# LENDERS UPDATE™

**A MONTHLY SERVICE TO THE MORTGAGE LENDING INDUSTRY**

AN ALT & ASSOCIATES NEWSLETTER


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**April 2010**
**SUPPLEMENT I**

The purpose of the Lenders Update is to provide a "heads-up" of new legislation and regulations affecting the mortgage lending industry. We provide summaries of new matters so our readers can judge whether the subject impacts their operations. We recommend that our readers review the entire new statute, regulation or other material in detail where it is relevant to them. For convenience, the applicable matter can be easily identified in the summary, and, where possible, a link is provided.

**The Update includes information available to Alt & Associates as of April 15, 2010.**

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## NEW HUD RULES PUBLISHED MODIFYING FHA NET WORTH AND APPROVAL REQUIREMENTS

**As we discussed in our most recent Lenders Update, the U S Department of Housing and Urban Development ("HUD") just published its final rule designed, in HUD's words, "to strengthen FHA by improving its management of risk".**

**This final rule results from the proposed rule announced on November 30, 2009. HUD has adopted some changes based on comments received after that period and HUD's own further consideration. This final rule becomes effective 30 days from the date of publication in the Federal Register ("Effective Date"), which should be within the next few days.**

**The final rule:**

- **increases the net worth requirements of FHA approved lenders to ensure "that FHA-approved mortgagees are sufficiently capitalized", and**
- **eliminates the FHA approval process for loan correspondents, but allows correspondents to continue as third party originators ("TPOs") through sponsorship by FHA approved mortgagees.**

**Specifically, the final rule incorporates the following provisions:**

## NET WORTH

### Initial Levels

- **Applicants for FHA approval must have a net worth of not less than one million dollars of which no less than 20% must be liquid assets consisting of cash or the equivalent.**
- **Small business as defined by the Small Business Administration ("SBA"), must have a net worth of not less than five hundred thousand dollars of which no less than 20% must be liquid assets, consisting of cash or the equivalent. These net worth requirements for small businesses remain applicable as long as the mortgagee continues to meet the SBA size standards.**
- **These new net worth requirements are effective immediately on the Effective Date of the new regulation for new applicants and effective 1 year after the Effective Date of the new rule for currently approved, supervised and non-supervised lenders and mortgagees and all investing lenders and mortgagees with FHA approval.**

### Long Term Levels

- **Three years from the Effective Date of the new rule, all new applicants seeking FHA approval to participate in FHA single family and multifamily programs, and all approved supervised and non-supervised lenders and mortgagees and all FHA-approved investing lenders and mortgagees, must have the following:**
  - **Regardless of the size of the entity, it must have a net worth of one million dollars plus an additional net worth of 1% of the total volume in excess of twenty five million dollars of FHA single family insured mortgages originated, underwritten, purchased or serviced during the prior fiscal year up to a maximum net worth of 2.5 million dollars of which 20% must be liquid.**
  - **If approved or seeking approval to participate in multifamily programs, the entity must also have a minimum net worth of one million dollars. If these lenders participate in multifamily mortgage servicing, an additional net worth is required, of 1% of the total volume in excess of twenty five million dollars of FHA multifamily mortgages originated, serviced or purchased during the prior fiscal year, up to a maximum net worth of 2.5 million.**

**Where the lenders do not service, the additional net worth requirement is ½ % of the same volume.**

## ELIMINATION OF FHA APPROVAL OF LOAN CORRESPONDENTS

**It should be noted that all loan correspondents approved as of the Effective Date of the final rule, will maintain their approval through December 31, 2010. However, after the Effective Date as we have defined it above, FHA will no longer approve new applicants for approval as loan correspondents. This means that loan correspondents will no longer be approved participants in FHA programs.**

**Correspondents, who will now be called Third Party Originators ("TPOs"), may continue to participate in FHA programs as TPOs but they will be sponsored by FHA approved mortgagees without FHA involvement. The standards for these approvals will be governed strictly by the standards imposed by individual lenders. These lenders will <u>assume full responsibility</u> to ensure that their sponsored TPOs adhere to FHA loan origination and process requirements.**

**New TPOs cannot close a loan in their own name. However, currently approved loan correspondents will be able to close loans up to December 31, 2010.**

**HUD has said it will continue to examine the operation of this new rule, but for now, it is final.**




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