

EFFECTIVE JANUARY 21, 2015



Great News! FHA Will Eliminate Post-Payoff Interest Charges

At the industry's urging, the Federal Housing Administration (FHA) finalized a rule prohibiting lenders from charging consumers interest through the payoff date. The rule ends a long-standing requirement that lenders charge consumers interest for the whole month regardless of the date on which they paid off the mortgage.

Under the new rule, **for new loans closed after January 21st**, lenders must accept a prepayment at any time and cannot charge post-payment interest. The monthly interest at the time of payoff is to be calculated based on the actual unpaid principal balance of the mortgage as of the date the prepayment is received, and not as of the next installment due date. Conventional loans, as well as loans from the Veterans Administration's Loan Guaranty Program and the U.S. Department of Agriculture's Rural Housing Service loan program, do not have post-payment interest charges.

The former rule had long plagued participants in the closing process, and was criticized by some as serving no constructive purpose. The effect on escrow service providers can hardly be overstated, as arranging closings around the former rule involved notoriously and needlessly difficult management of the various stakeholders. This change could reduce the crunch of large volumes of home closings happening at the end of the month.

If you have any questions, please contact your Escrow Officer or Sales Representative.

Note: In the event escrow receives an FHA payoff requesting monthly interest and the lender refuses to adjust the payoff, to clear the loan from the title, escrow would have to comply with the payoff.