

# **American Financial Resources, Inc.**

## **Repair Escrow Guidelines**

A repair escrow is intended to facilitate uncomplicated rehabilitation to a home being purchased from HUD. To qualify, the appraisal must be marked in one of the following: Insurable, Insurable with Conditions, or Insurable with Repair Escrows.

The funds for the repairs can be borrowed and cannot be more than \$5,000. A 203k loan should be used in lieu of a repair escrow if any of the funds for the repair(s) are greater than \$5,000 or where the appraisal is marked Uninsurable.

The repair items cannot require plans, consultants, engineers and/or architects and should only be for cosmetic purposes.

### **What type of repairs or improvements are eligible for a repair escrow as indicated by the appraiser?**

- Repair roofs, gutters and downspouts;
- Repair/Replacement/upgrade of existing HVAC systems;
- Repair/Replacement/upgrade of plumbing and electrical systems;
- Repair/Replacement of flooring;
- Painting, both exterior and interior;
- Weatherization, including storm windows and doors, insulation, weather stripping, etc.;
- Purchase and installation of appliances, including free-standing ranges, refrigerators, washers/dryers, dishwashers and microwave ovens;
- Minor repair to exterior decks, patios, porches;
- Minor basement waterproofing;
- Window and door replacements and exterior wall re-siding;
- Other minor repair(s) as indicated by the appraiser as being cosmetic in nature and conform to HUD's repair escrow requirements

### **What improvements are INELIGIBLE for a repair escrow?**

- Major rehabilitation or major remodeling, such as the relocation of a load-bearing wall;
- New construction (including room additions);
- Any repair that, according to the appraiser's report, not cosmetic in nature;
- Repair of structural damage;
- Repair(s) requiring detailed drawings or architectural exhibits;
- Landscaping or similar site amenity improvements;
- Any repair or improvement requiring a work schedule longer than 60 days; or
- Repair/Rehabilitation activities that require more than one (1) final disbursement.

The repair escrow is not to be used for any required repair(s) that do not appear on the above list of eligible work items or that would:

- Necessitate a “consultant” to develop a “Specification of Repairs/Work Write-Up”;
- Require plans or architectural exhibits;
- Require a plan reviewer;
- Require more than 60 days to complete;
- Result in work not starting within 15 days after loan closing; or
- Cause the mortgagor to be displaced from the property for more than 30 days during the time the rehabilitation work is being conducted.

### **Is a licensed contractor required?**

Yes, a contractor is required to perform the required repair(s) regardless of how much the total required repair(s) cost is. The contractor must be fully licensed (if required by the state) and insured for liability and workers compensation or any other insurance as required by local and state law.

### **What is the minimum and maximum amount for repair costs under this program?**

There are no minimum repair costs. The maximum total repair costs are \$5,000. Loans identified as being uninsurable by the appraiser or require a repair escrow of \$5,000 or more will need to be done as a Streamlined 203k.

### **What are the appraisal requirements to be eligible for a repair escrow?**

The repair escrow may be used for repair(s) that have been identified in the course of the appraisal. The appraiser must indicate the following in the appraisal report:

- A description of the required repair(s) and/or improvement(s);
- A statement that the subject property is insurable in its “as is” state with costs of \$5,000 or less;
- The total amount of the estimated repair escrow;
- A statement that all repair requirements are cosmetic in nature;
- The appraisal is made “as is” and not subject to the completion of the repairs.

### **The appraisal should reflect one of the following:**

1. **Insurable.** Properties marketed as "insurable" are those which meet FHA's Minimum Property Requirements (MPR) at the time of the appraisal in their as-is condition without repairs necessary.
2. **Insurable With Condition(s).** Insurable properties may have conditions which must be satisfied to fully meet FHA's MPR. The M&M contractor's Internet listings will disclose what

conditions must be satisfied. For a property that is listed as "insurable with condition(s)" (property appraised without the benefit of the utilities being activated during the time of the appraisal, properties with flat roofs, and/or a property which appears to be insurable but a certification for a specific item(s) is required), the mortgage lender/purchaser(s) must have a complete systems check, the flat roof inspection to assure a two year life, and any other certification needed to satisfy the appraiser's concerns listed on the appraisal performed by a reputable individual or firm at the purchaser(s) expense to ensure complete system functionality prior to loan closing. If repairs are required that do not exceed \$5,000, the loan may be financed as a 203(b) repair escrow and the lender may process the loan using the instructions for cases with repair escrow. If repairs are required that exceed \$5,000, the loan may be processed with Section 203(k) financing provided the cost of repairs are in compliance with REO program policies.

3. **Insurable With Repair Escrow.** A property that requires no more than \$5,000 for repairs to meet FHA's MPR as determined by the appraiser, is eligible to be marketed for sale in its as-is condition with FHA mortgage insurance available, provided the purchaser(s) establishes a cash escrow to ensure the completion of the required repairs. Purchaser(s) are permitted to include in their mortgage an amount equal to 110% of the estimated cost of the repairs.
4. **Uninsurable.** Properties offered for sale "Uninsured" do not meet, in their as-is condition, FHA's MPR and the cost of repairs identified by the appraiser to meet MPR are estimated to exceed \$5,000. Uninsurable properties qualify **only for Section 203(k) financing.**

### **Will AFR close if a Temporary Certificate of Occupancy (T/C/O) has been issued from the local authority?**

If a Certificate of Occupancy (C/O) is required from the local building department, AFR will require the C/O be issued prior to closing. If the local building department has issued a Temporary Certificate of Occupancy (T/C/O), AFR will close the loan with the following:

- The requirements from the town may not be a safety concern of AFR's underwriter or the appraiser;
- All town requirements must be addressed in the appraisal report;
- All items on the appraisal must be completed, including all town requirements for the C/O AND a final C/O must be issued before the final disbursement is made;
- In the underwriter's opinion, all items must be able to be completed within 30 days of closing.

