DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Office of the Assistant Secretary for Housing-Federal Housing Commissioner

24 CFR Part 3500

[Docket No. R–95–1688; FR–3255–F–05]

RIN 2502–AF77

Real Estate Settlement Procedures Act (Regulation X); Escrow Accounting Procedures

AGENCY: Office of the Assistant Secretary for Housing-Federal Housing Commissioner, HUD.

ACTION: Final rule.

SUMMARY: On October 26, 1994, HUD published a rule, to become effective on April 24, 1995, establishing escrow accounting procedures under Sections 6(g) and 10 of the Real Estate Settlement Procedures Act. Subsequent to the publication of that rule, HUD received a number of requests asking HUD to correct, clarify, or further illustrate matters contained in the final rule. Because the Department agrees that further action may help illuminate its intentions and avoid confusion on the part of persons responsible for complying with the requirements of the October 26 rule, the Department is issuing this subsequent final rule. This rule responds to inquiries concerning the applicability of the October 26 rule and, as was the October 26 rule, is based on policy decisions made while reconsidering the proposed rule published on this subject earlier and the public comments received in connection with the proposed rule.

Both this rule and the October 26 rule will be effective on the same date, which is delayed by 1 month from the effective date originally announced in the October 26 rule. Where applicable, the provisions and appendices in this rule will supersede the provisions and appendices in the October 26 rule. As part of these corrections, clarifications, and further illustrations, HUD is reissuing Appendices G, H, I, and J in their entirety, and is adding Appendices K, L, M, and N, which provide additional examples or information.

EFFECTIVE DATE: The final rule is effective May 24, 1995, and the effective date of the final rule published at 59 FR 53890, is delayed until May 24, 1995.

FOR FURTHER INFORMATION CONTACT: William Reid, Research Economist, Office of Policy Development and Research, Room 8212, telephone (202) 708–0421. For legal questions: Grant E. Mitchell, Senior Attorney for RESPA, Room 9262, telephone (202) 708–1552; or Kenneth A. Markison, Assistant General Counsel for Government-Sponsored Enterprises/RESPA, Room 9262, telephone (202) 708–3137. The address for all of these contact persons is: Department of Housing and Urban Development, 451 Seventh Street, SW., Washington, DC 20410–0500. The TDD number is (202) 708–4594. (These are not toll-free numbers.)

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act Statement

The information collection requirements contained in this rule have been approved by the Office of Management and Budget (OMB), under section 3504(h) of the Paperwork Reduction Act of 1980 (44 U.S.C. 3501–3520), and assigned OMB control number 2502–0501.

Justification for Final Rulemaking

In general, the Department publishes a rule for public comment before issuing a rule for effect, in accordance with its own regulations on rulemaking, 24 CFR part 10. However, part 10 does provide for exceptions from that general rule where the agency finds good cause to omit advance notice and public participation. The good cause requirement is satisfied when prior public procedure is ''impracticable, unnecessary, or contrary to the public interest.'' (24 CFR 10.1) The Department finds that good cause exists to publish this rule for effect without first soliciting separate public comment, in that any changes in the existing requirements made by this final rule evolve from the proposed rule published on December 3, 1993 (58 FR 64065). Prior public procedure is unnecessary with respect to the corrections, clarifications, and information contained in this rule and its preamble because the corrections, clarifications, and information do not impose additional requirements, but are merely explanatory in nature or correct certain technical requirements of the October 26, 1994, rule to make it easier to comply with the substance of the rule. This rule is being issued in response to requests for such corrections, clarifications, and information, and, therefore, delaying its issuance would also be contrary to the public interest. Immediate issuance of this rule will ease the regulatory compliance burden of persons subject to the October 26, 1994, rule (59 FR 53890) (October 26 rule) and will eliminate the possibility of having to make intermediate changes in business practices, required by that rule, pending the completion of notice-and-comment procedures for this rule. As has been urged by some persons subject to the requirements of the October 26 rule, the Department is issuing this subsequent rule with the belief that it will make timely compliance with the October 26 rule easier. In order to facilitate compliance further, the Department also is delaying the effective date of the escrow accounting requirements by 1 month from the effective date announced in the October 26 rule.

Background

On October 26, 1994 (59 FR 53890), the Department published a final rule establishing escrow accounting procedures under Sections 6(g) and 10 of the Real Estate Settlement Procedures Act of 1974 (RESPA; see 12 U.S.C. 2605(g) and 2609). In response to a number of requests from mortgage servicing industry spokespersons, including those in the form and computer software businesses, asking for corrections, clarifications, or further illustration of matters contained in the final rule, in this document the Department is setting forth clarifications and technical corrections of the October 26 final rule. Following publication of the final rule, the Department also received requests for extension of the April 24, 1995, effective date of the rule. The Department has concluded that today's corrections and clarifications, coupled with the original rule, provide sufficient information to allow the industry to implement the rule by May 24, 1995, which is 1 month later than the effective date originally announced for the October 26 rule. In addition, the Department anticipates publishing soon a Mortgagee Letter containing instructions regarding the RESPA escrow rule and the FHA single family program.

Clarifications of Final Rule

Clarifications of the final rule that do not require modifications of the language in the rule are set out in the following paragraphs of this document. When appropriate for ease in referencing the final rule, the clarification references in brackets the page number of the relevant provision of the rule as published in the October 26, 1994, **Federal Register**.

(a.) May dollar amounts under this rule be rounded?

Answer: Yes, any dollar amount referenced in this rule may be rounded up or down to the nearest dollar.

(b.) What impact does the escrow accounting rule have on the Good Faith

Estimate requirement under § 3500.7 of the RESPA rules?

Answer: Good Faith Estimates are set forth in dollar amounts or ranges. The Good Faith Estimate range or number for reserves (the 1000 series on the HUD–1 or HUD–1A) will generally be lower than before the effective date of the rule, because of the requirements of the escrow accounting rule to use aggregate accounting. During the phase-in period, § 3500.8(c) (as added by the October 26 final rule, 59 FR at 53901) servicers are allowed, as an alternative to the use of aggregate analysis, to use single-item analysis with a maximum 1-month cushion amount at closing. The use of single item analysis with a maximum 1-month cushion for establishing a range for Good Faith Estimate purposes is acceptable until October 27, 1997. See Appendix N, for an example of these alternatives on a HUD–1.

(c.) Is an assumption of an existing loan by a new purchaser which is covered by RESPA under § 3500.2 a new loan for purposes of this rule, even if the existing escrow account is assigned to the new purchaser?

Answer: Yes.

(d.) [Page 53902, § 3500.17(b), Definitions, ''Escrow account item''.] Are certain payments that may enter and leave the account within the same month, such as FHA monthly premiums, private mortgage insurance, or credit life insurance, considered to be escrow account items?

Answer: Yes. All items in the account are included so that the projected low monthly balance is zero (-0-) at the end of Step 2 in the Appendix I examples. The chosen cushion may be no more than the lesser of 2 months or the number of months allowed in the loan documents, multiplied by 1/12 the sum of the estimated disbursements for the items that may be included in the cushion.

Note: State laws or Federal program requirements may prohibit cushioning for certain of these payments.

(e.) [Page 53902, § 3500.17(b), Definitions, ''Phase-in period''.] Is the switch to aggregate accounting for existing accounts, and the use of the alternate method for calculating escrow account requirements at settlement, the only requirements that are allowed a 3-year phase-in period under the rule?

Answer: Yes.

(f.) [Page 53903, § 3500.17(c).] Do surpluses generated by voluntary borrower prepayments before the due date (frequently of principal, interest, and escrow account amounts) constitute a violation of the escrow account limits if they remain in the account in the next escrow account computation year?

Answer: No. The escrow account portions of any voluntary prepayment by a borrower should be treated as an accrual for the upcoming escrow account computation year, and not counted for the purpose of determining whether a surplus is to be credited or returned. In these circumstances, shortage or surplus adjustments to monthly escrow account payments for the succeeding escrow account computation year may, at the servicer's option, be spread over the period remaining in the escrow account computation year after the prepayment accrual period. This precept also applies for other unusual accumulations in the escrow account; *e.g.*, loss drafts for property damage, or continuing accumulation because new construction is not assessed for more than a year after completion, but the tax charges are billed retroactively.

