

NRMLA 2010 ANNUAL MEETING & EXPO

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Discovering the New World

TPO Time: The New Sponsor/Originator Relationships

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Panelists:

Sandy Tennekoon, Urban Financial Group/Reverse It, Tulsa, OK

John Nixon, Bank of America, Bellevue, WA

Pavan Agarwal, Sun West Mortgage Company, Cerritos, CA

Kimberly Kerrigan, Generation Mortgage Company, Atlanta, GA

Bill Trask, Security One Lending, San Diego, CA

Pete Engelken, Genworth Financial Home Equity Access, Inc., Rancho Cordova, CA

TPO Time Panel

Now that HUD has turned over responsibility for Third Party Originators to the lenders, what has the experience been like for both parties?

TPO Time Panel Agenda

- Overview of the New TPO Rule
- Brief Overview by Each Panelist
- Querying of the Panelists
- Q&A Session

TPO Time: Overview of the New Rule

- Proposed Rule, November 2009
- NRMLA Comments
- Final Rule April 2010
- ML 2010-20
- ML 2010-33

TPO Time: Overview of the New Rule

- No More FHA-Approved Loan Correspondents after Dec. 31, 2010
- Increased Net Worth for Mortgagees
- Allows Non-FHA-Approved to Originate, but not Close and Fund (at least not yet) FHA-Insured Single Family Loans

TPO Time: NRMLA Comments on the New Rule

- Expressed Concern with the Elimination of FHA-Approved Loan Correspondents
- Requested Maintaining a FHA-Approved Loan Correspondent Category for HECMs with a Lower Net Worth Requirement
- Continue to Look for More Guidance from HUD in the Near Future on Clarification of Originator Fees and TPOs Closing Loans in Their Own Name

TPO Time: Overview of the New Rule

- Each sponsor shall be responsible to HUD for the actions of its sponsored third-party originators:

- A non-approved TPO may originate loans to be insured by FHA, provided:
 - ✓ (1) The third-party originator is working with and through an FHA approved lender or mortgagee; and
 - ✓ (2) The TPO or an officer, partner, director, principal, manager, supervisor, loan processor, or loan originator of the TPO 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.

TPO Time: Overview of the New Rule

Mortgagees may not do business with TPOs that:

- (1) Be suspended, debarred, under a limited denial of participation (LDP), or otherwise restricted HUD rules, or under similar procedures of any other federal agency;
- (2) Be indicted for, or have been convicted of, an offense that reflects adversely upon the integrity, competency, or fitness to meet the responsibilities of the lender or mortgagee to participate in FHA programs;
- (3) Be subject to unresolved findings as a result of HUD or other governmental audit, investigation, or review;
- (4) Be engaged in business practices that do not conform to generally accepted practices of prudent mortgagees or that demonstrate irresponsibility;

TPO Time: Overview of the New Rule

Mortgagees may not do business with TPOs that:

- (5) Be convicted of, or have pled guilty or *nolo contendere* to, a felony related to participation in the real estate or mortgage loan industry:
 - ✓ (i) During the 7-year period preceding the date of the application for licensing and registration; or
 - ✓ (ii) At any time preceding such date of application, if such felony involved an act of fraud, dishonesty, or a breach of trust or money laundering;
- (6) Be in violation of provisions of the S.A.F.E. Act or any applicable provision of state law; or
- (7) Be in violation of any other requirement established by HUD.

TPO Time: Overview of the New Rule

To the extent that mortgagees seek guidance from HUD on how best to determine if TPOs adhere to FHA's processing and origination requirements and are eligible to participate in the origination of FHA-insured mortgage loans, HUD recommends that mortgagees develop and implement measures such as the following:

- (1) Procedures to verify TPO compliance with all federal, state, and local requirements that govern their activities;
- (2) procedures to verify TPO compliance with the requirements of the SAFE Act;
- (3) procedures to ensure that TPOs are not suspended, debarred, or under a limited denial of participation (LDP), in HUD's Credit Alert Interactive Voice Response System, or on the Federal Government's Excluded Parties list;
- (4) institutional guidelines and systems for establishing and maintaining relationships with TPOs;
- (5) procedures that govern the performance of due diligence;

