CHAPTER 7: ESCROW, TAXES, AND INSURANCE

7.1 INTRODUCTION

Besides loan payments, other costs associated with being a homeowner include real estate taxes, hazard and flood insurance premiums, and related costs such as street or water assessments. The Agency has an interest in making sure that these costs are paid in order to protect the property from tax sale or foreclosure, and to make sure that funds will be available to repair the property should it be damaged.

SECTION 1: ESCROW [7 CFR 3550.60]

7.2 OVERVIEW

To ensure that funds are available to pay for the cost of real estate taxes, insurance premiums, and other assessments when they come due, the Agency requires borrowers who receive new loans -- whether initial or subsequent -- to deposit monthly funds to an escrow account in order to be used to pay the borrower's tax and insurance bills. These funds are included in the borrower's regular monthly payment. An escrow account must be established at loan closing for all loans with a total outstanding indebtedness greater than $15,000 (be it 502, 504, or combination thereof) except new construction. This is because loan payments are not due during construction. Since the exact amount of taxes, insurance premiums and assessments are not known in advance, a cushion is established at closing to help ensure that there will be sufficient funds available to pay the bills. If the Agency underestimates the amount needed, the Agency will advance funds to pay the tax or insurance bill, and raise the borrower's escrow payments during the following year to repay the amount advanced. If the Agency overestimates the funds needed, a refund may be issued if the amount is greater than $50. If the amount of overage is less than $50, it will be credited to the next year's escrow. Annual-pay borrowers are exempt from the escrow requirement, but are responsible for timely payment of taxes and insurance premiums. The Agency will not escrow where the security property is located on a farm tract also financed by the Farm Service Agency (FSA), and we are unable to obtain a separate tax bill. FSA will be responsible for paying taxes in these situations. The only exception to this is for a Section 504 loan over $15,000 on a farm tract (see Paragraph 12.10).

The Agency will establish and administer escrow accounts in accordance with the Integrated Mortgage Disclosures under the Real Estate Settlement Procedures Act and the Truth In Lending Act (TRID) and section 501(e) of the Housing Act of 1949, as amended.

The Agency requires most borrowers who receive new loans to escrow funds for taxes and insurance. Borrowers are exempt from escrow if they:

- Are current on an annual payment plan;
- Have a leveraged loan and the escrow is maintained by the primary lending institution;
- Have received only a Section 504 grant;
- Have a Section 504 loan(s) with a total outstanding balance of $15,000 or less, and the Agency determines there is no risk to the Government's security interest in the property;
- Assumed a loan on same rates and terms; or
- Have security property which includes a farm and the property is not subdivided between the farm and non-farm tract. In these cases, the Agency may still elect to require escrow where the housing represents the majority of the value of the security property or it is in the Agency's best interest to require escrow.

The Servicing and Asset Management Office (Servicing Office) is responsible for administering the escrow account. However, the Loan Originator is responsible for determining the monthly escrow deposit contribution during the first year, ensuring that the appropriate amount is collected at closing to establish the escrow account and to educate the borrower about what escrow accounts are and how they work.

7.3 ESCROW DEPOSITS

Escrow accounts are funded from 3 sources -- monthly payments, an initial deposit required at closing, and funds from the seller to cover taxes accrued prior to closing. Exhibit 7-1 illustrates the calculation of the initial deposit and monthly escrow payments.

A. Monthly Payment

The borrower's monthly installment includes not only the amount due for principal and interest, but also 1/12 of the anticipated amount required for taxes, insurance, other assessments for the year, plus a cushion as authorized by TRID.

B. Borrower's Initial Deposit to the Escrow Account

Over the course of a year the borrower's monthly payments should provide the amount needed to pay all tax, insurance (including flood insurance as applicable), and other assessment bills. However, the timing of the payments may be such that a bill comes due before the borrower has made sufficient payments to cover the cost. To avoid this problem, the borrower is required to make an initial deposit to the escrow account that is large enough to ensure that all anticipated payments can be met when they come due, but that at its low point the account contains no more than the equivalent of 2 monthly escrow payments.

C. Seller's Tax Liability

Taxes must be prorated between the buyer and the seller. To ensure that funds from the seller's pro rata share of the taxes are available to pay the taxes when they come due, funds are collected at closing to pay the borrower's closing costs or initial escrow deposit. Prorated tax funds may not be paid to the applicant/borrower other than for reimbursement of certain items paid by the applicant outside of closing. See Paragraph 8.6 F for additional guidance.