(g.) [Page 53903, § 3500.17(c)(1)(i), and page 53904, § 3500.17(c)(7).] In the case where an account is being established for a new borrower, is the servicer bound by the charges the previous owner paid regarding the subject property, particularly where taxes or other charges may have been held down because of the seller's status or tax laws relating to ownership?

Answer: No. In creating a new escrow account, the servicer should estimate disbursement amounts using its best judgment with information known or readily available.

(h.) [Page 53903, § 3500.17(c)(2) and (3).] May a servicer choose a disbursement date earlier than the date due for a disbursement, for example, to give the borrower the advantage of a current year tax deduction, even though the payment is due in the next calendar year?

Answer: Yes, the rule states that the servicer shall use as the disbursement date for the escrow item a date on *or before* the earlier of either a deadline to take advantage of discounts, if available, or the deadline to avoid a penalty. There is no conflict with the statement in the background information (page 53893, third column, first full sentence): ''Unless there is a discount to the borrower for early payments, the regulation does not allow servicers to pay installment payments on an annual or other prepayment basis.'' This statement dealt with a practice, previously engaged in by some servicers, of collecting and paying a full-year's taxes in advance, although they were billed on an installment basis.

(i.) [Page 53904, § 3500.17(c)(7).] How does a servicer compute the Consumer Price Index (CPI) adjustment factor to estimate disbursements?

Answer: This factor is the ratio of the monthly CPI for all urban consumers, all items, reported most recently, to the same monthly CPI reported 12 months earlier; i.e.:

$$\frac{\text{most recent monthly CPI}}{\text{monthly CPI for same month 12 months earlier}}$$

The adjustment is made by multiplying last year's disbursement by this ratio. For example, if last year's school tax bill was $827, the value of the most recent CPI (September 1994) was 149.4, and the value of the CPI in September 1993 was 145.1, then the school tax projection using this technique may not exceed $851.51:

$$\$827 \times \frac{149.4}{145.1} = \$851.51$$

The two CPI numbers must have the same base period and must either both be seasonably adjusted or both be not seasonably adjusted.

(j.) [Page 53905, § 3500.17(e).] For what period of time is the transferor (old) servicer or transferee (new) servicer responsible for delivering an account history or projection in the case of a transfer of mortgage servicing?

Answer: Each servicer is generally responsible for providing data for the period for which it services the loan. The transferor (old) servicer is responsible for providing a short-year annual statement (but not a projection) for the portion of the year it controlled the servicing. (Also see ''short year'' statement discussion in paragraph (r), below.) If the transferee servicer provides an initial escrow account statement, the transferee servicer uses the effective date of the transfer of servicing to establish a new escrow account computation year. The transferee servicer may also retain the payment schedule and accounting method of the previous servicer and not provide an initial escrow account statement after transfer.

(k.) [Page 53905, § 3500.17(f).] May a servicer return surplus funds by wire transfer, rather than by a check?

Answer: Yes. The rule does not specify the manner in which refunds are to be paid.

(l.) [Page 53905, § 3500.17(f).] How does the servicer show the collection of a deficiency and a remaining shortage in the same account?

Answer: The servicer first computes the deficiency and then computes the remaining shortage, and informs the borrower accordingly, based on the format in Appendix I. That format

allows for explanatory language in the event of both a deficiency and a remaining shortage.

(m.) [Page 53905, § 3500.17(f)(2).] May a servicer give the borrower an option to credit a refundable surplus directly to principal, rather than refund the surplus to the borrower?

Answer: No. However, the servicer may inform the borrower in the information accompanying the return of the surplus that the borrower may also choose to use the refund to credit principal or the escrow account.

(n.) [Page 53906, § 3500.17(g)(1)(i).] The rule indicates that the trial running balance is required to be submitted for an initial escrow account statement. Is it also required to be submitted for subsequent years as part of the annual statement projections?

Answer: The reference cited in § 3500.17(g)(1)(i) means that the information from the trial running balance is to be included in the initial escrow account statement. Similarly, the information from a trial running balance is included as the projections in the annual statement after the first escrow account computation year. There is no requirement for duplication of the same information.

(o.) [Page 53906, §§ 3500.17(h)(3) and (i)(l)]. If a particular payee collects payments on behalf of several taxing or other entities, how much information identifying these subpayees is necessary?

Answer: The minimum amount of information to be disclosed is that which describes the payee to whom the servicer delivers the funds. The servicer may, but is not required to, identify the subpayees on the account. If there are several payees for similar categories of items, such as taxes or insurance, there should be sufficient differentiation to identify the use of funds (see last sentence of § 3500.17(h)(3) for examples).

(p.) [Page 53906, § 3500.17(i)(1).] Does the servicer have to highlight a change in the monthly mortgage payments during the year caused by such factors as an adjustable rate mortgage (ARM) readjustment?

Answer: This rule does not require that such a change be specifically highlighted after an annual statement has been delivered. Language is provided in Appendix I to alert the borrower that principal or interest may change during the escrow account computation year under certain loan programs, such as ARMs. The borrower should receive notice of an ARM change prior to the change. The next annual statement history will note the change in principal and interest.

(q.) [Page 53906, § 3500.17(i)(4).] If the servicer determines that new escrow items should be added to the account, what further activities are required of the servicer?

Answer: If the servicer is going to change the payment amount, then the servicer should reanalyze the account to include the new items and issue a short-year annual statement, with a new projection for a new escrow account computation year. If there is no payment change, there is no activity required of the servicer.

(r.) [§ 3500.17(i)(4)]. Please explain in more detail when and how short-year statements are used under this rule.

Answer: Short-year statements must include all the elements normally provided in an annual statement, with the clarifications noted below. These elements consist of a history of the account since the last annual statement, a copy of the projections issued with the last annual statement, and projections for the next 12 months. The following principles are followed in developing short-year statements:

(1.) The servicer that prepared the projections issued with the last annual statement must provide to the borrower another copy, with all 12 months of those projections, at the time the servicer's components of the short-year statement are provided.

(2.) The servicer that prepared the projections issued with the last annual statement will report history, with asterisks, from the time of the last analysis to the time of the short-year statement.

(3.) Upon transfer, payoff, or maturity, the paragraphs beginning with ''Last year we * * *'' and ''Your actual lowest * * *'' on the account history are not required. Otherwise, if the account will be ongoing with the same servicer, these paragraphs are required only if the projected lowest monthly balance was in the period covered by the history.

(4.) Upon transfer, the new servicer must issue a short-year statement at the time of transfer only if the monthly escrow payment or accounting method changes. Otherwise, the servicer may wait until up to the end of the regular yearly cycle to issue an annual statement. The transferor (old) servicer shall submit a short-year statement to the borrower within 60 days of the transfer.

(5.) With a transfer, the account history issued by the new servicer must report the transferred balance along with the history for the period since the transfer. Asterisks, inclusion of a copy of the projections issued with the last annual statement, and the paragraphs beginning with ''Last year we * * *'' and ''Your actual lowest * * *'' on the account history are not required of the new servicer.

(6.) A projection for the next 12 months is not required upon maturity or payoff. Upon transfer, the old servicer is not required to produce a projection for the next 12 months. The new servicer issues a projection for the next 12 months when it does its analysis. For the new servicer this must occur at the time of transfer if the monthly payment or the accounting method changes. Otherwise, the new servicer has until the end of the regular 12-month cycle to perform the analysis, including the projection for the next 12 months.

With two exceptions, servicers must always project the account forward for a period of 12 months to determine monthly payments and the existence of surpluses, shortages, and deficiencies. The term ''short-year'' refers to the time since the last annual statement, not the period to be covered by the old or new projections.

The first exception is for mortgages scheduled to terminate within the next 12 months, when projections of less than 12 months are permissible. The second exception is for escrow accounts covering items, such as flood insurance, that have disbursements less frequently than every 12 months. In this case, projections longer than 12 months are required. In the latter case, servicers may opt to report only the first 12 months of a projection covering a longer period.

