

charges, such as level of risk or processing expenses. The Secretary may develop standards and definitions regarding mortgage types.

(8) *Recordkeeping.* Mortgagees are required to maintain records on pricing information, satisfactory to the Secretary, that would allow for reasonable inspection by HUD for a period of at least 2 years. Additionally, many mortgagees are required to maintain racial, ethnic, and gender data under the regulations implementing the Home Mortgage Disclosure Act (12 U.S.C. 2801-2810).

(b) *Servicing.* Any mortgagee that services mortgages must be approved by the Secretary under §202.6, §202.7 or §202.10, or be specifically approved for servicing under §202.9(a).

(c) *Report and corrective plan requirements.* If a mortgagee approved for participation in Title II programs is notified by the Secretary that it had a rate of defaults and claims on HUD-insured mortgages during the preceding year, or during recent years, which was higher than the normal rate, it shall submit a report, within 60 days, containing an explanation for the above-normal rate of defaults and claims, and, if required by the Secretary, a plan for corrective action with regard to mortgages in default and its mortgage processing system in general.

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AUTHORITY: 12 U.S.C. 1709, 1710, 1715b, 1715z-16, and 1715u; 42 U.S.C. 3535(d).

SOURCE: 36 FR 24508, Dec. 22, 1971, unless otherwise noted.

Subpart A—Eligibility Requirements and Underwriting Procedures

DIRECT ENDORSEMENT, LENDER INSURANCE, AND COMMITMENTS

§ 203.1 Underwriting procedures.

The three underwriting procedures for single family mortgages are:

(a) *Direct Endorsement*. This procedure, which is described in § 203.5, is available for mortgages that are eligible under § 203.3.

(b) *Lender insurance*. This procedure, which is described in § 203.6, is available for mortgages that are eligible for the Direct Endorsement program under § 203.5, and that are also approved according to § 203.4.

(c) *Issuing of commitments through HUD offices*. Processing through HUD offices as described in § 203.7, with issuance of commitments, is available only for mortgages that are not eligible for Direct Endorsement processing under § 203.5(b) or to the extent required in § 203.3(b)(4), § 203.3(d)(1), or as determined by the Secretary.

[62 FR 30225, June 2, 1997]

§ 203.3 Approval of mortgagees for Direct Endorsement.

(a) *Direct Endorsement approval*. To be approved for the Direct Endorsement program set forth in § 203.5, a mortgagee must be an approved mortgagee meeting the requirements of §§ 202.13, 202.14 or 202.17 and this section.

(b) *Special requirements*. The mortgagee must establish that it meets the following qualifications.

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(1) The mortgagee has five years of experience in the origination of single family mortgages. The Secretary will approve a mortgagee with less than five years experience in the origination of single family mortgages if a principal officer has had a minimum of five years of managerial experience in the origination of single family mortgages.

(2) The mortgagee has on its permanent staff an underwriter that is authorized by the mortgagee to bind the mortgagee on matters involving the origination of mortgages through the Direct Endorsement procedure and that is registered with the Secretary and such registration is maintained with the Secretary. The technical staff may be employees of the mortgagee or may be hired on a fee basis from a roster maintained by the Secretary. The mortgagee shall use appraisers permitted by § 203.5(e).

(3) [Reserved]

(4) The mortgagee must submit initially 15 mortgages processed in accordance with §§ 203.5 and 203.255. Separate approval is required to originate mortgages under part 206 of this chapter through the Direct Endorsement program unless at least 50 mortgages closed by the mortgagee have been insured under part 206 of this chapter prior to September 15, 1995. Other mortgagees who have not closed at least 50 mortgages under part 206 of this chapter must submit five (5) Home Equity Conversion Mortgages, processed in accordance with §§ 203.3 and 203.255. The documents required by § 203.255 will be reviewed by the Secretary and, if acceptable, commitments will be issued prior to endorsement of the mortgages for insurance. If the underwriting and processing of these 15 mortgages (or the 5 Home Equity Conversion Mortgages) is satisfactory, then the mortgagee may be approved to close subsequent mortgages and submit them directly for endorsement for insurance in accordance with the process set forth in § 203.255. Unsatisfactory performance by the mortgagee at this stage constitutes grounds for denial of participation in the program, or for continued pre-endorsement review of a mortgagee's submissions. If participation in the program is denied, such denial is effective immediately and may