



HFC REPAIR ESCROW PROCEDURES

When repairs are required by the appraiser, HFC allows the ability to finance the required improvements based on an "as improved" appraised value, in combination with an escrow hold-back at closing.

Homestar will not allow a repair escrow for repairs that are significant and negatively impacts the safety or livability of the dwelling. (I.e. Mold, extensive termite damage, structural damage)

REQUIREMENTS:

- ✓ Homestar repair escrow amount limit is \$10,000.00 or 10% of the sales price (whichever is less). The limit does not include repair escrow cost overrun charges.
- ✓ Appraisal must be marked "subject to" repairs on the page 2 of the URAR and appraiser needs to list all required repairs on page 1 or the URAR.
- ✓ Only Kitchen Appliances (Refrigerator, Range, and Dishwasher) and HUD required repairs from the appraiser are allowed to be escrowed. HUD is looking for issues that cause safety, soundness, and security issues.
 - ❖ Examples of items that don't require a repair according to HUD

Missing Handrails, cracked or damaged doors, cracked window glass, defective interior paint surfaces, minor plumbing leaks, defective floor finish (badly soiled carpeting), Evidence of previous wood destroying insects, damaged sheetrock or other wall materials, poor workmanship, or Trip hazards.
 - ❖ Example of items that require repair according to HUD

Inadequate access / egress from the bedroom to the exterior of the home, leaking and worn out roofs, evidence of structural problems, defective paint and sheetrock on the Interior and or Exterior of a house built pre 1978 (lead paint issue), defective paint on the exterior of house post 1978 where the finish is unprotected, and mechanical issues (electrical, plumbing), that effect security, safety and or soundness of the property.
- ✓ 1003 must be completed with the amount of financed repairs listed under the Details of Transaction "Alterations" Section b. (repair escrows should never be listed on the GFE)
 - ❖ Repairs must be escrowed at 150% of the bid(s) amount; however only 100% of the bid(s) will be financed into the loan, the remaining 50% must be provided from buyer/seller/realtors/mortgage broker funds.
 - ❖ Item 'b' will include the entire repair amount grossed up at 150%
 - ❖ The underwriter will adjust the base loan (item 'm') amount minus the cost overrun (50%)
 - ❖ All Origination and YSP payment from HFC will not be disbursed until the work is complete inspected and approved by HFC.



- ✓ Escrow Holdback Agreement (See attached) has to be completed by the processor, and sign by the borrower and seller if applicable.
- ✓ Completed Escrow Repair Estimate Worksheet (See Attached) This form must state if any of the vendors require an upfront portion of the repair escrow to be released at closing (prior to start of repair). HFC will not release any portion of the Repair Escrow after closing until items are 100% complete.
- ✓ Estimates for all repairs required by the appraiser and or Kitchen Appliances. Vendors listed on the final Escrow Repair Worksheet approved by the underwriter CANNOT change once the loan is closed. The Final invoices must match the Final Escrow Repair Worksheet.
- ✓ Completed Escrow Repair Final Invoice Worksheet (See Attached). This is to be completed after the loan has closed and all final invoices from the vendors have been collected. The Vendors on this worksheet must match the final Escrow Repair Estimate Worksheet.
- ✓ \$250.00 Escrow Admin fee Collected at closing (This fee must be disclosed on the GFE as part of "Our Origination Charge" or Loan Officer will be required to credit the borrower for the fee.)
- ✓ The Underwriter will place a closing condition on the file that list the amount each vendor is to be paid at closing.
- ✓ Final inspection of required repairs will be required within 20 days of closing. The Final inspection needs to have photos and a full description from the appraiser stating that each repair item has been completed.
 - ❖ It also must state the property meets HUD Handbooks 4150.2 and 4905.1.



HFC INTERNAL PROCEDURE – TO REVIEWER/CLOSER

- ❖ The EFOLDER must have the following before the loan is cleared to close
 - Appraisal marked subject to repairs on the 2nd page of the URAR appraiser needs to list all required repairs on page 1 or the URAR
 - Escrow Repair Estimate Worksheet (this should be scanned with your Escrow Holdback Agreement and Repair Estimates it should be uploaded under the name PROPERTY REPAIR ESCROW ESTIMATE)
 - Escrow Holdback Agreement (this should be scanned with your Escrow Repair Estimate Worksheet and Repair Estimates it should be uploaded under the name PROPERTY REPAIR ESCROW ESTIMATE)
 - All Repair Estimates from the Vendor's (this should be scanned with your Escrow Repair Estimate Worksheet Escrow Holdback Agreement it should be uploaded under the name PROPERTY REPAIR ESCROW ESTIMATE)

THE FOLLOWING MUST BE EMAILED TO THE HFC AFTER ALL REPAIRS HAVE BEEN COMPLETED.