(s.) [Appendix K] How is the annual statement projection prepared when the loan is scheduled to mature within the upcoming escrow account computation year?

Answer: The account may be analyzed and payments collected as if the account would be in existence for a full computation year. Alternatively, the account may be analyzed and payments collected and disbursed as if the account were terminating on the date of maturity. In either event, any balances are returned to the borrower following maturity of the loan. The judgment of the servicer as to which method to use may be based on the length of time the account will be open and the size of payments to be made within that period. The short-year statement after payoff should be furnished consistent with § 3500.17(i)(4)(iii).

(t.) During the first year of operation of the rule (i.e. May 24, 1995, through May 23, 1996), certain information may not be available, such as the previous year's projection or history. Is a servicer required to reconstruct or hypothesize about such documents?

Answer: No. If no projection or history has been prepared or the records are not in a readily retrievable form, neither document is required to be submitted during the first year's operation. The Appendix I format allows for the reference to such documents to be deleted.

(u.) Is the annual charge for mortgage insurance under FHA's Title I property improvement program covered by this rule if the lender collects the charge in monthly installments?

Answer: HUD is considering either exempting such fee from coverage of this rule or otherwise clarifying coverage. Title I lenders need not treat the periodic collection of this fee as triggering a requirement to comply with this rule, pending the issuance of such clarification.

Technical Corrections With Changes in Rule Language

Technical corrections made in this document are for the purposes of:

(1) Providing language that is consistent with Appendix F. The language provides that the initial computation of an escrow account is to be based on an analysis yielding a lowest month-end balance of zero (-0-) at some time during the year, before the addition of the cushion;

(2) Conforming the language for servicer handling of shortages of less than 1-month's escrow deposit with the language for ''deficiencies'', allowing servicers to require payments within 30 days;

(3) Clarifying that the servicer must allow the borrower to repay in a period of 12 months or longer a shortage equal to or greater than 1 month's escrow deposit;

(4) Clarifying that the servicer may require the borrower to repay in any period of 2 months or more a deficiency equal to or greater than 1 month's escrow deposit;

(5) Conforming the shortage and deficiency requirements by substituting the word ''require'' rather than ''allow'' in a 1-month deficiency situation;

(6) Permitting the servicer to assume that payments and disbursements for the final 2 months of an escrow account computation year will be made as estimated, thereby allowing the annual account history and projections to be produced in a timely manner;

(7) Including a reference to the information in Appendix I that allows the servicer to identify, using asterisks (*), the items for which there are differences between estimated and actual amounts or payment dates in the most recent account history and the last year's projection, thereby aiding computer-generated statements that give an indication about why a low point was not reached;

(8) Specifying a time period (90 days) in which a servicer must produce an annual statement, if production of the statement otherwise required was deferred because the loan was in default, foreclosure, or bankruptcy. ''Bankruptcy'' is added as another circumstance in which the statement need not be produced;

(9) Correcting a month reference in Example I, Step 3, of Appendix F from ''Jul'' to ''Jun'', and correcting an error in the column headings in Example II, Step 1, of Appendix F; and

(10) Clarifying the instructions regarding aggregate accounting adjustments at settlement.

Other Matters

Environmental Impact

In accordance with 40 CFR 1508.4 of the regulations of the Council on Environmental Quality and 24 CFR 50.20 of the HUD regulations, the policies and procedures contained in this rule do not affect a physical structure or property and relate only to statutorily required accounting and reporting procedures, and, therefore, are categorically excluded from the requirements of the National Environmental Policy Act.

Executive Order 12866

This rule was reviewed by the Office of Management and Budget under Executive Order 12866, Regulatory Planning and Review. Any changes made to the rule as a result of that review are clearly identified in the docket file, which is available for public inspection in the office of the Department's Rules Docket Clerk, Room 10276, 451 Seventh Street, S.W., Washington, DC 20410–0500.

Regulatory Flexibility Act

The Secretary, in accordance with the Regulatory Flexibility Act (5 U.S.C. 605(b)), has reviewed this rule before publication and by approving it certifies that this rule would not have a significant economic impact on a substantial number of small entities. The rule is in the nature of minor changes and clarifications of an earlier rule (59 FR 53890, October 26, 1994), which was directed toward the accounting procedures used in the mortgage servicing industry and the disclosure to consumers of related information.

Executive Order 12612, Federalism

The General Counsel, as the Designated Official under section 6(a) of Executive Order 12612, Federalism, has determined that the policies contained in this rule do not have substantial direct effects on States or their political subdivisions, or the relationship between the Federal government and the States, or on the distribution of power and responsibilities among the various levels of government. As a result, the rule is not subject to review under the Order. The rule clarifies and makes minor changes in a previous rule (59 FR 53890, October 26, 1994) setting out requirements concerning the accounting procedures used in the mortgage servicing industry and the disclosure to consumers of related information.

Executive Order 12606, the Family

The General Counsel, as the Designated Official under Executive Order 12606, The Family, has determined that this rule does not have the potential for significant impact on family formation, maintenance, and general well-being, and, thus, is not subject to review under the Order. No significant change in existing HUD policies or programs will result from promulgation of this rule, as those policies and programs relate to family concerns.

Regulatory Agenda

This underlying rulemaking for this rule was listed as item number 1811 in the Department's Semiannual Agenda of Regulations published on November 14, 1994 (59 FR 57632, 57658), under Executive Order 12866 and the Regulatory Flexibility Act, and was requested by and submitted to the Committee on Banking, Housing and Urban Affairs of the Senate and the Committee on Banking, Finance and Urban Affairs of the House of Representatives under section 7(o) of the Department of Housing and Urban Development Act.

List of Subjects in 24 CFR Part 3500

Consumer protection, Housing, Mortgages, Real property acquisition, Reporting and recordkeeping requirements.

For the reasons set out in the preamble, the effective date of FR Doc. 94–26583, Real Estate Settlement Procedures Act (Regulation X): Escrow Accounting Procedures, published on October 26, 1994 (59 FR 53890), is delayed from April 24, 1995, to May 24, 1995, and part 3500 of title 24 of the Code of Federal Regulations is amended as follows:

PART 3500—REAL ESTATE SETTLEMENT PROCEDURES ACT

1. The authority citation for part 3500 is revised to read as follows:

Authority: 12 U.S.C. 2601 *et seq.*; 42 U.S.C. 3535(d).

2. Section 3500.8(c)(1) is revised to read as follows:

§ 3500.8 Use of HUD–1 or HUD–1A settlement statements.

* * * * *

(c) * * *

(1) After itemizing individual deposits in the 1000 series using single-item accounting, the settlement agent shall make an adjustment based on an aggregate analysis to reflect the difference between the deposit required under aggregate accounting and the sum of the deposits required under single-item accounting. The computation steps for both accounting methods are set out in § 3500.17(d). The adjustment will always be a negative number or zero (-0-). The servicer shall enter the aggregate adjustment amount on a final line in the 1000 series of the HUD–1 or HUD–1A statement.

* * * * *

3. Section § 3500.17 is amended by:

a. Revising the fourth sentence of paragraph (a);

b. Removing the word ''servicing'' following the phrase ''the terms of any mortgage'' in the definition of ''Servicing'' in paragraph (b);

c. Adding a sentence after the first sentence in paragraph (c)(1)(i);

d. Revising paragraphs (f)(3)(i)(B) and (C);

e. Revising paragraph (f)(3)(ii)(B);

f. Revising paragraph (f)(4)(i)(C);

g. Revising paragraph (f)(4)(ii);

h. Adding a sentence after the first sentence in paragraph (i) introductory text;

i. Adding a sentence after the first sentence in paragraph (i)(1) introductory text;

j. Removing the period at the end of paragraph (i)(1)(viii), and by adding a phrase and sentence to the end of the paragraph; and

k. Revising paragraph (i)(2), to read as follows:

§ 3500.17 Escrow accounts.

(a) * * * Appendix H to this part provides examples of biweekly accounting and Appendix J to this part provides examples of a 3-year accounting cycle that may be used in accordance with paragraph (c)(9) of this section.

