§ 206.17 Secretary will either endorse the mortgage for insurance by issuing a Mortgage Insurance Certificate or will electronically acknowledge that the mortgage has been insured. The mortgagee under the Lender Insurance program shall execute for the Secretary the loan agreement included in the term “mortgage” as defined in § 206.3.


ELIGIBLE MORTGAGES

§ 206.17 General.

(a) Payment options. A mortgage shall initially provide for the tenure payment option (§ 206.19(a)), the term payment option (§206.19(b)), or the line of credit payment option (§206.19(c)), or a combination as provided in §206.25(d), subject to later change in accordance with §206.26.

(b) Interest rate. A mortgage shall provide for either fixed or adjustable interest rates in accordance with §206.21.

(c) Shared appreciation. A mortgage may provide for shared appreciation in accordance with §206.23.

[54 FR 24833, June 9, 1989, as amended at 61 FR 36266, July 9, 1996]

§ 206.19 Payment options.

(a) Term payment option. Under the term payment option, equal monthly payments are made by the mortgagor to the mortgagee for a fixed term of months chosen by the mortgagor, unless the mortgage is prepaid in full or becomes due and payable earlier under §206.27(c).

(b) Tenure payment option. Under the tenure payment option, equal monthly payments are made by the mortgagor to the mortgagee as long as the property is the principal residence of the mortgagor, unless the mortgage is prepaid in full or becomes due and payable under §206.27(c).

(c) Line of credit payment option. Under the line of credit payment option, payments are made by the mortgagee to the mortgagor at times and in amounts determined by the mortgagor as long as the amounts do not exceed the payment amounts permitted by §206.25(d).

(d) Principal limit set asides. (1) Under the term or tenure options, the mortgagee shall, if requested by the mortgagor, set aside a portion of the principal limit to be drawn down as a line of credit.

(2) When repairs required by §206.47 will be completed after closing, the mortgagee shall set aside a portion of the principal limit equal to 150% of the Secretary’s estimated cost of repairs, plus the repair administration fee.

(3) When required by §206.205(f), the mortgagee shall set aside a portion of the principal limit for payment of property charges consisting of taxes, ground rents, flood and hazard insurance premiums and assessments.

(4) When servicing charges will be made as permitted by §206.207(b), the mortgagee shall set aside a portion of the principal limit sufficient to cover charges through a period equal to the payment term which would be used to calculate tenure payments under §206.25(c).

(e) Interest accrual and repayment. The interest charged on the mortgage balance shall be added to the mortgage balance monthly as provided in the mortgage. Under all payment options, repayment of the mortgage balance including monthly MIP and interest is deferred until the mortgage becomes due and payable in full under §206.27(c).

(f) Payments limited by lien amount. No payments shall be made under any of the payment options, notwithstanding anything to the contrary in this section or in §206.25, in an amount which shall cause the mortgage balance after the payment to exceed any maximum mortgage amount stated in the security instruments or to otherwise exceed the amount secured by a first lien.


§ 206.21 Interest rate.

(a) Fixed interest rate. A fixed interest rate is agreed upon by the mortgagor and mortgagee.

(b) Adjustable interest rate. An initial interest rate is agreed upon by the mortgagor and mortgagee. The interest rate shall be adjusted in one of two ways depending on the option selected
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by the mortgagor. Whenever an interest rate is adjusted, the new interest rate applies to the entire mortgage balance. The difference between the initial interest rate and the index figure applicable when the firm commitment is issued shall equal the margin used to determine interest rate adjustments.

(1) A mortgagee offering an adjustable interest rate shall offer a mortgage with an interest rate cap structure that limits the periodic interest rate increases and decreases as provided in §203.49(a), (b), (d), and (f) of this chapter, except that reference to mortgagor’s first debt service payment in §203.49(d) shall mean closing, and references in §203.49(f)(1) to one percentage point shall mean two percentage points.

(2) If a mortgage meeting the requirements of paragraph (b)(1) of this section is offered, the mortgagee may also offer a mortgage which provides for monthly adjustments to the interest rate, corresponding to an index as provided in §203.49(a), (b), and (f)(1), or to the one-month CMT index or one-month LIBOR index, and which sets a maximum interest rate that can be charged without limiting monthly or annual increases or decreases. The first adjustment must occur on the first day of the second full month after closing.

(c) Pre-loan Disclosure. (1) At the time the mortgagee provides the mortgagor with a loan application, a mortgagee also shall provide a mortgagor with a written explanation of any adjustable interest rate features of a mortgage. The explanation must include the following items:

(i) The circumstances under which the rate may increase;

(ii) Any limitations on the increase; and

(iii) The effect of an increase.

(2) Compliance with pre-loan disclosure provisions of 12 CFR part 226 (Truth in Lending) shall constitute full compliance with paragraph (c)(1) of this section.

(d) Post-loan disclosure. At least 25 days before any adjustment to the interest rate may occur, the mortgagee must advise the mortgagor of the following:

(1) The current index amount;

(2) The date of publication of the index; and

(3) The new interest rate.

(Approved by the Office of Management and Budget under control number 2528–0133)


§ 206.23 Shared appreciation.

(a) Additional interest based on net appreciated value. Any mortgage for which the mortgagor has chosen the shared premium option (§206.107) may provide for shared appreciation. At the time the mortgage becomes due and payable or is paid in full, whichever occurs first, the mortgagor shall pay an additional amount of interest equal to a percentage of any net appreciated value of the property during the life of the mortgage. The percentage of net appreciated value to be paid to the mortgagee, referred to as the appreciation margin, shall be no more than twenty-five percent, subject to an effective interest rate cap of no more than twenty percent.

(b) Computation of mortgagee share. The mortgagee’s share of net appreciated value is computed as follows:

(1) If the mortgage balance at the time the mortgagee’s share of net appreciated value becomes payable is less than the appraised value of the property at the time of loan origination, the mortgagee’s share is calculated by subtracting the mortgage balance from the adjusted sales proceeds (i.e., sales proceeds less transfer costs and capital improvement costs incurred by the mortgagor, but excluding any liens) and multiplying by the appreciation margin.

(2) If the mortgage balance is greater than the adjusted sales proceeds, the net appreciated value is zero.

(3) If there has been no sale or transfer involving satisfaction of the mortgage at the time the mortgagee’s share of net appreciated value becomes payable, sales proceeds for purposes of this