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Foreword

This handbook updates the provisions of Handbook 4165.1 REV-1 CHG-3, and contains major changes to the basic instructions and guidelines for mortgage insurance endorsement.

Guidelines concerning circumstances that change after a case is endorsed are contained in this handbook to a limited extent. See HUD Handbook 4330.1 REV-2, Administration of Insured Home Mortgages, for post-endorsement circumstances not covered by this handbook.

This handbook contains appendices for: (1) case binder requirements; (2) section of the act Automated Data Processing (ADP) code chart; (3) sample format for mortgage and Note instruments, (4) riders; (5) FHA common system and documentation problems; (6) rating code sheets and Computerized Homes Underwriting Management System (CHUMS) modifications; and (7) pre-endorsement checklists.

Questions related to this handbook should be directed to the appropriate Homeownership Center (HOC), or the Director of the Office of Single Family Program Development, Office of Insured Single Family Housing, HUD Headquarters, 451 Seventh St., SW, Washington DC 20410-8000.

References:

1. 2226.1 Single Family Mortgage Insurance Case Binder... Transfer and Retrieval
2. 4000.2 Mortgagees' Handbook Application Through Insurance (Single Family)
3. 4000.4 Single Family Direct Endorsement Program
4. 4060.2 Mortgagee Review Board Handbook
5. 4110.1 Fiscal and ADP Handbook
6. 4110.2 Mortgagee's Guide Home Mortgage Insurance Fiscal Instructions
7. 4150.1 Valuation Analysis for Home Mortgage Insurance
8. 4155.1 Mortgage Credit Analysis for Mortgage Insurance
9. 4205.01 Single Family Coinsurance Program Handbook
10. 4330.1 Administration of Insured Home Mortgages
11. 24 CFR Code of Federal Regulations

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CHAPTER 1 PREPARATION AND SUBMISSION OF THE CASE BINDER

1-1 THE FHA CONNECTION <TOP>

A. Overview

The FHA Connection is an interactive portal on the Internet that gives approved FHA lenders real-time access to several FHA systems to originate loans. Direct Endorsement lenders must process case number assignments, inspector assignments, appraisal information, case cancellations, receive insurance, and retrieve loan data electronically. Homeownership Centers will not accept telephone or mail requests for case numbers, case status or other actions that can be performed by the lender through the FHA Connection.

The FHA Connection gives lenders the ability to do the following transactions electronically:

- Request FHA case number assignments
- Request appraiser reassignments
- Request case queries
- Request refinance authorizations
- Request insurance
- Request inspector assignments
- Request loan data
- Request case cancellations
- Transfer cases to other lenders
- Transfer cases to other sponsors
- Request CAIVRS authorizations
- Request reports
- Query approval lists
- Register underwriters
- Request HECM insurance
- Register automated underwriter systems
- Create Institutional Master File (IMF) sponsor relationships
- Add Title I branches
- Add Title II branches
- Create authorized agents for Title II
- Change IMF addresses
- Inquiry IMF addresses

B. Accessing the FHA Connection

The FHA Connection is accessed on the Internet from either the HUD.gov webpage or at <https://entp.hud.gov/clas>. The FHA User Guide is on-line at this website with in-depth instructions on using the portal. The Mortgagee Packet is also available that describes the functions available to lenders.

A user ID is necessary to sign onto the portal. Two types of user ID's are issued, Application Coordinator and standard. A maximum of two Application Coordinator ID's may be issued per lender at the corporate level.

Each mortgagee at the corporate level must designate its Application Coordinators prior to requesting standard ID's. In order to get an Application Coordinator's ID, the designated

Application Coordinator must complete the FHA Application Coordinator Registration form, which resides on FHA Connection's web site. Each Application Coordinator will provide: Name, Social Security Number, Mortgagee ID, E-mail address, Mother's Maiden Name, Desired Password, and System Applying for.

After successfully completing the form, the system generates a user ID which is mailed to the President/CEO. The President/CEO gives the Application Coordinator his/her ID when it is received through the mail. If the President/CEO feels the applicant should not receive this ID, they may contact the help line to have the ID terminated.

The mortgagee's Application Coordinators will be responsible for supplying authorization for the different applications that are available on the FHA Connection to each employee. Assigning authorization for different applications is done through the FHA Connection's ID Maintenance screen which is accessible only to the Application Coordinators. The Application Coordinators give employees of their company access to the different applications (e.g. Case Query, Appraiser Reassignment, Insurance processing, etc.), and remove ID's on the ID Maintenance screen.

Once an Application Coordinator has his/her ID, the system allows other employees to request a standard ID for themselves. Employees can accomplish this through the FHA Connection ID Registration form. They will indicate that they are requesting a standard user ID, and similar information as the Application Coordinator. After successfully completing the registration, the FHA Connection system will generate an ID. The Application Coordinator will then be able to retrieve the ID's from the system and grant the proper authorizations to the individual staff for each user.

C. Information from Help Screen

A help ? icon is located on the upper right hand corner of each screen to assist the user. The help window describes the functions, valid data entries, a description of the data entry fields, and a description of the information that will be returned. The help screens should be consulted prior to calling FHA for help with the data entry fields.

D. Appraisal Information on FHA Connection

For all cases, including HECMs, appraisers are required to mail their appraisals and one copy to the lender. Appraisals should not be mailed to the HOCs by the appraiser. The lender is required to enter the appraisal information into the FHA connection prior to receiving insurance. When mailing the HUD case binder to the HOC, DE lenders will include the original appraisal and a copy provided by the appraiser. Lenders originating HECM loans enter the appraisal information in order for the system to calculate the MIP.

E. Correction of Error Messages

FHA Connection users receive immediate feedback on reasons for possible non-insurance in the form of an electronic error message. Lenders will correct any errors before cases are submitted for insurance. The types of error messages that must be corrected by the lender prior to submitting the case binder for insurance can be found in Appendix XVIII.

1-2 UNIFORM CASE BINDER<TOP>

The case binder must meet the requirements specified in Appendix I. The lender must complete the front of the binder and write the case number on the side and bottom tabs of the binder. The lender may use the remaining space on the side tab for its own use (e.g., borrower's name, address and loan number). See Chapter 2 for submission timeframe.

1-3 USE OF COPIES IN CASE BINDER<TOP>

The Federal Housing Administration (FHA) will consider all documents submitted in the case binder as the certified and true copies of the original documents. Therefore, it is not necessary for the lender to stamp or otherwise mark that the documents in the case binder are certified and true copies, nor submit any separate certification for the documents. The lender may submit in the case binder photocopies of the original documents or printed copies of imaged or electronic documents.

1-4 SUBMISSION OF CASE BINDER BY A LENDER OTHER THAN THE ORIGINATING LENDER<TOP>

If the originating lender assigns the mortgage to another approved lender before it submits the case for endorsement, the assignee may submit the case for endorsement in the name of the originating lender. All approved lenders (including loan correspondents) must process, close, fund, and submit loans for endorsement in their own name. Any approved lender (including a loan correspondent's sponsor) may:

- A. Complete the Mortgage Insurance Premium (MIP) Transmittal Form, send the MIP to the FHA, and receive the Statement of Account; and
- B. Submit evidence of assignment of the case for endorsement in the name of the originating lender.

All certifications must be executed by the originating lender (or its underwriter, if appropriate). The purchasing lender may pay any required MIP, late charge, and interest. The FHA will not endorse an ineligible mortgage for insurance or waive MIP payments in any case.

1-5 SUBMISSION OF CASE BINDER – DIRECT ENDORSEMENT (DE) CASES
[<TOP>](#)

Direct Endorsement (DE) cases are submitted for insurance endorsement after the loan is closed. The submitting lender has the duty to ensure all documentation is appropriate and conforms to the requirements of this handbook. The lender must assemble the processing and closing documents and place them in the case binder in the order depicted in Table 1.1, Binder Assembly.

Table 1.1 Binder Assembly

<i>LEFT SIDE OF BINDER</i>	<i>RIGHT SIDE OF BINDER</i>
Mortgage Assurance of Completion , *Form HUD-92300.	Screen print of Insurance Application Screen from FHA Connection showing that the insurance information was accepted by FHA Connection. Automated Underwriting Feedback Certificate/Findings Report.*
Compliance Inspection Report , Form HUD-92051 or other applicable documentation AND evidence of satisfaction of valuation conditions (as applicable).	Request for Late Endorsement* in compliance with Chapter 3 of this handbook.
Wood Destroying Insect Infestation Report , Form NPCA-1 or State mandated infestation report (as applicable).	Mortgage Credit Analysis Worksheet (HUD-92900-PUR or 92900-WS, as applicable) with any supporting documents. <ul style="list-style-type: none"> • Section 203(k) HUD-92700, Maximum Mortgage Worksheet* • Energy Efficient Mortgage (EEM) and/or 203(h) program documentation* • Secondary Lien Exhibits • Buydown Agreements • Attachments, memos, and clarifications*
Local Health Authority’s Approval* for individual water and sewer systems.	Copy of the Mortgage Note and all applicable riders and allonges. Copy of Security Instrument with all applicable riders.
New Construction Exhibits: <ul style="list-style-type: none"> • Builder’s Certification, Form HUD-92541 • Builder’s Warranty of Completion Form HUD-92544 • Evidence of 10-Year Warranty Plan Coverage* • Inspection Report(s)- HUD-92051, VA-26- 	HUD-1 Settlement Statement. HUD-1 Addendum (for purchases) that comply with Section 2-14 of this handbook.

LEFT SIDE OF BINDER	RIGHT SIDE OF BINDER
<p>1839 for the Department of Veteran Affairs (VA), Certificate of Reasonable Value (CRV), and Master Certificate of Reasonable Value (MCRV), or HUD-approved local building authority inspections*</p> <ul style="list-style-type: none"> • Subterranean Termite Treatment Report-NPCA-99a and NPCA-99b* 	
<p>Statement of Appraised Value, Form HUD-92800.5b (Conditional Commitment).</p>	<p>Uniform Residential Loan Application (URLA) HUD/VA Addendum to URLA, Form HUD-92900-A.</p>
<p>Comprehensive Valuation Package (CVP)</p> <ul style="list-style-type: none"> • Uniform Residential Appraisal Report (URAR) • Form HUD-92564-VC (Notice to the lender) • Form HUD-92564-HS (Homebuyers Summary) • Location map, photos of properties, building sketch <p>Master Appraisal Reports (MAR) HUD-91322, including all attachments.*</p> <p>VA CRV-VA-26-1841 & MCRV-VA-26-1843a, including all attachments and endorsements.*</p>	<p>Credit and Capacity Documentation</p> <ul style="list-style-type: none"> • Credit Reports(s) • Asset Verification documentation [including gift letter(s) and relevant documents] • Income Verification documentation
<p>NOTE: Second copy of complete CVP to be stapled and placed loose in binder.</p>	<p>Evidence of Social Security Number (if not shown on printed pay stubs or W-2s) or, for non-profit borrowers, Tax Identification Number.</p>
<p>Specialized Eligibility Documents (such as, but not limited to):</p> <ul style="list-style-type: none"> • 203(k): Rehabilitation Agreement, Plans, Work Write-ups, Cost Estimates, Initial Draw Request • Form HUD-92561—Borrower’s Contract with Respect to Hotel and Transient Use of Property • Condominiums - Occupancy Certification regarding 51% owner occupancy. Spot Condo documents, etc.* 	

LEFT SIDE OF BINDER	RIGHT SIDE OF BINDER
Purchase Contract* • Amendatory Statement executed by all parties • Real Estate Certification executed by all parties • All other contract addenda • Escrow Instructions* • Form HUD-92564-CN,* (For Your Protection: Get a Home Inspection)	

• * Indicates “when/if applicable”

**Table 1.2 Revised FHA Case Binder for Home Equity Conversion Mortgages (HECM)
(For Direct Endorsement Cases ONLY)**

RIGHT SIDE OF BINDER
The FHA does not require any documents on the left side of the binder.
Request for Insurance Endorsement (HUD-54111). This form need only be included in the binder by those lenders that do not use one of the FHA’s electronic systems to request insurance.
• First Security Instrument and Note. Certified copy of the First Security Instrument and note and all applicable riders.
Second Security Instrument and Note. <i>Original</i> Second Security Instrument and Note and all applicable riders. If the original Second Security Instrument is not back from the recorder’s office at the time endorsement is requested, submit a certified copy of the document sent for recording. * The <i>original</i> recorded Second Security Instrument should be forwarded to the FHA when returned by the recorder’s office.
HUD-1 Settlement Statement.
Notice to Borrower.
Loan Agreement and Repair Rider if applicable (3 originals).
• Choice of Insurance Options (assignment or shared).
Certification Regarding Hotel and Transient Use (On all two-, three-, and four-unit properties).
Evidence of Calculations for principal limit and monthly payment amount, if any. (Screen Print)
Uniform Residential Loan Application (all pages) and HUD/VA Addendum (HUD-92900-A, pages 1 and 2).

<i>RIGHT SIDE OF BINDER</i>
Credit Report (for federal debts).
Evidence the borrower received counseling.
Evidence of Social Security Number.
Title Insurance Commitment or other acceptable title evidence.
Statement of Appraised Value (HUD-92800.5b) and the Valuation Condition (VC) Sheet and any VC not listed on the repair Rider.
Uniform Residential Appraisal Report. Only includes the actual two-page form, the photographs of the subject property and comparables, and sketch of the subject property.
Evidence HUD LDP, CAIVRS & GSA list are clear.

- * When recorded originals are received after endorsement, the appropriate HOC should forward these documents to the Asset Management staff to be joined with the certified copy previously provided by the lender.
- * HOCs may not delay endorsement by requesting additional documents.

1-6 SUBMISSION OF CASE BINDER – DE PRE-CLOSING <TOP>

A lender that is not yet unconditionally approved for DE, and is processing and underwriting pre-closing or “test” cases must submit their case to the HOC for issuance of a Firm Commitment prior to closing the loan. Closing loans prior to issuance of an FHA Firm Commitment is at the lender’s own risk. After the lender closes the loan, the lender executes and submits the closing documents for insurance endorsement. The lender submits the closing documents in a binder in accordance with the requirements of this handbook, clearly marking the outside of the case “TEST CASE CLOSING PACKAGE.”

1-7 SUBMISSION OF CASE BINDER –FHA/HUD EMPLOYEE CASES <TOP>

In certain instances, such as when the borrower is an FHA/HUD employee, the loan application is required to be underwritten and approved by the FHA. The lender prepares and immediately sends the case binder to the appropriate HOC after making the request for an FHA case number. It is not necessary for the lender to submit additional binders with the lender’s subsequent submissions of processing documents in these cases. After the lender closes the loan, the lender submits the closing documents, (two-hole punched and fastened together with a metal fastener), in the following order:

- A. Transmittal letter indicating that the package contains closing documents for an FHA/HUD processed case, and a screen print of the Insurance Application Screen from FHA Connection showing that insurance information was accepted by FHA Connection.
- B. Late Request for Endorsement, if required.
- C. Mortgage Payment History, if required.

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- D. Special certifications or forms, if any (e.g., Closing certification (see Paragraph 2-16), Hotel and Transient Use Form HUD-92561, well and septic certifications, etc.)
- E. Copy of Note with appropriate riders, if any.
- F. Copy of Mortgage Instrument, with appropriate riders.
- G. Settlement Statement, Form HUD-1.
- H. Required Certifications to the Form HUD-1.
- I. Proof of Satisfaction of Firm Commitment, Architectural and/or Valuation Conditions.
- J. Miscellaneous documents, no particular order.

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CHAPTER 2 INSURANCE ENDORSEMENT

Section 1: General Information

2-1 ENDORSEMENT OF A MORTGAGE <TOP>

The lender must place the processing and closing documents for the case in the uniform case binder and submit it with a request for endorsement to the appropriate HOC. The FHA issues an electronic Mortgage Insurance Certificate (MIC) that the lender downloads from the FHA Connection (FHAC). This information is provided on the "MIC" Screen via the FHAC. Once the MIC is issued, the mortgage is considered insured under the terms of applicable regulations.

2-2 SUBMISSION OF CASE <TOP>

The lender shall submit the case binder to the FHA so that it is received within 60 days after closing. Receipt of the case is indicated by the date of entry into the Computerized Homes Underwriting Management System (CHUMS). If the HOC is closed on the 60th day, the first business day thereafter shall be considered the 60th day. The lender is responsible for verifying that the input in the FHA Connection is consistent with the documents submitted in the case binder.

Note: When requesting the MIC, the lender will be required to specify whether the MIC is to be prepared in the name of the Originator (Loan Correspondent) or in the name of the Sponsor. The name on the MIC will be the name of either the originator or sponsor as it appears in HUD's systems

2-3 INSURANCE ENDORSEMENT AND ISSUANCE OF MIC <TOP>

The lender must initiate insurance endorsement processing by completing the Insurance Application function in FHA Connection prior to sending the case binder to the appropriate HOC. After receiving the case binder, the HOC will perform its internal pre-endorsement review functions and complete insurance endorsement processing using the logging and endorsement functions in CHUMS. After completing these CHUMS functions, if the case is eligible for insurance, the HOC will endorse the case, and electronically issue a MIC for the lender to download from the FHA Connection.

2-4 ISSUANCE OF NON-ENDORSEMENT NOTICE/NOTICE OF REJECTION (NOR) <TOP>

If the mortgage is determined to be ineligible for insurance endorsement, the FHA will electronically indicate a Non-Endorsement Notice/Notice of Return (NOR) on the Case Query screen and include the reasons for non-endorsement and any corrective actions that must be taken by the lender. If the case is permanently rejected for insurance endorsement, the NOR must include instruction to the lender to notify the borrower that they do not have an FHA-

insured loan and the circumstances which make the loan ineligible for FHA insurance. The lender must also obtain a refund of both the Upfront Mortgage Insurance Premium (UFMIP) and any periodic MIP paid by the borrower or on behalf of the borrower and apply the refund to the principal balance of the loan.

2-5 EFFECTIVE DATE OF ENDORSEMENT <TOP>

A case submitted for endorsement is considered an insured loan as of the date FHA electronically issues the MIC.

2-6 EXCESSIVE LOAN AMOUNT <TOP>

An excessive loan amount occurs when the lender closes a loan in an amount higher than that permitted by FHA requirements. To obtain an MIC, the lender may choose to pay down the principal balance or reclose the loan to the insurable amount. The lender must provide a copy of the payment ledger showing the principal balance has been paid down to an insurable amount.

Internal FHA processing instructions for these situations are as follows:

- A. Exceeds Statutory Loan Limit - CHUMS will automatically reject a case for endorsement if the loan amount exceeds the statutory limit. FHA issues the NOR and returns the binder and NOR to the lender with instructions to provide evidence of a principal reduction to an insurable amount.
1. To issue the MIC through CHUMS, after receipt of evidence of a principal reduction to the insurable amount, FHA will electronically issue the MIC with the reduced mortgage amount. Depending upon the size of the principal reduction, the monthly principal and interest payment amount on the MIC may or may not match the Note. The principal and interest payment on the MIC should not be manually changed to agree with the Note.
 2. If the lender wants the MIC to match the Note and mortgage, the loan must be reclosed or amended to an insurable amount.
- B. Exceeds Maximum Allowable Loan Amount or Loan-to-Value - If, during post-endorsement technical review, the FHA determines the loan amount exceeds the maximum allowable, (but does not exceed the statutory limit), or exceeds the maximum allowable loan-to-value ratio, the appropriate HOC will require that the lender provide, within 30 days of the date of the letter of notification, evidence that the principal loan balance has been paid down to an insurable amount. If the lender does not respond within 30 days, the HOC may take appropriate sanctions. (The lender does not return the MIC to FHA for correction.) In the event a claim is presented to FHA, only the existing principal balance and other permissible costs will be considered by FHA for payment of the claim.
- C. If the lender advances the principal loan reduction on behalf of the borrower, the lender cannot require a repayment amount, either in lump sum or monthly payment, if the amount will jeopardize the borrower's ability to repay the mortgage and potentially cause a default.

2-7 REQUEST FOR STATUS OF MIC <TOP>

Lenders may confirm the endorsement status using the FHA Connection, or the FHA Connection's Business-to-Government (FHAC-B2G) application. The B2G application allows lenders to submit case level data from their loan origination system directly to FHA without re-keying.

For confirmation of the endorsement status of multiple loans, the originator or sponsor may use the FHAC MIC/NOR List transaction or the FHAC B2G Mass Case Query transaction to obtain a list of cases endorsed within a specific time period at the branch or corporate level. This function provides a list of all case numbers endorsed within a specified date parameter. For individual loans, the originator or sponsor may use either the FHAC or FHAC B2G Case Query to determine if the mortgage was endorsed by examining the "last action" field for "INSURED". Users of ECHO Connection Plus (EPC) should call 1-888-711-2500, for information.