* * * * *

(c) * * *

(1) * * *

(i) *Charges at settlement or upon creation of an escrow account.* * * * The ''amount sufficient to pay'' is computed so that the lowest month end target balance projected for the escrow account computation year is zero (-0-) (see Step 2 in Appendix F). * * *

* * * * *

(f) * * *

(3) * * *

(i) * * *

(B) The servicer may require the borrower to repay the shortage amount within 30 days; or

(C) The servicer may require the borrower to repay the shortage amount in equal monthly payments over at least a 12-month period.

(ii) * * *

(B) The servicer may require the borrower to repay the shortage in equal monthly payments over at least a 12-month period.

(4) * * *

(i) * * *

(C) May require the borrower to repay the deficiency in 2 or more equal monthly payments.

(ii) If the deficiency is greater than or equal to 1 month's escrow payment, the servicer may allow the deficiency to exist and do nothing to change it or may require the borrower to repay the deficiency in two or more equal monthly payments.

* * * * *

(i) * * * The servicer shall also submit to the borrower the previous year's projection or initial escrow account statement. * * *

(1) *Contents of Annual Escrow Account Statement.* * * * In preparing the statement, the servicer may assume scheduled payments and disbursements will be made for the final 2 months of the escrow account computation year. * * *

* * * * *

(viii) * * *, as indicated by noting differences between the most recent account history and last year's projection. Appendix I of this part sets forth an acceptable format and methodology for conveying this information.

(2) *No annual statements in the case of default, foreclosure, or bankruptcy.* This paragraph contains an exemption from the provisions of § 3500.17(i)(1). If at the time the servicer conducts the escrow account analysis the borrower is more than 30 days overdue, then the servicer is exempt from the requirements of submitting an annual escrow account statement to the borrower under § 3500.17(i). This exemption also applies in situations where the servicer has brought an action for foreclosure under the underlying mortgage loan, or where the borrower is in bankruptcy proceedings. If the servicer does not issue an annual statement pursuant to this exemption and the loan subsequently is reinstated or otherwise becomes current, the servicer shall provide a history of the account since the last annual statement (which may be longer than 1 year) within 90 days of the date the account became current.

* * * * *

4. In Appendix A to part 3500, the heading for the Appendix is revised, and the second paragraph for lines 1000–1008 under the heading ''Line Item Instructions'' is revised, to read as follows:

Appendix A to Part 3500—Instructions for Completing HUD–1 and HUD–1A Settlement Statements

* * * * *

Line Item Instructions

* * * * *

Lines 1000–1008. * * *

After itemizing individual deposits in the 1000 series using single-item accounting, the settlement agent shall make an adjustment based on an aggregate analysis to reflect the difference between the deposit required under aggregate accounting and the sum of the deposits required under single-item accounting. The computation steps for both accounting methods are set out in 24 CFR 3500.17(d). The adjustment will always be either a negative number or zero (-0-). The servicer shall enter the aggregate adjustment amount on a final line in the 1000 series of the HUD–1 or HUD–1A statement.

* * * * *

5. Appendix F to part 3500 is amended by:

a. Revising in Example I, illustrating aggregate analysis, step 3, the reference to ''Jul'', which immediately follows ''May'' to read ''Jun''; and

b. Revising the chart for ''Step 1.—Initial Trial Balance'' in Example II, illustrating single-item analysis (existing accounts), to read as follows:

STEP 1.—INITIAL TRIAL BALANCE

	Single-item					
	Taxes			School taxes		
	pmt	disb	bal	pmt	disb	bal
June	0	0	0	0	0	0
July	100	500	−400	30	0	30
August	100	0	−300	30	0	60
September	100	0	−200	30	360	−270
October	100	0	−100	30	0	−240
November	100	0	0	30	0	−210
December	100	700	−600	30	0	−180
January	100	0	−500	30	0	−150
February	100	0	−400	30	0	−120
March	100	0	−300	30	0	−90
April	100	0	−200	30	0	−60
May	100	0	−100	30	0	−30
June	100	0	0	30	0	0

6. In part 3500, the appendices are amended as follows: The text of Appendix G is removed, the heading of Appendix G is revised to read ''APPENDIX G—(Appendix G consists of Appendices G–1 and G–2)'' and Appendices G–1 and G–2 are added after the parenthetical to read as set forth below;

The text of Appendix H is removed, the heading of Appendix H is revised to read ''APPENDIX H—(Appendix H consists of Appendices H–1 and H–2)'' and Appendices H–1 and H–2 are added after the parenthetical to read as set forth below;

The text of Appendix I is removed, the heading of Appendix I is revised to read ''APPENDIX I—(Appendix I consists of Appendices I–1 through I–8)'' and Appendices I–1 through I–8 are added after the parenthetical to read as set forth below;

The text of Appendix J is removed, the heading of Appendix J is revised to read ''APPENDIX J—(Appendix J consists of Appendices J–1 and J–2)'' and Appendices J–1 and J–2 are added after the parenthetical to read as set forth below; and Appendices K through N are added, reading as follows:

BILLING CODE 4210–27–P

APPENDIX G–1: *INITIAL* ESCROW ACCOUNT DISCLOSURE STATEMENT — FORMAT

[Servicer's name, address, and toll-free number.]

INITIAL ESCROW ACCOUNT DISCLOSURE STATEMENT

THIS IS AN ESTIMATE OF ACTIVITY IN YOUR ESCROW ACCOUNT DURING THE COMING YEAR BASED ON PAYMENTS ANTICIPATED TO BE MADE FROM YOUR ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance

Initial deposit: ..... $_____

[A filled-out format follows.]

(PLEASE KEEP THIS STATEMENT FOR COMPARISON WITH THE ACTUAL ACTIVITY IN YOUR ACCOUNT AT THE END OF THE ESCROW ACCOUNTING COMPUTATION YEAR.)

Cushion selected by servicer: $_____.

[YOUR MONTHLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $_____ OF WHICH $_____ WILL BE FOR PRINCIPAL AND INTEREST AND $_____ WILL GO INTO YOUR ESCROW ACCOUNT.]

[YOUR FIRST MONTHLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $_____ OF WHICH $_____ WILL BE FOR PRINCIPAL AND INTEREST AND $_____ WILL GO INTO YOUR ESCROW ACCOUNT. THE TERMS OF YOUR LOAN MAY RESULT IN CHANGES TO THE MONTHLY PRINCIPAL AND INTEREST PAYMENTS DURING THE YEAR.]

[INSTRUCTIONS TO PREPARER: The servicer is to use the appropriate option above describing the principal and interest payments for the coming year. This instruction paragraph should not appear in the form.]

APPENDIX G–2: *INITIAL* ESCROW ACCOUNT DISCLOSURE STATEMENT — EXAMPLE

[Monthly payments, monthly accounting.]

[Servicer's name, address, and toll-free number.]

INITIAL ESCROW ACCOUNT DISCLOSURE STATEMENT

THIS IS AN ESTIMATE OF ACTIVITY IN YOUR ESCROW ACCOUNT DURING THE COMING YEAR BASED ON PAYMENTS ANTICIPATED TO BE MADE FROM YOUR ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Initial deposit:				$1,200
September	200	0		1,400
October	200	800	taxes	800
November	200	600	insurance	400
December	200	0		600
January	200	0		800
February	200	0		1,000
March	200	0		1,200
April	200	0		1,400
May	200	0		1,600
June	200	1,000	taxes	800
July	200	0		1,000
August	200	0		1,200

(PLEASE KEEP THIS STATEMENT FOR COMPARISON WITH THE ACTUAL ACTIVITY IN YOUR ACCOUNT AT THE END OF THE ESCROW ACCOUNTING COMPUTATION YEAR.)

Cushion selected by servicer: $ 400.

YOUR MONTHLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $ 1,324 OF WHICH $ 1,124 WAS FOR PRINCIPAL AND INTEREST AND $ 200 WILL GO INTO YOUR ESCROW ACCOUNT.

APPENDIX H–1: BIWEEKLY PAYMENTS — EXAMPLE

[Biweekly payments, biweekly accounting.]

