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Lead Story

July 31, 2009

Building a More Modern FHA Process

By Scott Kersnar



The surge in demand for FHA loans has been a tidal wave. The share of government-insured mortgages tripled from 8.4% in July 2007 to 29.1% in July 2008, as the ceiling on FHA-insured loans was raised to \$729,750 in high-cost counties across the nation. Demand was further spurred by HUD's allowing first-time borrowers to "monetize" the \$8,000 federal first-time buyer tax credit for use as their downpayment.

Not only is the mortgage industry on track for a projected 1.75 million FHA-insured mortgages for fiscal 2009, FHA says the expected tally will be more like 2.1 million loans.

These days loan officers with first-time buyers and subprime borrowers needing to refi are all turning to FHA. HUD has to deal with the fact that all too many lenders are diving into FHA products with the expectation that the only challenge is mastering government paperwork. Were that true, doc providers could solve all their problems, but it's more complicated than that.

Rather than pining for the days when technology shrank subprime underwriting into a very low hurdle, mortgage professionals unfamiliar with more stringent FHA standards suddenly had to master a steep learning curve very quickly.

"In 2007, less than 1% of the total volume of Lenders One members was FHA," said Scott Stern, CEO of Lenders One, a national alliance of mortgage bankers. "The challenge for these lenders was to learn all of FHA's new policies, procedures and guidelines quickly. As a large membership organization, we encourage our members to network with each other in person, on conference calls, at our conferences and through our online discussion boards. Quite literally, our most experienced FHA lenders helped our other lenders understand FHA policies and procedures and they helped them quickly ramp up their FHA lending volumes. That has been so successful that FHA production now comprises 50% of our total monthly origination."

"Many people are wondering whether FHA has the ability to automate this year," said Wanda Alexander, president and CEO, Horizon Consulting Inc. Horizon has staff in each of FHA's four national Homeownership Centers across the country, including a pilot program to start automating manual processing of FHA insurance binders at the Philadelphia HOC. "The majority of lenders do not create electronic binders," she said. "HUD receives thousands of binders each day, some stapled, some not. That creates bottlenecks."

At the Philadelphia HOC Horizon employees use a dual-screen process to compare scanned-in paper binders on one screen with a checklist on another screen. At this stage in the pilot, processing time still hadn't improved, she said, though paper was being taken out of the system after delivery.

One problem is that completed files have to wait overnight for Social Security numbers to be verified in another system before an endorsement can be issued. "The systems need to talk to one another in real time," she said. "They don't now, but there has been a lot of talk about integrating all the FHA systems."

Budget constraints have hampered HUD's ability to achieve that kind of integration. Though many say FHA is technology averse, even during the years when the volume of FHA-insured loans declined, FHA participated in MISMO efforts to develop standards for e-mortgages. In November 2005 HUD announced a new lender insurance program to let approved lenders endorse FHA mortgage loans for insurance without a pre-endorsement review.

Aiming to streamline processes and cut costs, the program would eliminate the need for lenders to apply for FHA insurance by transmitting paper case binders to HUD's Homeownership Centers before loans were insured. Approved LI (lender-insured) program lenders are those that HUD allows to self-insure FHA-insured loans and submit paper or electronic case binders only when requested for review. Being an LI lender allows the lender to cut processing time by a third and insuring expenses by up to 25%. Wells Fargo participated in the pilot. In December 2005 HUD published the draft version of an FHA electronic case binder developer's guide that included an example of an XML-based case binder.

In spring 2009 VirPack and Xerox Mortgage Services both incorporated the ability to let their lender customers deliver fully indexed eCBs to FHA into their systems. Shortly thereafter Loan-Score Decisioning Systems and Avista Solutions were approved for electronic integration with FHA TOTAL Scorecard. Meanwhile, LOS vendors continued to pursue full integration with FHA Connect as the surge in FHA lending created a demand for streamlining via technology.