

HOMEOWNER/CONTRACTOR AGREEMENT LIMITED

Homeowner (s) (“Homeowner” and/or “Borrower”)		Loan Case #	
Address			
City	State	Zip Code	
Telephone Number	Work #	Cell/Mobile	
General Contractor (“Contractor”)		License Number	
Address			
City	State	Zip Code	
Telephone Number	Work #	Cell/Mobile	

THIS AGREEMENT (“Agreement”) made this ____ day of _____, 20____, by and between Homeowner and Contractor is for the rehabilitation of the property located at:

_____ (“Property”) for which Borrower has applied for a “Renovation Loan” to be provided, if approved, through American Financial Resources, Inc. and its registered DBAs, successors or assigns (collectively herein referred to as the “Lender”). Borrower and Contractor acknowledge and agree that Lender is only willing, if at all, to provide the Renovation Loan strictly subject to the terms and conditions of this Agreement. To be clear, Borrower and Contractor entering into this Agreement does not require Lender to provide any funding, but if Lender approves the Renovation Loan, it is subject to this Agreement.

The Borrower agrees to pay the Contractor the sum of \$_____, which includes all sales tax due by law, for completion of all work and the supply of all materials included in this Agreement, whether rendered by Contractor directly, or through subcontractors and vendors hired by Contractor pursuant to this Agreement, (“Work”) together with such increase or decreases in the contract price and scope of work as may be approved in writing by the Lender (“Change Order”), and in accordance with all terms and conditions of this Agreement. Contractor agrees to perform and complete the Work and shall begin within 30 days of notice of the closing of the Renovation Loan and will be completed within 90 days from the Renovation Loan closing. This Agreement consists of all documents detailing the materials as described below, the plans for construction, and include but are not limited to, the Contractor’s Estimate, any Drawings and any additional Documents, all as attached hereto, or later added with mutual consent among the Borrower, Contractor and Lender.

General Provisions

1. **Agreement Documents:** Work not covered by this Agreement will not be required unless it is required by reasonable inference as being necessary to produce the intended result. Not to limit the foregoing, but for the sake of clarity, given Contractor’s greater knowledge and skill by comparison to Borrower, if a reasonable person would understand material or work to be included or contemplated within the scope of the Work that is specifically included herein, although not specifically set forth, it shall be deemed included and Contractor accepts responsibility for all such items and apprising Borrower of same. By executing this Agreement,

Contractor represents that he/she has visited the Property and understands local conditions, including state and local building regulations and conditions under which the Work is to be performed. Work that is covered by this Agreement is required to be completed and it is a material breach of this Agreement to alter the scope of Work without Lender's prior written approval. If Borrower and Lender do not close on the Renovation Loan contemplated herein, this Agreement shall be null and void and of no force or effect.

2. **Borrower:** Unless otherwise provided for in this Agreement, the Borrower shall secure and pay for necessary easements, exceptions from zoning requirements, or other actions which must precede the approval of a permit for this project. If Borrower fails to do so, then this Agreement is void and of no effect, except to the extent that any Renovation Loan then approved and closed, Lender may use all escrowed funds to make a principal reduction, and if not yet closed, Lender may, at its option, not go through with closing. If the Contractor fails to correct defective Work or persistently fails to carry out the Work in accordance with this Agreement, the Borrower may order the Contractor in writing to stop such Work, or a part of the Work until the cause for the order has been eliminated.

3. **Contractor:** The Contractor shall perform and supervise and direct all aspects of the Work, including but not limited to the Work performed by any subcontractors. He/she shall use the best skill and attention and shall be solely responsible for all construction methods and materials and for coordinating all portions of the Work. Unless otherwise specified in this Agreement, the Contractor will provide for and/or pay for all labor, materials, equipment, tools, machinery, transportation, and other goods, facilities, and services necessary for the proper execution and completion of the Work, subject only to the payments to be made to the Contractor by Borrower as provided for herein. The Contractor shall maintain order and discipline among employees and subcontractors and shall not assign anyone unfit for the task. The Contractor warrants to the Borrower that all materials and equipment incorporated are new and that all Work shall be of good quality and free of defects or faults. The Contractor shall pay all sales and all other taxes related to the Work and shall secure and pay for building permits, fees, inspections and licenses necessary for the completion of the Work unless otherwise specified in this Agreement. The Contractor shall indemnify and hold harmless the Borrower and Lender from and against all claims, damages, losses, expenses, legal fees or other costs arising or resulting from the Contractor's performance of the Work or provisions under this Agreement, including but not limited to liens placed by subcontractors, vendors or other third parties in connection with Work for which Contractor has been paid or for which Contractor will be paid when any noticed defect has been corrected. The Contractor is responsible for, and indemnifies the Borrower and Lender against, acts and omissions of employees, subcontractors and their employees, or others performing the work under this Agreement with the Contractor. The Contractor shall be licensed and insured as required by the locality where the Property is located and for the scope of Work contemplated hereunder, and also comply with all rules, regulations, laws, ordinances and orders of any public authority or HUD inspector bearing on the performance of the work. The Contractor shall provide shop drawings, samples, product data or other information provided for in this Agreement, where necessary or reasonable to do so. If the Contractor shall at any time during the construction phase of the project lose licensing or insurance as required hereunder, Contractor shall immediately notify Lender and Borrower of such circumstance and plan for remediation and cease all Work in progress. If Contractor is unable to timely, in the reasonable discretion of wither Borrower or Lender, rectify the license and insurance circumstance, Contractor may be dismissed from the project and Borrower able to hire a replacement suitable contractor to complete the Work. Provided the Contractor has been minimally paid the cost of all materials delivered at the time of dismissal, all funds in escrow are to be made available first to the replacement contractor in such a situation for the reasonable value of completing the Work, and then remaining funds, if any, may be made available to the dismissed Contractor for any scope of Work not yet paid under this Agreement at the time of dismissal. Borrower is solely responsible for any shortfall of funds to any contractor to complete the scope of Work due to changes in contractors for any reason.

