

CHAPTER 11. INSURANCE BENEFITS AND TERMINATION OF INSURANCE

11-1. GENERAL INSTRUCTION. Follow Chapter 11 of HUD Handbook 4566.2 except as modified by this supplement.

Section I. Computing Insurance Benefits

11-2. OVERVIEW OF FORMULA FOR COMPUTING HUD INSURANCE BENEFITS. HUD will compute insurance benefits according to paragraph 11-2 of HUD Handbook 4566.2, except as discussed below.

A. Insurance benefits for certain State agency projects. HUD will pay 85 percent of the amount computed under paragraph 11-2 of HUD Handbook 4566.2 if ALL of the following conditions are met.

- 1) The coinsuring lender is a State Housing Agency eligible as a lender under 24 CFR 203.8(b).
- 2) The lender obtained reinsurance from an authorized public mortgage insurer for part or all of its coinsurance risk. Paragraph 3 of the Claim Certification and Identity-of-Interest Disclosure Statement (Appendix 29 of HUD Handbook 4566.2) states whether the lender has purchased reinsurance and specifies the amount and carrier of any reinsurance.
- 3) HUD's Office of Insured Multifamily Housing Development determines at the time of the claim that there is an identity-of-interest between the State agency and the public mortgage insurer.

B. Effect of change in reinsurance

- 1) If the lender increases reinsurance after initial or final endorsement, HUD will reduce insurance benefits accordingly.
- 2) If the lender reduces or cancels reinsurance after final endorsement, HUD will compute insurance benefits based on the amount of reinsurance in effect at final endorsement.

11-3. ITEMS INCLUDED IN COMPUTING INSURANCE BENEFITS. All items listed in paragraph 11-3 of HUD Handbook 4566.2, except subparagraph 11-3.b. is modified by adding the following.

If the lender fails to take any of the actions listed below within the specified time (or any HUD-approved extension), HUD will curtail the interest allowance on cash payments by the number of days the action was late.

- A. Submit default notice                      Within 30 days after  
the date of default
- B. Submit notice of election                Within 75 days after  
to acquire                                    the date of default
- C. Begin action to acquire                 Within 30 days after  
the notice of election
- D. File claim                                 Within 15 days after  
the earlier of:
  - o date of disposition
  - o 12 months after  
acquisition

Section II. Filing Insurance Claims

11-4. GENERAL. Follow paragraphs 11-5 through 11-17 of HUD Handbook 4566.2, as modified by this supplement. For claims forms follow Appendix 1 of this supplement.

11-5. OTHER DISBURSEMENTS BY MORTGAGEE (SCHEDULE D). Follow paragraph 11-11 of HUD Handbook 4566.2. If your claim includes expenses for completing a project, also include the following.

A. Contents. Report what you spent to complete the project. You may include in your claim only amounts specified in a project completion plan which HUD approved in advance.

B. Required documentation:

- 1) Receipts or invoices showing check number and date paid. If receipts for wages are not available, submit evidence of payment and details on rate of pay, number of hours worked, amounts withheld for taxes, etc.
- 2) Copies of the project completion plan and budget and HUD's letter approving them.

11-6. MORTGAGEE'S REPORT OF SPECIAL ESCROW (SCHEDULE E). In addition to following paragraph 11-12 of HUD Handbook 4566.2, use this form to show disbursements from, and any undrawn balances remaining in, cash or letters of credit for:

- A. On-site escrow
- B. Off-site escrow
- C. Working capital deposit
- D. Any other special escrows held on behalf of the project

- A. In addition to the following paragraph 11-13 of HUD Handbook 4566.2, use this form to report the actual sales proceeds if you dispose of the property after filing a claim.
- B. Submit this form to HUD's Office of Finance and Accounting, Insurance Claims Division, Multifamily Insurance Claims Examination Section, no later than 15 days after you complete the sale.

Section III. Remedies for Default by a Lender-Issuer Under the  
GNMA Mortgage-Backed Securities Program

11-8. GENERAL. GNMA's remedies under the 221(d) coinsurance program are the same as those described in paragraphs 11-18 through 11-20 of HUD Handbook 4566.2, except as noted in paragraphs 11-9 and 11-10.

11-9. GNMA RIGHT TO ASSIGNMENT

- A. HUD will endorse any mortgage assigned to GNMA for full insurance in accordance with 24 CFR Part 221. (Details are in paragraph 11-19 of HUD Handbook 4566.2)
- B. Those regulations govern any future assignment of the fully-insured mortgage or any insurance claim by GNMA, except that HUD will pay the claim in cash rather than debentures.

11-10. GNMA RIGHT TO CLAIM COINSURANCE BENEFITS

- A. HUD will pay coinsurance benefits to GNMA if a lender-issuer defaults under the GNMA Mortgage-Backed Securities Program after the lender has acquired title to a property that previously secured a coinsured mortgage.
- B. HUD will pay these benefits regardless of whether or not the lender-issuer conveys legal title to the property to GNMA at the time of default.
- C. HUD will handle GNMA's claims according to 24 CFR Section 251.827.