



This document is scheduled to be published in the Federal Register on 02/02/2012 and available online at <http://federalregister.gov/a/2012-02344>, and on [FDsys.gov](http://FDsys.gov)

**Billing Code 4210-67**

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**[Docket No. FR-5511-N-07]**

**Credit Watch Termination Initiative**

**Termination of Direct Endorsement (DE) Approval**

**AGENCY:** Office of the Assistant Secretary for Housing - Federal Housing Commissioner, HUD.

**ACTION:** Notice.

**SUMMARY:** This notice advises of the cause and effect of termination of Direct Endorsement (DE) Approval taken by HUD's Federal Housing Administration (FHA) against HUD-approved mortgagees through the FHA Credit Watch Termination Initiative. This notice includes a list of mortgagees which have had their DE Approval terminated.

**FOR FURTHER INFORMATION CONTACT:** The Quality Assurance Division, Office of Housing, Department of Housing and Urban Development, 451 Seventh Street, SW, Room B133-P3214, Washington, DC 20410-8000; telephone (202) 708-2830 (this is not a toll-free number). Persons with hearing or speech impairments may access that number through TTY by calling the Federal Relay Service at (800) 877-8339.

**SUPPLEMENTARY INFORMATION:** HUD has the authority to address deficiencies in the performance of lenders' loans as provided in HUD's mortgagee approval regulations at 24 CFR 202.3. On May 17, 1999, HUD published a notice (64 FR 26769), on its procedures for terminating Origination Approval Agreements with FHA lenders and placement of FHA lenders

on Credit Watch status (an evaluation period). In the May 17, 1999 notice, HUD advised that it would publish in the Federal Register a list of mortgagees that have had their Approval Agreements terminated. On January 21, 2010, HUD issued Mortgage Letter 2010-03, which advised mortgagees of the extended procedures for terminating Underwriting Authority of Direct Endorsement (DE) mortgagees.

**Termination of Direct Endorsement Approval (DE Approval):** Approval of a DE mortgagee by HUD/FHA authorizes the mortgagee to underwrite single family mortgage loans and submit them to FHA for insurance endorsement. The DE Approval may be terminated on the basis of poor performance of FHA-insured mortgage loans underwritten by the mortgagee. The termination of a mortgagee's DE Approval is separate and apart from any action taken by HUD's Mortgagee Review Board under HUD's regulations at 24 CFR part 25.

**Cause:** HUD's regulations permit HUD to terminate the DE Approval with any mortgagee having a default and claim rate for loans endorsed within the preceding 24 months that exceeds 200 percent of the default and claim rate within the geographic area served by a HUD field office, and also exceeds the national default and claim rate. For the quarterly review period ending June 30, 2011, HUD is terminating the DE Approval of mortgagees whose default and claim rate exceeds both the national rate and 200 percent of the field office rate.

**Effect:** Termination of the DE Approval precludes the mortgagee from underwriting FHA-insured single-family mortgages within the area of the HUD field office(s) listed in this notice. Mortgagees authorized to purchase, hold, or service FHA-insured mortgages may continue to do so.

Loans that closed or were approved before the Termination became effective may be submitted for insurance endorsement. Approved loans are those already underwritten and

approved by a DE underwriter, and cases covered by a firm commitment issued by HUD. Cases at earlier stages of processing cannot be submitted for insurance by the terminated mortgagee; however, the cases may be transferred for completion of processing and underwriting to another mortgagee with DE Approval in that area. Mortgagees are obligated to continue to pay existing insurance premiums and meet all other obligations associated with insured mortgages.

A terminated mortgagee may apply for reinstatement of the DE Approval if the DE Approval for the affected area or areas has been terminated for at least six months and the mortgagee continues to be an approved mortgagee meeting the requirements of §§ 202.5, 202.6, 202.7, 202.10 and 202.12. The mortgagee's application for reinstatement must be in a format prescribed by the Secretary and signed by the mortgagee. In addition, the application must be accompanied by an independent analysis of the terminated office's operations as well as its mortgage production, specifically including the FHA-insured mortgages cited in its termination notice. This independent analysis shall identify the underlying cause for the mortgagee's high default and claim rate. The analysis must be prepared by an independent Certified Public Accountant (CPA) qualified to perform audits under Government Auditing Standards as provided by the Government Accountability Office. The mortgagee must also submit a written corrective action plan to address each of the issues identified in the CPA's report, along with evidence that the plan has been implemented. The application for a new Agreement should be in the form of a letter, accompanied by the CPA's report and corrective action plan. The request should be sent to the Director, Office of Lender Activities and Program Compliance, 451 Seventh Street, SW, Room B133-P3214, Washington, DC 20410-8000 or by courier to 490 L'Enfant Plaza East, SW, Suite 3214, Washington, DC 20024-8000.

**Action:** The following mortgagee has had its DE Approval terminated by HUD:

<b>Mortgagee Name</b>	<b>Mortgagee Home Office Address</b>	<b>HUD Office Jurisdiction</b>	<b>Termination Effective Date</b>	<b>Homeownership Center</b>
Mortgage Source LLC	600 Old Country Rd., Room 210 Garden City, NY 11530-2011	New York	11/1/11	Philadelphia

Dated: December 20, 2011

---

Carol Galante  
Acting Assistant Secretary for Housing -  
Federal Housing Commissioner

[FR-5511-N-07]

[FR Doc. 2012-2344 Filed 02/01/2012 at 8:45 am; Publication Date: 02/02/2012]