

# Supporting Statement for Paperwork Reduction Act Submissions

## Quality Control Requirements for Direct Endorsement Lenders

OMB Control Number

2502-0600

### 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 sponsored third party originators (TPOs) and to self-report findings of fraud, material misrepresentation, and other material findings to FHA. As of January 1, 2011, mortgagees that were previously approved as loan correspondents are 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 are responsible for conducting quality control on TPO originations of FHA-insured mortgage loans and ensuring their Quality Control Plan is expanded to contain this oversight provision. This creates an 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.

In addition, under 24 CFR § 203.255(c) and (e), HUD conducts both pre- and post-endorsement reviews of loans submitted for FHA insurance by DE lenders. As part of those reviews, the Secretary is authorized to determine if there is any information indicating that any certification or required document is false, misleading, or constitutes fraud or misrepresentation on the part of any party, or that the mortgage fails to meet a statutory or regulatory requirement. In order to assist the Secretary with this directive, FHA requires that lenders self-report all findings of fraud and material misrepresentation, as well any material findings concerning the origination, underwriting, or servicing of the loan that the lender is unable to mitigate or otherwise resolve. The obligation to self-report these findings creates an additional information collection burden on DE lenders.

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.
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7. There are no special reporting requirements.
8. In accordance with the requirements of 5 CFR § 1320.8(d), a Notice soliciting comments on this collection of information was published in the *Federal Register* on: Wednesday, February 26 2014(Volume 79, Number 38 page 10820). No comments were 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 <sup>3</sup>	Burden Hours Per Response	Total Annual Burden Hours	Hourly Cost <sup>4</sup>	Total Annual Cost
Quality control of early payment defaults (EPD)	1,831	1	8,148	1.0	8,148	\$22.38	\$182,352
Quality control of loan originations	1,831	1	123,942	.50	61,971	\$22.38	\$1,386,911
Quality control through lender self-reports	665	5.4	3,592	.25	898	\$22.38	\$20,097
<b>Total</b>	<b>1,831</b>	<b>-</b>	<b>135,682</b>	<b>-</b>	<b>71,017</b>	<b>\$22.38</b>	<b>\$1,589,360</b>

<sup>1</sup>The number of respondents for quality control of EPDs and loan originations was defined as the total number of active lenders with unconditional Direct Endorsement (DE) authority granted on or before September 30, 2013. This number was obtained from the Office of Single Family Lender Activities and Program Compliance. The number of respondents for quality control through lender self-reports was estimated based on the number of lenders FHA reviewed in FY2013 that originated and/or underwrote loans with indemnifications requested. This number was obtained from the Office of Single Family Lender Activities and Program Compliance.

<sup>2</sup>It is anticipated that each DE lender will respond to the information collection once per year, with the exception of lender self-reports which happen sporadically. The frequency of response for lender self-reports was estimated based on the number of indemnification requests for loans reviewed by FHA in FY2013 divided by the number of lenders FHA reviewed in FY2013 that originated and/or underwrote loans with indemnifications requested. This data was obtained from the Office of Single Family Lender Activities and Program Compliance.

<sup>3</sup>The total annual response for EPDs was based on the total number of EPDs for the 2012 fiscal year. This data was obtained from HUD's National Servicing Center, via the Single Family Data Warehouse. The total annual response for quality control on loan originations was based on a 10 percent sample of the 1,239,416 insured loans originated in the 2012 fiscal year. The total annual response for lender self-reports was estimated based on the number of indemnification requests for loans reviewed in FY2013. This data was obtained from the Office of Single Family Lender Activities and Program Compliance and the Single Family Data Warehouse.

<sup>4</sup>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](http://www.salary.com).

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 <sup>3</sup>	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>1,831</b>	<b>1</b>	<b>8,148</b>	<b>1.0</b>	<b>8,148</b>	<b>\$29.00</b>	<b>\$236,292</b>
<b>Review of DE Lender QC plans</b>	<b>1,831</b>	<b>1</b>	<b>1,831</b>	<b>2.0</b>	<b>3,662</b>	<b>\$29.00</b>	<b>\$106,198</b>
<b>Review of DE Lender Self-Reports</b>	<b>665</b>	<b>5.4</b>	<b>3,592</b>	<b>0.50</b>	<b>1,796</b>	<b>\$29.00</b>	<b>\$52,084</b>
<b>Total</b>	<b>1,831</b>	<b>-</b>	<b>13,571</b>	<b>-</b>	<b>13,606</b>	<b>\$29.00</b>	<b>\$394,574</b>

<sup>1</sup> The number of respondents for quality control of EPDs and loan originations was defined as the total number of active lenders with unconditional DE authority granted on or before September 30, 2013. This number was obtained from the Office of Single Family Lender Activities and Program Compliance. The number of respondents for quality control through lender self-reports was estimated based on the number of lenders FHA reviewed in FY2013 that originated and/or underwrote loans with indemnifications requested. This number was obtained from the Office of Single Family Lender Activities and Program Compliance.

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<sup>3</sup> The total annual response for quality control (QC) of EPDs was based on the total number of EPDs for the 2012 fiscal year. This data was obtained from HUD’s National Servicing Center, via the Single Family Data Warehouse. The total annual response for quality control on loan originations was based on the total number of loans originated in the 2012 fiscal year. The total annual response for lender self-reports was estimated based on the number of indemnification requests for loans reviewed in FY2013. This data was obtained from the Office of Single Family Lender Activities and Program Compliance and the Single Family Data Warehouse.

<sup>4</sup> 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.

<sup>5</sup> The estimated hourly cost per response is based on the 2012 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 an extension of an existing submission to cover information collection required to meet the Department’s regulatory and programmatic requirements for quality control of DE lenders and oversight of TPOs. When the existing submission was created, FHA still allowed for loan correspondents to participate in its programs and had not yet transitioned to the use of TPOs. Therefore, FHA initially estimated information collection burdens based on the expected used of TPOs by DE lenders. Three years later, FHA has revised these estimates with real data, which has substantially reduced the information collection burden associated with OMB Control Number 2502-0600.

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.