7.4 CALCULATING ESCROW AMOUNTS

The Loan Originator must provide UniFi with tax and insurance figures that are then used to estimate the maximum loan amount, to determine the amount of loan funds to obligate, and to establish monthly payments and the initial deposit to the escrow account.

Although tax and insurance information used early in the process will be based on rough estimates, the Loan Originator should make every effort to obtain accurate information about historic and future costs so that later entries will be as accurate as possible. For construction loans, when calculating the escrow payment for closing, the Field Office is to use the amount needed to cover the real estate taxes for the upcoming 12 months. The Loan Originator must consider that there may be a re-assessment of the real estate taxes upon the completion of the dwelling and the escrow calculations will be made accordingly.

Exhibit 7-1

Escrow Account Funding

The initial escrow balance and the escrow payment amount are calculated in accordance with TRID and any other associated regulation. UniFi prepares Form RD 3550-9, Initial Escrow Account Disclosure Statement, described in Paragraph 7.5. The following example is intended to show how escrow accounts are funded each year.

Assumptions:

(1) The loan closing occurs on April 12, 2020 with the first payment due May 12, 2020
(2) Taxes of $753 are paid in July and December
(3) Hazard insurance of $1,228.00 is paid in March
(4) The Agency requires a minimum balance equal to 2 months of payments

Monthly Payment Calculation:

$ 753.00
$ 753.00
$1,228.00
$2,734.00 Total anticipated escrow disbursements divided by 12 equals
$ 227.83 per month escrow payment

Month	Payments to Escrow	Disbursements	Balance
Loan Closing	$683.53	$ 0.00	$ 683.53
May	$227.83	$ 0.00	$ 911.36
June	$227.83	$ 0.00	$1,139.19
July	$227.83	$ 753.00	$ 614.02
August	$227.83	$ 0.00	$ 841.85
September	$227.83	$ 0.00	$1,069.68
October	$227.83	$ 0.00	$1,297.51
November	$227.83	$ 0.00	$1,525.34
December	$227.83	$ 753.00	$1,000.17
January	$227.83	$ 0.00	$1,228.00
February	$227.83	$ 0.00	$1,455.83
March	$227.83	$1,228.00	$ 455.66
April	$227.83	$ 0.00	$ 683.49

The borrower will be required to pay $227.83 per month and will also be required to fund the escrow account at closing in the amount of $683.53. Part of the tax payment component of the initial escrow deposit will be contributed by the seller for the period from January 1st to the closing on April 12th.

According to TRID, the lending institution may at some time during the year achieve an escrow balance that does not exceed 2 monthly escrow payments. In this example the balance equal to 2 monthly payments ($455.66), occurs in March after the payment for hazard insurance.

The Servicing Office is required to perform an escrow analysis within 12 months of the first payment and every year thereafter. The actual running escrow balance from the prior year will become the basis for projecting the necessary escrow payment for the next year. The low point achieved will be compared to the projected minimum of $455.66. If the low point is below $455.66, the loan will be deemed to have a shortage. If the low point is greater than $50, the loan will have a surplus, which will be refunded to the borrower. If the surplus is less than $50, the amount will be credited to the next year’s escrow.

7.5 CLOSING

The Closing Agent/Attorney will use the Closing Disclosure to prorate real estate taxes for the current year between the seller and the buyer.

Form RD 3550-9, Initial Escrow Account Disclosure Statement, will be completed by the Loan Originator and sent to the Closing Agent/Attorney at loan closing.

The Closing Agent/Attorney will collect the escrow funds at closing, and in most cases will provide them to the Servicing Office along with the closing documents. If real estate taxes are due within 60 days of the date of closing, the Closing Agent/Attorney should pay the real estate taxes and provide the remaining amount to the Servicing Office.

7.6 CONSTRUCTION LOANS

During the construction period, borrowers must be counseled that they are responsible for payment of taxes which come due since loan payments are not due during the construction period. The borrower is also responsible for the initial escrow deposit when construction is complete. Field Staff should complete Attachment 7-A to determine the borrower's full tax and insurance needs during the construction period. Funds for the payment of taxes during construction, and for the initial escrow deposit which includes both taxes and insurance, can be handled by one of the following two methods.

