

# **FHA REPAIR ESCROW GUIDELINES**

## **Introduction**

Escrow holdbacks are used to facilitate loan closings for properties that require no more than \$5000 of repairs to meet FHA's minimum property requirements. The buyer or seller are required to establish a cash escrow that will ensure the completion of the required repairs. These proceeds are held in an escrow account until the repair requirements are completed. This borrower accommodation allows the loan to close and the borrower to occupy the property while incidental work is finished. This document is intended to give guidance on proper qualification and closing procedures. Please note that properties being purchased as HUD REOs follow different guidelines as outlined further below.

MMI will allow escrow holdbacks under the following conditions:

- **HUD-Owned Properties** (HUD REOs) that require no more than \$5000 of repairs to meet FHA's minimum property requirements are offered for purchase in "as is" condition under Section 203(b). An amount equal to 110% of the estimated cost of the repairs is permitted to be included in the mortgage. Repairs are to be completed within 90 days of the loan close date. If exterior repairs are included the 90 days may be extended due to inclement weather (see defective exterior paint surface scenario directly below).
- Refinance or purchase transactions in cases where **Exterior only repairs** cannot be completed due to inclement weather. Properties that require no more than \$5000 of repairs to meet FHA's minimum property requirements appraised in "as is" condition under Section 203(b). An amount equal to 150% of the estimated cost of the repairs will be collected at time of closing. Repairs are to be completed within 90 days of the loan close date however due to inclement weather longer periods may be granted. For instance, if repair escrow needs to be established for defective exterior paint surface in a Michigan home constructed pre-1978 and the closing date is December 5<sup>th</sup> then the completion date should be April 30 (in lieu of 90 days) in order to allow sufficient time to paint in warmer temperatures. Purchases of bank owned properties with interior repairs will be considered on a case-by-case basis depending on repairs.

## **Holdbacks Not Permitted**

Escrow holdbacks are not permitted for the following reasons:

- Structural repairs
- Foundation work
- Roofs
- Non-weather related repairs (except HUD REOs-see HUD REO section)
- Items creating a livability issue (see below)

**Per HUD guidelines the dwelling on the mortgaged premises must be habitable and safe. Items essential for customary occupant use and enjoyment, or for property safety or durability, may not be escrowed. Under no circumstances may a loan be closed if the uncompleted items affect livability or the integrity of the structure (i.e., lack of gas, electricity, or plumbing, HVAC or foundation defects.)**

## **Escrow Holdback Account Administration**

MMI requires escrow holdback accounts to be held and administered by title companies

### **MMI Prior Approval**

Required documentation, specific to the holdback, must be reviewed and approved by a DE Underwriter before the loan is cleared to close. See document requirement listed below.

### **Setting Up Escrow Holdbacks**

When setting up an escrow holdback, the following documentation is required for DE Underwriter review and approval, specific to the holdback, before the loan is cleared to close. (The below is not required on HUD REOs – see HUD REO section (below) for specific instructions)

- Two (2) itemized bids, from a licensed contractor that clearly identifies each item to be completed including an itemized estimation of costs.
- A copy of the contractor's current license.
- The appraisal detailing the required work
- Any other specific documentation as required by the loan type
- Minimum amount of escrow requirement is \$500 or 150% (1.5 times) the repair amount (as determined by the underwriter), whichever is greater,
- Determine who is responsible (if borrower or seller) for funds to establish repair escrow account. If borrower is responsible, ensure borrower has sufficient funds to establish repair escrow account.

The amount of escrow funds withheld is determined by the type of holdback allowed.