4. **Subcontractor:** Any and all necessary or desired subcontractors needed to adequately perform under this Agreement shall be selected and contracted by the Contractor, except that the Contractor shall not employ any subcontractor to whom the Borrower or Lender may have a reasonable objection, nor will the Contractor be required by the Borrower to employ any subcontractor to whom the Contractor has a reasonable

objection. All subcontractors shall be duly licensed and bonded to perform that portion of the Work required of them.

5. **Work By Other Contractor: No self-help is allowed that is part of the agreed Work.** The Borrower reserves the right to perform work related to his home, but which is not a part of this Agreement upon completion and passing inspection of the Work outlined. Any additional project(s) outside of this Agreement, but which may happen while this Agreement is in force, must be reviewed and approved by Lender prior to commencement and may not obstruct timing of the completion of Work. All contractors and subcontractors will be afforded reasonable opportunity for the storage of materials and equipment by the Borrower and by each other. Any costs arising by defective or ill-timed work or storage will be borne by the responsible party.
6. **Disputes:** If a dispute arises between the Borrower and the Contractor, all reasonable efforts to resolve the dispute should be taken so that the Work can be completed. If no resolution can be made, the Borrower and Contractor are subject to Binding Arbitration, see section 7. The Borrower has the right at any time to dismiss the Contractor, subject to the Contractor being paid for all Work to date, including materials on site but not yet installed, and subject to Contractor remediating and correcting all noticed defects in the Work to date, all subject to Binding Arbitration, as necessary. To be clear, if there is a dispute that cannot be resolved and is subject to the arbitration clause herein, and provided all Work timeframes have not been exceeded at that time, Lender is to continue to hold in escrow any disputed funds at issue until a final resolution is agreed or provided by the arbitrator. Lender does not have the right to resolve the dispute independent of the arbitrator. The Borrower may at any time, hire a new Contractor to complete any Work remaining, subject to the foregoing and subject to the new Contractor being reasonably approved by Lender prior to any Work starting. To be clear, Lender does not endorse or recommend any contractor, but merely has the right, but not the obligation, to investigate the Borrower chosen contractor for licensing, insurance and being a HUD approved contractor. The Borrower cannot act as a Contractor or perform any of the Work themselves. If a new Contractor is not approved by Lender, or if the Work is not done within 90 days of the funding date of the Renovation Loan, Lender may, in its sole discretion, make a principal reduction payment with the any funds then remaining in Escrow, subject to any then instituted arbitration proceeding. If the Escrow Funds are used to make such a principal reduction, any further payment to the Contractor will not be available from Lender and shall be the sole responsibility of Borrower. For clarity, if 90 days have elapsed since the closing date of the Renovation Loan, and the Work is not complete for any reason, and no arbitration has been initiated to resolve a then outstanding dispute, Lender has the right (but not the obligation) to use any then remaining funds in Escrow to make a principal reduction on the outstanding Renovation Loan balance without incurring liability to either the Borrower or Contractor. If at any point the Contractor states the Work is complete and a passing inspection is obtained, but the Borrower disputes some aspect of the Work or otherwise has an objection to the Contractor being paid the final payment, Lender shall hold the balance in Escrow until the dispute is resolved, whether by agreement or through arbitration or a court proceeding.
7. **Binding Arbitration:** Claims or disputes relating to this Agreement shall be resolved by the Construction Industry Arbitration Rules of the American Arbitration Association (AAA) unless both parties mutually agree to other methods. The notice of the demand for arbitration must be served on and filed in writing with the other party to this Agreement and with the AAA and must be made in a reasonable time after the dispute has arisen. Notice shall also be provided to Lender. Lender is not liable to either Borrower or Contractor for any act or omission reasonably attributable to the failure to provide such notice. The award rendered by the arbitrator(s) will be considered final and judgment may be entered upon it in accordance with applicable law in any Court having jurisdiction thereof.
8. **Cleanup and Trash Removal:** The Contractor shall keep the owner's residence free from waste or rubbish resulting from the Work. All waste, rubbish, tools, construction materials, and machinery will be removed promptly after completion of the Work by the Contractor.
9. **Time: With respect to the scheduled completion of the Work, TIME IS OF THE ESSENCE.** If the Contractor is delayed at any time in the progress of the Work by approved Change Orders, as defined hereinafter, fire, labor disputes, acts of God or other causes beyond the Contractor's control, the completion schedule for the Work or affected parts of the Work may be extended by the same amount of time caused by the delay with an

