



24 CFR Parts 5 and 202

[Docket No. FR-6291-F-02]

RIN 2502-AJ60

Revision of Investing Lenders and Investing Mortgagees Requirements and Expansion of Government-Sponsored Enterprises Definition

AGENCY: Office of the Assistant Secretary for Housing—Federal Housing Commissioner, Department of Housing and Urban Development (HUD).

ACTION: Final rule.

SUMMARY: This rule amends the requirements for investing lenders and investing mortgagees to gain or maintain their status as a Federal Housing Administration (FHA) approved lender or mortgagee. This revision makes FHA’s approval requirements consistent with investing mortgagees’ and investing lenders’ risk, reduces barriers to FHA approval for new investing mortgagees and investing lenders, and increases access to capital for all FHA-approved mortgagees and lenders. HUD is clarifying that the general annual certification requirement for lenders and mortgagees is applicable to investing lenders and investing mortgagees. HUD is also defining Government-Sponsored Enterprises (GSEs) separately from other governmental-type entities to ensure that FHA requirements specific to loan origination do not apply to GSEs. Finally, HUD is eliminating obsolete language related to lender and mortgagee net worth requirements. This final rule adopts HUD’s July 18, 2023, proposed rule with minor revisions.

DATES: Effective: [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

FOR FURTHER INFORMATION CONTACT: Volky Garcia, Division Director, Department of Housing and Urban Development, 451 7th Street SW, Washington, DC 20410, telephone 202-402-8229 (this is not a toll-free number), email Volky.a.garcia@hud.gov. HUD welcomes and is prepared to receive calls from individuals who are deaf or hard of hearing, as well as from

individuals with speech or communication disabilities. To learn more about how to make an accessible telephone call, please visit

<https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

SUPPLEMENTARY INFORMATION:

I. Background

Current HUD regulations at 24 CFR part 202, subpart A, establish minimum standards and requirements for the Secretary to approve lenders and mortgagees to participate in FHA's Title I and Title II programs. Subpart B identifies the classes of lenders and mortgagees eligible to participate in FHA's Title I and Title II programs and outlines additional specific requirements for participation in the programs.

In 2010, HUD amended 24 CFR part 202, subpart A, to include investing lenders and investing mortgagees as a class of lenders and mortgagees subject to HUD's net worth requirements currently found at § 202.5(n). At the time the investing lender and investing mortgagee net worth requirement change was made in 2010, HUD also incorporated new financial reporting, audit, and quality control plan requirements for investing lenders and investing mortgagees into various HUD handbooks; however, no corresponding updates were made to 24 CFR part 202, subpart B, to reflect the investing lender and investing mortgagee requirements. Additionally, FHA increased the minimum net worth requirements applicable to certain classes of lenders and mortgagees in 24 CFR part 202 in 2010. These new net worth requirements were phased in over a period of three years, beginning on May 20, 2010, and becoming fully phased in by May 20, 2013. The net worth requirements during that three-year transition period are now obsolete, but the phased-in net worth requirements language remains in HUD's regulations.

Current HUD regulations at § 202.10 also define the classes of lenders and mortgagees that qualify as governmental institutions, Government-Sponsored Enterprises, public housing

agencies, and State housing agencies. Currently, various GSEs¹ are included in the § 202.10(a) definition along with Federal, State, or municipal governmental agencies and Federal Reserve Banks at § 202.10(a). For several years, certain GSEs have contended that they do not have the infrastructure that other lenders and mortgagees listed in § 202.10 have to ensure compliance with FHA requirements related to loan and mortgage origination because they cannot and do not originate loans or mortgages. FHA has reviewed the mission and structure of the GSEs and determined that they should not be subject to FHA requirements specific to loan and mortgage origination because the GSEs do not originate loans or mortgages.

II. The Proposed Rule

On July 18, 2023, HUD published for public comment a proposed rule (88 FR 45863) to amend 24 CFR parts 5 and 202, which govern numerous administrative requirements for investing lenders and investing mortgagees. The proposed rule sought to add investing lenders and investing mortgagees to the list of entities that must comply with the uniform financial reporting standards found in 24 CFR 5.801(a)(5). The rule proposed to adjust audit and certification requirements for investing lenders and investing mortgagees, as well as to delete obsolete language regarding phased-in net worth requirements currently found at § 202.5(n)(2). In addition, the proposed rule aimed to clarify that investing lenders and investing mortgagees without servicing authority do not have to implement a written quality control plan under § 202.5(h).