[Servicer's name, address, and toll-free number.]

INITIAL ESCROW ACCOUNT DISCLOSURE STATEMENT

THIS IS AN ESTIMATE OF ACTIVITY IN YOUR ESCROW ACCOUNT DURING THE COMING YEAR BASED ON PAYMENTS ANTICIPATED TO BE MADE FROM YOUR ACCOUNT.

Period	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Initial deposit:				$ 1,000
1	120	0		1,120
2	120	0		1,240
3	120	520	taxes	840
4	120	0		960
5	120	0		1,080
6	120	0		1,200
7	120	0		1,320
8	120	600	taxes	840
9	120	0		960
10	120	0		1,080
11	120	0		1,200
12	120	0		1,320
13	120	0		1,440
14	120	0		1,560
15	120	0		1,680
16	120	0		1,800
17	120	0		1,920
18	120	0		2,040
19	120	0		2,160
20	120	1,200	insurance	1,080
21	120	0		1,200
22	120	800	taxes	520
23	120	0		640
24	120	0		760
25	120	0		880
26	120	0		1,000

(PLEASE KEEP THIS STATEMENT FOR COMPARISON WITH THE ACTUAL ACTIVITY IN YOUR ACCOUNT AT THE END OF THE ESCROW ACCOUNTING COMPUTATION YEAR.)

Cushion selected by servicer: $ 520.

YOUR BIWEEKLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $ 750 OF WHICH $ 630 WILL BE FOR PRINCIPAL AND INTEREST AND $ 120 WILL GO INTO YOUR ESCROW ACCOUNT.

APPENDIX H–2: BIWEEKLY PAYMENTS — EXAMPLE

[Biweekly payments, monthly accounting.]

[Servicer's name, address, and toll-free number.]

INITIAL ESCROW ACCOUNT DISCLOSURE STATEMENT

THIS IS AN ESTIMATE OF ACTIVITY IN YOUR ESCROW ACCOUNT DURING THE COMING YEAR BASED ON PAYMENTS ANTICIPATED TO BE MADE FROM YOUR ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Initial deposit:				$ 1,000
September	360	520	taxes	840
October	240	0		1,080
November	240	0		1,320
December	240	0		1,560
January	240	600	taxes	1,200
February	240	0		1,440
March	360	0		1,800
April	240	0		2,040
May	240	1,200	insurance	1,080
June	240	800	taxes	520
July	240	0		760
August	240	0		1,000

(PLEASE KEEP THIS STATEMENT FOR COMPARISON WITH THE ACTUAL ACTIVITY IN YOUR ACCOUNT AT THE END OF THE ESCROW ACCOUNTING COMPUTATION YEAR.)

Cushion selected by servicer: $ 520 .

YOUR BIWEEKLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $ 750 OF WHICH $ 630 WILL BE FOR PRINCIPAL AND INTEREST AND $ 120 WILL GO INTO YOUR ESCROW ACCOUNT.

APPENDIX I–1: ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — FORMAT

[Account history of pre-rule accounts computed using single-item analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *ACCOUNT HISTORY*

THIS IS A STATEMENT OF ACTUAL ACTIVITY IN YOUR ESCROW ACCOUNT FROM _____ THROUGH _____. {COMPARE IT TO THE ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *PROJECTIONS FOR COMING YEAR*—WHICH WAS SENT TO YOU LAST YEAR ON _____ (ANOTHER COPY ENCLOSED).}

[INSTRUCTIONS TO PREPARER: Delete material in brackets {} if initial escrow account disclosure statement or annual disclosure payment history was not delivered in previous year. Also, if the servicer elects to provide a side-by-side comparison of last year's projection to the account history, delete "{COMPARE . . . ENCLOSED.}". This instruction paragraph should not be included in the form.]

Your monthly mortgage payment for the past year was $_____ of which $_____ was for principal and interest and $_____ went into your escrow account.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance

Starting balance: ..... $_____

[A filled-out example follows.]

An asterisk (*) indicates a difference from a previous estimate either in the date or the amount.

Last year, we anticipated that payments from your account would be made during this period equaling $_____. Under Federal law, your lowest monthly balance should not have exceeded $_____, unless your mortgage contract or State law specifies a lower amount. (Your mortgage contract and State law are silent on this issue.) (Under your mortgage contract and State law, your lowest monthly balance should not have exceeded $_____.)

[INSTRUCTIONS TO PREPARER: The servicer is to use the appropriate sentence above describing the mortgage contract. This instruction paragraph should not appear in the form.]

Your actual lowest monthly balance was greater than $_____. The items with an asterisk on your Account History may explain this. If you want a further explanation, please call our toll-free number.

[INSTRUCTIONS TO PREPARER: The servicer is to use the paragraph above if the lowest month-end balance exceeds either the Federal or the contract/State law limit. Put the lower of the two in the blank. This instruction paragraph should not appear in the form.]

APPENDIX I–2: ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — FORMAT

[Projections for pre-rule accounts computed using single-item analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *PROJECTIONS FOR COMING YEAR*

THIS IS AN ESTIMATE OF ACTIVITY IN YOUR ESCROW ACCOUNT DURING THE COMING YEAR BASED ON PAYMENTS ANTICIPATED TO BE MADE FROM YOUR ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance

Starting balance: ..... $_____

[A filled-out format follows.]

Your ending balance, from the last month of the account history, is $_____. Your starting balance according to this analysis should be $_____.

[This means you have a surplus of $_____. This surplus must be returned to you unless it is less than $50, in which case we have the additional option of keeping it and lowering your monthly payments accordingly. (We are sending you a check for the surplus.) (We are keeping the surplus and lowering your monthly payments.)]

[This means you have a shortage of $_____. This shortage may be collected from you over a period of 12 months or more unless the shortage is less than 1 month's deposit, in which case we have the additional option of requesting payment within 30 days. (We have decided to collect it over ____ months.) (We have decided to collect it within 30 days.) (We have decided to do nothing.)]

[This means you have a deficiency of $_____. This deficiency may be collected from you over a period of 2 months or more unless the deficiency is less than 1 month's deposit, in which case we have the additional option of requesting payment within 30 days. (We have decided to collect it over _____ months.) (We have decided to collect it within 30 days.) (We have decided to do nothing.)]

[INSTRUCTIONS TO PREPARER: The servicer is to use the appropriate paragraph above if there is a surplus, shortage, or deficiency. The servicer should then print the response selected from the choices given. If the deficiency and shortage paragraphs are to be used on the same form, appropriate explanatory language may be used. This instruction paragraph should not be included in the form.]

(PLEASE KEEP THIS STATEMENT FOR COMPARISON WITH THE ACTUAL ACTIVITY IN YOUR ACCOUNT AT THE END OF THE NEXT ESCROW ACCOUNTING COMPUTATION YEAR.)

[YOUR MONTHLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $_____ OF WHICH $_____ WILL BE FOR PRINCIPAL AND INTEREST AND $_____ WILL GO INTO YOUR ESCROW ACCOUNT.]

[YOUR FIRST MONTHLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $_____ OF WHICH $_____ WILL BE FOR PRINCIPAL AND INTEREST AND $_____ WILL GO INTO YOUR ESCROW ACCOUNT. THE TERMS OF YOUR LOAN MAY RESULT IN CHANGES TO THE MONTHLY PRINCIPAL AND INTEREST PAYMENTS DURING THE YEAR.]

[INSTRUCTIONS TO PREPARER: The servicer is to use the appropriate option above describing the principal and interest payments for the coming year. This instruction paragraph should not appear in the form.]