approved Change Order, but not to exceed 90 days from the loan closing. The Contractor must begin Work as soon as practical but in no event later than thirty (30) days after loan closing and will not cease Work for more than thirty (30) consecutive days. All Work must be completed by within 90 days (3 months) from the closing of the loan, irrespective of any delays or approved extensions.

10. **Time to complete:** A final Compliance Inspection Report from the approved Appraiser stating all Work has been satisfactorily completed, Contractor's Lien Release and the Borrower's Letter of Completion must be received by the Lender within two weeks of completion or ninety (90) days of the date of the note, whichever is earlier. If, for whatever reason, the final inspection verifying that all Work is completed is not received within 180 days (6 months) of the date of the note, the Lender has the right to make a principal reduction payment with the funds being held in escrow (except for a noticed dispute having been initiated within that timeframe pursuant to Section 6 and 7 above). **If the funds held in escrow are used to make a principal reduction, the final payment to the Contractor will not be available from the Lender unless the Lender has agreed in writing through an approved Change Order to extend such time.**
11. **Payments and Completion:** Funds for the renovation are released via two (2) draws. Fifty percent (50%) of the base bid will be released at the initial funding of the loan. To ensure completion of the project, a final draw of fifty percent (50%) will be released within a reasonable time period after the lender's receipt and approval of: (a) final Compliance Inspection Report from the Appraiser; (b) Borrower's Letter of Completion; (c) Contingency Release Letter; (d) and Lien Release. All funds will be provided to the appropriate party via an ACH wire to their account. Any requests for funds/draws should be submitted to the Lender e-mail: renovation@afwrwholesale.com.
The Renovation Department can be contacted at 800-624-0501 or by using the department's email.
12. **Withholding of Funds:** Payments may be withheld because of: (1) defective Work not remedied; (2) failure of Contractor to make proper payments to subcontractors, workers, or suppliers; (3) persistent failure to carry out Work in accordance with this Agreement or these general conditions, or (4) legal claims. Final payment will be due only upon release of any and all liens arising out of the Agreement or submission of receipts or other evidence of payment covering all subcontractors or suppliers who could file such a lien. The Contractor agrees to indemnify the Borrower and Lender against such liens and will refund all monies including costs and reasonable attorney's fees paid by the Borrower and/or Lender in discharging the liens. A ten (10) percent "Holdback" reserve is required by the Lender to assure the Work has been properly completed and there are no liens on the Property.
13. **Protection of Property and Persons:** The Contractor is responsible for initiating, maintaining, and supervising all necessary or required safety programs. The Contractor must comply with all applicable laws, regulations, ordinances, orders or laws of federal, state, county or local governments. The Contractor will indemnify the owner for all property loss or damage to the Borrower caused by his/her employees or his/her direct or indirect subcontractors.
14. **Insurance:** The Contractor shall purchase and maintain insurance necessary to protect the Contractor and Borrower from claims under negligence, worker's compensation and from any damage to the Borrower's property resulting from the conduct of this Agreement, and name Borrower as an additional named insured.
15. **Changes in the Agreement:** The Borrower may order changes, additions or modifications (using Request for Acceptance of Changes) without invalidating the Agreement. Such changes must be in writing and signed by the Borrower and accepted by the Lender. Not all Change Order requests may be accepted by the Lender; therefore, the Contractor proceeds at his/her own risk if work is completed and/or proceeded on without a Change Order accepted in writing by Lender. The request for Acceptance of Changes may be emailed to renovation@afwrwholesale.com. The Renovation Department can be contacted at 800-624-0501. It should be understood that Lender approves the Renovation Loan based on program requirements and it is not permissible to change or alter the scope of Work to be less than originally approved. Thus, Lender will not approve a Change Order that decreases the overall scope of Work or the overall appraised value of the Property with the Work completed.

- 16. **Correction of Deficiencies:** The Contractor must promptly correct any Work of his/her own or his/her subcontractors found to be defective or not complying with the terms of the Agreement.
- 17. **Warranty:** The Contractor shall provide a one-year warranty on all labor and materials provided hereunder. This warranty must extend one year from the date of the completion of the Work or longer if prescribed by law unless otherwise specified by other terms of this Agreement and shall be for one hundred percent (100%) of the cost of replacement or repair for all Work or damages. Disputes will be resolved through the Construction Industry Arbitration Rules of the American Arbitration Association.
- 18. **Contingency Funds:** A Contingency fund is for the sole purpose of unforeseen issues that develop as a result of the proposed scope of Work detailed in the Lender approved agreements. Therefore, the contingency reserve fund is not to be used for work that is unrelated to the original scope of Work approved by the Lender. If the contingency reserve or any part thereof is not used, the remaining balance shall be applied as a partial prepayment of the principal balance of the Note. Such prepayment will not extend or postpone the due date of any monthly installment due under the Note, nor change the amount of such installments.

