

OVERVIEW

Land Home Financial Services (LHFS) requires that every effort be made to complete property repairs or improvements prior to loan closing. However, weather conditions in certain areas may result in the need to close a loan prior to the completion of required repairs. Land Home allows for the establishment of a repair escrow subject to the agency requirements. Under no circumstances can a loan close or be purchased if the repairs affect the livability, safety, or structural integrity of the property, or affect the ability to obtain a Certificate of Occupancy on new or proposed construction. All escrow holdbacks require the approval of LHFS. Escrow holdback accounts to be held and administered by LHFS or the title companies.

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ESCROW HOLDBACKS – REQUIREMENT HIGHLIGHTS

LHFS Will Allow Escrow Holdbacks Under the Following Conditions

- Purchase transactions only
- Approved by LHFS prior to issuing clear to close
- Maximum holdback amount = 10% of the “as completed” appraised value of the property (based on the lesser of the purchase price or appraised value) or \$10,000, whichever is less.
- FHA 203 (b) loans are limited to \$5000
- Required Documents:
 - Two (2) itemized bids for repairs/improvement completed by a licensed contractor - including cost breakdown, timeframe.
 - Completion date
 - Fully executed Escrow Holdback Agreement
- Acceptable Repairs:
 - are part of the sales contract (third-party contracts are not permissible);
 - are postponed for a valid reason, such as inclement weather or a shortage of building materials (and)
 - do not affect the ability to obtain an occupancy permit.
- Completion of Repairs - 120 days of the date of the mortgage note
 - Conventional and FHA only – Extension for weather related delays:
 - Inclement weather extension exception:
 - Allowed only on external improvements in geographic areas that experience severe adverse weather conditions.
 - An extension of up to 150 days after the note date may be allowed when repairs are delayed due to inclement weather.
 - The loan file must include an explanation for the need for and use of this exception.
 - This exception is NOT allowed on VA or USDA loans.
- Eligible Programs – Refer to specific instructions for Conforming, FHA, VA, USDA. Does not include jumbos, high balance or investor specific programs



HOLDBACKS NOT PERMITTED

- Escrow holdbacks are not permitted for the following reasons:
 - Any item that will affect health, safety, or prevents livability in the subject property
 - Any items that prevent issuing a Certificate of Occupancy
 - Interior repairs on any kind
 - Installation or repair of a swimming pool
 - Completion of a partially finished addition or renovation
 - Well/Septic not in working order
 - Hot water heater
 - Roofing, including active roof leaks, and curled or cupped roof shingles
 - Extensive electrical or plumbing repair
 - Foundation or structural repairs, including cracks or settlement in the foundation or water seepage
 - Termite infestation repair (excluding minor repairs)
 - Environmental hazards
 - Non-weather-related repairs (except HUD REOs - see HUD REO section)
 - Any items that prevent a Certificate of Occupancy:
 - Per HUD guidelines the dwelling on the mortgaged premises must be habitable and safe. Items essential for customary occupant use and enjoyment, or for property safety or durability, may not be escrowed. Under no circumstances may a loan be closed if the uncompleted items affect livability or the integrity of the structure (i.e., lack of gas, electricity, or plumbing, HVAC or foundation defects).

CLOSING REQUIREMENTS

The closer must inform the closing agent of the following requirements:

- Escrow Holdback Agreement must be executed by the borrower(s) and seller(s), if applicable.
- Title Company must acknowledge agreement to hold funds and responsibility to release the funds only at the written direction of LHFS.



CONVENTIONAL LOAN REQUIREMENTS (FANNIE MAE/FREDDIE MAC)

ESCROW AMOUNT

Total repair costs may not exceed 10% of the “as completed” appraised value.

- New or proposed construction:
 - 120% of the repair cost
 - 100% of the repair cost if the builder/contractor offers a guaranteed fixed price contract for completion.
- Existing construction:
 - 120% of the repair cost

EVIDENCE OF COMPLETION

- If the appraisal is completed “subject to” repairs or alterations, the appraiser must perform a final inspection and complete the Certificate of Completion report on Form 1004D. The Certificate of Completion must:
 - Be completed by the appraiser (and)
 - State that the improvements were in accordance with the requirements and conditions in the original appraisal.
- If the appraisal was completed “as is” the borrower must confirm in writing that the repairs have been completed to his/her satisfaction and authorize release of the escrowed funds.