It is the DE Underwriter's responsibility to:

- Complete the Conditional Commitment (HUD 92800.5B). The Assurance of Completion box must be checked and the escrow amount must be completed. The last box must be checked with the repairs to be completed listed and the "#8" must be listed for Repairs to be completed on the back of the Conditional Commitment.
- The Mortgagee's Assurance of Completion (HUD 92300) must reflect the escrow amount
- The FHA underwriter must reflect a closing condition which indicates the repair escrow and amount to be collected at time of closing and reflect if collected from borrower (or seller). The Mortgagee's Assurance of Completion (pages 1 & 2) must be signed/dated by MMI VP.
- FHA Underwriter is responsible for indicating in MB "notepad" the existence of a repair escrow, the amount and if the funds are being held from the borrower or seller and the completion date. In addition if the transaction is a HUD REO it must indicate the repair escrow is included in the mortgage amount.
- When underwriting a HUD REO with repair escrow the repair escrow must be included in the mortgage amount (see HUD REO guidelines for specifics regarding repair escrow accounts).
- In addition a closing condition must be reflected for the closers to collect the dollar amount on the HUD1 (specify if buyer/seller) and for the repair escrow agreement to be completed.

It is the Closer's responsibility to:

- Complete the escrow holdback agreement and instruct closing agent to be fully executed by appropriate party (buyer or seller)
- Reflect appropriate escrow amount on HUD1
- Reflect Escrow Repair Admin Fee of \$200 on HUD1 (if transaction is a HUD REO) and instruct closing agent to collect funds from HUD to MMI
- Instruct the title company to hold and administer the escrow and only disburse funds with MMI authorization (MMI will only hold and administer the escrow as an exception when the settlement agent does not provide this service)

## **At Closing**

Borrower/seller will be required to execute a formal repair escrow holdback agreement. On HUD REOs the HUD1 must clearly identify the Escrow Repair Admin Fee of \$200 collected from seller (US Department of HUD) for MMI administering the repair escrow account. The compliance inspection fee will be paid from this account.

## **Inspections**

Inspections by the original appraiser (approved HUD inspector for HUD REOs) will be required for all holdbacks. If the original appraiser is not available a HUD fee inspector must be utilized for the inspection. A lookup for a fee inspector in your area may be found at HUD's website ([https://entp.hud.gov/idapp/html/insplook.cfm?in\\_fha=No](https://entp.hud.gov/idapp/html/insplook.cfm?in_fha=No)). The required work or repairs must be completed within the time frame mandated by the by the loan program and as stated by the DE Underwriter on the Conditional Commitment and Mortgagee's Assurance of Completion.

It is the originators responsibility to order the Compliance Inspection Report and forward this to MMI with the below required documentation. On the HUD REOs, as part of the responsibility for administering the escrow account, MMI must pay for the inspection of the completed repairs.

On HUD REOs, to compensate DE lenders for establishing and administering the escrow account, a fee of \$200 will be paid by HUD to the DE lender at the time of sales closing. In order to be paid, the \$200 fee must be included on the lender instructions. On HUD REOs, the originator will arrange for the inspection of the completed repairs and MMI will pay for the inspection from the \$200 fee we receive from HUD (this fee will not come out of the repair escrow account). On all other transactions the inspection fee will come out of the repair escrow account.

If a HUD fee inspector inspection is requested, the originator must provide a copy of HUD's list of required repairs to the inspector so that the inspector is made aware of the required he will need to inspect.

## **Work Completed**

Upon completion of the work and prior to the repair escrow deadline, the originator must provide MMI with the following items to document that all the work has been completed:

- Compliance Inspection Report (Form 92051) with invoice
- Invoices showing work completed that are to be paid, if applicable

Documentation should be forwarded to the following:

Michigan Mutual, Inc.  
30300 Telegraph Road, Suite 185  
Bingham Farms, MI 48025

Attention: Jeff Sugar  
Or emailed to: [jsugar@michiganmutual.com](mailto:jsugar@michiganmutual.com)

**MMI will request disbursement of the funds from the title company (settlement agent). On FHA transactions the Compliance Inspection Fee will be paid first from these funds (per HUD requirements). On all HUD REO transactions MMI will remit payment to the Fee Inspector (we have collected this fee from HUD at time of closing) and request disbursement of the funds from the title company simultaneously.**

