

## REHABILITATION LOAN AGREEMENT

This Agreement, including the provisions below is made this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_ between the Borrower \_\_\_\_\_ and the Mortgagee \_\_\_\_\_ to establish the conditions under which the Mortgagee will advance the proceeds of a loan to be used to purchase and rehabilitate or refinance and rehabilitate the property described below. The property is located in the County of \_\_\_\_\_ State of \_\_\_\_\_ and is described as: \_\_\_\_\_

### [Legal Description]

1. The loan will be in the principal sum of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_ ) to be advanced by the Mortgagee to the Borrower as provided in this Agreement and will be secured by a mortgage or deed of trust ("Mortgage"), which will be a first lien on the property.
2. Payments required under the mortgage or deed of trust must be made by the Borrower on the date specified, even though the proposed rehabilitation or improvement may not be completed, or the property may not be suitable for occupancy, on the anticipated date.
3. The Mortgagee intends to request the Assistant Secretary for Housing – Federal Housing Commissioner or the Secretary’s Designee (“Commissioner”) –to insure the mortgage under the provisions of Section 203(k) of the National Housing Act; therefore, Borrower agrees to conform to, and to cause improvements to be constructed in conformance with, all requirements of the Commissioner.
4. The Mortgagee will place the portion of the principal amount of the mortgage allocated to the total rehabilitation cost (\$ \_\_\_\_\_ ), plus any reserves put up by the Borrower or others in cash, in a secured interest bearing account, trust or escrow for the benefit of the Borrower (hereafter called “Rehabilitation Escrow Account”). Mortgagee shall release Rehabilitation Escrow Account funds by check, payable to the Borrower and/or the contractor, upon satisfactory completion of the rehabilitation in accordance with the Work Write-Up or Work Plan, as evidenced by a compliance inspection or other authorized method, and when the repairs and improvements meet all federal, state and local laws, codes and ordinances, including required permits and inspections.

The Mortgagee or Commissioner may determine that additional compliance inspections are required throughout the rehabilitation period to ensure that the work is progressing in a satisfactory manner. Release of funds is not authorized on this type of inspection, and the Borrower is responsible for paying the inspection fee. The Mortgagee may require a property inspection if there have been no draw requests for more than 30 consecutive days.

5. If a Mortgage Payment Reserve is included in the Rehabilitation Escrow Account, the Mortgagee must make monthly mortgage payments directly from the Rehabilitation Escrow Account, provided the dwelling, or individual units for which the Mortgage Payment Reserve is established, cannot be occupied and the Final Release Notice has not been issued. Once the property, or individual unit, if applicable, is able to be occupied, application of the Mortgage Payment Reserves will cease. Mortgage Payment Reserves remaining in the Rehabilitation Escrow Account after the property is able to be occupied must be used to reduce the mortgage principal.

6. The interest accumulated in the Rehabilitation Escrow Account will be distributed as required by the 203(k) Borrower's Acknowledgement, form HUD 92700-A.
7. The principal amount of the loan specified in paragraph 1 may contain a Contingency Reserve. The Contingency Reserve may be used to make other improvements to the property after it is determined that it is unlikely that any health or safety deficiency will be discovered. The Borrower or Consultant, if there is one, must submit form HUD-92577 to the Mortgagee detailing the additional improvements being requested. The Mortgagee will inform the Borrower in writing of the approval or rejection of the request within five business days.

If the Contingency Reserve is financed, any unused Contingency Reserve funds must be applied to reduce the mortgage principal. Such prepayment will not extend or postpone the due date of any monthly installment due under the Note and will not change the amount of such installments.

If the Contingency Reserve is established with the Borrower's own funds, the Borrower may receive a refund of any unused Contingency Reserve funds or may request the unused funds be applied to reduce the principal balance.