III. This Final Rule

The final rule adopts the proposed rule with three changes. First, it makes a clarifying edit to the language of § 202.5(h). In the proposed rule, HUD sought to clarify existing regulatory language and exempt investing lenders and investing mortgagees from the § 202.5(h) requirement that they implement a quality control plan. Public comments stated that the proposed

¹ The GSEs are the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation (commonly known as Freddie Mac), and the Federal National Mortgage Association (commonly known as Fannie Mae).

language was unclear. In response, HUD is amending the proposed text of § 202.5(h) to clarify the exception for investing lenders and investing mortgagees.

The second change adds the word “investing” before the phrase “lender or mortgagee” throughout § 202.9(b)(4) to ensure uniformity in § 202.9(b). This change is not substantive because the section is limited to investing lenders and investing mortgagees by the existing regulatory text and does not change any auditing, compliance, or reporting requirements. In addition, this change will serve to clarify who must submit audit reports under § 202.9(b)(4).

The third change is a non-substantive change that revises the first sentence of § 202.9(a) to clarify the definition of investing lender or investing mortgagee. Specifically, the change adds specific cross-references that more clearly identify when an organization is not an investing lender or investing mortgagee.

IV. Public Comments

The public comment period closed on September 18, 2023, and HUD received four distinct comments related to the proposed rule. The comments were from Housing Finance Authorities (HFAs), a nonprofit that works with HFAs, and an interested individual. A detailed breakdown of the comments and HUD responses is provided below.

Support for the proposed annual certification requirement language in § 202.5(m).

Two commenters supported the proposed amendment to § 202.5(m), which would require investing lenders and investing mortgagees to certify that they have not been refused a license and have not been sanctioned by any State(s) in which it will purchase, hold, sell, or service FHA-approved loans or mortgages.

HUD Response: HUD appreciates the stakeholder feedback in support of the proposed amendment to § 202.5(m).

No concerns with the proposed net worth requirements in § 202.5(n).

One commenter stated that they have no concerns with the proposed capital standards that would require investing lenders and investing mortgagees to maintain a certain net worth based on the size of their portfolios, as detailed by the proposed language for § 202.5(n).

HUD Response: HUD appreciates the stakeholder feedback; however, there is no change to the net worth requirement. Investing lenders and investing mortgagees are already required to comply with the general approval requirements in § 202.5, including the net worth requirements in § 202.5(n). The rule deletes the phased-in net worth requirements for years 2010 and 2011 currently found at § 202.5(n)(2) because the requirements are fully phased-in.

The proposed rule could negatively impact the availability of FHA-approved mortgages.

One commenter stated that the proposed rule would reduce the incentives for investing lenders and investing mortgagees to originate or purchase FHA-insured mortgages because GSEs or other entities that are eligible to purchase or securitize FHA-insured mortgages would face “lower requirements and fees” compared to investing lenders and investing mortgagees. The commenter stated that the decrease in demand by investing lenders and investing mortgagees could hurt the viability of FHA’s programs and increase the financial risk to FHA’s portfolio by centralizing lower quality loans within one institution. The commenter suggested that HUD monitor the impact of the rule on the availability of FHA-supported mortgages or loans after implementation and enact adjustments as needed.

HUD Response: HUD appreciates the commenter’s concerns but believes the impact on availability will be minimal given the provisions of the rule are mostly clarifying in nature with limited changes. This impact is minimal, in part, because investing lenders and investing mortgagees are not authorized to originate Title I loans or Title II mortgages as described in § 202.9(a). In § 202.9, HUD further clarifies the definition of an investing lender and investing mortgagee and updates and clarifies the existing financial statement and audit requirements. With respect to revising the GSE definition, the regulatory text now aligns with the mission and

structure of the GSEs. HUD will continue to monitor the availability of FHA-insured mortgages after this rule becomes effective.

