VA Lenders Handbook (VA Pamphlet 26-7), Chapter 9, Topic 10 — Escrow for Postponed Completion of Improvements

Register va-m26-7-ch09-t10

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10. Escrow for Postponed Completion of Improvements Change Date July 30, 2019 • This chapter has been revised in its entirety. a. General In some instances, it may not be possible to complete certain items before the Veteran wishes to move into the property. The escrow of funds can permit the Veteran-purchaser to gain occupancy of the dwelling prior to completion of certain items which must be postponed due to weather conditions or other circumstances. Such items include, but are not limited to: • walkways, driveways, and retaining walls, • exterior painting, • landscaping, and • garages. b. Escrow of Funds to Complete Unfinished Work VA may permit the escrow of funds necessary to complete the unfinished work later, and still issue evidence of guaranty. An escrow involves the following: • withholding 1 1/2 times the dollar amount necessary to complete the postponed items (as estimated by a third party) from the proceeds due the seller at closing, • holding the escrowing funds in a proper, secure manner, and • releasing the funds once the postponed items have been satisfactorily completed. c. Establishing an Escrow Fund To establish an escrow, the following must apply: • construction of the dwelling must be complete and the house must be suitable for immediate occupancy, • postponement of the improvements must be beyond the control of the builder/seller, • the duration of the postponement must not be unreasonable (usually 90 to 120 days), and • the amount escrowed must be at least 1 1/2 times an estimate of the amount needed to complete the work. Continued on next page VA Pamphlet 26-7, Revised Chapter 9: Legal Instruments, Liens, Escrows, and Related Issues 9-20 10. Escrow for Postponed Completion of Improvements, continued c. Establishing an Escrow Fund, continued Lenders are not required to escrow funds when: • the incomplete work is limited to the installation of landscaping features due to inclement weather (lawns, shrubbery, etc.), • the estimate of the cost to complete the work is not greater than $2,500, and • there is adequate assurance that the work will be completed timely and satisfactorily (usually 90 to 120 days). d. General Procedures No prior approval of VA is required to escrow funds. Lenders are responsible for establishing escrows in accordance with the guidelines presented in this topic. Lenders are also responsible for assuring that the postponed work is completed. Once the loan closes, VA will randomly monitor cases to ensure completion of escrowed items. Step Action 1 Close loan and escrow the required funds. 2 Upload the closed loan package into WebLGY for issuance of guaranty with: • lender evidence of an escrow agreement, or • a completed VA Form 26-1849, Escrow Agreement for Postponed Exterior Onsite Improvements. 3 Release escrowed funds when work is satisfactorily completed, as evidenced by doing the following: • Complete VA Form 26-1839, Compliance Inspection Report, indicating the postponed work has been satisfactorily completed, or • if the postponed work is minor, uncomplicated, and not involving structural issues, provide written certification from the lender indicating the work has been completed, and a statement from the Veteran-purchaser that he or she is satisfied with the work. Continued on next page VA Pamphlet 26-7, Revised Chapter 9: Legal Instruments, Liens, Escrows, and Related Issues

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