FHA 203(k) Streamlined Loan Disbursement Guide
Accessing your home loan improvement funds

Congratulations on closing your home improvement loan. Michigan Mutual, Inc. is dedicated to helping our customers become successful homeowners. We’re committed to providing the tools and information you need to efficiently access funds from your FHA 203(k) Streamlined Loan. This guide is designed to make the disbursement process as clear and straightforward as possible. If you have questions at any time, please contact the Michigan Mutual, Inc. Disbursement Management Group at 1.866.218.2411, and we will be happy to help.

Streamlined Loan Disbursement Overview
A disbursement is the release of a portion of funds from your FHA 203(k) Streamlined Rehabilitation Loan. The disbursement process has three basic steps, which are outlined below. You are responsible for completing the first two steps, with the help of your contractor and HUD approved appraiser, and Michigan Mutual, Inc. is responsible for the final step. This guide will cover each step in detail.

**STEP 1:** Initial Disbursement
**STEP 2:** Final Disbursement
**STEP 3:** Payment of Interest from the Repair Escrow Account

Your responsibility
Our responsibility

A few important things to note about the FHA 203(k) Streamlined Disbursement Process:

1. You will receive two disbursements of funds (an initial and a final); additional disbursements will not be permitted.

2. Once work is complete, you must call Michigan Mutual, Inc. and we will schedule a final inspection. You and your contractor should be present during the inspection in case any questions arise.

3. You must complete all your home improvements within six months, in compliance with your Rehabilitation Loan Agreement.

See page 2 for a list of terms.
Important Terms

Please familiarize yourself with the following terms that you will need to know about the FHA 203(k) Streamlined Disbursement process:

Repair Escrow Account — Funds for your home improvement project are held in an interest-bearing escrow account¹ insured by the FDIC. These funds are released to you and your contractor(s) for repairs based on the original appraisal and contractor bid. Included in this account are funds to pay for planned repairs, contingencies, inspection, title and other miscellaneous improvement fees.

Property Lien — A lien is a form of collateral that ensures payment of a debt. Contracts for home improvement work often allow contractors to place a lien against the title of the property in the event they are not paid. If your property has a lien against it, you will not be able to sell or refinance the property until the lien has been cleared. Michigan Mutual, Inc. will ensure your title is clear of any liens before issuing your final disbursement.

Holdback Funds — (Applicable only to properties in Texas.) As indicated in your Borrower Acknowledgement form, 10% of the total draw request amount will be deducted and held in the repair escrow account until the entire project is complete. For example, if $1,000 is requested, Michigan Mutual, Inc. will issue a check for $900. The $100 difference will remain in the repair escrow account. All monies held back will be released after all work is complete and Michigan Mutual, Inc. has ensured that the property's title is clear of any liens.

Contingency Fund — This reserve of funds is held in the repair escrow account for the purpose of covering unplanned repairs that become necessary due to health or safety issues, or building material changes and repairs. Be sure to contact Michigan Mutual, Inc. before authorizing your contractor to make repairs that will cost more than the estimate provided in the original contractor bid. Unused contingency funds will be applied toward the principal balance on your loan. Note that contingency funds are not part of the holdback funds.

¹ As required by the IRS, a 1099-INT form will be issued for taxable interest paid.
You will receive the first disbursement on your FHA 203(k) Streamlined Loan at closing. Michigan Mutual, Inc. uses the costs specified in your contractor agreements to determine the amount of your disbursement. Be sure you have submitted a copy of every agreement between you and your contractor(s) so that you will receive the maximum amount.

In order to help you understand the amount of money you should expect to receive as your initial disbursement, we will review the Maximum Mortgage Worksheet (form HUD-92700, 203(k)). This was completed by your originating lender based on the agreements made between you and your contractor(s). If you do not have a copy of this form, please request one from your originating lender. Let’s take a look at the sections of the Maximum Mortgage Worksheet that affect your initial disbursement: Section A - Property Information and Section B - Rehabilitation and Other Allowable Costs.

Box B1 shows the total cost of repairs. Your initial disbursement will be 50% of this amount, with the following exceptions:

If your property is located in Texas, you will receive 50% of the amount in box B1 minus a 10% holdback. Please see definition of Holdback Funds on Page 1.

If your contractor agreements have changed since you or your originating lender submitted them to Michigan Mutual Inc., you may receive less than 50% of the amount in box B1. If the contractor agreement(s) submitted no longer total an amount that matches box B1, you will receive 50% of the lesser amount.
If you signed a Self Help Agreement, you will be issued a check to cover the purchase of building materials and supplies. The check will be for 50% of the funds indicated in the Self Help Agreement.

*Note:* This will only occur after all homeowner contractor agreement(s) have been met.

If you receive less than 50% of box B1 in your initial disbursement, please review your agreements with your originating lender.

For example...

Following the sample Maximum Mortgage Worksheet (previous page):

- John Smith’s property is not located in Texas, so his loan will not require holdback funds.
- The homeowner contractor agreements received by Michigan Mutual, Inc. total an amount equal to the figure in box B1.
- John did not sign a self help agreement.

