

Supporting Statement for Paperwork Reduction Act Submissions

APPLICATION FOR HUD/FHA INSURED MORTGAGE FORMS HUD 92900-A, HUD-92900-B, HUD-92900-LT, HUD 92544, HUD-92561, Model Notice Informed Consumer Choice Disclosure, Model Pre-Insurance Review Checklist for Lender Insurance (OMB No. 2502-0059)

1. JUSTIFICATION

This information collection clearance package seeks to renew the OMB approval of 2502-0059. Section 203 of the National Housing Act (P.L.479, 48 Stat. 1246, 12 U.S.C. 1702 et seq.) authorizes the Secretary of HUD, upon application by the lender, to insure mortgages offered to him, which are eligible for insurance. Regulations codified at 24 CFR 203.1 through 203.681 detail the requirements pertinent to HUD's single family mortgage insurance programs, i.e., the eligibility requirements and underwriting procedures, which are determined by the documents included in this clearance package. Section 225(a) of the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1999 (HUD FY 1999 Appropriations Act) (Pub.L. No. 105-276; 112 Stat. 2461, approved October 21, 1998) amended section 203(b)(2) to the National Housing Act to add at the end of this section the following language:

“In conjunction with any loan insured under this section, an original lender shall provide to each prospective borrower a disclosure notice that provides a one page analysis of mortgage products offered by that lender and for which the borrower would qualify. This notice shall include: (i) a generic analysis comparing note rate (and associated interest payments), insurance premiums, and other costs and fees that would be due over the life of the loan for a loan insured by the Secretary under this subsection with note rates, insurance premiums (if applicable), and other costs and fees that would be expected to be due if the mortgagor obtained instead other mortgage products offered by the lender and for which the borrower would qualify with similar loan-to-value ratio in connection with a conventional mortgage . . . , assuming prevailing interest rates; and (ii) a statement regarding when the mortgagor's requirement to pay mortgage insurance premiums for a mortgage insured under this section would terminate or a statement that the requirement will terminate only if the mortgage is refinanced, paid off, or otherwise terminated.”

Regulations at 24 CFR Part 203 entitled “Mutual Mortgage Insurance and Rehabilitation Loans” specify the requirements for making application and obtaining loan approval of a HUD-insured mortgage loan. The Uniform Residential Loan Application (URLA), and form HUD-92900-A together constitute the “standard application form” called for at 24 CFR 203.255 of the regulations. Every mortgage application for insurance is used to determine eligibility in three general areas: (1) the proposed loan under the statute, i.e., term, mortgage amount, and ratios of loan-to-value or replacement cost; (2) the property with respect to compliance with HUD/FHA statutory and regulatory requirements; (3) and the proposed mortgage debt, including the borrower's ability to repay. FHA relies on the information provided to determine eligibility of the mortgage for FHA's insurance endorsement.

Without the information provided by forms URLA, HUD-92900-A, HUD-92900-B, HUD-92544, and HUD-92900-LT, HUD would have difficulty in determining eligibility and, consequently, the insurance fund for the single-family mortgage insurance programs would be placed in jeopardy. The information in the Informed Consumer Choice Notice is used by prospective mortgagees to disclose if mortgage products, other than FHA mortgage insurance for which the mortgagor qualifies, result in lower costs to the mortgagor over the life of the mortgage. The Model Pre-Insurance Review is used by mortgagees participating in the Lender Insurance program to determine if the loan meets HUD's requirements for FHA insurance.

2. Lenders obtain information from borrowers in the normal course of business. HUD does not ascribe burden hours to information provided by borrowers. Lenders then report information to FHA for the purpose of obtaining mortgage insurance.

Due to the instability of the market, lenders are promoting FHA-insured mortgages. While borrowers must meet certain requirements established by FHA to qualify for the insurance, lenders bear less risk because FHA will pay the lender if a homeowner defaults on his or her loan.