2-8 REQUEST FOR CORRECTED AND DUPLICATE MICS <TOP>

The electronically issued MIC eliminates the need for a duplicate MIC since lenders can download and print another copy as needed.. In some instances, lenders may have a business requirement for a paper copy of the MIC, which can be obtained by contacting the appropriate HOC.

Lenders cannot obtain corrected MICs through FHA Connection. Refer to HUD Handbook 4000.2, Appendix VII, "Suggested Format for Request for Mortgage Insurance Certificate (MIC) Correction" for instructions to obtain corrected MICs.

2-9 PAYMENT FACTORS FOR PRINCIPAL AND INTEREST PAYMENT <TOP>

Lenders may use a 6-digit factor for the monthly principal and interest payment. A tolerance of four cents per thousand is permitted. The 365-day year is used when calculating interim (per diem) interest.

2-10 MIC SECTION OF THE ACT (ADP) Code <TOP>

The section of the Act (ADP) Code is an important item on the MIC and will be verified for accuracy by FHA. The ADP Code identifies the insuring section and the applicable FHA insurance fund, indicates an assistance payment contract, if any, and identifies which mortgages do not require payment of UFMIP. Refer to HUD Handbook 4000.2 REV-3 Appendix III, Home Mortgage Automated Data Processing (ADP) Codes.

The lender must show the HUD case number including the section of the Act ADP Code on the Note, and the security instrument (mortgage or deed of trust). The ADP Code must be the same as that shown on the loan application (Form HUD-92900-A). Documents do not need to be redrawn to correct the case number or ADP Code. The borrower does not have to initial changes to the case number or ADP Code. The lender may draw a line through the incorrect number and write in the correct number. The lender should provide the borrower a copy of the documents containing the correct case number.

4165.1 REV-2

To track ARM activity, the following case number suffix codes (Section of the Act ADP Codes) will be indicated on all HUD application addendums (Form HUD-92900) and printed on computer generated mortgage insurance certificates (Form 59100). The suffix codes for DE cases are as follows:

Eligible Program	Section of the Act Suffix Code – Direct Endorsement
203(b)	729
223(e)	829
203(k) first lien	730
234(c)	731
247 - Hawaiian Homelands	780
248 - Indian Lands	788
203(k)- Condominium	815

In addition to existing Automated Data Processing (ADP) codes assigned to ARMs, a hybrid ARM-type indicator has been added to CHUMS. When submitting loan data to FHA via the FHA Connection or its functional equivalent, if an ARM is indicated by an ADP code, the lender must also identify the type of ARM by selecting the 1-, 3-, 5-, 7- or 10-year ARM-type indicator. This process is less likely to result in errors than adding additional ADP codes for each individual hybrid ARM offering.

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2-11 VERIFICATION OF PAYMENT OF UFMIP <TOP>

For those cases requiring the UFMIP, CHUMS will verify whether sufficient UFMIP has been paid. If sufficient UFMIP has not been received by HUD, the case cannot be insured.

2-12 UFMIP LATE CHARGES AND INTEREST DUE <TOP>

If the lender pays the UFMIP beyond the FHA allowable number of days after closing, the lender will incur a late fee. If the UFMIP is paid more than 30 days after closing, the lender will incur a late fee plus interest, and if applicable, both must be paid before the mortgage will be endorsed for insurance. The Department also reserves the right to take appropriate enforcement proceedings against lenders paying UFMIPs late irrespective of the mortgagee's payment of late fees and interest.

See HUD Handbook 4155.1 for additional information about payment.

2-13 DATE OF CLOSING <TOP>

The date of closing/settlement is generally considered the date on which the note and mortgage are signed by the buyer. However, for the purposes of establishing the date that the 60-day endorsement submission clock begins, FHA will rely on the date that the lender relinquishes control of the loan proceeds (i.e., disburses the mortgage funds) for both purchase money

mortgages as well as refinances. This will result in a consistent and easily understood start date for lenders for meeting their obligations to submit the case binder to FHA for endorsement processing.

This date will be entered in the Form HUD-1, Settlement Statement, Block I. Lenders should assure that the same closing/settlement date is entered as the closing date in the Automated Clearing House (ACH) screen and the FHA Connection Screen.

2-14 CLOSING CERTIFICATIONS <TOP>

The type of processing (DE, DE Pre-Closing, or FHA/HUD underwritten) will dictate the closing certifications that must be executed by the lender.

When the lender signs the certification, it is stating that:

- Statements made in its application for insurance and the Certificate are true and correct;
- Conditions listed or appearing in any outstanding commitment issued under the case number have been fulfilled;
- Complete disbursement of the loan has been made to the borrower, or to his/her creditors for his/her account and with his/her consent;
- The security instrument has been recorded and is a good and valid first lien on the property described;
- No charge has been made to or paid by the borrower except as permitted under FHA regulations;
- Copies of the credit and security instruments which are submitted herewith are true and exact copies as executed and filed for record; and
- No one has paid any kickbacks, fee or consideration of any type, directly or indirectly, to any party in connection with this transaction except as permitted under FHA regulations and administrative instructions.

The lender's representative also certifies that at the time of closing the mortgage loan, he/she has personally reviewed the mortgage loan documents, closing statements, application for insurance endorsement, and all accompanying documents.

Section 2: Pre-Endorsement Review

2-15 PRE-ENDORSEMENT REVIEW – GENERAL <TOP>

The FHA's pre-endorsement review is confined to the documents specified for each processing type (i.e., DE, DE Pre-Closing, and FHA/HUD Employee Processed). FHA will do a limited review of each document to ascertain compliance. No further review is required or authorized unless FHA has reason to suspect fraud or misrepresentation (including negligent misrepresentation), in any of the documents submitted.

During the pre-endorsement review, FHA is authorized to determine if there is any information indicating that any certification or required document is false, misleading, or constitutes fraud or

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misrepresentation on the part of any party, or that the mortgage fails to meet a statutory or regulatory requirement. If, following this review, the mortgage is determined to be eligible, FHA will endorse the mortgage for insurance and electronically issue a MIC on the FHA Connection. If the mortgage is determined to be ineligible, FHA will inform the lender of this determination, and issue a Non-Endorsement Notice/NOR and include the reasons for the non-endorsement.

Refer to Appendices XX and XXI for the Pre-Endorsement Checklist and HECM Pre-Endorsement Checklist respectively.

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Historical Reference Only

CHAPTER 3 LATE REQUEST FOR ENDORSEMENT

3-1 LATE ENDORSEMENT [<TOP>](#)

A request for insurance endorsement is considered “late” and triggers additional documentation whenever the binder is received by the HOC more than 60 days after loan settlement or funds disbursement, whichever is later. The FHA believes that this is sufficient time for the lender to assemble the binder, obtain any final documents or signatures, and ship the binder to the appropriate HOC for endorsement processing.

FHA determines whether a mortgage is received late based on upon the date the HOC actually *receives* the case binder. Mortgagees must consider mailing and processing times when submitting case binders to the HOC. Mortgagees may determine the date the case binder was received and logged in by the HOC by reviewing the case status screen using the FHA Connection.

Upon receipt of a case involving a late request for endorsement, the FHA will review the lender’s certification and make a determination to accept or reject the request. If the FHA’s review indicates that the degree of risk to the Department is not greater than existed at the time of closing, the mortgage may be endorsed. A mortgage that is in default when submitted for endorsement will not be insured, except in those instances where the FHA was demonstrably responsible for a delayed request for endorsement. If, in the appropriate HOC’s judgment, the delay in submission was entirely the FHA’s fault, the lender is not required to submit the item identified in Paragraph 3-3.

3-2 CASES SUBMITTED FOR RECONSIDERATION AFTER NOR [<TOP>](#)

If the HOC returns a case binder to the lender by issuing a NOR (or subsequent NOR), the HOC must receive the reconsideration request for insurance endorsement within the original 60-day window, or 30 days from the date of issuance of the original NOR, whichever is greater. Cases resubmitted after the expiration of the applicable date must follow the late request instructions in paragraph 3-3. Also, should the issuance of a subsequent NOR result in the mortgage lender’s resubmission being received after the original 60 day period or the 30 day period set forth for the original NOR, whichever is later, the late endorsement instructions set forth in paragraph 3-3 must be complied with.

3-3 LATE REQUEST FOR ENDORSEMENT CERTIFICATIONS BY THE LENDER [<TOP>](#)

When submitting a late request for endorsement, under the circumstances described below, the mortgagee is required to include a dated certification, signed by a representative of that mortgagee on company letterhead, which includes the mortgagee’s complete address and

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telephone number. This certification must be specific to the case being submitted, i.e., identify the FHA case number and the name(s) of the borrower(s) and state that:

1. At the time of this certification, no mortgage payment is currently unpaid more than 30 days and;
2. All escrow accounts for taxes, hazard insurance and mortgage insurance premiums are current and intact, except for disbursements that may have been made to cover payments for which the accounts were specifically established, and;
3. The mortgagee or its agents did not provide the funds to bring and/or keep the loan current or to bring about the appearance of an acceptable payment history.

If the payment due for the month *before* the mortgagee submitted the loan for endorsement has yet to have been received, that mortgage is not eligible for endorsement. Individuals found making false certifications may have administrative sanctions taken against them including, but not limited to, debarment from participation in HUD's and other Federal agency programs, civil money penalties and Program Fraud Civil Remedies Act sanctions.

Examples of Late Endorsement Processing and Requirements

The following examples illustrate the procedures for late request for mortgage insurance endorsement:

1. Mortgage closed June 4th with first payment due August 1st.
 - a. No certification is required if the mortgage insurance application is received for endorsement on or before August 31st. Please note, however, if the mortgage case binder is sent back to the mortgagee due to a Notice of Return (NOR) and the mortgagee is not able to respond correctly before the later of 30 days or when the certification period begins (September 1st in this example), the certification will be required.
 - b. If the mortgage is received for endorsement in the HOC on or after September 1st (or first business day after that date), then the mortgagee must provide the endorsement certification.

CHAPTER 4 MORTGAGE AND NOTE FORMS

Section 1: General Instructions

4-1 MORTGAGE AND NOTE FORMS [<TOP>](#)

The FHA will not provide mortgage and Note forms. The lender must develop or procure mortgage and Note forms which comply in form and substance with both this chapter and all applicable state and local requirements for a recordable and enforceable mortgage and an enforceable Note.

- A. This chapter does not supersede FHA regulations. It supersedes anything contained in other FHA administrative issuances, such as handbooks, notices or mortgagee letters, that prescribes the form and content of a mortgage or Note, and conflicts directly with these requirements. Some of the mortgage or Note language required or permitted by this chapter may result in a borrower granting broad rights to a lender, while the exercise of those rights is limited by FHA regulations or administrative issuances. These requirements do not supersede any such limitations on lenders, and a lender's rights under the mortgage and Note may be exercised only in a manner consistent with all relevant FHA requirements.
- B. Lenders should not seek advance approval of forms from either FHA Headquarters or the HOCs. Lenders are responsible for determining that the mortgage and Note comply with this chapter. However, questions regarding the appropriate interpretation of this chapter may be directed to:

Assistant General Counsel for Single Family Mortgages
Department of Housing and Urban Development
451 7th Street, S.W, Room 9240
Washington, DC 20410

Any requests for changes to the requirements of this chapter should be directed to the same address. The FHA does not expect to grant case-by-case exceptions.

- C. The term "mortgage" as used in this chapter, includes any form of security instrument commonly used in a jurisdiction in connection with loans secured by a one- to four-family residential property, such as a deed of trust or security deed. The term "Note" as used in this chapter includes any form of credit instrument commonly used in a jurisdiction to evidence such loans.

4-2 MODEL MORTGAGE AND NOTE FORMS [<TOP>](#)

Model Mortgage and Note Forms for fixed-rate level-payment loans are explained in Sections 2 and 3 of this chapter. Permitted variation from the model language in the model forms is explained in those sections. Additional requirements for other loans and special circumstances are explained in Section 4 of this chapter.

4-3 FORMAT [<TOP>](#)

A mortgage or Note may include the lender's business name and/or logotype on the top of the form. Although layout and format are within the discretion of lenders where not specified in this chapter, size and style of typeface or print should be similar to the mortgages and Notes approved by the Federal National Mortgage Association (Fannie Mae) and the Federal Home loan Mortgage Corporation (Freddie Mac). The Department recommends that form preparers include the last revision date on each form in order to clarify the versions being distributed.

4-4 STATE LAWS [<TOP>](#)

This chapter and the instructions or footnotes for the model forms identify some specific adaptations of the model forms that are needed to comply with state laws. Other state laws may require adaptations. Lenders should consult instructions from Fannie Mae and Freddie Mac regarding forms preparation for guidance on meeting state law requirements. The validity and enforceability of the mortgage and Note will depend on compliance with state law even if such law is not reflected in this chapter. For this reason, FHA emphasizes the need for a lender to use mortgages and Notes that comply with state law.

4-5 HOCS HAVE AUTHORITY [<TOP>](#)

HOCs have the authority to impose additional requirements regarding mortgage and Note provisions for consistency with state laws appropriate to their jurisdictions, and to advise lenders of any such requirements through a Circular Letter.

Section 2: Mortgage Provisions

4-6 MODEL MORTGAGE FORM [<TOP>](#)

Lenders must use the Model Mortgage Form (Appendix II), and follow the instructions accompanying the Model Mortgage Form, with only such adaptation as may be necessary to conform to state or local requirements.

4-7 FANNIE MAE/FREDDIE MAC FORMS [<TOP>](#)

In preparing its forms requirements, FHA has made heavy use of the approved Fannie Mae/Freddie Mac mortgage forms. The provisions that precede the numbered paragraphs in the Model - Mortgage Form are to be the same as Fannie Mae/Freddie Mac mortgages, (except New York and Maine), with the addition of the FHA case number on the front page.

4-8 UNIFORM AND NON-UNIFORM COVENANTS [<TOP>](#)

The numbered Paragraphs 1-16 in the Model Mortgage Form, (FHA "uniform covenants"), must be used verbatim rather than the Fannie Mae/Freddie Mac "uniform covenants," which contain some substantial differences from FHA policy. FHA must be consulted if the lender concludes

that anything in these paragraphs does not meet state or local requirements, but the lender shall make no changes without prior FHA approval.

- A. Non-Uniform Covenants. On the Model Mortgage Form, Paragraph 18 ("Foreclosure Procedure") will need adaptation for each state as explained in the instructions to the model form. This section is intended to address foreclosure procedures only.
- B. Following Paragraph 18 ("Foreclosure Procedure") of the Model Mortgage Form, a lender shall insert additional numbered paragraphs required to adapt the mortgage for a particular state. The text of these paragraphs shall be the same as the text of the paragraphs following the foreclosure procedures paragraph of the most recent approved Fannie Mae/Freddie Mac mortgage form for the appropriate jurisdiction (except the paragraph entitled "Riders to this Security Instrument").

Section 3: Note Provisions

4-9 MODEL NOTE FORM [<TOP>](#)

Lenders must use the Model Note Form (Appendix III), and the footnotes accompanying the form, with only such adaptation as may be necessary to conform to state or local requirements. Some required state variations are explained in the footnotes and in Section 4 of this chapter. A lender is permitted to use a multi-state Note form except where special state provisions may be required by state statutes, including the circumstances indicated in the footnotes to the Model Note Form.

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4-10 NEGOTIABLE INSTRUMENT [<TOP>](#)

The Note must be a negotiable instrument or, in the case of Adjustable Rate Notes, must meet all requirements for negotiability, except that interest rates will be determined by reference to an index. The Model Note Form is intended to be a negotiable instrument, but it has not been reviewed for compliance with all state laws, which could affect negotiability. The mortgage and Note must be separate documents.

Section 4: Other Requirements

4-11 SPECIAL CIRCUMSTANCES [<TOP>](#)

As special situations arise, additional language may be required for a mortgage and/or Note. Mandatory requirements to be followed in special circumstances are set forth in this section. The following prescribed forms of mortgage rider and/or Note allonge are provided and must be used to modify the Model Mortgage or Note Form when applicable:

- Graduated Payment Rider (Appendix V)
- Graduated Payment Allonge Amending Note (Appendix VI)
- Growing Equity Allonge Amending Note (Appendix VII)
- Condominium Rider (Appendix VIII)

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- Rehabilitation Loan Rider for (Appendix IX)
- Planned Unit Development Rider (Appendix X)
- Tax-Exempt Financing Rider (Appendix XI)
- Rider for Section 248 Mortgage (Appendix XII)
- Rider for Section 247 Mortgage (Appendix XIII)
- Non-Owner Occupancy Rider (Appendix XIV)
- Water Purification Equipment Rider (Appendix XV)
- Cooperative Rider (Appendix XVI)
- Construction Rider for Construction/Permanent Mortgage (Appendix XVII)

Whenever additional language is to be added to a model form but no rider or allonge is provided, the addition may be printed or typed in the body of the instrument, or incorporated through use of a rider, addendum or similar document.

- A. Graduated Payment Mortgage (GPM). For a GPM, the lender must use the Model Mortgage Form with the Graduated Payment Rider (Appendix V), and the Model Note Form with the Graduated Payment Allonge Amending Note (Appendix VI).
- B. Growing Equity Mortgage (GEM). For a GEM, the lender must use the Model Note Form with the Growing Equity Allonge Amending Note (Appendix VII).

There is no prescribed Growing Equity rider for a GEM. The mortgage shall contain a payment schedule, consistent with the schedule set forth in the Growing Equity Allonge, if required by state law or as otherwise needed to ensure the enforceability and priority of the mortgage. Otherwise, the lender may include such a schedule as its option. Lenders may recite the provisions of the Note verbatim in a rider.

- C. Rehabilitation Loans (Section 203(k)). If a Section 203(k) loan involves release from the Rehabilitation Escrow Account, the lender must use the Model Mortgage Form with the Rehabilitation Loan Rider (Appendix IX).
- D. Condominiums. This chapter does not supersede the instructions in Handbook 4265.1 except:
 - 1. The provisions in Paragraph 4-2 of the handbook shall not be added to the mortgage and Note;
 - 2. The "Resolution of Inconsistency" in Paragraph 12-8a(10) of the handbook shall not be contained in the mortgage; and
 - 3. The lender shall use the Model Mortgage Form with the Condominium Rider (Appendix VIII).
- E. Cooperatives. The lender must use the Model Mortgage Form together with the Cooperative Rider (Appendix XVI) for mortgages insured under Section 203(n) of the National Housing Act. The property description in the Model Mortgage Form should be modified as needed to describe the property interest in a manner not inconsistent with Appendix XVI. The lender must determine whether the Model Mortgage Form and Appendix XVI will result in a first lien as required by 24 CFR 203.43c(e). If necessary to satisfy the requirement of that regulation, the lender shall require additional security documents such as a Uniform

Commercial Code (UCC) security agreement and/or an assignment of the borrower's lease. If the Model Mortgage Form and/or Appendix XVI must be modified to establish the required first lien under applicable state law, the lender should contact the FHA at the address given in Paragraph 4-1B. This paragraph supersedes the mortgage form instructions in Handbook 4240.3, Paragraph 1-12.

- F. Planned Unit Development (PUD). The lender must use the Model Mortgage Form with the Planned Unit Development Rider (Appendix X).
- G. Tax-Exempt Financing. This rider does not apply to financing through qualified veterans mortgage bonds, or through other public or private mortgage bonds which are not qualified mortgage bonds.
- H. Open-End Advances. Nothing in this chapter is applicable to open-end advances.
- I. Home Equity Conversion Mortgage (Reverse Mortgage). Special instructions for mortgages and Notes to be used in the Home Equity Conversion Mortgage insurance program (Section 255 of the National Housing Act) are contained in HUD Handbook 4235.1.
- J. Non-Owner Occupant. If the mortgage involves an exception to the requirement for owner occupancy as a principal residence, the lender must use the Model Mortgage Form with the Non-Owner Occupancy Rider (Appendix XIV).
- K. Water Purification Equipment. If the mortgage is on property with individual water purification equipment permitted by 24 CFR 203.52, the lender must use the Model Mortgage Form with the Water Purification Equipment Rider (Appendix XV).
- L. Combined Construction and Permanent Loan. When a single closing is used for an uninsured construction loan that will convert to an insured permanent loan upon completion of construction, the FHA does not prescribe the terms or form of the Construction Rider except that all special construction terms terminate when the construction loan converts to a permanent loan and to require that, after conversion to a permanent loan, only the permanent loan terms (using documents meeting the standard requirements) shall continue to be effective.

4-12 HYBRID ADJUSTABLE RATE MORTGAGES [<TOP>](#)

FHA may insure hybrid Adjustable Rate Mortgages (ARMs) on single-family properties that have interest rates that are fixed for the first three years, five years, seven years or ten years of the mortgage term and adjusted annually thereafter. The 1- and 3-year ARMs allow a one percentage point annual interest rate adjustment after the initial fixed interest rate period and a five percentage point interest rate cap over the life of the loan. The 5-, 7- and 10-year ARMs allow a two percentage point annual interest rate adjustment after the initial fixed interest rate period and a six percentage point interest rate cap over the life of the loan.

