
CHAPTER 8 - SERVICING MORTGAGES WITH BUY-DOWN AGREEMENTS

- 8-1. GENERAL. Some of HUD's assigned mortgages will have buy-down agreements in effect when they are assigned. These agreements provide for a portion of the monthly payment to be paid by a third party in behalf of the mortgagor. For a general understanding of buy-down agreements see HUD Handbook 4156.1 REV., Mortgage Credit Analysis Handbook.

The servicing procedures of this handbook are to be followed for mortgages with buy-down agreements except as modified in this chapter.

8-2. SERVICING PROCEDURES.

A. Assignment Processing.

Buy-down mortgages can be identified by their three digit suffix code in the FHA case number. Codes applicable are: 263, 297, 298, 299, 563, 597, 598, 599, 763, or 797. If a case in assignment review has one of those codes be sure that a copy of the buy-down agreement has been provided by the mortgagee in the assignment package or be sure to check with the mortgagee whether the term of the agreement has expired.

- 1) Review these agreements carefully and make notes of:
 - a. the term of the agreement;
 - b. how much will be paid monthly during each year;
 - c. when will the mortgagor be responsible for the full payment; and,
 - d. what happens to the buy-down escrow upon sale foreclosure, or repayment of the mortgage.

These considerations will be relevant in servicing the account, in reasonable prospects evaluations, in setting up payment plans and forbearance agreements, and informing mortgagors of the effect of these agreements on pay off calculations and prepayments and sales.

- 2) HUD has not reviewed the terms actually contained in the buy-down agreements at the time of mortgage insurance. You may

find different or additional requirements in specific cases. The agreement is legally binding whether it complies with, or goes beyond, the handbook requirements.

- B. Assignment Acceptance Letter - Content. If the buy-down is still in effect the assignment acceptance letters for these cases must contain the System number; therefore, immediate set up of these mortgages in the System is mandatory. We aim to avoid having the buy-down remittances become unapplied payments.

Also, depending on the date of the assignment acceptance letter, tell the mortgagee whether buy-down payments should be remitted to the lock box on the 1st of the following month or on the 1st of the 2nd month following. This should coincide with the beginning of the mortgagor's payments under a forbearance agreement.

The mortgagee must advise the buy down escrow agent of all the essential payment information within 20 days of the date on the assignment acceptance letter.

- C. Claims and Record Maintenance. Mortgagees have been directed to send the original signed buy down agreement to the jurisdictional field office with that office's copy of the claim (Form [HUD-27011](#)).

You must keep the buy-down agreement and the copy of the mortgagee's notification to the escrow agent administering the buy-down in your servicing file for that mortgagor for at least 3 years after the term expires.

- D. Establishing Accounts in the System.

- 1) The initial loan set up should be established in SFMNS according to the terms of the mortgage. Follow instructions in the SFMNS User's Guide.
- 2) All cases having buy-down agreements still in effect at the time of assignment must have a 32 entered under Property Class on Loan Screen Two.
- 3) The General Ledger code will be 44 or 63 if the buy down is connected with a fixed rate Section 203 mortgage.

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- 4) For buy-downs connected with Graduated Payment Mortgages the GL code will be 57 or 73. The 63 and 73 codes identify cases insured under a VA Certificate of Reasonable Value (VA/CRV). These cases have a 563, 597, 598 or 599 suffix code (last 3 digits of the case number).

- E. Forbearance Agreements.

- 1) Payment plans established during the effective term of the buy-down agreement should have two parts: the mortgagor's portion; and the buy-down portion (similar to a Section 235 with assistance). Payment plans for the mortgagor's portion must be developed following outstanding requirements. It may be helpful to have payment plans coincide with changes in the buy-down provisions.
- 2) Inform mortgagors that:
 - a. If for any reason the escrow agent does not send the buy down payment, the mortgagor is responsible under the mortgage and note for the entire payment.
 - b. If a delinquency notice is received that indicates a failure of the escrow agent to remit payments, the homeowner should immediately notify the HUD Office.
- 3) The amount entered on the forbearance trailer must be the total payment (the mortgagor's portion plus the buy-down portion).
 - a. However, the written forbearance agreement must clearly advise the mortgagor of the amount to be paid. Also, the mortgagor must be advised not to pay the total which will be on the bill. This will be similar to a Section 235 forbearance agreement.
 - b. Until a forbearance agreement is executed and effective, insert Pay Option Code 9 and Condition Codes 38 and 36 on LNS1 (send no bill/send no mail/no late charges).
 - c. The month before the forbearance becomes effective activate the forbearance trailer in SFMNS after the late charge date and before the bill issuance date. Be sure that when you do this you change the Pay Option Code to 4 and remove Condition Codes 38 and 36 mentioned before.

If an account is in the System before the 16th and no payment is applied, the System will charge a late charge and send a delinquency notice unless coded as described above. However, when you want the billing to start you must activate or enter the forbearance agreement and remove the condition codes so that 10 days before the end of the month a bill will be sent to remind the mortgagor to begin paying on the 1st of the following month. (For further details review SFMNS User's Guide Chapter 4 paragraph 4-16M.)

- 4) The loan monitoring trailer must be used to track the buy-down

with information such as:

- a. 60 day advance notice of each buy-down payment change
- b. 60-day advance notice of termination of the agreement (i.e., enter month escrow funds are expected to terminate).

F. Foreclosure of Mortgages During the Term of the Buy-Down Agreement.

- 1) Closely monitor the mortgagor's performance under a forbearance agreement, especially for the first few months. Depending on the term remaining under the buy-down agreement, decide when the mortgagor fails to perform whether it is best for the Department to:

When you initiate foreclosure proceedings notify the buy-down escrow agent to suspend payments under the agreement until further notice.

- 2) The buy-down agreements are supposed to provide that the mortgagee acquiring title in a foreclosure is entitled to any unexpended buy-down funds. If you have a buy-down mortgage being recommended for foreclosure contact your desk officer in the Secretary Held and Counseling Services Branch for special instructions for the foreclosing agent to be included in the recommendation for foreclosure.
- 3) If foreclosure is withdrawn for any reason you must notify the escrow-agent to forward in a lump-sum any payments due and unpaid and to begin regular monthly remittances to the lock box again if buy-down funds continue to be available.

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- G. Sale of the Property by the Mortgagor During the Term of the Buy-Down Agreement. When you become aware of a sale by assumption or payoff, examine the buy-down agreement to see if it will terminate or remain in force for the benefit of the new purchaser.

If the agreement is to terminate, see how the undistributed funds are to be handled. If the payoff statement is affected or the application of funds is specified, inform the mortgagor and, if necessary, notify the Service Center of any special payment application provisions.

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