

# ESCROW HOLDBACK POLICY

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## POLICY OVERVIEW

Arc Home emphasizes the importance of completing property repairs or enhancements prior to the loan closing. However, we acknowledge that adverse weather conditions in certain areas may present challenges, potentially requiring the closing of a loan before repairs are fully completed. In such cases, Arc Home may consider establishing a repair escrow for Fannie Mae, Freddie Mac, FHA, USDA, and VA loans, in accordance with the guidelines outlined in this policy.

It is essential to note that under no circumstances will a loan be closed if pending repairs compromise the livability, safety, or structural integrity of the property, or hinder the acquisition of a Certificate of Occupancy for new or proposed construction.

## ESTABLISHMENT OF ESCROW ACCOUNT

The escrow holdback must be approved by an Arc Home Underwriter prior to issuing a Clear to Close and may only cover exterior repairs and/or improvements not completed prior to closing due to weather-related delays, following investor requirements. To obtain approval, the following documentation must be provided:

## ITEMIZED LIST OF WORK TO BE COMPLETED

- Bid for repairs/improvements (refer to requirements below)
- Estimated completion date (refer to Investor Requirements below)
- Party responsible for providing escrow funds (borrower or seller)
- Escrow Holdback Agreement prepared by Title or an Attorney and Arc Home
- Confirmation from the Title Company that they will hold escrow funds

## INELIGIBLE LOAN PROGRAMS

- All Non-Agency (Access, Edge, Elite, etc.), Jumbo, Conventional Investment and FNMA/FHLMC Second Home Investment loan programs are ineligible
- Correspondent loans are ineligible

## DOCUMENTATION OF REPAIR ITEMS/COST

The appraiser, builder, or licensed independent contractor must provide a cost breakdown and timeframe for repairs.

## ESCROW HOLDBACK AGREEMENT

The Escrow Holdback Agreement must be submitted to ARC for review and approval before Clear to Close.

The Title Company must provide written agreement to hold the escrowed funds. Arc Home will not hold the funds.

If Title cannot prepare agreement, EHB agreement will be accepted from buyer or seller's attorney.

## TITLE INSURANCE

- Title Insurance must not be adversely affected during or after the completion escrow is in effect
- The Arc Home Underwriter must determine if a final title report is required and condition the loan accordingly

### THE FINAL TITLE REPORT MUST NOT:

- Reflect any outstanding mechanic's liens, or
- Take any exceptions to the postponed improvements, or
- Take any exceptions to the escrow agreement
- If the final title report is issued prior to the completion of the improvements, an endorsement to the title policy must be obtained to ensure the priority of the subject first lien

## EVIDENCE OF COMPLETION

- Once all repairs are completed, the appraiser must perform a final inspection and complete the required investor inspection form:
  - FNMA/FHLMC: 1004D, FHA: HUD-92051, VA: Form 26-1839, USDA: 1004D
- Arc must authorize the release of the escrowed funds

## FAILURE TO COMPLETE REPAIRS

The following actions may be taken by Arc Home if the required repairs are not completed within the investor's designated completion timeframe:

- If the appraisal was completed "as is", Arc Home to apply escrowed funds as a principal reduction on the subject loan
- If the appraisal was completed "subject to" repairs or alterations, and the repairs have not been completed within the required timeframe, Arc Home to order the completion of the repairs by a qualified contractor and obtain a final inspection

## EXCESS OR INADEQUATE FUNDS

- After the completion of repairs, any unused escrow repair funds will be refunded to the depositor

