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COVENANTS WITH all the improvements now or hereafter erected on the subject and all covenants, rights, opportunities, terms, conditions, annual and general rights and profits, as yet unvested, and all future money or benefits a part of the property. All requirements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property".

BORROWER COVENANTS that Borrower is, on full behalf of the estate hereby conveyed, and on the right to mortgage, grant and convey the Property and that the Property is encumbered, except for encumbrances of record, Borrower warrants and will defend generously the title to the Property against all claims and demands, subject to any encumbrances of record.

1. Payment of Principal, Interest and Late Charge. Borrower shall pay over the principal of, and interest on, the debt evidenced by the Note and late charges due under the Note.

2. Monthly Payments of Taxes, Insurance and Other Charges. Borrower shall include in each monthly payment, together with the principal and interest as set forth in the Note and any late charge, an installment of any taxes and special assessments levied or to be levied against the Property, for leasehold payments or ground rents on the Property, and (c) premiums for insurance required by paragraph 4.

Each monthly installment for items (a), (b), and (c) shall be not less than one-twelfth of the annual amount, as reasonably estimated by Lender, plus an amount sufficient to maintain an additional balance of 1% or more than one-twelfth of the estimated amount. The full annual amount for each item shall be accumulated by Lender within a period ending one month before said item would become delinquent. Lender shall lend the amounts collected over to pay items (a), (b), and (c) before they become delinquent.

If at any time the total of the payments made by Lender for items (a), (b), and (c), together with the future monthly payments for such items payable to Lender prior to the due date of such items, exceeds by more than one-twelfth the estimated amount of payments required to pay such items when due, and if payments on the Note are current, then Lender shall either refund the excess over one-twelfth of the estimated payments, or credit the excess to the next month of the estimated payments to subsequent payments by Borrower, at the option of Borrower. If the total of the payments made by Borrower for item (a), (b), or (c) is insufficient to pay the same when due, then Borrower shall pay to Lender an amount necessary to make up the delinquency on or before the date of its becoming due.

As used in this Security Instrument, "Secretary" means the Secretary of the Secretary and Lender Development Division or her designee. In any year in which the Lender must pay a mortgage insurance premium to the Secretary, such mortgage payment shall also include either a one-twelfth part of the annual mortgage insurance premium to be paid by Lender to the Secretary, or (b) a monthly charge in lieu of a mortgage insurance premium to the Secretary. Each monthly installment of the mortgage insurance premium shall be an amount sufficient to accumulate the full annual mortgage insurance premium until Lender one month prior to the date the full annual mortgage insurance premium is due to the Secretary, or if this Security Instrument is held by the Secretary, a monthly charge shall be an amount equal to one-twelfth of one-half percent of the outstanding principal balance due on the Note.

If Borrower tenders to Lender the full payment of all items secured by this Security Instrument, Borrower's account shall be credited with the balance remaining for all items not yet received, (b), and (c) and the mortgage insurance premium in full. Lender shall not be required to pay to the Secretary, and Lender shall promptly refund any excess funds to Borrower. Immediately prior to a foreclosure sale of the Property or its acquisition by Lender, Borrower's account shall be credited with any balance remaining for all items (b), and (c).

3. Application of Payments. All payments under paragraph 1 and 2 shall be applied by Lender as follows:

First, to the mortgage insurance premium to be paid by Lender to the Secretary or to the monthly charge by the Secretary instead of the monthly mortgage insurance premium;

Second, to any taxes, special assessments, leasehold payments or ground rents, and fire, flood and other hazard insurance premiums, as required;

Third, to interest due under the Note;

Fourth, to amortization of the principal of the Note;

Fifth, to late charges due under the Note.

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4. **Fire, Flood and Other Hazard Insurance.** Borrower shall insure all improvements on the Property, whether now in existence or subsequently created, against any hazards, casualties, and contingencies, including fire, for which Lender carries insurance. This insurance shall be maintained in the amounts and for the periods that Lender requires. Borrower shall insure all improvements on the Property, whether now in existence or subsequently created, against loss or damage to the extent required by the Secretary. All insurance shall be carried with companies approved by Lender. The insurance policies and any renewals shall be held by Lender and shall include, or be payable, either in favor of, and in a form acceptable to Lender.

In the event of loss, Borrower shall give Lender immediate notice by mail. Lender may make proof of loss if necessary on behalf of Borrower. The insurance company covered is hereby authorized and directed to make payment to the extent of the total under, instead of to Borrower, and to Lender jointly. All or any part of the insurance proceeds may be applied by Lender, at its option, either (a) to the reduction of the indebtedness under the Note and this Security Instrument, first to any delinquent amounts applied in the order set in paragraph 3, and then to prepayment of principal, or (b) to the restoration or repair of the damaged Property. Any application of the proceeds to the principal shall not extend or postpone the date of the monthly payments which are referred to in paragraph 2, or change the amount of such payments. Any excess insurance proceeds, over an amount required to pay all outstanding indebtedness under the Note and this Security Instrument shall be paid to the entity legally entitled thereto.