Disclosure

Lenders must disclose, at the time of loan application, a written explanation of the features of an ARM consistent with the disclosure requirements applicable to variable rate mortgages secured by a principal dwelling under the Truth in Lending Act (TILA). A hypothetical monthly

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payment schedule that displays the maximum potential increases in monthly payments for the term of the ARM must be provided to the applicant. For example, a 7-year ARM payment schedule would show the maximum potential increases over the three years following the initial fixed interest rate period of 7 years. Note: Examples will differ depending on the caps, i.e., 1/5 vs. 2/6. The hypothetical payment schedules will illustrate the maximum increases over the shortest possible timeframe.

Underwriting

- An adjustable rate mortgage disclosure statement, signed by all borrowers, must accompany the loan application and must meet the criteria of the TILA
- The periodic MIP and any termination provisions will be based on the initial interest rate throughout the loan term, regardless of the annual interest rate adjustments to the loan
- The initial interest rate, the margin the date of the first adjustment to the interest rate and the frequency of adjustments must be specified in the mortgage documents.
- Any form of temporary interest rate buydown is prohibited.
- ARM maturities shall not exceed 30 years
- Where the LTV is 95 percent or greater on a 1-year ARM, the borrower must qualify for payments based on the initial rate plus one percentage point.
- Borrowers for 3-, 5-, 7-, and 10-year ARM loans are qualified at the initial rate.

Mortgage and Note [TOP](#)

The model adjustable rate mortgage and note can be found in appendices II and IV, respectively. Mortgage lenders are to modify the model adjustable rate note form to accommodate the type of ARM being offered (i.e., the Change Date, the limits on the interest rate changes associated with the initial fixed rate period of the ARM and the lifetime caps). The ARM must be fully amortizing and contain amortization provisions that allow for periodic adjustments in the rate of interest charged.

Calculating Interest Rate Adjustments

Changes in the interest rate charged on an ARM must correspond to changes in the weekly average yield on United States Treasury securities adjusted to a constant maturity of one year, or equivalent, as provided by the Department of the Treasury and found on the Federal Reserve Statistical Release H.15, Selected Interest Rates website at: www.federalreserve.gov/releases. Each change in the mortgage interest rate must correspond to the upward or downward change in this index.

To establish the adjusted interest rate, the lender must compare the initial contract interest rate to the sum of the current index figure and the mortgage margin (calculated interest rate). The adjusted interest rate will be the interest rate charged to the mortgagor, subject to the limitations of the annual and lifetime caps for the respective ARM type. The current index figure shall be the most recent index figure available 30 calendar days before the Change Date (effective date of an adjustment to the interest rate as shown in paragraph 5(A) of the model adjusted rate note form.)

The mortgagee and the borrower negotiate the initial interest rate and margin. The margin must be constant for the entire term of the mortgage. To calculate the annual adjustments to the initial interest rate:

- Determine the current index. "Current Index" means the most recent Index figure available 30 days before the Change Date. The index used, based on the weekly average yield on United States Treasury securities adjusted to a constant maturity of one year, must be the one effective on the date thirty (30) calendar days before the Change Date. The Federal Reserve Board Statistical Release H.15 is published weekly on Monday, or, on Tuesday, if Monday is a Federal holiday. The index figure shown on that release is effective the day it is issued until such time a new H.15 index is published. The following are examples of the proper index figure to use when the 30th calendar day falls on:
 1. A Monday that is a business day. Use the index figure contained in the H.15 release issued that Monday, if the 30th calendar day prior to a Change Date and the issue date of an H.15 release both occur on the same day, i.e., they both occur on a Monday.
 2. A Monday that is a Federal holiday. Use the index figure in the H.15 release issued the prior week if the 30th calendar day before the Change Date falls on a Monday that is a Federal holiday.
 3. A day of the week other than Monday. Use the index figure in the H.15 release issued on the Monday of that week (or issued on Tuesday if that Monday is a Federal holiday).
 For example, assume a December 1, 2003 Change Date. Thirty (30) calendar days before December 1 is Saturday, November 1. The correct index figure to use is the one contained in the H.15 release issued on Monday of that week, which is October 27.
- Determine the calculated interest rate. This is the current index plus the margin (the number of basis points identified as "margin" in paragraph 5(C) of the model adjustable rate note) rounded to the nearest 1/8th of one percentage point (0.125 percent). This will comply with Ginnie Mae's requirement that the mortgages placed into Ginnie Mae pools must be rounded to the nearest 1/8th of one percentage point at each Change Date.
- Compare the calculated interest rate (index plus margin, rounded to the nearest 1/8th of one percentage point) to the existing interest rate (rate in effect for the preceding 12 months) to determine the new adjusted interest rate. If the calculated interest rate is:
 1. Equal to the existing interest rate, the adjusted interest rate will be the same as the existing interest rate.
 2. Less than the existing interest rate:

- a. For 1-, and 3-year ARMS, if the calculated interest rate is less than one percentage point (100 basis points) higher or lower than the existing interest rate, the calculated interest rate will become the new adjusted interest rate.
 - b. For 5-, 7- and 10-year ARMS, if the calculated interest rate is less than two percentage points (200 basis points) higher or lower than the existing interest rate, the calculated interest rate will become the new adjusted interest rate.
3. More than the existing interest rate:
- a. For 1-, and 3-year ARMS, if the new calculated interest rate is more than one percentage point (100 basis points) higher or lower than the existing interest rate, the adjusted interest rate will be limited to one percentage point higher or lower than the existing interest rate. Index changes in excess of one percentage point (100 basis points) may not be carried over for inclusion in an adjustment in a subsequent year.
 - b. For 5-, 7- and 10-year ARMS, if the calculated interest rate is more than two percentage points (200 basis points) higher or lower than the existing interest rate, the adjusted interest rate will be limited to two percentage points higher than the existing interest rate. Index changes in excess of two percentage points (200 basis points) may not be carried over for inclusion in a subsequent year.

Adjustments in the interest rate over the entire term of the mortgage may not result in a change in either direction of more than five percentage points (500 basis points) from the initial contract interest rate for 1-, and 3-year ARMs or six percentage points (600 basis points) for 5-, 7- and 10-year ARMs.

- An adjusted interest rate becomes effective on the Change Date and thereafter will be deemed to be the existing interest rate. The new interest rate will remain in effect until the next Change Date. During the term of the mortgage, each adjustment will be effective on the same date of each succeeding year.

Computation of the Monthly Installment [<TOP>](#)

When there is a new interest rate on the mortgage as a result of the above calculations, a new monthly payment must be determined. The monthly payment attributable to principal and interest will be calculated by determining the amount that is necessary to fully amortize the unpaid principal balance during the remaining term of the mortgage. For this purpose, the unpaid principal balance shall mean that which would be due on the Change Date if there has been no default in any payment, but reduced by the amount of any prepayments to principal. (Accordingly, the mortgagee must credit all eligible prepayments, but must not debit any delinquency.) Escrow requirements will then be added to principal and interest to arrive at the new monthly payment.

Since interest is payable on the first day of the month following the month in which it accrued, the borrower will begin to pay the new monthly payment 30 days after the Change Date, provided the borrower is given proper notice as required under the Annual Adjustment section.

All ARM adjustments affect interest percentages only; negative amortization is not permitted.

Annual Adjustment Notice <TOP>

At least 25 days before any adjustment to a mortgagor's monthly payment may occur, the mortgagee must advise the mortgagor of the new mortgage interest rate, the amount of the new monthly payment, the current index and how the payment adjustment was calculated. There are two basic steps which the mortgagee must take each year with respect to the interest rate adjustment:

Step 1: Make the computation to adjust the interest rate and the monthly payments. The first adjustment to the interest rate will become effective on the day specified in paragraph 5A of the ARM Note (Change Date) and thereafter each adjustment will be effective on the same date of each succeeding year during the term of the mortgage. The new monthly payment is effective 30 days after the Change Date.

Step 2: At least 25 days before any adjustment to a mortgagor's monthly payment may occur, the mortgagee must advise the mortgagor of the new mortgage interest rate, the amount of the new monthly payment, the current index, and how the payment adjustment was calculated.

The mortgagee's obligation to compute, adjust the interest rate if necessary, and give notice to the mortgagor on the prescribed dates, is not affected by delinquencies or foreclosures so long as the mortgage debt exists. It is the mortgagee's responsibility to see that its collection actions continually update the mortgage debt. Notice of any adjustment to the interest rate and monthly payment, increase or decrease, must be mailed to the mortgagor at least 25 days prior to the change in payment. If an existing mortgage provides for 30 days notice, that provision must be followed. Our rule concerning the timing of the annual notice of adjustment is consistent with Federal Home Loan Bank Board (FHLBB) regulations and policy.

The Adjustment Notice must contain (a) the date the Adjustment Notice is mailed, (b) the Change Date, (c) the existing interest rate, (d) the adjusted interest rate, (e) the current Index and publishing date, (f) the method of calculating the adjustment to the monthly payments, (g) the amount of the adjusted monthly payments, and (h) any other information which may be required by law from time to time. The Notice should contain other relevant information such as an explanation of why the adjusted interest rate is less than the calculated interest rate when the cap is reached.

It is recommended that the Notice be sent to the mortgagor by Certified Mail, Return Receipt Requested. However, a Notice addressed and mailed via first class mail to all property owners identified on the mortgagee's records shall be sufficient unless the mortgagor's whereabouts are known to be elsewhere. A Notice must be given each year, even if the existing interest rate does not change.

For HUD review purposes, lenders must keep evidence that timely notice has been given, and evidence of the annual adjustment computations retained for the mortgage term. A file copy of

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the suggested HUD annual adjustment notice will be sufficient to satisfy this requirement. However, should disputes arise as to timely notice or as to the annual adjustment computations, compliance with our suggested methods may not satisfy local legal interpretations of the mortgage provisions in determining whether the evidence was sufficient. Lenders should, therefore, be guided by the advice of counsel in matters concerning the type and duration of record retention.

The mortgagee's collection personnel should be alerted to the prospect of Notice not being received by the mortgagor, and should take appropriate remedial action when necessary. If the mortgagor's payments do not reflect the increase or decrease recited in the Notice, a follow-up call should be made to determine if the Notice was received. If it is determined that the Notice was not received, a duplicate should be mailed promptly.

Failure to Provide Timely Notice <[TOP](#)>

If the mortgagee fails to provide notice for more than one year, an Adjusted Interest Rate must be determined for each omitted year because the calculations for each year affect the rate for subsequent years. The one and two percentage point limitations, and five and six percentage point caps are applicable each year and must be taken into consideration in determining the new Interest Rate. The mortgagee's failure to provide Notice in advance of each Change Date results in penalties (to be found in the Note) to the mortgagee.

Although the new interest rate may increase, the mortgagee is prevented from collecting any increase in payments until such time the Notice has met the required 25 days advance notice requirement. If timely notice is not provided, the lender forfeits its right to collect the increased amount and the borrower is relieved from the obligation to pay the increased payment amount.

In the event that the new interest rate was to decline, the failure of the mortgagee to provide proper Notice would result in overpayments until the mortgage rate was properly adjusted. In such case, the mortgagee must refund the excess with interest, at an equal to the sum of the Margin and the Index in effect on the Change Date, from the date of the excess payment to the date of repayment. The borrower has the option of a cash refund or application of the excess to the unpaid principal balance of the mortgage, after application of the refund to any existing delinquency.

Failure to Provide Accurate Notice <[TOP](#)>

If the mortgagee miscalculates the interest rate and/or the monthly payment, and the error(s) are reflected in the Notice, HUD takes the position that the errors need to be corrected. However, HUD takes no position as to whether an erroneous Notice would constitute a failure to provide notice under the terms of the mortgage contract. This is a legal matter subject to local law and court interpretation.

Sales, Assignments and Transfers of Servicing Among Mortgagees <[TOP](#)>

It is the responsibility of the transferor (seller) to provide the transferee with complete servicing records reflecting total compliance with ARM disclosure and reporting requirements. Although HUD regulations require the transferee/assignee to assume all servicing obligations, it is not intended that a negligent ARM mortgagee-transferor be permitted to avoid its disclosure obligations. In the event that a failure of Notice or other error is discovered, it shall be the responsibility of the mortgagee-transferor who was holding the loan when the failure occurred, to reimburse the mortgagee currently holding the loan, where any burden of refund to the mortgagor is required.

Assumptions [<TOP>](#)

Lenders should encourage sellers to disclose the terms of an existing ARM in any sales transaction; however, when an assumption takes place both the sellers and the lender should assume responsibility for notifying the purchaser (assumptor) about the terms and conditions of the ARM.

As soon as the lender becomes aware of an assumption and has the name of the purchaser, it should provide the purchaser with a copy of the original Disclosure Statement and an explanatory letter addressing the ARM obligations. Documented acknowledgement of the assumptor's receipt of this information is advisable.

For assumption transactions which require a creditworthiness review or in cases where a release from personal liability is requested and approved, the lender must prepare a new Disclosure Statement to ensure that the purchaser is aware of the ARM obligation. Processing of the HUD-92210, Request for Credit Approval of Substitute Mortgagor, and/or HUD-92210.1, Approval of Purchaser and Release of Seller or other similar forms used by the lender, must be based on the interest rate in effect at the time the complete credit review package is submitted to the DE Underwriter.

Statistical Information [<TOP>](#)

To track ARM activity, the following case number suffix codes (Section of the Act ADP Codes) will be indicated on all HUD application addendums (Form HUD-92900) and printed on computer generated mortgage insurance certificates (Form 59100). The suffix codes for DE cases are as follows:

Eligible Program	Section of the Act Suffix Code
------------------	--------------------------------

	– Direct Endorsement
203(b)	729
223(e)	829
203(k) first lien	730
234(c)	731
247 – Hawaiian Homelands	780
248 – Indian Lands	788
203(k) – Condominium	815

Product Identifier

[<TOP>](#)

In addition to existing Automated Data Processing (ADP) codes assigned to ARMs, a hybrid ARM-type indicator has been added to FHA's Computerized Home Underwriting Management System (CHUMS). When submitting loan data to FHA via the FHA Connection or its functional equivalent, if an ARM is indicated by an ADP code, the lender must also identify the type of ARM by selecting the 1-, 3-, 5-, 7-, or 10-year ARM-type indicator. This process is less likely to result in errors than adding additional ADP codes for each individual hybrid ARM offering.

4-12 SPECIAL REQUIREMENTS FOR PARTICULAR STATES AND LOCALITIES [<TOP>](#)

In addition to special requirements for particular states identified in the footnotes to Appendices II and III (Model Mortgage and Note Forms), and any special instructions issued by a HOC, the following special requirements are necessary.

- A. Northern Mariana Islands and American Samoa. The Model Mortgage Forms will not be applicable to the Commonwealth of the Northern Mariana Islands or American Samoa without further notice. A lender intending to seek mortgage insurance in those jurisdictions should contact the FHA for further instructions.
- B. Puerto Rico. Mortgages and Notes in Puerto Rico, and riders and allonges, shall be written in English and interlineated with Spanish in the same manner as the Fannie Mae/Freddie Mac forms for Puerto Rico. A Spanish translation of required language for the Model Mortgage Form and Model Note Form is available from the Atlanta HOC or the HUD Caribbean Field Office.
- C. Indian Reservations (Section 248). If the mortgage is insured under Section 248 of the National Housing Act on Indian land, the lender shall use the Model Mortgage Form with the Rider for Section 248 Mortgage (Appendix XII). If the Section 248 mortgage secures a construction loan, the lender must also use the Construction Loan Rider (Appendix XVI).
- D. Iowa, North Dakota and Wisconsin. Requirements concerning deficiency judgments are provided in the instructions to the Model Mortgage Form. Iowa, North Dakota and Wisconsin are excepted from those requirements because these states permit short-term redemption periods after foreclosure if lenders waive their rights to deficiency judgments. Since it may be in the Department's interest to have a short-term redemption period, the FHA requires that mortgages in these states shall contain the short-term redemption provisions set forth in the "Non-Uniform Covenants" of the current approved Fannie Mae/Freddie Mac

mortgage forms, in Paragraph 24 for Iowa and 23 for North Dakota and Wisconsin. In addition, the North Dakota mortgage must include in the title the words "Short Term Mortgage Redemption" in boldface type.

- E. South Dakota. The South Dakota mortgage must include in the title the words "One Hundred Eighty Day Redemption" in bold type, and immediately following Paragraph 18 the following must appear in bold type:

NOTICE--THE PARTIES AGREE THAT THE PROVISIONS OF THE ONE HUNDRED EIGHTY DAY REDEMPTION MORTGAGE ACT GOVERN THIS MORTGAGE.

After this notice, the following language should be included:

Borrower agrees that in the event of a foreclosure of this Security Instrument, by action the holder of the certificate of sale issued as a result of the foreclosure may apply to the appropriate court for a reduction of the redemption period if the mortgaged property has been abandoned by Borrower. Borrower agrees that if, after such notice to the parties as the court may direct, the court finds that the mortgaged property has been abandoned, then the redemption period may be reduced to a period of not less than 60 days from the date of recording of the certificate of sale issued as a result of the foreclosure of this Security Instrument.

- F. New York and Maine. The New York and Maine Fannie Mae/Freddie Mac mortgage forms are written in a "plain English" style which sometimes uses "I" instead of "Borrower." When Non-Uniform Covenants from the New York and Maine Fannie Mae/Freddie Mac forms are added to the Model Mortgage Form, "I" should be changed to "Borrower," and any necessary conforming changes in verb form required by this change should also be made. The format and language for material preceding the Uniform Covenants should be based on Fannie Mae/Freddie Mac forms for other states, provided that the language is in conformity with applicable law.
- G. New York. In New York, FHA permits a lender to modify and extend a previously recorded Security Instrument to secure new financing for the same property, instead of discharging the Security Instrument of record upon prepayment of existing financing. The borrower and lender must execute a new Note and either a HUD-approved Modification Agreement (for refinancing with no increase in principal amount) or a Consolidation, Extension and Modification Agreement (for other situations). Copies of these agreements are available from the HOCs. Fannie Mae/Freddie Mac Form 3172, "Consolidation, Extension and Modification Agreements," should not be used.
- H. Pennsylvania. For Pennsylvania, "Certificate of Residence" is required at the end of the mortgage by 21 P.S. Sec. 625. It should read as follows:

CERTIFICATE OF RESIDENCE I, _____ do hereby certify that the correct address of the within-named lender is _____, witness my hand this _____ day of 20__.

Agent of Lender

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- I. Texas. For Texas, delete Fannie Mae/Freddie Mac Paragraph 26 entitled "Waiver of Notice of Intent to Accelerate," or if used, the paragraph should be adapted since the paragraph reference is incorrect and omits FHA notice language.

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CHAPTER 5 CHANGES MADE AFTER MORTGAGE INSURANCE

5-1 GENERAL <TOP>

The lender and borrower may agree to change the mortgage terms (loan modification) or otherwise change the nature of the obligation or the security (property) after the mortgage has been insured. (see HUD Handbook 4330.1, REV-5, Chapter 8 with regard to forbearance agreements). When this occurs and such practice is acceptable under state laws, the existing contract of insurance remains in effect.

Lenders are reminded that when making decisions as to whether a change should be made to an existing mortgage, they are expected to abide by the Fair Housing Act, the Equal Credit Opportunity Act, Executive Order 11063, and the FHA regulations issued pursuant to these authorities.

5-2 CHANGES THAT MUST BE APPROVED BY FHA <TOP>

The lender must obtain prior FHA approval of certain changes to be made to the mortgage terms or property after insurance. These changes include:

- A. A mortgage modification for more than 10 years beyond the original maturity date (see Chapter 5 of this handbook for processing procedures).
- B. A partial release of security not resulting from condemnation (see Chapter 6 of this handbook for processing procedures).
- C. A partial release of security resulting from condemnation, but the condemnation does not meet the requirements of 24 CFR 203.389(n) (see Chapter 6 of this handbook for processing procedures).
- D. A change of location of the dwelling (removing the dwelling to another lot) in other than emergency circumstances (see Chapter 7 of this handbook for processing procedures).

5-3 POST-INSURANCE REQUEST FOR RECONSIDERATION OF VALUE <TOP>

A request for an increase in value after the mortgage is insured will not be accepted.

5-4 CHANGE OF THE FIRST PAYMENT DATE AND/OR MATURITY <TOP>

If, after the loan is insured, a request is received to postpone the first payment date and/or maturity date, it is the policy of FHA to approve, in justified cases, the correction of delinquencies which occurred prior to insurance. This is done by postponing the date of the first payment. However, the FHA does not approve the correction of delinquencies which occurred after insurance.

