# REHABILITATION LOAN AGREEMENT
# FHA 203K STANDARD

THIS AGREEMENT ("Agreement") is made this_____day of_____, 20_____, by and between the Borrower(s) _____("Borrower") and American Financial Resources, Inc. ("AFR" or "LENDER").

WHEREAS, LENDER, is a duly licensed mortgage originator and approved FHA Renovation Lender with principal offices at 8 Campus Drive, Suite 401, Parsippany, NJ 07054, who may from time to time use licensed third parties, including at times, affiliates, to provide some of its lending services;

WHEREAS, Borrower, an individual(s) residing at _____desiring a loan from LENDER for the purchase or refinance and rehabilitation through a FHA Renovation Program-subject to all regulations and procedures established by FHA guidelines in connection with the rehabilitation of a property located in the County of_____State of_____and which is commonly described as _____("Property"); and

WHEREAS, LENDER and Borrower desire to the establish the conditions under which LENDER will advance the proceeds of a loan to be used to purchase, refinance and/or rehabilitate the Property as hereinafter defined.

NOW THEREFORE, LENDER and Borrower, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, enter into this Agreement ("Agreement") effective as of this _____day of_____, 20_____, and incorporates all recitals and terms and conditions below.

1) The total amount of the loan will be in the principal amount of $_____to be advanced to Borrower by LENDER as provided in this Agreement and as evidenced in a promissory note of even date herewith ("Note"), all, secured by a mortgage or deed of trust ("Mortgage"), which shall be a first lien on the above Property.

2) Payments required under the Note and Mortgage 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) LENDER intends to request the Department of Housing and Urban Development to insure the loan under the HUD's provisions and Borrower hereby agrees to conform to, and to cause improvements to be constructed in conformance with all requirements of the Commissioner and the Act.

4) LENDER shall place that portion of the principal amount of the Note allocated to the total rehabilitation cost, plus any amount deposited by the Borrower or others in cash, in a secured interest bearing account, trust or escrow for the benefit of the Borrower ("Escrowed Funds") subject to the terms and conditions herein and in related agreements.

5) **Payments and Completion:** There will be no funds released at Closing. All funds will be released through the required draw request process. Funds for the renovation are released via a maximum of three (5) draws, including the final disbursement. Number of draws shall be determined by a HUD consultant. Draws shall be initiated after inspection on a percentage of work completed, minus a 10 percent retainage to insure satisfactory completion of the project. Upon the Lender's receipt and approval of: (a) final Compliance Inspection Report from a HUD consultant, (b) Borrower's Letter of Completion, (c) Contingency Release Letter, (d) Lien Release, and (e) Borrower's Authorization to release contractor funds, and clear Title update. All funds will be provided to the appropriate party via an ACH wire to their account. Any requests for funds/draws should be submitted to the Lender e-mail: renovation@afrwholesale.com . The Renovation Department can be contacted at 800-624-0501 or by using the department's email.


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6) LENDER shall, subject to the foregoing, release the Escrowed Funds by ACH wire, payable to the Contractor, or other appropriate payee who performed the Work, as defined in the Homeowner/Contractor Agreement, and supplied the materials in connection with this Agreement. Additionally, the final release of the escrow funds is to take place only after, *inter alia*, the local jurisdiction has provided its final acceptance of the Work and issued a Certificate of Occupancy, or equivalent, if applicable.

   If a Mortgage Payment Reserve is established in the Escrow Funds account, the Lender may draw 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.

   LENDER may determine that additional compliance inspections are required throughout the rehabilitation process to ensure that the Work is progressing in a satisfactory manner. Release of funds is not authorized on this type of inspection; however, Borrower is responsible for paying the inspection fee. LENDER may require an inspection if there have been no draw requests for more than 30 days.

7) a. The cost of repair as indicated on the appraisal report and Homeowner/Contractor Agreement is $_____.
   b. The Lender DOES require contingency reserves
   c. The estimated cost of the all inspections including the final are determined prior to the close of the loan transaction, by the HUD consultant
   d. Title update fee: $150.00
   e. The total Escrowed Funds for the Property is total amount of the bid validated by the HUD consultant, plus contingency amount, plus inspections, plus any additional monies prescribed on the Max Mortgage Worksheet

**8)** If the contingency reserve (as per 7b.) or any part thereof is not used, the remaining balance shall be applied as a partial prepayment of the principal balance of the Note. **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.**

**9)** If a dispute arises between the Borrower and the approved General Contractor, the Borrower has the right to hire a new General Contractor. That Contractor must first be validated and vetted by LENDER prior to any work starting. The Borrower CANNOT act as a General Contractor. If a new General Contractor is not approved by LENDER and the work is not done within 120 days from the funding date, LENDER may, in its sole discretion, make a principal reduction payment with the Escrow Funds**. If the Escrow Funds are used to make such a principal reduction, the final payment to the Contractor will not be available from LENDER and shall be the sole responsibility of Borrower.**

10) The Borrower will insure that all improvements on the Property are completed pursuant to, and in accordance with, a Homeowner/ Contractor Agreement as accepted by LENDER, including but not limited to, in accordance with the time constraints set forth in the Homeowner/ Contractor Agreement.

