Issue Date September 29, 2008	
Audit Report Number: 2008-CH-0002	

TO: Brian Montgomery, Assistant Secretary for Housing-Federal Housing Commissioner, H
Dane M. Narode, Acting Associate General Counsel for Program Enforcement, CE

FROM: Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: HUD Did Not Always Ensure That FHA Lenders Complied with Federal Requirements When Submitting Loans for New Construction Properties Located in FEMA's Designated Special Flood Hazard Areas

HIGHLIGHTS

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) oversight of the underwriting of Federal Housing Administration (FHA)-insured loans for new construction properties located in the Federal Emergency Management Agency's (FEMA) designated special flood hazard areas. We initiated the audit as part of the activities in our 2007 annual audit plan. Our objective was to determine whether HUD had adequate oversight of the underwriting of FHA loans for new construction properties located in FEMA's designated special flood hazard areas.

What We Found

HUD did not always ensure that FHA-approved lenders complied with federal requirements when they submitted 399 loans, totaling more than $55 million in original mortgage amounts, to HUD for insurance endorsement. The loans were to finance the purchase of newly constructed properties located in FEMA's designated special flood hazard areas. However, the lenders failed to provide evidence of a letter of map revision/amendment or flood elevation certificate when the loans were submitted to HUD for insurance endorsement. Therefore, these loans were not eligible for FHA insurance. Further, for 195 loans, totaling nearly $27 million in original mortgage amounts, the lenders did not ensure that borrowers' escrow accounts included payments for flood insurance at the time the loans closed.

HUD also did not ensure that lenders servicing FHA-insured loans for 163 properties, totaling nearly $22 million in original mortgage amounts and located in FEMA's designated special flood hazard areas, kept apprised of whether borrowers maintained required flood insurance. Further, 30 FHA lenders incorrectly certified to the integrity of the data supporting the underwriting deficiencies and that the loans were eligible for HUD mortgage insurance for 242 loans.

As a result, HUD inappropriately approved loans for FHA mortgage insurance; therefore, the risk to the FHA insurance fund is increased if HUD pays insurance claims and incurs losses on the resale of the properties associated with these ineligible FHA-insured loans. Further, the lenders' failure to ensure that borrowers maintained flood insurance throughout the life of the loans would pose a significant risk if another natural flood disaster was to occur such as Hurricanes Rita or Katrina or the flooding that has recently devastated parts of the Midwest.

What We Recommend

We recommend that the Assistant Secretary for Housing-Federal Housing Commissioner (1) seek appropriate administrative action for the active loans if the lenders cannot provide documentation, such as a letter of map amendment/revision, to show that the properties are not located in FEMA's designated special flood hazard areas or the required elevation certification showing that the properties meet elevation requirements and are covered by flood insurance; (2) require the applicable lenders to reimburse HUD for any future losses from claims paid if they cannot provide the elevation certifications or letters of map revision/amendment; (3) require the lenders for the loans lacking flood insurance to provide evidence showing that the properties have flood insurance or are no longer located in FEMA's designated special flood hazard areas or seek appropriate administrative action; (4) and improve the Office of Single Family Housing's existing procedures and controls to ensure that lenders follow HUD's underwriting requirements for new construction properties located in FEMA's designated special flood hazard areas. These improved procedures and controls should result in a potential savings to the FHA insurance fund of nearly $261,000 over the next year.

We also recommend that HUD's Acting Associate General Counsel for Program Enforcement determine legal sufficiency and if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act against the lenders with incorrect certifications cited in this audit report.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the results of the underwriting deficiencies to HUD's Office of Single Family Housing staff during the audit. We also provided the discussion draft report to HUD's staff during the audit. We conducted an exit conference with HUD's Office of Single Family Housing on September 10, 2008

We asked HUD to provide written comments on our discussion draft audit report by September 26, 2008. As of noon Eastern Time on September 29, 2008, HUD's Office of Single Family Housing had not provided any written comments to our discussion draft audit report.

