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## 1.0 Purpose and Scope

The Correspondent Lending Division of Impac Mortgage Corp. (Impac) provides guidance for permitting loans to be purchased from a correspondent seller with an escrow holdback.

Preferably, a property will be 100% complete at the time of loan delivery to Fannie Mae, Freddie Mac, GinnieMae and non-agency investors. Impac will purchase closed loans subject to completion of improvements that will be completed post-purchase, provided that the escrow established satisfies the requirements defined in our policy.

## 2.0 Policy Directives

The ability to close loans with escrow holdbacks will be limited to purchase transactions on conventional, FHA, and VA loans only. Escrow holdbacks will be permitted for owner occupied, second homes and non-owner occupied properties.

There must be no adverse effect to marketability due to the incomplete items. The postponed improvements cannot affect the livability, soundness or structural integrity of the property. The correspondent seller must ensure sufficient funds are withheld by the closing agent and the escrow completion funds are correctly documented on the Closing Disclosure.

Topics addressed in this policy include:

- [Eligible Property Types](#)
- [Loan Program Eligibility](#)
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## 2.1 Eligible Property Types

Eligible property types include:

- Newly constructed detached 1-4 units and detached PUDs
  - Newly constructed Manufactured Homes
  - Attached condos and attached PUDs are **not** eligible
  - Escrow of repairs on existing properties (detached 1-4 units, detached PUDs, and Manufactured Homes) will be considered on a case-by-case basis.
    - Escrow of repairs on existing properties to facilitate a quick closing is not permitted.
    - An FHA HUD REO with repair escrow must comply with guidelines specific to HUD REO properties
- **Important Note:** The appraisal must be in an “as is” condition – or “subject to improvements and/or repairs” that *do not* affect the safety, soundness, or structural integrity of the property.

## 2.2 Loan Program Eligibility

- Conventional Fannie Mae or Freddie Mac loan products
- **iQM purchase transactions for weather related repairs not to exceed \$5,000**
- FHA Section 203(b) purchase transactions not to exceed \$5,000  
**Important Note:** FHA loans with proposed improvements exceeding \$5,000 must be structured as an FHA 203(k) loan.
- VA loan products.  
**Important Note:** Escrowed funds are not required when the following occur:
  - the incomplete work is limited to the installation of landscaping features (lawns, shrubbery, etc.),
  - the estimate of the cost to complete the work is not greater than \$500, and
  - the work is expected to be completed within 90 to 120 days.

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- Escrow holdbacks are **not** allowed on: USDA loan products.

## 2.3 ***Escrow Holdbacks for Newly Constructed Properties***

**Exterior items:** Touch-up painting, landscaping, grading, driveways, concrete flatwork, or other new construction items delayed due to adverse weather conditions, a shortage of building materials, or extenuating circumstances. **Only property related new construction items will be considered.**

**Interior items:** Carpet or flooring upgrade, delayed installation of appliances.

## 2.4 ***Escrow Holdbacks for Existing Properties***

Escrow of repairs on existing properties will be considered on a case-by-case basis.

Incomplete items must be minor in nature and must not affect the borrowers' safety or ability to live in the home. The dwelling must be habitable, safe and essentially complete.

**Needed repairs/improvements are limited to exterior items:** Minor painting, minor plumbing and electrical repairs, cracked glass, and screen replacement. Roof repair/replacement will be considered on a case-by-case basis. **Only property related repairs will be considered.**

## 2.5 ***Non-Allowable Repairs/Improvements***

Repair/improvement items that affect the livability or marketability of a property are not acceptable. Examples include, but are not limited to:

- Well / Septic (exceptions may be granted for Massachusetts properties to comply with Title V standards)
- Any structural item (i.e., foundation, improvements that change the footprint or square footage of the property, etc.)
- Termite infestation repair
- Heating furnace repair/installation
- Hot water heater
- Swimming pools
- Clean-up or correction of environmental hazards
- Any items that prevent issuing a Certificate of Occupancy
- Any item that negatively affects the property being habitable

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- **FHA loans:** Repair escrows are not allowed for certain types of work, even if the repair expense is under \$5,000. Roof, foundation and repairs to the home's basic structure cannot be included in a repair escrow, as well as a system for electricity, plumbing or the delivery of heating fuel.

Escrow holdbacks are **not** allowed for future payment of property taxes, HOA dues, supplemental taxes, or anything that is not tangible.

### 2.6 Calculating Amount of Funds held in Escrow

**Minimum amount for an escrow holdback:** \$500

**Maximum amount for repair/improvement:** 10% of the property's value (based on the lesser of the purchase price or appraised value) or \$10,000, whichever is less.

**Note: iQM loans and FHA 203(b) loans are limited to \$5,000.**

**Maximum amount for escrow holdback:** 150% of the repair/improvement cost

|                                       |                                    |             |
|---------------------------------------|------------------------------------|-------------|
| <b>Example for Conventional Loans</b> | Appraised Value / Purchase Price   | \$150,000   |
|                                       | Maximum Amount allowed for repairs | \$10,000    |
|                                       | Required Escrow Holdback           | \$15,000    |
| <b>Example for FHA Loans</b>          | Appraised Value / Purchase Price   | \$150,000   |
|                                       | Maximum Amount allowed for repairs | \$5,000     |
|                                       | Required Escrow Holdback           | \$7,500     |
| <b>Example for iQM Loans</b>          | Appraised Value / Purchase Price   | \$2,000,000 |
|                                       | Maximum amount allowed for repairs | \$5,000     |
|                                       | Required Escrow Holdback           | \$7,500     |

### 2.7 Obtaining Approval for the Escrow Holdback

Prior approval from Impac's Underwriter and Impac's Escrow Holdback Team must be obtained before the loan closing documents are signed.

