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**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**24 CFR Parts 25, 30, 201, 202, 203, and 206**

**[Docket No. FR-5622-F-01]  
RIN 2502-AJ13**

**Federal Housing Administration: Strengthening Risk Management through Responsible  
FHA-Approved Lenders**

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

**ACTION:** Final rule; clarification and correction.

**SUMMARY:** As part of HUD's efforts to strengthen the risk management practices of the Federal Housing Administration (FHA), HUD published a final rule on April 20, 2010, revising its regulations pertaining to the FHA-approval of mortgage lenders. The April 20, 2010, final rule increased the net worth requirement for FHA-approved lenders and mortgagees, eliminated HUD's approval of loan correspondents, and amended the general approval standards for lenders and mortgagees. This final rule makes several nonsubstantive clarifications and corrections to the provisions of the April 20, 2010, final rule. The changes will improve the clarity of HUD's regulatory requirements and, thereby, facilitate program participant compliance and improve HUD's ability to monitor and enforce its risk management regulations.

**DATES:** Effective Date: **[Insert date 30 days after date of publication in the FEDERAL REGISTER].**

**FOR FURTHER INFORMATION CONTACT:** Richard Toma, Deputy Director, Office of Lender Activities and Program Compliance, Office of Housing, Department of Housing and Urban Development, 490 L'Enfant Plaza East, SW, Room P3214, Washington, DC 20024-8000; telephone number 202-708-1515 (this is not a toll-free number). Persons with hearing or speech

impairments may access this number through TTY by calling the toll-free Federal Relay Service at 800-877-8339.

## **SUPPLEMENTARY INFORMATION:**

### **I. Background**

As part of HUD's efforts to strengthen FHA risk management, HUD published a final rule on April 20, 2010, entitled, "Federal Housing Administration: Continuation of FHA Reform; Strengthening Risk Management Through Responsible FHA-Approved Lenders" (75 FR 20718). The April 20, 2010, final rule increased the net worth requirement for FHA-approved lenders and mortgagees, eliminated HUD's approval of loan correspondents, and amended the general approval standards for lenders and mortgagees. This final rule makes the following nonsubstantive clarifications and corrections to the provisions of the April 20, 2010, final rule. The changes will improve the clarity of HUD's regulatory requirements and, thereby, facilitate program participant compliance and improve HUD's ability to monitor and enforce its risk management regulations.

#### **A. Liquidity requirements for FHA-approved lenders and mortgagees.**

The revised net worth requirements established by the April 20, 2010, final rule are codified in 24 CFR 202.5(n). As of May 20, 2011, FHA-approved non-small business lenders and mortgagees were required to have a minimum net worth of \$1 million "of which no less than 20 percent must be liquid assets consisting of cash or its equivalent acceptable to the Secretary" (§ 202.5(n)(2)(iii)). As of that same date, existing FHA-approved small business lenders and mortgagees were required to have a minimum net worth of \$500,000 "of which no less than 20

percent must be liquid assets consisting of cash or its equivalent acceptable to the Secretary” (§ 202.5(n)(2)(iv)).<sup>1</sup>

By May 20, 2013, all FHA-approved lenders and mortgagees, irrespective of size, are required to have a minimum net worth of \$1 million, plus an additional net worth of one percent of the total volume in excess of \$25 million of FHA single-family insured mortgages originated, underwritten, purchased, or serviced during the prior fiscal year. Further, the regulations require that “[n]o less than 20 percent of the ... required net worth must be liquid assets consisting of cash or its equivalent acceptable to the Secretary” (§ 202.5(n)(3)(i)).

As the quoted language above indicates, the wording of the liquidity requirement differs slightly between § 202.5(n)(2)(iii) and (iv) (which establishes the requirements effective on May 20, 2011) and § 202.5(n)(3)(i) (which establishes the requirements effective on May 20, 2013). Specifically, § 202.5(n)(2)(iii) and (iv) omit the word “required” when referring to the portion of net worth that must be held in liquid assets. This difference is due to the grammatical context in which these provisions are located.

While the intent of the final rule was that the liquidity requirements apply solely to the required minimum net worth, HUD is concerned that the variation in wording is unclear and has the potential to confuse lenders and regulators alike. HUD has consistently interpreted the liquidity requirements as applying to the required minimum net worth; however, questions have arisen whether FHA-approved lenders and mortgagees are required to maintain liquid assets equivalent to 20 percent of their total net worth. In order to alleviate confusion and institute clarity, this final rule amends § 202.5(n)(2)(iii) and (iv) to explicitly refer to the approved lender or mortgagee’s required minimum net worth.