Termination:

- a. If the Borrower fails to make a payment under the terms of this Agreement, or otherwise materially breaches the terms of this Agreement, through no fault of the Contractor, the Contractor may, upon ten (10) working days, provide written notice to the Borrower and Lender, and if not satisfied, terminate this Agreement.
- b. If the Contractor fails or neglects to carry out the terms of the Agreement, the Borrower shall provide written notice to the Contractor and Lender, after ten (10) working days thereafter and Contractor has not satisfied the items contained in the notice, Borrower may terminate this Agreement. The Borrower may then finish the Work by hiring a new Contractor reasonably acceptable to the Lender. If the cost of completion of the Work exceeds the Agreement balance, the difference, as well as costs and reasonable attorney’s fees made necessary to enforce the terms of this Agreement, shall be due and owing to Borrower from Contractor. The Contractor, upon termination of the Agreement pursuant to this clause, releases any claim to the funds remaining in the escrow account and acknowledges that Lender may use any funds remaining in the escrow account to complete the Work including paying the Borrower’s new contractor and/or principally reducing the Note. Contractor’s only claim is against the Borrower and hereby releases all claims against Lender where Lender reasonably followed the terms of this Agreement.

Owner/Borrower Signature	Date	Owner/Borrower Signature	Date
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Owner/Borrower Signature	Date	Owner/Borrower Signature	Date
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Contractor’s Company Name

Signature of Contractor	Date
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Print Name	Title
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Please send this agreement, all other forms, all questions and all fund requests to:

renovation@afrwholesale.com

**CONSUMER RENOVATION INFORMATION -Limited
Renovation Amounts up to 35K**

Date:			
Borrower Name(s):			
Lender:		Loan Number:	

Please review the important tips listed below about Renovation Mortgages and home improvement projects.

1. For the Renovation Mortgage, you do not receive any cash at the loan closing. The funds provided for renovation are placed in an interest-bearing escrow account ("Renovation Escrow Account").
2. The Lender will require that a contingency reserve be placed in the Escrow Account to cover unforeseen repairs or deficiencies during the renovation. If funds remain in the account after the renovation is complete, they will be used to reduce the principal balance of your loan. If you deposit funds in the account, the funds you deposited can be paid directly back to you at your option.
3. When selecting a contractor, always review the contractor's references, licensing, and financial background. Ask the lender for a contractor profile form to assist in your review.
4. You are responsible for negotiating any agreements or warranties with the contractor. The Lender does not provide any warranty on the contractor or their work.
5. You are responsible for overseeing the renovation and ensuring that it is done as specified in the Construction Contract with the contractor. If work stops for an extended period of time "30 days", or there are problems with the work performed that may cause significant delays, you must contact the Lender.
6. If you are purchasing a home to renovate it, please note that the Lender does not warrant or guarantee the condition of the property being purchased or the renovation repairs being performed.
7. You are responsible for making the mortgage payment each month, even if the renovation is not satisfactorily completed.

8. **Payments and Completion:** Funds for the renovation are released via two (2) draws. Fifty percent (50%) of the base bid will be released at the initial funding of the loan. To ensure completion of the project, a final draw of fifty percent (50%) will be released within a reasonable time period after the Lender’s receipt and approval a final Compliance Inspection Report from the Appraiser, Borrower’s Letter of Completion, Contingency Release Letter (if applicable) and Lien Release. All funds will be provided to the appropriate party via an ACH wire to their account.

All requests for funds should be submitted to the Lender via certified mail or via e-mail to:

renovation@afrwholesale.com.

The Renovation Department can be contacted at 800-624-0501 or by using the department’s email.

- 9. Do not approve or request funds to be released to the contractor if you are not happy with the work. Do not accept unsatisfactory work.

- 10. Do not pay the contractor “up front” out of your own funds before the renovation is satisfactorily completed.

- 11. The Lender may withhold some of the funds from each Draw Request. These funds are paid to the contractor when the work is completed. This helps to protect you from a contractor failing to complete the renovation.

- 12. If you would like to revise the original approved renovation (prior to closing your loan), you must resubmit the loan to Underwriting with all proper documentation for the change including new contractor bid, plans, updated appraisal and updated loan application to the Lender for approval. Loan must be approved with the updated loan amount.

- 13. When the renovation is completed, you and the contractor sign a Completion Certificate. The Lender will provide you an accounting for all distribution of in the Renovation Escrow Account if requested.

I acknowledge that I have read this Consumer Renovation Information and that I understand it.

Borrower’s Signature Date

Co-Borrower’s Signature Date

REHABILITATION LOAN AGREEMENT FHA 203(K) STANDARD

THIS AGREEMENT ("Agreement") is made this _____ day of _____, 20_____, by and between the Borrower(s) _____ ("Borrower") and _____ ("LENDER") and/or its assignees.

