CHAPTER 2. COLLECTIONS AND ESCROWS

2-1. GENERAL INSTRUCTIONS

A. Follow the instructions in Chapter 2 of HUD Handbook 4566.2 except for the paragraphs listed below. These paragraphs do not apply to the 221(d) coinsurance program.

- Paragraph 2-5: Prepayment
- Paragraph 2-13: Amounts due HUD
- Paragraph 2-14: Collecting from the owner

B. Use this handbook's instructions on subjects listed above.

2-2. PREPAYMENT

A. The lender must allow partial or full prepayment of the mortgage subject to HUD's standards and restrictions for mortgages that

1) cover projects with units receiving Section 8 assistance

2) may be purchased, assigned or otherwise transferred to the Government National Mortgage Association (GNMA)

B. If the mortgage is financed by the sale of bonds or bond anticipation notes, HUD must approve the terms, amount and conditions of any prepayment restrictions and penalty charges before they are included in the mortgage. Such charges must be reasonably related to the lender's actual cost of processing the prepayment.

C. If the project receives assistance through a Section 8 Housing Assistance Payments Contract, a prepayment does not terminate or otherwise affect the subsidy contract.

2-3. COLLECTION AND PAYMENT OF MIP - GENERAL

A. HUD collects mortgage insurance premiums at endorsement and yearly while the coinsurance contract is in force.

B. The lender pays MIP out of the premiums it collects from the owner.


D. Annual MIP payments are based on the average outstanding principal balance of the mortgage. HUD computes the balance
using the project's amortization schedule. The MIP payment schedule, is not adjusted for delinquent payments or prepayments, except as allowed in paragraph 2-17 of HUD Handbook 4566.2.

E. Annual MIP is due to HUD each year on the anniversary of the first principal payment date.

F. The lender must pay the annual MIP upon receipt of the bill from HUD's Office of Finance and Accounting (OFA). OFA bills the servicer reported on the most recent Form HUD-92080, Mortgage Record Change.

G. When paying MIP the lender must:

1) Write the project's FHA number on the payment instrument.

2) Check the accuracy of the FHA number on the bill. If it is not correct, line it out and write the correct number.

3) Send payments to the address shown on the bill.

2-4. MIP IN INSURANCE OF ADVANCES

A. Amounts due HUD

1) At initial endorsement the lender must pay HUD an MIP equal to .65 percent of the original mortgage amount.

2) The lender must pay HUD an additional MIP of .5 percent of the original mortgage amount on each anniversary of the initial endorsement that occurs more than 30 days before the first principal payment.

3) Following final endorsement, OFA will adjust the annual MIP so that it equals:

   a) .65 percent per year of the average outstanding principal balance for the year following the date of initial endorsement; plus

   b) .5 percent per year of the average outstanding principal balance for the period from the first anniversary of initial endorsement to the first principal payment.

   OFA will refund any excess MIP to the lender for application to the owner's account.

4) On the date of the first principal payment and then annually, the lender must pay HUD a MIP of .4 percent of the average outstanding principal balance for the next
B. Collecting from the owner. The MIP required under 1) and 2) may be included in the mortgage. The owner must pay 3) and 4) from its own funds.

1) At initial closing the lender must collect an MIP equal to one percent of the original mortgage amount.

2) The lender must collect an additional MIP of .5 percent of the original mortgage amount on each anniversary of the initial endorsement that occurs more than 30 days before the first principal payment.

3) Before the first principal payment, the lender must collect an amount equal to .5 percent of the average outstanding principal balance of the mortgage for the next year.

4) Beginning with the first principal payment, the lender must collect and escrow enough monthly MIP to accumulate .5 percent of the next year's average outstanding principal balance.

2-5. MIP IN INSURANCE UPON COMPLETION

A. Amounts due HUD

1) At endorsement, the lender must pay HUD an initial MIP equal to .5 percent of the full amount of the mortgage.

2) After endorsement, OFA will adjust the initial MIP to equal .5 percent per year of the average outstanding principal balance from the date of endorsement to the anniversary of the due date of the first principal payment.

   a) If the adjusted amount is more than the lender paid at endorsement, OFA will bill the lender for the difference.

   b) If the adjusted amount is less than the amount the lender paid at endorsement, OFA will refund the excess MIP to the lender for application to the owner's account.

3) On the anniversary of the due date of the first principal payment and then annually, the lender must pay HUD an MIP of .4 percent of the outstanding principal balance for the next year.
average outstanding principal balance of the mortgage from the date of endorsement to one year after the due date of the first principal payment.

2) Beginning with first principal payment, collect and escrow enough monthly MIP to accumulate .5 percent of the next year's average principal balance