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<sup>1</sup> A small business lender or mortgagee is an existing lender or mortgagee whose size is less than or equal to “the size standard for its industry classification established by the Small Business Administration at 13 CFR 121.201 Sector 52 (Finance and Insurance), Subsector 522 (Credit Intermediation and Related Activities).”

In addition, this final rule makes a related technical correction to § 202.7, which sets forth requirements governing nonsupervised lenders and mortgagees. This final rule removes outdated paragraph (b)(2) of § 202.7, which formerly contained the liquidity requirements for nonsupervised lenders and mortgagees, but has been superseded by the liquidity requirements established by the April 20, 2010, final rule at § 202.5(n). Section 202.5(n) specifies that the new net worth and liquidity requirements “apply to supervised and nonsupervised lenders and mortgagees.”

B. Definition of sponsored third-party originator.

The April 20, 2010, final rule eliminated HUD’s approval of loan correspondents. Loan correspondents may continue to participate in the origination of FHA mortgage loans as sponsored third-party originators through association with a sponsoring FHA-approved mortgagee, but sponsored third-party originators are no longer subject to the FHA lender approval process.

Removing the required HUD approval for loan correspondents was not meant to preclude FHA-approved mortgagees from acting as sponsored third-party originators. However, the current definition of a sponsored third-party originator in § 202.8(a)(3) could be read as prohibiting FHA-approved mortgagees from acting as sponsored third-party originators. It states that a “third-party originator does not hold a Title I Contract of Insurance or Title II Origination Approval agreement . . . .” This final rule revises the definition of a sponsored third-party originator to clarify that a sponsored third-party originator may hold a Title I Contract of Insurance or Title II Origination Approval Agreement if it is also an FHA-approved lender or mortgagee.

C. Consistent use of the term “sponsored third-party originator” in FHA regulations.

In addition, this rule will make technical corrections to HUD's regulations by removing references to loan correspondents, loan originators, and other outdated terms, where applicable. Where appropriate, this final rule replaces these terms with "sponsored third-party originator." However, since HUD does not approve sponsored third-party originators, references to loan correspondents, loan originators, and like phrases will be removed without replacement where the regulations are applicable only to FHA-approved entities.

The HUD regulations affected by these corrections are those governing the Mortgagee Review Board (24 CFR part 25), civil money penalties (24 CFR part 30), FHA Title I property improvements and manufactured home loans (24 CFR part 201), approval of lending institutions and mortgagees (24 CFR part 202), single-family mortgage insurance (24 CFR part 203) and home equity conversions mortgage insurance (24 CFR part 206). The specific regulations revised by this final rule are §§ 25.3, 25.5, 25.6, 30.10, 30.36, 30.60, 201.2, 202.8, 203.5, 203.255, and 206.31.

## **II. Justification for Final Rulemaking**

In general, HUD publishes a rule for public comment before issuing a rule for effect, in accordance with HUD's regulations on rulemaking at 24 CFR part 10. Part 10, however, provides, in § 10.1, for exceptions from that general rule where HUD finds good cause to omit advance notice and public participation. The good cause requirement is satisfied when the prior public procedure is "impracticable, unnecessary, or contrary to the public interest."

HUD finds that good cause exists to publish this rule for effect without soliciting public comment, on the basis that public procedure is unnecessary. All of the changes made by this rule are technical in nature and do not make any substantive changes to HUD's requirements for individuals and entities participating in FHA programs. This rule merely makes conforming

changes to provisions regarding the liquidity requirements of FHA-approved lenders and mortgagees in order to provide clarification, removes or replaces obsolete references to “loan correspondents” and other outdated terms, and clarifies the original intent of the sponsored third-party originator definition.

### **III. Findings and Certifications**

#### Regulatory Flexibility Act

The Regulatory Flexibility Act (RFA) (5 U.S.C. 601 et seq.) generally requires an agency to conduct a regulatory flexibility analysis of any rule subject to notice and comment rulemaking requirements unless the agency certifies that the rule will not have a significant economic impact on a substantial number of small entities. As discussed above in this preamble, this rule does not establish or revise any FHA program requirements. This final rule is limited to conforming changes, technical corrections, and clarifications that reflect existing requirements. The rule does not make any substantive changes to HUD’s regulations and, therefore, does not affect a substantial number of small entities. Accordingly, for the above reasons, the undersigned certifies that this rule will not have a significant economic impact on a substantial number of small entities.

#### Executive Order 13132, Federalism

Executive Order 13132 (entitled “Federalism”) prohibits an agency from publishing any rule that has federalism implications if the rule either imposes substantial direct compliance costs on state and local governments and is not required by statute, or the rule preempts state law, unless the agency meets the consultation and funding requirements of section 6 of the Executive Order. This rule will not have federalism implications and would not impose substantial direct compliance costs on state and local governments or preempt state law within the meaning of the

Executive Order.