 Flanagan State Bank

WHEREAS, LENDER, is a duly licensed mortgage originator and approved FHA Renovation Lender with principal offices at _____, 301 West Falcon Highway; Flanagan, IL 61740 _____, who may from time-to-time use licensed third parties, including at times, affiliates, to provide some of its lending services;

WHEREAS, Borrower, an individual(s) residing at _____ desiring a loan from LENDER for the purchase or refinance and rehabilitation through an FHA Renovation Program subject to all regulations and procedures established by FHA guidelines in connection with the rehabilitation of a property located in the County of _____ State of _____ and which is commonly described as _____ ("Property"); and

WHEREAS, LENDER and Borrower desire to establish the conditions under which LENDER will advance the proceeds of a loan to be used to purchase, refinance and/or rehabilitate the Property as hereinafter defined.

NOW THEREFORE, LENDER and Borrower, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, enter into this Agreement ("Agreement") effective as of this _____ day of _____, 20_____, and incorporates all recitals and terms and conditions below.

- 1) The total amount of the loan will be in the principal amount of \$ _____ to be advanced to Borrower by LENDER as provided in this Agreement and as evidenced in a promissory note of even date herewith ("Note"), all, secured by a mortgage or deed of trust ("Mortgage"), which shall be a first lien on the above Property.
- 2) Payments required under the Note and Mortgage must be made by the Borrower on the date specified, even though the proposed rehabilitation or improvement may not be completed, or the Property may not be suitable for occupancy, on the anticipated date.
- 3) LENDER intends to request the Department of Housing and Urban Development to insure the loan under the HUD's provisions and Borrower hereby agrees to conform to, and to cause improvements to be constructed in conformance with all requirements of the Commissioner and the Act.
- 4) LENDER shall place that portion of the principal amount of the Note allocated to the total rehabilitation cost, plus any amount deposited by the Borrower or others in cash, in a secured interest bearing account, trust or escrow for the benefit of the Borrower ("Escrowed Funds") subject to the terms and conditions herein and in related agreements.
- 5) **Payments and Completion:** There will be no funds released at Closing. All funds will be released through the required draw request process. Funds for the renovation are released via a maximum of five (5) draws, including the final disbursement. Number of draws shall be determined by a HUD consultant. Draws shall be initiated after inspection on a percentage of work completed, minus a 10 percent retainage to insure satisfactory completion of the project. Upon the Lender's receipt and approval of: (a) final Compliance Inspection Report from a HUD consultant, (b) Borrower's Letter of Completion, (c) Contingency Release Letter, (d) Lien Release, and (e) Borrower's Authorization to release contractor funds, and clear Title update. All funds will be provided to the appropriate party via an ACH wire to their account. Any requests for funds/draws should be submitted to the Lender e-mail: renovation@afwrwholesale.com. The Renovation Department can be contacted at 800-624-0501 or by using the department's email.
- 6) LENDER shall, subject to the foregoing, release the Escrowed Funds by ACH wire, payable to the Contractor, or other appropriate payee who performed the Work, as defined in the Homeowner/Contractor Agreement, and supplied the materials in connection with this Agreement. Additionally, the final release of the escrow funds is to take place only after, *inter alia*, the local jurisdiction has provided its final acceptance of the Work and issued a Certificate of Occupancy, or equivalent, if applicable.

If a Mortgage Payment Reserve is established in the Escrow Funds account, the Lender may draw from the account to make the monthly mortgage payments provided the dwelling has not been occupied and/or the Final Release Notice has not been issued.

LENDER may determine that additional compliance inspections are required throughout the rehabilitation process to ensure that the Work is progressing in a satisfactory manner. Release of funds is not authorized on this type of inspection; however, Borrower is responsible for paying the inspection fee. LENDER may require an inspection if there have been no draw requests for more than 30 days.