MORTGAGE INSURANCE REQUIREMENTS

- For loans with LTV >80%, Mortgage Insurance (MI) requirements must be reviewed to ensure the MI provider allows loans that are closed subject to completion of repairs.
- The Mortgage Insurance may not be impaired or adversely affected during and after the completion period.
- Refer to the MI Matrix and/or the MI provider website for additional information.



FHA LOAN REQUIREMENTS

Appraisal must include a list of the required exterior repairs and the estimated cost to cure.

ESCROW AMOUNT

- Escrowed funds must be equal to the greater of 150% of the estimated repair costs or \$500

EVIDENCE OF COMPLETION

- LHFS may establish a repair escrow for incomplete construction, or for alterations and repairs that cannot be completed prior to loan closing, provided the housing is habitable and safe for occupancy at the time of loan closing.
- Repair escrow funds must be sufficient to cover the cost of the repairs or improvements. The cost for Borrower labor may not be included in the repair escrow account.
- Obtain two (2) itemized bids from a licensed contractor outlining cost breakdown and completion date (must state on bid that repairs will be completed within 7-days of closing)
- Be completed by the appraiser (when applicable), and
- State that the improvements were in accordance with the requirements and conditions in the original appraisal.
- If the appraisal was completed "as is" the borrower must confirm in writing that the repairs have been completed to his/her satisfaction and authorize release of the escrowed funds.

FAILURE TO COMPLETE REQUIRED REPAIRS

- If the repairs have not been completed within the required timeframe, LHFS will order the completion of the repairs by a qualified contractor and obtain a final inspection.
- LHFS must ensure satisfactory completion of repairs, regardless of adequacy of funds reserved in escrow.



USDA LOAN REQUIREMENTS

Appraisal must include a list of the required exterior repairs.

FUNDS

- Funds must be held in a federally insured trust account and must be 150% of the highest bid amount.

EVIDENCE OF COMPLETION

- LHFS may establish a repair escrow for incomplete construction, or for alterations and repairs that cannot be completed prior to loan closing, provided the housing is habitable and safe for occupancy at the time of loan closing.
- Repair escrow funds must be sufficient to cover the cost of the repairs or improvements. The cost for Borrower labor may not be included in the repair escrow account.
- Obtain two (2) itemized bids from a licensed contractor outlining cost breakdown and completion date (must state on bid that repairs will be completed within 7-days of closing)
- Be completed by the appraiser (when applicable), and
- State that the improvements were in accordance with the requirements and conditions in the original appraisal.
- If the appraisal was completed "as is" the borrower must confirm in writing that the repairs have been completed to his/her satisfaction and authorize release of the escrowed funds.

FAILURE TO COMPLETE REQUIRED REPAIRS

- If the repairs have not been completed within the required timeframe, LHFS will order the completion of the repairs by a qualified contractor and obtain a final inspection.
- LHFS must ensure satisfactory completion of repairs, regardless of adequacy of funds reserved in escrow.



VA LOAN REQUIREMENTS

Allowed only as follows:

- The appraisal must be completed “subject to” repairs or alterations.
- Allowed only on purchase transactions for minor repairs not completed prior to closing due to weather related delays.
- The cost of the repairs must be >\$500.

APPRAISAL/DOCUMENTATION REQUIREMENTS

- The appraiser must provide a list of required repairs with the estimated cost and contributory value to make the property meet VA’s Minimum Property Requirements (MPR).
- Item #10 on the Notice of Value (NOV) must include the required repairs.
- Completed VA Form 26-1849, Escrow Agreement for Postponed Exterior Onsite Improvements

WAIVER OF REPAIRS

- When the Veteran and LHFS agree that the required repairs and/or improvements do not impact the properties habitability, safeness, or structural soundness, the veteran may provide Broker with a written statement regarding why the repair(s) are not necessary and asking VA to waive the repair requirement. LHFS will submit the waiver request to the applicable local VA Regional Office. If VA establishes that the nonconformity has been fully taken into account by way of depreciation in the VA valuation, the repair requirement may be waived.