- One method would be to include any taxes that must be paid during construction and the initial escrow deposit in the loan amount. This option is at the discretion of the applicant, and is subject to loan underwriting standards. If this option is used, the applicant must be counseled that they are responsible for delivering the tax bill to the Field Staff so a loan check can be requested to pay the taxes. The applicant is responsible to follow-up with Field Staff, or the taxing authority, to ensure their tax payments were paid on time. If the initial escrow deposit was included in the loan, the applicant must also be counseled that they are responsible for funding any shortages. This may occur if the construction is delayed.

- The other method would be for the applicant to pay any taxes which come due during construction with personal funds while saving funds to make the initial escrow deposit at the end of the construction period. Should an applicant choose this option, they must be counseled to pay the tax bills when due and provide a copy to the Field Office. The applicant must also be counseled on how much will be required at the end of the construction period to adequately fund the initial escrow deposit.

Insurance is paid for one year in advance by loan closing. Therefore, an insurance bill should not come due during the construction period. If a bill does come due during construction, the borrower is responsible to pay the full annual premium. If the borrower does not pay tax bills or insurance bills which become due during construction, or there are insufficient funds to establish the escrow account when the loan is converted, the Field Office will cue the Servicing Office and provide the estimated amount of shortage, and the facts in the case. The Servicing Office will generally increase the monthly payments scheduled for the remainder of the escrow cycle to compensate for any shortage. The Servicing Office may also elect to charge the borrower's account for the shortage and reamortize the loan.

7.7 SERVICING ESCROW ACCOUNTS

The Servicing Office will handle ongoing actions related to escrow accounts, including collecting monthly payments, depositing funds into the escrow account, and handling all tax and insurance payments. The Servicing Office will conduct the annual escrow account analysis and send annual escrow disclosure statements to borrowers to give an escrow account history for the past year, including any differences between what was estimated and what was actually disbursed.

SECTION 2: TAXES

7.8 ESTIMATING THE AMOUNT OF TAXES

The Loan Originator can gather tax information from several sources. For existing properties, the Loan Originator can contact the real estate agent, the seller, and/or the local taxing authority to determine current taxes and whether any reassessment or tax rate increase is anticipated.

It will be more difficult for the Loan Originator to estimate taxes when dealing with planned new construction or a newly constructed property that has not yet been assessed. To make this estimate, the Loan Originator will use comparable existing residential property values in the market area for the first year, in order to prevent significant increases in the second year escrow payment as a result of the increase in property value to make this estimate. Any prorated amount of taxes to be paid by the seller should be based on the current assessment, even if it is not recent and does not reflect the actual value of the house.

7.9 TAX SERVICE FEE

Each new borrower will be charged a one-time tax service fee at the time of loan closing. The fee covers the cost of a tax monitoring service to track tax payments due, determine the most advantageous time to pay them, and arrange for payment of the taxes to be disbursed from the borrower's escrow account. State Directors are responsible for determining the tax exempt status of Native American reservation, tribal, and trust land and notifying those Field Offices which are affected. If the land is tax exempt, meaning no real estate taxes are assessed or charged, then a tax service fee will not be collected. Individual plots that are typically owned in fee simple are generally subject to taxation and a tax service fee will be collected. Borrowers who are obtaining a subsequent loan will not pay a second tax service fee. Refer to the tax service fee schedule shown in Attachment 7-B to determine the fee charged for new loans and new rates and terms assumptions.

7.10 TAX INFORMATION SHEET

At closing, the Loan Approval Official or Designee will review, update, and return a copy of the completed Form RD 3550-15, Tax Information, to the Closing Agent/Attorney with other closing documents. Form RD 3550-15 should list all of the local taxing authorities to which taxes are due, the amounts, the due dates, the parcel identification number, and a legal description of the property. All of this information is needed to allow the Servicing Office to manage the escrow account effectively and to protect the borrower from a shortage in their escrow account.

SECTION 3: INSURANCE [7 CFR 3550.61]

7.11 OVERVIEW

The borrower is responsible for obtaining and continuously maintaining insurance on the security property until the loan is paid in full. The applicant will learn about the Agency's requirements and borrower's responsibilities regarding insurance during applicant orientation.

After the loan is closed, the Servicing Office is responsible for handling most insurance issues. The Field Office is likely to become involved only if the Servicing Office requests assistance to determine whether adequate repairs have been made to a property for which an insurance claim has been paid.