- 7) a. The cost of repair as indicated on the appraisal report and Homeowner/Contractor Agreement is \$_____.
- b. The Lender DOES require contingency reserves
- c. The estimated cost of all inspections including the final are determined prior to the close of the loan transaction, by the HUD consultant
- d. Title update fee: \$150.00
- e. The total Escrowed Funds for the Property is total amount of the bid validated by the HUD consultant, plus contingency amount, plus inspections, plus any additional monies prescribed on the Max Mortgage Worksheet
- 8) If the contingency reserve (as per 7b.) or any part thereof is not used, the remaining balance shall be applied as a partial prepayment of the principal balance of the Note. **Such prepayment will not extend or postpone the due date of any monthly installment due under the Note, nor change the amount of such installments.**
- 9) If a dispute arises between the Borrower and the approved General Contractor, the Borrower has the right to hire a new General Contractor. That Contractor must first be validated and vetted by LENDER prior to any work starting. The Borrower CANNOT act as a General Contractor. If a new General Contractor is not approved by LENDER and the work is not done within 180 days from the funding date, LENDER may, in its sole discretion, make a principal reduction payment with the Escrow Funds. **If the Escrow Funds are used to make such a principal reduction, the final payment to the Contractor will not be available from LENDER and shall be the sole responsibility of Borrower.**
- 10) The Borrower will ensure that all improvements on the Property are completed pursuant to, and in accordance with, a Homeowner/ Contractor Agreement as accepted by LENDER, including but not limited to, in accordance with the time constraints set forth in the Homeowner/ Contractor Agreement.
- 11) Changes in the Homeowner/ Contractor Agreement must be approved by LENDER in writing prior to the beginning any Work. Changes may be requested by writing a letter describing the changes or using form HUD-92577 (a "Request for Acceptance of Changes"). The Request for Acceptance of Changes may be hand delivered, mailed, or emailed to renovation@afrwholesale.com. If you have any questions, please call 800-624-0501.
- 12) Borrower shall cause all improvements to be made in a workmanlike manner and in accordance with all applicable statutes and regulations. All licenses, permits and privileges required by local governmental authorities to rehabilitate the Property shall be obtained by the Borrower(s) or his/her Contractor and submitted to LENDER prior to closing.
- 13) Representatives of LENDER and or the Commissioner shall have the right to enter upon the Property at all times during the period of construction and on completion of construction to determine whether the Work conforms with this Agreement and the Homeowner/ Contractor Agreement, and any approved changes to the foregoing, and to determine the amount of Escrow Funds to be released by LENDER.
- 14) Borrower will furnish such records, contracts, bills and other documents relating to the Property and the improvements as LENDER or the Commissioner may require.
- 15) Without prior, written consent of LENDER, no materials, equipment, fixtures or any part of improvements financed with this loan will be purchased or installed subject to conditional sales contracts, security agreements, lease agreements or other arrangements whereby title is retained, or the right is reserved or accrues to anyone to remove or repossess any item, or to consider it as personal property.

- 16) The Borrower shall cause this instrument or the Homeowner/ Contractor Agreement under which the improvements are to be made to be filed in the public records, if the effect of recording will be to relieve the mortgaged property from mechanics' and materialmen's liens. Before any release of Escrowed Funds under this Agreement, LENDER may require the Borrower to obtain acknowledgment of payment and releases of lien from the Contractor and all subcontractors and materialmen dealing directly or indirectly with the Contractor ("Lien Release"). These Lien Releases will cover the period through and including the date covered by the last advance, and concurrently with the final payment for the entire project. Such Lien Release must be in the form required by local or state lien laws and must cover all work done, labor performed and materials (including equipment and fixtures) furnished for the project.

- 17) Borrower shall cause the Work to begin as soon as practicable after closing but in any event not later than thirty (30) days following the date of this Agreement and completed with 6 months (180) days of the date of this Agreement. The Work shall be performed with reasonable diligence; therefore, the Work is never to cease for more than 30 consecutive days. Should Borrower fail to comply with these terms, LENDER may refuse to make any further payments under this Agreement. Any funds remaining in the Escrow Funds account shall then be applied as prepayment to a principal reduction of the Note.

- 18) In the event any Stop Work Notices, Notices to Withhold, Mechanic's Liens or other claims of lien are filed against the Property, LENDER, after five (5) days' notice to the undersigned of its intention to do so, may, in its sole discretion, pay any or all of such liens or claims, may contest the validity of any of them, paying all costs and expenses of contesting same and/or may cease making payments hereunder and make a principal reduction payment with the Escrow Funds. If the Escrow Funds are used to make such a principal reduction, the final payment to the Contractor will not be available from LENDER and shall be the sole responsibility of Borrower.

- 19) A Compliance Inspection Report from the HUD Consultant stating all Work has been satisfactorily completed must be received by LENDER within two weeks of completion of the construction or within 6 months (180) days of the date of the note, whichever is earlier. If, for whatever reason, the final inspection verifying that all Work is completed is not received within 6 months (180) days of closing, may, in its sole discretion, make a principal reduction payment with the Escrow Funds. If the Escrow Funds are used to make such a principal reduction, the final payment to the Contractor will not be available from LENDER and shall be the sole responsibility of Borrower.

- 20) Failure of the Borrower to perform under the terms of this Agreement or the Note, will make the Note, at the sole discretion of LENDER, immediately due and payable.

- 21) The accepted Homeowners/Contractors Agreement is attached hereto as Exhibit "A."

- 22) Failure of LENDER to enforce any term or condition of this Agreement on any one occasion shall not act as a waiver by LENDER of the enforceability of that term or condition on any other occasion or as to any other term or condition.

- 23) LENDER may assign its rights and obligations hereunder to any duly licensed and approved financing entity at its sole option and discretion who will succeed to all rights and obligations hereunder as if it were the original Lender.

- 24) In the event Borrower fails to perform under the terms of this Agreement or in any way is in breach of this Agreement, LENDER shall be entitled to its reasonable costs and attorney's fees associated with enforcing the terms hereof.

