

## Escrow Repair Guide

### Who can do the Repair work?

- Repairs cannot be completed by the borrower – no exceptions
- Repairs can only be completed by a licensed contractor or if state does not require licensing, contractor must be verifiable and have valid insurance.

### Allowed Repairs for Escrow:

- Escrow repair items can ONLY be used for repair items that bring the subject property to product guidelines.

### Non-Allowed Escrow Repair Items:

- Repairs that are structural in nature, or
- Repairs that affect the safety or soundness of the property, or
- Repairs that are cosmetic in nature are not allowed. Example, borrower wants newer cabinets.

### Allowed Amount of Escrow:

- No Maximum amount, but the escrow repair can ONLY be used for repair items that bring the subject property to product guidelines. No structural or “cosmetic” repairs can be done.
- If the amount of the escrow will be less than \$7,500 total then the lock duration must cover the loan funding date.
- FHA loans, Conventional Purchases, and VA loans do not allow the repair amounts to be included in the loan amount. In some circumstances repairs may be financed into a USDA loan.

### Required Contingency:

- For Borrower funded escrows 150% of the highest bid will be held, for Seller funded escrows 100% of the highest bid will be held. \*Note that all excess amounts of overfunded borrower funded escrows will be principally applied to their loan.

## Work Bid Requirements:

- Requires 2 bids for all repairs
- Must include the contractor's name and contact number.
- FSB will utilize the higher of the 2 bids for calculation of the holdback amount.
- If bids are greater than 20% different from each other, an itemized bid will be required from the highest bid for further examination. If the amount provided on the bids do not appear to be sufficient for the work required a cost to cure will be requested from the appraiser to determine the amount held.
- If a seller funded escrow, the Bids must be signed by both the buyer(s) and seller(s).
- If a borrower funded escrow, the Bids must be signed only by the buyer(s).

## Time Frame Allowed and Lock Policy:

- If the amount of the escrow will be greater than \$7,500 total then the lock duration must cover the time frame required on a post-closing basis for all repairs to be completed and a final inspection to be completed.
- FSB only offers a maximum of a 60-day lock duration, therefore if you require more time for any reason (delay due to materials or weather delay) then 30 BPS (.30) must be charged for every additional 15 days greater than 60 days to the borrower. This can be a seller concession.

### Example 1:

- A septic system needs to be replaced for the property
- The highest bid is for \$10,000 and will be seller funded.
- The escrow will be for \$10,000 at time of closing
- Loan is closing January 1st
- The repair cannot be completed until April 1<sup>st</sup>, or 90 days from closing
- Loan officer has 15 days remaining on a 60 day lock at time of closing.
- The borrower will need to be charged 90 BPS because they require an additional 45 days from the initial lock period.

### Example 2:

- Two windows need to be replaced for the property
- The highest bid is for \$3,500 and will be borrower funded.
- The escrow will be for \$5,250 at time of closing (150% of the highest Bid)
- **Please remember to consider these funds into your cash to close required.**
- Loan is closing January 1st
- The repair cannot be completed until April 1<sup>st</sup>, or 90 days from closing.
- There is no fee required to be charged to the borrower.

## **Escrow Agreement:**

➤ For Seller funded Escrows, the FSB Escrow repair holdback agreement must be presented to underwriting with both the seller(s) and buyer(s) information on the documents, unsigned. We will require all parties to sign at time of funding, if not previously executed. An updated form is available on our retail website. Please see the correct form labeled Seller Funded Escrow Repair Agreement.

➤ For Borrower funded Escrows, the FSB Escrow repair holdback agreement must be presented to underwriting with the buyer(s) information on the document, unsigned. We will require all buyer(s) to sign at time of funding, if not previously executed. An updated form is available on our retail website. Please see the correct form labeled Buyer Funded Escrow Repair Agreement.

## **Requesting Escrow Disbursement after closing:**

➤ A Final Inspection and final invoices are to be sent to [rebeccamoorehead@flanaganstatebank.com](mailto:rebeccamoorehead@flanaganstatebank.com) for approval to release funds.

➤ Please allow 5 business days to request and then receive payment.

.\*Note that all excess amounts of overfunded borrower funded escrows will be principally applied to their loan.