APPENDIX I–3: ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — EXAMPLE

[Account history of pre-rule accounts computed using single-item analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *ACCOUNT HISTORY*

THIS IS A STATEMENT OF ACTUAL ACTIVITY IN YOUR ESCROW ACCOUNT FROM SEPTEMBER 1993 THROUGH AUGUST 1994. {COMPARE IT TO THE ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *PROJECTIONS FOR COMING YEAR* — WHICH WAS SENT TO YOU LAST YEAR ON AUGUST 16 (ANOTHER COPY IS ENCLOSED).}

YOUR MONTHLY MORTGAGE PAYMENT FOR THE PAST YEAR WAS $ 1,324 OF WHICH $ 1,124 WAS FOR PRINCIPAL AND INTEREST AND $ 200 WENT INTO YOUR ESCROW ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Starting balance:				$1,350
September	200	0		1,550
October	200	680*	taxes	1,070
November	200	600	insurance	670
December	200	0		870
January	200	0		1,070
February	200	0		1,270
March	200	0		1,470
April	200	0		1,670
May	200	0		1,870
June	200	0		2,070
July	200	1,000*	taxes	1,270
August	200	0		1,470

An asterisk (*) indicates a difference from a previous estimate either in the date or the amount.

Last year, we anticipated that payments from your account would be made during this period equaling $ 2,400. Under Federal law, your lowest monthly balance should not have exceeded $ 550 unless your mortgage contract or State law specifies a lower amount. Under your mortgage contract, your lowest monthly balance should not have exceeded $ 550.

Your actual lowest monthly balance was greater than $ 550. The items with an asterisk on your Account History may explain this. If you want a further explanation, please call our toll-free number.

APPENDIX I–4: ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — EXAMPLE

[Projections for pre-rule accounts computed using single-item analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *PROJECTIONS FOR COMING YEAR*

THIS IS AN ESTIMATE OF ACTIVITY IN YOUR ESCROW ACCOUNT DURING THE COMING YEAR BASED ON PAYMENTS ANTICIPATED TO BE MADE FROM YOUR ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Starting balance:				$1,230
September	190	0		1,420
October	190	680	taxes	930
November	190	600	insurance	520
December	190	0		710
January	190	0		900
February	190	0		1,090
March	190	0		1,280
April	190	0		1,470
May	190	0		1,660
June	190	0		1,850
July	190	1,000	taxes	1,040
August	190	0		1,230

Your ending balance, from the last month of the account history, is $ 1,470 . Your starting balance according to this analysis should be $ 1,230 .

This means you have a surplus of $ 240 . This surplus must be returned to you unless it is less than $50, in which case we have the additional option of keeping it and lowering your monthly payments accordingly. We are sending you a check for the surplus.

(PLEASE KEEP THIS STATEMENT FOR COMPARISON WITH THE ACTUAL ACTIVITY IN YOUR ACCOUNT AT THE END OF THE NEXT ESCROW ACCOUNTING COMPUTATION YEAR.)

YOUR MONTHLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $ 1,314 OF WHICH $ 1,124 WILL BE FOR PRINCIPAL AND INTEREST AND $ 190 WILL GO INTO YOUR ESCROW ACCOUNT.

APPENDIX I–5: ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — FORMAT

[Account history of pre-rule and post-rule accounts computed using aggregate analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *ACCOUNT HISTORY*

THIS IS A STATEMENT OF ACTUAL ACTIVITY IN YOUR ESCROW ACCOUNT FROM_____ THROUGH _____. {COMPARE IT TO THE ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *PROJECTIONS FOR COMING YEAR* — WHICH WAS SENT TO YOU LAST YEAR ON _____ (ANOTHER COPY ENCLOSED).}

[INSTRUCTIONS TO PREPARER: Delete material in brackets {} if initial escrow account disclosure statement or annual disclosure payment history was not delivered in previous year. Also, if the servicer elects to provide a side-by-side comparison of last year's projection to the account history, delete "{COMPARE . . . ENCLOSED.}". This instruction paragraph should not be included in the form.]

Your monthly mortgage payment for the past year was $_____ of which $_____ was for principal and interest and $_____ went into your escrow account.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance

Starting balance: ..... $_____

[A filled-out example follows.]

An asterisk (*) indicates a difference from a previous estimate either in the date or the amount.

Last year, we anticipated that payments from your account would be made during this period equaling $_____. Under Federal law, your lowest monthly balance should not have exceeded $_____, or 1/6 of anticipated payment from the account, unless your mortgage contract or State law specifies a lower amount. (Your mortgage contract and State law are silent on this issue.) (Under your mortgage contract and State law, your lowest monthly balance should not have exceeded $_____.

[INSTRUCTIONS TO PREPARER: The servicer is to use the appropriate sentence above describing the mortgage contract. This instruction paragraph should not appear in the form.]

Your actual lowest monthly balance was greater than $_____. The items with an asterisk on your Account History may explain this. If you want a further explanation, please call our toll-free number.

[INSTRUCTIONS TO PREPARER: The servicer is to use the paragraph above if the lowest month-end balance exceeds either the Federal or the contract/State law limit. Put the lower of the two in the blank. This instruction paragraph should not appear in the form.]

APPENDIX I–6: ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — FORMAT

[Projections for pre-rule and post-rule accounts computed using aggregate analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *PROJECTIONS FOR COMING YEAR*

THIS IS AN ESTIMATE OF ACTIVITY IN YOUR ESCROW ACCOUNT DURING THE COMING YEAR BASED ON PAYMENTS ANTICIPATED TO BE MADE FROM YOUR ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance

Starting balance: ..... $_____

[A filled-out format follows.]

Your ending balance, from the last month of the account history, is $_____. Your starting balance according to this analysis should be $_____.

[This means you have a surplus of $_____. This surplus must be returned to you unless it is less than $50, in which case we have the additional option of keeping it and lowering your monthly payments accordingly. (We are sending you a check for the surplus.) (We are keeping the surplus and lowering your monthly payments.)]

[This means you have a shortage of $_____. This shortage may be collected from you over a period of 12 months or more unless the shortage is less than 1 month's deposit, in which case we have the additional option of requesting payment within 30 days. (We have decided to collect it over ____ months.) (We have decided to collect it within 30 days.) (We have decided to do nothing.)]

[This means you have a deficiency of $_____. This deficiency may be collected from you over a period of 2 months or more unless the deficiency is less than 1 month's deposit, in which case we have the additional option of requesting payment within 30 days. (We have decided to collect it over _____ months.) (We have decided to collect it within 30 days.) (We have decided to do nothing.)]

[INSTRUCTIONS TO PREPARER: The servicer is to use the appropriate paragraph above if there is a surplus, shortage, or deficiency. The servicer should then print the response selected from the choices given. If the deficiency and shortage paragraphs are to be used on the same form, appropriate explanatory language may be used. This instruction paragraph should not be included in the form.]

(PLEASE KEEP THIS STATEMENT FOR COMPARISON WITH THE ACTUAL ACTIVITY IN YOUR ACCOUNT AT THE END OF THE NEXT ESCROW ACCOUNTING COMPUTATION YEAR.)

[YOUR MONTHLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $_____ OF WHICH $_____ WILL BE FOR PRINCIPAL AND INTEREST AND $_____ WILL GO INTO YOUR ESCROW ACCOUNT.]

[YOUR FIRST MONTHLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $_____ OF WHICH $_____ WILL BE FOR PRINCIPAL AND INTEREST AND $_____ WILL GO INTO YOUR ESCROW ACCOUNT. THE TERMS OF YOUR LOAN MAY RESULT IN CHANGES TO THE MONTHLY PRINCIPAL AND INTEREST PAYMENTS DURING THE YEAR.]

[INSTRUCTIONS TO PREPARER: The servicer is to use the appropriate option above describing the principal and interest payments for the coming year. This instruction paragraph should not appear in the form.]

APPENDIX I–7: ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — EXAMPLE

[Account history of pre-rule and post-rule accounts computed using aggregate analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *ACCOUNT HISTORY*

THIS IS A STATEMENT OF ACTUAL ACTIVITY IN YOUR ESCROW ACCOUNT FROM SEPTEMBER 1993 THROUGH AUGUST 1994. {COMPARE IT TO THE ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *PROJECTIONS FOR COMING YEAR* — WHICH WAS SENT TO YOU LAST YEAR ON AUGUST 16 (ANOTHER COPY IS ENCLOSED).}

YOUR MONTHLY MORTGAGE PAYMENT FOR THE PAST YEAR WAS $ 1,324 OF WHICH $ 1,124 WAS FOR PRINCIPAL AND INTEREST AND $ 200 WENT INTO YOUR ESCROW ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Starting balance:				$1,200
September	200	0		1,400
October	200	680 *	taxes	920
November	200	600	insurance	520
December	200	0		720
January	200	0		920
February	200	0		1,120
March	200	0		1,320
April	200	0		1,520
May	200	0		1,720
June	200	0		1,920
July	200	1,000 *	taxes	1,120
August	200	0		1,320

An asterisk (*) indicates a difference from a previous estimate either in the date or the amount.

