

## Homestyle Borrower's Acknowledgment

Condition of Property: I/We understand that the property I/we am/are purchasing is not Fannie Mae approved, and FannieMae does not warrant the condition or the value of the property. I/We understand the Fannie Mae plan review (where performed) and the appraisal are performed to determine compliance with the required architectural exhibits and to estimate the value of the property, but neither guarantees the house is free of defects. I/We understand I/we have the option to retain an independent consultant and/or a professional home inspection service to perform an inspection of the property. The cost of this inspection can (or could be) included in the mortgage.

Loan Requirements: I/We understand at the time of the loan closing of a Home Improvement Mortgage Loan, for which I/we have applied to my lender, the proceeds designated for the rehabilitation or improvement (including a contingency reserve, mortgage payments, and any other fees where applicable) are to be placed in an interest bearing escrow account. The Rehabilitation Escrow Account is not, nor will it be treated as, an escrow for the paying of real estate taxes, insurance premiums, delinquent notes, ground rents or assessments. I/We hereby request the lender, after the Final Release Notice is issued to:

- pay the net interest income directly to me/us.
- apply the net interest income directly to the mortgage principal balance for an equal amount of principal reduction.

I/We understand that the Rehabilitation Escrow Account will cease paying interest to me/us if (1) the loan payments are delinquent for more than 30 days; or (2) the completion date (or an approved extension) has expired. During this period, the interest will be paid down on the mortgage principal. I/We understand that if I/we clear up the delinquent or default status and/or the completion date has not expired or an extension date has been approved, then the interest on the escrow account will begin again to be paid according to the request above.

I/We understand that no draws on the escrow account can be made until all permits have been issued by the local or state building departments, where required. I/We further understand I/we can only request moneys for the actual cost of rehabilitation. If any cost savings result on any line item of the Draw Request, the amount saved must be used to prepay the mortgage principal.

I/We understand the contractor(s) is responsible to complete the work described in the architectural exhibits in a workmanlike manner. If I/we agree that the work has been properly completed I/we will sign the Draw Request form, thereby accepting the responsibility that the completed work is acceptable and payment is justified. I/We understand there may be, at the sole discretion of the lender, a ten percent (10%) holdback on each Draw Request to assure that the work is properly completed and for lien protection.

I/We understand I/we am/are responsible to negotiate any and all agreements with the contractor(s) I/we select, and that Fannie Mae suggests that the agreement with the contractor(s) should include a provision for binding arbitration with the American Arbitration Association on any dispute.

I/We understand if I/we change a contractor for any reason, I/we may be obligated under the terms of the original contractor=s agreement, and I/we should seek legal advice before taking such action. If I/we disagree with the contractor regarding the acceptable completion of the work I/we can request an inspection by the fee inspector to determine if the work has been property completed. If an agreement cannot be made with the contractor, the lender may hold the money until such time as an agreement is reached, or an arbitrator=s decision is rendered.

I/We understand that neither the lender nor FannieMae provides any warranty on the completed work on the property. I/we am/are responsible to obtain such warranty(s) from the contractor(s), and the warranty should be stated in the Homeowner-Contractor Agreement.

I/we understand I/we am/are responsible to make the mortgage payments during the term of the loan, including the rehabilitation period, to ensure that the property will not go into default. The construction on the home must start within 30 days; if the construction ceases for more than 30 days, the lender may consider the loan in default, or the lender may use the escrow money to have the work completed. If the work stops or is not progressing as it should or if the work does not comply with accepted architectural exhibits, the lender may require additional compliance inspections to protect the security of the loan and I will be responsible to pay for the inspections, and the cost of the inspections may be withheld at the next draw request.

I/We understand no changes to the architectural exhibits can be made without written approval by the lender on a letter or on a form (HUD-9746-A) which I submit to the lender. Also, the contingency fund is set up for changes that affect the health, safety, or items of necessity of the occupants of the property. If the contingency reserve is insufficient, I must place additional moneys into the account for payment upon acceptance of the change. A change order will be made to assure that the moneys are available to the contractor upon completion of the changed work.

I/We understand if there are unused contingency funds, mortgage payments, inspection fees or other monies in the Rehabilitation Escrow Account after the Final Release is processed, the lender, in compliance with Fannie Mae regulations, must apply these funds to prepay the mortgage principal, provided those items are a part of the mortgage.

I/We understand the lender, at lenders sole discretion, may retain the ten percent (10%) holdback from each draw, for a period not to exceed 35 days or the time period required by law to file a lien (whichever is longer), to ensure compliance with state lien waiver laws or other state requirements. Upon completion of the work, I understand I will be provided: (1) the Final Draw Request; (2) the Final Release Notice; (3) an accounting of the final distribution of all funds.

This statement must be delivered to you prior to closing the loan. Return one copy to your lender as proof that you have read the entire document. Keep one copy for your records. You, the borrower(s), must be certain that you understand this information. Sign here only after you have read this entire document. Seek professional advice if you are uncertain.

x \_\_\_\_\_  
Borrower's Signature and Date

x \_\_\_\_\_  
Co-Borrower's Signature and Date

I, the lender, certify this information was delivered to the borrower(s) prior to the time of loan closing.

x \_\_\_\_\_  
Lender's Signature and Date

Borrower:  
Loan#: