Mortgages can contain special clauses, so know what’s in yours

WHAT ARE mortgage clauses? Mortgages are contracts and contain provisions that outline special rights, powers or remedies available to the parties involved. There are many different types of clauses you may encounter and these are subject to state and federal laws. As a result, mortgage contracts can vary greatly and it is important to review the contract carefully.

Here are a few clauses you might find: One is an acceleration clause. This allows the lender, under certain conditions, to demand the entire balance of the loan to be paid in a lump sum immediately. This includes the interest that has accrued since the clause was invoked. The borrower doesn’t have to pay the interest that would have accrued over the life of the loan, however.

Missing a few payments is an example where an acceleration clause could come into play. Usually, the lender is required to give the borrower some notice that this is occurring and time to remedy the situation. The remedy for the borrower is to put the lender in the same position as it would have been in but for the borrower’s default. If this is not done, the lender may begin foreclosure proceedings to take the property back.

A mortgage could also have an assumption clause. This allows the seller of a home to pass the responsibility of repaying the existing mortgage to the buyer of the home. Sometimes, the buyer may also be able to assume the seller’s interest rate. This clause may be valuable from the buyer’s point of view, as he or she can avoid settlement costs and an application process. However, the interest rate may not be acceptable, and there may be many conditions to meet and fees required to be paid.

A conversion clause is often found in adjustable rate mortgage contracts.

This allows a borrower to convert the ARM to a fixedrate mortgage at a specific point. An adjustable rate mortgage has an interest rate that can fluctuate over time – the interest rate can go up or down depending on various factors. On the other hand, a fixed-rate loan has a set interest rate that won’t change and remains a specific amount for the duration of the loan’s repayment. Changing to a fixed-rate mortgage makes the payments more predictable. Generally, the borrower must give the lender 30 days notice before converting, and there may be fees involved to do so. Make sure to understand how the interest rate for the fixed-rate mortgage is set.

Due-on-sale clauses allow the lender to accelerate the loan if the borrower transfers a substantial beneficial interest in the property to another party.

An example of when this might happen is if the home was sold.

An escrow covenant is typical in many loans. This requires the borrower to pay hazard insurance and property tax in installments to the lender in advance.

The lender holds these funds until the payments are due. The bills are then submitted to the lender and subsequently paid from the escrow.

The borrower is required to keep property insurance against loss by fire and certain other hazards through an insurance covenant.

This is done so the lender is protected if anything bad happens to the property.

If the borrower does not obtain the appropriate coverage, the lender may obtain it at the borrower’s expense.

A prepayment clause gives the borrower a right to pay off the loan prior to maturity without penalty.

As a final point, as with any contract, make sure to review and understand the terms prior to signing on the bottom line. Even though the closing attorney or settlement agent may not review each and every provision, it is necessary for the buyer to do so.

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Marc A. Hebert, MS, CFP, is a senior member and president of the wealth management and financial planning firm The Harbor Group of Bedford. Email questions to Marc at mhebert@harborgroup. com. Your question and his response might appear in a future column.

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Marc Hebert

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