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To: NRMLA Member Delegates
From: Darryl Hicks, Associate Director

HUD Issues Revised Mortgage Approval Handbook

HUD published revisions to its Mortgagee Approval Handbook. Signed by the FHA Commissioner on August 14, 2006, Revision 2 of HUD Handbook 4060.1 became available to the public via the Internet (www.hudclips.org) on Monday, August 21, and was effective immediately upon publication. HUD did not provide for a transition period for any of the changes or clarifications made by the Handbook

This newly revised Handbook applies to all FHA-approved mortgagees and loan correspondents, including those involved in the origination of HECM loans. Of critical importance to FHA approved mortgagees, or to those who wish to seek FHA approved status, is the HUD "clarification" in the revised handbook that all mortgagee employee compensation must be reported on W-2 forms.

The Handbook also re-states FHA's current stance with respect to part-time employment. It confirms that part-time (less than a "normal" 40 hour work week) employment is permitted, and that the employee may have other employment as well including self-employment, but that such other employment "may not be in mortgage lending, real estate or a related field."

Additionally, given the expanded lending area authority HUD has extended to approved mortgagee branch offices, HUD now has determined that satellite offices are no longer necessary or appropriate. As long as the mortgagee has FHA lending area authority in a given state, by virtue of an approved home or branch office, HUD will allow the mortgagee the discretion to determine where it takes the loan application. Case numbers, of course, may only be obtained through an approved main or branch office, and loan processing and servicing may be conducted only in an FHA approved office.

Additional Handbook changes include "clarification" of the principal activity test for non-supervised mortgagees and loan correspondents. A non-supervised mortgagee must spend a majority of its time and assets in the production of real estate mortgages and in the lending or investment of funds in real estate mortgages, or a directly related field. For FHA purposes, the principal activity of a non-supervised mortgagee, other than one organized as a not-for-profit entity, must contribute at least one-half of the entity's gross revenues, unless otherwise approved by FHA. The revised Handbook further removes the previous requirement for each branch office to have its own branch manager and also adds a chapter to the Handbook detailing the application, and the notification and certification requirements under different scenarios of business changes. For example, HUD now spells out the requirements governing notification and prior approval when an approved FHA mortgagee merges with an unapproved entity, or when majority ownership of an approved mortgagee changes.

HUD anticipates issuance of a Mortgagee Letter, within the next 90 days or so, to further clarify various changes made in the revised Mortgagee Approval Handbook. Among the “clarifications” that may be provided are whether, and the extent to which, limitations described in the newly revised Handbook with respect to the manner of compensating employees (W-2 only) and restrictions upon the part-time employment of employees (not in the mortgage or real estate fields) apply only to employees of the mortgagee engaged in the origination of FHA-insured mortgage loans. In the meantime, mortgagees should periodically check the Frequently Asked Questions (FAQ) section of the FHA Connection, under the “Lender Approval” link.

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