The specific items of this information collection are as follows:

- a. The URLA and **form HUD-92900-A** (Addendum to a URLA) are used in every case by the lender to make application for FHA mortgage insurance. Together they describe the parties involved, the property, and the conditions and terms on which the mortgage insurance will be based. Minor changes were made to HUD -92900-A. The form was revised to include three boxes for the identification of the loan origination company. The name of the loan origination company and tax identification are required. The NMLS ID of loan origination company may not be applicable to all originating companies.
- b. Documentation to make certain the borrowers have the capability to repay the debt, including, but not limited to, credit reports and credit scores; verification of income and employment; government assistance; rental income; housing and clothing allowances, hazard pay, rations and proficiency pay; alimony, child support or maintenance income; subsidy for mortgage payments; VA benefits; IRS form 2106; and/or trust agreements.
- c. Asset verification documents are required for every case and are used to make certain the borrowers have the capability to repay the debt and assets for the down payment and closing costs. Asset verification documents may include but are not limited to documents required for changes to property title; gift letters; bank account statements from borrowers and/or gift donors; cancelled checks; bill of sale; proof of ownership and value; final HUD-1 for sale of property; receipt of earnest money deposit; evidence that a retirement account can be cashed at any time; sweat equity documentation; and/or lease-purchase agreement.
- d. For determining borrower eligibility for mortgage insurance for disaster victims [Section 203(h)], documentation is required evidencing a permanent residence in a disaster area as well as documentation evidencing that the property was damaged to such an extent that reconstruction is necessary.
- e. For determining eligibility for insurance under the Energy Efficient Mortgage program, documentation is required involving a home energy rating as well as determining the cost effectiveness of eligible energy improvements.
- f. For purchase transactions where the sales contract does not contain a provision that there are no other agreements between the parties and that the terms of the sales contract constitute the entire agreement between the parties, a certification from the borrower, seller and the selling real estate agent or broker involved in the transaction must be obtained stating that the terms and conditions of the sales contract are true to the best of their knowledge and belief and that any other agreement entered into by any of the parties in connection with the real estate transaction is part of, or attached to, the sales agreement. A similar certification is obtained at closing, which also includes a certification from the settlement agent. These certifications are used to ensure that borrowers make the required cash investment from an acceptable source and not directly from a party with an interest in the transaction.
- g. **Form HUD-92900-B**, Important Notice to Homebuyers is a statement concerning the “Monthly Insurance Premiums.” If the homebuyer pays an upfront insurance premium, they will also be charged a monthly mortgage insurance premium until the loan-to-value of the mortgage reaches 78 percent of the

initial sales price or appraised value of the home, whichever was lower (provided that premiums are paid for at least five years). The homebuyer will reach the 78 percent loan-to-value threshold in one of two ways: either through normal amortization or through amortization along with payment to principal.

- h. **Form HUD-92561**, Mortgagor's Contract with Respect to Hotel and Transient Use of Property is required on two, three, or four-unit properties to assure that dwellings are used in accordance with program objectives. The information is required when page 2, Section IV, item 22f (Borrower's Certification), on form HUD-92900-A is answered in the affirmative.
- i. **Form HUD-92544**, Warranty of Completion of Construction in Substantial Conformity with Approved Plans and Specifications is used in new construction cases only. The form is called for on page 3 of the form HUD-92900-A as an "additional condition" before FHA can insure the mortgage.
- j. **Form HUD-92900-LT**, FHA Loan Underwriting and Summary Transmittal simplifies lender reporting of new loans to HUD for FHA insurance because the format is consistent with industry business practices and does not require lenders to maintain and support a separate process for reporting new loans to FHA.

More importantly, adopting a transmittal form reflects an emphasis on reporting critical data elements and loan characteristics to FHA that assist in evaluating risk rather than reporting how the mortgage amount and cash investment were calculated. Eliminating the mortgage amount and cash investment calculations from the Loan Underwriting and Transmittal Sheet does not eliminate the requirement to perform these calculations in accordance with applicable guidelines. It simply eliminates reporting on a specific form how the mortgage amount and cash investment were calculated for each loan. Lenders are expected to clearly document in the loan origination file how they performed these calculations in accordance with outstanding instructions. During the development and design of the Transmittal, certain data elements were eliminated, e.g. the maximum mortgage calculation, while others were added. Outlined below are the differences between the Mortgage Credit Analysis Worksheets and the Loan Underwriting Transmittal Sheet.