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- A. When occupancy of the property by the borrower is delayed because of delays of construction or other circumstances beyond the borrower's control, and the mortgage has already been recorded, the lender may request FHA approval to change the maturity date of the mortgage. If a request for FHA approval is received prior to insurance and appears to be reasonable, the appropriate HOC may authorize insurance of the mortgage.
- B. To effectuate the above policy involving a request received after endorsement for a postponement of the first monthly payment due date, the appropriate HOCs are authorized to consent to a postponement of said date not to exceed 30 days after the date of endorsement. The new first monthly payment due date must be entered into CHUMS.

5-5 CORRECTIONS OF ERRORS IN ORIGINAL INSTRUMENTS [<TOP>](#)

Certain types of errors can be corrected in some jurisdictions without destroying the identity of the original note and, therefore, without requiring the submission of new instruments for endorsement. No attempt is made to describe all types of errors that can be corrected in this manner, and lenders must request guidance from the HOC for individual cases. However, the procedure for two common types of errors is described below.

- A. **Incorrect Legal Description.** The lender may submit a new mortgage or deed of trust executed by the interested parties containing a recital to the effect that the instrument has been given for the purpose of correcting the error in the previous instrument of record. If it is necessary to present a new credit instrument for insurance, the transaction must be handled as a new case. The final determination of the method used to correct the errors in such cases should be left to the discretion of the lender who would have the responsibility of being able to complete foreclosure in the event of default, and otherwise comply with the insurance contract. If the change in the legal description involves a release of land intentionally included by the interested parties as part of the original security, the Release of Portion of Security Procedure in Chapter 6 shall be followed.
- B. **Incorrect or Discrepant Signature on Mortgage or Note.** A lender may advise the appropriate HOC by letter that a discrepancy in the signatures on the various instruments exists, but that the parties are the same. Such letters should be marked with the case number and submitted to the appropriate HOC. The appropriate HOC will then notify the lender of any further action that must be taken by the lender.

5-6 • OMISSION OF SPECIAL ASSESSMENTS IN APPLICATION FOR INSURANCE [<TOP>](#)

If a request to amend an application to include special assessments (which were liens prior to endorsement for insurance) is received after the mortgage has been insured, the lender should be advised that it would be impossible to grant such a request. The terms of the Regulations under which a mortgage is insured govern the rights of the lender from the date of such insurance.

For previously insured mortgages, some lenders require a waiver letter in connection with customary building and use restrictions. They also include requests for statements that certain special assessments payable in future annual installments have been considered by the FHA in determining the value. In reply to such requests, it is important that these statements are limited

to the restrictions and should not include the assessments. HOCs are not authorized to give waivers regarding assessments after the mortgage has been insured.

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CHAPTER 6 RELEASE OF PORTION OF SECURITY

6-1 VOLUNTARY OR INVOLUNTARY RELEASE [<TOP>](#)

When FHA approves the release of a portion of the property securing an insured mortgage, the lender's rights under the original contract for insurance are not affected.

A. FHA Approval Not Required

FHA approval is not required (24 CFR § 203.389[n]) for the voluntary or involuntary release of a portion of the security if *all* of the following conditions are met:

- The portion of the property being conveyed does not exceed 10 percent of the area of the mortgaged property;
- There has been no damage to existing structures or other improvements, and there is no unrepaired damage to sewer, water, or paving;
- All of the payment received as compensation for the taking is applied to reduce the unpaid principal balance of the mortgage; and
- The conveyance occurred after insurance of the mortgage.

If the lender files a claim for mortgage insurance benefits, the claim must be accompanied by the lender's certification that the requirements of this paragraph have been met.

B. FHA Approval Not Required—Governmental Release

FHA approval is not required when there is a release of a portion of security as a result of governmental action.

When the lender receives a request to join with the borrower in conveying a portion of the security for an insured mortgage to a governmental agency for use in connection with a road, highway or park project, or for other public purposes, the lender may consent to the release without the prior approval of FHA provided that:

1. The consideration is \$300 or less, all of which will be applied to reduce the outstanding balance of the insured mortgage; and
2. The lender notifies the appropriate HOC of the release by letter within 30 days of the lender's signing of the release.

C. FHA Approval Required

When FHA approval is required (24 CFR § 203.343[a]), the lender must send in writing the request for approval of release to the appropriate HOC having jurisdiction over the property. The written request must contain:

1. Whether or not the mortgage is in good standing;
2. The amount of the outstanding principal balance;
3. The due date of the last unpaid installment, and if the mortgage is delinquent, the number of delinquent payments;
4. A list of unpaid special assessments, if any, and the total amount payable;

5. A complete legal description of the property to be released;
6. The borrower's reasons for requesting the lender to make the release, including information about the contemplated use of the land to be released;
7. The monetary consideration, if any, to be received by the borrower;
8. The amount of a prepayment, if any, to the mortgage principal;
9. Any restrictions to be imposed on the land to be released;
10. A survey or sketch of the property showing dimensions of the portion to be released, the location of existing and proposed improvements, and the relation of the property to surrounding properties;
11. Plans and specifications, including cost estimates, of any alterations proposed for the remaining property after the release; and
12. The case number of the mortgaged property.

6-2 PROCESSING – FHA APPROVAL OF RELEASE OF PORTION OF SECURITY[<TOP>](#)

- A. For cases requiring FHA approval, all requests from a lender for partial release are forwarded to the appropriate HOC. The lender will submit appraisals reflecting the value before the release of partial security and the value of the remaining property after the release of partial security. The HOC determines the effect on the value of the remaining part of the security. Releases will be approved only when the remaining property is an acceptable risk in all respects. The HOC should use the following processing procedures to reach this determination.
1. Initial Review. The HOC determines if the request contains the required information described in Paragraph 6-1C.
 2. Analysis. The HOC will determine if any architectural processing is necessary, and/or whether a site inspection is necessary. The HOC staff will develop the following information upon which to base its decision:
 - a. Estimate of Value before release.
 - b. Estimate of Value of the area to be released must be taken into account:
 - (1) Area to be released is not capable of separate utilization. (Indicate its value as a fragmental portion of the entire property.)
 - (2) Area to be released is capable of separate utilization. (Indicate its value as a building site for highest and best use to typical purchasers for long term use.)
 - (3) The release involves a property right (no area involved). (Indicate its value.)
 - c. Indicate loss in value attributed to severance, if any. (This is in addition to the value of the part to be released.)
 - d. Indicate total loss in value. (Refer to 6-2A.1.a(2) and 6-2A.1.a(3) above.)
 - e. Estimated cost of proposed improvements to the remaining property.

- f. Estimate of Value of the property remaining after release and after any proposed improvements are completed.
- g. Indicate the amount of special assessments for off-site improvements, including accrued interest as of this date, which will remain unpaid.
- h. State whether the remaining mortgage security is less marketable as a result of the severance at the Estimate of Value shown above.
- i. The disposition of the lender's request should:
 - (1) Recommend acceptance or rejection of request;
 - (2) State whether any existing restrictions will be violated;
 - (3) Indicate restrictions required;
 - (4) Indicate prepayment amount to mortgage principal, and manner of applying prepayment; and
 - (5) Indicate conditions required.

B. Reduction of Mortgage Amount

A reduction to the principal mortgage amount is not necessary if the loan-to-value ratio is 75 percent or less. The loan-to-value percentage is applied to the maximum mortgage amount available after the release and after any proposed improvements are completed.

C. Notification

After review of the request, a letter signed by the appropriate HOC is sent to the lender indicating the disposition of the request.

1. If the request is rejected, the lender is notified in writing and the papers are placed in the HOC's general correspondence file.
2. If the request is approved, the lender is notified in writing that the FHA approves of the release, and the lender is advised that they have the continued responsibility for maintaining a valid first lien on the mortgaged property, less the portion of property conveyed under the FHA agreement.

D. Lender Alternative Method [<TOP>](#)

If it is determined that the partial release cannot be approved (even though the whole amount received as a result of the involuntary conveyance, by condemnation or otherwise, is applied to the mortgage debt) the HOC sends a letter to the lender setting forth the following alternatives.

1. The loan amount can be reduced to bring the loan-to-value (LTV) ratio within the maximum legal limitation effective at the time of severance.
2. In the event the property is offered in exchange for insurance benefits, the lender agrees to accept an amount in insurance benefits which is calculated by subtracting the amount necessary to bring the loan within the LTV ratio limitation, effective at the time of severance, from the amount it would be entitled to were there no release.

6-3 INSURANCE COMPANY CHECK IN SETTLEMENT OF LOSSES [<TOP>](#)

When a check is presented which requires the endorsement of FHA as one of the payees, the check is not deposited, but must be endorsed as follows by the appropriate HOC:

Pay to the Order of the Named Borrower, Without Recourse

Assistant Secretary-FHA Commissioner

By _____

Home Ownership Center Director

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CHAPTER 7 CHANGE OF LOCATION

7-1 CHANGE OF LOCATION AFTER INSURANCE/NON-EMERGENCY PROCEDURE [<TOP>](#)

Following insurance of a mortgage, it may be to the advantage of the borrower, lender, and the FHA to remove the home from the lot upon which the appraisal for mortgage insurance was based. (See Handbook 4150.1, Valuation Analysis for Home Mortgage Insurance for additional information.)

To accomplish this, HOCs should use the following procedures.

- A. The lender must prepare a supplementary case binder containing the lender's request and information, and submit it to the HOC for processing.
- B. The HOC obtains additional information, if needed, analyzes the proposal, and prepares an appropriate reply.
 1. If the change of location is acceptable to FHA, the letter will state that:
 - a. The lender has the responsibility for maintaining a good and valid first lien.
 - b. Approval is conditioned upon completion of the move and installation of the house in a manner satisfactory to FHA.
 - c. FHA will make appropriate property inspections to determine if the conditions upon which FHA based its approval have been met.
 2. The supplementary case binder remains in the appropriate HOC until the structure is moved, and the mortgage instrument is modified, recorded, and submitted by the lender to the HOC for filing in the supplementary case binder. The appropriate HOC will inspect the property to determine if the move of the structure has been satisfactorily accomplished. Upon satisfactory completion of the work, the original insured case binder is recalled from Central Records and the HOC merges the supplementary case binder documentation into the original binder and returns it to Central Records for retention.
 3. If the proposal is not acceptable to FHA, or if after the issuance of the letter described in Paragraph 7-1B(1) above, it is found that the structure will not be moved, it is not necessary to maintain the supplementary binder.
- C. Compliance inspections are required to assure that utilities are hooked up, proper foundations are used, repairs of damage are made, and any other necessary corrections are completed.

7-2 CHANGE OF LOCATION AFTER INSURANCE/EMERGENCY PROCEDURE [<TOP>](#)

Following an earthquake or other disaster, a structure located on a property which is security for an insured mortgage, even if undamaged or only slightly damaged, may be hazardous, or the surrounding area may offer such hazards as to preclude continued occupancy of the residence.

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Under such circumstances, the following processing instructions apply:

- A. Upon receipt of the lender's request and supplementary case binder, the appropriate HOC will prepare and sign a reply to the lender.
- B. The reply should state that the move is acceptable to the FHA, and request that necessary information regarding the move to the permanent lot be supplied as soon as possible (see Handbook 4330.1, Administration of Insured Home Mortgages).
- C. The procedures set forth in Handbook 4330.1, Administration of Insured Home Mortgages, should be used for further processing of the request.

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CHAPTER 8 HOUSING APPROVAL OF TITLE EXCEPTIONS

8-1 TITLE EXCEPTIONS<TOP>

Common and customary easements, restrictions and encroachments, as well as other title matters of the type listed in the general waiver set out in 24 CFR 203.389 are considered minor in character, and have no measurable adverse effect on value. In this event, the lender is assured that:

- A. FHA will not object to title in the event the property is conveyed or the mortgage is assigned to FHA.
- B. It is unnecessary to contact FHA after endorsement to report the existence of title objections and other matters within the scope of the General Waiver.
- C. The lender may rely upon the opinion of its attorney concerning what is common and customary, rather than obtain a determination from FHA.
- D. If a matter of title does not fall under the General Waiver, the lender must obtain a specific waiver of the defect from the appropriate HOC.

8-2 PROCESSING – WAIVER OF OBJECTION TO TITLE<TOP>

Requests for waivers of objection to title are processed by the appropriate HOC.

- A. Requests Received Before Insurance Endorsement – Will be reviewed and processed by the HOC to the extent necessary.
- B. Requests Received After Insurance Endorsement – Are handled in the manner described below and in Paragraphs 8-3 and 8-4.
 1. After Review, waiver requests within the scope of the General Waiver are stamped "Covered by the General Waiver, 24 CFR" and returned to the lender.
 2. No records of the request are kept in the HOC's office, with the exception of an appropriate notation made on the application and underwriting report if the matter is considered prior to insurance endorsement.

8-3 TITLE EXCEPTIONS NOT COVERED BY THE GENERAL WAIVER<TOP>

- A. Generally, waiver requests not covered by the General Waiver mentioned above can be classified into three groups:
 1. Group 1. Those of a minor character which do not impair marketability and value for residential purposes.
 2. Group 2. Those having a measurable effect on marketability and value. The existence of title defects in this group does not render the title unmarketable, but may materially affect the value of the property and/or the habitability of the home.
 3. Group 3. Those of such character or magnitude that FHA would not accept the title in the event of an insurance claim.

- B. Group 1, 2, and 3 classifications are processed as follows:
1. Group 1. A DE lender may process and accept minor title exceptions without FHA approval. Non-DE lenders will submit a waiver request to the appropriate HOC for its review and approval. The HOC will notify the lender in writing of its approval.
 2. Group 2.
 - a. The DE lender will submit the waiver request and documentation to the HOC staff for review.
 - b. Generally, it is not necessary for the HOC to review the insured case binder. HOC staff shall consult, when necessary, with the General Counsel's office for legal review of the lender's request. After the HOC's review, the HOC will notify the lender in writing of its approval or disapproval of the waiver request.
 3. Group 3. No waivers of such exceptions should be given.

8-4 TITLE EXCEPTION TO CORRECT DISCREPANCIES IN PROPERTY ADDRESS<TOP>

If after insurance endorsement, the lender advises that the street address shown on the application is incorrect and provides the correct address, in all instances the HOC must determine that the underwriting conclusions were based on the correct property. (This may necessitate the HOC recalling the endorsed binder from Central Records). If the change in address is acceptable, the appropriate HOC signs a statement on the lender's original letter stating that no objection to title will be made because of the change of street address, and returns the letter to the lender.

GLOSSARY AND ACRONYM LIST*Click on Letter if Viewed Electronically*[A](#)...[B](#)...[C](#)...[D](#)...[E](#)...[F](#)...[G](#)...[H](#)...[I](#)...[J](#)...[K](#)...[L](#)...[M](#)...[N](#)...[O](#)...[P](#)...[Q](#)...[R](#)...[S](#)...[T](#)...[U](#)...[V](#)...[W](#)...[X](#)...[Y](#)...[Z](#)**A*****ARM*** Adjustable Rate Mortgage***ADP*** Automated Data Processing***ACH*** Automated Clearinghouse**B****C*****CHUMS*** Computerized Home Underwriting Management System***CRV*** Certificate of Reasonable Value***CVP*** Comprehensive Valuation Package**D**

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DE Direct Endorsement**E*****EEM*** Energy Efficient Mortgage**F*****FHA*** Federal Housing Administration**G*****GEM*** Growing Equity Mortgage***GPM*** Graduated Payment Mortgage**H*****HECM*** Home Equity Conversion Mortgage***HOC*** Home Ownership Center

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HUD Department of Housing and Urban Development

I

J

K

L

LTV Loan to Value

M

MAR Master Appraisal Reports

MCRV Master Certificate of Reasonable Value

MIC Mortgage Insurance Certificate

MIP Mortgage Insurance Premium

N

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NOR Notice of Rejection

O

P

PITI Principal, Interest, Tax, Insurance

PUD Planned Unit Development

Q

R

S

SOA Section of the Act

T

U

UCC Uniform Commercial Code

UFMIP Upfront Mortgage Insurance Premium

URAR Uniform Residential Appraisal Report

URLA Uniform Residential Loan Application

V

VA Department of Veteran Affairs

VC Valuation Condition

W

X

Y

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Z

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UpFront MIP (UFMIP) 2-4, 2-10, 2-11

- Late Charge 2-12

W

Waiver 5-7, 8-1, 8-2, 8-3

Warranty of Completion 1-5

Water Purification Equipment 4-11

APPENDIX I: ACTUAL SIZE OF PREPRINTED ITEMS<TOP>

APPENDIX I

4165.1 REV-1**ACTUAL SIZE OF PREPRINTED ITEMS**

Front Cover of Binder

- Direct Endorsement
- HUD Processed
- Existing Escrow (92300)
- Proposed VA CRV

Issue Date

Lenders Name

DE Underwriter's Name

Please Check Appropriate Boxes:

- Investor
- 2-4 Unit Property
- Mfg. House (Mobile Home)
- Shared Equity Mtg.
- Mortgage Amount Is Less Than \$35,000
- Condominium
- PD (PFS) Property
- Seller Sales Concessions Exceed 6%

ACTUAL SIZE OF PREPRINTED ITEMS

Front Cover of Binder Continued

Credit Profile:

A. Credit History

None

B. Bank Accounts

No Checking

No Savings

C. Assets

Less than \$100 after closing

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D. Housing Expense

Will increase by more than 1 1/2 times over previous hsg. expense

E. Income Ratios

Housing expense to income is over 29%

Total Fixed Payment to Income is over 41%

f. Employment

Less than 18 months w/current employer

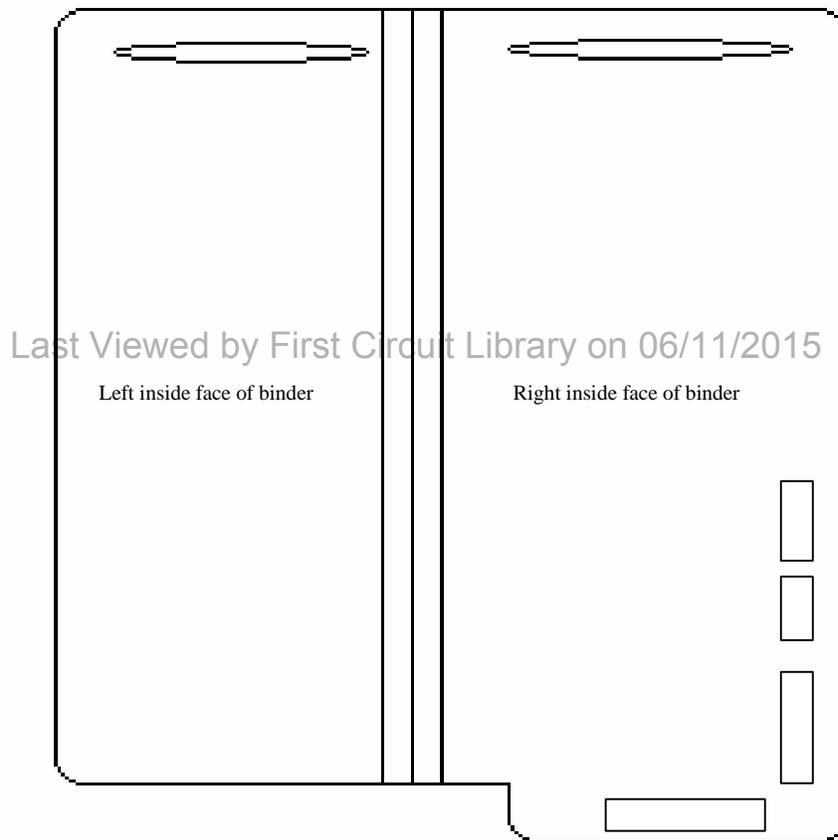
HUD USE ONLY
Endorsement Stamp



LOCATION OF PREPRINTED ITEMS

(Not to Scale)

NY



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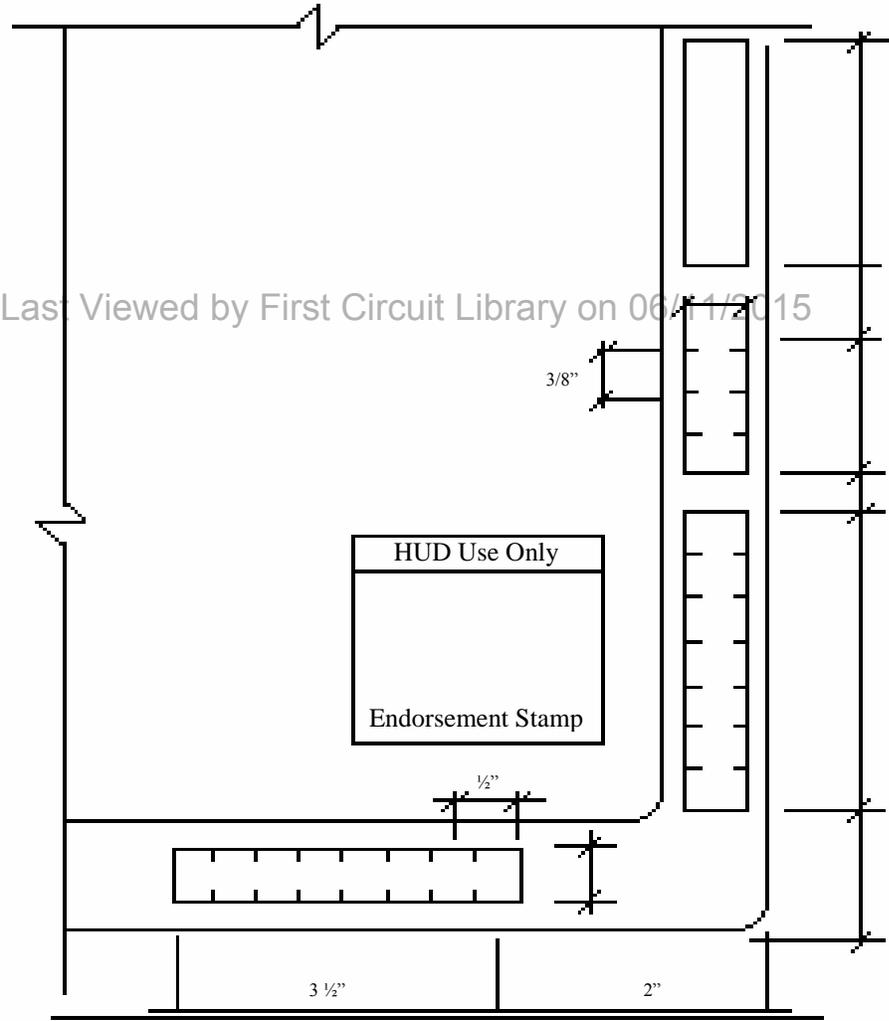
Left inside face of binder

Right inside face of binder

I



LOCATION OF PREPRINTED ITEMS



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APPENDIX II: MODEL MORTGAGE FORM<TOP>

[See Instructions Attached]

FHA Case No.

