

Direct Mortgage Wholesale*	Loan Amount	Payment		Rate	YSP	Closing Status	Lock
		PI	PITI				
30 Year	\$153,000.00	\$869.61	\$1,183.36	5.3750	-1.1190	Accept	Price Lock
20 Year	\$153,000.00	\$1,020.33	\$1,311.13	5.1250	-1.0740	Accept	Price Lock

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# FHA Application - Required Docs

\*\*Note -- brokers working with us will usually be considered non-supervised loan correspondents and as such, do not need Fidelity Bond and E&O Insurance documentation\*\*

**A. Explanation of Required Documentation.**

1. **Sponsor Cover Letter.** An application from a mortgagee applying for approval as a loan correspondent must be accompanied by a letter from an approved direct endorsement mortgagee that will be its Sponsor, signed by an executive officer of the Sponsor, requesting approval of the loan correspondent. The letter must contain the Sponsor's mortgagee Identification Number. The letter may also state the mortgagee will fund all loans where it is the sponsor.

2. **Application Fee.** Evidence that the application fee has been transmitted: copies of the check and the HUD form, Application Fee for Title II Mortgagee Approval, as transmitted to the lock box (see paragraph 2-7C). If a copy of the check is not included, a copy of the front and back of the canceled check will be requested.

3. **Application Form.** [HUD form 11701](#), Application for Approval--FHA Lender and/or Ginnie Mae Mortgage Backed Securities Issuer.

4. **Credit Reports.** An applicant, other than a supervised institution or a governmental institution, must order and pay for credit reports and submit the complete originals, with the application, directly to the Lender Approval and Recertification Division, HUD Headquarters.

a. Required are:

(1) Personal credit reports for the principals of the applicant, including the chairman of the board, president, vice presidents and any person or entity owning 25 percent or more of the mortgagee's voting stock or a controlling interest. Personal credit reports must be either Residential Mortgage Credit Reports (RMCR) or three-merged reports. Other types, e.g. in-file credit reports, are not acceptable.

(2) A commercial credit report, or a Dun & Bradstreet report, if a principal owner is a business entity.

(3) A commercial credit report or a Dun & Bradstreet report on the applicant. This is required even if the applicant is a start-up company.

b. A written explanation must be submitted by the applicant for all negative items disclosed by any credit report. Credit Reports are evaluated pursuant to the FHA underwriting guidelines as set forth at [HUD Handbook 4155.1](#), including any updates and/or revisions.

5. **Resumes.** The applicant must submit current resumes on senior officers with qualifying mortgage origination or servicing experience covering at least the previous seven years of employment. A Government Institution must provide resumes on the senior staff

person or persons designated to meet staffing and experience requirements. For details regarding experience requirements, refer to paragraph 2•9(B).

Instead of resumes or other documentation of experience, institutions applying to become supervised mortgagees or supervised loan correspondents may submit a list of officers involved with mortgage lending, together with each officer's Social Security Number.

6. **Financial Statements.** The applicant must submit its most current CPA prepared audited financial statements for the period ended not more than 12 months prior to submission of the application. The financial statements must be supplemented by a computation of adjusted net worth pursuant to chapter 7 of the most recent version of [HUD IG Handbook 2000.04](#), Consolidated Audit Guide for Audits of HUD Programs that also must be audited by the CPA.

For an ongoing business concern, a full set of financial statements is required:

- Balance sheet;
- Income statement;
- Cash flow statement;
- Retained earnings statement;
- Footnotes; and
- Auditor's report containing an unqualified (clean) opinion.

All financial statements must be prepared in accordance with Generally Accepted Accounting Principles (GAAP). The audit must be performed in accordance with Generally Accepted Auditing Standards (GAAS) by a Certified Public Accountant (or a Public Accountant licensed on or before Dec. 31, 1970) licensed to perform audits in the state in which the applicant's home office is located and who has not been suspended, debarred, or otherwise excluded from performing audits of mortgagees. The audit report must be complete, original and contain the auditor's report on the audit firm's letterhead stationery.

a. **New Company.** If the applicant is a new company and has had no revenues or cash flow, the income statement and cash flow statement are not required.

b. **Audited financial statements over six months old.** If the audited financial statements are for a period ended more than six months but less than 12 months prior to submission of the application, additional financial statements must be submitted. This shall be in the form of a full set of financial statements (unaudited) and a computation of adjusted net worth. The unaudited financial statements must be certified by management and be for the most recent interim accounting period, but not older than three months.

c. **Corrected Deficiency in Adjusted Net Worth.** If the computation of adjusted net worth shows inadequate adjusted net worth at the date of the financial statements and the applicant has corrected this deficiency prior to issuance of the auditor's report, then the auditor will report this as a subsequent event. A new computation of adjusted net worth must be provided and the audit reports shall be dual dated, when subsequent events relate to adjusted net worth. If the auditor's report has already been issued, the auditor must verify that the applicant subsequently met the net worth requirement and issue an opinion on it, including a new computation of adjusted net worth.

7. **Licenses.** An applicant applying for approval as a non-supervised mortgagee or a non-supervised loan correspondent must obtain all required licenses prior to, or in conjunction with, approval as a FHA mortgagee. Copies must be submitted with the application. If the State does not require that mortgage lenders be licensed, the applicant must certify to that in writing. If a State conditions the issuance of a State license upon the lender having a FHA approval, the Department can evidence its approval by signing the applicant's HUD Form 11701 which can then be provided to the State. However, the FHA ID number will not be issued until FHA receives a copy of the State license.