7.12 TYPES OF INSURANCE

A. Hazard Insurance

Most borrowers are required to maintain hazard insurance to protect the property against fire and weather-related damage (these policies may also be called "Fire and Extended Coverage," "Homeowner's," "All Physical Loss," or "Broad Form" policies). Hazard insurance is not required if the total outstanding Agency debt and any senior liens against the property are equal to or less than $15,000.

> **Master Policies**
>
> A master policy is one containing substantially the same standard provisions adopted or recommended by legislative action or by order of the State's insurance authority and ensures that the policy meets State requirements. The Loan Originator should require a master policy, unless State statutes exempt the company from the regulations requiring its use. In order for a company's policy to be approved by the Agency, it must submit a copy of the master policy and all attachments to the State Office for review and approval.
>
> In States without master policies, Field Staff will ensure that policies meet the requirements of Attachment 7-C.
>
> Many State Directors issue State Supplements to help Field Staff identify acceptable insurance policies.

B. Flood Insurance

Flood insurance is required when any form of federal financial assistance which is intended in whole or in part for the acquisition, construction, reconstruction or substantial improvement of any building located in a Special Flood Hazard Area (SFHA), as identified by the National Flood Insurance Program (NFIP), administered by the Federal Emergency Management Agency (FEMA) and described in RD Instruction 426.2.

Substantial improvement means any reconstruction, rehabilitation, addition, or other improvement of a structure, the cost of which equals or exceeds 50 percent of the market value of the structure (a) before the start of construction of the improvement, or (b) if the structure has been damaged and is being restored, before the damage occurred.

$$\frac{\text{Cost of Improvement or Cost to Repair to Pre-Damage Condition}}{\text{Pre-Improvement or Pre-Damage Market Value of Building}} \geq 50\%$$

1. **How to determine substantial improvement.**
When improvements to a building are proposed, the cost of the improvement must include all labor and materials necessary to perform the work. The market value of the structure is the market value before the improvements are performed.

2. **How to determine the market value of a building.**
The requirements outlined in Chapter 5 must be followed when determining if an appraisal of market value prepared by a qualified professional is needed.

   If an appraisal is not required, there are three methods that can be used to estimate the market value for the substantial improvement threshold:

   - Property assessment values determined by a local taxing authority. The assessor's office should provide an adjustment factor that, when applied to assessed value, yields the "adjusted assessed value".
   - The actual cash value or replacement cost value, including depreciation for physical conditions.
   - "Qualified estimates" based on the professional judgment of a local official.

<u>Substantial Improvement Example</u>:
$83,170 – market value prior to improvements

RD 504 loan funds: $10,500
<u>RD 504 grant funds: $7,500</u>
Total costs of improvements: $18,000

$$\frac{\$18{,}000}{\$83{,}170} = .22 \text{ (22 percent)}$$

The total cost of improvements does not equal or exceed 50 percent of the market value prior to the start of improvements; therefore, flood insurance is not required.

3. Special Flood Hazard Area (SFHA)

FEMA's Standard Flood Hazard Determination Form (SFHDF) determines if the home is located in a Special Flood Hazard Area (SFHA) and states the availability of flood insurance based on whether the community participates in the National Flood Insurance Program (NFIP).

The Loan Originator will be responsible for acquiring the SFHDF from CoreLogic Flood Services at: https://www.floodcert.com/.

Existing dwellings located in a SFHA are eligible for federal financial assistance if flood insurance is available for the community. The flood insurance can be through NFIP or under NFIP's "write your own" program where the policy is through a private insurance that meets the requirements of 42 USC 4012a (b)(1)(A).

Flood insurance must be obtained and maintained throughout the life of the loan when any portion of a home is located in a SFHA, including attached garages, decks and carports, etc. Flood insurance is not required for any additional structure that is located on the property but is detached from the home (such as detached shed, garage, or other ancillary structure). Flood insurance is not required if the financial assistance is less than the substantial improvement threshold. If the financial assistance is to make minor repairs, the Agency must perform step 8 of the eight-step decision making process to evaluate the proposed impacts when providing federal funding to a property in a floodplain.