_____ Space Above This Line for Recording Data _____

MORTGAGE

THE MORTGAGE ("Security Instrument") is given on _____, 20____.
The Borrower is _____ whose address is _____
_____ ("Borrower").

This Security Instrument is given to _____, which is
organized and existing under the laws of _____, and whose address is
_____ ("Lender"). Borrower owes Lender the principal sum of
_____ Dollars (U.S. \$ _____). This debt is evidenced by Borrower's note dated the
same date as this Security Instrument ("Note"), which provides for monthly payments, with the
full debt, if not paid earlier, due and payable on _____.

This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note,
with interest, and all renewals, extensions and modifications of the Note; (b) the payment of all
other sums, with interest, advanced under Paragraph 7 to protect the security of this Security
Instrument; and (c) the performance of Borrower's covenants and agreements under this Security
Instrument and the Note. For this purpose, Borrower does hereby mortgage, warrant, grant and
convey to the Lender, with power of sale the following described property located in
_____ County, Michigan:

which has the address of _____ [Street] _____ [City],
_____ [State] _____ [Zip Code], ("Property
Address");

TOGETHER WITH all the improvements now or hereafter erected on the property, and all
easements, appurtenances, and fixtures now or hereafter a part of the property. All replacements
and additions shall also be covered by this Security Instrument. All of the foregoing is referred to
in this Security Instrument as the "Property."

BORROWER COVENANTS that borrower is lawfully seized of the estate hereby
conveyed and has the right to mortgage, grant and convey the Property and that the Property is
unencumbered, except for encumbrances of record. Borrower warrants and will defend generally
the title to the Property against all claims and demands, subject to any encumbrances or record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and
non-uniform covenants with limited variations by jurisdiction to constitute a uniform security
instrument covering real property.

Borrower and Lender covenant agree as follows:

UNIFORM COVENANTS.

1. **Payment of Principal, Interest and Late Charge.** Borrower shall pay when due the principal of, and interest on, the debt evidenced by the Note and late charges due under the Note.
2. **Monthly Payment of Taxes, Insurance, and Other Charges.** Borrower shall include in each monthly payment, together with the principal and interest as set forth in the Note and any late charges, a sum for (a) taxes and special assessments levied or to be levied against the Property, (b) leasehold payments or ground rents on the Property, and (c) premiums for insurance required under Paragraph 4. In any year in which the Lender must pay a mortgage insurance premium to the Secretary of Housing and Urban Development ("Secretary"), or in any year in which such premium would have been required if Lender still held the Security Instrument, each monthly payment shall also include either: (i) a sum for the annual mortgage insurance premium to be paid by Lender to the Secretary, or (ii) a monthly charge instead of a mortgage insurance premium if this Security Instrument is held by the Secretary, in a reasonable amount to be determined by the Secretary. Except for the monthly charge by the Secretary, these items are called "Escrow Items" and the sums paid to Lender are called "Escrow Funds."

Lender may, at any time, collect and hold amounts for Escrow Items in an aggregate amount not to exceed the maximum amount that may be required for Borrower's escrow account under the Real Estate Settlement Procedures Act of 1974, 12 U.S.C. Sec. 2601 et seq. and implementing regulations, 24 CFR Part 3500, as they may be amended from time to time (RESPA), except that the cushion or reserve permitted by RESPA for unanticipated disbursements or disbursements before the Borrower's payments are available in the account may not be based on amounts due for the mortgage insurance premium.

If the amounts held by Lender for Escrow Items exceed the amounts permitted to be held by RESPA, Lender shall deal with the excess funds as required by RESPA. If the amounts of funds held by Lender at any time are not sufficient to pay the Escrow Items when due, Lender may notify the Borrower and require Borrower to make up the shortage as permitted by RESPA.

The Escrow Funds are pledged as additional security for all sums secured by this Security Instrument. If Borrower tenders to Lender the full payment of all such sums, Borrower's account shall be credited with the balance remaining for all installment items (a), (b), and (c) and any mortgage insurance premium installment that Lender has not become obligated to pay to the Secretary, and Lender shall promptly refund any excess funds to Borrower. Immediately prior to a foreclosure sale of the Property or its acquisition by Lender, Borrower's account shall be credited with any balance remaining for all installments for items (a), (b), and (c).

3. **Application of Payments.** All payments under Paragraphs 1 and 2 shall be applied by Lender as follows:

First, to the mortgage insurance premium to be paid by Lender to the Secretary or to the monthly charge by the Secretary instead of the monthly mortgage insurance premium;

Second, to any taxes, special assessments, leasehold payments or ground rents, and fire, flood and other hazard insurance premiums, as required;

Third, to interest due under the Note;

Fourth, to amortization of the principal of the Note; and

Fifth, to late charges due under the Note.

4. **Fire, Flood and Other Hazard Insurance.** Borrower shall insure all improvements on the Property, whether now in existence or subsequently erected, against any hazards, casualties, and contingencies, including fire, for which Lender requires insurance. This insurance shall be maintained in the amounts and for the periods that Lender requires. Borrower shall also insure all improvements on the Property, whether now in existence or subsequently erected, against loss by floods to the extent required by the Secretary. All insurance shall be carried with companies approved by Lender. The insurance policies and any renewals shall be held by Lender and shall include loss payable clauses in favor of, and in a form acceptable to, Lender. Last Viewed by First Circuit Library on 06/11/2015

In the event of loss, Borrower shall give Lender immediate notice by mail. Lender may make proof of loss if not made promptly by Borrower. Each insurance company concerned is hereby authorized and directed to make payment for such loss directly to Lender, instead of to Borrower and to Lender jointly. All or any part of the insurance proceeds may be applied by Lender, at its option, either (a) to the reduction of the indebtedness under the Note and this Security Instrument, first to any delinquent amounts applied in the order in Paragraph 3, and then to prepayment of principal, or (b) to the restoration or repair of the damaged Property. Any application of the proceeds to the principal shall not extend or postpone the due date of the monthly payments which are referred to in Paragraph 2, or change the amount of such payments. Any excess insurance proceeds over an amount required to pay all outstanding indebtedness under the Note and this Security Instrument shall be paid to the entity legally entitled thereto.

In the event of foreclosure of this Security Instrument or other transfer of title to the Property that distinguishes the indebtedness, all right, title and interest of Borrower in and to insurance policies in force shall pass to the purchaser.

5. **Occupancy, Preservation, Maintenance and Protection of the Property; Borrower's Loan Application; Leaseholds.** Borrower shall occupy, establish, and use the Property as Borrower's principal residence within sixty days after the execution of this Security Instrument (or within sixty days of a later sale or transfer of the Property) and shall continue

to occupy the Property as Borrowed principal residence for at least one year after the date of occupancy, unless Lender determines that requirement will cause undue hardship for Borrower, or unless extenuating circumstances exist which are beyond Borrower's control. Borrower shall notify Lender of any extenuating circumstances. Borrower shall not commit waste or destroy, damage or substantially change the Property or allow the Property to deteriorate, reasonable wear and tear excepted. Lender may inspect the Property if the Property is vacant or abandoned or the loan is in default. Lender may take reasonable action to protect and preserve such vacant or abandoned property. Borrower shall also be in default if borrower, during the loan application process, gave materially false or inaccurate information or statements to Lender (or failed to provide Lender with any material information) in connection with the loan evidenced by the Note, including, but not limited to, representations concerning Borrower's occupancy of the Property as a principal residence. If this Security Instrument is on a leasehold, Borrower shall comply with the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and fee title shall not be merged unless Lender agrees to the merger in writing.

6. **Condemnation.** The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of any part of the Property, or for conveyance in place of condemnation, are hereby assigned and shall be paid to Lender to the extent of the full amount of the indebtedness that remains unpaid under the Note and this Security Instrument. Lender shall apply such proceeds to the reduction of the Indebtedness under the Note and this Security Instrument, first to any delinquent amounts applied in the order provided in Paragraph 3, and then to prepayment of principal. Any application of the proceeds to the principal shall not extend or postpone the due date of the monthly payments, which are referred to in Paragraph 2, or change the amount of such payments. Any excess proceeds over an amount required to pay all outstanding indebtedness under the Note and this Security Instrument shall be paid to the entity legally entitled thereto.
7. **Charges to Borrower and Protection of Lender's Rights in the Property.** Borrower shall pay all governmental or municipal charges, fines and impositions that are not included in Paragraph 2. Borrower shall pay these obligations on time directly to the entity which is owed the payment. If failure to pay would adversely affect Lender's interest in the Property, upon Lender's request Borrower shall promptly furnish to Lender receipts evidencing these payments.

If Borrower fails to make these payments or the payments required by Paragraph 2, or fails to perform any other covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, for condemnation or to enforce laws or regulations), then Lender may do and pay whatever is necessary to protect the value of the Property and Lender's rights in the Property, including payment of taxes, hazard insurance and other items mentioned in Paragraph 2.

Any amounts disbursed by Lender under this Paragraph shall become an additional debt of Borrower and be secured by this Security Instrument. These amounts shall bear Interest from

the date of disbursement at the Note rate, and at the option of Lender shall be immediately due and payable.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith the lien by, or defends against enforcement of the lien in, legal proceedings which in the Lenders opinion operate to prevent the enforcement of the lien; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one or more of the actions set forth above within 10 days of the giving of notice.

8. **Fees.** Lender may collect fees and charges authorized by the Secretary.

9. **Grounds for Acceleration of Debt.**

(a) **Default.** Lender may, except as limited by regulations issued by the Secretary in the case of payment defaults, require immediate payment in full of all sums secured by this Security Instrument if:

- (i) Borrower defaults by failing to pay in full any monthly payment required by this Security Instrument prior to or on the due date of the next monthly payment, or
- (ii) Borrower defaults by failing, for a period of thirty days, to perform any other obligations contained in this Security Instrument.

(b) **Sale Without Credit Approval.** Lender shall, if permitted by applicable law (including Section 341(d) of the Garn-St Germain Depository Institutions Act of 1982, 12 U.S.C 1701j-3(d)) and with the prior approval of the Secretary, require immediate payment in full of all sums secured by this Security Instrument if:

- (i) All or part of the Property, or a beneficial interest in a trust owning all or part of the Property, is sold or otherwise transferred (other than by devise or descent), and
- (ii) The Property is not occupied by the purchaser or grantee as his or her principal residence, or the purchaser or grantee does so occupy the Property, but his or her credit has not been approved in accordance with the requirements of the Secretary.

(c) **No Waiver.** If circumstances occur that would permit Lender to require immediate payment in full, but Lender does not require such payments, Lender does not waive its rights with respect to subsequent events.

- (d) **Regulations of HUD Secretary.** In many circumstances regulations issued by the Secretary will limit Lender rights, in the case of payment defaults, to require immediate payment in full and foreclose if not paid. This Security Instrument does not authorize acceleration or foreclosure if not permitted by regulations of the Secretary.
- (e) **[OPTIONAL] Mortgage Not Insured.** Borrower agrees that if this Security Instrument and the Note are not determined to be eligible for insurance under the National Housing Act within ____¹ from the date hereof, Lender may, at its option require immediate payment in full of all sums secured by this Security Instrument. A written statement of any authorized agent of the Secretary dated subsequent to from the date hereof, declining to insure this Security Instrument and the Note, shall be deemed conclusive proof of such ineligibility. Notwithstanding the foregoing, this option may not be exercised by Lender when the unavailability of insurance is solely due to Lender's failure to remit a mortgage insurance premium to the Secretary.
10. **Reinstatement.** Borrower has a right to be reinstated if Lender has required immediate payment in full because of Borrower's failure to pay an amount due under the Note or this Security Instrument. This right applies even after foreclosure proceedings are instituted. To reinstate the Security Instrument, Borrower shall tender in a lump sum all amounts required to bring Borrowed account current including, to the extent they are obligations of Borrower under this Security Instrument, foreclosure costs and reasonable and customary attorney's fees and expenses properly associated with the foreclosure proceeding. Upon reinstatement by Borrower, this Security Instrument and the obligations that it secures shall remain in effect as if Lender had not required immediate payment in full. However, Lender is not required to permit reinstatement if: (i) Lender has accepted reinstatement after the commencement of foreclosure proceedings within two years immediately preceding the commencement of a current foreclosure proceeding, (ii) reinstatement will preclude foreclosure on different grounds in the future, or (iii) restatement will adversely affect the priority of the lien created by this Security Instrument.
11. **Borrower Not Released; Forbearance by Lender Not a Waiver.** Extension of the time of payment or modification of amortization of the sums secured by this Security Instrument granted by Lender to any successor in interest of Borrower shall not operate to release the liability of the original Borrower or Borrower's successor in interest. Lender shall not be required to commence proceedings against any successor in interest or refuse to extend time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the original Borrower or Borrower's successors in interest. Any forbearance by Lender in exercising any right or remedy shall not be a waiver of or preclude the exercise of any right or remedy.
12. **Successors and Assigns Bound; Joint and Several Liability; Co-signers.** The covenants and agreements of this Security Instrument shall bind and benefit the successors and assigns of Lender and Borrower, subject to the provisions of Paragraph 9(b). Borrowers covenants and agreements shall be joint and several. Any Borrower who co-signs this Security Instrument but does not execute the Note: (a) is co-signing this Security Instrument only to

mortgage, grant and convey that Borrower's interest in the Property under the terms of this Security Instrument; (b) is not personally obligated to pay the

¹ *Lenders are authorized, but not required, to add Paragraph 9(e). Any period may be inserted in the two blanks, expressed either in number of days or months, which is not shorter than sixty days and not longer than eight months.*

sums secured by this Security Instrument; and (c) agrees that Lender and any other Borrower may agree to extend, modify, forbear or make any accommodations with regard to the term of this Security Instrument or the Note without that Borrower's consent.

13. **Notices.** Any notice to Borrower provided for in this Security Instrument shall be given by delivering it or by mailing it by first class mail unless applicable law requires use of another method. The notice shall be directed to the Property Address or any other address Borrower designates by notice to Lender. Any notice to Lender shall be given by first class mail to Lender's address stated herein or any address Lender designates by notice to Borrower. Any notice provided for in this Security Instrument shall be deemed to have been given to Borrower or Lender when given as provided in this paragraph.
14. **Governing Law; Severability.** This Security Instrument shall be governed by Federal law and the law of the jurisdiction in which the Property is located. In the event that any provision or clause of this Security Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision. To this end, the provisions of this Security Instrument and the Note are declared to be severable.
15. **Borrower's Copy.** Borrower shall be given one conformed copy of the Note and of this Security Instrument.
16. **Hazardous Substances.** Borrower shall not cause or permit the presence, use, disposal, storage, or release of any Hazardous Substances on or in the Property. Borrower shall not do, nor allow anyone else to do, anything affecting the Property that is in violation of any Environmental law. The preceding two sentences shall not apply to the presence, use, or storage on the Property of small quantities of Hazardous Substances that are generally recognized to be appropriate to normal residential uses and to maintenance of the Property.

Borrower shall promptly give Lender written notice of any Investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Property and any Hazardous Substance or Environmental Law of which Borrower has actual knowledge. If Borrower learns, or is notified by any governmental or regulatory authority, that any removal or other remediation of any Hazardous Substances affecting the Property is necessary, Borrower shall promptly take all necessary remedial actions in accordance with Environmental Law.

As used in this paragraph 16, "Hazardous Substances" are those substances defined as toxic or hazardous substances by Environmental law and the following substances: gasoline,

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kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or formaldehyde, and radioactive materials. As used in the paragraph 16, "Environmental law" means federal laws and laws of the jurisdiction where the Property is located that relate to health, safety or environmental protection.

NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

17. Assignment of Rents. *[Use this language unless prohibited by state law^{2/}].* Borrower unconditionally assigns and transfers to Lender all the rents and revenues of the Property. Borrower authorizes Lender or Lender agents to collect the rents and revenues and hereby directs each tenant of the Property to pay the rents to Lender or Lender agents. However, prior to Lender notice to Borrower of Borrower's breach of any covenant or agreement in the Security Instrument, Borrower shall collect and receive all rents and revenues of the Property as trustee for the benefit of Lender and Borrower. This assignment of rents constitutes an absolute assignment and not an assignment for additional security only.

If Lender gives notice of breach to Borrower: (a) all rents received by Borrower shall be held by Borrower as trustee for benefit of Lender only, to be applied to the sums secured by the Security Instrument; (b) Lender shall be entitled to collect and receive all of the rents of the Property; and (c) each tenant of the Property shall pay all rents due and unpaid to Lender or Lender agent on Lender's written demand to the tenant.

Borrower has not executed any prior assignment of the rents and has not and will not perform any act that would prevent Lender from exercising its rights under this Paragraph 17.

Lender shall not be required to enter upon, take control of or maintain the Property before or after giving notice of breach to Borrower. However, Lender or a judicially appointed receiver may do so at any time there is a breach. Any application of rents shall not cure or waive any default or invalidate any other right or remedy of Lender. This assignment of rents of the Property shall terminate when the debt secured by the Security Instrument is paid in full.

18. Foreclosure Procedure. *[For illustration only. Needs state adaptation as provided in attached instructions.]* If Lender requires immediate payment in full under Paragraph 9, Lender may invoke the power of

2/If changes are necessary to create an assignment of rents enforceable under state law, the lender should make necessary changes but the revised paragraph should grant the lender the maximum interest in rents permitted by law.

sale and any other remedies permitted by applicable law. Lender shall be entitled to collect all expenses incurred in pursuing the remedies provided in this Paragraph 18, including, but not limited to, reasonable attorney's fees and costs of title evidence.

If Lender invokes the power of sale, Lender shall give notice of sale to Borrower in the manner provided in Paragraph 13. Lender shall publish and post the notice of sale, and the

Property shall be sold in the manner prescribed by applicable law. Lender or its designee may purchase the Property at any sale. The proceeds of the sale shall be applied in the following order: (a) to all expenses of the sale, including, but not limited to, reasonable attorney's fees; (b) to all sums secured by this Security Instrument; and (c) any excess to the person or persons legally entitled to it.

[The following language is mandatory in all cases.] If the Lender's interest in this Security Instrument is held by the Secretary and the Secretary requires immediate payment in full under Paragraph 9, the Secretary may invoke the nonjudicial power of sale provided in the Single Family Mortgage Foreclosure Act of 1994 ("Act") (12 U.S.C 3751 et seq.) by requesting a foreclosure commissioner designated under the Act to commence foreclosure and to sell the Property as provided in the Act. Nothing in the preceding sentence shall deprive the Secretary of any rights otherwise available to a Lender under this Paragraph 18 or applicable law.

[Add any state-specific paragraphs in accordance with attached instructions and the current edition of HUD Handbook 4165.1.]

[Number as final paragraph or leave unnumbered but place after numbered paragraphs.] Riders to this Security Instrument. If one or more riders are executed by Borrower and recorded together with this Security Instrument, the covenants of each such rider shall be incorporated into and shall amend and supplement the covenants and agreements of this Security Instrument as if the rider(s) were a part of this Security Instrument. [Check applicable box(es)].