TABLE OF CONTENTS

Background and Objective 5

Results of Audit

Finding: HUD Did Not Always Ensure That Lenders Complied with Federal Requirements When Submitting FHA Loans for New Construction Properties Located in FEMA's Special Flood Hazard Areas 6

Scope and Methodology 11

Internal Controls 13

Appendixes

A. Schedule of Questioned Costs and Funds to Be Put to Better Use 15

B. Federal Requirements 16

BACKGROUND AND OBJECTIVE

Congress created the Federal Housing Administration (FHA) in 1934. FHA became a part of the U.S. Department of Housing and Urban Development's (HUD) Office of Housing in 1965. The mission of HUD's Office of Housing is to contribute to building and preserving healthy neighborhoods and communities; maintain and expand homeownership, rental housing, and healthcare opportunities; stabilize credit markets in times of economic disruption; operate with a high degree of public and fiscal accountability; and recognize and value its customers, staff, constituents, and partners.

Within the Office of Housing, there are three business areas: Single Family Housing; Multifamily Housing, and Regulatory Programs. The Office of Single Family Housing's programs include mortgage insurance on loans to purchase new or existing homes, condominiums, manufactured housing, houses needing rehabilitation, and reverse equity mortgages to elderly homeowners. Activities under the programs include approving lenders for FHA participation; providing lenders instructions on how to originate, close, service, and foreclose on loans; providing loss mitigation assistance to borrowers; and monitoring program participants for compliance.

Congress enacted the National Flood Insurance Act in 1968 creating the National Flood Insurance program in response to the rising cost of taxpayer-funded disaster relief for flood victims and the increasing amount of damage caused by floods. From 1968 until the adoption of the Flood Disaster Protection Act of 1973 (1973 Act), the purchase of flood insurance in the United States was entirely voluntary. The 1973 Act added mandatory purchase requirements for properties in flood-prone areas for which the purchaser sought either a mortgage from a federally regulated lending institution or federal assistance. This meant that flood insurance coverage became mandatory for many properties in flood-prone areas not previously covered under the voluntary program. In 2004, the President of the United States signed into law the Flood Insurance Reform Act that reauthorized the National Flood Insurance program through 2008. The National Flood Insurance program is managed by the mitigation division within the Federal Emergency Management Agency (FEMA).

Our audit objective was to determine whether HUD's Office of Single Family Housing had adequate oversight of lenders' underwriting of FHA loans for new construction properties located in FEMA's designated special flood hazard areas.

RESULTS OF AUDIT

Finding: HUD Did Not Always Ensure That Lenders Complied with Federal Requirements When Submitting FHA Loans for New Construction Properties Located in FEMA's Special Flood Hazard Areas

HUD's Office of Single Family Housing did not always ensure that FHA-approved lenders complied with federal requirements when submitting loans for new construction properties located in FEMA's designated special flood hazard areas. For the 823 loans reviewed, FHA-approved lenders improperly submitted 399 loans with mortgages totaling more than $55 million to HUD for properties located in FEMA's designated special flood hazard areas without providing a letter of map revision/amendment or flood elevation certificate. Further, for 195 loans, the lenders failed to ensure that the borrowers' escrow accounts included payments for flood insurance at the time the loans closed. HUD did not ensure that lenders servicing the loans kept apprised of whether borrowers maintained flood insurance. The problems occurred because HUD lacked adequate procedures and controls regarding its insurance endorsement process and its monitoring of lenders for compliance with federal requirements. As a result, 334 loans totaling more than $46 million should not have been approved for FHA mortgage insurance. Based upon our review, we estimate that over the next year, HUD's improved procedures and controls regarding lenders' underwriting of new construction properties located in FEMA's designated special flood hazard areas could help to ensure that the FHA insurance fund is protected from losses of nearly $261,000.

Loans for New Construction Properties Were Improperly Endorsed

We reviewed 823 loans for new construction properties that were endorsed from August 1, 2005, through August 31, 2007, and located in FEMA's designated special flood hazard areas. Of the 823 loans, 399 (48 percent) failed to comply with HUD's underwriting requirement that FHA casebinders contain evidence of a letter of map revision/amendment indicating that the properties were no longer in FEMA's designated special flood hazard areas or a flood elevation certificate validating that the lowest level of the property met FEMA's elevation requirements.