TPO Time: Overview of the New Rule

- (6) systems for monitoring loan quality and performance for each sponsored TPO;
- (7) procedures for addressing potential problems with TPO operations, business practices, or customer service, and clearly articulated remedial processes for instances when such problems occur;
- (8) enhanced quality control plans and procedures that ensure appropriate evaluation of TPO originations;
- (9) ongoing renewal processes to ensure that TPOs continue to meet the mortgagee's approval standards; and
- (10) procedures for evaluating the financial capacity of TPOs. These are only recommendations on HUD's part, and no doubt many mortgagees already have such procedures, protocols, and systems in place.

TPO Time: Overview of the New Rule

- Mortgagees may not knowingly or willingly conduct business with TPOs that are not in compliance with all laws and regulations that govern their practices.
- If a mortgagee becomes aware of TPO noncompliance with any provision of law or regulation, FHA requires that the mortgagee cease sponsoring FHA loans on behalf of the TPO in question and proceed accordingly with regard to notifying HUD of such occurrences.

TPO Time: Overview of the New Rule

ML 2010-20

- Only FHA-approved mortgagees will be permitted to order FHA case numbers from FHA Connection.
- An FHA-approved mortgagee may permit its sponsored third party originator to perform all origination and processing tasks related to an FHA loan transaction, except for those tasks executed directly in FHA Connection.
- Sponsoring FHA-approved mortgagees will determine the exact origination and processing duties their sponsored third party originators may perform. Additionally, an approved mortgagee may permit a sponsored third party originator to originate Home Equity Conversion Mortgages (HECMs), provided that the sponsored third party originator adheres to all other HECM origination requirements.

TPO Time: Overview of the New Rule

ML 2010-33

- Mortgagees that wish to conduct business with sponsored originators are required to register these entities in FHA Connection
- Mortgagees will only be able to order a case number for a sponsored origination if the sponsored originator has been registered in FHA Connection.
- Mortgagees that request a case number for a sponsored origination will receive an error message if the sponsored originator has not been registered.
- Mortgagees must include TPO information on the loan application.

TPO Time: Brief Overview by Each Panelist

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TPO Time: Questions from the Moderator

- There was some confusion when the rule was first issued in April 2010, but was clarified by Mortgagee Letter. Did you begin to do business with non-FHA TPOs on May 20, 2010?
- If not, when did you begin to do business with non-FHA TPOs?
- If you have not yet begun approving and doing business with TPOs, when will you begin to conduct business with non-FHA TPOs?

TPO Time: Questions from the Moderator

- In terms of polices and procedures, what sort of in-take or set up requirements do you have or are you considering, first, in the area of financial requirements and net worth?
- What sort of background checks will you run – we know about MARI, but will there be other sources that you will use, credit checks, other background checks ?

TPO Time: Questions from the Moderator

- I assume you will use the Consumer Access page on the NMLS – if there are unsatisfactory items listed other, will you have a review or Comment process where potential TPOs can explain, clear up or cure such items?
- Will you conduct on site visits of your TPOs?
- Will you require TPOs to submit their advertisement for your review?

TPO Time: Questions from the Moderator

- In terms of your agreements with TPOs, are there certain representations and warranties that you will be looking to add beyond the usual and customary representations and warranties that one might expect to find in a lender-broker agreement?
- Are you looking for a certain threshold of loans in approving TPOs? Is it acceptable if a TPO sends you only a few loans a month? If not, will you establish certain thresholds?
- Is there a focus in your review and set up of TPOs – for instance, will you give preference to current approved Loan Correspondents? Will you focus on banks and credit unions?

TPO Time Panel

Q&A Session:

Questions from the Audience for the Panelists

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Jim Milano

Weiner Brodsky Sidman Kider PC

Washington, D.C.

www.wbsk.com

Milano@wbsk.com

202 628 2000

WEINER
BRODSKY
SIDMAN
KIDER PC