Last year, we anticipated that payments from your account would be made during this period equaling $ 2,400. Under Federal law, your lowest monthly balance should not have exceeded $ 400 or 1/6 of anticipated payments from the account, unless your mortgage contract or State law specifies a lower amount. Under your mortgage contract and State law, your lowest monthly balance should not have exceeded $ 400.

Your actual lowest monthly balance was greater than $ 400. The items with an asterisk on your Account History may explain this. If you want a further explanation, please call our toll-free number.

APPENDIX I–8: ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — EXAMPLE

[Projections for pre-rule and post-rule accounts computed using aggregate analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *PROJECTIONS FOR COMING YEAR*

THIS IS AN ESTIMATE OF ACTIVITY IN YOUR ESCROW ACCOUNT DURING THE COMING YEAR BASED ON PAYMENTS ANTICIPATED TO BE MADE FROM YOUR ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Starting balance:				$1,090
September	190	0		1,280
October	190	680	taxes	790
November	190	600	insurance	380
December	190	0		570
January	190	0		760
February	190	0		950
March	190	0		1,140
April	190	0		1,330
May	190	0		1,520
June	190	0		1,710
July	190	1,000	taxes	900
August	190	0		1,090

Your ending balance, from the last month of the account history, is $ 1,320 . Your starting balance according to this analysis should be $ 1,090 .

This means you have a surplus of $ 230 . This surplus must be returned to you unless it is less than $50, in which case we have the additional option of keeping it and lowering your monthly payments accordingly. We are sending you a check for the surplus.

(PLEASE KEEP THIS STATEMENT FOR COMPARISON WITH THE ACTUAL ACTIVITY IN YOUR ACCOUNT AT THE END OF THE NEXT ESCROW ACCOUNTING COMPUTATION YEAR.)

YOUR MONTHLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $ 1,314 OF WHICH $ 1,124 WILL BE FOR PRINCIPAL AND INTEREST AND $ 190 WILL GO INTO YOUR ESCROW ACCOUNT.

APPENDIX J–1: ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — EXAMPLE

[Three year cycle, three year display.]

[Servicer's name, address, and toll-free number.]

INITIAL ESCROW ACCOUNT DISCLOSURE STATEMENT

THIS IS AN ESTIMATE OF ACTIVITY IN YOUR ESCROW ACCOUNT DURING THE COMING YEARS BASED ON PAYMENTS ANTICIPATED TO BE MADE FROM YOUR ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Initial deposit:				$ 900
January	130	0		1,030
February	130	600	taxes	560
March	130	0		690
April	130	240	insurance	580
May	130	0		710
June	130	0		840
July	130	0		970
August	130	600	taxes	500
September	130	0		630
October	130	0		760
November	130	0		890
December	130	0		1,020
January	130	0		1,150
February	130	600	taxes	680
March	130	360	flood insurance	450
April	130	240	insurance	340
May	130	0		470
June	130	0		600
July	130	0		730
August	130	600	taxes	260
September	130	0		390
October	130	0		520
November	130	0		650
December	130	0		780
January	130	0		910
February	130	600	taxes	440
March	130	0		570
April	130	240	insurance	460
May	130	0		590
June	130	0		720
July	130	0		850
August	130	600	taxes	380
September	130	0		510
October	130	0		640
November	130	0		770
December	130	0		900

(PLEASE KEEP THIS STATEMENT FOR COMPARISON WITH THE ACTUAL ACTIVITY IN YOUR ACCOUNT AT THE END OF THE ESCROW ACCOUNTING COMPUTATION YEAR.)

Cushion selected by servicer: $ 260 .

YOUR MONTHLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $ 870 OF WHICH $ 740 WILL BE FOR PRINCIPAL AND INTEREST AND $ 130 WILL GO INTO YOUR ESCROW ACCOUNT.

APPENDIX J–2: ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — EXAMPLE

[Three year cycle, one year display.]

[Servicer's name, address, and toll-free number.]

INITIAL ESCROW ACCOUNT DISCLOSURE STATEMENT

THIS IS AN ESTIMATE OF ACTIVITY IN YOUR ESCROW ACCOUNT DURING THE COMING YEAR BASED ON PAYMENTS ANTICIPATED TO BE MADE FROM YOUR ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Initial deposit:				$ 900
January	130	0		1,030
February	130	600	taxes	560
March	130	0		690
April	130	240	insurance	580
May	130	0		710
June	130	0		840
July	130	0		970
August	130	600	taxes	500
September	130	0		630
October	130	0		760
November	130	0		890
December	130	0		1,020

(PLEASE KEEP THIS STATEMENT FOR COMPARISON WITH THE ACTUAL ACTIVITY IN YOUR ACCOUNT AT THE END OF THE ESCROW ACCOUNTING COMPUTATION YEAR.)

Cushion selected by servicer: $ 260 .

YOUR MONTHLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $ 870 OF WHICH $ 740 WILL BE FOR PRINCIPAL AND INTEREST AND $ 130 WILL GO INTO YOUR ESCROW ACCOUNT.

APPENDIX K

(APPENDIX K consists of Appendices K–1 through K–4)

APPENDIX K–1: SHORT YEAR STATEMENTS — EXAMPLE

[Maturity, payoff, or transferor (old) servicer when sold.]

[Account history of pre-rule and post-rule accounts computed using aggregate analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *ACCOUNT HISTORY*

THIS IS A STATEMENT OF ACTUAL ACTIVITY IN YOUR ESCROW ACCOUNT FROM SEPTEMBER 1993 THROUGH APRIL 1994. {COMPARE IT TO THE ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *PROJECTIONS FOR COMING YEAR* — WHICH WAS SENT TO YOU LAST YEAR ON AUGUST 16 (ANOTHER COPY IS ENCLOSED).}

YOUR MONTHLY MORTGAGE PAYMENT SINCE SEPTEMBER 1993 WAS $ 1,324 OF WHICH $ 1,124 WAS FOR PRINCIPAL AND INTEREST AND $ 200 WENT INTO YOUR ESCROW ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Starting balance:				$1,200
September	200	0		1,400
October	200	680 *	taxes	920
November	200	600	insurance	520
December	200	0		720
January	200	0		920
February	200	0		1,120
March	200	0		1,320
April	200	0		1,520

An asterisk (*) indicates a difference from a previous estimate either in the date or the amount. If you want a further explanation, please call our toll-free number.

APPENDIX K–2: SHORT YEAR STATEMENTS — EXAMPLE

[Transferor (old) servicer when sold.]

[Projections for pre-rule and post-rule accounts computed using aggregate analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *PROJECTIONS FOR COMING YEAR*

THIS IS AN ESTIMATE OF ACTIVITY IN YOUR ESCROW ACCOUNT DURING THE COMING YEAR BASED ON PAYMENTS ANTICIPATED TO BE MADE FROM YOUR ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Starting balance:				$1,200
September	200	0		1,400
October	200	800	taxes	800
November	200	600	insurance	400
December	200	0		600
January	200	0		800
February	200	0		1,000
March	200	0		1,200
April	200	0		1,400
May	200	0		1,600
June	200	1,000	taxes	800
July	200	0		1,000
August	200	0		1,200

APPENDIX K–3: SHORT YEAR STATEMENTS — EXAMPLE

[Transferee (new) servicer, no change in monthly payment or accounting system, at the end of the yearly cycle.]

[Account history of pre-rule and post-rule accounts computed using aggregate analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *ACCOUNT HISTORY*

THIS IS A STATEMENT OF ACTUAL ACTIVITY IN YOUR ESCROW ACCOUNT FROM MAY 1994 THROUGH AUGUST 1994.

