

## APPENDIX 2

## REHABILITATION LOAN AGREEMENT

This Agreement is made this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_, between \_\_\_\_\_  
 \_\_\_\_\_ (Borrower) and \_\_\_\_\_ (Lender)  
 to establish the conditions under which the lender will advance 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 Lender to 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 rehabilitation (\$\_\_\_\_\_) in an interest  
 bearing account, trust or escrow for the benefit of the Borrower.  
 The income earned on the interest bearing account will be paid upon  
 issuance of the Final Release Notice or such earlier time as agreeable  
 to the lender.

Lender shall release the escrow funds by check, payable to the  
 Borrower and appropriate payee who performed the work and supplied the  
 materials in connection with this contract. The funds will be  
 released upon completion of the proposed rehabilitation in accordance  
 with the Work Write-up and the Draw Request (Form HUD 9746-A) and the  
 issuance of an acceptable Compliance Inspection Report (Form HUD  
 92051). The final release of the escrow funds is to take place only  
 after the local jurisdiction has provided its final acceptance of the  
 work.

The lender or HUD 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, however, the borrower is  
 responsible for paying the inspection fee. The lender may require a  
 property inspection if there have been no draw requests for more than  
 30 days.

If a Mortgage Payment Reserve is established in the escrow 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.

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5. The principal amount of the loan specified in paragraph 1 contains a contingency reserve. 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. If the borrower, (or other person, organization or agency) put his/her own money into the contingency reserve account, then the borrower can be refunded the money remaining in the account after the issuance of the Final Release Notice.
6. The Borrower will complete all improvements on the property in accordance with the architectural exhibits as accepted by the Lender and/or Commissioner.
7. Changes in the architectural exhibits must be approved in writing by HUD or the Direct Endorsement Underwriter, prior to the beginning of the work. Work must be 100% complete on each change order item before release of any monies.
8. 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.
9. Representatives of the Lender and of 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 to determine the amount of the rehabilitation escrow account to be released by the Lender.
10. 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.
11. Without prior, written consent of the Lender, no materials, equipment, fixtures or any part of improvements financed with this loan shall 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.
12. The Borrower shall 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 acknowledgement of payment and releases of lien from the contractor and all subcontractors and materialmen dealing directly with the principal contractor. These releases shall cover the period down to the date covered by the last advance, and concurrently with the final payment for the entire project. Such acknowledgements and releases shall be in the form required by local or state lien laws and shall cover all work done, labor performed and materials (including equipment and fixtures) furnished for the project.

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13. Borrower shall cause work to begin within 30 days following the date of this agreement Borrower shall have work completed within \_\_\_\_\_ months following the date of this agreement. Work shall be performed with reasonable diligence; therefore, work is never to cease for more than 30 consecutive days. Should Borrower fail to comply with the terms, the Lender may refuse to make further payments under this agreement. Any funds remaining in the Rehabilitation Escrow Account shall be applied as a prepayment to the mortgage.
14. In the event any Stop Notices, Notices to Withhold, Mechanic's 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 such liens or claims, or may contest the validity of any of them, paying all costs and expenses of contesting the same.
15. Failure of the Borrower to perform under the terms of this Rehabilitation Loan Agreement shall make the loan amount, at the option of the lender, due and payable.
16. The mortgagor acknowledges receipt of the accepted architectural exhibits that are incorporated into this agreement, which copies are maintained by the lender and in the HUD Field Office.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature(s) of Mortgagor(s)

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Mortgagee

\_\_\_\_\_  
Title