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Canceling FHA's Annual Mortgage Insurance Premiums

- Cancellation based on Initial Amortization Schedule: Effective for all loans closed on or after January 1, 2001, FHA's annual mortgage insurance premium will automatically be canceled-once the unpaid principal balance, excluding the upfront MIP, reaches 78 percent of the lower of the initial sales price or appraised value based on the initial amortization schedule and pursuant to instructions contained in ML 00-38. Although the annual mortgage insurance premium will be canceled as described, the contract of insurance will remain in force for the loan's full term. This mortgage insurance premium cancellation provision applies only to loans insured under the Mutual Mortgage Insurance (MMI) fund. The MMI fund does not include mortgages on condominiums or Section 203(k) rehabilitation loans, among others.

Once the mortgage amortizes to a loan-to-value ratio of 78 percent, collection of the annual MIP will cease. FHA will determine when the mortgage reaches the amortized 78 percent loan-to-value threshold based on the contract interest rate (initial note rate on adjustable rate mortgages) and the loan-to-value information provided to CHUMS by the originating lender, and will cease billing the servicing lender accordingly. FHA's calculation of the 78 percent threshold will be predicated on the loan amount *excluding* the upfront MIP.

Effective May 1, 2001, FHA will provide the *date* at which the annual MIP will end. The cancellation date will be available to lenders via the Case Query Screen located in the FHA Connection Single, Family Origination section and the Portfolio and Advance Notice reports located in the FHA connection SF Servicing section. Lenders utilizing HUD's Frame Relay will be able to obtain the same information through the Portfolio Report and Advance Notice applications.

- Borrower Initiated Cancellation: In addition to mortgages that reach the 78 percent loan-to-value ratio threshold through initial scheduled amortization, borrowers can also request through their lenders cancellation of the collection of the annual mortgage insurance premium for those mortgages that reach the 78 percent threshold in advance due to prepayments (principal curtailment). Those loans reaching the 78 percent loan to value threshold sooner than projected (but not sooner than five years from the date of origination except for 15-year term mortgages) due to advanced payments of principal will have the annual premium collections canceled upon the servicing lender submitting supporting information to FHA following the borrower's request *provided* that the borrower has not been more than 30 days delinquent on the mortgage during the previous twelve months. As part of their annual disclosures to homeowners, servicers are to notify borrowers of their option to cancel the annual MIP in advance of the projected date by making additional payments of mortgage principal. As stated in ML 00-38, the 78 percent threshold will be predicated only upon the initial sales price or appraised value, whichever was less.

Effective May 1, 2001, FHA will also provide the *amount* the loan balance must reach in order to cancel the annual MIP. FHA will determine the loan balance at which the 78 percent threshold is met by excluding the upfront MIP. The required loan balance data will be available to lenders via the Case Query Screen located in the FHA Connection Single Family Origination section and the Portfolio and Advance Notice reports located in the FHA connection SF Servicing section. Lenders utilizing HUD's Frame Relay will be able to obtain the same information through the Portfolio Report and Advance Notice applications. Servicing lenders should use the formula provided by SFPCS-Periodic described in Mortgagee Letter 98-22.

If the borrower initiates cancellation of the MIP prior to FHA's original calculated cancellation date, lenders shall submit cancellation information using the FHA Connection or EDI processes. A separate Mortgagee Letter will be issued detailing the required information for the cancellation.

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