Condominium Rider Growing Equity Rider Other [specify]
 Planned Unit Development Rider Graduated Payment Rider

BY SIGNING BELOW, Borrower accepts and agrees to the terms contained in this Security Instrument and in any rider(s) executed by Borrower and recorded with it.

Witnesses:

_____ (SEAL)
 Borrower

_____ (SEAL)
 Borrower

_____ [Space Below This Line for Acknowledgement]

Instructions for Model Mortgage Form

HUD requires that a security instrument follow the form and content of the approved FNMA/FHLMC security instrument for the jurisdiction, except where HUD has determined that differences are needed to reflect HUD policy and practice. The following explains those differences. Additional instructions are found in the current edition of HUD Handbook 4165.1.

Language Preceding Uniform Covenants

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Use FNMA/FHLMC language but add a box for the FHA Case No. as shown on the Model Mortgage Form. The Model Mortgage Form uses the FNMA/FHLMC language for Michigan as an example. The form may include variations to the standard language that have been approved by FNMA and/or FHLMC. For Maine and New York in which FNMA and FHLMC have approved "plain English" forms, the format and language should be based on FNMA/FHLMC forms for other states provided that the language is in conformity with applicable law.

Uniform Covenants

The form should designate the paragraphs preceding Paragraph 17 on assignment of rents as "Uniform Covenants". The text of these paragraphs must be used as presented in the Model Mortgage Form without any change. FNMA/FHLMC language may not be substituted. If change is needed to meet requirements of state or local law or practice, written approval from HUD is needed before the change is made.

Non-Uniform Covenants

The form should designate the paragraphs beginning with Paragraph 17 on assignment of rents as "Non-Uniform Covenants".

- a. The FNMA/FHLMC paragraph on foreclosure procedures in the jurisdiction will need adaptation to reflect HUD policy. The Model Mortgage Form contains an adaptation of the FNMA/FHLMC language for Michigan as an example. Following the phrase "If Lender requires immediate payment in full under Paragraph 9" as shown Paragraph 18 in the Model Mortgage Form, the mortgage should use the foreclosure procedures paragraph of the current approved FNMA/FHLMC form (including language regarding payment of costs such as attorney's fees) as a guide with any necessary adaptation to conform to these instructions. Language in the FNMA/FHLMC paragraph regarding notice and acceleration should be omitted. For Maine and New York, lenders should use foreclosure language based on these instructions and other FNMA/FHLMC forms that are not "plain English" forms provided that the language will authorize foreclosure in conformity with applicable law. The mortgage must include the Lender's right to a public sale of the Property, including a power of sale if legally permissible under the law of the jurisdiction in which the property is located, even if mortgages are usually foreclosed through a judicial proceeding. All rights to a deficiency must be preserved to the extent legally permissible, except as provided in special instructions in Handbook 4165.1 for Iowa, North Dakota or Wisconsin. New language is required at the end of Paragraph 18 regarding the new Single Family Mortgage Foreclosure Act which provides an alternative foreclosure procedure under Federal law.
- b. The paragraphs following Paragraph 18 should contain provisions required to adapt the mortgage to the laws and practices of the particular jurisdiction in which the Property is located. The text of these paragraphs should be the same as the FNMA/FHLMC non-uniform covenants for the jurisdiction in which the Property is located. Changes to the FNMA/FHLMC paragraphs and additional material may be included if needed to conform to requirements of state law or practice. The paragraph entitled "Riders to this Security

Instrument" should be used as shown in the Model Mortgage Form instead of as shown in the FNMA/FHLMC forms.

- c. Any special language or notices required by applicable law should appear following the non-uniform covenants using the FNMA/FHLMC form for the jurisdiction as a guide. Signatures, etc.

Signatures, etc.

Use the FNMA/FHLMC format at the end of the mortgage except that:

- a. Witness lines may be omitted if state and local law does not require witnesses for mortgages.
- b. HUD does not require the Borrower's social security number to appear on the mortgage.

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Historical Reference Only

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APPENDIX III: MODEL NOTE FORM [<TOP>](#)**Note: Following is the updated text version of Appendix III.**

FHA Case No.

--

NOTE

[Date]

[Property Address]

A

1. PARTIES

"Borrower" means each person signing at the end of this Note, and the person's successors and assigns. "Lender" means and its successors; and assigns.

2. BORROWER'S PROMISE TO PAY; INTEREST

In return for a loan received from Lender, Borrower promises to pay the principal sum of _____ Dollars (U.S. \$ _____), plus interest, to the order of Lender. Interest will be charged on unpaid principal, from the date of disbursement of the loan proceeds by lender, at the rate of _____ percent (_____ %) per year until the full amount of principal has been paid.

3. PROMISE TO PAY SECURED

Borrower's promise to pay is secured by a mortgage, deed of trust or similar security instrument that is dated the same date as this Note and called the "Security Instrument." The Security Instrument protects the lender from losses which might result if Borrower defaults under this Note.

4. MANNER OF PAYMENT

(A) Time

Borrower shall make a payment of principal and interest to Lender on the first day of each month beginning on _____, 20___. Any principal and interest remaining on the first day of _____, 20 will be due on that date, which is called the maturity date.^{1/}

(B) Place

Payment shall be made at _____ or at such place as Lender may designate in writing by notice to Borrower.

Note: Following is the Adobe Acrobat pdf-formatted version of Appendix IV as it currently exists on hudclips.org.

Multistate

NOTE

FHA Case No. []

[PropertyAddress]

1. PARTIES

"Borrower" means each person signing at the end of this Note, and the Person's successors and assigns. "Lender" means and its successors and assigns.

2. BORROWER'S PROMISE TO PAY; INTEREST

In return for a loan received from Lender, Borrower promises to pay the principal sum of Dollars (U.S. \$), plus interest, to the order of Lender. Interest will be charged on unpaid principal, from the date of disbursement of the loan proceeds by Lender, at the rate of percent (% , per year until the full amount of principal has been paid.

3. PROMISE TO PAY SECURED

Borrower's promise to pay is secured by a mortgage, deed of trust or similar security instrument that is dated the same date as this Note and called the "Security Instrument." That Security Instrument protects the Lender from losses which might result if Borrower defaults under this Note.

4. MANNER OF PAYMENT

(A) Time

Borrower shall make a payment of principal and interest to Lender on the first day of each month beginning on . Any principal and interest remaining on the first day of 20 , will be due on that date, which is called the "Maturity Date."

(B) Place

Payment shall be made at or at such other place as Lender may designate in writing by notice to Borrower.

(C) Amount

Each monthly payment of principal and interest will be in the amount of \$. This amount will be part of a larger monthly payment required by the Security Instrument, that shall be applied to principal, interest and other items in the order described in the Security Instrument.

(D) Allonge to this Note for payment adjustments

If an allonge providing for payment adjustments is executed by Borrower together with this Note, the covenants of the allonge shall be incorporated into and shall amend and supplement the covenants of this Note as if the allonge were a part of this Note. [Check applicable box]

Growing Equity Allonge
Other [specify]

Graduated Payment Allonge

5. BORROWER'S RIGHT TO PREPAY

Borrower has the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty, on the first day of any month. Lender shall accept prepayment on other days provided that borrower pays interest on the amount prepaid for the remainder of the month to the extent required by Lender and permitted by regulations of the Secretary. If Borrower makes a partial prepayment, there will be no changes in the due date or in the amount of the monthly payment unless Lender agrees in writing to those changes.

6. BORROWER'S FAILURE TO PAY

(A) Late Charge for Overdue Payments

If Lender has not received the full monthly payment required by the Security Instrument, as described in Paragraph 4(C) of this Note, by the end of fifteen calendar days after the payment is due, Lender may collect a late charge in the amount of percent (%) of the overdue amount of each payment.

(B) Default

If Borrower defaults by failing to pay in full any monthly payment, then Lender may, except as limited by regulations of the Secretary in the case of payment defaults, require immediate payment in full of the principal balance remaining due and all accrued interest. Lender may choose not to exercise this option without waiving its rights in the event of any subsequent default. In many circumstances regulations issued by the Secretary will limit Lender's rights to require immediate payment in full in the case of payment defaults. This Note does not authorize acceleration when not permitted by HUD regulations. As used in this Note, "Secretary" means the Secretary of Housing and Urban Development or his or her designee.

(C) Payment of Costs and Expenses

If Lender has required immediate payment in full, as described above, Lender may require Borrower to pay costs and expenses including reasonable and customary attorneys' fees for enforcing this Note to the extent not prohibited by applicable law. Such fees and costs shall bear interest from the date of disbursement at the same rate as the principal of this Note.

7. WAIVERS

Borrower and any other person who has obligations under this Note waive the rights of presentment and notice of dishonor. "Presentment" means the right to require Lender to demand payment of amounts due. "Notice of dishonor" means the right to require Lender to give notice to other persons that amounts due have not been paid.

8. GIVING OF NOTICES

Unless applicable law requires a different method, any notice that must be given to Borrower under this Note will be given by delivering it or by mailing it by first class mail to Borrower at the property address above or at a different address if Borrower has given Lender a notice of Borrower's different address.

Any notice that must be given to Lender under this Note will be given by first class mail to Lender at the address stated in Paragraph 4(B) or at a different address if Borrower is given a notice of that different address.

9. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully and personally obligated to keep all of the promises made in this Note, including the promise to pay the full amount owed. Any person who is a guarantor, surety or endorser of this Note is also obligated to do these things. Any person who takes over these obligations, including the obligations of a guarantor, surety or endorser of this Note, is also obligated to keep all of the promises made in this Note. Lender may enforce its rights under this Note against each person individually or against all signatories together. Any one person signing this Note may be required to pay all of the amounts owed under this Note.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Note.

 (Seal)
 -Borrower

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 (Seal)
 -Borrower

 (Seal)
 -Borrower

 (Seal)
 -Borrower



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APPENDIX IV: MODEL ADJUSTABLE RATE NOTE FORM [<TOP>](#)

FHA Case No.

--

ADJUSTABLE RATE NOTE

[Date]

[Property Address]

1. PARTIES

"Borrower" means each person signing at the end of this Note, and the person's successors and assigns. "Lender" means and its Successors and assigns.

2. BORROWER'S PROMISE TO PAY; INTEREST

In return for a loan received from Lender, Borrower promises to pay the principal sum of _____ Dollars (U.S. \$ ____), plus interest, to the order of Lender. Interest will be charged on unpaid principal, from the date of disbursement of the loan proceeds by Lender, at a rate of ____ percent (%) per year until the full amount of principal has been paid. The interest rate may change in accordance with Paragraph 5(C) of this Note.

3. PROMISE TO PAY SECURED

Borrower's promise to pay is secured by a mortgage, deed of trust or similar security instrument that is dated the same date as this Note and called the "Security Instrument." That Security Instrument protects the Lender from losses which might result if Borrower defaults under this Note.

4. MANNER OF PAYMENT**(A) Time**

Borrower shall make a payment of principal and interest to Lender on the first day of each month beginning on _____, 20___. Any principal and interest remaining on the first day of _____ 20 ___, will be due on that date, which is called the maturity date.¹

(B) Place

Payment shall be made at _____ or at such other place as Lender may designate in writing by notice to Borrower.

(C) Amount

Initially, each monthly payment of principal and interest will be in the amount of U.S. \$ _____. This amount will be part of a larger monthly payment required by the Security Instrument that shall be applied to principal, interest and other items in the order described in the Security Instrument. This amount may change in accordance with Paragraph 5(E) of this Note.

5. INTEREST RATE AND MONTHLY PAYMENT CHANGES

(A) Change Date

The interest rate may change on the first day of _____, 20___, and on that day of each succeeding year. "Change Date" means each date on which the interest rate could change.

(B) The Index

Beginning with the first Change Date, the interest rate will be based on an Index. "Index" means the weekly average yield on United States Treasury Securities adjusted to a constant maturity of one year, as made available by the Federal Reserve Board. "Current Index" means the most recent Index figure available 30 days before the Change Date. If the Index (as defined above) is no longer available, Lender will use as a new Index any index prescribed by the Secretary [as defined in Paragraph 7(B)]. Lender will give Borrower notice of the new Index

(C) Calculation of Interest Rate Changes

Before each Change Date, Lender will calculate a new interest rate by adding a margin of percentage points (___%) to the current Index and rounding the sum to the nearest one-eighth of one percentage point (0.125%). Subject to the limits stated in Paragraph 5(D) of this Note, this rounded amount will be the new interest rate until the next Change Date.²

(D) Limits on Interest Rate Changes

The existing interest rate will never increase or decrease by more than one percentage point (1.0%) on any single Change Date. The interest rate will never be more than five percentage points (5.0%) higher or lower than the initial interest rate stated in Paragraph 2 of this Note.

(E) Calculation of Payment Change

If the interest rate changes on a Change Date, Lender will calculate the amount of monthly payment of principal and interest which would be necessary to repay the unpaid

principal balance in full at the maturity date at the new interest rate through substantially equal payments. In making such calculation, Lender will use the unpaid principal balance which would be owed on the Change Date if there had been no default in payment on the Note, reduced by the amount of any prepayments to principal. The result of this calculation will be the amount of the new monthly payment of principal and interest.

(F) Notice of Changes

Lender will give notice to Borrower of any change in the interest rate and monthly payment amount. The notice must be given at least 25 days before the new monthly payment amount is due, and must set forth (i) the date of the notice, (ii) the Change Date, (iii) the old interest rate, (iv) the new interest rate, (v) the new monthly payment amount, (vi) the Current Index and the date it was published, (vii) the method of calculating the change in monthly payment amount, and (viii) any other information which may be required by law from time to time.

(G) Effective Date of Changes.

A new interest rate calculated in accordance with paragraphs 5(C) and 5(D) of this Note will become effective on the Change Date. Borrower shall make a payment in the new monthly amount beginning on the first payment date which occurs at least 25 days after Lender has given Borrower the notice of changes required by Paragraph 5(F) of this Note. Borrower shall have no obligation to pay any increase in the monthly payment amount calculated in accordance with Paragraph 5 (E) of this Note for any payment date occurring less than 25 days after Lender has given the required notice. If the monthly payment amount calculated in accordance with Paragraph 5(E) of this Note decreased, but Lender failed to give timely notice of the decrease and Borrower made any monthly payment amounts exceeding the payment amount which should have been stated in a timely notice, then Borrower has the option to either (i) demand the return to Borrower of any excess payment, with interest thereon at the Note rate (a rate equal to the interest rate which should have been stated in a timely notice), or (ii) request that any excess payment, with interest thereon at the Note rate, be applied as payment of principal. Lender's obligation to return any excess payment with interest on demand is not assignable even if this Note is otherwise assigned before the demand for return is made.

6. BORROWER'S RIGHT TO PREPAY

Borrower has the right to pay the debt evidenced by this Note, in whole or in part, without charge or penalty, on the first day of any month. Lender shall accept prepayment on other days provided that borrower pays interest on the amount prepaid for the remainder of the month to the extent required by Lender and permitted by regulations of the Secretary. If Borrower makes a partial prepayment, there will be no changes in the due date or in the amount of the monthly payment unless Lender agrees in writing to those changes.

7. BORROWER'S FAILURE TO PAY

(A) Late Charge for Overdue Payments

If lender has not received the full monthly payment required by the Security Instrument, as described in Paragraph 4(C) of this Note, by the end of fifteen calendar days after the payment is due, Lender may collect a late charge in the amount of ____ percent (___%) of the overdue amount of each payment.³

(B) Default

If Borrower defaults by failing to pay in full any monthly payment, then Lender may, except as limited by regulations of the Secretary in the case of payment defaults, require immediate payment in full of the principal balance remaining due and all accrued interest. Lender may choose not to exercise this option without waiving its rights in the event of any subsequent default. This Note does not authorize acceleration when not permitted by HUD regulations. As used in this Note, "Secretary" means the Secretary of Housing and Urban Development or his or her designee.

(C) Payment of Costs and Expenses

If Lender has required immediate payment in full, as described above, Lender may require Borrower to pay costs and expenses including reasonable and customary attorney's fees for enforcing this Note to the extent not prohibited by applicable law. Such fees and costs shall bear interest from the date of disbursement at the same rate as the principal of this Note.

8. WAIVERS

Borrower and any other person who has obligations under this Note waive the rights of presentment and notice of dishonor. "Presentment" means the right to require Lender to demand payment of amounts due. "Notice of dishonor" means the right to require Lender to give notice to other persons that amounts due have not been paid.

9. GIVING OF NOTICES

Unless applicable law requires a different method, any notice that must be given to Borrower under this Note will be given by delivering it or by mailing it by first class mail to Borrower at the property address above or at a different address if Borrower has given Lender a notice of Borrower's different address.

Any notice that must be given to Lender under this Note will be given by first class mail to under at the address stated in Paragraph 4(B) or at a different address if Borrower is given a notice of that different address.

10. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully and personally obligated to keep all of the promises made in this Note, including the promise to pay the full amount owed. Any person who is a guarantor, surety or endorser of this Note is also obligated to do these things. Any person who takes over these obligations, including the obligations of a guarantor, surety or endorser of this Note, is also obligated to keep all of the promises made in this Note. Lender may enforce its rights under this Note against each person individually or against all signatories together. Any one person signing this Note may be required to pay all of the amounts owed under this Note.

BY SIGNING BELOW, borrower accepts and agrees to the terms and covenants contained in this Note.^{4,5}

Borrower (SEAL)

Borrower (SEAL)

Footnotes For Model Adjustable Rate Note Form

1. For Maryland, the Note may be amended if the borrower does not voluntarily elect to pay interim interest at closing. The following must be inserted at the beginning of subsection 4(A): "Borrower shall pay US. \$ _____ on the first day of _____, 20__ as interest due on the unpaid principal for the period from the date of this Note through 12/31/2015." Insert in the first blank the date by which the interim interest must be paid, either the date on which interest to be included in the first monthly installment begins to accrue or the first installment due date. Insert in the second blank the date on which interest to be included in the first monthly installment begins to accrue.
2. The lender may omit "and rounding sum to the nearest one-eighth of one percentage point (0.125%)" in the first sentence of Paragraph 5(C) and "rounded" in the second sentence of Paragraph 5(C) for loans which will not be included in GNMA pools.
3. The late charge may be printed in the form but shall not exceed 4%.
4. Include any require or customary form of authentication.
5. The model form is a multistate form which requires adaptation for some jurisdictions to reflect the laws and practices of the particular jurisdiction in which the Property is located. The form should not be adapted for jurisdictions in which the multistate version of the FNMA/FHLMC note is used. For other jurisdictions, adaptations should generally follow the corresponding provisions in the FNMA/FHMLC note form approved for use in the jurisdiction, with any additional adaptations that may be necessary to conform to requirements of law and practices in the jurisdiction. For Puerto Rico, see the special instructions in Handbook 4165.1, Chapter 4.

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

Historical Reference Only

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APPENDIX V: GRADUATED PAYMENT RIDER<TOP>

THIS GRADUATED PAYMENT RIDER is made this _____ day of _____, 20__, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned _____ ("Borrower") to secure Borrower's Note to _____ ("Lender") of the same date ("Note") and covering the property described in the Security Instrument and located at:

[Property Address]

THIS NOTE PROVIDES FOR DEFERRED INTEREST AND INCREASING MONTHLY INSTALLMENTS ACCORDING TO A SCHEDULE IN THE NOTE. DEFERRAL OF INTEREST MAY INCREASE THE PRINCIPAL BALANCE TO _____ DOLLARS (U.S. \$____.)¹

The payment schedule in the Note is as follows:

\$ _____ during the 1st note year.
\$ _____ during the 2nd note year.
\$ _____ during the _____ note year and thereafter.²

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BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Graduated Payment Rider.

(SEAL)
Borrower

(SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

- 1. Insert maximum principal balance, not the amount by which the principal balance may be increased.
- 2. Complete schedule until payments stop increasing. This paragraph is optional; it should be included if required by state law or as otherwise needed to ensure the enforceability and priority of the mortgage. Lenders may recite the Note verbatim in this rider.

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APPENDIX VI: GRADUATED PAYMENT ALLONGE AMENDING NOTE [<TOP>](#)

THIS GRADUATED PAYMENT ALLONGE is an AMENDMENT made this _____ day of _____, 20____, and is incorporated into and shall be deemed to amend and supplement the Note ("Note") of the same date, given by the undersigned (Borrower") to evidence Borrower's indebtedness to _____ ("Lender"), which indebtedness is secured by a Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date and covering the property described in the Security Instrument and located at:

[Property Address]

Notwithstanding anything to the contrary set forth in the Note, Borrower hereby agrees to the following:

1. AS AMENDED, THE NOTE PROVIDES FOR DEFERRED INTEREST AND INCREASING MONTHLY INSTALLMENTS. DEFERRED INTEREST SHALL BE ADDED TO THE PRINCIPAL MONTHLY AND SHALL INCREASE THE PRINCIPAL BALANCE TO NOT MORE THAN _____ DOLLARS (U.S. \$_____.)¹
2. The payment amount in Paragraph 4(C) of the Note is applicable only during the first note year. The schedule of monthly payments of principal and interest is as follows:

\$	during the 1st note year.
\$	during the 2nd note year.
\$	during the 3rd note year.
\$	during the 4th note year.
\$	during the _____ note year and thereafter. ²

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Amendment.

