

## Chapter 11. Partial Release of Security

### 1. FHA Approval for a Partial Release of Security

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**Introduction** This topic contains general information on FHA approval for a partial release of the property securing an insured mortgage, including

- the lender's rights under the original contract
  - conditions under which FHA approval is not required
  - government actions for which FHA approval is not required, and
  - requirements for release requests when FHA approval is required.
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**Change Date** March 24, 2011

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**4155.2 11.1.a Lender's Rights Under the Original Contract** 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.

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**4155.2 11.1.b Conditions Under Which FHA Approval Is Not Required** Per [24 CFR 203.389\[n\]](#), FHA approval is *not* required for the voluntary or involuntary partial release of the security provided that *all* of the following conditions are met:

- the portion of the property being conveyed does not exceed 10% of the area of the mortgaged property
- there is no damage to existing structures or other improvements
- there is no unrepaired damage to sewer, water, or paving
- all of the payment received as compensation for the taking of the property is applied to reduce the unpaid principal balance of the mortgage, and
- the conveyance occurs *after* insurance of the mortgage.

**Note:** If the lender files a claim for mortgage insurance benefits, the claim must be accompanied by the lender's certification that the above requirements have been met.

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## 1. FHA Approval for a Partial Release of Security, Continued

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### 4155.2 11.1.c Government Actions for Which FHA Approval Is Not Required

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 the

- consideration is \$300 or less, all of which will be applied to reduce the outstanding balance of the insured mortgage, and
  - lender notifies the appropriate Homeownership Center (HOC) of the release by letter within 30 days of the lender's signing the release.
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### 4155.2 11.1.d Requirements for Release Requests When FHA Approval Is Required

Per [24 CFR 203.343\[a\]](#), when FHA approval *is* required, the lender must send the request for approval of release in writing to the [HOC](#) with jurisdiction over the property.

The written request must contain the following information:

- whether or not the mortgage is in good standing
  - the amount of the outstanding principal balance
  - the due date of the last unpaid installment
  - if the mortgage is delinquent, the number of delinquent payments
  - a list of unpaid special assessments, if any, and the total amount payable
  - a complete legal description of the property to be released
  - the borrower's reasons for requesting that the lender make the release, including how the land to be released will be used
  - the monetary consideration, if any, to be received by borrower
  - the amount of a prepayment, if any, to the mortgage principal
  - any restrictions to be imposed on the land to be released
  - a survey or sketch of the property showing
    - dimensions of portion to be released
    - the location of existing and proposed improvements, and
    - the relation of the property to surrounding properties
  - plans and specifications, including cost estimates of any alterations proposed for the remaining property after the release, and
  - the case number of the mortgaged property.
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## 2. FHA Procedures for Processing a Request for Partial Release of Security

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**Introduction** This topic contains information on FHA procedures for processing a partial release of security, including

- information required from the lender for partial release
- processing a partial release of security request, and
- insurance check endorsement by FHA.

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**4155.2 11.2.a Information Required From the Lender for Partial Release** For cases requiring FHA approval, the lender must submit to the appropriate Homeownership Center (HOC)

- the written request for the partial release of security, and
- separate appraisals that reflect the
  - value *before* the partial release of security, and
  - value of the remaining property *after* the partial release of security.

**Reference:** For information on the required information for the release request, see [HUD 4155.2 11.1.d](#).

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**4155.2 11.2.b Processing a Partial Release of Security Request** The [HOC](#) will follow the steps in the table below to process a request for a partial release of security.

**Note:** A partial release of security must *only* be approved when the remaining property is an acceptable risk in *all* respects.

Step	The HOC will...
1	Conduct an initial review to determine if the lender’s request contains the required information listed in <a href="#">HUD 4155.2 11.1.d</a> .  <i>Note:</i> If the request does <i>not</i> contain all the required information, send a letter to the lender, specifying the missing information, and return the uncompleted lender letter of request and attached documentation.

