

# Homestyle Rehabilitation Loan Agreement

Borrower Name:  
Loan #:  
MIN:

Date:

Borrower Name:

Co-Borrower Name(s):

THIS AGREEMENT dated \_\_\_\_\_ between \_\_\_\_\_ ("Borrower(s)") and **MICHIGAN MUTUAL INC.** ("Lender") specifies the conditions by which the Lender will advance the proceeds of a loan to be used to:  purchase and rehabilitate OR  refinance and rehabilitate the property at the following address: \_\_\_\_\_ ("Property") in accordance with the Plans and Specifications agreed to by Lender and Borrower, and the work approved by Lender ("Rehabilitation").

**1. Loan.** The loan will be in the principal sum of \_\_\_\_\_ Dollars (\$\_\_\_\_\_) ("Loan") and advanced by the Lender to the Borrower as provided in this Agreement. The Loan will be secured by a mortgage, deed of trust, or deed to secure debt ("Security Instrument"), which will be a first lien on the Property. The Note, Security Instrument, this Rehabilitation Loan Agreement and all other documents executed in connection with the Loan are referred to as the "Loan Documents".

**2. Borrower Payments.** Payments under the Loan must be made by the Borrower on the dates specified in the Loan Documents, even though the Rehabilitation may not be completed, or the Property may not be suitable for occupancy.

### **3. Rehabilitation Escrow Account.**

- a) The Lender will deposit the total rehabilitation costs of \$\_\_\_\_\_, including a Contingency Reserve of \$\_\_\_\_\_ in an insured interest bearing escrow account ("Rehabilitation Escrow Account"), which shall be controlled by Lender. The Contingency Reserve shall equal at least ten percent (10%) of the total costs for the Rehabilitation.
- b) The Rehabilitation Escrow Account will cease paying interest to Borrower if Borrower's payments under the Loan are more than 30 days delinquent or the Rehabilitation is not finished by the Completion Date (as that term is defined in Paragraph 4 of this Agreement).
- c) Except as provided in paragraph 9(d) of this Agreement, funds in the Rehabilitation Escrow Account can be used only for the costs of Rehabilitation, and cannot be used to pay other charges not related to the Rehabilitation such as real estate taxes and insurance premiums.
- d) Any funds remaining in the Rehabilitation Escrow Account after completion of the Rehabilitation shall be applied to reduce the principal balance of the Loan in accordance with the Loan Documents. If any such remaining funds were deposited separately by the Borrower, those funds will be applied to reduce the principal balance or returned to the Borrower, at the Borrower's option.
- e) After the final disbursement, the net interest from the Rehabilitation Escrow Account shall be: paid to me OR applied directly to reduce the principal balance of the Loan.

**4. Completion Date.** Borrower shall cause the Rehabilitation to begin no later than 30 days after loan closing, as provided in the Construction Contract. Borrower shall cause the Rehabilitation to be complete no later than \_\_\_\_\_ ("Completion Date"), as provided in the Construction Contract.

### **5. Rehabilitation.**

- a) The Plans and Specifications shall be prepared by a general contractor, architect, or rehabilitation consultant. Contractors and architects must be licensed, registered, or certified in accordance with applicable laws.
- b) Without the prior, written consent of Lender, no materials, equipment, fixtures, or any part of Rehabilitation 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 treat it as personal property.

### **6. Disbursements.**

- a) Lender or its agent may inspect the Property prior to disbursement of any funds from the Rehabilitation Escrow Account.



- b) Lender may retain a 10.000% percentage of each disbursement.
- c) Lender shall disburse funds by check, jointly payable to the Borrower and the Contractor at such times and in such amounts as agreed to by the Borrower and the Contractor.
- d) Lender shall not be obligated to disburse funds if a default exists under this Agreement or any other Loan Document.
- e) Lender's disbursement of funds or other acknowledgment of completion of any Rehabilitation in a manner satisfactory to Lender shall not be deemed a certification by Lender that the Rehabilitation has been completed in accordance with applicable codes, ordinances, laws, regulations, or requirements of any governmental authority. Borrower shall at all times have the sole responsibility for insuring that all Rehabilitation has been completed in accordance with all such requirements.
- f) Prior to each disbursement, Borrower must give Lender: (i) Contractor's request for payment on a form acceptable to Lender and signed by Borrower and Contractor stating that Borrower is satisfied with the Rehabilitation and that all subcontractors and suppliers have been paid; and (ii) evidence that there are no mechanics', materialmen's, or other liens or encumbrances or claims thereof.
- g) In addition, prior to the final disbursement: (i) the Rehabilitation must have been successfully completed in accordance with the Plans and Specifications and all applicable laws and regulations; (ii) Borrower must provide Lender with a Completion Certificate (Form 1036) or such other similar form acceptable to Lender; and (iii) Borrower must provide Lender with evidence of title insurance through the date of completion of the Rehabilitation showing the HomeStyle lien as a first lien on the Property.

**7. Borrower Obligations/Acknowledgments.** Borrower agrees:

- a) to cause the Rehabilitation to be made in a good and workmanlike manner by a contractor(s) in accordance with the Plans and Specifications, the Construction Contract, and all applicable laws and regulations;
- b) to obtain, or cause the contractor(s) to obtain, all licenses, permits, and privileges required by governmental authorities for the Rehabilitation;
- c) that the Rehabilitation shall not begin, and delivery of materials shall not occur, until recordation of the Security Instrument;
- d) to cause the Rehabilitation to be completed free and clear of any mechanics's, materialmen's, or other liens or encumbrances;
- e) to pay all costs necessary for completion of the Rehabilitation without regard to the sufficiency of the funds in the Rehabilitation Escrow Account;
- f) that the property is not approved by the Lender or Fannie Mae and neither the Lender nor Fannie Mae warrants the condition or value of the Property or the Rehabilitation;
- g) that the Property and the Rehabilitation is covered by adequate property insurance at all times; and
- h) to furnish the Lender title insurance (acceptable to Lender) on the Property through the date of completion of the Rehabilitation.

**8. Change Order Requests.** If the Borrower requests additional improvements, changes in the Plans and Specifications must be submitted to Lender on the Change Order Request Form (Form 1200) or a similar form acceptable to Lender. Work on the requested changes shall not begin until Lender has approved such changes in writing and Borrower has deposited in the Rehabilitation Escrow Account additional funds in an amount sufficient to pay the cost of the approved changes, including a contingency reserve.

**9. Defaults.**

- a) Borrower shall be in default if: (i) Rehabilitation is not being done in a good, workmanlike, and timely manner in accordance with the Plans and Specifications and all applicable laws and regulations, (ii) mechanics', materialmen's, or other liens or encumbrances are filed or claimed against the Property (unless such liens or encumbrances are promptly contested in good faith by Borrower and bonded off to the satisfaction of Lender), or (iii) a default occurs under any of the Loan Documents.
- b) In the Event of default, Lender may at its option: (i) withhold disbursements for any unsatisfactory Rehabilitation, (ii) proceed under existing contracts or contract with third parties to make or complete such Rehabilitation, (iii) apply the funds in the Rehabilitation Escrow Account toward such Rehabilitation without prior notice to Borrower, (iv) apply the funds in the Rehabilitation Escrow Account to the balance due under any of the Loan Documents, and/or (v) exercise any other remedies available to Lender.
- c) Borrower understands that a default under this Agreement shall be deemed to be a default under the terms of the Note, the Security Instrument and the other Loan Documents, and that in addition to the remedies specified in the Agreement, the Lender will be able to exercise all of its rights and remedies under the Note, Security Instrument and the other Loan Documents in the event of a default.