In the event of foreclosure of this Security Instrument or other transfer of title to the Property that extinguishes the indebtedness, all right, title and interest of Borrower in, and to insurance policies in force, shall pass to the purchaser.

5. **Occupancy, Preservation, Maintenance and Protection of the Property: Borrower's Loan Application, Leaseholds.** Borrower shall occupy, establish, and use the Property as Borrower's principal residence, with no lease date after the execution of this Security Instrument and shall continue to occupy the Property as Borrower's principal residence for at least one year after the date of occupancy, unless the Secretary determines the requirements will cause undue hardship for Borrower, or unless extension of an emergency order which are beyond Borrower's control. Borrower shall notify Lender of any extinguishing circumstances. Borrower will not commit waste or destroy, damage, or substantially change the Property or allow the Property to deteriorate, reasonable wear and tear excepted. Lender may inspect the Property of the Property or amount or abandonment or the loan is in default. Lender may take reasonable action to protect and preserve such amount or abandoned Property. Borrower shall also be in default if Borrower, during the term application process, gave materially false or inaccurate information or statements to Lender, or failed to provide Lender with any material information in connection with the loan evidenced by the Note, including, but not limited to, representation concerning Borrower's occupancy of the Property as a principal residence. If this Security Instrument is terminated, Borrower shall comply with the provisions of the lease. If Borrower acquires fee title to the Property, the fee shall and fee title shall not be merged unless Lender agrees to the merger in writing.

6. **Charges to Borrower and Protection of Lender's Rights in the Property.** Borrower shall pay all governmental or municipal charges, taxes and impositions that are not included in paragraph 2. Borrower shall pay these obligations on time directly to the entity which is owed the payment. If failure to pay would adversely affect Lender's interest in the Property, upon Lender's request Borrower shall promptly turn to Lender receipts evidencing these payments.

If Borrower fails to make these payments or the payments required by paragraph 2, or fails to perform any other covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, for condemnation or eminent domain, or regulations), then Lender may do and pay whatever is necessary to protect the value of the Property and Lender's rights in the Property, including payment of taxes, hazard insurance and other items mentioned in paragraph 2.

Any amount disbursed by Lender under this paragraph shall become an additional debt of Borrower and be secured by the Security Instrument. These amounts and bear interest from the date of disbursement, at the Note rate and at the option of Lender, shall be immediately due and payable.

7. **Condemnation.** The proceeds of any award or claim for damages, direct or consequential, in connection with the condemnation or other taking of any part of the Property, or for conveyance in place of condemnation, are hereby assigned and shall be paid to Lender to the extent of the full amount of the indebtedness that remains unpaid on for the Note and the Security Instrument. Lender shall apply such proceeds to the reduction of the indebtedness under the Note and this Security Instrument, first to any delinquent amounts applied in the order provided in paragraph 5, and then to prepayment of principal. Any application of the proceeds to the principal shall not extend or postpone the due date of

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the monthly payments, which are referred to in paragraph 2, or change the amount of such payments. Any such proceeds shall be used to pay all outstanding indebtedness under the Note and this Security Instrument shall be paid to the entity legally entitled thereto.

8. **Fees.** Lender may collect fees and charges authorized by the Secretary.

9. Grounds for Acceleration of Debt

(a) **Default.** Lender may, except as limited by regulations issued by the Secretary in the case of payment defaults, require immediate payment in full of all sums secured by this Security Instrument if:

(i) Borrower defaults by failing to pay on full any monthly payment required by this Security Instrument prior to or on the due date of the next monthly payment; or

(ii) Borrower defaults by failing for a period of thirty days to perform any other obligation contained in this Security Instrument.

(b) **Sale Without Credit Approval.** Lender shall, if permitted by applicable law and with the prior approval of the Secretary, require immediate payment in full of all sums secured by this Security Instrument if:

(i) All or part of the Property, or a beneficial interest in all or part of the Property, is sold or otherwise transferred (other than by devise or descent) by the Borrower; and

(ii) The Property is not occupied by the purchaser or grantee, or his or her principal residence, or the purchaser or grantee does not occupy the Property but his or her credit has not been approved in accordance with the requirements of the Secretary.

(c) **No Waiver.** If circumstances occur that would permit Lender to require immediate payment in full, but Lender does not require such payment, Lender does not waive its rights with respect to subsequent events.

(d) **Regulations of HUD Secretary.** In many circumstances, regulations issued by the Secretary will limit Lender's rights in the case of payment defaults to require immediate payment in full and foreclosure if not said. This Security Instrument does not authorize acceleration or foreclosure if not permitted by regulation of the Secretary.

(e) **Mortgage Not Insured.** Borrower agrees that should the Security Instrument and the Note secured thereby not be eligible for insurance under the National Housing Act within 60 days from the date hereof, Lender may, at its option and notwithstanding anything in paragraph 9, require immediate payment in full of all sums secured by this Security Instrument. A written statement of any authorized agent of the Secretary dated subsequent to 60 days from the date hereof, declining to insure the Security Instrument and the Note secured thereby, shall be deemed conclusive proof of such ineligibility. Notwithstanding the foregoing, this option may not be exercised by Lender when the unavailability of insurance is solely due to Lender's failure to permit a mortgage insurance premium to be Secretary.