### Environmental Impact

This rule does not direct, provide for assistance or loan and mortgage insurance for, or otherwise govern or regulate, real property acquisition, disposition, leasing, rehabilitation, alteration, demolition or new construction, or establish, revise, or provide for standards for construction or construction materials, manufactured housing, or occupancy. This rule is limited to clarification and corrections to HUD's regulations. Accordingly, under 24 CFR 50.19(c)(1), this rule is categorically excluded from environmental review under the National Environmental Policy Act of 1969 (42 U.S.C. 4321).

### Unfunded Mandates Reform Act

Title II of the Unfunded Mandates Reform Act of 1995 (2 U.S.C. 1531-1538) (UMRA) establishes requirements for federal agencies to assess the effects of their regulatory actions on state, local, and tribal governments, and on the private sector. This final rule would not impose any federal mandates on any state, local, or tribal governments, or on the private sector, within the meaning of the UMRA.

### Catalogue of Federal Domestic Assistance

The Catalogue of Federal Domestic Assistance Number for the principal FHA single-family mortgage insurance program is 14.117.

## **List of Subjects**

### 24 CFR Part 25

Administrative practice and procedure, Loan programs-housing and community development, Organization and functions (Government agencies), Reporting and recordkeeping

requirements.

24 CFR Part 30

Administrative practice and procedure, Grant programs-housing and community development, Loan programs-housing and community development, Mortgages, Penalties.

24 CFR Part 201

Claims, Health facilities, Historic preservation, Home improvement, Loan programs-housing and community development, Manufactured homes, Mortgage insurance, Reporting and recording requirements.

24 CFR Part 202

Administrative practice and procedure, Home improvement, Manufactured homes, Mortgage insurance, Reporting and recordkeeping requirements.

24 CFR Part 203

Hawaiian Natives, Home improvement, Indians-lands, Loan programs-housing and community development, Mortgage insurance, Reporting and recordkeeping requirements, Solar energy.

24 CFR Part 206

Aged, Condominiums, Loan programs-housing and community development, Mortgage insurance, Reporting and recordkeeping requirements.

Accordingly, for the reasons stated in the preamble, HUD amends 24 CFR parts 25, 30, 201, 202, 203, and 206, as follows:

## PART 25 – MORTGAGEE REVIEW BOARD

1. The authority citation for part 25 continues to read as follows:

**Authority:** 12 U.S.C. 1708(c), 1708(d), 1709(s), 1715b, and 1735(f)–14; 42 U.S.C. 3535(d).

2. In § 25.3, remove the definition of “Loan correspondent” and revise the definition of “Mortgagee” to read as follows:

### **§ 25.3 Definitions.**

\* \* \* \* \*

Mortgagee. For purposes of this part, the term “mortgagee” includes:

- (1) The original lender under the mortgage, as that term is defined at sections 201(a) and 207(a)(1) of the National Housing Act (12 U.S.C. 1707(a), 1713(a)(1));
- (2) A lender, as defined in this section;
- (3) A branch office or subsidiary of the mortgagee or lender; or
- (4) Successors and assigns of the mortgagee or lender, as are approved by the Commissioner.

\* \* \* \* \*

3. In § 25.5, revise paragraphs (d)(1)(ii) and (e)(1)(ii) to read as follows:

### **§ 25.5 Administrative actions.**

\* \* \* \* \*

(d) \* \* \*

(1) \* \* \*

(ii) During the period of suspension, a lender may not originate new Title I loans under

its Title I Contract of Insurance or apply for a new Contract of Insurance.

\* \* \* \* \*

(e) \* \* \*

(1) \* \* \*

(ii) During the period of withdrawal, a lender may not originate new Title I loans under its Title I Contract of Insurance or apply for a new Contract of Insurance. The Board may limit the geographical extent of the withdrawal, or limit its scope (e.g., to either the single family or multifamily activities of a withdrawn mortgagee). Upon the expiration of the period of withdrawal, the mortgagee may file a new application for approval under 24 CFR part 202.

\* \* \* \* \*

4. Revise § 25.6(cc) to read as follows:

**§ 25.6 Violations creating grounds for administrative action.**

\* \* \* \* \*

(cc) Violation by a Title I lender of any of the applicable provisions of this section or 24 CFR 202.11(a)(2).

