CARDINAL

FINANCIAL COMPANY | LIMITED PARTNERSHIP

Escrow Holdback Policy & Procedures

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Cardinal Financial requires that every effort be made to complete property repairs or improvements prior to loan closing. On an exception basis, Cardinal may allow the establishment of a repair escrow holdback account for repairs or improvements that cannot be completed prior to loan closing. These repairs must be outlined in the appraisal report.

Policy

All escrow holdback requests must be approved by Cardinal's Credit Committee prior to underwriting loan Approval. Any lender required signatures needed on holdback documentation will be executed by the Credit Committee, prior to the agreement being added to Octane. The review of the request takes into consideration the policy outlined below, the overall risk profile of the loan, the potential for additional repairs and the borrower's ability to safely occupy the home during the repair period.

There must be no adverse effect to marketability due to the incomplete items. The postponed improvements cannot affect the livability, health, safety, soundness, structural integrity of the property or prevent the issuance of a Certificate of Occupancy on new or proposed construction.

Escrow holdback accounts are not allowed for items unrelated to the physical structure of the home including but not limited to: future payment of property taxes, HOA dues, and/or supplemental taxes.

An Escrow holdback must not adversely affect the mortgage insurance (MI) and title insurance during and after the completion period. The holdback is subject to the MI provider eligibility and/or requirements.

Credit Committee will create an Asana Task notifying Post Funding of the escrow holdback.

Eligible Property Types

- Newly constructed and existing detached 1-4 units and detached PUDs
- Texas (a)(6) loans, Non QM and Jumbo loan products are not eligible
- Attached condos and attached PUDs are not eligible

Requirements

- Required repairs must be weather related
- Generally, the minimum escrow holdback amount is $500
    - Any exceptions will be reviewed by Credit Committee

Escrow Holdback Amount

Conventional

- New construction
  - The completion escrow must equal at least 120% of the estimated cost of completing the improvements. However, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.
- Existing construction
  - The cost of completing improvements must not represent more than 10% of the "as completed" appraised value of the property.
  - Cardinal will hold and manage 1.5 times (150%) the greater amount of the two bids/estimates in the escrow holdback account. The amount must be disclosed on the Closing Disclosure (CD) at closing.

FHA

- Where applicable, Cardinal will hold and manage 1.5 times (150%) the greater amount of the two bids/estimates in the escrow holdback account. The amount must be disclosed on the Closing Disclosure (CD) at closing.
- FHA Section 203(b) Standard Mortgage
  - Repair escrow funds must be sufficient to cover the cost of the repairs or improvements. The cost for Borrower labor may not be included in the repair escrow account. There is no maximum dollar amount of the escrow holdback.
- FHA Section 203(b) with Repair Escrow
  - 110% will be held up to a maximum of $11,000

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VA

- Where applicable, Cardinal will hold and manage 1.5 times (150%) the greater amount of the two bids/estimates in the escrow holdback account. The amount must be disclosed on the Closing Disclosure (CD) at closing.

USDA

Repair escrows, post issuance of the Loan Note Guarantee, are acceptable provided the home is habitable, as determined by the lender. All items of new construction or repairs must be 100 percent (100%) complete in accordance with plans and specifications except for minor items not affecting the livability of the structure or that cannot be completed due to weather conditions.

The Agency may issue a Loan Note Guarantee prior to the completion of interior or exterior repairs provided all the following conditions are met:

- The incomplete work does not affect the livability of the dwelling, nor the health or safety of the occupants;

- A signed contract between the borrower and the contractor is in effect for the proposed work;
- The funds to be escrowed are not less than 100 percent of the repair cost contract. The loan underwriter may determine the escrow amount, which could exceed the repair cost;
- The estimated cost to complete the work is not greater than 10 percent of the total loan amount;
- The Closing Disclosure 1 reflects the holdback;
- The development will be complete within 90 days of closing, unless an extension is granted by the Agency for inclement weather conditions; and
- The escrow account is established in a federally supervised financial institution.
- An inspection report certifying the defect/repair has been properly repaired. Certification of Completion is required to verify the work was completed and must:
    - Be completed by the appraiser;
    - State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report;
    - Be accompanied by photographs of the completed improvements; and
- The individual performing the final inspection of the property must sign the completion report

Cardinal will be responsible for monitoring the completion of the work and the release of funds to pay for the work. All documentation supporting the development and confirmation of completion will be retained in the lender's permanent mortgage file and is subject to the certification of Form RD 3555-18/18E. Any funds remaining in the escrow account upon completion of the work, that are representative of loan funds or a seller concession as part of the sales contract, will be used to reduce the unpaid principal balance of the mortgage. Personal funds of the applicant utilized to fund the repair escrow (excluding loan funds or a seller concession) may be returned to the applicant. A seller's personal funds utilized to fund the repair escrow (excluding a seller concession as part of the sales contract) may be returned to the seller.

