

Section A. Loan Closing Policies

Overview

In This Section This section contains the topics listed in the table below.

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1. General Loan Closing Requirements

Introduction This topic contains general information on loan closing requirements, including

- lender responsibilities at loan closing
 - discussion of approval conditions
 - settlement date and endorsement submission
 - per diem interest and interest credits at closing
 - payment factors for principal and interest payments
 - use of power of attorney at closing
 - title insurance
 - lender responsibilities for title objections
 - projecting and collecting real estate tax payments, and
 - title issues for manufactured homes.
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4155.2 6.A.1.a Lender At loan closing, the lender is responsible for

Responsibilities at Loan Closing

- resolving all problems regarding title to the real estate
 - reviewing all documents to ensure compliance with all conditions of the commitment
 - closing the loan before the expiration of the
 - FHA-issued Firm Commitment or Direct Endorsement (DE) approval, and
 - credit documents, and
 - submitting the loan documents for insurance within 60 days of loan closing or funds disbursement, whichever is later.
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4155.2 6.A.1.b Discussion of Approval Conditions

The lender is responsible for discussing the conditions of the [DE](#) lender's approval, or FHA's Firm Commitment, if applicable, with the borrower, and, if applicable, the seller or builder.

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1. General Loan Closing Requirements, Continued

4155.2 6.A.1.c Settlement Date and Endorsement Submission

The date of closing/settlement is generally considered the date on which the note and mortgage are signed by the borrower. This is also the date defined as the settlement date on the [HUD-1 Settlement Statement](#).

However, the 60-day endorsement submission clock begins on the date that the lender relinquishes control of the loan proceeds (disburses the mortgage funds), for both purchase money mortgages and refinance transactions.

This results in a consistent, easily understood start date so that lenders can meet the obligation to submit uniform case binders to FHA for endorsement processing.

The funding/disbursement date must be entered

- on the [HUD-1 Settlement Statement](#), Block I, and
- as the closing date on the
 - Automated Clearing House (ACH) screen, and
 - FHA Connection screen.

Note: On a refinance, the deadline by which the lender must submit any UFMIP is calculated beginning on the funding/disbursement date.

4155.2 6.A.1.d Per Diem Interest and Interest Credits at Closing

The lender may collect interim or per diem interest from the date it disburses, or relinquishes control of the loan proceeds. Interim interest for the period preceding amortization must be computed using a daily factor of $1/365^{\text{th}}$ of the annual rate.

On the purchase of a primary residence, the lender may credit up to seven calendar days of per diem interest to the borrower and have the mortgage payments begin the first day of the succeeding month. This reduces the burden on borrowers whose loans were scheduled to close at the end of the month, but did not, due to unforeseen circumstances.

On a refinance, the lender and borrower may agree to a per diem interest credit of up to 30 calendar days (up to the day prior to the first payment date) and have the mortgage payment begin the first day of the succeeding month.

A per diem interest credit **may not result in cash back** to the borrower.

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1. General Loan Closing Requirements, Continued

**4155.2 6.A.1.e
Factors for
Principal and
Interest
Payments**

Lenders may use a six-digit factor for the monthly principal and interest payment. A tolerance of four cents per thousand is permitted.

**4155.2 6.A.1.f
Use Power of
Attorney At
Closing**

A borrower may designate an attorney-in-fact to use a power of attorney to sign documents on his/her behalf at closing, including

- page four of form [HUD-92900-A](#), *Addendum to the Uniform Residential Loan Application*, and
- the final [Fannie Mae Form 1003/Freddie Mac Form 65](#), *Uniform Residential Loan Application* (URLA), if signed at closing.

Lenders are required to submit copies of the initial [URLA](#) and form HUD-92900-A if all borrowers did not sign the final version.

Any power of attorney, whether specific or general, must comply with state law, and allow for legal enforcement of the mortgage note in the jurisdiction.