This means that John’s initial disbursement will be 50% of the amount in box B1 ($29,948.25). Therefore, John will receive a check for $14,974.13 made out to both himself and his contractor.

**Box B14 indicates the total cost of rehabilitation for your home,** not including the energy efficient improvements listed in box A6. If the total in this box is greater than $35,000, you have exceeded the limit for a Streamlined FHA 203(k) Loan, unless:

You are purchasing a HUD-owned property in need of lead-based paint stabilization.

Please see the Appendix for more details.

Since you have an FHA 203(k) Streamlined Loan you are not eligible to receive these funds at closing or at initial disbursement. You should not expect to receive any portion of these funds at this time.
STEP 2: Final Disbursement

In the final disbursement, you will receive the balance of the home loan improvement funds paid to your contractor(s). (If you performed self help, this will be the balance of your paid receipts.) Once your home improvements are complete, call the Michigan Mutual, Inc. Disbursement Management Department at 1.866.218.2411 to initiate the final disbursement process.

If you signed a Self Help Agreement, you must submit paid receipts for all permits, fees, building materials and building supplies. Please keep copies of your receipts for your records. Remember, you will not be reimbursed for your labor under the Self Help Agreement.

B) Mortgagor’s Letter of Completion (pictured below)

After your initial disbursement, you will receive a Mortgagor’s Letter of Completion. Once all work is complete, you will need to sign and date the form and send it back to Michigan Mutual, Inc. for processing.

Documents

Before you can receive your final disbursement, you must submit the following:

A) Contractor Invoices/Receipts and Self Help Receipts

B) Signed and dated Mortgagor’s Letter of Completion

C) Compliance Inspection (if required)

Note: All home improvements must be completed within six months of closing.

A) Contractor Invoices/Receipts and Self Help Receipts

If a contractor performed any or all of the work on your home, you must submit any contractual agreements and paid receipts for permits/fees that you did not submit prior to your initial disbursement. All contractors and subcontractors must submit invoices on business letterhead, one invoice per contractor. This is mandatory in order to receive payment.
C) Compliance Inspection

Your loan requires a compliance inspection. Michigan Mutual, Inc. will order the compliance inspection upon completion of repairs. If you have any questions, please contact the Michigan Mutual, Inc. Management Department at 1.866.218.2411.

If the total amount of improvements is greater than $5,000, a HUD-approved appraiser will review your completed project to ensure that the improvements have been made with suitable workmanship. After review, the appraiser will submit a report to Michigan Mutual, Inc. You must submit any outstanding contractor invoices, permit receipts (or paid receipts for self help) and the signed and dated Mortgagor’s Letter of Completion to Michigan Mutual, Inc.

Disbursement

Once all required items have been received, Michigan Mutual, Inc. will issue your final disbursement. Your Maximum Mortgage Worksheet will help you determine what you can expect in your final disbursement.

<table>
<thead>
<tr>
<th>B. Rehabilitation and Other Allowable Costs</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Cost of Repairs (Line 36, HUD-9746-A) includes the improvements in A6 and REO Lead Based Paint Stabilization</td>
<td>$29,948.25</td>
<td></td>
</tr>
<tr>
<td>2. Contingency Reserve on Repair Costs (0 %) (10 to 20 % of B1)</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>3. Inspection Fees (1 x $150.00 per inspection) + Title Update Fee (1 x $100.00 per draw)</td>
<td>$250.00</td>
<td></td>
</tr>
<tr>
<td>4. Mortgage Payments Escrowed (0 months x $ -0-) if uninhabited (Note 7)</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>5. Sub-Total for Rehabilitation Escrow Account (Total of B1 thru B4)</td>
<td>$30,198.25</td>
<td></td>
</tr>
<tr>
<td>6. Architectural and Engineering Fees (Exhibits) (Note 7)</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>7. Consultant Fees (including mileage, if applicable) ($_____ + _____ miles@_____ /mile) (Note 7)</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>8. Permits</td>
<td>$200.00</td>
<td></td>
</tr>
<tr>
<td>9. Other Fees (explain in Remarks)</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>10. Sub-Total (Total of B5 thru B9)</td>
<td>$30,198.25</td>
<td></td>
</tr>
</tbody>
</table>

You should receive the remaining 50% of box B1.

*Note: If your homeowner contractor agreement(s) did not match the sum of box B1 on the Maximum Mortgage Worksheet and your initial disbursement was a lesser amount, you will receive that same lesser amount in your final disbursement.*

If your loan required a contingency fund, you will receive up to 100% of box B2, provided you made additional improvements to your home above the amount in box B1 and you have submitted all the required documentation.

If you or your contractor(s) submitted paid receipts for fees and permits, you can receive up to 100% of boxes B6 through B9. Refer to the 203(k) Borrowers Acknowledgement Agreement (HUD-92-700-A) that you signed at closing. This agreement lists eligible reimbursements for your FHA 203(k) Streamlined Loan. If you do not have this agreement, please request a copy from your originating lender.