For the 399 loans, we contacted the applicable lenders to obtain the missing letters of map amendment/revision or flood elevation certificates. The applicable lenders provided the letters or certificates for 65 loans thus reducing the number of noncompliant loans to 334 totaling nearly $46 million in original mortgage amounts. As of September 26, 2008, the applicable lenders had failed to provide documentation showing that the 334 loans were eligible for FHA mortgage insurance. Of the 334 loans, 329 had active FHA insurance, and HUD had paid claims on five loans totaling nearly $700,000 in original mortgage amounts as of August 31, 2008.

Properties Lacked Flood Insurance

HUD did not ensure that lenders required borrowers to establish escrow accounts to include payments for flood insurance before the loans' closing. For 195 loans, totaling nearly $27 million in original mortgage amounts, the lenders did not ensure that borrowers obtained flood insurance, although these properties were located in FEMA's special flood hazard areas. According to HUD Handbook 4330.1, paragraph 2-11E, lenders must furnish HUD with evidence of flood insurance as a condition of insuring the mortgage in special flood hazard areas for the life of the loan. Additionally, as of September 26, 2008, the lenders for 154 of the 195 loans (79 percent) had not provided documentation that the borrowers had flood insurance.

For 163 FHA loans, totaling nearly $22 million in original mortgage amounts, the lenders established borrowers' escrow accounts to include payments for flood insurance; however, as of September 26, 2008, the lenders servicing the loans had not provided documentation that the borrowers maintained flood insurance on their properties.

For the 317 loans (154 plus 163) without evidence that the borrowers maintained flood insurance, 309 had active insurance, and HUD had paid claims on the remaining eight loans as of August 31, 2008. Further, 244 of the 317 loans were mentioned previously due to the lenders' failure to provide a letter or map amendment/revision or flood elevation certificate.

Incorrect Underwriter/Lender Certifications Were Submitted to HUD

We reviewed the underwriter certifications for all 334 loans that were improperly endorsed. The 334 loans, as previously mentioned, were submitted to HUD by 102 FHA-approved lenders. The lenders' underwriters incorrectly certified to the integrity of the data supporting the underwriting deficiencies and that the loans were eligible for FHA insurance. We conservatively excluded the lenders that submitted fewer than three incorrect certifications to HUD, and 30 lenders remained. These 30 lenders represented 242 of the 334 (70 percent) incorrect certifications.

Seven lenders[1] submitted the most incorrect certifications to HUD, ranging from 10 to 34 loan certifications per lender, totaling129 collectively. The remaining 23 lenders (30 minus 7) that improperly certified that the remaining 113 loans (242 minus 129) were eligible for FHA mortgage insurance are potentially subject to action under the Program Fraud Civil Remedies Act and are addressed in recommendation 1F of this report.

Title 31, *United States Code*, section 3801, "Program Fraud Civil Remedies Act of 1986," provides federal agencies, which are the victims of false, fictitious, and fraudulent claims and statements, with an administrative remedy to recompense such agencies for losses resulting from such claims and statements; to permit administrative proceeding to be brought against persons who make, present, or submit such claims and statements; and to deter the making, presenting, and submitting of such claims and statements in the future.

HUD Needs to Improve Its Controls

HUD's Office of Single Family Housing needs to improve its existing procedures and controls regarding FHA-approved lenders' underwriting of new construction properties located in FEMA's designated special flood hazard areas. HUD relies on the lenders to ensure that loans are eligible for insurance endorsement before submitting the loans to HUD for FHA insurance endorsement. HUD monitors lenders' compliance with its requirements by performing pre- and posttechnical, quality control, and desk reviews of appraisals on a sample basis.