References: For additional information on

- powers of attorney, see [HUD 4155.1 1.B.3.a](#), and
- requirements for initial and final [URLA](#)s and Addendums, see
 - [HUD 4155.1 1.B.1.a](#), and
 - [HUD 4155.1 1.B.3.c](#)

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1. General Loan Closing Requirements, Continued

**4155.2 6.A.1.g
Title Insurance** FHA does not require title insurance for forward mortgages at loan closing. However, the lender is responsible for conveying good, marketable title to FHA when a claim is filed.

Exception: The one exception to this policy involves property that previously had been sold by HUD (REO sale) and FHA has insured the mortgage financing the subsequent purchase of the property. If such a property had a title defect prior to the original conveyance to FHA, the lender is *not* held responsible for any title defects arising prior to the sale by FHA.

References: For more information on

- HUD REO sales and prior title defects, see [24 CFR 203.390](#), and
 - title exceptions, see [HUD 4155.2 6.C](#).
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**4155.2 6.A.1.h
Lender
Responsibilities
for Title
Objections** With respect to title objections, the lender is responsible for

- reviewing [24 CFR 203.389](#) for a full description of the General Waiver of Objection to title provisions
- reporting any additional exceptions discovered during the title search to the [DE](#) underwriter before the loan is closed (unless the exceptions are covered by the General Waiver)
- reviewing other title matters *not* covered by the General Waiver
- making decisions about these other title conditions and whether a title condition significantly affects the property's value and/or marketability, and
- ensuring that FHA will accept any conditions of title to the property.

Reference: For more information on title objections and the General Waiver for customary easements, restrictions, and encroachments, see [HUD 4155.2 6.C](#).

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1. General Loan Closing Requirements, Continued

4155.2 6.A.1.i
Projecting Real
Estate Tax
Payments

The lender may project real estate tax payments, and collect those funds as a portion of the monthly escrow account payment without violating the Real Estate Settlement Procedures Act (RESPA).

[RESPA](#) requires that a borrower receive an initial escrow account statement at settlement or within 45 days of settlement. In conducting this analysis, [RESPA](#) permits lenders and mortgage servicers to project the disbursements for real estate taxes for the ensuing 12 months and collect funds based on this projection.

On a newly-constructed dwelling, however, the lender must not predicate a borrower's monthly escrow payments on the value of vacant land when tax authority reassessments are likely to occur within 12 months of mortgage loan closing.

Reference: For more information on estimating property taxes for underwriting purposes, see [HUD 4155.1 4.F.2.d](#).

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1. General Loan Closing Requirements, Continued

4155.2 6.A.1.j Title Issues for Manufactured Homes

All manufactured home units and land must be classified as real estate to be eligible for Title II FHA Insurance. When the land is purchased separately from the manufactured housing unit, there may be two deeds, a

- property deed for the land, and
- chattel deed or motor vehicle title for the unit.

FHA requires one clear title at the time of closing.

Lenders must

- comply with all state or local requirements for proper purging of the title (chattel or other equivalent debt instrument) to the manufactured home, and
- ensure that the subject property is classified or taxed as real estate.

The lender must provide evidence that the title policy specifically states the manufactured home and land are classified as real estate (but need not be treated as real estate for purposes of state taxation).

Certification of purged title of the manufactured home must be provided to show that the unit has been officially converted from chattel to real property. Once the manufactured home unit is permanently attached to land, the lender must file a request or application to purge the manufactured home title with the appropriate state or local authority (i.e. Department of Motor Vehicles).

If the original chattel deed or title is not purged, the property does not have marketable real estate title. In the event of a foreclosure, therefore, **HUD will not accept a conveyance or pay a claim.**

The lender may resolve title issues through services such as the website offered by Fannie Mae,

<https://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/manufachousing/index.jsp?from=hp>, which includes state-by-state titling information for loans secured by manufactured housing.

2. Loan Closing Documentation Requirements

Introduction This topic contains information on loan closing documentation requirements, including

- required language for closing documents
 - signature requirements at loan closing
 - final URLA and form HUD-92900-A requirements
 - endorsement package submission
 - required disclosure statement when initial Addendum is not completed, and
 - closing in compliance with loan approval.
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**4155.2 6.A.2.a
Required
Language for
Closing
Documents** The forms and/or language prescribed by FHA *must* be used in the legal documents used for loan closing.