### **Is there a final inspection required to be done once all work is completed?**

Yes, an inspection by the appraiser to determine that all listed repairs and or renovations were satisfactorily completed is required regardless of the amount of the escrowed funds.

### **Can the repair escrow be used for refinancing the mortgage?**

No, a repair escrow is not available for mortgage refinance transactions.

### **Can this program be used for repairs and improvements on purchases of non HUD REO's (Real Estate Owned)?**

No. A repair escrow may not be used for housing sold by anyone other than HUD at this time.

### **What if the REO property requires lead-based paint stabilization?**

A repair escrow **may not** be used for lead based paint stabilization. However, the Streamlined (k) program may be used for the financing of REO purchases where a pre-1978 property has been determined to contain lead-based paint and the M&M Contractor (FHA's Management and Marketing contractor (M&M)) has completed a stabilization plan and cost estimate to stabilize (mitigate) the deteriorated paint. The purchaser must sign a 203(k) rehabilitation financing lead agreement requiring that a clearance examination and report be included in the work write-up and conducted before release of the final construction disbursement and before occupancy. The credit from HUD, received at sales closing by the purchaser, associated with the lead-based paint stabilization plan is not included in the \$35,000 Streamlined (k) limit. The Streamlined (k) program may be used for all eligible repair items as shown above, including the cost of lead-based paint stabilization *not* paid for by HUD when it sells a property requiring lead-based paint stabilization. **A state- or Environmental Protection Agency (EPA) certified lead-based paint inspector, certified risk assessor or sampling technician, must perform the clearance examination.**

When HUD sells a single-family REO property, the M&M Contractor determines whether repairs are necessary to stabilize any lead-based paint. HUD's regulations for pre-1978 housing require the stabilization of paint except for paint determined not to be lead-based paint. HUD may reduce the sales price by the amount of a *credit* equal to the Department's contribution toward the cost of lead-based paint stabilization. Any lead-based paint stabilization costs in excess of this credit become the responsibility of the purchaser.

### **What are the mortgagor's requirements for selecting the contractor?**

### **What are AFR's requirements for reviewing the contractor and the rehabilitation proposal?**

The mortgagor must utilize the services of a duly licensed, bonded and insured contractor. The contractor will be under contractual obligation for the entire work to be performed from start to finish. The contractor is responsible for hiring the different trades required to complete all of the work required if necessary.

AFR will review the contractor's proposed work plan and cost estimates to ensure the planned work meets all program and repair recommendations as noted on the appraisal report. All repair(s) must

meet all local codes and ordinances as evidenced by a permit issued by the local authority (if applicable). The mortgagor and/or contractor must obtain all required permits prior to closing (if applicable).

The submitted cost estimate(s) must clearly state the type of repair(s) and the cost for completion. AFR will review and verify the contractor's credentials and work experience and may require the mortgagor to provide additional cost estimates from other licensed and bonded contractors if necessary. AFR reserves the right to decline the use of a specific contractor at its sole discretion.

The selected contractor must agree in writing to complete the work for the amount of the cost estimate and must agree to complete all work in a professional and satisfactory manner within 60 days of closing. A copy of the contractor's cost estimate(s) and the executed Homeowner/Contractor Agreement must be received by AFR prior to closing.

### **How much time is given to complete the work?**

All repairs must be finished in accordance with the written estimate and Homeowner/Contractor Agreement and Repair Escrow Agreement within **60** days. If the work is not completed within **60** days of closing, a principal reduction will be made against the remaining unpaid balance of the mortgage.

### **Disbursements made to contractors/borrowers?**

No more than one payment may be disbursed to the contractor. The only disbursement will be made following completion of all work and release of any and all liens arising out of the contract or submission of receipts or other evidence of payment covering all subcontractors or suppliers who could file a legal claim.

Before a final disbursement is made, the Owner must complete a Repair Escrow Completion Letter (can be found on our websites) and a final inspection from the appraiser verifying all repairs are satisfactorily completed must be received by the Lender.

### **Additional costs charged to the mortgagor?**

The amount of escrowed funds will include an amount equal to two inspection fees (generally \$150 each). Unused inspection fees will be disbursed as a principal reduction of the mortgage balance within 30 days of the project's completion.

### **Can the repair escrow be used for manufactured housing?**

Yes. The program can be used for a loan on a manufactured home however; it cannot be used to permanently affix the home to the foundation. The home must be completely secured to the foundation as evidenced by an engineer's cert and FHA appraisal prior to closing.

**How much is the contingency reserve?**

The contingency reserve is up to 10% of the total repair(s) or rehabilitation expenses. The amount of reserve is at the underwriter or appraiser's discretion. All funds remaining in the escrow account after the disbursement of funds including any remaining reserve amount will be disbursed towards a principle reduction of the mortgage.

**Can a loan with a repair escrow be used in conjunction with FHA's \$100.00 down program?**

No. In order to obtain a loan with a repair escrow, the borrower must have a down payment of at least FHA's minimum required down payment percentage of an FHA 203b loan (currently 3.5%) of the sum of the sales price or appraised value whichever is less, repair costs, contingency reserve and final inspection costs. (see HUD form 92700)

**Where can I go if I have questions or need additional information about the repair escrow program?****Where can go to inform AFR once the work is completed or if my contractor has any questions?**

Send your questions or request for additional information or final funds to one of the following email addresses: [escrow@afmortgage.com](mailto:escrow@afmortgage.com) or [escrow@afrwholesale.com](mailto:escrow@afrwholesale.com).