If the home is in a SFHA and flood insurance is required, the Loan Originator should notify the applicant using Form RD 3550-6, Notice of Special Flood Hazards, Flood Insurance Purchase Requirements, and Availability of Federal Disaster Relief Assistance; and obtain the FEMA Elevation Certificate. The applicant must sign and return Form RD 3550-6 at or before loan closing.

C. Builder's Risk Policies

A builder's risk policy is acceptable while the dwelling is under construction as long as it meets the Agency's requirements. An acceptable policy either: (1) names the borrower as the insured; or (2) contains a builder's risk endorsement for a policy issued to the borrower. A policy issued only to a contractor is not an acceptable substitute for the property insurance a borrower is required to provide. A builder's risk policy should automatically convert to full coverage when the dwelling is completed. Otherwise, acceptable insurance must be obtained to coincide with the expiration of the builder's risk provisions of the policy.

7.13 EVIDENCE OF INSURANCE

For loans secured by a first lien, the applicant must provide the original policy or declaration page, and evidence that 1 full year's premium has been paid before or at the time of closing. For loans secured by other than a first lien, a copy of the policy or declaration page, or other evidence of insurance, is acceptable. The applicant may submit a written binder in lieu of the policy or declaration page, as long as the policy will be submitted to the Servicing Office within 60 days of closing. Existing borrowers already on escrow submitting an application for a subsequent loan are not required to provide evidence of a full years paid premium.

7.14 AUTHORIZED INSURANCE PROVIDERS

Borrowers must purchase their policies from approved insurance companies licensed to do business in the State where the property is located. If the required insurance is not available at comparable rates from a State-licensed insurance company, the Loan Originator may accept insurance from another company if:

- The Office of General Counsel (OGC) confirms that policies issued by the company are enforceable despite the fact that the company is not licensed to conduct business in the State, and the company is a legal entity that may be sued in the State where the property is located; and

- The State Director determines that the company is reputable and financially sound, based on the company's financial statements, industry rating standards, or information available from the State insurance authority, or other lending institutions.

7.15 REVIEWING INSURANCE POLICIES

The borrower must submit evidence of insurance to the closing agent before or at the time of closing. The closing agent will review the policy, declaration page, or binder to ensure that it meets the requirements outlined in Attachment 7-C. If it is acceptable, the evidence of coverage should be kept in the borrower's case file after closing. If the borrower's policy or evidence is insufficient, the closing agent should explain why it is not acceptable (for example, there is not an adequate amount of coverage, it is not in the correct name, or the premium has not been paid). The closing will be postponed until suitable evidence has been provided to the closing agent.

ATTACHMENT 7-A

CALCULATION OF ESTIMATED TAXES DUE THROUGH CONSTRUCTION PERIOD AND INITIAL ESCROW DEPOSIT

Customer Name: ____________________________
Loan Amount: $____________________________
Number of Months in Construction Period: ____________________________
Estimated Real Estate Taxes (Lot Only): $____________________________

Date Prepared: ____________________________
County/Parish: ____________________________
Loan Closing Date: ____________________________
Annual Insurance Premium Amount: $____________________________
Annual Real Estate Taxes (As Improved): $____________________________

STEP 1

Estimate the taxes and insurance costs over the next 12 months:

Taxes $______________divided by 12 = $__________monthly
Insurance $______________divided by 12 = $__________monthly

TOTAL Estimated Monthly Escrow $____________(STEP 1)

STEP 2

Estimate the actual tax bills that will come due during the construction period.

Due:__________ Amount $__________
Due:__________ Amount $__________
Due: __________ Amount $__________

Total Taxes Due During Construction $____________(STEP 2)

STEP 3

Estimate the two month cushion by taking the monthly escrow calculated in STEP 1 and multiplying it by two.

Estimated Monthly Escrow (from STEP 1) $__________x 2 = $____________(STEP 3)

STEP 4

Estimate the initial escrow deposit for property insurance by taking the annual premium, dividing by 12, and then multiplying the result by the number of months for construction.

Monthly Insurance $__________ x__________(# of months to construct) = $____________(STEP 4)

STEP 5

Estimate the initial escrow deposit for taxes by taking the annual taxes due, dividing by 12, multiplying the result by the number of months for construction, and then subtracting the amount estimated in STEP 2.

Monthly Taxes $__________x______(# of months to construct) = $__________
minus $__________(result of STEP 2) = Total (enter "0" if negative) $____________(STEP 5)

STEP 6

Estimate the borrower's total financial needs for taxes and insurance by adding the results of STEPS 2 through 5 = **GRAND TOTAL $____________(STEP 6)**

NOTE: The "GRAND TOTAL" is the amount of taxes due during the construction period plus the initial escrow deposit.

