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Excerpt from The Requirements for Initial and Continuing FHA Approval

Part A. Requirements for all Mortgagees

2-9 Employees and Officers. An approved mortgagee must employ trained personnel that are competent to perform their assigned responsibilities.

A. Employees. Employees are those individuals who are under the direct supervision and control of an FHA approved mortgagee and where the individuals are exclusively employed by the FHA approved mortgagee in the mortgage lending and real estate fields. The mortgagee must demonstrate the essential characteristics of the employer-employee relationship upon inquiry by the Department. [See also paragraphs 2-9(D) and 2-9(G)]

**Compensation of employees may be on a salary, salary plus commission, or commission only basis and includes bonuses. All compensation must be reported on Form W-2. Employees who perform underwriting and loan servicing activities may not receive commissions.**

B. Officers. Individuals are officers for the purposes of FHA requirements if they bear the corporate title of Vice President or higher and also include Branch Managers. A mortgagee must have one or more officers with authority over the mortgagees loan origination and servicing operations. An officer is either a corporate officer, or a principal of a non-corporate entity, who has authority to legally bind the corporation or entity. In the case of a government institution, this role would be filled by a designated staff person(s). At least one officer must spend full time managing and directing the mortgagees operations. That officer must have a minimum of three years acceptable experience in the mortgage activities for which the mortgagee is seeking approval. Relevant training may be substituted for some of the required experience. An applicant must submit, with its application, current resumes documenting this experience. In determining the acceptability of an officers experience, the Department will consider:

- \* Experience in originating single family and multifamily mortgages;
- \* Experience in servicing single family and multifamily mortgages;
- \* Experience in investing funds in real estate mortgages;
- \* Experience in managing other individuals performing these services; and
- \* Experience in real estate sales or brokerage does not qualify.

A Branch Manager's compensation may be based upon the net profit of the branch. For example, the FHA approved mortgagee may collect the revenue from the branch, pay the branch expenses, and then pay the branch manager the remaining revenues, if any, as a commission. Such an arrangement is, essentially, an alternative compensation program for the branch manager and is an acceptable arrangement if all other branch requirements are met.

C. Companies with Joint Officers. If a mortgagee has any of the same officers, stockholders, partners, or members as another entity, the officers may represent more than one entity if:

1. There is a clear and effective separation of the two entities, and mortgagors know at all times exactly with which entity they are doing business.

2. There is a duly appointed or elected senior officer, with the required minimum three years of acceptable experience, designated to conduct exclusively the affairs of the mortgagee during normal business hours.

D. Control and Supervision of Staff. A mortgagee must exercise control and responsible management supervision over its home office and branch employees. Control and supervision must include, at a minimum, regular and ongoing reviews of employee performance and of work performed.

E. Signatory Authority. Any employee who signs applications for mortgage insurance on behalf of the mortgagee must be a Vice President, or be authorized to bind the mortgagee in matters involving the origination and servicing of insured mortgages.

F. Conducting Mortgagee Business. During his/her normal duty hours, employees, who are involved with FHA transactions, may conduct only the business of the mortgagee.

G. Full Time, Part Time and Outside Employment. A mortgagee may employ staff full time or part time (less than the normal 40 hour work week). They may have other employment including self employment. However, such outside employment may not be in mortgage lending, real estate, or a related field. Direct endorsement underwriters are included in this provision. An underwriter may not work on a part time basis for any other mortgagee, even underwriting conventional mortgage loans. An underwriter may not underwrite loans for a parent or subsidiary of the underwriters approved employer. A direct endorsement underwriters authority is through the employer and does not extend under any corporate umbrella.

Document in its entirety can be found at:

<http://www.hud.gov/offices/adm/hudclips/handbooks/hsg/4060.1/index.cfm>