- Final inspection of required repairs will be required within 20 days of closing. The Final inspection needs to have color photos and a full description from the appraiser stating that each repair item has been completed. It also must state the property meets HUD Handbooks 4150.2 and 4905.1
- Completed Escrow Repair Final Invoice Worksheet
- Invoices for all Repairs

UNDERWRITING WILL PERFORM THE FOLLOWING

- Underwriting will review the Final Inspection and the Final invoice to make sure these match the approved file.
- Underwriting will Sign the Final Inspection and will upload the signed Final to the Efolder. Underwriter will name the Signed Final as PROPERTY FINAL INSPECTION, be sure to upload the color PDF photo's
- Underwriting will notify processing and accounting that all items are in the Efolder are clear and checks can be disbursed to the vendors.

Attachments:

Escrow Holdback Agreement
Escrow Repair Estimate Worksheet
Escrow Repair Final Invoice Worksheet



ESCROW HOLD BACK AGREEMENT
INCOMPLETE REPAIRS AGREEMENT

THIS AGREEMENT, between **HOMESTAR FINANCIAL CORPORATION**, hereafter referred to as 'The Company', _____ seller(s) and _____ Mortgagor(s) has been entered into because of certain work and/or repairs required to be completed prior to settlement. Notwithstanding the fact that this work and/or repairs has not been completed at this time, The Company has agreed to settle this loan with the understanding that the funds held under the terms of the Agreement are solely for the protection of the Company, as mortgage, to maintain both the value of the property as security for the loan and the marketability of the loan on the secondary mortgage market. The terms of this agreement are as follows:

1. \$ _____ **Dollars**
has been given to the Company to be held by it in a non-interest bearing account to insure the completion of work and /or repairs as specified in this Agreement.
2. The funds that are being held come from the mortgage proceeds, which the parties hereto acknowledge have been completely disbursed.
3. The work and/or repairs to be completed are as follows:

4. Borrower(s) _____ covenants in good faith to complete, or cause to be completed, such work and/or repairs by the due date in a workmanlike manner. The work and/or repairs shall be completed no later than **20 (twenty) days. NO EXTENSIONS WILL BE GRANTED WITHOUT THE WRITTEN CONSENT OF THE COMPANY IN ITS SOLE DISCRETUION.** At that time, contact the Company so that it may arrange for an inspection.
5. If the Company is satisfied that the work has been completed in a workmanlike manner satisfactory to the Company and in compliance with municipal and governmental regulations, and the value of the property as collateral for the mortgage loan is fully protected, it will release the escrow funds as follows: (a.) first, to pay the inspections and other costs and expenses incurred by the Company in connection herewith; (b.) second, to pay the contractor(s) who performed the work; and (c.) third, the remaining funds, if any to:
6. In the event the work is not completed in a manner satisfactory to the Company by the required date, the Company is authorized (but not obligated) to engage the services of a contractor to complete the remainder of the work and otherwise take steps, as the Company deems necessary or advisable to preserve the value of its collateral. All monies due the contractor plus fees for permits and certifications will be taken form the funds held hereunder. If there are not enough funds available to pay for the necessary work, the Buyer and Seller agree, jointly and severally, to deposit with the Company, within five days written notice, any additional amount required completing the repairs. The Company shall have no obligation of any kind whatsoever either (a.) to provide any of its own funds to pay for any of the required work and/or repairs or (b.) to seek to obtain additional funds from either Buyer or Seller to finance the completion of such work and/or repairs. In the event that repairs are not completed to the satisfaction of the Company within the permitted time period, the Company shall have the right to apply the escrow funds against the outstanding principal balance due under the loan. The Company shall also have the right, at its option, to declare the loan to be in default and accelerate the full amount of debt.
7. The mortgagor agrees to allow access to the property for the purposes of having the necessary work completed, and/or have an inspection made between the hours of 8:00 a.m. to 6:00 p.m., Monday through Saturday.
8. The mortgagor acknowledges that the Company has no responsibility for, and is not party to any arrangement made between the Seller, Mortgagor or any contractor in which the Company does not hire, and further acknowledges that the Company is authorized to disburse the funds when the work has been completed to the Company's satisfaction, whether or not the other parties to this Agreement have approved the work and/or repairs. The Company assumes no duty of care to Buyer or Seller and makes no guaranty, representation, and/or warranty of any kind whatsoever, to Buyer or Seller regarding the value, condition, quality or suitability of the property or the work and/or repairs. The sole duty and responsibility of the Company shall be to hold and disburse the funds it holds in accordance with the terms of this Agreement. An election by the Company to retain a contractor to complete the work and/or repairs is undertaken solely for the protection of the Company, as mortgage. The Company will not be liable for any entry, trespass



or damage, or for the quality of work performed. Upon release of the funds, the Company shall be release from any and all obligations and liabilities under this Agreement.