STEP 7

Estimate the initial escrow deposit by adding the results of STEPS 3, 4, and 5 =

TOTAL ESTIMATED INITIAL ESCROW DEPOSIT $____________(STEP 7)

For borrowers who so elect, and subject to loan underwriting requirements, the Grand Total (STEP 6) may be included in the loan amount. The taxes due in STEP 2 will be paid during the construction period from loan proceeds. The estimated initial escrow deposit will be forwarded to the Servicing Office when construction is complete and the loan is converted to an active account. If STEP 6 is not included in the loan amount, the borrower must be counseled to save this amount during the construction period and pay taxes when due.

CASE STUDY #1

Susan Smith has been selected to participate in the Self-Help housing program. She will be borrowing $75,000. The construction period is estimated to be 11 months, and loan closing is May 1, 1998. Real estate taxes are paid twice a year - on June 30 and December 30. Taxes on the lot are $240 per year and are estimated to be $1,200 when the house is complete. The local county will reassess taxes on the completed house at an undetermined time after the Certificate of Occupancy is issued and the first full tax bill will be issued at the beginning of next full tax cycle. Annual insurance is estimated at $360.

See Page 3 of 4 for the results.

CASE STUDY #2

Tony Williams is a mason and owns his own lot. He obtained a building permit several months ago and has recently constructed a full foundation on his site. Mr. William’s loan for $55,000 was just approved and loan closing scheduled for July 1, 1998. The local county will reassess taxes each October, and taxes are due January 1 and July 1. The taxes are currently $360 per year on the site (including the foundation), and are estimated to be $1800 when the house is complete. Construction will take approximately 60 days. Since construction will be completed prior to October (tax assessment time) the January 1 tax bill will reflect the full tax assessment. Annual insurance is $600 per year.

See Page 4 of 4 for the results.

ATTACHMENT 7-A

CALCULATION OF ESTIMATED TAXES DUE THROUGH CONSTRUCTION PERIOD AND INITIAL ESCROW DEPOSIT

	Date Prepared : 4/1/98
Customer Name: Susan Smith	County/Parish: Carolina
Loan Amount: $ 75,000	Loan Closing Date: 5/1/98
Number of Months in Construction Period: 11	Annual Insurance Premium Amount: $ 360
Estimated Real Estate Taxes (Lot Only): $ 240	Annual Real Estate Taxes (As Improved) $ 1,200

STEP 1

Estimate the taxes and insurance costs over the next 12 months:

Taxes $ 240 divided by 12 = $ 20 monthly
Insurance $ 360 divided by 12 = $ 30 monthly

TOTAL Estimated Monthly Escrow $ 50 (STEP 1)

STEP 2

Estimate the actual tax bills that will come due during the construction period.

Due: 6/30/98 Amount $ 120
Due: 12/30/98 Amount $ 120
Due:____________Amount $_

Total Taxes Due During Construction $ 240 (STEP 2)

STEP 3

Estimate the two month cushion by taking the monthly escrow calculated in STEP 1 and multiplying it by two.

Estimated Monthly Escrow (from STEP 1) $50 x 2 = $ 100 (STEP 3)

STEP 4

Estimate the initial escrow deposit for property insurance by taking the annual premium, dividing by 12, and then multiplying the result by the number of months for construction .

Monthly Insurance $ 30 x 11 (# of months to construct) = $ 330 (STEP 4)

STEP 5

Estimate the initial escrow deposit for taxes by taking the annual taxes due, dividing by 12, multiplying the result by the number of months for construction, and then subtracting the amount estimated in STEP 2.

Monthly Taxes $ 20 x 11 (# of months to construct) = $ 220
minus $ 240 (result of STEP 2) = # -20 Total (enter "0" if negative) $ 0 (STEP 5)

STEP 6

Estimate the borrower's total financial needs for taxes and insurance by adding the results of STEPS 2 through 5 = **GRAND TOTAL $ 670 (STEP 6)**

NOTE: The "GRAND TOTAL" is the amount of taxes due during the construction period plus the initial escrow deposit.