8. The Borrower will complete all improvements on the property in accordance with the Work Write-Up or Work Plan, including architectural exhibits, as accepted by the Mortgagee.
9. Changes in the architectural exhibits must be requested by the Borrower, either by a letter describing the changes or by submission of form HUD-92577, prior to the start of any work associated with the requested changes. The Mortgagee must issue an approval in writing before work can begin on the changes. Work must be 100% complete on each change order item before release of funds from the Rehabilitation Escrow Account.
10. Borrower will cause all improvements to be made in a workmanlike manner and in accordance with all applicable statutes and regulations. All licenses, permits and privileges required by local governmental authorities to rehabilitate the property will be obtained by the Borrower or contractor.
11. Representatives of the Mortgagee and of the Commissioner will have the right to enter upon the property at all times during the period of construction to determine whether the work conforms with this Agreement and to determine the amount of funds in the Rehabilitation Escrow Account to be released by the Mortgagee.
12. Borrower will furnish such records, contracts, bills and other documents relating to the property and the improvements as the Mortgagee or the Commissioner may require.
13. For a Borrower performing his/her own work under a Rehabilitation Self-Help Agreement, the Rehabilitation Escrow Account will include funds for labor and materials costs for each work item to be completed by the Borrower. The Borrower will be reimbursed for the actual cost of materials only. The Borrower cannot be reimbursed for labor. The funds resulting from the difference between the estimated and actual costs of materials, as well as the funds escrowed for labor costs, will remain in the Rehabilitation Escrow Account until all of the work is complete and may then be used for additional improvements to the property. No cash may be paid to the Borrower. Any funds for self-help items remaining in the Rehabilitation Escrow Account after completion of the rehabilitation must be used to reduce the principal balance.
14. Without prior, written consent of the Mortgagee, no materials, equipment, fixtures or any part of the improvements financed with this loan will be purchased or installed subject to conditional sales

contracts, security agreements, lease agreements or other arrangements whereby title is retained or the right is reserved or accrues to anyone to remove or repossess any item, or to consider it as personal property.

15. The Borrower will cause either this instrument or the construction contract under which improvements are to be made to be filed in the public records, if the effect of recording will be to relieve the mortgaged property from mechanics' and materialmen's liens. The Mortgagee must obtain Lien Waivers, or equivalent, at the time of any disbursement of funds to ensure the validity of the first lien on the property. If all work items to be performed by a contractor have not been completed at the time of draw request, the Mortgagee must obtain a partial conditional Lien Waiver for the work items that have been completed for each draw request. Upon completion of the project, the Mortgagee will obtain a release of any and all liens arising out of the contract or submission of receipts or other evidence of payment covering all contractors, subcontractors or suppliers who could file a legal claim.
16. Borrower must cause work to begin within 30 days following the date of this Agreement. Work must be performed with reasonable diligence; therefore, work is never to cease for more than 30 consecutive days. Should Borrower fail to comply with these terms, the Mortgagee may refuse to make any further disbursements under this Agreement, and any funds remaining in the Rehabilitation Escrow Account must be used to reduce the mortgage principal.
17. In the event any Stop Notices, Notices to Withhold, Mechanic's Liens, or claims of lien are filed against the property, the Mortgagee, after five (5) days' notice to the Borrower of its intention to do so, may pay any and all of the liens or claims, or may contest the validity of any claim, paying all costs and expenses of contesting the same.
18. Failure of the Borrower to perform under the terms of this Rehabilitation Loan Agreement will make the loan amount, at the option of the Mortgagee, due and payable.
19. The Borrower understands that the mortgage payments (PITI) that were financed at closing are estimates and the Borrower will be responsible for paying the full amount of the mortgage payment, each and every month due, if a shortage occurs.
20. The accepted Work Write-Up or Work Plan and architectural exhibits, if any, are incorporated in this Agreement.
21. Borrower must have the work completed within \_\_\_\_\_ months following the date of this Agreement.
22. Date work must be completed: \_\_\_\_\_

_____	_____	
Date	Signature of Borrower	
_____	_____	
Date	Signature of Co-Borrower	
_____	_____	_____
Date	Signature of Mortgage Representative	Title of Mortgage Representative