It is the Government Insurer's responsibility to send to HUD after loan closing:

- Mortgagee's Assurance of Completion, (HUD-92300) pages 1 & 2 (fully executed by MMI VP)
- Two (2) itemized bids, from a licensed contractor that clearly identifies each item to be complete including an itemized estimation of costs.
- The Conditional Commitment (HUD 92800.5B)
- HUD1
- Repair Escrow Agreement
- Copy of all of the above in tickler file for Jeff Sugar

Send to HUD after repair escrow released:

- Mortgagee's Assurance of Completion, (HUD-92300) page 4 (fully executed by MMI VP)
- Compliance Inspection Report (HUD-92051) appropriately completed with "clear 14" by appraiser, completed by underwriter & signed/dated by appraiser/underwriter.
- Scan to Doc Velocity a fully executed page 5 Mortgagee's Assurance of Completion as well as all completion documentation

If extensions are needed and granted by the DE Underwriter the "tickler file" copy of Mortgagee Assurance of Completion must be amended and sent to HUD with copy for MMI.

If actual repair costs are less than the amount escrowed, the balance of the escrow will be refunded to the escrow depositor (see directly below for HUD REOs). If the escrow is inadequate, or if additional items of repair are discovered at some subsequent date, it is the borrower's responsibility to bear the additional cost. If the borrower fails to complete the required repairs within 90 days of closing or such additional time as is determined reasonable or the repairs are unsatisfactory, **we must apply the escrow amount to reduce the outstanding principal balance of the mortgage.**

## **Property Disposition Sales (HUD REOs)**

### **Repair Escrow**

Properties that need less than \$5,000 worth of repairs to meet the intent of the MPS will be offered for sale with insured financing available, provided a cash escrow is established to ensure the completion of repairs.

### **Repair Escrow Financing**

The repair escrow **must be financed in the FHA loan** and is not to be taken from HUD proceeds at closing.

### **Escrow Account**

Equal to 110 percent of the estimated cost of repairs and must be established for properties sold under the Property Disposition Sales Program. Since the maximum cost of repairs is \$5,000, the maximum escrow amount may not exceed \$5,500. The escrow account must be administered by the title company. A 10% coverage is also calculated into the costs so the actual amount given on any repair escrow can be as high as \$5500.

## **Property Disposition Sales (HUD REOs), continued**

### **Cost of Repairs**

Repair escrow amount is taken from line 4 of the sales contract. In addition if additional repairs are revealed during the loan process (i.e. as a result of a home inspection) then 2 bids will be required with a list of the repairs needed to make the property insurable and the estimated cost of repairs and the underwriter will determine the additional required escrow amount.

### **Completion of Repairs**

Generally, all repairs are to be completed by the borrower within 90 days of closing. Upon satisfactory completion of repairs, the broker/originator must arrange for a HUD fee inspector to inspect the property. A lookup for a fee inspector in your area may be found at HUD's website ([https://entp.hud.gov/idapp/html/insplook.cfm?in\\_fha=No](https://entp.hud.gov/idapp/html/insplook.cfm?in_fha=No)). The broker/originator must provide a copy of HUD's list of required repairs to the inspector prior to the inspection. The fee inspector is to provide the Compliance Inspection Report (HUD Form 92051) indicating all on site repairs have been acceptably completed. The fee inspector will be paid by MMI (this fee **will not** be paid from the proceeds of the repair escrow account). MMI will disburse the escrow to compensate the borrower or the contractor, as appropriate.

If actual repair costs are less than the amount escrowed, the balance of the escrow will be applied to reduce the outstanding principal balance of the mortgage (no exceptions since this amount has been financed in the mortgage amount). If the escrow is inadequate, or if additional items of repair are discovered at some subsequent date, it is the borrower's responsibility to bear the additional cost. If the borrower fails to complete the required repairs within 90 days of closing or such additional time as is determined reasonable or the repairs are unsatisfactory, **we must apply the escrow amount to reduce the outstanding principal balance of the mortgage.**