8. **State Approval of "dba".** If a mortgagee or any of its branch offices is using a "Doing Business As" (dba) name, it must submit with the application a copy of the DBA statement or assumed name certificate filed with the State. See also paragraph 2•14, regarding prohibited branch arrangements.
9. **Evidence of Acceptable Facilities.** An applicant applying for approval as a non-supervised mortgagee or a non-supervised loan correspondent must provide sufficient evidence that its facilities meet FHA requirements. See paragraph 2•13. The applicant must submit photographs of its facilities, including its entrance, with evidence of permanent identification to the public. The applicant must submit a floor plan, which may be hand-drawn. The applicant must also submit a certification, signed by a senior officer, that the facilities comply with FHA requirements. These submissions are in lieu of an on-site visit by FHA to the mortgagee's office facilities; however, FHA may still conduct an on-site visit. Evidence of acceptable facilities is not required for branch offices.
10. **Fidelity Bond.** All mortgagees, except loan correspondents, are required to maintain base coverage of \$300,000 in fidelity bonds covering the mortgagee's employees and agents. The Department does not require that it be the beneficiary of such coverage. A fidelity bond that is generally acceptable to the secondary market agencies, such as Ginnie Mae, Fannie Mae, and Freddie Mac, will meet FHA's requirement. An applicant must provide evidence of such coverage. A governmental institution may be exempt from this requirement if it maintains alternative insurance coverage approved by the Secretary, that assures the faithful performance of the responsibilities of the mortgagee.
11. **Errors and Omissions Insurance.** All mortgagees, except loan correspondents, are required to maintain base coverage of \$300,000 in errors and omissions insurance coverage. The Department does not require that it be the beneficiary of such coverage. Errors and omissions insurance that is generally acceptable to the secondary market agencies, such as Ginnie Mae, Fannie Mae or Freddie Mac, will meet FHA's requirement. An applicant must provide evidence of such coverage. A governmental institution may be exempt from this requirement if it maintains alternative insurance coverage approved by the Secretary, that assures the faithful performance of the responsibilities of the mortgagee.
12. **Quality Control Plan.** The applicant must submit a copy of its Quality Control Plan. See chapter 7 for details.
13. **Funding Program.** The applicant must provide a letter or letters establishing or confirming acceptable funding arrangements totaling not less than \$1 million, unless applying as a supervised mortgagee or Government Institution.
- a. **A Non-supervised Mortgagee**, except a mortgagee approved for participation only in the multifamily mortgage insurance programs, must maintain a warehouse line of credit or other mortgage funding program acceptable to the Department. Acceptable programs include table funding and concurrent funding arrangements. The program must be adequate to fund the mortgagee's average 60-day origination production pipeline, but not less than a \$1 million warehouse line of credit or funding program. The line of credit must be issued directly to the mortgagee. In lieu of a warehouse line of credit, a mortgagee may have a letter from a financial institution stating that it will fund all mortgages originated by the mortgagee.
- b. **A Non-supervised Loan Correspondent** must comply with the same funding requirements as a non-supervised mortgagee or have a written agreement or letter from each of its Sponsors to fund all mortgages that the sponsor underwrites. The application package must include, for each Sponsor, either:
- A separate agreement between the Sponsor and the non-supervised loan correspondent, which includes the funding provisions, or warehouse line of credit, or
  - A Sponsor letter containing the written agreement that the Sponsor will fund all mortgages it underwrites that were originated by the non-supervised loan correspondent.

c. **A Supervised Loan Correspondent** must have a letter or written agreement from each of its Sponsors that the Sponsor will purchase all FHA mortgages that the loan correspondent originates and that the Sponsor underwrites.

d. **An Investing Mortgagee** must have, or have arranged for, funds sufficient to support a projected investment in real estate mortgages of at least \$1 million.

14. **Sanctions Letter.** The applicant must certify that neither it nor any of its officers, directors, or principals, has been denied an operating license or otherwise sanctioned by any licensing or regulatory body. A state-licensed mortgagee must submit with its application for approval, a letter certifying to the Department that the mortgagee sought and has not been refused a license, and has not been sanctioned by any State or States in which it will originate insured mortgages. If the mortgagee or any of its officers, directors, or principals has been sanctioned or subject to an action by the State against its license, the applicant must submit a copy of the documents concerning the action together with a written explanation.

### 3-3 **Documentation for Specific Business Forms.**

A. **Partnership--Additional Documentation Required.** A partnership seeking approval as a mortgagee must include the following additional documentation with its application package:

1. **Names and Employer Identification Numbers of all general partners.**
2. **Identity of the designated managing general partner.** The officers and directors of the managing general partner must be listed, together with their Social Security Numbers, on the application, HUD form 11701.
3. **Principal business activity of managing general partner.** Evidence that the principal business activity of the managing general partner is the management of one or more partnerships, all of which are mortgage lenders, property improvement or manufactured home lenders; and that it has exclusive authority to deal with FHA on behalf of each partnership.
4. **Partnership term of existence.** Evidence that the partnership will exist for a minimum term of ten years and that in the event that a partner withdraws, the partnership is specifically authorized to continue its existence.

If the mortgagee certifies that it meets the requirements for partnerships as described in paragraph 2-2(B), a copy of the Partnership Agreement does not have to be submitted, unless requested by FHA.

### B. **Limited Liability Company--Additional Documentation Required.**

1. Names and Taxpayer Identifying Numbers of all members.
2. Names of managing member and FHA contact.
3. Copy of Operating Agreement.
4. Copy of Articles of Organization.

C. **Not-for-profit Entity.** A non-depository not-for-profit entity must provide evidence of its not-for-profit status. It may do this by providing a copy of its IRS Exemption Letter.

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