

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410-0001

October 23, 2001

**MORTGAGEE LETTER 2001- 27**

**TO: ALL APPROVED MORTGAGEES**

**SUBJECT:** Pre-approval Requirements for New Construction and an Alternative to the Inspection Requirements - Single Family Loan Production

This Mortgagee Letter announces that the Department is expanding the definition of "Pre-approval" to satisfy the requirements for obtaining a high ratio loan on construction which is one year old or less and allowing an alternative to the inspection requirements. The definition of pre-approval is now expanded to include the issuance of a building permit by a local jurisdiction prior to construction as acceptable evidence of "pre-approval." In those jurisdictions that perform the local inspections and issue Certificates of Occupancy (or equivalent), this certificate is evidence of the local inspections. Finally, FHA will no longer "approve" local jurisdictions to perform these inspections since the Certificate of Occupancy (or equivalent) will be accepted as verification of these inspections. These changes are effective for case numbers ordered on or after the date of this Mortgagee Letter.

I. Background

In accordance with the National Housing Act, a property one year old or less must be "Pre-approved" **OR** be covered by a warranty plan acceptable to the Secretary to be eligible for a high-ratio insured mortgage, defined as exceeding 90% loan to value (LTV). An Early Start Letter issued by the lender before construction starts has long been considered "Pre-approved" and satisfactory evidence for eligibility for high LTV financing. (See HUD Handbook 4145.1 REV-2, Appendix 6.). Three inspections are required if the property is "pre-approved".

Mortgagee Letter 96-18 stated that in those jurisdictions that FHA has determined provide adequate code enforcement and inspection services, the first two inspections may be performed by the local jurisdiction, but the third inspection must be performed by an FHA fee panel inspector. Mortgagee Letter 97-22, took this a step further by announcing that the Department permits the final inspection by the local authority to be accepted in lieu of FHA's third inspection in those jurisdictions where FHA accepts the first two inspections by the local authority.

## II. Expanded Definition of Pre-approval, an Alternate to Local Inspections and FHA's Approval of Local Jurisdictions to End

Because the Department allows the local jurisdictions to perform the inspections as mentioned above, we are accepting a Certificate of Occupancy as evidence of these local inspections. Additionally, if a local jurisdiction issues a building permit (or its equivalent), prior to construction, the Department will accept that as evidence of "Pre-approval". Thus, in such cases where both a building permit and a certificate of occupancy are issued by a local jurisdiction, neither an Early Start Letter nor a HUD approved 10-year warranty plan is required. This new definition of Pre-approval does not apply to condominiums or to manufactured housing due to special requirements applicable to these housing types.

The Department will no longer approve local jurisdictions that perform inspections acceptable to FHA. Now, when a builder uses local jurisdictions to perform inspections, a copy of the Certificate of Occupancy (or its equivalent) is considered to be evidence of the local jurisdiction inspections. Form HUD 92900-A, page 3, "Direct Endorsement Approval for a HUD/FHA Insured Mortgage", has been revised to include a check box for the lender to certify that the property is 100% complete (both on site and off site improvements) and that the property meets HUD's Minimum Property Standards". This form can be downloaded via HUDCLIPS at [www.hudclips.org](http://www.hudclips.org).

For those local jurisdictions that do not issue a Building Permit prior to construction (or its equivalent) and a Certificate of Occupancy (or its equivalent), a property one year old or less must have an Early Start Letter OR be covered by a warranty plan acceptable to the Secretary to be eligible for a high-ratio insured mortgage. Regardless of the process used, the lender must certify by using Form HUD 92900-A, page 3, that the property is 100% complete (both on site and off site improvements) and that the property meets HUD's minimum property standards. This information collection is covered under the Office of Management and Budget's (OMB) Control Number 2502-0059.

## III. Documentation Requirements

In lieu of providing the Early Start Letter or proof of coverage by an acceptable warranty plan, Mortgagees must include a copy of the building permit (or equivalent) and a copy of the Certificate of Occupancy (or equivalent) in the endorsement binder. The alternative to local inspections described in this letter does not eliminate the requirement for a one-year builder warranty as required by Section 801 of the National Housing Act. Mortgagees are reminded that in addition to the one-year builder's warranty and Form HUD 92541, the Builder's Certification of Plans, Specifications and Site, they are still responsible for obtaining all the applicable construction documents from the builder.

If you have any questions about this Mortgagee Letter, please contact your local Homeownership Center in Atlanta (1-888-696-4687), Philadelphia (1-800-440-8647), Santa Ana (1-888-827-5605), or Denver (1-800-543-9378).

Sincerely,

John C. Weicher  
Assistant Secretary for Housing-  
Federal Housing Commissioner