- k. The Mortgagor Notice of Intent to satisfy occupancy requirement upon discharge from the military is required of military personnel by 24 CFR 203.31 and 203.345/346. 24CFR 203.18 requires all owner-occupant borrowers to certify their intent to occupy, therefore, no additional burden hours are assigned to this requirement.
- l. The Model Notice for the Informed Consumer Choice Disclosure is used by lenders to provide a one-page analysis of other mortgage products offered by that lender for which the borrower would qualify, as compared to the FHA-insured loan. The comparison includes note rates, associated interest payments, insurance premiums, and other costs and fees over the life of the various loan products. The model notice also includes a statement regarding when the mortgagor's requirement to pay mortgage insurance premiums for the FHA-insured loan would terminate or a statement that the requirement will terminate only if the mortgage is refinanced, paid off, or otherwise terminated. Delivery of this disclosure is a function of the Mortgagee at their discretion per 24CFR 203.10. Lenders are not required to report to HUD the number of disclosures released annually.
- m. The Model Pre-Insurance Review provides lenders who are participating in the Lender Insurance Program with an example of what HUD staff reviews prior to endorsing a mortgage for insurance. As a condition of participating in Lender Insurance, lenders (not HUD Staff) are responsible for completing the pre-insurance review to ensure that the loan is in compliance with all applicable HUD requirements. Lenders are not required to use this exact format when conducting a pre-insurance review but at minimum the pre-insurance review must include the elements shown on the attached example. Lenders are not required to report to HUD the number of checklists prepared annually.

3. Each application request has its own unique characteristics of property, mortgage amount, and borrower; therefore, the use of computers can only be applied to the storage and retrieval of reference information and not to the burden-reduction aspect. However, data entry on these forms is increasingly generated by proprietary loan origination systems (LOS), if purchased or licensed by the lender, with much of that information provided electronically to HUD. Mortgage lenders may avail themselves of electronic options for data transmissions. HUD accepts case binders electronically. Approximately 80% of all case binders are now submitted in this manner.
4. No duplication exists due to the fact that each application is unique to the eligibility requirements explained in item 2. No similar information exists.
5. The information collected does not have a significant economic impact on a substantial number of small entities.
6. The reporting burden is loan-specific and, thus, cannot be conducted less frequently than on every single loan submitted to FHA for insurance endorsement. For the Informed Consumer Choice Notice, only a small percentage of mortgagors will receive this disclosure since it is only applicable when the mortgagor qualifies for both FHA financing *and* prime financing.
7. Lenders are required to keep records for the duration of the mortgage loan, which could be as long as 30 years. However, the average length of an FHA-insured mortgage is approximately 7.5 years.
8. HUD regularly receives comments and input on its information collection requirements from lending institutions, the home construction industry, insurance companies, appraisers, and service companies. This is not inconsistent with the guidelines in 5 CFR 1320.6. The agency notice soliciting comments on the information collection for OMB #2502-0059 was published in the Federal Register on Wednesday, December 11, 2013 (Volume 78, Number 238, pages 75364). No comments were received.

Consultations outside the Agency

Previous design and development of the data collection instruments were done in consultation with HUD staff and relevant organizations outside the agency including trade associations such as the Mortgage Bankers Association, National Association of Mortgage Brokers, National Association of Home Builders, as well as mortgage lenders.

Since this submission is a renewal for an existing information collection approval, consultations were previously conducted with respondents regarding significant changes under existing information collection. The respondents previously contacted were chosen for consultation due to their large volume of FHA-insured loans as well as their participation in the Lender Insurance Program.

New information is required on Form 92900-A. Three new boxes were added for identification of sponsor originators. However, this doesn't affect the overall burden in completing the form. Further consultation will be conducted in the near future.

9. There are no gifts or other type payments made to respondents.
10. The Privacy Act Statement provided in form HUD-92900-A Section III, "Notice to Borrowers" furnishes the authority for the collection of the information requested and the assurance of confidentiality as established by law. Information regarding the borrower's financial status and income data are only used to determine eligibility. The basis for collecting the borrower's social security number on the form is covered under the Debt Collection Act of 1982, (P.L. 97-365) and is also provided in Section III., "Notice to Borrowers."

