

# Supporting Statement for Paperwork Reduction Act Submissions

## Quality Control Requirements for Direct Endorsement Lenders

### OMB Control Number

2502-New

#### A. Justification

1. This information collection package provides an estimate of the burden for Direct Endorsement (DE) lenders to perform quality control reviews of loans originated by third party originators (TPOs). As of January 1, 2011, mortgagees that were previously approved as loan correspondents will be able to participate as TPOs in FHA-insured mortgage transactions only if the conditions outlined in 24 CFR §202.8 are met. Per 24 CFR §202.8 (3), DE lenders which sponsor TPOs are responsible to the Secretary for the actions of third party originators or mortgagees in originating loans or mortgages, unless applicable law or regulation requires specific knowledge on the part of the party to be held responsible. As a result, DE lenders will be responsible for conducting quality control on TPO originations of FHA-insured mortgage loans and ensuring their QC plan is expanded to contain this oversight provision. This will create an additional information collection burden on DE lenders, since these institutions must also conduct quality control on all loans they originate and underwrite.

For the purposes of this information collection, it is estimated that DE lenders will conduct quality control on 10 percent of all loans they originate, underwrite, and sponsor via TPOs. DE lenders will also be responsible for quality control reviews of all early payment defaults (EPDs) for both their institution and FHA-insured loans originated by TPOs. There are no regulatory changes associated with this request.

2. This information will be used to monitor DE lenders' performance for potential risk to FHA's insurance funds. The information collected will also be used to determine DE lenders' compliance with FHA program requirements.
3. The burden associated with the approval process is the minimum required to achieve program objectives. Consideration for small business is not a factor. The Department does not anticipate a high volume of responses that would warrant developing automated processing. Each lender's quality control plan is uniquely customized to fit their institution's business model. Consequently, the creation of a blanket automated system to process responses would not be practical.
4. There are no duplicate methods in place to collect and monitor this information.
5. The information collected does not have a significant economic impact on a substantial number of small entities.
6. The information collection frequency is the minimum consistent with program objectives.
7. There are no special reporting requirements.
8. In accordance with the requirements of 5 CFR 1320.8(d), the Notice soliciting comments on this collection of information was published in the *Federal Register* on December 21, 2010 (Volume 75, Number 244 page 80066). No comments received.
9. There have been no payments or gifts to respondents.

10. The information collected is not of a confidential nature. HUD does not assure confidentiality to respondents.

11. This collection requirement does not request information that is sensitive in nature.

12. Estimated Annual Cost to Respondents.

Information Collection	No. of Respondents <sup>1</sup>	Frequency of Response <sup>2</sup>	Total Annual Responses <sub>3</sub>	Burden Hours Per Response	Total Annual Burden Hours	Hourly Cost <sup>4</sup>	Total Annual Cost
Quality control of early payment defaults (EPD)	1,853	1	13,872	1	13,872	\$22.38	\$310,455
Quality control of loan originations	1,853	1	155,286	.50	77,643	\$22.38	\$1,737,650
<b>Total</b>	<b>1,853</b>	<b>2</b>	<b>169,158</b>	<b>1.5</b>	<b>91,515</b>	<b>\$22.38</b>	<b>\$2,048,105</b>

- 1) The number of respondents was defined as the total number of Title II mortgagees with unconditional Direct Endorsement (DE) authority as of October, 8, 2010 and was obtained from the Office of Single Family Program Development. This figure was used as the projected number of sponsoring mortgagees as of January 1, 2011
- 2) It is anticipated that each DE mortgagee will respond to the information collection once per year
- 3) The total annual response for EPDs was based on the total number of EPDs for the 2010 fiscal year. This data was obtained from HUD's National Servicing Center, via the Single Family Data Warehouse. The total annual response for the quality control loan originations was based on the total number of loans originated in the 2010 fiscal year.
- 4) The estimated hourly cost per response is based on private sector hourly rate of an Underwriter I with a national average annual salary of \$46,560. This information was obtained from www.salary.com
- 5) The estimated total burden hours are based on the number of Direct Endorsement lenders that currently sponsor loan correspondents. This figure is used to determine the estimated number of third party originators for which quality control will be performed by Direct Endorsement lenders after December 31, 2010, when loan correspondent approval expires.
- 6) The total number of annual responses for quality control of loan originations was based on a 10 percent sample of the 1,552,856 insured loans originated by FHA-approved loan correspondents and sponsoring mortgages between 11/1/09 and 10/31/10. This sample size is the same as that which is required for originating lenders in HUD Handbook 4060.1, REV-2. HUD estimated that the sample would be representative of the total number of loans originated by third party originators and reviewed by sponsoring institutions after January 1, 2011

13. There are no additional costs to the respondents.

14. Estimated cost to the federal government.

Information Collection	No. of Respondents <sup>1</sup>	Frequency of Response <sup>2</sup>	Total Annual Responses <sub>3</sub>	Burden Hours Per Response <sup>4</sup>	Total Annual Burden Hours	Hourly Cost <sup>5</sup>	Total Annual Cost
<b>Review of DE Lender QC of EPD</b>	<b>1,853</b>	<b>1</b>	<b>13,872</b>	<b>1.0</b>	<b>13,872</b>	<b>\$29.00</b>	<b>\$402,288</b>
<b>Review of DE lender QC plans</b>	<b>1,853</b>	<b>1</b>	<b>1,853</b>	<b>2.0</b>	<b>3,706</b>	<b>\$29.00</b>	<b>\$107,474</b>
<b>Total</b>	<b>1,853</b>	<b>1</b>	<b>15,725</b>	<b>-</b>	<b>17,578</b>	<b>\$29.00</b>	<b>\$509,762</b>

- 1) The number of respondents was defined as the total number of Title II mortgagees with unconditional Direct Endorsement (DE) authority as of October, 8, 2010. This number was used as the projected number of sponsoring mortgagees as of January 1, 2011
  - 2) It is anticipated that each DE mortgagee will respond to the information collection once per year
  - 3) The total annual response for QC of EPD was based on the total number of EPDs for the 2010 fiscal year. This data was obtained from HUD's National Servicing Center, via the Single Family Data Warehouse. The total annual response for the quality control loan originations was based on the total number of loans originated in the 2010 fiscal year.
  - 4) The burden hour per response is based on the estimated time required for a Quality Assurance Division Housing Program Specialist to review a DE lender QC plan and its QC plan for EPDs in order to evaluate its compliance with HUD's third party originator oversight requirements.
  - 5) The estimated hourly cost per response is based on the 2010 hourly rate for a GS-12, Step 1 employee on the non-locality pay scale. Data was obtained from [www.opm.gov](http://www.opm.gov)
15. This is a new submission to cover information collection required to meet the Department's regulatory and programmatic requirements for oversight of sponsored third party originators (TPOs)
  16. This information collection does not include results that will be published.
  17. HUD is not seeking approval to avoid displaying the OMB expiration date.
  18. There are no exceptions to the certification statement identified in item 19 of the OMB 83-I.

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## **B. Collections of Information Employing Statistical Methods**

This information collection does not employ statistical methods.