

**Escrow Agreement for  
Limited Rehabilitation**  
Section 242/223(f)

**U.S. Department of Housing  
and Urban Development**  
Office of Hospital Facilities

OMB Approval No. 2502-0602  
(Exp. 08/31/2019)

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**Warning:** Federal law provides that anyone who knowingly or willfully submits (or causes to submit) a document containing any false, fictitious, misleading, or fraudulent statement/certification or entry may be criminally prosecuted and may incur civil administrative liability. Penalties upon conviction can include a fine and imprisonment, as provided pursuant to applicable law, which includes, but is not limited to, 18 U.S.C. 1001, 1010, 1012; 13 U.S.C. 3729, 3802, 24 C.F.R. Parts 25, 28 and 30, and 2 C.F.R. Parts 180 and 2424.

**This Escrow Agreement for Limited Rehabilitation (“Agreement”)** made this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by and between \_\_\_\_\_ (**Lender**), whose principal address is \_\_\_\_\_, and \_\_\_\_\_ (**Borrower**), whose principal address is \_\_\_\_\_, [and if applicable, \_\_\_\_\_ (**Depository Institution**), whose principal address is \_\_\_\_\_], in connection with FHA Project No. \_\_\_\_\_, located in the City/County of \_\_\_\_\_, State of \_\_\_\_\_, which Project [has been, is being, or will be] [rehabilitated, purchased or refinanced] from the proceeds of a Loan insured by HUD and made by Lender. (The definition of any capitalized term or word used herein can be found in this Agreement, the Regulatory Agreement between Borrower and HUD, the Note, and/or the Security Instrument, except that the term **Program Obligations** means (1) all applicable statutes and any regulations issued by the Secretary pursuant thereto that apply to the Project, including all amendments to such statutes and regulations, as they become effective, except that changes subject to notice and comment rulemaking shall become effective only upon completion of the rulemaking process, and (2) all current requirements in HUD handbooks and guides, notices, and mortgagee letters that apply to the Project, and all future updates, changes and amendments thereto, as they become effective, except that changes subject to notice and comment rulemaking shall become effective only upon completion of the rulemaking process, and provided that such future updates, changes and amendments shall be applicable to the Project only to the extent that they interpret, clarify and implement terms in this Agreement rather than add or delete provisions from such document. Handbooks, guides, notices, and mortgagee letters are available on HUD's official website: ([http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/administration/hudclips](http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips), or a successor location).

**RECITALS:**

- A. HUD has issued a Firm Commitment to insure said Loan under Section 242 pursuant to Section 223(f) of the National Housing Act, as amended, and Program Obligations, on which mortgage insurance Borrower is relying for financing of the Project.
- B. The Firm Commitment is conditioned upon assurance that funds in the amount of \$ \_\_\_\_\_ be available for the completion of limited rehabilitation deferred until after initial/final endorsement of the Note (**Escrow**), including all amounts identified in this Agreement.
- C. The Limited Rehabilitation, cost estimate and equipment list itemized in Exhibit “A” (**Limited Rehabilitation Work**) are attached to and made part of this Agreement .
- D. As used herein, **Completion Date** means the date that is \_\_\_\_\_ (\_\_\_\_) months following initial/final endorsement of the Note by HUD for mortgage insurance.

## AGREEMENTS:

In consideration of the mutual promises and undertakings contained herein, and for the purpose of inducing the Lender to make and HUD to insure said Loan, the parties acknowledge and agree as follows:

