

Section A. Finance Related Policies

Overview

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1. Mortgage Note and Security Instrument Requirements

Change Date March 24, 2011

**4155.2 3.A.1.a
Requirements
for Note and
Security
Instrument**

The note and security instrument (mortgage, deed of trust, or security deed) must meet FHA requirements. FHA may prescribe either the

- complete security instrument, or
- use of FHA-approved uniform language, for cases in which FHA does *not* prescribe the complete security instrument.

Reference: For more information on the note and security instrument, see [HUD 4155.2 6.B.](#)

2. Policies on Prepayment

Introduction	<p>This topic contains information on prepayment, including</p> <ul style="list-style-type: none"> • prepayment policy • mortgages on which advance notice of prepayment is required, and • prepayment penalty and due-on-sale clauses.
Change Date	<p>March 24, 2011</p>
4155.2 3.A.2.a Prepayment Policy	<p>A borrower may prepay a mortgage in whole or in part.</p> <p><i>Reference:</i> For more information on prepayment requirements, see HUD 4155.2 3.A.2.a.</p>
4155.2 3.A.2.b Mortgages on Which Advance Notice of Prepayment Is Required	<p>If a mortgage was insured</p> <ul style="list-style-type: none"> • <i>before</i> August 2, 1985 <ul style="list-style-type: none"> – the borrower must provide 30 days written notice of prepayment to the lender or be charged one extra month’s interest, and – the payment must reach the lender by the first of the month, or • <i>on or after</i> August 2, 1985 <ul style="list-style-type: none"> – advance notice of prepayment is not required, and – if the payment is received after the first day of the month, the lender may, at its option, collect the remainder of that month’s interest.
4155.2 3.A.2.c Prepayment Penalty and Due-on-Sale Clauses	<p>FHA does not permit either prepayment penalties or due-on-sale clauses on insured mortgages, except for cases in which FHA approves a due-on-sale clause in connection with</p> <ul style="list-style-type: none"> • tax-exempt bond financing by state or local governments, or • the implementation of statutory restrictions on assumptions.

3. Policy on Assumptions

Change Date March 24, 2011

**4155.2 3.A.3.a
Restrictions on
Assumptions** If the loan application was signed by the borrower before December 1, 1986, the FHA-insured mortgage generally contains no restrictions on assumability.

For a mortgage where the application was signed *on or after* December 1, 1986, the loan *may* be assumable depending on a creditworthiness review of the assumptor(s).

Reference: For more information on assumptions, see [HUD 4155.1 7](#).