According to the Director of HUD's Quality Assurance Division for the Philadelphia Homeownership Center, HUD's staff relies on the uniform appraisal report in the casebinder to identify whether a property is located in a FEMA-designated special flood hazard area. In performing our audit, we determined that the appraisers' determinations on the appraisal reports were not always accurate. For 130 of the 334 loans reviewed (39 percent), the appraisers did not correctly determine whether the properties were located in FEMA's designated special flood hazard areas.

Additionally, based on HUD's posttechnical reviews performed between August 1, 2005, and August 31, 2007, for all four HUD Homeownership Centers, HUD identified 146 loans for new construction properties located in FEMA's designated special flood hazard areas in which the loans' FHA casebinders did not contain evidence of a flood elevation certificate or a letter of map amendment/revision. For the 146 loans, 34 of the lenders that submitted the loans were the same lenders identified in this audit.

[1] We plan to conduct separate audits of the seven lenders; therefore, recommendations 1A, 1B, 1C, and 1F of this audit report do not include the loans that were improperly submitted to HUD by the seven lenders.

According to HUD's management for the Office of Single Family Housing, most lenders hire or contract with companies that specialize in making flood zone determinations instead of relying on the appraisal reports. Although this practice may have occurred, the results for the majority of the loans reviewed were not included in the FHA casebinders.

As previously mentioned, 334 loans were not eligible for insurance endorsement; however, after removing the 129 loans that were endorsed by the top seven lenders, we identified 205 loans. Of the 205 loans, 202 have active FHA insurance and HUD paid claims on three loans. Improving HUD's existing procedures and controls regarding the FHA insurance endorsement process over new construction properties' loans located in FEMA's designated special flood zone areas will result in a potential savings of nearly $261,000 over the next year by deterring FHA-approved lenders from submitting ineligible loans to HUD for FHA mortgage insurance. Our methodology for this estimate is explained in the Scope and Methodology section of this audit report.

As a result, HUD inappropriately approved loans for FHA mortgage insurance; therefore, the risk to the FHA insurance fund is increased if HUD pays insurance claims and incurs losses on the resale of the properties associated with these ineligible FHA-insured loans. Further, the lenders' failure to ensure that borrowers maintained flood insurance throughout the life of the loans would pose a significant risk if another natural flood disaster was to occur such as Hurricanes Rita or Katrina or the flooding that has recently devastated parts of the Midwest.

Recommendations

We recommend that the Assistant Secretary for Housing-Federal Housing Commissioner

1A. Seek appropriate adminstrative action for 202 active loans with original mortgage amounts of $27,773,733 if the lenders cannot provide documentation, such as a letter of map amendment/revision, to show that the properties are not located in FEMA's designated special flood hazard areas or the the required elevation certification showing that the properties meet FEMA's elevation requirements and are covered by flood insurance. The unpaid principal balances for the 202 loans as of July 2, 2008, totaled $26,954,812. The estimated risk to HUD is $315,371 based on FHA's average loss rate of 39 percent based on the 2007 actuarial review of the FHA insurance fund for fiscal year 2007 and the average percentage of loans that resulted in HUD-paid claims for calendar years 2000 through 2007 of 3 percent.

1B. Seek reimbursement from the applicable lenders for any future losses from a $109,482 claim paid on loan 292-4652151 as of August 31, 2008, if the lenders fail to provide the elevation certifications or letters of map revision/amendment. The projected loss to HUD is $42,698 based on the claims paid and FHA's average loss rate of 39 percent based on the 2007 actuarial review of the FHA insurance fund for fiscal year 2007.

1C. Seek reimbursement of $73,989 ($47,751 plus $26,238) from the lender for the actual loss incurred on one loan 495-7332855 and the claim paid due to a preforeclosure sale for loan 221-3794753, respectively, if the lender fails to provide the elevation certification or letter of map revision/amendment.

1D. Require the applicable lenders for the 317 loans lacking evidence of flood insurance to provide documentation showing that the properties have flood insurance or are no longer located in FEMA's designated special flood hazard areas or seek appropriate administrative action.

1E. Require the Office of Single Family Housing to develop a plan and implement the plan to improve its existing procedures and controls to ensure that lenders follow HUD's insurance endorsement requirements for new construction properties located in FEMA's designated special flood hazard areas. These improved procedures and controls should result in a potential savings to the FHA insurance fund of $260,670 over the next year.