- 25) All Notices required by this Agreement and/or the Note, shall be deemed served if in writing and sent, postage prepaid, return receipt requested, to the recipient at the address for the recipient as set forth herein or as either party may designate by written notice.

Mortgagor	Date	Mortgagor	Date

Mortgagor	Date	Mortgagor	Date

Signature of Lender	Title	Date

Renovation Identity-of-Interest

Borrower's Identity-of-Interest Certification

The Borrower(s) must sign a certification stating the following:

"I hereby certify to the Department of Housing and Urban Development (HUD) /*Guaranteed Rural Development / Department of Veterans Affairs and (Mortgagee), Fannie Mae, Freddie Mac that I/We do or do not have an identity-of-interest with the seller. I/We do not have an identity-of-interest with the HUD Consultant of the property. I also certify that I/We do not have a conflict-of-interest with any other party to the transaction, including the real estate agent, mortgagee, contractor, HUD Consultant and/or the appraiser. In addition, I certify that I am not obtaining any source of funds or acting as a buyer for another individual, partnership, company or investment club.

I/We are purchasing or refinancing." I/We will occupy the residence.

Warning: HUD will prosecute false claims and statements.

Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

Borrower's Signature

Date

Co-Borrower's Signature

Date

*Purchase transactions only permitted for Guaranteed Rural Development

RENOVATION LOAN BORROWER'S DISCLOSURE

Borrower(s): _____

Property Address: _____

City: _____ State: _____ Zip: _____

Lender: _____ or ISAOA Loan Number: _____

Borrower hereby warrants and represents (which warranties, covenants, agreements and representations shall survive the making of any and all advances) to Lender, its agents, successors and/or assigns (hereinafter collectively called "Lender") as follows:

Borrower hereby warrants and represents (which warranties, covenants, agreements and representations shall survive the making of any and all advances) to Lender, its agents, successors and/or assigns (hereinafter collectively called "Lender") as follows:

Borrower acknowledges that Borrower will select and investigate or has selected and investigated the background, experience and reputation of any and all contractors (hereinafter referred to as "Contractors") who will furnish labor, material or other services for the construction of said improvements and that Lender has, and shall have, no responsibility or liability whatsoever for such persons or for the quality of their materials or workmanship.

Borrower acknowledges that Lender has the right to verify the acceptability of Borrower's selection of any or all Contractors in accordance with the guidelines set forth by the Department of Housing and Urban Development (hereinafter referred to as "HUD"), USDA, VA, Fannie Mae, or Freddie Mac and, additionally, Lender has the right to disallow any or all Contractors that do not meet the guidelines for Contractors as set out by HUD, USDA, VA, FNMA, FHLMC, or Lender.

Borrower understands that this acknowledgment is made for the purpose of inducing the Lender to advance the money pursuant to the terms of the Loan documents, and the Lender is relying upon the acknowledgment in advancing such loan proceeds. Further, Borrower agrees to indemnify and hold Lender, its agents, successors and/or assigns, harmless against costs, damages, attorney's fees, expenses and liabilities which it may incur or sustain in connection with the incorrectness of any of these representations or any court action arising therefrom and will pay the same upon demand. Borrower further agrees to indemnify and hold Lender, its agents, successors and/or assigns, harmless from any claims by or against the Contractor or any subcontractors or material suppliers for any and all reasons.

EXECUTED this _____ day of _____, 20_____.

Borrower's Signature

Date

Co-Borrower's Signature

Date

Texas Renovation Loan Disclosure Statement

Disclosure Statement Required by Texas Code§ 53.255.

KNOW YOUR RIGHTS AND RESPONSIBILITIES UNDER THE LAW. You are about to enter into a transaction to build a new home or remodel existing residential property. Texas law requires your contractor to provide you with this brief overview of some of your rights, responsibilities, and risks in this transaction.

CONVEYANCE TO CONTRACTOR NOT REQUIRED. Your contractor may not require you to convey your real property to your contractor as a condition to the agreement for the construction of improvements on your property.

KNOW YOUR CONTRACTOR. Before you enter into your agreement for the construction of improvements to your real property, make sure that you have investigated your contractor. Obtain and verify references from other people who have used the contractor for the type and size of construction project on your property.

GET IT IN WRITING. Make sure that you have a written agreement with your contractor that includes:

(1) a description of the work the contractor is to perform; (2) the required or estimated time for completion of the work; (3) the cost of the work or how the cost will be determined; and (4) the procedure and method of payment, including provisions for statutory retainage and conditions for final payment. If your contractor made a promise, warranty, or representation to you concerning the work the contractor is to perform, make sure that promise, warranty, or representation is specified in the written agreement. An oral promise that is not included in the written agreement may not be enforceable under Texas law.

READ BEFORE YOU SIGN. Do not sign any document before you have read and understood it.

NEVER SIGN A DOCUMENT THAT INCLUDES AN UNTRUE STATEMENT. Take your time in reviewing documents. If you borrow money from a lender to pay for the improvements, you are entitled to have the loan closing documents furnished to you for review at least one business day before the closing. Do not waive this requirement unless a bona fide emergency or another good cause exists, and make sure you understand the documents before you sign them. If you fail to comply with the terms of the documents, you could lose your property. You are entitled to have your own attorney review any documents.