1. \$ \_\_\_\_\_, equal to one hundred percent (100%) of the estimated cost of the Limited Rehabilitation, has been withheld by Lender from the proceeds of the Loan, and/or deposited by Borrower with Lender in the form of \_\_\_\_\_ (*cash and/or letter of credit*), or subject to the control and order of Lender, with a depository institution satisfactory to Lender in accordance with Program Obligations, and is hereby included in the Escrow (**Limited Rehabilitation Estimate Amount**).
2. In addition, \$ \_\_\_\_\_, consisting of not less than twenty percent (20%) [\_\_\_\_\_] {*insert different percentage if permitted by Program Obligations*} of the estimated cost of the Limited Rehabilitation, has been deposited by Borrower with Lender in the form of \_\_\_\_\_ (*cash and/or letter of credit*), or subject to the control and order of Lender with a depository institution satisfactory to Lender in accordance with Program Obligations, and is hereby included in the Escrow (**Additional Deposit Amount**).
3. The Borrower has deposited with Lender an Escrow deposit guaranteeing payment for off-site facilities in the amount of \$ \_\_\_\_\_. This deposit is in the form of \_\_\_\_\_ (*cash or letter of credit*). The Escrow Agreement for Off-Site Facilities is dated \_\_\_\_\_, 20 \_\_, and is executed by \_\_\_\_\_.
4. Additional escrows required by HUD
  - a. [Insert name of escrow]: Borrower has deposited with Lender, in the form of \_\_\_\_\_ (*cash or letter of credit*), or subject to the control and order of Lender in a depository satisfactory to Lender, in accordance with Program Obligations, \$ \_\_\_\_\_ in the form of \_\_\_\_\_ (*cash or letter of credit*). Withdrawals shall be in accordance with Program Obligations.
5. Deposits in the form of letter of credit shall be unconditional and irrevocable. The rating of the issuing banking institution and the duration of such letter(s) of credit shall comply with Program Obligations. The letter(s) of credit is attached for informational purposes only. It is expressly agreed and understood that HUD assumes no responsibility for reviewing the letter(s) of credit for sufficiency or enforceability. Any letter(s) of credit are attached hereto as Exhibit "B".
6. Borrower shall complete the Limited Rehabilitation Work, free of all liens, on or before the Completion Date. Borrower shall remedy or cause to be remedied, to the satisfaction of HUD, all defects in the Limited Rehabilitation Work due to faulty materials or workmanship, defective materials, or damage to the Project resulting from such defects, which defects or damage become apparent within twelve (12) months from completion of the Limited Rehabilitation Work (**Latent Defects**).
7. Subject to the prior written approval of HUD, Lender may release funds from the Escrow for work completed pursuant to the estimated amounts set forth in Exhibit "A" Subject to the prior written approval of HUD, Lender may release funds from the Escrow for work completed pursuant to the estimated amounts set forth in Exhibit "A" Limited Rehabilitation Work. Applications for advances with respect to construction items shall be for amounts equal to (i) the total value of classes of the work acceptably completed; plus (ii) the value of materials and equipment not incorporated in the work, but delivered to and suitably stored at the site, plus (iii) the value of components stored off-site in compliance with Program Obligations; less (iv) ten percent (10 %) ("Holdback") [as this percentage may be reduced in accordance with Program Obligations or as required by State law] and (v) less prior advances.

