must be unconditionally approved for the Direct Endorsement program as provided in §203.5.

(b) Performance: Claim and default rates. In addition to being unconditionally approved for the Direct Endorsement program, a mortgagee must have had an acceptable claim and default record for at least 2 years prior to its application for participation in the Lender Insurance program. HUD determines acceptable claim and default record as follows:

(1) A mortgagee is eligible for the Lender Insurance program if its claim and default rate is at or below 150 percent of the national average rate for all insured mortgages.

(2) A mortgagee that operates in a single State (Single State mortgagee) may choose to have its claim and default rate compared with the average rate in the State in which it operates, in which case the Single State mortgagee is eligible for the Lender Insurance program if its claim and default rate is at or below 150 percent of the State average rate for insured mortgages.

(c) Annual review. HUD will monitor a mortgagee’s eligibility to participate in the Lender Insurance program on a yearly basis.

(d) Termination of approval. If a mortgagee that has been approved by HUD for the Lender Insurance program violates the requirements and procedures established by the Secretary for such program, or if HUD determines that other good cause exists (including, but not limited to, HUD’s determination that the mortgagee is not using prudent review techniques), HUD may immediately terminate the mortgagee’s approval to participate in the Lender Insurance program, in accordance with section 256(d) of the National Housing Act (12 U.S.C. 1715z-21(d)). Within 30 days after receiving HUD’s notice of termination, a mortgagee may request an informal conference with the Deputy Assistant Secretary for Single Family Housing. The conference will be conducted within 30 days after HUD receives a timely request for the conference. After the conference, the Deputy Assistant Secretary may decide to affirm the termination action or to reinstate the mortgagee’s Lender Insurance program approval. The decision will be communicated to the mortgagee in writing and will be deemed a final agency action. Termination of an origination approval agreement under part 202 of this chapter or termination of Direct Endorsement approval under §203.3(d)(2) for a mortgagee or one or more branch offices automatically terminates Lender Insurance approval for the mortgagee or the branch office or offices without any further requirement to comply with this paragraph.

§ 203.5 Direct Endorsement process.

(a) General. Under the Direct Endorsement program, the Secretary does not review applications for mortgage insurance before the mortgage is executed or issue conditional or firm commitments, except to the extent required by §203.3(b)(4), §203.3(d)(1), or as determined by the Secretary. Under this program, the mortgagee determines that the proposed mortgage is eligible for insurance under the applicable program regulations, and submits the required documents to the Secretary in accordance with the procedures set forth in §203.255. This subpart provides that certain functions shall be performed by the Secretary (or Commissioner), but the Secretary may specify that a Direct Endorsement mortgagee shall perform such an action without specific involvement or approval by the Secretary, subject to statutory limitations. In each case, the Direct Endorsement mortgagee’s performance is subject to pre-endorsement and post-endorsement review by the Secretary under §203.255 (c) and (e).

(b) Eligible programs. (1) All single family mortgages authorized for insurance under the National Housing Act must be originated through the Direct Endorsement program, except the following:

(i) Mortgages underwritten for insurance by mortgagees that have applied for participation in, and have been approved for, the Lender Insurance program;

(ii) Mortgages authorized under sections 203(n), 203(p), 213(d), 221(h), 221(i), 225, 233, 237, 809, or 810 of the National Housing Act, or any other insurance
§ 203.6 Lender Insurance process.

Under the Lender Insurance program, a mortgagee approved for the program conducts its own pre-insurance review, insures the mortgage, and agrees to indemnify HUD in accordance with §203.255(f).

§ 203.7 Commitment process.

For single family mortgage programs that are not eligible for Direct Endorsement processing under §203.5, or for Lender Insurance processing under §203.6, the mortgagee must submit an application for mortgage insurance in a form prescribed by the Secretary prior to making the mortgage loan. If:

(a) A mortgage for a specified property has been accepted for insurance through issuance of a conditional commitment by the Secretary, the Secretary shall approve the application for insurance by issuing a firm commitment setting forth the terms and conditions of insurance.

(b) A specified mortgagor and all other proposed terms and conditions of the mortgage meet the eligibility requirements for insurance as determined by the Secretary, the Secretary shall approve the application for insurance by issuing a firm commitment setting forth the terms and conditions of insurance.

§ 203.9 Disclosure regarding interest due upon mortgage prepayment.

Each mortgagee with respect to a mortgage under this part shall at or before closing with respect to any such mortgage, provide the mortgagor with written notice in a form prescribed by...