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## 2. FHA Procedures for Processing a Request for Partial Release of Security, Continued

### 4155.2 11.2.b Processing a Partial Release of Security Request (continued)

Step	The HOC will ...
2	<p>Determine if any architectural processing and/or a site inspection is necessary and, if necessary, send the request to the valuation branch for an opinion.</p> <p><i>Note:</i> Notify the lender of any necessary architectural processing and/or required site inspection of the remaining property after release.</p>
3	<p>Conduct and document an analysis that includes developing the</p> <ul style="list-style-type: none"> <li>• estimated value <i>before</i> release</li> <li>• estimated value of the <i>area to be released</i>, estimating the value as follows: <ul style="list-style-type: none"> <li>– if the area is <i>not</i> capable of separate utilization, indicate its value as a fragmental portion of the entire property</li> <li>– if the area <i>is</i> capable of separate utilization, indicate its value as a building site for highest and best use to typical purchasers for long term use, and</li> <li>– if there is <i>no</i> area involved because the release involves a property right only, indicate its value</li> </ul> </li> <li>• loss in value attributed to severance, if any (this is in addition to the value of the part to be released)</li> <li>• total loss in value</li> <li>• estimated cost of proposed improvements to the remaining property</li> <li>• estimated value of the property remaining <i>after</i> release and <i>after</i> completion of any proposed improvements, and</li> <li>• amount of special assessments for off-site improvements, including accrued interest as of this date, which will remain unpaid.</li> </ul>
4	<p>Determine whether the remaining mortgage security is less marketable as a result of the severance at the Estimate of Value determined in Step 3.</p>

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## 2. FHA Procedures for Processing a Request for Partial Release of Security, Continued

### 4155.2 11.2.b Processing a Partial Release of Security Request (continued)

Step	The HOC will...
5	<p>Determine if a reduction in the mortgage amount is necessary.</p> <p><i>Note:</i> A reduction to the principal mortgage amount is <i>not</i> necessary if the loan-to-value (LTV) ratio is 75% or less. Apply the LTV percentage to the maximum mortgage amount available <i>after</i> the release and <i>after</i> any proposed improvements are completed.</p>
6	<p>Complete a disposition of the lender's request. If the lender's request is</p> <ul style="list-style-type: none"> <li>• <i>approved</i>, go to Step 7, or</li> <li>• <i>rejected</i>, go to Step 8.</li> </ul>
7	<p>If the lender's request is approved, notify the lender in writing that</p> <ul style="list-style-type: none"> <li>• FHA approves of the release, and</li> <li>• the lender still has continued responsibility for maintaining a valid first lien on the mortgaged property, less the portion of property conveyed under the FHA agreement.</li> </ul> <p>This completes this procedure.</p>

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## 2. FHA Procedures for Processing a Request for Partial Release of Security, Continued

### 4155.2 11.2.b Processing a Partial Release of Security Request (continued)

Step	The HOC will...
8	<p>If the lender's request is</p> <ul style="list-style-type: none"> <li>• <i>rejected</i>, notify the lender in writing and place the papers in the <a href="#">HOC</a> general correspondence file, or</li> <li>• <i>rejected, but alternative methods may be suggested which will allow for approval</i>, then send a letter to the lender suggesting that <ul style="list-style-type: none"> <li>– the loan amount could be reduced to bring the <a href="#">LTV</a> ratio within the maximum legal limitation at the time of severance, or</li> <li>– in the event that the property is offered in exchange for insurance benefits, the lender could agree to accept an amount in insurance benefits that 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 to which the lender would be entitled were there no release.</li> </ul> </li> </ul> <p><b>Reference:</b> For information on the requirements for insurance check endorsement by FHA, see <a href="#">HUD 4155.2 11.2.c</a>.</p>

### 4155.2 11.2.c Insurance Check Endorsement by FHA

When an insurance company check for the settlement of losses is presented and 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 [Named Borrower], Without Recourse*

*Assistant Secretary-FHA Commissioner*

By \_\_\_\_\_  
*Homeownership Center Director*