Borrower (SEAL)

Borrower (SEAL)

1. Insert maximum principal balance, not the amount by which the principal balance may be increased.
2. Complete schedule until payments stop increasing, through the 6th note year for Plans I, II and III and through the 11th note year for Plans IV and V.

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APPENDIX VII: GROWING EQUITY ALLONGE AMENDING
NOTE [<TOP>](#)

THIS GROWING EQUITY ALLONGE is an AMENDMENT made this _____ day of _____, 20__, and is incorporated into and shall be deemed to amend and supplement the Note ("Note") of the same date, given by the undersigned ("Borrower") to evidence Borrower's indebtedness to _____ ("Lender"), which indebtedness is secured by a Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date and covering the property described in the Security Instrument and located at:

[Property Address]

Notwithstanding anything to the contrary set forth in the Note, Borrower hereby agrees to the following:

1. AS AMENDED, THE NOTE PROVIDES FOR INCREASING MONTHLY INSTALLMENTS.
2. The payment amount in Paragraph 4(C) of the Note is applicable only during the first note year. This schedule of monthly payments of principal and interest is as follows:

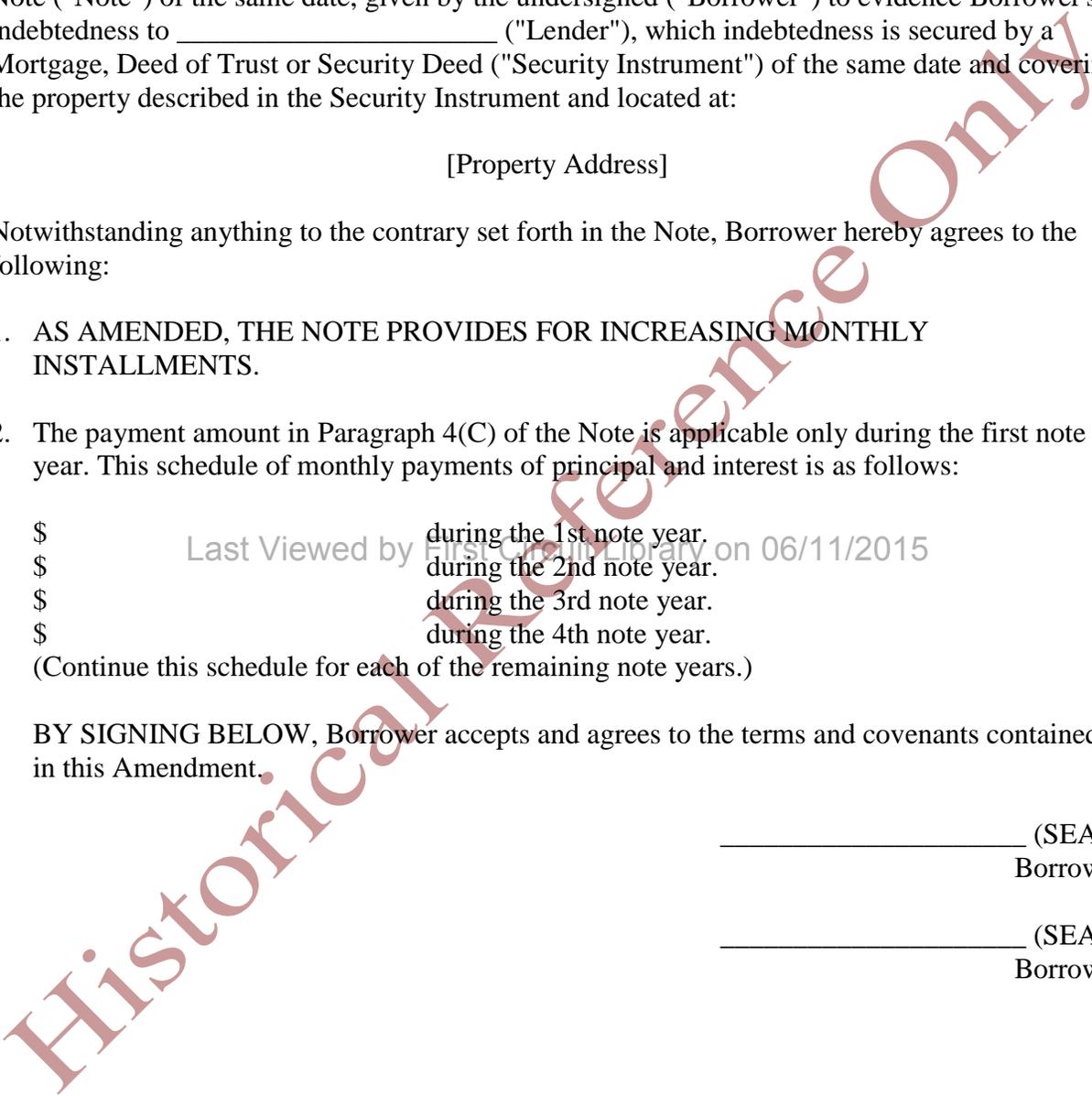
\$ _____ during the 1st note year.
 \$ _____ during the 2nd note year.
 \$ _____ during the 3rd note year.
 \$ _____ during the 4th note year.

(Continue this schedule for each of the remaining note years.)

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Amendment.

(SEAL)
Borrower

(SEAL)
Borrower



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APPENDIX VIII: CONDOMINIUM RIDER<TOP>

THIS CONDOMINIUM RIDER is made this _____ day of _____, 20__, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note ("Note") to _____ ("Lender") of the same date and covering the Property described in the Security Instrument and located at:

[Property Address]

The Property includes a unit in, together with an undivided interest in the common elements of, a condominium project known as:

[Name of Condominium Project]

("Condominium Project"). If the owners association or other entity which acts for the Condominium Project ("Owners Association") holds title to property for the benefit or use of its members or shareholders, the Property also includes Borrower's interest in the Owners Association and the uses, proceeds and benefits of Borrower's interest.

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CONDOMINIUM COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

- A. So long as the Owners Association maintains, with a generally accepted insurance carrier, a "master" or "blanket" policy insuring all property subject to the condominium documents, including all improvements now existing or hereafter erected on the Property, and such policy is satisfactory to Lender and provides insurance coverage in the amounts, for the periods, and against the hazards lender requires, including fire and other hazards included within the term "extended coverage," and loss by flood, to the extent required by the Secretary, then: (i) Lender waives the provision in Paragraph 2 of this Security Instrument for the monthly payment to Lender of one-twelfth of the yearly premium installments for hazard insurance on the Property, and (ii) Borrower's obligation under Paragraph 4 of this Security Instrument to maintain hazard insurance coverage on the Property is deemed satisfied to the extent that the required coverage is provided by the Owners Association policy. Borrower shall give Lender prompt notice of any lapse in required hazard insurance coverage and of any loss occurring from a hazard. In the event of a distribution of hazard insurance proceeds in lieu of restoration or repair following a loss to the Property, whether to the condominium unit or to the common elements, any proceeds payable to Borrower are hereby assigned and shall be paid to Lender for application to the sums secured by this Security Instrument, with any excess paid to the entity legally entitled thereto.

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- B. Borrower promises to pay all dues and assessments imposed pursuant to the legal instruments creating and governing the Condominium Project.

- C. If Borrower does not pay condominium dues and assessments when due, then Lender may pay them. Any amounts disbursed by Lender under this paragraph C shall become additional debt of Borrower secured by the Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and provisions contained in this Condominium Rider.

_____ (SEAL)
Borrower

_____ (SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

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APPENDIX IX: REHABILITATION LOAN RIDER<TOP>

THIS REHABILITATION LOAN RIDER is made this _____ day of _____, 20__, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note ("Note") to _____ ("Lender") of the same date and covering the property described in the Security Instrument and located at:

[Property Address]

ADDITIONAL COVENANTS. In addition to the covenants and agreements in the Security Instrument, Borrower and Lender further covenant and agree as follows:

- A. Loan proceeds are to be advanced for the premises in accordance with the Rehabilitation Loan Agreement dated _____, 20__, between Borrower and Lender. This agreement is incorporated by reference and made a part of this Security Instrument. No advances shall be made unless approved by the Secretary of Housing and Urban Development or a Direct Endorsement Underwriter.
- B. If the rehabilitation is not properly completed, performed with reasonable diligence, or is discontinued at any time except for strikes or lockouts, the Lender is vested with full authority to take the necessary steps to protect the rehabilitation improvements and property from harm, continue existing contracts or enter into necessary contracts to complete the rehabilitation. All sums expended for such protection, exclusive of the advances of the principal indebtedness, shall be added to the principal indebtedness, and secured by the Security Instrument and be due and payable on demand with interest as set out in the Note.
- C. If Borrower fails to perform any obligation under the loan, including the commencement, progress and completion provisions of the Rehabilitation Loan Agreement, and such failure continues for a period of 30 days, the loan shall, at the option of Lender, be in default.
- D. The Property covered by this Security Instrument shall include all of Borrower's interest in funds held by Lender in escrow under the Rehabilitation Loan Agreement.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Rehabilitation Loan Rider.

(SEAL)
Borrower

(SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

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APPENDIX X: PLANNED UNIT DEVELOPMENT RIDER <TOP>

THIS PLANNED UNIT DEVELOPMENT RIDER is made this _____ day of _____, 20, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note ("Note") to _____ "Lender" of the same date and covering the Property described in the Security Instrument and located at:

[Property Address]

The Property Address is a part of a planned unit development ("PUD") known as

[Name of Planned Unit Development]

PUD COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

- A. So long as the Owners Association (or equivalent entity holding title to common areas and facilities), acting as trustee for the homeowners, maintains, with a generally accepted insurance carrier, a "master" or "blanket" policy insuring the property located in the PUD, including all improvements now existing or hereafter erected on the mortgaged premises, and such policy is satisfactory to Lender and provides insurance coverage in the amounts, for the periods, and against the hazards Lender requires, including fire and other hazards included within the term "extended coverage," and loss by flood, to the extent required by the Secretary, then: (i) Lender waives the provision in Paragraph 2 of this Security Instrument for the monthly payment to Lender of one-twelfth of the yearly premium installments for hazard insurance on the Property, and (ii) Borrower's obligation under Paragraph 4 of this Security Instrument to maintain hazard insurance coverage on the Property is deemed satisfied to the extent that the required coverage is provided by the Owners Association policy. Borrower shall give Lender prompt notice of any lapse in required hazard insurance coverage and of any loss occurring from a hazard. In the event of a distribution of hazard insurance proceeds in lieu of restoration or repair following a loss to the Property or to common areas and facilities of the PUD, any proceeds payable to Borrower are hereby assigned and shall be paid to Lender for application to the sums secured by this Security Instrument, with any excess paid to the entity legally entitled thereto.
- B. Borrower promises to pay all dues and assessments imposed pursuant to the legal instruments creating and governing the PUD.
- C. If Borrower does not pay PUD dues and assessments when due, then Lender may pay them. Any amounts disbursed by Lender under this paragraph C shall become additional debt of Borrower secured by the Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

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BY SIGNING BELOW, Borrower accepts and agrees to the terms and provisions contained in this PUD Rider.

_____ (SEAL)
Borrower

_____ (SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

Historical Reference Only

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APPENDIX XI: TAX-EXEMPT FINANCING RIDER <TOP>

THIS TAX-EXEMPT FINANCING RIDER is made this _____ day of _____, 20____, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note ("Note") to _____ ("Lender") of the same date and covering the property described in the Security Instrument and located at:

[Property Address]

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree to amend Paragraph 9 of the Security Instrument, entitled "Grounds for Acceleration of Debt," by adding additional grounds for acceleration as follows:

Lender, or such of its successors or assigns as may by separate instrument assume responsibility for assuring compliance by the Borrower with the provisions of this Tax-Exempt Financing Rider, may require immediate payment in full of all sums secured by this Security Instrument if:

- (a) All or part of the Property is sold or otherwise transferred by Borrower to a purchaser or other transferee:

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- (i) Who cannot reasonably be expected to occupy the property as a principal residence within a reasonable time after the sale or transfer, all as provided in Section 143(c) and (i)(2) of the Internal Revenue Code; or
- (ii) Who has had a present ownership interest in a principal residence during any part of the three-year period ending on the date of the sale or transfer, all as provided in Section 143(d) and (i)(2) of the Internal Revenue Code (except that "100 percent" shall be substituted for "95 percent or more" where the latter appears in Section 143(d)(1)); or
- (iii) At an acquisition cost which is greater than 90 percent of the average area purchase price (greater than 110 percent for targeted area residences), all as provided in Section 143(e) and (i)(2) of the Internal Revenue Code; or
- (iv) Who has a gross family income in excess of the applicable median family income as provided in Section 143(f) and (i)(2) of the Internal Revenue Code; or

- (b) Borrower fails to occupy the property described in the Security Instrument without prior written consent of Lender or its successors or assigns described at the beginning of this Tax-Exempt Financing Rider, or

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- (c) Borrower omits or misrepresents a fact that is material with respect to the provisions of Section 143 of the Internal Revenue Code in an application for the loan secured by this Security Instrument.

References are to the Internal Revenue Code as amended and in effect on the date of issuance of bonds, the proceeds of which will be used to finance the purchase of the Security Instrument and are deemed to include the implementing regulations.¹

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in this Tax-Exempt Financing Rider.

(SEAL)
Borrower

(SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

1. If bond proceeds are used for purposes other than mortgage purchase, such as for direct loans to homeowners or as loans to lenders who lend to homebuyers, the description of the bonds should be amended as needed.

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Historical Reference Only

APPENDIX XII: RIDER FOR SECTION 248 MORTGAGE <TOP>

THIS RIDER FOR SECTION 248 MORTGAGE is made this _____ day of _____, 20__, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note ("Note") to _____ ("Lender") of the same date and covering the property described in the Security Instrument and located at:

[Property Address]

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and under further covenant and agree as follows:

- A. The interests of the Borrower in the property described above were created by a lease agreement from _____ as lessor dated _____, 20__. Any reference to the "Property" shall be construed as referring only to the interest of Borrower created by such lease or any replacement lease.
- B. If the Security Instrument is assigned to the Secretary of Housing and Urban Development ("Secretary"), any foreclosure proceeding may take place in a tribal court, Federal district court, or other court of competent jurisdiction. Section 248(f)(5) of the National Housing Act grants to any such court the jurisdiction to convey to the Secretary the remaining life of a lease on the property and to order eviction of the delinquent Borrower.
- C. Any purchaser at foreclosure sale other than the Secretary must receive the written consent of the lessor or, if lessor is not an Indian tribe, the tribe of which lessor is a member. The purchaser shall receive a lease for the remaining term of the existing lease unless the tribe consents to an assumption of the existing lease.
- D. This Security Instrument may be assumed, subject to credit approval by the Lender and the consent of the tribe to an assumption of the existing lease or the grant of the new lease. Assumption shall not cause any adjustment of the interest rate.
- E. A sale of property subject to the Security Instrument without an assumption of the Security Instrument may be made if a new lease for the remaining term of the existing lease is granted.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants in this Rider for Section 248 Mortgage.

_____ (SEAL)

Borrower

_____ (SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

Historical Reference Only

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APPENDIX XIII: RIDER FOR SECTION 247 MORTGAGE<TOP>

IT IS HEREBY agreed that the lease to which this rider is attached is hereby amended and supplemented as follows:

Notwithstanding any provisions to the contrary, this lease may serve as security for any leasehold mortgage insured or held by the Secretary of the Department of Housing and Urban Development, and the following shall apply during such time as the lease serves as such security:

- (1) Any condemnation compensation due the Lessee shall be paid to the mortgagee to be applied in the same manner as condemnation proceeds under the terms of the mortgage.
- (2) Assignment of this lease is restricted to those persons who have received certificates issued by the Department of Hawaiian Home Lands certifying that the assignee or assignees are native Hawaiians as defined in Section 247 of the National Housing Act.
- (3) The Lessor will not cancel this lease without the consent of the Department of Housing and Urban Development.
- (4) Any casualty insurance proceeds are to be applied in accordance with the provisions of the leasehold mortgage.

IN WITNESS WHEREOF, the parties have executed this rider to acknowledge the attachment hereof to said lease and the annotation of said lease with the following statement:

Additional provisions pertaining to the lease when the lease serves as security for a mortgage insured or held by the Secretary of Housing and Urban Development are contained in the Department of Hawaiian Home Lands Mortgage Insurance Program Rider, which is attached to this lease and made a part thereof.

Dated: _____, 20____

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

By: _____
LESSEE

By: _____
CHAIRMAN COMMISSIONER
HAWAIIAN HOMES COMMISSION
LESSOR

LEASE NO. _____

LOT NO. _____

HOMESTEADER _____

Revised May 2004

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APPENDIX XIV: NON-OWNER OCCUPANCY RIDER [<TOP>](#)

THIS NON-OWNER OCCUPANCY RIDER is made this _____ day of _____, 20__, and is incorporated into and shall be deemed to amend and supplement the Mortgage Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note to _____ ("Lender") of the same date, and covering the property described in the Security Instrument and located at:

[Property Address]

ADDITIONAL COVENANTS. In addition to the covenants and agreements in the Security Instrument, Borrower and Lender further covenant and agree as follows:

- A. Borrower represents that, notwithstanding the provisions of Paragraph 5 of the Security Instrument, (s)he does not intend to occupy the property described in the Security Instrument as a principal residence, and [mark applicable item(s)]:
1. The Security Instrument is for a streamline refinance of a loan which was previously FHA insured.
 2. The Security Instrument is for a loan to be insured under Section 203(k) of the National Housing Act.
 3. The Security Instrument applies to property sold under the HUD Single Family Property Disposition Program and meets the requirements thereof.
 4. The Borrower is an Indian Tribe as provided in Section 248 of the National Housing Act or a serviceperson who is unable to occupy the property because of his or her duty assignment as provided in Section 216 or Subsection (b)(4) or (f) of Section 222 of the National Housing Act.
 5. The Security Agreement is for property sold to a state or local government agency or a non-profit organization (qualified under Section 501(c)(3) of the Internal Revenue Code) that intends to sell or lease the property to low or moderate income persons.
 6. The Security Instrument is for property that is or will be a secondary residence of Borrower and is eligible for an FHA-Insured mortgage in order to avoid undue hardship for Borrower.
- B. Lender shall not require immediate payment in full, notwithstanding the provisions of Paragraph 9(b) of the Security Instrument, solely because all or part of the Property, or a beneficial interest in a trust owning all or part of the Property is sold or otherwise transferred to a purchaser or grantee who does not occupy the Property as his or her principal residence..

4165.1 REV-2

BY SIGNING BELOW, Borrower agrees to the representations contained in this Non-Owner Occupancy Rider.

_____ (SEAL)
Borrower

_____ (SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

Historical Reference Only

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APPENDIX XV: WATER PURIFICATION EQUIPMENT RIDER
RIDER [<TOP>](#)

THIS WATER PURIFICATION EQUIPMENT RIDER is made this _____ day of _____ 20__, and is incorporated into and shall be deemed to amend and supplement the Mortgage Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note ("Note") to _____ ("Lender") of the same date and covering the property described in the Security Instrument and located at:

[Property Address]

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

Borrower shall include in each monthly payment, together with items described in Paragraph 2 of the Security Instrument, an amount to be held by Lender to assure proper servicing, maintenance, repair and replacement of individual residential water purification equipment for the Property. Each monthly amount shall equal \$_____, unless and until the amount is adjusted by Lender as provided herein.

At least annually, Lender shall determine whether any adjustment is necessary to ensure that sufficient funds will be accumulated to make anticipated disbursements in a timely manner, and inform Borrower of any adjustment. This determination shall be performed without regard to other items for which Lender maintains an escrow account such as taxes and hazard insurance premiums.

Lender shall accumulate the amounts received from the Borrower to be held in trust until disbursements are required as follows:

1. Disbursements from the account are limited strictly to costs associated with the normal servicing, maintenance, repair and replacement of the water purification equipment.
2. Disbursements shall be made solely to [maintenance organization named in service contract] or its successor, [agent approved by local health authority to perform testing or other services on its behalf], [other payees named in Plan.]
3. Disbursements shall be made at the request of borrower supported by documentation costs. If Borrower tenders to Lender the full payment of all sums secured by this Security Instrument, or if the equipment is no longer needed because of a change in water source, or immediately prior to a foreclosure sale of the Property or its acquisition by Lender, Borrower's account shall be credited with the balance remaining from amounts accumulated by lender under the additional covenants in the Water Purification Equipment Rider, and lender shall promptly refund any excess funds to Borrower.

4165.1 REV-2

BY SIGNING BELOW, Borrower accepts and agrees to the terms and provisions in this Water Purification Equipment Rider.