\* \* \* \* \*

**PART 30 – CIVIL MONEY PENALTIES: CERTAIN PROHIBITED CONDUCT**

5. The authority citation for part 30 continues to read as follows:

**Authority:** 12 U.S.C. 1701q–1, 1703, 1723i, 1735f–14, and 1735f–15; 15 U.S.C. 1717a; 28 U.S.C. 2461 note; 42 U.S.C. 1437z–1 and 3535(d).

6. In § 30.10, remove the definition of “Loan correspondent” and add the definition of “Sponsored third-party originator” in alphabetical order to read as follows:

**§ 30.10 Definitions.**

\* \* \* \* \*

Sponsored third-party originator. A sponsored third-party originator as defined at § 202.8 of this title.

7. Revise § 30.36(a)(8) to read as follows:

**§ 30.36 Other participants in FHA programs.**

(a) \* \* \*

(8) Sponsored third-party originators;

\* \* \* \* \*

8. In § 30.60, revise the section heading, paragraph (a) introductory text, and paragraph (a)(3) to read as follows:

**§ 30.60 Dealers or sponsored third-party originators.**

(a) General. The Assistant Secretary for Housing-Federal Housing Commissioner, or his or her designee, may initiate a civil money penalty action against any dealer or sponsored third-party originator that violates section 2(b)(7) of the National Housing Act (12 U.S.C. 1703). Such violations include, but are not limited to:

\* \* \* \* \*

(3) Failing to sign a credit application if the dealer or sponsored third-party originator assisted the borrower in completing the application;

\* \* \* \* \*

**PART 201 – TITLE I PROPERTY IMPROVEMENT AND MANUFACTURED HOME  
LOANS**

9. The authority citation for part 201 is amended to read as follows:

**Authority:** 12 U.S.C. 1703; 42 U.S.C. 3535(d).

10. In § 201.2, remove the definition of “Loan correspondent” and revise the definition of “Lender” to read as follows:

**§ 201.2 Definitions.**

\* \* \* \* \*

Lender means a financial institution that:

(1) Holds a valid Title I contract of insurance and is approved by the Secretary under 24 CFR part 202 to originate, purchase, hold, service, and/or sell loans insured under this part; or

(2) Is under suspension or holds a Title I contract of insurance that has been terminated, but that remains responsible for servicing or selling Title I loans that it holds and is authorized to file insurance claims on such loans.

\* \* \* \* \*

**PART 202 – APPROVAL OF LENDING INSTITUTIONS AND MORTGAGEES**

11. The authority citation for part 202 continues to read as follows:

**Authority:** 12 U.S.C. 1703, 1709, and 1715b; 42 U.S.C. 3535(d).

12. In § 202.5, revise paragraphs (n)(2)(iii) and (iv) to read as follows:

**§ 202.5 General approval standards.**

\* \* \* \* \*

(n) \* \* \*

(2) \* \* \*

(iii) Net worth requirements for non-small businesses. Each approved lender or mortgagee that exceeds the size standard for its industry classification established by the Small Business Administration at 13 CFR 121.201 Sector 52 (Finance and Insurance), Subsector 522 (Credit Intermediation and Related Activities) shall have a required minimum net worth of not less than \$1,000,000. No less than 20 percent of the approved lender or mortgagee's required minimum net worth must be liquid assets consisting of cash or its equivalent acceptable to the Secretary.

(iv) Net worth requirements for small businesses. Each approved lender or mortgagee that meets the size standard for its industry classification established by the Small Business Administration at 13 CFR 121.201 Sector 52 (Finance and Insurance), Subsector 522 (Credit Intermediation and Related Activities) shall have a required minimum net worth of not less than \$500,000. No less than 20 percent of the approved lender or mortgagee's required minimum net worth must be liquid assets consisting of cash or its equivalent acceptable to the Secretary. If, based on the audited financial statement or other financial report that is required to be prepared at the end of its fiscal year and provided to HUD at the commencement of the new fiscal year, an approved lender or mortgagee no longer meets the Small Business Administration size standard for its industry classification, the approved lender or mortgagee shall meet the net worth requirements set forth in paragraph (n)(2)(iii) of this section for a non-small business approved lender or mortgagee by the last day of the fiscal year in which the audited financial statement or other financial report, as applicable, was submitted.

\* \* \* \* \*

13. In § 202.7, revise paragraph (b)(1), remove paragraph (b)(2), and redesignate paragraphs (b)(3), (4), and (5) as paragraphs (b)(2), (3), and (4), respectively.