8. All disbursements from the Escrow shall be made from the Limited Rehabilitation Estimate Amount until the work is completed. In the event that the Limited Rehabilitation Estimate Amount is not sufficient for completion of the work, subsequent disbursements will be made from the Additional Deposit Amount until the work is completed.
9. If Borrower has not completed all the Limited Rehabilitation Work by the Completion Date, Lender will have the right, subject to HUD approval, to complete the Limited Rehabilitation Work, and to pay the cost thereof, including all costs and a reasonable fee of the Lender, from the Escrow. For this purpose, Borrower irrevocably appoints Lender as its attorney-in-fact, with full power of substitution, to do and perform for Borrower in Borrower's name, place and stead, all matters and things which Lender shall in its judgment deem necessary and proper to effectuate the completion of the Limited Rehabilitation Work, and to apply the amount deposited under the Escrow to the payment of debts, expenses, costs and charges of any kind contracted or incurred in connection therewith. The orders given by Lender as attorney-in-fact for Borrower shall be good and sufficient vouchers for all payments made by virtue thereof. In this connection, this power of attorney shall provide Lender with full and sufficient authority to enter into and upon the Project and take charge thereof, together with all materials, appliances, Fixtures and other improvements and to call upon and require contractors to complete the Limited Rehabilitation Work. Except for intentional misconduct or gross negligence on the part of Lender, Borrower shall indemnify, hold harmless and defend Lender from and against claims of third parties arising from Lender's performance under this paragraph. Lender shall have the right to obtain any property and/or liability insurance coverage which Lender shall in its judgment deem necessary or appropriate in connection with Lender's performance under this paragraph. Subject to written HUD approval, Lender may extend the Completion Date. Lender will not be responsible for performance of the Limited Rehabilitation Work beyond the expenditure of the amount available from the Escrow, and if that amount is insufficient, Lender will be under no obligation to proceed further with the work or to demand or obtain additional sums from the Borrower. The power granted herein is coupled with an interest, and Borrower acknowledges and agrees that all powers granted herein to Lender may be assigned to HUD.
10. Subject to Paragraph 9 of this Agreement, provided that an Event of Default does not then exist,
  - (a) any balance remaining in the Escrow that is attributable to the Additional Deposit Amount and any portion of the Limited Rehabilitation Estimate Amount funded by Borrower separate from Loan proceeds, may be released to Borrower when: (i) all Limited Rehabilitation Work has been satisfactorily completed, as determined by HUD, (ii) evidence of clear title has been provided to HUD, and (iii) Latent Defects assurances that are compliant with Program Obligations have been provided in the form of a cash escrow, irrevocable letter of credit, or a surety bond from a surety on the accredited list of the U.S. Treasury, in an amount equal to two and one-half percent (2 ½ %) of the Limited Rehabilitation Estimate Amount (**Latent Defects Deposit**), which shall be held as part of the Escrow. Said sums may be used for the correction of Latent Defects in the event Borrower fails to make such corrections; and
  - (b) any balance remaining on account of the Latent Defects Deposit shall be released to Borrower, upon the latter of (i) fifteen (15) months from the completion of the Limited Rehabilitation Work, or (ii) at such time as the Latent Defects have been corrected to the satisfaction of HUD.
11. In cases where the actual cost of the Limited Rehabilitation Work is less than estimated, any resulting excess funds in the Escrow attributable to the Limited Rehabilitation Estimate Amount that were funded from Loan proceeds may be used: (a) to pay for additional Limited Rehabilitation approved by Lender and HUD, the funds for which shall continue to be subject to this Agreement, in addition to further cost certification if Program Obligations so require, and/or (b) to fund the Mortgage Reserve Fund.

12. The Escrow, when in the form of cash, shall be held by Lender, or a depository institution satisfactory to the Lender, and in accordance with Program Obligations. Lender may, at any time, for any reason, draw upon any letter of credit included in the Escrow and convert the same to cash, which cash shall then be held and disbursed pursuant to the terms of this Agreement. Fees charged by Lender and any interest earned on the Escrow shall be governed by Program Obligations.
13. The Escrow may, at HUD's direction, be subject to immediate application to the Indebtedness if an Event of Default by Borrower occurs at any time.

**[Document Execution Occurs on the Following Pages]**

Each signatory below hereby certifies that each of their statements and representations contained in this Agreement and all their supporting documentation thereto are true, accurate, and complete. This Agreement has been made, presented, and delivered for the purpose of influencing an official action of HUD in insuring the Loan, and may be relied upon by HUD as a true statement of the facts contained therein.

IN WITNESS WHEREOF, the parties have duly executed this Escrow Agreement for Limited Rehabilitations as of the day and year first above written.

BORROWER:

LENDER:

\_\_\_\_\_

\_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

\_\_\_\_\_  
Print Name and Title

\_\_\_\_\_  
Print Name and Title

DEPOSITORY INSTITUTION:

\_\_\_\_\_

By: \_\_\_\_\_

\_\_\_\_\_  
Print Name and Title

Attachment: Exhibit "A"  
Exhibit "B"

EXHIBIT "A"

**Limited Rehabilitation Work**

**Description of Project**

**Breakdown of Costs**

The estimated costs for the Project are as follows:

COMPONENT	COST
Architectural	\$
Limited Rehabilitation	\$
Equipment (FFE)	\$
<b>TOTAL COST OF LIMITED REHABILITATION</b>	\$

**Limited Rehabilitation Breakout:**

The Limited Rehabilitation component can be broken down as follows:

ITEM	QUANTITY	PRICE PER UNIT	TOTAL COST
<b>TOTAL</b>			

**Equipment Breakout:**

The Equipment component can be broken down as follows:

ITEM	QUANTITY	PRICE PER UNIT	TOTAL COST
<b>TOTAL</b>			

EXHIBIT "B"

Form of Letter of Credit