underwriting and appraisals
  - sponsoring lender's Areas Approved for Business
  - sponsoring lender's responsibility for FHA compliance
  - sponsoring lender's responsibility for legal compliance
  - sponsored TPO loan performance data
  - quality control for TPOs
  - monitoring early payment defaults of sponsored originations, and
  - temporary extension of FHA approval for loan correspondents.
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**Change Date** March 1, 2011

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**4155.2 2.B.6.a  
General Policy  
Guidelines  
Governing  
Third-Party  
Originators  
(TPO)** A third- party originator (TPO) must be sponsored by an FHA-approved Direct Endorsement (DE) lender. The lender will determine the exact origination and processing duties its sponsored TPO can perform in conjunction with FHA-insured mortgage transactions.

TPOs cannot underwrite, own or service FHA-insured loans.

- References:** For specific information on the role of
- sponsored third-party originators, see [HUD 4155.2 1.A.3.a](#), and
  - the sponsoring lender, see [HUD 4155.2 1.A.3.c](#).
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## 6. Requirements for Sponsors of Third-Party Originators,

Continued

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### 4155.2 2.B.6.b TPO Underwriting and Appraisals

For a loan originated by a [TPO](#), the sponsoring lender must underwrite the property and the borrower. An FHA-approved staff appraiser employed by the sponsor may perform the appraisal, unless the borrower or seller is an employee of the underwriting lender.

**Reference:** For more information on the role of the sponsor, see [HUD 4155.2 1.A.3.c](#).

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### 4155.2 2.B.6.c Sponsoring Lender's Areas Approved for Business

If the sponsor's [DE](#) approval is through a Homeownership Center (HOC) other than the local HOC, the sponsoring lender must

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

The lender may underwrite sponsored [TPO](#) loans in any state in which it is permitted by the state to do so, and in which the sponsored TPO is permitted to conduct origination activities.

An approved lender's wholesale Areas Approved for Business, therefore, consist of all states in which it sponsors a TPO that meets the applicable requirements for loan origination of that state, and in which the lender is permitted by the state to underwrite mortgage loans and sponsor mortgage originators.

**Reference:** For the list of Single Family Origination Lending Areas Approved for Business, see [HUD 4155.2 12.E.2](#).

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## 6. Requirements for Sponsors of Third-Party Originators, Continued

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### 4155.2 2.B.6.d Sponsoring Lender's Responsibility for FHA Compliance

Lenders that wish to sponsor [TPOs](#) are required to register these entities in FHA Connection, per instructions provided in [HUD 4155.2 1.D.6](#).

The lender is responsible for compliance with FHA requirements in all aspects of an FHA loan transaction, whether performed by the sponsoring lender or the TPO, unless applicable law or regulation governing the violation(s) in question requires specific knowledge on the part of the party to be held responsible.

Lenders should pursue sponsoring relationships with responsible originators, and diligently monitor and evaluate the activities and performance of those they sponsor.

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### 4155.2 2.B.6.e Sponsoring Lender's Responsibility for Legal Compliance

Lenders shall ensure that each of their sponsored [TPOs](#)

- adhere to all applicable federal, state and local requirements governing their FHA loan origination and processing activities, and
- obtain and maintain a unique identifier from the Nationwide Mortgage Licensing System and Registry (NMLS ID), in accordance with the registration guidelines set by NMLS.

Lenders must carefully evaluate the specific guidelines governing the programs and activities in which they wish to participate, as well as relevant state and local laws and regulations governing such activities.

**Reference:** For more information on FHA's employment requirements for approved lenders, see Chapter 2 of [HUD 4060.1 REV-2](#), *Mortgagee Approval Handbook*.

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## 6. Requirements for Sponsors of Third-Party Originators,

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**4155.2 2.B.6.f  
Sponsored TPO  
Loan  
Performance  
Data** Neighborhood Watch will provide loan performance data for all loans originated via a sponsored [TPO](#) relationship. The data will be available only to FHA-approved lenders, to evaluate TPO loan origination trends and performance.

Lenders will be able to access aggregate comparative data for all sponsored TPOs for a rolling two-year period, and loan-level performance data for the loans on which they acted as sponsor for their TPO.

A link to sponsored TPO performance is available on the *Early Warnings* menu selection. Sponsors can search for a TPO by entering the entity's legal name or [NMLS](#) ID number in the selection field.

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**4155.2 2.B.6.g  
Quality Control  
for TPOs** Sponsoring lenders are responsible for performing quality control review of loans originated by and acquired from each of their [TPOs](#). The procedures used to review and monitor sponsored TPOs must be included in the lender's Quality Control Plan, and must, at a minimum, include the requirements outlined in paragraph 7-6 of [HUD 4060.1, REV-2](#).

**Reference:** For more information, see [ML 2011-02](#).

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**4155.2 2.B.6.h  
Early Payment  
Defaults of  
Sponsored  
Originations** In addition to loans selected for routine quality control reviews, sponsoring lenders must review all early payment defaults (EPD) originated by their [TPOs](#). EPD are defined as loans that become 60 or more days past due within the first six payments.

Lenders must review EPDs within 45 days from the end of the month in which the loans are reported as 60 days past due.

**Reference:** For more information, including the EPD review report and follow-up requirements, see paragraph 7-6(E) of [HUD 4060.1, REV-2](#).

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## 6. Requirements for Sponsors of Third-Party Originators, Continued

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### 4155.2 2.B.6.i Temporary Extension of FHA Approval for Loan Correspondents

FHA no longer approves Loan Correspondents after December 31, 2010, and they are statutorily prohibited from closing FHA-insured loans in their own names. There is, however, a temporary extension of FHA approval for currently-approved Loan Correspondents until March 31, 2011, for the narrow purpose of allowing loans in their pipelines to close in their names. FHA approval of all Loan Correspondents for all other purposes expired on December 31, 2010.

This extension only applies to those loans, for which, as of December 31, 2010, a case number had been assigned, *and*

- HUD has issued a firm commitment for insurance, or
- a [DE](#) underwriter has
  - approved the borrower for such loan (i.e., the lender has received and accepted approval via [TOTAL](#) scorecard or has manually underwritten the loan), and
  - reviewed and approved the appraisal.

Loans eligible for this extension must close by March 31, 2011. All other pipeline loans not meeting the above criteria that did not close prior to January 1, 2011 must close in the name of an approved FHA lender or sponsoring lender.

**References:** For more information on

- this extension, see <http://www.hud.gov/offices/hsg/sfh/waivers122010.pdf>, and
  - the policy for third-party originators, see [HUD 4155.2 2.B.6.a](#).
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