STEP 7

Estimate the initial escrow deposit by adding the results of STEPS 3, 4, and 5 =

TOTAL ESTIMATED INITIAL ESCROW DEPOSIT $ 430 (STEP 7)

For borrowers who so elect, and subject to loan underwriting requirements, the Grand Total (STEP 6) may be included in the loan amount. The taxes due in STEP 2 will be paid during the construction period from loan proceeds. The estimated initial escrow deposit will be forwarded to the Servicing Office when construction is complete and the loan is converted to an active account. If STEP 6 is not included in the loan amount, the borrower must be counseled to save this amount during the construction period and pay taxes when due.

ATTACHMENT 7-A

CALCULATION OF ESTIMATED TAXES DUE THROUGH CONSTRUCTION PERIOD AND INITIAL ESCROW DEPOSIT

	Date Prepared: 6/98
Customer Name: Tony Williams	County/Parish: South
Loan Amount: $ 55,000	Loan Closing Date: July 1, 1998
Number of Months in Construction Period: 2	Annual Insurance Premium Amount: $ 600
Estimated Real Estate Taxes (Lot Only): $ 360 (includes existing foundation)	Annual Real Estate Taxes (As Improved) $ 1,800

STEP 1

Estimate the taxes and insurance costs over the next 12 months:
Taxes $ 1,800 divided by 12 = $ 150 monthly (Note: Full taxes were used since next monthly tax bill will reflect a completed house)
Insurance $600 divided by 12 = $50

TOTAL Estimated Monthly Escrow $ 200 (STEP 1)

STEP 2

Estimate the actual tax bills that will come due during the construction period. The first bill may be able to be reduced by the amount of any prorated taxes collected from the seller at closing.

Due: 7/1/98 Amount $ 180 *(Note: Being paid at loan closing 7/1/98)
Due:____________Amount $____________
Due:____________Amount $____________

Total Taxes Due During Construction $ 0 * (STEP 2)

STEP 3

Estimate the two month cushion by taking the monthly escrow calculated in STEP 1 and multiplying it by two.

Estimated Monthly Escrow (from STEP 1) $ 200 x 2 = $ 400 (STEP 3)

STEP 4

Estimate the initial escrow deposit for property insurance by taking the annual premium, dividing by 12, and then multiplying the result by the number of months for construction .

Monthly Insurance $ 50 x 2 (# of months to construct) = $ 100 (STEP 4)

STEP 5

Estimate the initial escrow deposit for taxes by taking the annual taxes due, dividing by 12, multiplying the result by the number of months for construction, and then subtracting the amount estimated in STEP 2.

Monthly Taxes $ 150 x 2 (# of months to construct) = $ 300
minus $ 0 (result of STEP 2) = Total (enter "0" if negative) $ 300 (STEP 5)

STEP 6

Estimate the borrower's total financial needs for taxes and insurance by adding the results of STEPS 2 through 5 = **GRAND TOTAL $ 800 (STEP 6)**

NOTE: The "GRAND TOTAL" is the amount of taxes due during the construction period plus the initial escrow deposit.

STEP 7

Estimate the initial escrow deposit by adding the results of STEPS 3, 4, and 5 =
TOTAL ESTIMATED INITIAL ESCROW DEPOSIT $ 800 (STEP 7)

For borrowers who so elect, and subject to loan underwriting requirements, the Grand Total (STEP 6) may be included in the loan amount. The taxes due in STEP 2 will be paid during the construction period from loan proceeds. The estimated initial escrow deposit will be forwarded to the Servicing Office when construction is complete and the loan is converted to an active account. If STEP 6 is not included in the loan amount, the borrower must be counseled to save this amount during the construction period and pay taxes when due.

ATTACHMENT 7-B

TAX SERVICE FEE

Loan Transaction	Tax Service Fee Charged
INITIAL 502 LOAN greater than $7,500	**
CREDIT SALE WITH OR WITHOUT A SUBSEQUENT LOAN same as initial 502 loan	**
504 LOANS if the total outstanding indebtedness is greater than $15,000 and taxes & insurance are not escrowed through another lender	**
NEW RATES AND TERMS ASSUMPTION WITH OR WITHOUT SUBSEQUENT LOAN. (NOTE: if financing an existing Agency loan with new loan funds, the applicable New Loans Tax Service Fee listed below is used, rather than the $10 fee shown here.) New Borrower pays $10 regardless of what previous borrower paid. No additional charges apply.	$10
SAME RATES AND TERMS ASSUMPTION	$0
SUBSEQUENT LOAN if greater than $15,000 and borrower does not have an established escrow account.	**
If borrower has an existing escrow account.	$0
** New Loans Approved July 17, 2022 – July 16, 2023 (This fee remains in effect until further notice)	$91