We recommend that HUD's Acting Associate General Counsel for Program Enforcement

1F. Determine legal sufficiency and if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act against the 23 lenders and/or their principals who incorrectly certified to the integrity of the data supporting the underwriting decisions and that the 113 loans were eligible for FHA mortgage insurance.

SCOPE AND METHODOLOGY

To accomplish our audit objective, we evaluated FHA-insured loans for new construction properties that were endorsed between August 1, 2005, and August 31, 2007. We researched and reviewed the requirements outlined in the National Flood Insurance program, the Mandatory Purchase Flood Insurance Guidelines, and HUD's handbooks. We also conducted interviews with HUD program and homeownership staff and FEMA's representatives.

Using HUD's Single Family Data Warehouse system, we identified 1,079,712 loans endorsed by HUD from August 1, 2005, through August 31, 2007. Of the 1,079,712 loans, 151,163 were to finance the purchase of newly constructed properties. We used ARCGIS Mapping software, in conjunction with hard-copy flood maps obtained from the FEMA's Web site, and assistance from FEMA's mapping service department (to identify the appropriate maps) to determine the properties that were located in FEMA's designated special flood hazard areas, thus reducing the number of loans to approximately 1,673 loans totaling more than $ 233,619,877 in original mortgage amounts.

Of the 1,673 loans, we were unable to order 822 loans' FHA casebinders using HUD's TransAccess system. Therefore, we contacted the lenders directly to obtain them. However, due to the number of different lenders involved, we only contacted the lenders with 10 or more loans to obtain the FHA casebinders for review. The lenders with fewer than 10 loans were excluded from our universe of reviewed loans. Therefore, we did not review 388 of the 1,673 loans identified. Of the 1,285 (1,673 minus 388) remaining loans, we performed 100 percent review, which reduced the number of the loans that were initially determined to be in the flood zones. Based on this review, we determined that 823 loans were for newly constructed properties located in FEMA's designated special flood hazard areas and 462 were not. For the 823 loans, we reviewed the lenders' loan files and followed up with them to obtain needed documentation if necessary.

We relied on computer-processed data contained in HUD's Single Family Data Warehouse and Neighborhood Watch systems only to obtain loan information. We assessed the reliability of the data, performed sufficient tests of the data, and found the data adequate to meet our audit objective. However, we relied on hard-copy documentation contained in HUD's homeownership casebinders or lenders' loan file documentation to support our audit finding.

In assigning a value to the potential savings to the FHA insurance fund if HUD implements our recommendation on previously insured loans for which it has not yet incurred a loss, we applied the weighted average loss severity rate of 39 percent of the unpaid principal balances based on the 2007 actuarial review of the FHA insurance fund for fiscal year 2007.

As previously mentioned, 102 lenders incorrectly certified to the integrity of the data supporting the underwriting decisions and that the 334 loans were eligible for HUD mortgage insurance. Using the 334 loans with incorrect certifications from the 823 loans tested, we estimate the risk to FHA to be $260,670 ($44,559,081 in unpaid principal balances as of July 2, 2008, for the 334 loans divided by the 24-month period reviewed ($1,856,628) times 12 months for the next year

($22,279,540) times 39 percent ($8,689,020) times 3 percent[2] ($260,670) for the next year if HUD does not improve its existing procedures and controls to ensure that lenders follow federal underwriting requirements for new construction properties located in FEMA's designated special flood hazard areas. Additionally, applying the 3 percent average to the 202 active loans totaling $26,954,812 in unpaid principal balances that were ineligible for FHA mortgage insurance, (we estimate the loss the HUD to $315,371. ($26,954,812 times 3 percent) times the weighted average loss severity rate of 39 percent.

The audit covered the period August 1, 2005, through August 31, 2007. This period was adjusted as necessary. We conducted the audit in accordance with generally accepted government auditing standards.