YOUR MONTHLY MORTGAGE PAYMENT SINCE MAY 1994 WAS $ 1,324 OF WHICH $ 1,124 WAS FOR PRINCIPAL AND INTEREST AND $ 200 WENT INTO YOUR ESCROW ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Starting balance:				$1,520
May	200	0		1,720
June	200	0		1,920
July	200	1,000	taxes	1,120
August	200	0		1,320

APPENDIX K–4: SHORT YEAR STATEMENTS — EXAMPLE

[Transferee (new) servicer when sold.]

[Projections for pre-rule and post-rule accounts computed using aggregate analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *PROJECTIONS FOR COMING YEAR*

THIS IS AN ESTIMATE OF ACTIVITY IN YOUR ESCROW ACCOUNT DURING THE COMING YEAR BASED ON PAYMENTS ANTICIPATED TO BE MADE FROM YOUR ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Starting balance:				$1,090
September	190	0		1,280
October	190	680	taxes	790
November	190	600	insurance	380
December	190	0		570
January	190	0		760
February	190	0		950
March	190	0		1,140
April	190	0		1,330
May	190	0		1,520
June	190	0		1,710
July	190	1,000	taxes	900
August	190	0		1,090

Your ending balance, from the last month of the account history, is $ 1,320 . Your starting balance according to this analysis should be $ 1,090 .

This means you have a surplus of $ 230 . This surplus must be returned to you unless it is less than $50, in which case we have the additional option of keeping it and lowering your monthly payments accordingly. We are sending you a check for the surplus.

(PLEASE KEEP THIS STATEMENT FOR COMPARISON WITH THE ACTUAL ACTIVITY IN YOUR ACCOUNT AT THE END OF THE NEXT ESCROW ACCOUNTING COMPUTATION YEAR.)

YOUR MONTHLY MORTGAGE PAYMENT FOR THE COMING YEAR WILL BE $ 1,314 OF WHICH $ 1,124 WILL BE FOR PRINCIPAL AND INTEREST AND $ 190 WILL GO INTO YOUR ESCROW ACCOUNT.

APPENDIX L: SIDE-BY-SIDE PRESENTATION OF OLD PROJECTION AND HISTORY

[Account history of pre-rule and post-rule accounts computed using aggregate analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *ACCOUNT HISTORY*

THIS IS A STATEMENT OF ACTUAL ACTIVITY IN YOUR ESCROW ACCOUNT FROM SEPTEMBER THROUGH AUGUST. (LAST YEAR'S PROJECTIONS ARE NEXT TO THE ACTUAL ACTIVITY.)

Your monthly mortgage payment for the past year was $ 1,324 of which $ 1,124 was for principal and interest and $ 200 went into your escrow account.

Month	Projected Payments to Escrow Account	Actual Payments to Escrow Account	Projected Payments from Escrow Account	Description	Actual Payments from Escrow Balance	Description	Projected Escrow Account Balance	Actual Escrow Account Balance
Starting balance							$1,200	$1,200
September	200	200	0				1,400	1,400
October	200	200	800	taxes	680 *	taxes	800	920
November	200	200	600	insurance	600	insurance	400	520
December	200	200	0				600	720
January	200	200	0				800	920
February	200	200	0				1,000	1,120
March	200	200	0				1,200	1,320
April	200	200	0				1,400	1,520
May	200	200	0				1,600	1,720
June	200	200	1,000	taxes			800	1,920
July	200	200	0		1,000 *	taxes	1,000	1,120
August	200	200	0				1,200	1,320

An asterisk (*) indicates a difference from a previous estimate either in the date or the amount.

Last year, we anticipated that payments from your account would be made during this period equaling $ 2,400. Under Federal law, your lowest monthly balance should not have exceeded $ 400 or 1/6 of anticipated payments from the account, unless your mortgage contract or State law specifies a lower amount. Under your mortgage contract and State law, your lowest monthly balance should not have exceeded $ 400.

Your actual lowest monthly balance was greater than $ 400. The items with an asterisk on your Account History may explain this. If you want a further explanation, please call our toll-free number.

APPENDIX M: ILLUSTRATION OF OPTION OF IDENTIFYING SIMULTANEOUS DEFICIENCY AND SHORTAGE

[Projections for pre-rule and post-rule accounts computed using aggregate analysis.]

[Servicer's name, address, and toll-free number.]

ANNUAL ESCROW ACCOUNT DISCLOSURE STATEMENT — *PROJECTIONS FOR COMING YEAR*

THIS IS AN ESTIMATE OF ACTIVITY IN YOUR ESCROW ACCOUNT DURING THE COMING YEAR BASED ON PAYMENTS ANTICIPATED TO BE MADE FROM YOUR ACCOUNT.

Month	Payments to Escrow Account	Payments from Escrow Account	Description	Escrow Account Balance
Starting balance:				$3,300
September	500	0		3,800
October	500	800	taxes	3,500
November	500	3,000	insurance	1,000
December	500	0		1,500
January	500	0		2,000
February	500	0		2,500
March	500	0		3,000
April	500	0		3,500
May	500	0		4,000
June	500	2,200	taxes	2,300
July	500	0		2,800
August	500	0		3,300

Your ending balance, from the last month of the account history, is ($ 2,400). Your starting balance according to this analysis should be $ 3,300 .

This means you have a deficiency of $ 2,400 . This deficiency may be collected from you over a period of 2 months or more unless the deficiency is less than 1 month's deposit, in which case we have the additional option of requesting payment within 30 days. We will ask you to pay it over 2 months.

After considering the deficiency, you still have a remaining shortage of $ 3,300 . This shortage may be collected from you over a period of 12 months or more unless the shortage is less than 1 month's deposit, in which case we have the additional option of requesting payment within 30 days. We have decided to collect it over 12 months.

(PLEASE KEEP THIS STATEMENT FOR COMPARISON WITH THE ACTUAL ACTIVITY IN YOUR ACCOUNT AT THE END OF THE NEXT ESCROW ACCOUNTING COMPUTATION YEAR.)

YOUR MONTHLY MORTGAGE PAYMENT FOR THE FIRST 2 MONTHS OF THE COMING YEAR WILL BE $ 3,099 OF WHICH $ 1,124 WILL BE FOR PRINCIPAL AND INTEREST AND $ 1,975 WILL GO INTO YOUR ESCROW ACCOUNT.

YOUR MONTHLY MORTGAGE PAYMENT FOR THE 3RD THROUGH THE 12TH MONTHS OF THE COMING YEAR WILL BE $ 1,899 OF WHICH $ 1,124 WILL BE FOR PRINCIPAL AND INTEREST AND $ 775 WILL GO INTO YOUR ESCROW ACCOUNT.

APPENDIX N: HUD–1 AGGREGATE ACCOUNTING ADJUSTMENT EXAMPLE

Given: City Property Taxes $1200 in December
Insurance $360 in September

First regular monthly payment in June

Option 1: Aggregate at closing

Two month cushion chosen

1000.	Reserves Deposited With Lender			
1001.	Hazard Insurance	10 months @	$30 per month	300
1002.	Mortgage Insurance	months @	per month	
1003.	City Property Taxes	7 months @	$100 per month	700
1004.	County Property Taxes	months @	per month	
1005.	Annual Assessments	months @	per month	
1006.		months @	per month	
1007.		months @	per month	
1008.	Aggregate Accounting Adjustment			-90

This adjustment works so long as single item is performed as indicated in this rule and shown in examples in the appendices. Errors may result if the instructions for single item in this rule are not followed.

Option 2: Single item at closing, one month cushion

1000.	Reserves Deposited With Lender			
1001.	Hazard Insurance	9 months @	$30 per month	270
1002.	Mortgage Insurance	months @	per month	
1003.	City Property Taxes	6 months @	$100 per month	600
1004.	County Property Taxes	months @	per month	
1005.	Annual Assessments	months @	per month	
1006.		months @	per month	
1007.		months @	per month	
1008.	Aggregate Accounting Adjustment			

Dated: February 8, 1995.

Nicolas P. Retsinas,

Assistant Secretary for Housing-Federal Housing Commissioner.

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