## INVESTOR REQUIREMENTS

CONVENTIONAL – FANNIE MAE AND FREDDIE MAC GUIDELINES	
Topic	Requirements
Completion Term	<ul style="list-style-type: none"> <li>• 120 Days</li> </ul>
Ineligible Repairs	<ul style="list-style-type: none"> <li>• Interior repairs of any kind</li> <li>• Incomplete items that adversely affect the safety, soundness, or structural integrity of the Mortgaged Premises</li> <li>• Approval is required for all repair escrows and eligibility is subject to Arc Home discretion</li> </ul>
Eligible Repairs	<ul style="list-style-type: none"> <li>• Minor conditions or deferred maintenance items</li> </ul>
Appraisal Requirements	<ul style="list-style-type: none"> <li>• Appraisal/property value must follow agency requirements and list out incomplete repair items</li> </ul>
Escrow Amount	<ul style="list-style-type: none"> <li>• Repair costs may not exceed 10% of the "as completed" appraised value</li> <li>• Escrowed funds must be equal to 150% of the estimated repair costs</li> </ul>
Mortgage Insurance	<ul style="list-style-type: none"> <li>• Loans with LTV &gt; 80% must have MI requirements reviewed to ensure MI provider allows loans that are closed subject to repairs</li> <li>• MI insurance may not be impaired or adversely affected during or after the completion period</li> </ul>

FHA GUIDELINES – NON-HUD REO	
Topic	Requirements
Completion Term	<ul style="list-style-type: none"> <li>• 120 Days</li> </ul>
Ineligible Repairs	<ul style="list-style-type: none"> <li>• Repairs that affect the livability and/or safety of the mortgaged premises at time of closing</li> </ul>
Eligible Repairs	<ul style="list-style-type: none"> <li>• Incomplete construction, or for alterations and repairs that cannot be completed prior to loan closing</li> <li>• Only exterior repairs/improvements are permitted, and property must meet HUD's MPR (minimum property requirements)</li> </ul>
Appraisal Requirements	<ul style="list-style-type: none"> <li>• The appraisal must include a list of the required exterior repairs, and the estimated cost to cure</li> </ul>
Escrow Amount	<ul style="list-style-type: none"> <li>• The maximum escrow amount must be based on the sum of the repairs required to meet the intent of HUD's MPR, plus a 10 percent contingency. The total escrow amount, including the 10 percent contingency, must not exceed \$11,000</li> </ul>

USDA GUIDELINES	
Topic	Requirements
Completion Term	<ul style="list-style-type: none"> <li>• 120 Days</li> </ul>
Ineligible Repairs	<ul style="list-style-type: none"> <li>• Repairs that affect the livability and/or safety of the mortgaged premises at time of closing</li> </ul>
Eligible Repairs	<ul style="list-style-type: none"> <li>• Minor items not affecting the livability of the structure or that cannot be completed due to weather conditions with approval subject to Arc Home discretion</li> </ul>
Appraisal Requirements	<ul style="list-style-type: none"> <li>• The appraised value must be based on the “as completed” value of the property</li> <li>• The appraisal must include a list of the incomplete items</li> </ul>
Escrow Amount	<ul style="list-style-type: none"> <li>• Escrowed funds must be equal to 150% of the estimated repair costs</li> </ul>

VA GUIDELINES	
Topic	Requirements
Completion Term	<ul style="list-style-type: none"> <li>• 120 Days</li> </ul>
Ineligible Repairs	<ul style="list-style-type: none"> <li>• Repairs that affect the livability and/or safety of the mortgaged premises at time of closing</li> </ul>
Eligible Repairs	<ul style="list-style-type: none"> <li>• Certain items which must be postponed due to weather conditions or other circumstances</li> <li>• Eligibility approval is subject to Arc Home discretion</li> </ul>
Appraisal Requirements	<ul style="list-style-type: none"> <li>• The appraiser must provide a list of required repairs with the estimated cost and contributory value for the property to meet VA’s Minimum Property Requirements (MPR)</li> </ul>
Escrow Amount	<ul style="list-style-type: none"> <li>• Escrowed funds must be equal to 150% of the estimated repair costs</li> <li>• A Commercial letter of credit or surety bond are not allowed in lieu of cash escrowed funds</li> </ul>
Waiver of Repairs	<ul style="list-style-type: none"> <li>• When the Veteran and Arc Home Underwriter agree that the required repairs and/or improvements do not impact the subject property habitability, safeness, or structural soundness, the Veteran may provide Arc Home with a written statement regarding why the repair(s) are not necessary and requesting VA to waive the repair requirement</li> </ul>

**Note:** Energy Efficient Mortgages (EEM) are not allowed.