[2] The 3 percent was determined from the average percentage of loans that resulted in HUD-paid claims for calendar years 2000 through 2007.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objective:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if internal controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weakness

Based on our review, we believe the following item is a significant weakness:

- HUD's Office of Single Family Housing lacked adequate procedures and controls regarding its FHA insurance endorsement process and its monitoring of lenders for compliance with HUD's requirements regarding new construction properties located in FEMA's designated special flood hazard areas (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1A	$315,371	
1B	42,698	
1C	73,989	
1E		$260,670
Totals	$432,058	$260,670

1/ Unsupported costs are those costs charged to a HUD-financed of HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures. The amounts above for recommendations 1A and 1B reflects that, upon sale of the mortgaged property, FHA's average loss is about 39 percent of the claim amount based upon statistics provided by HUD.

2/ Recommendations that funds be put to better use are estimates of amount that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. Recommendation 1E represents future savings to HUD if it improves its existing procedures and controls regarding FHA lenders' endorsement of loans to finance the purchase of newly constructed properties in FEMA's designated special flood hazard areas.

Appendix B

FEDERAL REQUIREMENTS

HUD Handbook 4000.4, REV-1, "Single Family Direct Endorsement Program," dated September 2, 1988, chapter 3, states that when a property is located in an area designated as a special flood hazard area, it is required that the borrower and lender obtain and maintain flood insurance coverage under the National Flood Insurance program on the property during such time as the mortgage is insured. The insurance must be in an amount at least equal to the outstanding balance of the mortgage less estimated land costs or the maximum amount of National Flood Insurance program insurance available, whichever is less. It is the responsibility of the lender to determine whether the property is located in a flood hazard area. If a property is located in a special flood hazard area and National Flood Insurance program coverage is not available, the property is not eligible for mortgage insurance.

HUD Handbook 4010.1, "Housing Production and Mortgage Credit – Federal Housing Administration," dated November 1972, chapter 7, states that the flood insurance to be maintained shall be in an amount at least equal to either the outstanding balance of the mortgage or the maximum amount of National Flood Insurance program insurance available with respect to the property, whichever is less.

HUD Handbook 4000.2, REV-3, "Mortgagees' Handbook Application through Insurance," dated May 20, 2004, chapter 2, states that for proposed and new construction, national flood insurance is required when a flood elevation certificate documents that the property is located within the special flood hazard area, and a letter of map amendment, final letter of map revision, or flood elevation certificate must be submitted with the casebinder for insurance endorsement.

HUD Handbook 4330.1, REV-5, "Administration of Insured Home Mortgages," dated September 29, 1994, chapter 2, states that the lender is responsible for collecting a monthly amount that will enable it to pay all of the escrow obligation, including a flood insurance premium, if any. In addition, paragraph 2-11E states that HUD shall be furnished evidence of flood insurance as a condition of insuring the mortgage in a special flood hazard area for the life of the mortgage.

HUD Handbook 4150.2, CHG-1, "Valuation Analysis for Single Family One- to Four-Unit Dwellings," dated July 1999, chapter 2, states that the lender is responsible for determining the eligibility of properties in flood zones and relies on the appraiser's notation on the uniform appraisal report.

HUD's regulations at 24 CFR [*Code Federal Regulations*] 200.926 state that in all cases in which a direct endorsement lender or lender insurance lender seeks to insure a mortgage on a newly constructed one- to four-family dwelling (including a newly erected manufactured home) that was processed by the direct endorsement lender or lender insurance lender, the direct endorsement lender or lender insurance lender must determine whether the property improvements (dwelling and related structures/equipment essential to the value of the property and subject to flood damage) are located in a 100-year floodplain, as designated on maps of

FEMA. If so, the direct endorsement lender, before submitting the application for insurance to HUD, or the lender insurance lender, before submitting all the required data regarding the mortgage to HUD, must obtain

(1) A final letter of map amendment,
(2) A final letter of map revision, or
(3) A signed elevation certificate documenting that the lowest floor (including basement) of the property improvements is built at or above the 100-year flood elevation in compliance with the National Flood Insurance program.