

## BLOG VIEW: Five Easy Steps To Lowering Your FHA Rejection Rate

IN FROM THE ORB

BY GLENNICE JAMES ON MONDAY 05 OCTOBER 2009



COMMENTS: 0

(Blog View columnist Phil Hall is on vacation this week. Glennice James, Senior Project Manager at Horizon Consulting, Incorporated, based in Atlanta, GA, is filling in as a guest columnist.)

Considering the time and effort that goes into submitting a loan for Federal Housing Administration (FHA) mortgage insurance, receiving a Notice of Rejection (NOR) from the Department of Housing and Urban Development (HUD) is more than just a headache. It can be time-consuming to remedy and can ultimately impact selling the loan. Nevertheless, HUD consistently rejects approximately about 20% of all loans submitted.

By far, the most common reasons for rejections fall into five identifiable areas. While the numbers of each type of error vary from month to month, these are the errors that continue to be made again and again. Taking steps to ensure that you have double-checked for these mistakes will help lower your NOR rate considerably.

**Step 1: Check for missing signatures and/or dates.** The requirements of an FHA loan package or case binder - with its multiple pages and numerous supporting documents - make it very likely that a signature or two will be missed in one or more documents. If signatures are required in multiple locations, one of the signatures is often omitted.

For example, page two of the URLA addendum (92900A) requires a signature on both the top and bottom of the page. On numerous occasions, the top of the page is signed, and the bottom signature is omitted. The signature at the bottom of the page is mandatory.

Additionally, on the same document, the mortgagee's representative is required to sign, even when the loan is not manually underwritten; however, many times this signature is omitted. Or, someone will sign where indicated, but forget to note the date.

**Step 2: Check for missing items.** Have a checklist of all the pages and documents that need to be included in the loan package and check each submission against this list before submitting it to HUD. Be sure to include every document and all of the required supporting information - builder's permit, statement of appraised value, warranty, photos, etc.

After checking that all required information is included, check each page for missing items. The most common missing documents are:

- Builder's Certificate - the builder's name or address is omitted;
- NPCA99 - the type of treatment is not indicated; and
- Compliance Inspection - the underwriter forgets to countersign

**Step 3: Review each document for legibility.** Are any documents slightly illegible? Are the appraisal photos extremely dark? Are copied pages too light to read easily? A faxed bank statement may be legible in person, but not when copied.

Furthermore, what looks fine to one person may be unacceptable to another's eyes, so make sure your application can stand up to the highest scrutiny. If you're unsure about a document, err on the side of caution and have it redone to save everyone the experience of rejection. Take the steps to be certain that the sales contract is legible and has the amendatory clause and real estate certification embodied or as a separate attachment.

It is also common for the 92900LT to have numerous edits, to be blurred or its legibility reduced significantly due to faxing, thus making it challenging to determine which figures should be utilized. If necessary, include a revised copy to ensure clarity and avoid processing errors due to inaccurate figures.

**Step 4: Double-check that terms and dollar amounts match.** It's easy to overlook an appraised value of \$92,900 on one document, such as on the 92900LT, and \$92,800 on another document, such as the appraisal, yet it's easy to check for it before submitting the application. Just as it's important to ensure a consistent appraised value, make sure, too, that the mortgage amount is consistent throughout, so that it is accurate when the financed mortgage insurance premium is added.

**Step 5: Check for accuracy throughout.** Simply transposing two digits of the case number is enough to guarantee a NOR. When you've finished with the first four steps, go back and cross-check every number against its original source for accuracy. Ensure the correct borrower's documents are included in the loan package.

Additionally, at a minimum, the case number must be correct on the Loan Transmittal, Note, Deed and Uniform Residential Loan Application and Uniform Residential Appraisal Report.

The most common reason for errors that result in NORs is incomplete documents. The nature of the loan process is such that items often arrive late, changes are made at the last minute, and just completing the application on time becomes the priority.

Have at least two people look over the application. Often, the person responsible for pulling it together is too close to the project to see its flaws. Someone looking at it with fresh eyes is more likely to see errors clearly.

In addition to checking for incomplete documents, it is vital that the loan application be submitted on time or that it includes a late letter as defined in Mortgagee Letter 2005-23. Check for proper formatting of the late letter, that it is presented on the company's letterhead and is signed. It is mandatory to provide the title of the person making the certification on the late letter.

Before you are pressed for time on another application, reference the standard checklist found in the HUD Handbook 4155-2.8.B and highlight the most common NOR reasons. The five steps outlined here can be used as a guide for your list, and remember to include space where two persons can indicate they have checked the items. That way, even when you're down to the wire - as you often may be where FHA applications are concerned - you'll have a system in place to check for mistakes, omissions and inaccuracies, thus reducing your rejection rate and the likelihood of receiving another time-consuming and costly NOR.