The revision reads as follows:

**§ 202.7 Nonsupervised lenders and mortgagees.**

\* \* \* \* \*

(b) \* \* \*

(1) Net worth and liquid assets. The net worth and liquidity requirements appear in § 202.5(n). \* \* \* \*

14. In § 202.8:

- a. Revise the section heading;
- b. In paragraph (a), revise the definition of “Sponsored third-party originator”;
- c. Revise paragraph (b); and
- d. Remove paragraph (c).

The revisions read as follows:

**§ 202.8 Sponsored third-party originators.**

\* \* \* \* \*

(a) \* \* \*

Sponsored third-party originator. A sponsored third-party originator may hold a Title I Contract of Insurance or Title II Origination Approval Agreement if it is an FHA-approved lender or mortgagee. If the sponsored third-party originator is not an FHA-approved lender or mortgagee, then the sponsored third-party originator may not hold a Title I Contract of Insurance

or Title II Origination Approval Agreement. A sponsored third-party originator is authorized to originate Title I direct loans or Title II mortgage loans for sale or transfer to a sponsor or sponsors, as defined in this section, that holds a valid Title I Contract of Insurance or Title II Origination Approval Agreement and is not under suspension, subject to the sponsor determining that the third-party originator has met the eligibility criteria of paragraph (b) of this section.

(b) Eligibility to originate loans to be insured by FHA. A sponsored third-party originator may originate loans to be insured by FHA, provided that:

(1) The sponsored third-party originator is working with and through an FHA-approved lender or mortgagee; and

(2) The sponsored third-party originator or an officer, partner, director, principal, manager, supervisor, loan processor, or loan originator of the sponsored third-party originator has not been subject to the sanctions or administrative actions listed in § 202.5(j), as determined and verified by the FHA-approved lender or mortgagee.

15. Revise § 202.12(a)(1)(ii) to read as follows:

**§ 202.12 Title II.**

\* \* \* \* \*

(a) \* \* \*

(1) \* \* \*

(ii) Customary lending practices. The customary lending practices of a mortgagee include all single family insured mortgages originated by the mortgagee, including mortgages that were originated by the mortgagee’s sponsored third-party originator(s).

\* \* \* \* \*

**PART 203 – SINGLE FAMILY MORTGAGE INSURANCE**

16. The authority citation for part 203 continues to read as follows:

**Authority:** 12 U.S.C. 1709, 1710, 1715b, 1715z–16, 1715u, and 1717z-21; 42 U.S.C. 3535(d).

17. Revise § 203.5(e)(3) to read as follows:

**§ 203.5 Direct Endorsement process.**

\* \* \* \* \*

(e) \* \* \*

(3) A mortgagee and an appraiser must ensure that an appraisal and related documentation satisfy FHA appraisal requirements, and both bear responsibility for the quality of the appraisal in satisfying such requirements. A Direct Endorsement Mortgagee that submits, or causes to be submitted, an appraisal or related documentation that does not satisfy FHA requirements is subject to administrative sanction by the Mortgagee Review Board pursuant to parts 25 and 30 of this title.

18. Revise § 203.255(b)(11) to read as follows:

**§ 203.255 Insurance of mortgage.**

\* \* \* \* \*

(b) \* \* \*

(11) A mortgage certification on a form prescribed by the Secretary, stating that the authorized representative of the mortgagee who is making the certification has personally reviewed the mortgage documents and the application for insurance endorsement, and certifying that the mortgage complies with the requirements of paragraph (b) of this section. The certification shall incorporate each of the mortgagee certification items that apply to the

mortgage loan submitted for endorsement, as set forth in the applicable handbook or similar publication that is distributed to all Direct Endorsement mortgagees;

\* \* \* \* \*

## **PART 206 – HOME EQUITY CONVERSION MORTGAGE INSURANCE**

19. The authority citation for part 206 continues to read as follows:

**Authority:** 12 U.S.C. 1715b, 1715z–1720; 42 U.S.C. 3535(d).

20. In § 206.31, revise paragraph (a)(1) to read as follows:

### **§ 206.31 Allowable charges and fees.**

(a) \* \* \*

(1) A charge to compensate the mortgagee for expenses incurred in originating and closing the mortgage loan, which may be fully financed with the mortgage. The Secretary may establish limitations on the amount of any such charge. HUD will publish any such limit in the Federal Register at least 30 days before the limitation takes effect. The mortgagor is not permitted to pay any additional origination fee of any kind to a mortgage broker or sponsored third-party originator. A mortgage broker's fee can be included as part of the origination fee only if the mortgage broker is engaged independently by the homeowner and there is no financial interest between the mortgage broker and the mortgagee.

\* \* \* \* \*

Dated: August 20, 2012

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Carol J. Galante  
Acting Assistant Secretary for Housing –

Federal Housing Commissioner

**[FR-5622-F-01]**

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