Reference: For information on FHA forms and language requirements for the mortgage and note, see [HUD 4155.2 6.B.](#)

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2. Loan Closing Documentation Requirements, Continued

**4155.2 6.A.2.b
Signature
Requirements
at Loan Closing**

All individuals who appear on the loan application must sign and date the mortgage note and all closing documents, where appropriate.

Any individual whose signature is required by state law to create a valid first lien, pass clear title, or waive inchoate rights must sign the security instrument, such as the

- mortgage
- deed of trust, or
- security deed.

All owners of the property who will be vested in title must sign the security instrument, except as described in [HUD 4155.1 4.A.1.i](#). Cosigners and non-occupant borrowers who do not have ownership interest in the property (vested title) are not required to take title or sign the security instrument.

References: For more information on

- electronic signatures on third party documents, see [HUD 4155.1 1.B.1.k](#), and
- cosigner requirements, see [HUD 4155.1 4.A.1.e](#).

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2. Loan Closing Documentation Requirements, Continued

**4155.2 6.A.2.c
Final URLA
and Form
HUD- 92900-A
Requirements**

The underwriter must have the final form [HUD-92900-A](#), *Addendum to the Uniform Residential Loan Application* and final Fannie Mae [Form 1003](#), *Uniform Residential Loan Application* (URLA) before underwriting the loan application, whether or not they have been signed by the borrower at that time.

If the lender uses only one loan application that serves as both the initial and final, the lender must still obtain a completed final Addendum before underwriting the loan.

**4155.2 6.A.2.d
Endorsement
Package
Submission**

In the endorsement package, the lender must submit a

- copy of the final loan application, and
 - satisfactory letter of explanation from the borrower addressing any significant variances between the initial loan application and final application.
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2. Loan Closing Documentation Requirements, Continued

**4155.2 6.A.2.e
Required
Disclosure
Statement
When Initial
Addendum Is
Not Completed**

When the lender chooses *not* to complete an initial form [HUD-92900-A](#), *Addendum to the Uniform Residential Loan Application*, (that is, the lender asks the borrower to sign a completed Addendum before the loan is underwritten), simultaneous appraisal and mortgage credit review is permissible if the lender discloses to the borrower that the lender's Direct Endorsement (DE) underwriter may adjust the appraised value.

The disclosure statement below must be signed by the borrower(s) and becomes part of the official file submitted to FHA for endorsement:

I (we) understand that my (our) application for an FHA-insured mortgage is being processed under the Direct Endorsement (DE) program. The lender has advised me (us) that the appraiser has assigned a value of \$ _____ to the property being purchased.

I am (we are) aware that the official determination will be made by the DE underwriter when he/she reviews the report.

It is understood that I (we) may elect to cancel the application or renegotiated with the seller if the DE underwriter reduces the value below the amount set forth in the sales contract, or requires additional repairs for which the seller will not be responsible.

**4155.2 6.A.2.f
Closing in
Compliance
With Loan
Approval**

The loan *must* close in the same manner in which it was underwritten and approved.

FHA may withhold endorsement of the loan if there are additional signatures on the security instruments and/or mortgage note of individuals not reviewed during mortgage credit analysis, except for a non-purchasing spouse or any requirements of a state or local jurisdiction necessary to perfect the lien.

Reference: For additional information on non-purchasing spouse requirements, see [HUD 4155.1 4.A.5](#).

3. Closing Costs and Other Fees

Introduction This topic contains information on closing costs and other fees, including

- collecting customary and reasonable fees
 - other fees and charges
 - closing costs as downpayment, and
 - rejecting charges and fees.
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**4155.2 6.A.3.a
Collecting
Customary and
Reasonable
Fees** The lender may only collect fair, reasonable, and customary fees and charges from the borrower for all origination services. FHA will monitor to ensure that borrowers are not overcharged. Furthermore, the FHA Commissioner retains the authority to set limits on the amount of any fees that a lender may charge a borrower(s) for obtaining an FHA loan.

Aggregate charges may not violate FHA's tiered pricing rules, per [ML 94-16](#).

