



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

February 10, 2012

Mortgagee Letter 2012-2

To: All Approved Lenders

Subject Closing a Loan in the Name of an FHA-Approved Mortgagee Acting as a Sponsored Third-Party Originator (TPO)

Purpose of Mortgagee Letter This Mortgagee Letter clarifies the requirements for the origination, closing, and submission for FHA insurance endorsement of loans via the sponsored third-party origination process.

Effective Date All requirements contained in this Mortgagee Letter are effective immediately.

Related Topics This Mortgagee Letter refers to Section 203(b)(1) of the National Housing Act, 12 U.S.C. § 1709(b)(1); 24 CFR § 202.8; HUD Handbook 4060.1 Rev.-2 Chapter 7; HUD Handbook 4155.2 Chapter 1.A.3, Chapter 2.B.1.a, Chapter 2.B.6; and Mortgagee Letters 2010-20, 2010-33, and 2011-02.

Non-FHA-Approved vs. FHA-Approved Sponsored TPOs A **non-FHA-approved** sponsored third-party originator does not hold a Title II Origination Approval Agreement and may not purchase or hold FHA-insured loans.¹

An **FHA-approved** mortgagee acting as a sponsored third-party originator is authorized to originate Title II mortgage loans for sale or transfer to a sponsoring FHA-approved lender or mortgagee which holds a valid Title II Origination Approval Agreement.

¹ See 24 CFR § 202.8 for the regulatory definition of a sponsored third-party originator.

**Closing Loans
in the Name of
Non-FHA-
Approved
Sponsored
TPOs**

Section 203(b) of the National Housing Act specifies that in order for a mortgage to be eligible for FHA insurance it must “have been made to, and be held by, a mortgagee approved by the Secretary...”² Therefore, non-FHA-approved sponsored third-party originators may not close loans in their own name. Instead, loans originated by a non-FHA-approved sponsored third-party originator must close in the name of the sponsoring FHA-approved mortgagee.

Since December 31, 2010, entities that were previously approved as FHA-approved Loan Correspondents but have not converted or obtained new FHA lender approval as a Title II Mortgagee, are no longer FHA-approved lenders and may not close loans in their own name.

**Closing Loans
in the Name of
FHA-
Approved
Mortgagees
Acting as
Sponsored
TPOs**

If an FHA-approved mortgagee chooses to act in the capacity of a sponsored third-party originator and originate loans for underwriting and approval by another sponsoring FHA-approved mortgagee, the originating mortgagee – due to its approval by the Secretary and in accordance with the requirements of the National Housing Act – may close the loans for which it acts as a sponsored third-party originator in its own name.

As of August 22, 2011, the FHA Connection was updated to permit an FHA-approved mortgagee acting as a sponsored third-party originator to have a Mortgage Insurance Certificate (MIC) issued in its own name. The sponsoring mortgagee must use the FHA Connection Insurance Application Screen to notify FHA in whose name – the FHA-approved mortgagee acting as a sponsored third-party originator or the sponsoring mortgagee – the MIC should be issued, and to what location the MIC should be mailed.

Example: See excerpt from the FHA Insurance Application Screen below

Sponsored Originator EIN:	[REDACTED]	Sponsor/Agent ID:	[REDACTED]
NMLS ID:	Not on File	NMLS ID:	Not on File
Loan Officer Name	[REDACTED]	Issue MIC in	<input type="radio"/> Yes <input checked="" type="radio"/> No
First, MI:	[REDACTED]	Sponsor Name:	
Last, Suffix:	BROWN [v]		
Loan Officer NMLS ID:	[REDACTED]	Mail to Sponsor:	<input checked="" type="radio"/> Yes <input type="radio"/> No

For additional changes made to the FHA Connection involving sponsored third-party originators, see Mortgagee Letters 2010-20 and 2010-33.

² 12 U.S.C. § 1709(b)(1).

**Responsibility
for
Sponsoring
TPOs**

All third-party originators must be sponsored by an FHA-approved Direct Endorsement (DE) lender.³ Both conditional and unconditional DE lenders, as defined by HUD Handbook 4155.2 Chapter 2.B.1.a, may act as sponsors. However, only unconditional DE lenders are authorized to set up a sponsored third-party originator in the Sponsored Originator Registry in the FHA Connection. Conditional DE lenders that are still in the “test case” process may not set up a sponsored third-party originator in the Registry; therefore conditional DE lenders may only sponsor third-party originators that are already in the system.

FHA-approved DE lenders that sponsor third-party originators are responsible for ensuring that each third-party originator they sponsor adheres to FHA’s requirements when originating loans for that lender. HUD expects sponsoring mortgagees to diligently monitor and evaluate the activities and performance of all third-party originators they sponsor, including FHA-approved mortgagees acting as sponsored third-party originators. For information on Quality Control requirements for Direct Endorsement lenders that sponsor third-party originators, see HUD Handbook 4060.1 Rev.-2 Chapter 7 and Mortgagee Letter 2011-02.

Failure of a sponsored third-party originator to comply with FHA requirements may result in FHA taking administrative action against the sponsoring mortgagee involved in the loan transaction. If an FHA-approved mortgagee violates FHA requirements while acting as a sponsored third-party originator during a loan transaction, the Department may take administrative action against both the sponsoring mortgagee for its failure to ensure loans originated through its sponsored third-party originator comply with FHA requirements, and also against the FHA-approved mortgagee acting as a sponsored third-party originator for its violation of FHA requirements. Such administrative action may be brought against the sponsoring mortgagee, the FHA-approved mortgagee acting as a sponsored third-party originator, or any individual acting on either party’s behalf and may include, but is not limited to, action by the Mortgagee Review Board, suspension, debarment or limited denials of participation, and/or the imposition of civil money penalties or other civil penalties and assessments.

**Information
Collection
Requirements**

Paperwork reduction information collection requirements contained in this Mortgagee Letter have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. §§ 3501-3520) and assigned OMB Control Number 2502-0059. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of

³ For more information on the relationship between sponsored third-party originators and sponsoring mortgagees, see HUD Handbook 4155.2 Chapter 1.A.3 and Chapter 2.B.6, and Mortgagee Letter 2010-20.

information unless the collection displays a currently valid OMB Control Number.

Questions

Additional information regarding this Mortgagee Letter may be obtained by contacting FHA's Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may access this number via TTY by calling the Federal Information Relay Service at (800) 877-8339.

Signature

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