_____ (SEAL)
Borrower

_____ (SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

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APPENDIX XVI: COOPERATIVE RIDER<TOP>

THIS COOPERATIVE HOUSING PROJECT RIDER is made this _____ day of _____, 20__, and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed ("Security Instrument") of the same date given by the undersigned ("Borrower") to secure Borrower's Note ("Note") to _____ ("Lender") of the same date and covering the Property described in the security instrument and located at:

[Property Address]

The Property includes Borrower's right of occupancy for a dwelling unit in, together with membership (or stock ownership) in the Corporation of, a project known as:

[Name of Cooperative]

("Cooperative"). The Property includes the uses, proceeds and benefits of Borrower's membership in the Cooperative.

COOPERATIVE COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

- A. So long as the Cooperative maintains, with a generally accepted insurance carrier, a "master" or "blanket" policy insuring all properties located in the project, including all improvements now existing or hereafter erected on the Property, and such policy is satisfactory to Lender and provides insurance coverage in the amounts, for the periods, and against the hazards Lender requires, including fire and other hazards included within the term "extended coverage," and loss by flood, to the extent required by the Secretary, then: (i) Lender waives the provision in Paragraph 2 of this Security Instrument for the monthly payment to Lender of one-twelfth of the yearly premium installments for hazard insurance on the Property, and (ii) Borrower's obligation under Paragraph 4 of this Security Instrument to maintain hazard insurance coverage on the Property is deemed satisfied to the extent that the required coverage is provided by the Cooperative's policy. Borrower shall give Lender prompt notice of any lapse in required hazard insurance coverage and of any loss occurring from a hazard. In the event of a distribution of hazard insurance proceeds in lieu of restoration or repair following a loss to the Property, whether to the unit or to the common elements, and facilities of the project, any proceeds payable to Borrower are hereby assigned and shall be paid to Lender for application to the sums secured by this Security Instrument, with any excess paid to the entity legally entitled thereto.
- B. Borrower promises to pay Borrower's allocated share of the common expenses or assessments and charges imposed by the Cooperative, as provided in the Cooperative documents.

4165.1 REV-2

C. If Borrower does not pay Cooperative dues and assessments when due, Lender may pay them. Any amounts disbursed by Lender under this paragraph C shall become additional debt of Borrower secured by the Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and provisions contained in this Cooperative Rider.

____ (SEAL)
Borrower

____ (SEAL)
Borrower

[ADD ANY NECESSARY ACKNOWLEDGEMENT PROVISIONS.]

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APPENDIX XVII: CONSTRUCTION RIDER FOR
CONSTRUCTION/PERMANENT MORTGAGE [<TOP>](#)

CONSTRUCTION LOAN ADDENDUM TO NOTE
 MODEL DOCUMENT

FHA CASE Number _____ Date: _____

THIS IS A MODEL DOCUMENT FOR USE IN MORTGAGE LOAN TRANSACTIONS. THIS FORM IS PROVIDED AS AN EXAMPLE AND IS NOT VALID AND ENFORCEABLE IN ALL JURISDICTIONS. LENDERS SHOULD CONSULT WITH LEGAL COUNSEL TO ENSURE THAT ALL FORMS USED TO ORIGINATE LOANS ARE APPROPRIATE, AND THAT ALL LEGAL INSTRUMENTS ARE COMPLETED CORRECTLY AND IN COMPLIANCE WITH APPLICABLE LAW.

CONSTRUCTION LOAN ADDENDUM AMENDING NOTE

THIS CONSTRUCTION LOAN ADDENDUM (the "Addendum") is made this ____ day of _____, _____, and is incorporated into and shall be deemed to amend and supplement the note made by the undersigned Borrower, ("I", "me", "my") to evidence my indebtedness (the "Loan") to _____ and its successors and assigns (the "Note Holder") and dated the same date as this Addendum (the "Note"). The Note is secured by a security instrument, as modified or amended, in favor of the Lender dated the same date as this Addendum (the "Security Instrument"). All terms defined in the Note shall have the same meaning in this Addendum.

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Note, Note Holder and I further covenant and agree as follows:

1. **CONSTRUCTION/PERMANENT LOAN.** The Note, as amended by this Addendum, is for a construction loan and a permanent mortgage loan. During the Construction Phase of the Loan, Note Holder will advance funds in accordance with the Construction Loan Agreement dated the same date as this Addendum (the "Construction Loan Agreement"). The "Construction Phase" is the period beginning on the date the Loan consummates (the "Closing Date") until the first day of the month following the Completion Date specified in the Construction Loan Agreement. The Completion Date is _____, _____. The "Permanent Phase" is the period beginning on the first day of the month following the Completion Date specified in the Construction Loan Agreement. On the first day of the month following the Completion Date ("Permanent Mortgage Date"), the Loan will be a permanent mortgage loan. The Permanent Mortgage Date for my Loan is _____, _____. My first payment of principal and interest during the Permanent Phase will be due on the first day of the second month following the Completion Date which is _____, _____, as stated in Section 3(A) of the Note.

2. INTEREST AND PAYMENTS.

(A) Construction Phase Interest Rate.

During the Construction Phase of the Loan, I will pay interest only on the amount of the Loan proceeds Lender disburses under the Construction Loan Agreement (each, an "Advance"). I will pay interest at the rate:

Check applicable box:

- stated in Section 2 of the Note ("Note Rate")
- at _____% per annum

(B) Permanent Phase Rate

During the Permanent Phase, I will pay interest ("Permanent Phase Rate") at the rate stated in Section 2 of the Note ("Note Rate").

(C) Interest Only Payments

Interest on Advances shall be calculated from the date each Advance is made. My Construction Phase interest payments will be:

Check applicable box:

- due and payable fifteen (15) days after being billed by Note Holder, or
- paid directly from the "Interest Reserve Account" established at the time of closing in the amount reflected in Schedule of Advances, attached as Exhibit "B" to the Construction Loan Agreement.

(D) Interest Reserve Payments

If I choose to establish an Interest Reserve Account, (1) Construction Phase interest will be advanced by Note Holder from the Interest Reserve Account on the first day of the month following the month in which the interest is billed, (2) Construction Phase interest advanced will be added to Principal and (3) I:

Check applicable box:

- will pay interest on all Principal, including Advances from the Interest Reserve Account.
- will pay interest on all Principal, other than Advances from the Interest Reserve Account.

In the event that the Interest Reserve Account is depleted prior to the Completion Date, I agree to pay directly to Note Holder from my own funds any and all interest, which accrues prior to the Completion Date.

Note Holder shall pay no interest on the Interest Reserve Account.

(E) Principal Prepayments; Permanent Phase Interest and Principal Payments

Any portion of a payment Note Holder receives in excess of the interest due during the Construction Phase or any funds Note Holder does not advance under the Construction Loan Agreement may, at Note Holder's option, be used to pay costs associated with the Construction Phase or may be credited as a partial prepayment of the Principal amount of the Loan. The partial prepayment will reduce the amount of number of my monthly payments.

Beginning on the Permanent Mortgage Date, principal and interest will be due and payable as set forth in the Note.

- 3. **NOTICE OF NO ORAL AGREEMENT.** THE NOTE, THIS ADDENDUM, THE CONSTRUCTION LOAN AGREEMENT, AND THE SECURITY INSTRUMENT, AS AMENDED, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND TO THE EXTENT PERMITTED BY LAW, MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENT OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

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BY SIGNING BELOW, I accept and agree to the terms and covenants contained in this Addendum.

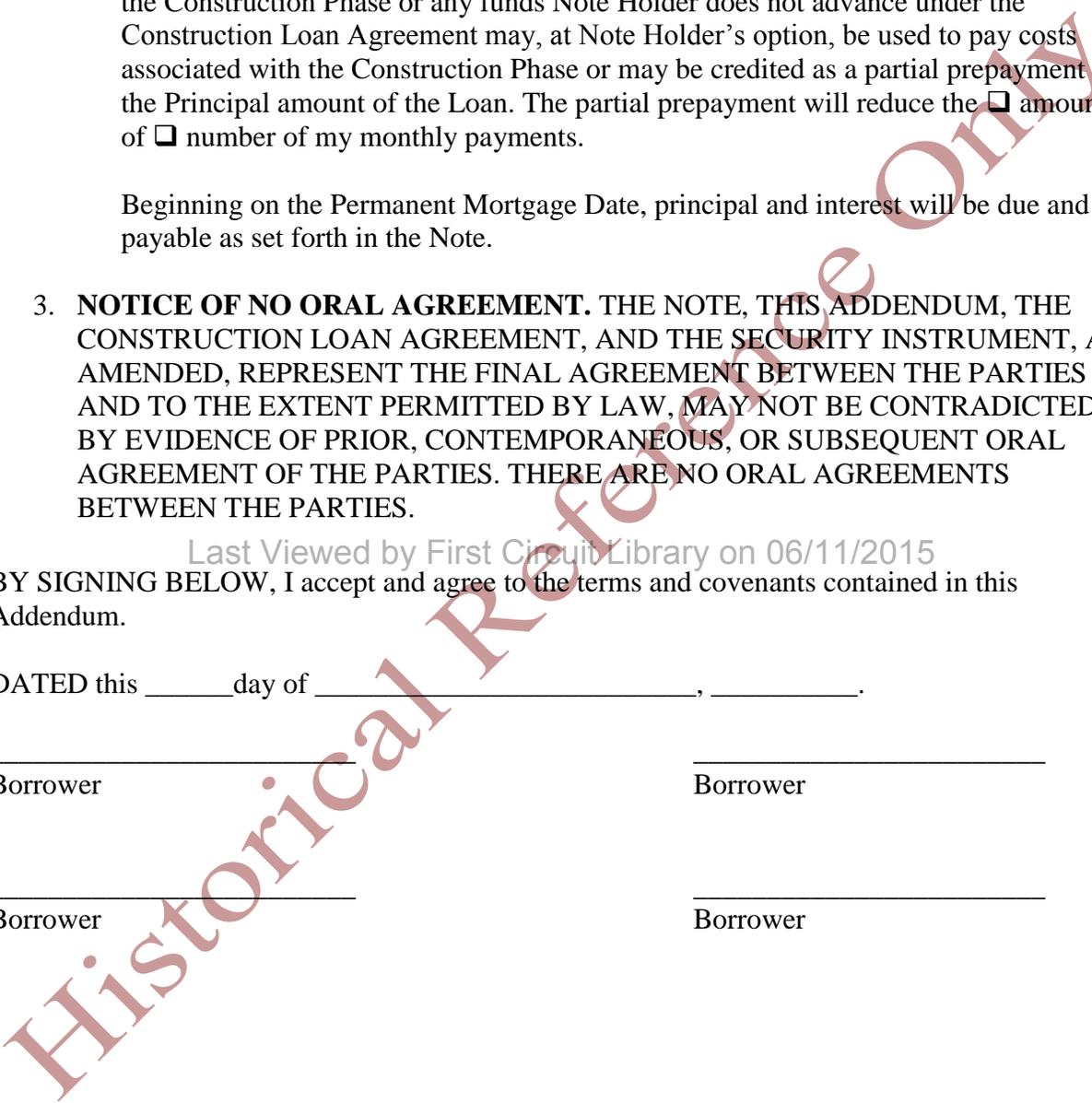
DATED this _____ day of _____, _____.

Borrower

Borrower

Borrower

Borrower



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APPENDIX XVIII: COMMON FHA CONNECTION ERRORS AND DOCUMENTATION PROBLEMS [<TOP>](#)

COMMON SYSTEM PROBLEMS

Mortgage Amount cannot exceed \$XXXX for a value of \$YYYYY

Verify that the question, "MIP Financed?" is answered correctly
 Verify that the UFMIP amount paid in the case
 Verify the ADP code
 Verify that the "previous REO case" correct
 Verify mortgage amount and value entries

Monthly P & I not within acceptable range of \$XXX.XX to \$YYY.YY

Verify mortgage term
 Verify mortgage amount and interest rate entries

Mortgage Amount exceeds statutory limit

Verify number of units.
 Verify county code
 Verify "MIP financed?"
 Verify if Emergency Efficient Mortgage

Address mismatch (refinance)

Verify address with that on payoff statement
 Verify old case number is borrower's
 Contact HOC for instructions if error persists

Borrower cited on CAIVRS Multiple Loans

Submit print out of clear CAIVRS if obtained at case number assignment and borrower cited later.

Borrower cited on Multiple Loans

Research all case numbers cited. Provide updated status of each in the binder.
 (If property was sold, provide HUD-1)

COMMON DOCUMENTATION PROBLEMS

Appraisal and MCAW information not entered in FHA Connection

Verify information is in system for correct case number prior to shipment

UFMIP and netted MIP incorrectly submitted

Verify that the transmission references the correct numbers.

UFMIP and netted MIP submitted late

Fifteen days of closing

4165.1 REV-2

Second copy of appraisal not provided loose in binder

One appraisal to be fastened, one to be loose

Late letter and payment history not provided

Late letter and history are required as of 60th day if not RECEIVED by HOC

Missing ADP codes on appropriate documents and allonges

Verify case numbers have appropriate codes included

203(k) cases not closed out in system prior to refinance

Follow closeout procedures prescribed by HOC

Case number not on binder

Verify case number

92900a not completed and appropriately signed

Review for proper signatures

HUD-1 and Addendum to HUD-1 not signed and dated by all parties.

Review for proper signatures, particularly the seller and the settlement agent.

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Historical Reference Only

APPENDIX XIX: PRE-ENDORSEMENT REVIEW CHECKLIST <TOP>

(Non HECM Files)

CASE

NUMBER: _____ BY: _____

Approved/Rejected

RIGHT SIDE OF BINDER:

- A R **Automated Underwriting Feedback Certification**
- A R **First-Time Home Buyer Counseling Certificate** (Hawaiian Homeland Loans Only)
- A R **Late Submission Letter/Payment History** (Per Chapter 3)
- A R **Mortgage Credit Analysis Worksheet (HUD 92900-WS or HUD 92900-PUR)**
- Signed & dated by DE underwriter and reflects U/W ID#
 - AUS loans should reflect the system used and appropriate ID#. A DE Underwriter DOES NOT need to sign
 - IF APPLICABLE: 203K Worksheet (HUD 92700), EEM Worksheet, 203h documentation
- A R **Note (Include Note for Secondary Mortgage when applicable):**
- Copy
 - Contains all 9 paragraphs of Model Note
 - Signed/Conformed/Executed
 - Mortgage amount is not higher than approved (92900-WS or PUR #3c and Page 3 of HUD 92900-A)
 - Term of mortgage is the same as approved (92900-WS or PUR #7) Maximum term is 360 months
 - Property Address same as on URAR and reflects correct FHA Case Number and ADP Code
 - Applicable Allonges/Agreements (796 Buydown, ARM Disclosure or 203K Rehabilitation Loan agreements, etc.)
 - Contains the same borrower(s) name(s) that appears on the Form HUD 92900 and the Firm Commitment
- A R **Security Instrument (Include Security Instrument for Secondary Mortgage when applicable)**
- Copy
 - Signed/Conformed/Executed
 - Paragraph 9 (Grounds for Acceleration)

- Paragraph 18 (Foreclosure Procedures)
- Property Address same as on URAR
- Applicable Riders (Condo, ARM, 203k, etc.)

A R **HUD-1 Settlement Statement & Addendum**

- Signed by borrower, Seller and Settlement Agent (**Note:** HUD, as the seller, does not sign on REO Sales)
- Legible copies of Pages 1 and 2

Note: Refinances may be a one-page form and the Addendum is not required

A R **Final Uniform Residential Loan Application (URLA)** signed and dated by all borrowers

A R **Addendum to URLA (HUD 92900-A, Pages 1, 2, 3 and 4)**

- Completed, signed and dated by appropriate parties
- Page 3 signed by DE Underwriter or identified as AUS with appropriate ID

A R **Credit Report(s)**

A R **Asset Verification:** VOD and/or bank statements

A R **Gift Letter** (if gift is shown on Mortgage Credit Analysis Worksheet)

Note: AUS accept: does not need a letter; gift may be noted on the application (URLA) in-lieu-of a gift letter

A R **Income Verification-** Maybe any of the following: Written or Verbal VOE and pay stub, Federal Tax Returns, Evidence of Pension/Retirement

A R **Evidence of Social Security Number** (Copy of Social Security Card, pay stub, W2, etc.)

LEFT SIDE OF BINDER:

A R **If applicable, Mortgagee Assurance of Completion (HUD 92300)** Completed & Signed

A R **Compliance Inspection Report (HUD 92051)** Countersigned by DE Underwriter. **or Evidence VC Requirements are Cleared.** Local government inspection with the Underwriter Certification may be accepted

- A R **Wood Destroying Insect Infestation Report**, Form NPCA-1 or State mandated infestation report (as applicable)
- A R **Local Health Authority's Approval** (when applicable) for individual water and sewer systems if applicable
- A R **New Construction Exhibits:**
- Builder's Certification (**HUD 92541**): Complete & Signed
 - Builder's One Year Warranty (**HUD 92544**)
 - As applicable: Evidence of a 10 year warranty, or Early Start Letter and 3 inspections completed by local authority or FHA fee inspector (footings, frame & final). (**Note:** Manufactured Homes require only 2 inspections in lieu-of 10 year warranty)
 - Subterranean Termite Treatment Report – NPCA-99a and NPCA-99b
- A R **Statement of Appraised Value (HUD 92800.5B)**
- A R **Engineer's Certificate for Manufactured Housing Foundation**
- A R **Comprehensive Valuation Package (CVP)** Completed/signed/dated by appropriate properties
- Original Uniform Residential Appraisal Report (URAR) and complete appraisal package++
 - HUD 92564-HS (Homebuyer Summary)**/++
 - HUD 92564-VC (Valuation Condition Sheet)**/++ Evidence VC's are cleared (may be HUD 92051 or cleared separately)
 - **If MAR/MCC documentation:** HUD 91322 and HUD 91322.3, including all attachments and amendments
 - **If VACRV/MCRV documentation:** VA-26-1841 or VA-26-1843a, including all attachments and endorsements
- A R **Specialized Eligibility Documents (Such as, but Not Limited to):**
- 203(k): Rehabilitation Agreement, Plans, Work Write-Ups, Cost Estimates, Initial Draw Request
 - Form HUD-92561- Borrower's Contract With Respect To Hotel Transient Use Of Property (2-4 units)
 - Condominiums- Occupancy Certification regarding 51% owner occupancy (if not included on VC). Spot Condo documentation (if spot approval)
- A R **Purchase Contract and Addenda (not required on refinances)**
- Signed by all buyers and sellers
 - Amendatory clause signed by buyers and sellers (not required on REO Sales or 203K loans)

4165.1 REV-2

- Real Estate Certification signed by buyers, sellers, and selling real estate agent or broker (if not contained within purchase agreement)

A R **HUD-92564-CN** (For Your Protection)**/++

**** This Item is NOT Required for Proposed/Under Construction Properties**

++ This Item is NOT Required for MAR/MCC, or VACRV/VAMCRV Loans

Historical Reference Only

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APPENDIX XX: HECM PRE-ENDORSEMENT REVIEW
CHECKLIST [<TOP>](#)

CASE
NUMBER: _____ **BY:** _____

Approved/Rejected

- A R Late Submission Explanation (if received more than 60 days closing)
- A R Copy of signed 1st Note
- A R Copy of signed 1st Security Instrument (Mortgage or Deed of Trust)
- A R Signed ORIGINAL 2nd Note
- A R Signed Original (or certified true copy) of 2nd Security Instrument (Mortgage/Deed of Trust)
- A R Signed HUD-1 Settlement Statement
- A R Notice to Borrower
- A R Signed Loan Agreement (shall have 3 Originals)
- A R Choice of Insurance Options
- A R Certification regarding Hotel and Transient Use (2, 3, or 4 unit properties)
- A R Evidence of Calculations (for principal limit and monthly payment amount)
- A R Final Uniform Residential Loan Application (URLA): Signed by all borrowers
- A R Addendum for URLA (HUD-92900-A), Signed and dated by the appropriate parties. Obtain DE Underwriter's name and ID# from page 3
- A R Credit Report
- A R Evidence the Mortgagor (Borrower) received counseling
- A R Evidence of Social Security Number (Social Security Card, driver's license, or 1099)
- A R Title Insurance Commitment (or other acceptable title evidence)
- A R Statement of Appraised Value (HUD-92800-5B)

4165.1 REV-2

A R HUD-92564-VC Valuation Condition Sheet Evidence conditions have been cleared (may be HUD-92051 inspection for or cleared separately)

A R Final Uniform Residential Appraisal Report (URAR) and complete appraisal package

A R HUD-92564-HS Homebuyer Summary, signed and dated by all parties.

Note: Pull the following documents during review and fasten down on left side of binder: 2nd Note; 2nd Mortgage/Deed of Trust; 3 Original Loan Agreements; Notice to Borrower

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Historical Reference Only