9. The Company is authorized to deduct a fee from the funds held under this Agreement for each inspection performed by its authorized representative. The Company is also authorized to deduct from the funds such sums as may be necessary to reimburse it for costs and expenses incurred in connection herewith.
10. The Seller and the Mortgagor agree to use their best efforts to see that no additional liens are placed against the mortgaged property until such time as the funds have been released.
11. Seller(s) Address: _____,
Seller(s) Phone Number: _____ and Mortgagor's Phone Number: _____
12. The Company's decision with respect to any/all matters regarding this Agreement will be final.
13. In the event this Agreement is not performed within the time limit set forth above, the Company shall have the right to engage counsel and otherwise take any action which the Company, in its sole and absolute discretion, deems appropriate in order to effectuate compliance with this Agreement and to protect the value of its collateral and the Buyer and Seller shall be jointly and severally liable for any and all expenses, including but not limited to attorneys fees and expenses, incurred by the Company in connection herewith.
14. In the event that conflicting demands are made upon the Company concerning the escrows funds, Buyer and Seller authorized the Company to hold any monies and documents deposited hereunder until it receives mutual instructions in writing from or until civil action determining the disposition of the funds has been finally concluded in a court of competent jurisdiction. The Company may, in its discretion, commence a court action to interplead any conflicting demands, depositing with the court all documents and funds (after deducting here from all expenses and attorneys fees incurred in connection with such action) whereupon the Company, as escrow agent, shall be relieved of all liabilities or obligations hereunder.
15. [] If check, a 'Rider to Incomplete Repairs Agreement' is attached and made a part thereof.

Mortgagor: _____ Date: _____

Mortgagor: _____ Date: _____

Seller: _____ Date: _____

Seller: _____ Date: _____



RIDER TO INCOMPLETE REPAIRS AGREEMENT

This Rider to Incomplete Repairs Agreement ('Agreement') is entered into on _____ among the Company, the Seller(s); _____, the Mortgagor(s): _____, and the Escrow Holder: _____

This Agreement is amended as follows:

1. The funds provided pursuant to paragraph 1 of the Agreement have been deposited with the Escrow Holder and will be held by it in a non-interest bearing account.
2. The repairs are to be completed by the date set forth in paragraph 4 of the Agreement. If the Company, in its discretion, is satisfied that the repairs have been completed, it shall authorize the Escrow Holder to disburse the funds. If the repairs have not been completed, the Company may, at its option, (a.) extend the time for completion and advise the Escrow Holder of the new date, or (b.) authorize the Escrow Holder to disburse any remaining funds to the Company which will arrange for completion of the repairs or apply the funds against the outstanding principal balance due under the loan, all as contemplated by paragraph 6 of the Agreement.
3. The Escrow Holder shall be entitled to the benefits and protections afforded the Company under paragraph 8, 13 and 14 of the Agreement.
4. The Agreement shall remain in full force and effect except as amended by this Rider.

Mortgagor: _____ Date: _____

Mortgagor: _____ Date: _____

Seller: _____ Date: _____

Seller: _____ Date: _____

Escrow Holder: _____ Date: _____



ESCROW REPAIR ESTIMATE WORKSHEET

ALL ESTIMATES MUST BE ATTACHED

PLEASE COMPLETE ALL OF THE INFORMATION BELOW FROM THE ESTIMATES OBTAINED

Borrower's Name:		Loan #:	
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NAME OF VENDOR #1			
Amount of total estimate	\$	Amount of deposit (if any):	\$
List of repairs to be done by vendor:			
Address:			
Phone:			

NAME OF VENDOR #2			
Amount of total estimate	\$	Amount of deposit (if any):	\$
List of repairs to be done by vendor:			
Address:			
Phone:			

NAME OF VENDOR #3			
Amount of total estimate	\$	Amount of deposit (if any):	\$
List of repairs to be done by vendor:			
Address:			
Phone:			

NAME OF VENDOR #4			
Amount of total estimate	\$	Amount of deposit (if any):	\$
List of repairs to be done by vendor:			
Address:			
Phone:			

Borrower	Date	Co Borrower	Date
Loan Officer	Date		



ESCROW REPAIR FINAL INVOICE WORKSHEET

(THE VENDORS ON THIS FORM MUST MATCH THE VENDORS ON THE ESTIMATE FORM)

ALL INVOICES MUST BE ATTACHED AND CANNOT SAY ESTIMATE OR QUOTE UNLESS SIGNED BY VENDOR THAT THOSE AMOUNTS ARE FINAL AMOUNTS FOR ALL COMPLETED WORK

Borrower's Name:		Loan #:	
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<input type="checkbox"/>	AMOUNT OF FUNDS HELD IN ESCROW REPAIR BY HOMESTAR	\$	_____
<input type="checkbox"/>	ALL FUNDS WERE FINANCED	\$	_____
<input type="checkbox"/>	BORROWER MADE A DEPOSIT AT CLOSING OF:	\$	_____

- ❖ Make sure information below is the exact information for check payee and where check(s) are to be sent
- ❖ Please include borrower information as a vendor if they are to be paid for anything they purchased to complete the escrow repair

VENDOR ONE

Name:			
Address:			
Telephone #:			
Deposit Paid to Vendor	\$	Balance Owed to Vendor	\$

VENDOR TWO

Name:			
Address:			
Telephone #:			
Deposit Paid to Vendor	\$	Balance Owed to Vendor	\$

VENDOR THREE

Name:			
Address:			
Telephone #:			
Deposit Paid to Vendor	\$	Balance Owed to Vendor	\$

VENDOR FOUR

Name:			
Address:			
Telephone #:			
Deposit Paid to Vendor	\$	Balance Owed to Vendor	\$

Processor or LO Signature	Date	UW Signature Releasing Funds	Date
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