Increased risk to FHA's portfolio and the stability of the secondary market.

One commenter stated that the investing requirements and redefinition of the GSEs under the proposed rule, when taken together, could shift many of the loans and mortgages under Title I and Title II to GSEs like Fannie Mae and Freddie Mac. According to the commenter, this centralization could increase the risk to FHA's portfolio as well as reduce the stability and liquidity in the secondary housing market. The commenter recommended that HUD analyze and more thoroughly consider the impact of the proposed rule on the stability and resilience of the secondary mortgage market, as well as on consumer protection.

HUD Response: The rule makes clarifying edits and limited updates to §§ 202.5, 202.9, and 202.10 with respect to the definition of an investing lender and investing mortgagee, investing lender and investing mortgagee financial statement and audit requirements, annual certification language, and the GSE definition. Given that the rule is limited to clarifying edits and minimal updates, HUD does not foresee that the rule will lead to investing lenders or investing mortgagees exiting the secondary market. Accordingly, HUD does not anticipate that the rule will lead to a shift of loans and mortgages to GSEs. In addition, the rule removes obsolete language that is no longer applicable and updates current regulatory citations. HUD will continue to monitor for any secondary market impacts after this rule becomes effective.

The proposed audit requirements are burdensome and unnecessary.

The commenter said the proposed rule would lead to HFAs, that are approved as investing lenders and investing mortgagees, drawing from resources dedicated to substantive projects to ensure compliance with the proposed audit requirement. According to the commenter, this would occur because many programs that HFAs administer do not provide administrative funds while others provide insufficient administrative funds or only enough to barely cover the costs of administering the programs. The commenter also said that these requirements are

unnecessary because HFAs, as well as other State and local programs, are subject to substantial public oversight by State auditors, State executives, and State legislatures. The commenter stated that this oversight renders the information sought by HUD duplicative of existing, publicly available information.

HUD Response: The Federal regulations found at § 202.5 exempt HFAs from the auditing requirements, which make it unnecessary for HFAs to draw from resources dedicated to substantive projects to complete these requirements. In addition, HFAs are approved as government mortgagees subject to the requirements of §§ 202.5 and 202.10, and the government mortgagee requirements in the HUD OIG's HUD Consolidated Audit Guide and the FHA Single Family Housing Policy Handbook 4000.1.

HFAs with small portfolios should be exempt from § 202.9(b)(4)(i).

One commenter requested that HUD consider excluding from some or all of the proposed rules HFAs which may technically own FHA mortgages but have a diminishing portfolio that is serviced by an FHA approved mortgagee. The commenter stated the proposed § 202.9(b)(4)(i) requirement that investing lenders and investing mortgagees provide an analysis of escrow funds would be difficult because HFAs do not have access to the required knowledge or information, which is a problem that is amplified when the portfolio is small. The commenter stated that the information is instead possessed by the original or underlying FHA-approved mortgage and should be provided to HUD under current regulations.

HUD Response: The § 202.9(b)(4)(i) requirement pertaining to an analysis of escrow funds is only applicable to investing lenders and investing mortgagees. This section does not apply to HFAs, which are classified as government mortgagees. An HFA, as a government mortgagee, must only comply with the applicable requirements in § 202.5, § 202.10, the HUD Consolidated Audit Guide, and the FHA Single Family Housing Policy Handbook 4000.1. This final rule adds language to the definition of investing lender or investing mortgagee in to

§ 202.9(a) to more clearly identify organizations that are not investing lenders or investing mortgagees.

The proposed quality control plan language is unclear in § 202.5(h).

Two commenters stated support for exempting investing lenders and investing mortgagees from the requirement that they implement a quality control plan to ensure compliance with the regulation. However, both commenters said the proposed language was “difficult to parse” because the clause containing the phrase “unless approved under § 202.9 without servicing authority” does not clearly identify that investing lenders and investing mortgagees are exempt from the quality control plan requirement. The commenters suggested the lack of clarity could be addressed by moving the phrase “without servicing authority” from its original clause and placing it after the opening phrase of “lenders or mortgagees.” One commenter provided a second solution, stating the proposed rule could implement the “eminently clear” language from the preamble.