11) Changes in the Homeowner/ Contractor Agreement must be approved by LENDER in writing prior to the beginning any Work. Changes may be requested by writing a letter describing the changes or using form HUD-92577 (a "Request for Acceptance of Changes"). The Request for Acceptance of Changes may be hand delivered, mailed or emailed to **renovation@afrwholesale.com** or faxed to 866 -797-3137. If you have any questions, please call 800-624-0501.

12) Borrower shall 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 shall be obtained by the Borrower(s) or his/her Contractor and submitted to LENDER prior to closing.

13) Representatives of LENDER and or the Commissioner shall 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 the Homeowner/ Contractor Agreement, and any approved changes to the foregoing, and to determine the amount of Escrow Funds to be released by LENDER.


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14) Borrower will furnish such records, contracts, bills and other documents relating to the Property and the improvements as LENDER or the Commissioner may require.

15) Without prior, written consent of 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.

16) The Borrower shall cause this instrument or the Homeowner/ Contractor Agreement 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 release of Escrowed Funds under this Agreement, LENDER may require the Borrower to obtain acknowledgment of payment and releases of lien from the Contractor and all subcontractors and materialmen dealing directly or indirectly with the Contractor ("Lien Release"). These Lien Releases will cover the period through and including the date covered by the last advance, and concurrently with the final payment for the entire project. Such Lien Release 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.

17) Borrower shall cause the Work to begin as soon as practicable after closing but in any event not later than thirty (30) days following the date of this Agreement and completed with ninety (90) days of the date of this Agreement. The Work shall be performed with reasonable diligence; therefore, the Work is never to cease for more than 30 consecutive days. Should Borrower fail to comply with these terms, LENDER may refuse to make any further payments under this Agreement. Any funds remaining in the Escrow Funds account shall then be applied as prepayment to a principal reduction of the Note.

18) In the event any Stop Work Notices, Notices to Withhold, Mechanic's Liens or other claims of lien are filed against the Property, LENDER, after five (5) days' notice to the undersigned of its intention to do so, may, in its sole discretion, pay any or all of such liens or claims, may contest the validity of any of them, paying all costs and expenses of contesting same and/or may cease making payments hereunder and make a principal reduction payment with the Escrow Funds. If the Escrow Funds are used to make such a principal reduction, the final payment to the Contractor will not be available from LENDER and shall be the sole responsibility of Borrower.

19) A Compliance Inspection Report from the approved Appraiser stating all Work has been satisfactorily completed must be received by LENDER within two weeks of completion of the construction or within ninety (90) days of the date of the note, whichever is earlier. If, for whatever reason, the final inspection verifying that all Work is completed is not received within ninety (90) days of closing, may, in its sole discretion, make a principal reduction payment with the Escrow Funds. If the Escrow Funds are used to make such a principal reduction, the final payment to the Contractor will not be available from LENDER and shall be the sole responsibility of Borrower.

20) Failure of the Borrower to perform under the terms of this Agreement or the Note, will make the Note, at the sole discretion of LENDER, immediately due and payable.

21) The accepted Homeowners/Contractors Agreement is attached hereto as Exhibit "A."

22) Failure of LENDER to enforce any term or condition of this Agreement on any one occasion shall not act as a waiver by LENDER of the enforceability of that term or condition on any other occasion or as to any other term or condition.

23) LENDER may assign its rights and obligations hereunder to any duly licensed and approved financing entity at its sole option and discretion who will succeed to all rights and obligations hereunder as if it were the original Lender.

24) In the event Borrower fails to perform under the terms of this Agreement or in any way is in breach of this Agreement, LENDER shall be entitled to its reasonable costs and attorney's fees associated with enforcing the terms hereof.


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25) All Notices required by this Agreement and/or the Note, shall be deemed served if in writing and sent, postage prepaid, return receipt requested, to the recipient at the address for the recipient as set forth herein or as either party may designate by written notice.

| Mortgagor | Date | Mortgagor | Date |
|---|---|---|---|
| Mortgagor | Date | Mortgagor | Date |

| Signature of Lender | Title | Date |
|---|---|---|

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