Escrow Completion for Repairs Without the Assistance of a Contractor

When a borrower will complete the planned interior or exterior development on an existing dwelling without the services of a contractor, the following conditions must be met:

- The estimated cost to complete the work is not greater than 10 percent of the total loan amount; and
- The lender has determined the borrower has the knowledge, skills and time necessary to complete the work within the maximum 90-day limit; and
- The escrow amount is less than or equal to $5,000

An amount up to $10,000 may be permitted on a case-by-case basis. An exception request for the higher amount must be submitted to the Credit Committee.

Exception - Builder Bonds

Escrow holdbacks are allowed for repairs required by the appraiser but are postponed due to inclement weather for new construction in which the builder has a bond with the city / county / municipality for the incomplete items.

- Available on FHA, VA and Conventional loan programs

- A copy of the bond that clearly identifies the terms and items to be completed must be provided to assure the items are those identified by the appraiser
- The repairs must be completed within 90 days of the Note date of our loan, or the term identified in the bond documentation
- An escrow holdback will be held by Cardinal for $1
- The escrow holdback agreement will be executed by the borrower and the builder

Repairs and Improvements

Estimates for Work

Cardinal requires that at least two written estimates (bids) be provided. The estimates must contain a full itemization of the repair item(s) to be completed, a proposed completion date and must contain a copy of the contractor's license and proof of liability insurance (as permitted by property State). If the contractor is not required to be licensed (as permitted by property State), documentation supporting the existence of the contractor's business or qualifications must be provided, i.e., copy of an online business website.

Exceptions

- In some instances, one bid may be acceptable if repairs are minor in nature
- Bids may be provided by persons other than contractors such as the appraiser providing a cost estimate, or estimates from home improvement stores if they will be furnishing the material and completing the work.

Unacceptable Repairs and/or Improvements

Unacceptable repairs/improvements include but are not limited to the following:

- Health, safety, and/or soundness issues
- Structural repair(s) or foundation work, including cracks or settlement in the foundation or water seepage
- Any items that prevent issuing a Certificate of Occupancy

Required Documentation

Once the request for an escrow hold back has been approved, the following supporting documentation must remain in file:

- Licensed contractor to provide estimated date of repair completion (This can be included in the estimate of work, and does not need to be a separate document)
- Repairs must be completed within 90 days of closing; on a case-by-case basis up to 180 days will be allowed
- Licensed contractor to provide a copy of their license and proof of liability insurance
- Estimated repair amounts may not exceed allowable escrow holdback amount
- PTF | Fully executed Escrow Hold-back Agreement

- A 1004D fee is required. Processor to ensure the charge is disclosed and payment collected prior to or at closing
- Hold harmless executed by all applicants regarding their acknowledgement that occupancy of the home prior to the completion of the required repairs may present a health and/or safety issues which Cardinal is not responsible or liable for
- Upon successful completion of the repairs, a 1004D must be executed once Cardinal has confirmed that all repairs are acceptable, the assigned underwriter has signed off the repair requirement, the funds held in escrow will be dispersed to the contractor(s) who completed the repairs. Any excess funds are returned to the borrower or the party who funded the escrow hold-back account.