HUD Response: HUD appreciates the commenters’ suggested language revisions to § 202.5(h) and has amended the final rule to address the commenters’ suggestions. Specifically, HUD has moved the phrase “unless approved under § 202.9 without servicing authority” to the end of the sentence. In addition, the sentence has minor clarifying edits.

Lack of clarity on whether entities would be regulated under a single GSE definition and if so, how it would be done.

A commenter said that the proposed rule would expand the definition of GSEs to include any entity that is chartered by Congress to provide secondary market liquidity regardless of whether it is owned or controlled by the Federal Government. Specifically, the commenter stated that the proposed expansion to the definition of GSEs “could include entities such as Ginnie Mae or Farmer Mac” that currently have different levels of Federal support than Fannie Mae and Freddie Mac. The commenter also stated that “the proposed rule does not specify how these entities would be regulated under a single definition of GSEs, or whether there would be a single

regulator for all of them.” The commenter said that this is a problem because the rule does not specify how these entities would be regulated by HUD in a uniform manner or whether there would be a single regulator for all of them. According to the commenter, these issues might create confusion or inconsistency in the oversight and regulation of these entities.

HUD Response: The final rule aims to distinguish GSEs from all other governmental institutions and does not change which entities fall under the GSE definition. HUD moved the definition of GSE into § 202.10(b) without changing the list of entities meeting the definition. HUD’s definition of GSE, which is located at § 202.10(a), includes the Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association. The GSE definition does not include the Governmental National Mortgage Association (Ginnie Mae) or The Federal Agricultural Mortgage Corporation (Farmer Mac). The rule will not change how these entities are regulated but does make clear that GSEs have limited authorizations and are not subject to the FHA requirements that are specific to loan or mortgage origination.

The proposed GSE definition could affect the accountability and transparency of entities like Ginnie Mae and Farmer Mac.

A commenter stated that the proposed definition of GSEs could reduce the accountability and transparency of Ginnie Mae and Farmer Mac, as well as their access to Federal subsidies and support. The commenter said that this could happen because “Ginnie Mae has an explicit guarantee from the Federal Government that its securities will be paid, while Farmer Mac has no explicit guarantee from the Federal Government but has some tax exemptions and borrowing privileges.” This concern led the commenter to suggest that HUD ensure that these entities are subject to adequate oversight, supervision, and disclosure by their regulators, Congress, and the public.

HUD Response: Current regulation combines governmental institutions and GSEs in its definition, requiring GSEs to follow policy specific to loan origination even though they do not originate FHA loans. The final rule defines GSEs separate and apart from all other governmental

institutions and reduces the administrative burden of having to adhere to compliance requirements that are not related to the functions they are performing. The final rule makes clear that GSEs have limited authorizations and are not subject to the FHA requirements that are specific to loan or mortgage origination. Also, the GSE definition does not include Ginnie Mae and Farmer Mac. This exclusion means that changes to the GSE definition will not lead to transparency issues with Ginnie Mae and Farmer Mac. HUD does not foresee an impact on the secondary housing market but will continue to monitor this after the rule becomes effective.

The proposed GSE definition could impact Fannie Mae's and Freddie Mac's conservatorship reform.

One commenter stated that the proposed rule would affect the role and function of Fannie Mae and Freddie Mac in the housing finance system, which is currently undergoing a major reform process. The commenter said the reform process aims to end the conservatorship of Fannie Mae and Freddie Mac, which has been in place since 2008, and to establish a more competitive and efficient secondary mortgage market. The commenter warned the proposed rule could have implications for the timing and outcome of the reform process, as well as for the future structure and governance of Fannie Mae and Freddie Mac.” The commenter suggested that HUD coordinate with other Federal agencies to ensure consistency and alignment of policies and standards related to housing finance reform.

HUD Response: Certain GSEs, unlike many other lenders or mortgagees, do not have the infrastructure available to ensure compliance with FHA requirements. The final rule relieves GSEs of these requirements by defining GSEs separate and apart from all other governmental institutions. This definition makes clear that GSEs have limited authorizations and does not amend the programs or services provided by Fannie Mae and Freddie Mac. Given that the final rule only changes compliance requirements to ensure appropriateness with the limited nature of authorizations for GSEs, HUD does not believe the change will impact the role and function of

Fannie Mae and Freddie Mac in the housing finance system or the Federal Housing Finance Agency's oversight of Fannie Mae and Freddie Mac.

