

# DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

## 24 CFR Part 202

[Docket No. FR-4625-P-01]

RIN 2502-AH60

### Revisions to FHA Credit Watch Termination Initiative

**AGENCY:** Office of the Assistant Secretary for Housing—Federal Housing Commissioner, HUD.

**ACTION:** Proposed rule.

**SUMMARY:** This proposed rule would make several amendments to the Federal Housing Administration (FHA) Credit Watch Termination Initiative. The proposed rule provides for a fully computerized Credit Watch status notification process through use of the FHA Neighborhood Watch Early Warning System. A mortgagee will be considered to be on Credit Watch status if, at any time, it has a default and claim rate of higher than 150 percent of the normal rate, and its origination approval agreement has not been terminated. The proposed rule would also prohibit a mortgagee that has received a notice of proposed termination of its origination approval agreement from establishing a new branch for the origination of FHA-insured mortgages in the lending area covered by the proposed termination. In addition, the proposed rule would establish that the default and claim thresholds underlying the Credit Watch Termination Initiative apply to both underwriting and originating mortgagees. The proposed rule would also codify the definition of “underserved area” that is currently used under the Credit Watch Termination Initiative. Finally, the proposed rule would provide that, for purposes of Credit Watch Termination evaluation, the date of mortgage origination will be considered to be the date the loan transaction commences amortization, rather than the date of endorsement for FHA mortgage insurance.

**DATES:** *Comment Due Date:* June 2, 2003.

**ADDRESSES:** Interested persons are invited to submit comments regarding this proposed rule to the Regulations Division, Room 10276, Office of General Counsel, Department of Housing and Urban Development, 451 Seventh Street, SW., Washington, DC 20410-0500. Comments should refer to the above docket number and title. A copy of each comment submitted will be available for public inspection and copying between

7:30 a.m. and 5:30 p.m. weekdays at the above address. Facsimile (FAX) comments are not acceptable.

#### FOR FURTHER INFORMATION CONTACT:

Phillip Murray, Director, Office of Lender Activities and Program Compliance, Office of Housing, Department of Housing and Urban Development, 451 Seventh Street, SW., Room B-133, Washington, DC 20410; telephone (202) 708-1515 (this is not a toll-free number). Persons with hearing or speech impairments may access this number via TTY by calling the toll-free Federal Information Relay Service at 1-800-877-8339.

#### SUPPLEMENTARY INFORMATION:

#### I. Background—The FHA Credit Watch Termination Initiative

Homeownership rates in the United States have reached a record level, and the efficient management of the FHA mortgage insurance fund remains a cornerstone of HUD's strategy to further expand housing opportunities. By originating and underwriting insured single family mortgages in accordance with program guidelines, FHA-approved mortgagees are valuable participants in achieving greater access to the housing credit market, particularly for individuals and in geographic areas that have traditionally been under-served.

Approval of a mortgagee by HUD/FHA to participate in FHA mortgage insurance programs includes an origination approval agreement (the Agreement) between HUD and the mortgagee. Under the Agreement, the mortgagee is authorized to originate single family mortgage loans and submit them to FHA for insurance endorsement. Some mortgagees, however, have demonstrated high default and claim rates on their FHA-insured portfolios that, although not signifying violations of FHA requirements, are nonetheless unacceptable. As a result, HUD developed the Credit Watch Termination Initiative to identify mortgagees with unsatisfactory performance levels and take ameliorative action at an early stage. HUD's regulations for the Credit Watch Termination Initiative are found at 24 CFR 202.3.

Under the FHA Credit Watch Termination Initiative, FHA systematically reviews mortgagees' early default and claim rates, that is, defaults and claims on mortgagees' loans during the initial 24 months following endorsement. Mortgagees with excessive default and claim rates are considered to be on Credit Watch Status and, in cases of more severe performance

deficiencies, HUD may terminate the mortgagee's loan origination approval authority. Credit Watch Status constitutes a warning to a mortgagee that its default and claim rates are in excess of permissible levels, and that failure to achieve improvement may lead to the termination of its Agreement. The Termination of a mortgagee's Agreement is separate and apart from any action taken by HUD's Mortgage Review Board for violations of FHA requirements under 24 CFR part 25.

In a May 17, 1999, **Federal Register** notice (64 FR 26769) HUD advised that it would publish a list of mortgagees that have had their Agreements terminated. HUD has periodically published such notices since May 1999.

#### II. This Proposed Rule

This proposed rule would make several amendments to HUD's regulations for the FHA Credit Watch Termination Initiative. The proposed changes would strengthen HUD's capacity to safeguard the FHA mortgage insurance fund. This section of the preamble describes the most significant amendments that would be made by the proposed rule.

##### A. Electronic Notification of Credit Watch Status

Consistent with the goals of the Administration regarding the increased use of technology in government, the proposed rule would allow for electronic Credit Watch monitoring and notification. Specifically, the proposed rule provides that HUD will, on an ongoing basis, review the FHA mortgage claim and default rate of each mortgagee in the geographic region served by a HUD field office. HUD will use its electronic Neighborhood Watch Early Warning System for this purpose. The Neighborhood Watch Early Warning System is available to mortgagees via the FHA Connection at <https://entp.hud.gov/clas/index.html>. This proposed regulatory change would codify the policy first announced in FHA Mortgage Letter 2001-23, issued on October 21, 2001.<sup>1</sup> This Mortgage Letter provides instructions for using the Neighborhood Watch Early Warning System for purposes of monitoring performance under the Credit Watch Termination Initiative. A copy of HUD

<sup>1</sup> The availability of the Neighborhood Watch Early Warning System was first announced in Mortgage Letter 2000-20, issued on June 6, 2000. Mortgage Letter 2002-15, issued on July 17, 2002, announces the list of enhancements that have been made to the Neighborhood Watch Early Warning System since issuance of Mortgage Letter 2000-20. Copies of both these Mortgage Letters may be obtained via the Internet at <http://www.hudclips.org>.