ATTACHMENT 7-C
INSURANCE POLICY REQUIREMENTS

A. Loss or Damage Covered

Hazard insurance policies must insure buildings against loss or damage by fire, lightning, windstorm, hail, explosion, riot, civil commotion, aircraft, vehicles, and smoke. The flood insurance, if applicable, must cover any damage due to flooding conditions.

B. Amount

The Loan Originator must require borrowers with a total indebtedness of more than $15,000 to obtain hazard insurance to cover the dwelling and any other essential buildings (such as a garage). The minimum required hazard insurance coverage is the **lesser of** the insurable value (i.e. the cost to restore the property back to its state prior to a loss) of the dwelling and other essential buildings, or the outstanding principal balance of the loan. Although the lesser of these two amounts is required, the Loan Originator should encourage the borrower to obtain hazard insurance coverage in the amount **greater of** the insurable value of the dwelling and other essential buildings, or the outstanding principal balance of the loan.

Flood insurance must cover the **lesser of** the outstanding principal balance of the loan or the maximum amount of coverage allowed under FEMA's National Flood Insurance Program (NFIP).

The policy must state whether or not the building is on a leasehold. State Supplements provide guidance on specific State insurance requirements pertaining to leasehold interests.

C. Borrower's Deductible

The borrower's deductible may not exceed the generally accepted minimums based on current industry standards and local market conditions. Typically, the borrower's deductible will not exceed the higher of 1 percent of the face value of the policy or $1,000 unless State law requires a higher maximum deductible amount. In areas where such deductibles are not reasonably available due to local market conditions, i.e. areas on coastal lines or prone to high winds, State Supplements will be issued with prior National Office approval to provide guidance for current market deductibles. The supplemental guidance must identify the specific areas, the associated amount and the detailed justification for each area in the State that is authorized for higher deductibles. For flood insurance, these deductibles apply unless the insurance carrier requires a higher deductible amount.

D. Term

The policy must have a term of at least 1 year, with evidence that 1 year's premium has been paid prior to or at closing.

E. Effective Date

If there are insurable buildings on the property (as opposed to vacant land to be built upon), the policy must be in force at the time the loan is closed. When a dwelling is to be constructed, the insurance coverage must be effective as of the date the materials are delivered to the property. No payments from loan funds for labor or materials can be made unless insurance coverage is in place.

F. Construction Specifications and Use Conditions

If the insurance policy specifies certain standards of construction or prescribes certain uses of the property, the policy will be acceptable only if the property meets the specifications or conditions.

G. Names and Location

The policy must include the legal names of all parties being insured. It also must contain a description of the property's location, although a legal metes and bounds description is not required.

H. Mortgagee Clause

A mortgagee clause ensures that the Agency will be reimbursed in the event of a loss by identifying the Agency as the secured party on the lien (the "mortgagee"). The standard mortgagee clause adopted by the State must be attached to or printed in the policy, and must identify the Agency as the mortgagee. Specifically, the Agency must be identified as the "United States of America, acting through the Rural Housing Service or its successor agency." The Agency, and all other mortgagees whose interests are insured under the policy, must be shown in either the mortgagee clause or on the declaration page in the order of priority of their mortgages. The address should be:

USDA, Rural Development
Servicing Office
Attn: Insurance Department
P.O. Box 66876
St. Louis, Missouri 63166

Whenever a new mortgagee clause is issued after the policy has been in force, the new mortgagee clause must be signed by an authorized agent or officer of the company that issued the policy.

When an approved mortgagee clause is not printed in the policy, a "loss payable clause," which lists all the parties that would receive payment in case of a loss, is acceptable, provided the Agency will receive payment in case of loss, even in circumstances in which the company would not be liable to the borrower. The closing agent must verify that an authorized official of the insurance company has sent a signed letter to the State Director stating that all insurance policies issued by the company in the State incorporate all the provisions of the standard mortgagee clause and that the Agency is named in the loss payable clause (a State Supplement will be issued offering guidance on the requirements of this letter and can be found in Appendix 7).