*Note: If box B9 has a Lead-Based Paint (LBP) addition, please see the Appendix for additional information.*
STEP 2: Final Disbursement (continued)

Your final disbursement may also include: holdback funds for properties located in Texas, or lead-based paint removal for HUD-owned properties. (If your home required lead-based paint stabilization, see the Appendix for more details.)

For example...

Following the sample Maximum Mortgage Worksheet, John Smith:

2 Will receive 50% of $29,948.25 for his final disbursement (or $14,974.13).
5 Does not have a contingency fund, so he will receive $0.
6 Has $200 in permits and has all the appropriate receipts, so he will receive $200.

John will receive a check for $15,174.13 made out to both himself and his contractor.

Final disbursement will occur after Michigan Mutual, Inc. has verified that the title is clear of any liens (typically 35 days after receipt of completed documentation). A check will be issued within 5 business days of verification. Initial and final disbursement checks will be delivered and made payable to the contractor(s).

Note: Funds cannot be sent through a bank wire transfer; a check must be issued.
Once Michigan Mutual, Inc. has released the final balance of funds, including holdback funds for properties located in Texas, any amount remaining in the repair escrow account will be applied toward the principal balance of the loan. This includes any unused contingency funds or inspection fees remaining in the repair escrow account. These funds are interest bearing, and interest is accounted for and distributed to you based on your given instructions at the time of loan processing.

If you have any questions about your FHA 203(k) Streamlined Rehabilitation Loan, please contact:

Michigan Mutual, Inc.
Disbursement Management Group

Phone: 1.866.218.2411
Fax: 1.248.485.0109
Email: 203k.disbursement.unit@michiganmutual.com
Mail: Michigan Mutual, Inc.
100 Galleria Officentre #101
Southfield, MI 48034
Appendix: Lead-Based Paint Stabilization

Properties Not Purchased from HUD
If you have lead-based paint to remove or stabilize, but your home was not HUD Real Estate Owned (HUD REO) – meaning HUD was not the seller on your property, HUD will not pay for ANY portion of the lead-based paint stabilization. However, you can include this cost in your 203(k) Streamlined Rehabilitation Loan; this money should be included in box B1. Be sure that lead-based paint stabilization costs do not cause your total rehabilitation costs (box B1) to exceed the maximum $35,000 loan limit.

HUD REO Properties
Before you purchased your HUD REO property, a HUD contractor determined if your property contained dangerous levels of lead-based paint. If this applied to your HUD REO property, the contractor then completed a stabilization plan and cost estimate and at closing, you signed a 203(k) Rehabilitation Financing Lead Agreement.

If you did not sign an FHA 203(k) Rehabilitation Financing Lead Agreement when you closed on your property, but you have opted to make improvements that affect lead-based paint, HUD will not pay for any portion of these improvements. However, you can include this cost in your 203(k) Streamlined Rehabilitation Loan; this money should be included in box B1. Be sure that lead-based paint stabilization costs do not cause your total rehabilitation costs (box B1) to exceed the maximum $35,000 loan limit.

Note: The HUD contractor is not the same as the contractor you hired to work on your home loan improvements; it is a contractor who was hired by HUD to assess the property prior to HUD selling the home to you.

Stabilization Credit for Qualified HUD Properties
The 203(k) Rehabilitation Financing Lead Agreement verifies that HUD will pay for the lead-based paint stabilization in the amount estimated by the HUD contractor. You should have received a credit for the stabilization amount at closing (on your final HUD-1), which reduced the sale price of your new home. This credit is not included in the $35,000 limit. However, please note that these funds, although listed on your final HUD-1, will not be paid to you at closing. The money will be put into your repair escrow account along with the 203(k) Streamlined Loan funds requested to repair your property.

Your originating lender may choose to specify your HUD funds on your Maximum Mortgage Worksheet. If they have, the amount will be listed in box B9 with a Lead-Based Paint (LBP) Note, and then added to your total cost of rehabilitation in box B14. In this case, you may exceed the $35,000 limit by the amount listed in box B9. If your originating lender chooses not to specify your HUD funds on your Maximum Mortgage Worksheet, you can determine this amount by reviewing the 203(k) Rehabilitation Financing Lead Agreement.

Note: If you are paying more for the lead-based paint stabilization than credit you received at closing, the excess amount must be applied to the total cost of repairs in box B14. This excess amount is your responsibility and will not be reimbursed by HUD.

Final Clearance Report
Before money can be disbursed and before you can occupy your home, a HUD appraiser must complete a clearance examination and report that all lead-based paint has been stabilized. Once all work is finished, contact your HUD appraiser to arrange this examination.

Disbursement of Funds
Once Michigan Mutual, Inc. has received your inspector’s clearance examination report, the money that is being held in the repair escrow account for the REO lead-based paint stabilization can be disbursed. If this is completed prior to the initial disbursement, you are eligible to receive 100% of these funds at initial disbursement; however, if this report is not completed in time for the initial disbursement, these funds will not be available to disburse until all the work on your home has been completed. You will not receive any portion of this money until the work has been inspected and is considered complete.