10. **Reinstatement.** Borrower has a right to be reinstated if Lender has required immediate payment in full because of Borrower's failure to pay any amount due under the Note or this Security Instrument, but such right applies only after foreclosure proceedings are instituted. To reinstate the Security Instrument, Borrower must tender a sum sufficient to pay all amounts required to bring Borrower's account current, including, to the extent they are obligations of Borrower under this Security Instrument, foreclosure costs and reasonable and customary attorney fees and expenses properly associated with the foreclosure proceeding. Upon reinstatement by Borrower, this Security Instrument and the obligations that it secures shall remain in effect as if Lender had not required immediate payment in full. However, Lender is not required to permit reinstatement if: (i) Lender has recently reinstated after the commencement of foreclosure proceedings within two years immediately preceding the commencement of a current foreclosure proceeding; (ii) reinstatement will prejudice foreclosure on different grounds in the future; or (iii) reinstatement will adversely affect the priority of the lien created by this Security Instrument.

(1) **Borrower Not Released; Forbearance By Lender Not a Waiver.** Extension of the term of payment or modification of amortization of the sums secured by this Security Instrument granted by Lender to any one or more of Borrower, shall not operate to release the liability of the original Borrower or Borrower's successor in interest. Lender shall not be required to accept any such extension or interest or refuse to accept time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the original Borrower or Borrower's successor in interest. Any forbearance by Lender in exercising any right or remedy shall not be a waiver of or preclude the exercise of any right or remedy.

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12. Successors and Assigns Bound. Joint and Several Liability. Co-Signers. The obligations and covenants of this Security Instrument shall bind and benefit the successors and assigns of Lender and Borrower, subject to the provisions of paragraph 9.b. Borrower's covenants and agreements shall be joint and several. Any Borrower who assigns this Security Instrument but does not execute the Note (a) is assigning this Security Instrument only to mortgagee, grant and convey that Borrower's interest in the Property under the terms of the Security Instrument. In no event shall Borrower be obligated to pay the sums secured by this Security Instrument, and (b) agree that Lender and any other Borrower may agree to extend, modify, forgive or make any accommodations with regard to the terms of the Security Instrument or the Note without that Borrower's consent.

13. Notices. Any notice to Borrower provided for in this Security Instrument shall be given by delivering it or by mailing it by first class mail unless applicable law requires use of another method. The notice shall be directed to the Property Address or any other address Borrower designates by notice to Lender. Any notice to Lender shall be given by first class mail to Lender's address stated herein or any address Lender designates by notice to Borrower. Any notice provided for in this Security Instrument shall be deemed to have been given to Borrower or Lender when given as provided in this paragraph.

14. Governing Law; Severability. This Security Instrument shall be governed by federal law and the law of the jurisdiction in which the Property is located. In the event that any provision or clause of this Security Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision. To this end the provisions of this Security Instrument and the Note are declared to be severable.

15. Borrower's Copy. Borrower shall be given one conformed copy of this Security Instrument.

16. Assignment of Rents. Borrower unconditionally assigns and transfers to Lender all the rents and revenues of the Property. Borrower authorizes Lender or Lender's agents to collect the rents and revenues and hereby directs each tenant of the Property to pay the rents to Lender or Lender's agents. However, prior to Lender's notice to Borrower of Borrower's breach of any covenant or agreement in the Security Instrument, Borrower shall collect and receive all rents and revenues of the Property as trustee for the benefit of Lender and Borrower. This assignment of rents constitutes an absolute assignment and not an assignment for additional security only.

If Lender gives notice of breach to Borrower: (a) all rents received by Borrower shall be held by Borrower in trust for benefit of Lender only, to be applied to the sums secured by the Security Instrument; (b) Lender shall be entitled to collect and receive all of the rents of the Property; and (c) each tenant of the Property shall pay all rents due and unpaid to Lender or Lender's agent on Lender's written demand to the tenant.

Borrower has not executed any prior assignment of the rents and has not and will not perform any act that would prevent Lender from exercising its rights under this paragraph 16.

Lender shall not be required to enter upon, take control of or maintain the Property before or after giving notice of breach to Borrower. However, Lender or a judicially appointed receiver may do so at any time there is a breach. An application of rents shall not cure or waive any default or violation by either party or remedy of Lender. The assignment of rents of the Property shall terminate when the debt secured by the Security Instrument is paid in full.

NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

17. Foreclosure Procedure. If Lender requires immediate payment in full under paragraph 9, Lender may foreclose this Security Instrument by judicial proceeding. Lender shall be entitled to collect all expenses, incurred in pursuing the remedies provided in this paragraph 17, including, but not limited to, reasonable attorneys' fees and costs of title evidence.

18. Release. Upon payment of all sums secured by this Security Instrument, Lender shall release this Security Instrument without charge to Borrower. Borrower shall pay any rescission costs.

19. Waiver of Homestead. Borrower waives all right of homestead exemption in the Property.