GSE exclusion based on origination authority should apply to similarly situated HFAs.

One commenter stated that the reasoning provided in the proposed rule for excluding GSEs from FHA requirements specific to loan or mortgage origination, which is that GSEs cannot originate loans, is applicable to many HFAs. The commenter recommended that these similarly situated HFAs be treated like GSEs and be exempted from the loan or mortgage origination requirements as appropriate.

HUD Response: HUD notes that all HFAs that currently participate in FHA's Title I and Title II programs are approved as government mortgagees authorized to perform activities associated with loan or mortgage origination. While FHA understands from the commenters that not all HFAs currently originate, or are authorized to originate, HFA lending activities and authorizations can change over time. HUD also lacks the information needed to make an informed and reasoned judgment on whether it is appropriate to depart from the existing requirements for HFAs, as well as how such a change would be implemented, at this time. Accordingly, FHA is maintaining the current framework in § 202.10(a) for HFAs.

V. Findings and Certifications

Regulatory Review – Executive Orders 12866, 13563, and 14094

Pursuant to Executive Order 12866 (Regulatory Planning and Review), a determination must be made whether a regulatory action is significant and therefore, subject to review by the Office of Management and Budget (OMB) in accordance with the requirements of the order. Executive Order 13563 (Improving Regulation and Regulatory Review) emphasizes the importance of quantifying both costs and benefits, reducing costs, harmonizing rules, and promoting flexibility. The order also directs executive agencies to analyze regulations that are “outmoded, ineffective, insufficient, or excessively burdensome, and to modify, streamline, expand, or repeal them in accordance with what has been learned.” Executive Order 13563

further directs that, where relevant, feasible, and consistent with regulatory objectives, and to the extent permitted by law, agencies are to identify and consider regulatory approaches that reduce burdens and maintain flexibility and freedom of choice for the public. Executive Order 14094 entitled “Modernizing Regulatory Review” (hereinafter referred to as the “Modernizing E.O.”) amends section 3(f) of Executive Order 12866, among other things.

As discussed above, this rule defines GSEs under a separate definition within § 202.10. It clarifies the audit, financial statement, and certification requirements of investing lenders and investing mortgagees. It eliminates obsolete net worth requirements for investing lenders and investing mortgagees. This rule was determined not to be a “significant regulatory action” as defined in section 3(f) of Executive Order 12866 as amended by Executive Order 14094.

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. The changes in this rule are limited to defining GSEs under a separate definition within § 202.10; clarifying the audit, financial statement, and certification requirements of investing lenders and investing mortgagees; and eliminating obsolete language within 24 CFR part 202 regarding lenders and mortgagees net worth requirements. The minor nature of changes led HUD to conclude that the proposed rule was non-significant, a finding later affirmed by OMB. HUD solicited comments from the public at the proposed rule stage and received no comments suggesting that it would impose a significant economic impact on a substantial number of small entities. In addition, HUD is only making a minor clarifying edit to the final rule in response to public comments. Accordingly, the undersigned certifies that the rule will not have a significant economic impact on a substantial number of small entities.

Environmental Impact

This rule is categorically excluded from environmental review under the National Environmental Policy Act of 1969 under 24 CFR 50.19(c)(1) because it does not direct, provide for assistance or loan and mortgage insurance for, or otherwise govern or regulate, real property acquisition, disposition, rehabilitation, alteration, demolition, or new construction, or establish, revise or provide for standards for construction or construction materials, manufactured housing, or occupancy.

Executive Order 13132, Federalism

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

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 rule does not impose any Federal mandates on any State, local, or Tribal governments, or on the private sector, within the meaning of the UMRA.

List of Subjects

24 CFR Part 5

Administrative practice and procedure, Aged, Claims, Crime, Government contracts, Grant programs-housing and community development, Individuals with disabilities, Intergovernmental relations, Loan programs-housing and community development, Low and moderate income housing, Mortgage insurance, Penalties, Pets, Public housing, Rent subsidies,

Reporting and recordkeeping requirements, Social security, Unemployment compensation, Wages.