11. This information collection does not contain any questions of a sensitive nature.

12. Estimate of public burden.

Description of Information Collection	Number of Respondents (total no. of lenders)	Frequency of Response	Total Annual Responses (total number of cases endorsed from 10/1/2011 – 9/30/2012)	Hours per Response	Annual Burden Hours	Hourly Cost	Total Annual Cost
HUD-92900-A, its related exhibits and other forms:	11,604	1 per loan	1,239,416	0.10	123,942	\$36.00	\$861,912
HUD-92900-B	11,604	1 per loan	1,239,416	0.03	37,182	\$36.00	\$1,338,552
HUD-92900-LT	11,604	1 per loan	1,239,416	0.10	123,942	\$36.00	\$861,912
HUD-92561 for 2, 3, or 4-unit properties	11,604	1 per qualifying loan	22,397	0.02	448	\$36.00	16,128
HUD-92544 New construction cases only	11,604	1 per qualifying loan	5,877	0.05	294	\$36.00	10,579
Additional burden associated with the computation concerning loans involved in buy down agreements.	11,604	1 per qualifying loan	4860	0.25	1,215	\$36.00	43,740
Additional burden associated with pre-insurance review checklist. FHA has provided a model.	11,604	1 per qualifying loan	991,553	.25	247,883	\$36.00	892,378
Additional burden associated with income, credit review and ability to repay analysis.	11,604	1 per qualifying loan	250	.10	25	\$36.00	\$900
Totals	11,604		4,743,185	.90	534,931		\$4,026,101

Hourly cost is based on an estimate of the lender cost of \$36.00 per-hour cost that includes overhead, staff preparation time, and approvals as required.

13. There are no additional costs to respondents.

14. The annualized cost estimates for the Federal Government are based on a \$36.00 per hour cost that is based on a GS-12 staff review.

The cost to the Federal Government relates to the processing of all non-direct endorsement cases and the review of direct endorsement and lender insurance cases. Current estimates show that 10% of the total annual burden of 534,931 hours ($534,931 \times .10 = 53,493$) would involve non-direct endorsement review for a cost of \$1,925,748 ($53,493 \times \36.00). The review of direct endorsement cases is estimated to be 10% of the non-direct endorsement cases or 5,349 hours ($53,493 \times .10 = 5,349$ hours), for a cost of \$192,564 ($5,349 \times \36.00). Total cost to the Federal Government is $\$1,925,748 + \$192,564 = \$2,118,312$. HUD does not review lender's Informed Consumer Choice Notices.

15. This is a revision of a previously approved information collection.

HUD has made the following non-material changes to its employment/unemployment documentation requirements, and non-material changes to credit documentation and credit analysis.

Employment and unemployment verification documents are currently utilized to analyze a borrower's

income to ensure it is sufficient to repay the mortgage and other recurring debt. There are no program changes. Rather, further analysis of employment/unemployment documentation will be performed to assess a borrower's current and prior credit performance as it relates to their employment history, as well as their ability to repay mortgage and other recurring debt. Also, additional credit documentation and analysis of borrower applications with collection accounts and credit scores below 620, may also be required to determine ability to repay mortgage and recurring debts. Minor burden is estimated for the analysis.

Lenders are required to respond electronically with point-of-contact information and Employer Identification Numbers for affordable housing program providers. No additional burden hours will be associated with this requirement as electronic submission of information eliminates the need for paper documentation.

Due to the instability of the market, lenders are promoting FHA-insured mortgages. While borrowers must meet certain requirements established by FHA to qualify for the insurance, lenders bear less risk because FHA will pay the lender if a homeowner defaults on his or her loan.

16. This information collection does not include results that will be published.
17. We are not seeking approval to avoid displaying the expiration date of the OMB approval.
18. There are no exceptions to the certification statement identified in item 19 of the OMB 83-I.

B. Collections of Information Employing Statistical Methods

The collection of information does not employ statistical methods.