Additionally, FHA does not allow "mark-ups." The cost for any item charged to the borrower *must not* exceed the cost paid by the lender, or charged to the lender by the service provider.

Only the actual cost for the service may be charged to the borrower.

References: For more information on

- closing costs, see [HUD 4155.1 5.A.2.a](#), and
 - other fees and charges, see [HUD 4155.2 6.A.3.b](#).
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3. Closing Costs and Other Fees, Continued

4155.2 6.A.3.b Other Fees and Charges The table below describes fees and charges a lender may assess, but which are not considered *closing costs*.

Type of Fee	Description
Discount Points	<p>Discount points charged by the lender on a purchase transaction may be charged to the buyer, but <i>may not</i> be included in the financed mortgage amount.</p> <p>Reasonable discount points for refinance transactions may be financed into the mortgage amount, subject to equity requirements and other restrictions applied to refinances.</p> <p>Reference: For more information on refinance transaction requirements, see HUD 4155.1 3.A.</p>
<ul style="list-style-type: none"> • Lock-Ins • Rate Locks 	<p>These provide a written guarantee that ensures the loan terms</p> <ul style="list-style-type: none"> • will not change for a definite period of time (for instance not less than 15 days), or • are limited to the extent to which the terms may change. <p>Reference: For more information on rate locks, see HUD 4155.2 3.A.2.b.</p>

4155.2 6.A.3.c Closing Costs as Downpayment Closing costs may not be used to help meet the minimum 3.5% downpayment requirement.

Closing costs are not considered in the mortgage amount or downpayment calculation for purchase money mortgages.

4155.2 6.A.3.d Rejecting Charges and Fees The appropriate Homeownership Center (HOC) may reject charges, based on what is reasonable and customary for the area.

4. Prohibited Payments and Loans

Introduction This topic contains information on prohibited payments and loans, including

- paying unearned fees
- prohibition on funds advances, and
- providing below market rate or non-interest loans.

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**4155.2 6.A.4.a
Paying
Unearned Fees** A lender is *not* permitted to pay any fee, compensation, or thing of value other than for services actually performed, including

- kick back fees
- fees above that actually paid for the service
- finders fees or payments to any party referring the loan
- payment to a party that has received, or will receive other payment for the service, *unless* it is a commission for selling a hazard insurance policy at the borrower's request, and
- fees prohibited by the Real Estate Settlement Procedures Act (RESPA).

**4155.2 6.A.4.b
Prohibition on
Funds
Advances** Advancing funds in anticipation of commissions on sales being financed with FHA-insured mortgages is prohibited.

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4. Prohibited Payments and Loans, Continued

**4155.2 6.A.4.c
Providing
Below-Market
Rate or Non-
Interest Loans**

A lender may *not* provide below-market rate or non-interest loans to any parties from whom the lender accepts proposals for FHA-insured mortgages, including but not limited to

- real estate brokers or agents
 - mortgage brokers
 - packagers, or
 - builders.
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5. Closing Certifications and Sales Contracts

Introduction This topic contains information on closing certifications and sales contracts, including

- determining the closing certifications
 - lender's certificate
 - policy on sales contracts
 - amendatory clause in the sales contract
 - required language for the amendatory clause
 - real estate certification, and
 - when the real estate certification is not needed.
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5. Closing Certifications and Sales Contracts, Continued

4155.2 6.A.5.a Determining the Closing Certifications

The closing certifications that the lender must execute are dictated by the type of processing, such as

- direct endorsement ([DE](#)), or
 - FHA/HUD underwritten.
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4155.2 6.A.5.b Lender's Certificate

By signing the Lender's Certificate on page 4 of form [HUD-92900-A](#), *Addendum to the Uniform Residential Loan Application*, the lender is stating that

- statements made in the application for insurance and the Certificate are true and correct
- conditions listed or appearing in any outstanding commitment issued under the case number have been fulfilled
- complete disbursement of the loan was made to the borrower, or his/her creditors for his/her account and with his/her consent
- the security instrument has been recorded, and is a good and valid first lien on the property
- no charge has been made to or paid by the borrower, except as permitted under FHA regulations
- copies of the credit and security instruments that are submitted ~~herewith~~ are true and exact copies as executed and filed for record, and
- no one has paid any kickbacks, fee or consideration of any type, directly or indirectly, to any party connected with the transaction, except as permitted under FHA regulations and administrative instructions.