24 CFR Part 202

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

For the reasons stated in the preamble, HUD amends 24 CFR parts 5 and 202 as follows:

PART 5—GENERAL HUD PROGRAM REQUIREMENTS; WAIVERS

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

Authority: 12 U.S.C. 1701x; 42 U.S.C. 1437a, 1437c, 1437f, 1437n, 3535(d); 42 U.S.C. 2000bb *et seq.*; 34 U.S.C. 12471 *et seq.*; Sec. 327, Pub. L. 109-115, 119 Stat. 2396; E.O. 13279, 67 FR 77141, 3 CFR, 2002 Comp., p. 258; E.O. 13559, 75 FR 71319, 3 CFR, 2010 Comp., p. 273; E.O. 14015, 86 FR 10007, 3 CFR, 2021 Comp., p. 517.

2. In § 5.801, revise paragraph (a)(5) to read as follows:

§ 5.801 Uniform financial reporting standards.

(a) * * *

(5) HUD-approved Title I and Title II supervised, nonsupervised, and investing lenders and investing mortgagees.

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PART 202—APPROVAL OF LENDING INSTITUTIONS AND MORTGAGEES

3. 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).

4. In § 202.5, revise paragraph (h), (m) introductory text, and (n)(1) and (2), and remove paragraph (n)(3) to read as follows:

§ 202.5 General approval standards.

* * * * *

(h) *Quality control plan.* Lenders or mortgagees shall implement a written quality control plan, acceptable to the Secretary, that assures compliance with the regulations of this chapter and other issuances of the Secretary regarding loan or mortgage origination and servicing unless the lenders or mortgagees were approved under § 202.9 without servicing authority.

* * * * *

(m) *Reports.* Each lender and mortgagee must submit an annual certification on a form prescribed by the Secretary. Upon application for approval and with each annual recertification, each lender and mortgagee must submit a certification that it has not been refused a license and has not been sanctioned by any State or States in which it will originate, purchase, hold, sell, or service insured mortgages or Title I loans. In addition, each mortgagee shall file the following:

* * * * *

(n) * * *

(1) *Applicability.* The requirements of paragraph (n) of this section apply to approved supervised and nonsupervised lenders and mortgagees under §§ 202.6 and 202.7, and approved investing lenders and investing mortgagees under § 202.9. For ease of reference, these institutions are referred to as “approved lenders or mortgagees” for purposes of paragraph (n) of this section. These requirements also apply to applicants for FHA approval under §§ 202.6, 202.7, and 202.9. For ease of reference, these institutions are referred to as “applicants” for purposes of paragraph (n) of this section.

(2) *Requirements—(i) Single family net worth requirements.* Irrespective of size, each applicant and each approved lender or mortgagee for participation solely under the FHA single family programs shall have a net worth of not less than \$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, up to a maximum required net worth of \$2.5 million. No less than 20 percent of the applicant's or

approved lender's or mortgagee's required net worth must be liquid assets consisting of cash or its equivalent acceptable to the Secretary.

(ii) *Multifamily net worth requirements.* Irrespective of size, each applicant for approval and each approved lender or mortgagee for participation solely under the FHA multifamily programs shall have a net worth of not less than \$1 million. For those multifamily approved lenders or mortgagees that also engage in mortgage servicing, an additional net worth of one percent of the total volume, in excess of \$25 million, of FHA multifamily mortgages originated, purchased, or serviced during the prior fiscal year, up to a maximum required net worth of \$2.5 million. For multifamily approved lenders or mortgagees that do not perform mortgage servicing, an additional net worth of one half of one percent of the total volume, in excess of \$25 million, of FHA multifamily mortgages originated during the prior fiscal year, up to a maximum required net worth of \$2.5 million. No less than 20 percent of the applicant's or approved lender's or mortgagee's required net worth must be liquid assets consisting of cash or its equivalent acceptable to the Secretary.

(iii) *Dual participation net worth requirements.* Irrespective of size, each applicant for approval and each approved lender or mortgagee that is a participant in both FHA single family and multifamily programs must meet the net worth requirements as set forth in paragraph (n)(2)(i) of this section.

