



News Alert

IMPORTANT CLIENT COMMUNICATION

WHAT DOES HUD'S FINAL RULE REALLY MEAN

HUD INCREASE NET WORTH

On April 20, 2010, HUD published its final rule in the Federal Register. If you are classified as a sponsoring lender by HUD i.e. you have direct endorsement authority and your are able to fund your own FHA loan then the following is what HUD's changes mean to you:

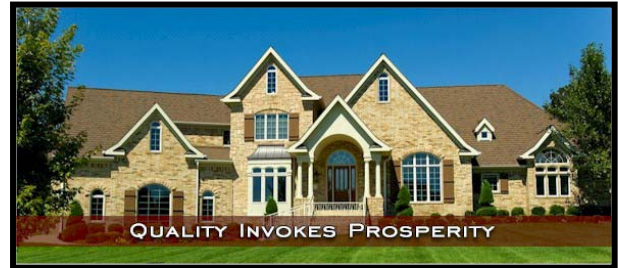
- Within one year, by **May 20, 2011**, your company must possess a minimum net worth of \$1 million, with 20% being liquid assets, i.e. cash or its equivalent. (IF you are classified as a "small business" lender you must possess a minimum net worth of \$500,000.)

Within **three (3)** years you must have a minimum net worth of \$1 million plus 1% of your total loan volume in excess of \$25 million.

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A NEW LOOK FOR QCP SYSTEMS FOR A NEW MORTGAGE INDUSTRY

QCP Systems is taking on a new and exciting look in order to help you take on the new and changing mortgage industry. Things are changing and so must you. Our new website will be launched on May 21, 2010. It will offer your business saving information and services to that will help you adjust to all the changes in the mortgage industry. Some of the issues will address are...

- What does it really mean to you that HUD will no longer approve mortgage brokers as of January 1, 2011?
- What happens if you do not pass the S.A.F.E Act tests and obtain your registration number under the Nationwide Mortgage Licensing System (NMLS)?
- Do you have a written Red Flag Rule Policy and why do you need it?
- How do you handle ordering your appraisal reports and are you in compliance with the HVCC Rule?

And one of our most exciting initiatives will be helping you to become a preferred lender that we can gladly refer consumers to you that are looking for a quality mortgage company to help them with their home financing needs.

In addition, we have available a new first-time homebuyer education program on CD ROM, so you can capture a pipeline of future loan business. The program is called Mortgage-Voice™. Call for details

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- As the FHA sponsoring lender you have **full responsibility** to ensure that the mortgage brokers you accept FHA loan applications from meet all FHA requirements regarding loan origination and processing as found in relevant statues, regulations, HUD handbooks, and mortgagee letters. HUD did not change or remove any of these requirements. Your failure to ensure that your approved mortgage brokers are in complete compliance with all of HUD/FHA requirements may result in FHA seeking sanctions against you, which means if HUD has a problem with you then you will certainly have a problem with your mortgage broker.

If you are classified as a Loan Correspondent by HUD i.e. you are a mortgage broker originating FHA loans then the following is what HUD's changes mean to you:

- As of **January 1, 2011**, you will no longer be an approved Loan Correspondent with HUD, which means the annual re-certification requirement with HUD will not longer apply.
- HUD's new ruling shifts all responsibility for ensuring that you are in compliance with all of their laws and regulations for originating FHA loans to your sponsoring lender. This means your lenders will have to make sure you that you are 1) a financially sound and stable company; 2) maintaining a Quality Control Plan consistent with HUD's requirements and expectations; 3) performing your monthly quality control file review work.

The Federal Register indicated that HUD made several non-substantive changes to the proposed rule for purposes of clarity. For example, HUD has removed paragraph (c) of the definition of "Lender or title I lender" at § 202.2 to remove a reference to loan correspondents. However, no where within the final rule did HUD eliminate any of the standard quality control requirements.

ARE YOU CONFUSED BY THE HUD CHANGES? WHY?

Does the government own your company? Does the lender that you fund your loans through own your company? Does the investor that buys your loans own your company? If your answer to these questions is "no," then you must be owner of your company.

So why should you be confused by the changes that HUD recently made? I am amazed how many companies are acting as if they do not know what to do now that HUD said they were no longer going to approve loan correspondents, i.e. mortgage brokers, as of next year. (HUD now refers to the loan correspondent/mortgage broker as a third party originator or TPO. For the remainder of this text I will refer to these entities as TPO)

Is it not good for your company to have a Quality Control Plan that you follow to help ensure that your company is operating in a prudent and responsible manner? As a TPO, why would you consider - now that HUD said they will no longer approve TPOs - that this document is no longer necessary or of value to your organization? As a lender or investor why would you consider that it is no longer a necessary or valuable quality control tool for your approved TPOs to have?

Is it not good for your company to perform timely Quality Control File Reviews so you know if your company is producing quality and compliant loans? As a TPO, why would you consider now that HUD will no longer approve TPOs, that conducting quality control file reviews is not good business to help you ensure that you control your company's risk as it relates to buy back/repurchase exposure, loss commissions, regulatory compliance exposure, lost of lender or investor approval, or lost of state licenses? As a lender or investor why would you consider it no longer valuable or necessary for TPOs to perform quality control file reviews?

Is it not good for your company to know if you are operating in a financially sound and stable manner? As a TPO, why would you consider now that HUD will no longer approve TPOs, that engaging annual audits of your financial situation is not wise and reasonable for your business? As a lender or investor why would you consider that it is no longer necessary to know that your approved TPOs are financially solid?

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The government, HUD/FHA, is pulling out of the loan correspondent approval business because they need to save money and get their reserves back up. It is as plain and simple as that. HUD changes are not intended to reopen the doors of the past and allow the mortgage industry to throw all caution to the wind and begin to originate, approve and close poor quality and non-compliant loans. Like everyone else, the government needed to cut cost to save money and remain a viable and stable agency, so it can continue to help in the economic recovery.

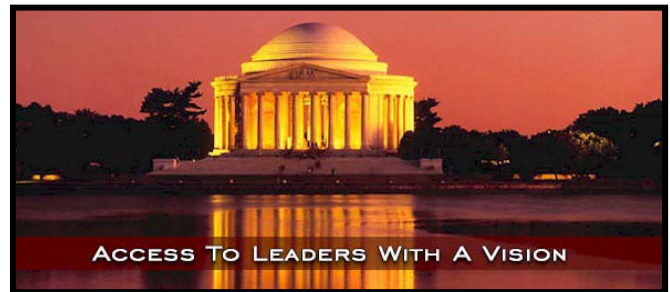
So let's stop getting it twisted. Your business is yours, not the government. So the decisions you make should NOT be driven by the philosophy that if nobody is requiring me to do a certain thing, then it is not necessary for me to do it. You are absolutely putting your company and the mortgage industry at great risk by not doing those things that help to ensure that you are a successful, viable and long term player in the mortgage industry. The American consumer needs prudent and responsible mortgage companies to help them with their home financing needs. *Are you one of those companies?*

IT'S ABOUT PEOPLE SERVING PEOPLE.



If you have not received your Quality Control and Compliance Certificate™, please call us at (310) 330-0333 immediately and find out why.

Please look for our next QCPS News Alert to learn about the Nationwide Mortgage Licensing System (NMLS). Another license you are required to have in order to original mortgage loans.



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