If you have any question about the meaning of a document, consult an attorney.

GET A LIST OF SUBCONTRACTORS AND SUPPLIERS. Before construction commences, your contractor is required to provide you with a list of the subcontractors and suppliers the contractor intends to use on your project. Your contractor is required to supply updated information on any subcontractors and suppliers added after the list is provided. Your contractor is not required to supply this information if you sign a written waiver of your rights to receive this information.

MONITOR THE WORK. Lenders and governmental authorities may inspect the work in progress from time to time for their own purposes. These inspections are not intended as quality control inspections. Quality control is a matter for you and your contractor. To ensure that your home is being constructed in accordance with your wishes and specifications, you should inspect the work yourself or have your own independent inspector review the work in progress.

MONITOR PAYMENTS. If you use a lender, your lender is required to provide you with a periodic statement showing the money disbursed by the lender from the proceeds of your loan. Each time your contractor requests payment from you or your lender for work performed, your contractor is also required to furnish you with a disbursement statement that lists the name and address of each subcontractor or supplier that the contractor intends to pay from the requested funds. Review these statements and make sure that the money is being properly disbursed.

CLAIMS BY SUBCONTRACTORS AND SUPPLIERS. Under Texas law, if a subcontractor or supplier who furnishes labor or materials for the construction of improvements on your property is not paid, you may become liable and your property may be subject to a lien for the unpaid amount, even if you have not contracted directly with the subcontractor or supplier. To avoid liability, you should take the following actions:

(1) If you receive a written notice from a subcontractor or supplier, you should withhold payment from your contractor for the amount of the claim stated in the notice until the dispute between your contractor and the subcontractor or supplier is resolved. If your lender is disbursing money directly to your contractor, you should immediately provide a copy of the notice to your lender and instruct the lender to withhold payment in the amount of the claim stated in the notice. If you continue to pay the contractor after receiving the written notice without withholding the amount of the claim, you may be liable and your property may be subject to a lien for the amount you failed to withhold.

(2) During construction and for 30 days after final completion, termination, or abandonment of the contract by the contractor, you should withhold or cause your lender to withhold 10 percent of the amount of payments made for the work performed by your contractor. This is sometimes referred to as 'statutory retainage.' If you choose not to withhold the 10 percent for at least 30 days after final completion, termination, or abandonment of the contract by the contractor and if a valid claim is timely made by a claimant and your contractor fails to pay the claim, you may be personally liable and your property may be subject to a lien up to the amount that you failed to withhold.

If a claim is not paid within a certain time period, the claimant is required to file a mechanic's lien affidavit in the real property records in the county where the property is located. A mechanic's lien affidavit is not a lien on your property, but the filing of the affidavit could result in a court imposing a lien on your property if the claimant is successful in litigation to enforce the lien claim.

SOME CLAIMS MAY NOT BE VALID. When you receive a written notice of a claim or when a mechanic's lien affidavit is filed on your property, you should know your legal rights and responsibilities regarding the claim. Not all claims are valid. A notice of a claim by a subcontractor or supplier is required to be sent, and the mechanic's lien affidavit is required to be filed, within strict time periods. The notice and the affidavit must contain certain information. All claimants may not fully comply with the legal requirements to collect on a claim. If you have paid the contractor in full before receiving a notice of a claim and have fully complied with the law regarding statutory retainage, you may not be liable for that claim. Accordingly, you should consult your attorney when you receive a written notice of a claim to determine the true extent of your liability or potential liability for that claim.

OBTAIN A LIEN RELEASE AND A BILLS-PAID AFFIDAVIT. When you receive a notice of claim, do not release withheld funds without obtaining a signed and notarized release of lien and claim from the claimant.

You can also reduce the risk of having a claim filed by a subcontractor or supplier by requiring as a condition of each payment made by you or your lender that your contractor furnish you with an affidavit stating that all bills have been paid. Under Texas law, on final completion of the work and before final payment, the contractor is required to furnish you with an affidavit stating that all bills have been paid. If the contractor discloses any unpaid bill in the affidavit, you should withhold payment in the amount of the unpaid bill until you receive a waiver of lien or release from that subcontractor or supplier.

OBTAIN TITLE INSURANCE PROTECTION. You may be able to obtain a title insurance policy to insure that the title to your property and the existing improvements on your property are free from liens claimed by subcontractors and suppliers. If your policy is issued before the improvements are completed and covers the value of the improvements to be completed, you should obtain, on the completion of the improvements and as a condition of your final payment, a ' completion of improvements' policy endorsement. This endorsement will protect your property from liens claimed by subcontractors and suppliers that may arise from the date the original title policy is issued to the date of the endorsement."

_____	_____	_____	_____
Borrower	Date	Co-Borrower	Date
_____	_____	_____	_____
Borrower	Date	Co-Borrower	Date