* * * * *

6. In § 202.9:

a. Revise the section heading and paragraph (a);

b. In paragraphs (b) introductory text and (b)(1) and (2), remove the words “investing lender or mortgagee” and add, in their place, the words “investing lender or investing mortgagee”; and

c. Revise paragraph (b)(3) and add paragraph (b)(4).

The revisions and addition read as follows:

§ 202.9 Investing lenders and investing mortgagees.

(a) *Definition.* An investing lender or investing mortgagee is an organization that is not approved as a supervised lender or mortgagee under § 202.6, a nonsupervised lender or mortgagee under § 202.7, or a governmental or similar institution under § 202.10. An investing lender or investing mortgagee may purchase, hold, or sell Title I loans or Title II mortgages, respectively, but may not originate Title I loans or Title II mortgages in its own name or submit applications for the insurance of mortgages. An investing lender or investing mortgagee may not service Title I loans or Title II mortgages without prior approval of the Secretary.

(b) * * *

(3) *Fidelity bond.* An investing lender or investing mortgagee shall maintain fidelity bond coverage and errors and omissions insurance acceptable to the Secretary and in an amount required by the Secretary, or alternative insurance coverage approved by the Secretary, that assures the faithful performance of the responsibilities of the mortgagee.

(4) *Audit report.* An investing lender or mortgagee must comply with the financial reporting requirements in 24 CFR part 5, subpart H. Audit reports shall be based on audits performed by a certified public accountant, or by an independent public accountant licensed by a regulatory authority of a State or other political subdivision of the United States on or before December 31, 1970. Audit reports shall include:

(i) A financial statement in a form acceptable to the Secretary, including a balance sheet and a statement of operations and retained earnings, a statement of cash flows, an analysis of the investing lender's or mortgagee's net worth adjusted to reflect only assets acceptable to the Secretary, and an analysis of escrow funds; and

(ii) Such other financial information as the Secretary may require to determine the accuracy and validity of the audit report.

7. In § 202.10:

a. Revise paragraph (a);

- b. Remove paragraph (c);
- c. Redesignate paragraph (b) as paragraph (c); and
- d. Add new paragraphs (b) and (d).

The revision and additions read as follows:

§ 202.10 Governmental institutions, Government-Sponsored Enterprises, public housing agencies and State housing agencies.

(a) *Federal, state, and municipal governmental agencies and Federal Reserve Banks.* A Federal, State, or municipal government agency or a Federal Reserve Bank may be an approved lender or mortgagee. A mortgagee approved under this paragraph (a) may submit applications for Title II mortgage insurance. A lender or mortgagee approved under this paragraph (a) may originate, purchase, service, or sell Title I loans and insured mortgages, respectively. A mortgagee or lender approved under this paragraph (a) is not required to meet a net worth requirement. A lender or mortgagee shall maintain fidelity bond coverage and errors and omissions insurance acceptable to the Secretary and in an amount required by the Secretary, or alternative insurance coverage approved by the Secretary, that assures the faithful performance of the responsibilities of the mortgagee. There are no additional requirements beyond the general approval requirements in § 202.5 or as provided under paragraph (c) of this section.

(b) *Government-Sponsored Enterprises.* The Government-Sponsored Enterprises are the Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association. A Government-Sponsored Enterprise may be an approved lender or mortgagee. A lender or mortgagee approved under this paragraph (b) may purchase, service, or sell Title I loans and insured mortgages, respectively. A mortgagee or lender approved under this paragraph (b) is not required to meet a net worth requirement. There are no additional requirements beyond the general approval requirements in § 202.5.

* * * * *

(d) *Audit requirements.* The insuring of loans and mortgages under the Act constitutes “Federal financial assistance” (as defined in 2 CFR 200.1) for purposes of audit requirements set out in 2 CFR part 200, subpart F. Non-Federal entities (as defined in 2 CFR 200.1) that receive insurance as lenders and mortgagees shall conduct audits in accordance with 2 CFR part 200, subpart F.

Julia R. Gordon,

Assistant Secretary for Housing—

Federal Housing Commissioner.

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