- **Non-delegated correspondents:** Impac must prior approve requests for escrow holdbacks on all loans.
- **Delegated correspondents:** Impac must prior approve requests for escrow holdbacks only on FHA/VA loans.

Loans requiring approval **must** be submitted to Impac's Escrow Holdback Team for underwriting, along with the following documentation:

- Complete loan package including, but not limited to: application, credit report, income documentation, asset documentation, and a copy of the appraisal. The appraisal must show the property in an "as is" condition or "subject to improvements"

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- and/or repairs” that do not affect the safety, soundness, or structural integrity of the property. All incomplete items must be described by the appraiser.
- Completed *Request for Escrow Holdback*
  - Itemized bid from a licensed contractor clearly identifying each item to be completed along with an itemized estimate of cost for the repair/improvement
  - A statement confirming the contractor is currently licensed with liability insurance coverage.
  - A completed Escrow Holdback Agreement showing signature lines for all parties to the transaction.
  - Name of title company/escrow responsible for holding escrowed funds, along with a contact name and phone number.
  - New Construction only: a letter of explanation if extra time is needed to complete exterior improvements because of adverse weather-related conditions.
  - FHA loans: a completed HUD-92300 – Mortgagee’s Assurance of Completion
  - VA loans: a completed VA 26-1849 – Escrow Agreement for Postponed Exterior Onsite Improvements
  - Purchase Contract
  - Closing Disclosure reflecting the amount of the holdback
  - Contractor’s W-9

The Escrow Holdback Team reviews the scope of work and permits, approves the contractor, and identifies if the project is a candidate for a FHA 203(k). The underwriter ensures the property meets the minimum property requirements.

### **2.8 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), closing agent, and the correspondent seller when the loan is funded by the correspondent. The Agreement must address these key factors:

- Amount of the holdback
- A thorough description of the work to be completed
- Specify a date for completion
- A statement indicating the work shall be satisfactorily completed and subject to a final inspection

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- Specify who is responsible for the amount of the escrow holdback

**FHA and VA loans: All escrow holdback funds must be held by Impac once the loan purchase occurs.** The amount of the escrow holdback will be netted from the purchase amount. In no event may the funds be held by the closing agent/settlement agent/escrow officer, builder, contractor, seller, or borrower.

**Conventional loans / iQM loans:** Escrow holdback funds **must** be held by the closing agent/settlement agent/escrow officer. In no event may the funds be held by the builder, contractor, seller, or borrower.

### 2.8.1 *Completing the Closing Disclosure - Inspection Fee and Escrowed Amount*

At closing, a fee that is reasonable to the locality for a final appraiser inspection must be collected and shown on the Closing Disclosure in Section **B**. The agreed upon escrowed amount must be collected and shown on the Closing Disclosure Section **L**.

### 2.9 **Completion Timeframe**

Within 60 days of the correspondent seller funding the loan transaction, Impac must receive evidence from the correspondent seller and/or the closing agent that all improvements/repairs have been completed **and** the funds held by the closing agent/settlement agent/escrow officer on conventional loans were released to the appropriate parties. Impac will be responsible for disbursing funds to the appropriate parties on an FHA or VA loan. Documentation includes:

- Copy of the final Closing Disclosure
- Copies of checks released to the seller, borrower, and/or contractor
- A breakdown for release of escrowed funds to the seller, borrower, and/or contractor
- applicable final inspection reports (Fannie Mae 1004D, Compliance Inspection Report HUD-92051, or VA Compliance Inspection Report 26-1839)
- copies of invoices used for payment to the contractor
- final title policy evidencing no outstanding mechanic's liens and no exceptions to the postponed improvements/repairs. If the final title policy was issued before the completion of the improvements/repairs, either an endorsement/title update ensuring the mortgagee's first lien priority is required or a lien waiver provided by the contractor is required.

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- The expiration date for escrow completion may be extended for new construction properties if the improvements are external and the cause for the extra time needed is weather-related.

### *2.9.1 Correspondent Seller Responsibilities*

The correspondent seller is responsible for follow-up on all outstanding escrow holdbacks. Should improvements/repairs not be completed as agreed, Impac holds the correspondent seller responsible for completing the improvements/repairs according to the terms of the Escrow Holdback Agreement.

If the final cost of the improvements/repairs plus the inspection exceeds the total escrow holdback, the correspondent seller is responsible for the difference.

### *2.10 Monitoring Outstanding Escrow Holdbacks*

The Escrow Holdback Team monitors completion of escrow holdbacks with the correspondent seller on a monthly or as-needed basis. Ensuring postponed improvements/repairs are completed within the agreed-upon time frame contributes to the success of offering the ability to close loans with an escrow holdback.

Impac's Correspondent Lending management team will be kept apprised of those correspondents whose performance in ensuring work is completed within the specified time frame is not satisfactory.