Appraisal Requirements

- The appraisal must show the property "subject to improvements and/or repairs" that do not affect the safety, soundness, or structural integrity of the property
- The appraisal must include the list of the incomplete item(s) and may provide an estimated cost to cure
- FHA loans - The property must meet FHA minimum property standards (MPS)
- VA loans - The property must meet VA minimum property requirements (MPRs)
    - Notice of Value (NOV) item #10 must include the required repair(s)

Completion Terms

Repairs must be completed within the following timeframes:

- 90 calendar days of loan closing/disbursement for weather related external repair(s)
    - An extension of up to 180 days may be considered subject to approval by the Credit Committee in areas of extreme weather between the months of November and April, as applicable
    - Explanation must be provided to support valid reason for the exception

Failure to Complete Required Repairs

- Loans with incomplete repairs outside the allotted time frames will be escalated to the Credit Committee to review for possible remedies
- If the repairs have not been completed within the required timeframe, Cardinal may order the completion of the repairs regardless of adequacy of funds reserved in escrow

Terms and Conditions of the Escrow Holdback Agreement

All parties to the transaction must sign the Escrow Holdback Agreement, including the seller(s), borrower(s) and closing agent. The Agreement references:

- The responsible party and who will pay for the required repair(s)
- The seller/borrower depositing the escrow holdback required amount plus the final inspection/1004D fee. If there is already a 1004D received and charged but the property is still incomplete, assure a second 1004D fee is added to the Charges / Credits screen.
- Identification of the institution (Cardinal or Escrow Agent) who will be holding the funds
- Itemized list of repairs to be completed
- Proposed completion date of repairs
- Statement indicating the work will be subject to final inspection
- Notification that funds will be released with Cardinal's written authorization
- Notification of process if repairs are not completed
    - Cardinal will order completion of the repairs by a qualified contractor and obtain a final inspection
- For VA loans, the VA Escrow Holdback Agreement for Postponed Exterior On-Site Improvements (VA Form 26-1849) is required
- The agreement must be signed and returned with the final signed closing documents

Procedures for Submitting Escrow Holdback Request

- Submit Escrow holdback request to the Credit Committee via ticket on The HUB
- Provide the 2 bids/estimates for the postponed improvement or repair
- Provide the statement from the contractor noting the estimated time of completions (may be reflected on the estimate)
- For new construction the builder may provide the estimate

Closing

- The Credit Committee is uploading the Escrow Holdback Agreement to the Closing Supplemental documents folder.
- Closing will ensure that the proper escrow amount is properly disclosed on the CD
    - The final inspection fee must be collected and shown on the Closing Disclosure in Section B.
    - The escrow holdback amount must be collected and shown on the Closing Disclosure Section H.

- New construction requires the builder and the borrower execute the Escrow Holdback Agreement

Final Inspection/1004D

A final inspection must be performed by the original appraiser and include photos of work completed. If the original appraiser is unavailable, the 1004D must incorporate the original appraisal and state the improvement(s) were completed in accordance with the requirements and conditions in the original appraisal:

- All work must be completed in a professional workmanlike manner as reported by the appraiser on the following forms:
    - Conventional loans - Fannie Mae Form 1004D is required.
    - FHA loans require a Compliance Inspection Report HUD-92051 and the repairs must meet FHA minimum property standards.
    - VA loans require a VA Compliance Inspection Report 26-1839 and the repairs must meet VA minimum property requirements.
- The final inspection must be received by Cardinal's Post Closing department within 72 hours of completion

Note: A Certificate of Occupancy is not an acceptable alternative to the final inspection option above.

Post Closing and Release of Funds

- The mortgage loan originator (MLO) or the Wholesale Broker is required to ensure the work has been completed in the appropriate time frame.
- Upon notification of the completion of the repair by the borrower, the final inspection will be ordered by the transaction assistant / processor.
- TC / LO to submit required documentation for release of the escrow holdback to Post Funding via ticket on The HUB
    - Final invoice(s)
    - Final inspection / 1004D
    - Lien Release and Waiver
- Upon approval of the release of funds by Post Funding management, the request for the release of the escrow funds from Cardinal Accounting or the title company will be made.
    - If the escrow holdback was funded by the borrower, any excess funds remaining in the escrow holdback account after the payment to the contractor will be disbursed and released back to the borrower.
        - Note: If the borrower completed the repairs and funded the escrow holdback account, all funds will be released to the borrower.

    - If the escrow holdback was funded by the seller, any excess funds remaining in the escrow holdback account after the payment to the contractor will be disbursed and released to the seller.
- For FHA loans, Cardinal must complete HUD Form 92300, Mortgagee's Assurance of Completion and the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed.
- Post Funding will provide the lien release to title for recording.