ELIGIBLE REPAIRS

- Repairs may include, but are not limited to:
 - Walkways, driveways, and retaining walls
 - Exterior painting
 - Landscaping
 - Garages

ESCROW AMOUNT

- Escrowed funds must be equal to 150% of the estimated repair costs.

EVIDENCE OF COMPLETION

New Construction:

- The builder, appraiser or a fee inspector must complete Compliance Inspection Report (VA Form 26-1839) upon completion of the required repairs.



EXISTING PROPERTIES

- An appraiser or fee inspector must certify that the repairs are satisfactorily completed, unless the repairs are minor, uncomplicated and do not involve structural issues.
 - Broker may provide written certification that minor uncomplicated repairs have been completed based on the borrower providing a statement that the work has been done to their satisfaction and receipts/invoices evidencing completion are acceptable.
 - Completion of repairs involving defective paint on properties built prior to 1978 must always be certified by a fee appraiser.
- When repairs are completed, the original VA fee appraiser must be notified and provided a copy of the NOV. If the original fee appraiser is unavailable, the applicable VA Regional Loan Center must be contacted to request assignment of another fee appraiser to complete the inspection.
- The fee appraiser must provide one of the following to certify the satisfactory or unsatisfactory repair inspection findings:
 - Fannie Mae Form 1004D/Freddie Mac Form 442, Appraisal Update and/or Completion Report; or
 - Inspection findings report on the fee appraiser's company form or letterhead.
- The inspection report/certification must include the following:
 - A list of the required repairs per the NOV.
 - Photos of the completed repairs.
 - Certification that the repairs were completed with quality material and in a workmanlike manner.
- The repair inspection report/certification must be completed, signed and uploaded to eXPRESS.

FAILURE TO COMPLETE REQUIRED REPAIRS

If all or any of the repairs and/or improvements are not satisfactorily completed within 120 days, with the approval of the Dept. of Veteran's Affairs, LHFS will enter into a contract with any third party for the completion of the required repairs/improvements.



EXCESS OR INADEQUATE FUNDS

After completion of the repairs, any unused funds will be refunded to the party who deposited them.

If the escrow account funds are insufficient, LHFS will require the appropriate party to deposit additional funds needed to complete repairs and/or improvements.

INITIATING/PROCESS OF ESCROW HOLDBACK

BROKER RESPONSIBILITY

- Obtain two (2) itemized bids, from a licensed contractor that clearly identifies each item to be completed including an itemized estimation of costs and completion date (must state on bid that repairs will be completed within 7-days of closing)
- Confirm completion of repairs with contractor and order 1004D for inspections no later than 7-days post close.
 - Written confirmation from the title company, contractor, or closing agent that all work has been completed and sub-contractors have been paid and there is no intention of pending / proposed mechanic liens.
- Confirm Title Company / Closing Agent will hold and administer the funds
 - Please Note the following:
 - USDA funds must be held in a federally insured trust account
 - LHFS will hold funds for USDA loans
 - LHFS will hold funds for REO transactions that do not have an Escrow Holdback written into the purchase contract.
- Have buyer and seller complete [Escrow Holdback Agreement](#)
- Request copy of check from Title Company / Closing Agent

ESCROW HOLDBACK ACCOUNT ADMINISTRATION

LHFS requires escrow holdback accounts to be held and administered by LHFS or the title companies.

LHFS PRIOR APPROVAL

Required documentation, specific to holdback, must be reviewed and approved by LHFS before the loan is cleared to close. See document requirement listed below.

SETTING UP ESCROW HOLDBACKS

When setting up an escrow holdback, the following documentation is required for LHFS review and approval, specific to the holdback, before the loan is cleared to close.

- Two (2) itemized bids, from a licensed contractor that clearly identifies each item to be completed including an itemized estimation of costs.
- A copy of the contractor's current license
- The appraisal detailing the required work.
- Any other specific documentation as required by the loan type.
- Minimum amount of escrow requirement is \$500.
- Determination of who is responsible (borrower or seller) for funds to establish repair escrow account. If borrower is responsible, ensure borrower has sufficient funds to establish repair escrow account.
- If the amount of escrow funds withheld is determined by the type of holdback allowed.

