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*"Never use your mind to creatively imagine or figure out why you won't succeed, or to put limitations in your way."*

*If you are going to doubt anything, question your own fears and limitations."*

## Expertise Summary

### **Federal Housing Administration Direct Endorsement Approval 2008**

#### ***Federal Housing Administration vs. Fannie, Freddie & Wall Street***

A basic introduction into Mortgage Finance 101 will go a long way in understanding the increased value TBI Mortgage now brings to its customers who purchase Toll Brothers homes by having the authority to originate mortgages insured by the Federal Housing Administration, FHA. Over the last five years, a lot has changed in the Secondary Mortgage Market. The Secondary Mortgage Market is the "go to" source to sell mortgages an institution has originated. Without this marketplace for mortgages on a large scale, many mortgage originating firms including banks would eventually deplete themselves of cash unable to quickly restore their funds used in closing mortgage transactions. This is the fundamental reason for a Secondary Mortgage Market- a reliable, "stable" mortgage funding source. Well who are the main players? Of course you may have heard the names: *Fannie Mae, Freddie Mac, FHA, VA, VHDA*, etc. the list goes on to include Wall Street with their institutional investors like insurance companies and pension funds. Another key aspect of these agencies is- standardization of the underwriting criteria to qualify and approve applicants and in the case unique to FHA, inclusion of insurance against payment default.

#### ***Why now FHA?***

Historically within TBI Mortgage there was not a pressing need to be a FHA Direct Endorsement lender. The reason was quite simple. Just as with Conventional mortgage financing dictated by Fannie Mae for example, FHA also had congressionally mandated maximum mortgage loan amounts that they are allowed to purchase. To put this into perspective, Toll Brothers average selling home price was over \$500,000 in major markets like Southern California and Washington, DC. With price points more than double what FHA was allowed to purchase, FHA financing even with all of its inherent benefits, was not an option to even consider. All that changed beginning in late 2007 with the virtual collapse of the credit markets and wholesale exit of Wall Street's institutional investors. Next, when Congress does the right thing.

## ***The Economic Stimulus Act of 2008***

On February 13, 2008 Congress signed into law the *Economic Stimulus Act of 2008*. This new legislation allowed the Housing and Urban Development, HUD through FHA, to purchase and insure FHA mortgage as high as \$729,750 in HUD designated "High Cost" areas in the US. To put significance on this loan amount, consider the previous maximum for a single family loan was: \$362,780. Specifically this Act was only *temporary* and was due to expire on December 31<sup>st</sup>, 2008. While these higher loan limits were endorsed by the Mortgage banking community, its short life span was not. In the economic crisis and housing climate of that time, stability was nearly absent from all Secondary Market players, so any temporary solutions to ease liquidity issues was quickly capitalized upon. To ease market volatility, FHA needed to set permanent, higher loan limits which would provide a huge confidence boost to the mortgage marketplace. Hearing the call, Congress passed the "*The Housing and Economic Recovery Act of 2008*" (HERA) on July 30<sup>th</sup>, 2008. This new law made permanent, FHA's national cap and floor loan amounts through a series of calculations based on Fannie Mae's loan limits as the benchmark for annually determining FHA's new loan limits. During a time of tremendous upheaval in the US housing market, FHA's ability to purchase single family loans up to \$729,750 soon proved to be very beneficial to TBI Mortgage and Toll Brothers customers.

## ***Fast Track TBI's FHA Origination Abilities***

As was stated earlier, prior to 2008, FHA financing was not a viable mortgage financing option for Toll's customers due to Toll's fairly high average sales price and FHA's mandated lower loan amounts. All that changed early 2008. The region I was responsible for, the South East Region, had the greatest need and clearly the largest opportunity with Toll Brothers SE Region's footprint to capitalize on FHA's unique, flexible loan characteristics. At this point in time, TBI Mortgage was in no position to effectively and successfully originate FHA mortgages due to TBI's severe lack of FHA knowledge and experience. Regardless of our then, lack of FHA origination capabilities, we could not dismiss this opportunity and allow TBI Mortgage's competitors to fill that void. Immediate action ensued to ensure Toll and its customers had a one-stop solution for their FHA financing needs.

On the origination side, I was tasked to head up TBI Mortgage's *Fast Track FHA Direct Endorsement Approval*. Although we had competent Mortgage Loan Specialists, MLS (loan originators) versed in "Conventional" mortgages, none had any "Government" FHA origination experience. The difference between Conventional and Government mortgage finance is easily compared to night and day. Even with FHA financing and all the great characteristics it offers, (for example 3.5% down payment vs. 10% conventionally) to many conventional lenders, it appears burdensome. And in some ways, FHA's complexities have allowed it to earn that reputation. At the time, I was the only individual on the origination side, with extensive FHA financing expertise to carry TBI SE Region through this transition. This absence within the organization of FHA financing experience not only poised a real challenge, but also a great opportunity for all parties involved. We soon faced a simultaneous onslaught of FHA business from new and existing customers combined with having to bring Toll Brothers up to speed on the special aspects and nuances of new home construction with FHA financing.

### ***TBI's FHA Training Custom Curriculum***

I set out creating and quickly implementing a through, FHA origination dual curriculum based on extensive classroom and hands on training. The design of the curriculum contained both a comprehensive application of FHA origination and underwriting methodologies, it also included supporting specialized education for Toll Brothers sales and construction teams. All training involved TBI Mortgage Loan Specialists and Business Development Managers along with Toll Sales, Construction Management and Toll's legal department. Initially in early 2008, training was conducted with a select group of MLS' originating in states where Toll Brothers home pricing and market demographics lent itself very well to FHA financing. Once Congress passed the "*The Housing and Economic Recovery Act of 2008*" (HERA) on July 30<sup>th</sup>, 2008 FHA training went companywide taking advantage of the now permanent, higher FHA loan limits. Another very important, critical component was receiving FHA's *Direct Endorsement Approval*. Having *Direct Endorsement Approval* meant TBI Mortgage would have the authority to insure directly with FHA, mortgages it originated without going through a third party which is more costly and time consuming. The approval also signified TBI's Mortgage Loan Specialists where FHA qualified to originate and TBI's government underwriters where competent in their abilities to underwrite FHA mortgages.

### ***Challenge Met- FHA's Direct Endorsement Approval***

In order to become a FHA Direct Endorsement Lender, an arduous approval process is required which entails having fifteen acceptable "Test Cases" submitted directly to FHA for review. Test Cases are live, complete application files submitted to the local FHA Home Ownership Center where the property is located for consideration and inclusion as an acceptable Test Case. With that thought in mind, every aspect of submission Test Cases must be correct and complete in order to expedite a Direct Endorsement Approval. From the original application disclosure documents to the underwriters determination of either an approval or application denial is thoroughly scrutinized by FHA. With complete knowledge of this, I personally reviewed all outgoing and returning application packages from customers for accuracy including: calculations to qualifications and their supporting documentation prior to underwriting submission. While I was entrusted to Fast Track TBI's origination component, this responsibility included my daily interactions with TBI Operations Teams along with FHA underwriters, requiring me to have patience and diplomacy many times both during and after receiving the coveted FHA Direct Endorsement authority. TBI Mortgage's FHA Direct Endorsement approval was achieved in less than four months and the South East Region submitted over 95% of all Test Cases to FHA. While the challenge seemed overwhelming at first, it was only through instilling within all participants perseverance, commitment and a burning desire to apply this new found knowledge that together, we succeeded.

Download the Powerpoint: "*FHA-TBI Origination Process*" click here- <http://www.timothyconnolly.com/resources/FHA-TBI+Origination+Process+.pps>

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