

APPENDIX 4

Modification of FHA Note and Mortgage Forms for Section 245
 Graduated Payment Mortgage Program - Instructions and Examples

1. Mortgage Instrument

- a. In all States, under the document caption (Mortgage, Deed of Trust, etc.) type in capital letters, "WITH DEFERRED INTEREST AND INCREASING MONTHLY INSTALLMENTS."
- b. In all States, type in capital letters, "DEFERRAL OF INTEREST MAY INCREASE THE PRINCIPAL BALANCE TO \$_____."

The location of this sentence will depend on available space. where space permits, it should follow the clause identifying the indebtedness. (See Example 1.) Where space limitation prohibits this location, it will be necessary to type the sentence in the margin or the property description space with appropriate identification by asterisks. (See Example 2.)

Note that the amount entered is the maximum principal balance, not the amount by which the principal balance may be increased.

- c. In those States which provide for the amount of monthly installments insert in such space in capital letters, "ACCORDING TO THE SCHEDULE ATTACHED TO SAID NOTE." The security instrument need not state the amount of the various installments but must give notice that the amount may be found by reference to the note.
- d. In those States which recite the note verbatim, the modifications to the note must be recited in the security instrument.

2. Note

Modifications to the note are more detailed than modifications to the security instrument. The location of the additional terms depends on the available space, or the note may be reproduced, if desired, to provide additional space.

- a. Under the document caption (Mortgage Note, Deed of Trust Note, etc.), type in capital letters, "WITH DEFERRED INTEREST AND INCREASING MONTHLY INSTALLMENTS."

- b. In the space which ordinarily specifies the amount of each

monthly installment, type in capital letters, "ACCORDING TO SCHEDULE A ATTACHED."

- c. In an appropriate space, type in capital letters, "DEFERRED INTEREST SHALL BE ADDED TO THE PRINCIPAL BALANCE MONTHLY AND SHALL INCREASE THE PRINCIPAL BALANCE TO NOT MORE THAN \$____." (See Example 3.) Where space limitations make it appropriate, the sentence may be entered in an attachment. (See Example 4.)
- d. The payment schedule may be added to the face of the note if there is sufficient space or it may be provided by an attachment. This schedule should be in the following form depending on the plan selected:

(for Plans I, II, III)
SCHEDULE A

(for Plans IV, V)
SCHEDULE

\$_____ during the 1st note year
 _____ during the 2nd note year
 _____ during the 3rd note year
 _____ during the 4th note year
 _____ during the 5th note year
 _____ during the 6th note year
 and thereafter

\$_____ during the 1st note year
 _____ during the 2nd note year
 _____ during the 3rd note year
 _____ during the 4th note year
 _____ during the 5th note year
 _____ during the 6th note year
 _____ during the 7th note year
 _____ during the 8th note year
 _____ during the 9th note year
 _____ during the 10th note year
 _____ during the 11th note year
 and thereafter

3. Increased Principal Balance

The maximum principal balance, as increased by deferred interest, which will be entered on the note and security instrument is computed by using the highest outstanding principal balance factor shown in Appendix 3 of Handbook 4240.2. For the example shown in paragraph 6d of Handbook 4240.2, the original outstanding balance of \$46,750 will increase to \$48,497.27 by the end of the 48th payment ($\$46,750 / 1,000 = \46.75 ; $\$46.75 \times 1037.3747 = \$48,497.27$), therefore the increased principal balance shown on the note and security instrument will be \$48,497.27.

4. Additional modifications

If modifications beyond those discussed in this letter are required under State laws, such modifications shall be discussed with the HUD Field Office.

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8/78

HUD-Wash., D.C.
Page 6

4240.2 REV CHG

APPENDIX 4

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HUD-Wash., D.C.
Page 7

8/78

4240.2 REV CHG

APPENDIX 4

FHA Case No.

SCHEDULES "A" AND "B"

Schedules "A" and "B" as referred to in the Mortgage Note dated
executed by

secured by a Mortgage of even date herewith to

SCHEDULE A

\$_____ during the 1st note year
_____ during the 2nd note year
_____ during the 3rd note year
_____ during the 4th note year
_____ during the 5th note year
_____ during the 6th note year
_____ during the 7th note year
_____ during the 8th note year
_____ during the 9th note year
_____ during the 10th note year
_____ during the 11th note year and thereafter

SCHEDULE B

Deferred interest shall be added to the Principal Balance monthly and shall increase the Principal Balance to not more than \$_____.

