

# REHABILITATION LOAN AGREEMENT

THIS AGREEMENT, including the provisions below is made this \_\_\_\_\_ day of \_\_\_\_\_, between the Borrower(s)

and the Lender

to establish the conditions under which the Lender 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:

1. The loan will be in the principal sum of

Dollars (\$) \_\_\_\_\_ to be advanced by the Lender 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 Lender intends to request the Assistant Secretary for Housing - Federal Housing Commissioner ("Commissioner") to insure the loan 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 Lender will place that portion of the principal amount of the mortgage allocated to the total rehabilitation cost (\$ \_\_\_\_\_) line B-14 of the 203(k) Maximum Mortgage Worksheet, 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 "escrowed funds"). Lender shall release the escrowed funds by check, payable to the Borrower and/or the contractor or other appropriate payee who performed the work and supplied the materials in connection with this Agreement, at such times as the stages of construction are completed. If a Mortgage Payment Reserve account is established, the Lender may make draws from the account to make the monthly mortgage payments provided the dwelling has not been occupied and/or the Final Release Notice has not been issued.

5. The interest accumulated in the Rehabilitation Escrow Account will be distributed as required by the 203(k) Borrower's Acknowledgment form HUD 92700-A.

6. The principal amount of the loan specified in paragraph 1 contains a contingency reserve. The contingency reserve can be used to make other improvements to the property after it is determined that no further health, safety or necessity items will be discovered.

If the contingency reserve or any part thereof is not used, the remaining balance will be applied as a partial prepayment of the loan, if the contingency reserve is part of the mortgage. However, such prepayment will not extend or postpone the due date of any monthly installment due under the note, nor change the amount of such installments.

7. The Borrower will complete all improvements on the property in accordance with the architectural exhibits as accepted by the Lender.

8. Changes in the architectural exhibits must be approved in writing by the Lender, prior to the beginning of the work, by writing a letter describing the changes or using form HUD 92577.

9. 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(s) or his/her contractor.

10. Representatives of the Lender and of the Commissioner will have the right to enter upon the property at all times during the period of construction and on completion of construction to determine whether the work conforms with this Agreement and to determine the amount of the Rehabilitation Escrow Account to be released by the Lender.

11. Borrower will furnish such records, contracts, bills and other documents relating to the property and the improvements as the Lender or the Commissioner may require.

The Borrower can only request reimbursement for completed work on the Draw Request for the actual cost of rehabilitation. Any labor performed by the Borrower on the property cannot be used to reimburse the Borrower for their cash investment. The difference between the estimated cost of the work item and the actual cost of materials will remain in the escrow account until all of the work is complete. The credit savings can be used for (1) cost overruns, where applicable; and (2) additional improvements to the property.

In no case will any savings result in any cash being paid to the Borrower. Any funds remaining in the escrow account must be paid down on the unpaid principal balance.

12. Without prior, written consent of the Lender, no materials, equipment, fixtures or any part of 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.

13. The Borrower will cause either this instrument or the construction contract under which the 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. Before any advance under this Agreement, the Lender may require the Borrower to obtain acknowledgment of payment and releases of lien from the contractor and all subcontractors and materialmen dealing directly with the principal contractor. These releases will cover the period down to the date covered by the last advance, and concurrently with the final payment for the entire project. Such acknowledgments and releases must be in the form required by local or state lien laws and must cover all work done, labor performed and materials (including equipment and fixtures) furnished for the project.

14. 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 Lender may refuse to make any further payments under this Agreement. Any funds remaining in the Rehabilitation Escrow Account must be applied as a prepayment to the mortgage.

15. In the event any Stop Notices, Notices to Withhold, Mechanics' Liens, or claims of lien are filed against the property, the Lender, after five (5) days notice to the undersigned of its intention to do so, may pay any or all of the liens or claims, or may contest the validity of any claim, paying all costs and expenses of contesting the same.

16. Failure of the Borrower to perform under the terms of this Rehabilitation Loan Agreement will make the loan amount, at the option of the Lender, due and payable.

17. 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.

18. The accepted architectural exhibits are incorporated in this Agreement.

19. Borrower must have the work completed within \_\_\_\_\_ months following the date of this Agreement.

20. Date of Completion:

\_\_\_\_\_  
Borrower Date

\_\_\_\_\_  
Borrower Date

\_\_\_\_\_  
Borrower Date

\_\_\_\_\_  
Borrower Date

\_\_\_\_\_  
Signature of Lender Date

\_\_\_\_\_  
Title

Attachment: Accepted architectural exhibits.