The lender's representative also certifies that, at the time of closing the mortgage loan, he/she has personally reviewed the mortgage loan documents, closing statements, application for insurance endorsement, and all accompanying documents.

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5. Closing Certifications and Sales Contracts, Continued

4155.2 6.A.5.c Policy on Sales Contracts

Except for houses sold by FHA under the REO program, FHA is *not* a party to the sales agreement.

When a sales contract contains conditions that, if performed, would violate FHA's requirements, the lender must obtain an addendum or modification to the purchase agreement that allows conformance to those requirements.

Nevertheless, failure to perform a condition of the sales contract is not grounds for denying loan endorsement, *provided the loan closes in compliance with all regulations and policies.*

Example: The sales contract may require the seller to pay an amount in excess of present seller contribution limitations.

4155.2 6.A.5.d Amendatory Clause to the Sales Contract

An amendatory clause must be included in the sales contract when the borrower has not been informed of the appraised value by receiving a copy of [HUD-92800.5B](#), *Conditional Commitment/DE Statement of Appraised Value* or VA-[NOV](#) before signing the sales contract.

The amendatory clause is *not* required on

- HUD REO sales
- FHA's 203(k) loan program
- sales in which the seller is
 - Fannie Mae
 - Freddie Mac
 - the Department of Veterans Affairs ([VA](#))
 - Rural Housing Services
 - other federal, state, and local government agencies
 - a lender disposing of REO assets, or
 - a seller at a foreclosure sale, and
- those sales in which the borrower will not be an owner-occupant (for example, sales to nonprofit agencies).

Reference: See [HUD 4155.2 6.A.5.e](#) for the required language for the Amendatory Clause to the sales contract.

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5. Closing Certifications and Sales Contracts, Continued

4155.2 6.A.5.e Required Language for the Amendatory Clause

When an amendatory clause to the sales contract is required, as indicated in [HUD 4155.2 6.A.5.d](#), the clause must contain the following language:

“It is expressly agreed that notwithstanding any other provisions of this contract, the purchaser shall not be obligated to complete the purchase of the property described herein or to incur any penalty by forfeiture of earnest money deposits or otherwise, unless the purchaser has been given, in accordance with HUD/FHA or VA requirements, a written statement by the Federal Housing Commissioner, Department of Veterans Affairs, or a Direct Endorsement lender setting forth the appraised value of the property of not less than \$ _____. The purchaser shall have the privilege and option of proceeding with consummation of the contract without regard to the amount of the appraised valuation. The appraised valuation is arrived at to determine the maximum mortgage the Department of Housing and Urban Development will insure. HUD does not warrant the value or condition of the property. The purchaser should satisfy himself/herself that the price and condition of the property are acceptable.”

The actual dollar amount to be inserted in the amendatory clause is the sales price stated in the contract. If the borrower and seller agree to adjust the sales price in response to an appraised value that is less than the sales price, a new amendatory clause is *not* required. However, the loan application package must include the original sales contract with the same price as shown in the amendatory clause, along with the revised or amended sales contract.

4155.2 6.A.5.f Real Estate Certification

The borrower, seller, and the selling real estate agent or broker involved in the sales transaction must certify that

- the terms and conditions of the sales contract are true, to the best of their knowledge and belief, and
- any other agreement entered into by any parties in connection with the real estate transaction is part of, or attached to, the sales agreement.

Reference: See [HUD 4155.2 6.A.5.g](#) for circumstances under which the Real Estate Certification is not required.

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5. Closing Certifications and Sales Contracts, Continued

4155.2 6.A.5.g
When the Real
Estate
Certification Is
Not Needed

The certification described in [HUD 4155.2 6.A.5.f](#) is not needed if

- the sales contract contains a provision that
 - there are no other agreements between parties, and
 - the terms constitute the entire agreement between the parties, and
 - all parties are signatories to the sales contract submitted at the time of underwriting.
-