Community Acquisition & Rehabilitation Loan (CARL) Borrower Example

1. An Individual is interested in buying and fixing up a home in the neighborhood and sees an advertisement for the Community Acquisition and Rehabilitation Loan (CARL) in a Community Group’s e-newsletter.

2. The individual reaches out to the community group and the Community Group refers the Individual to PCRG.

3. PCRG reviews the program guidelines, timeline, and helpful tips to successfully navigate the CARL process.

4. The Individual visits one of the participating CARL lenders to get prequalified.

5. The Individual meets all the program guidelines, and the Lender issues a prequalification letter of $130,000 for the Individual.

6. The CARL Borrower, keeping in mind that they have $130,000 to buy AND rehab a home, shops for a home.

7. The Borrower identifies a home for sale at $75,000 within one of the twenty-five eligible census tracts for the CARL program. To find out the census tract for a property you have identified, you can go to: www.bit.ly/CensusTracts > select “2014” in the drop down menu > enter the address of the property and click “search” > and then click “Census Demographic Data” on the left. The Census Tract will be shown on the left next to “Tract Code” and on the map within the Census Tract boundaries (the red dot indicates your property location, and the blue lines immediately surrounding the red dot indicates the Census Tract boundaries).

8. The Borrower reviews the list of approved contractors and requests contractor bids on the rehab work for the house (we recommend three bids). The Borrower is allowed to use their own contractor, provided the contractor meets URA standards.

9. The Borrower selects the Contractor who provides a bid of $50,000 on the rehab work.

10. Since the acquisition costs plus the rehab costs ($75,000 + $50,000 = $125,000) fit within the Borrower’s prequalification limit ($130,000), the Borrower can submit an offer and sign a sales agreement with the seller.

11. The Borrower will schedule a home and pest inspection (required as part of the CARL program).

12. Once the Inspector returns an inspection report to the Borrower, the Borrower will coordinate a meeting with their contractor and their Urban Redevelopment Authority (URA) Construction Advisor at the property. The URA Construction Advisor will ensure that that the Contractor includes all missed code deficiencies in the Final Proposal.

13. The Contractor will finalize the Proposal (scope of work) and include a 10% contingency to the bid.

14. The Borrower will submit the Contractor’s Final Proposal and the Acceptance of the Proposal Form to the URA, PCRG, and the lender.
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15. The Borrower will make a formal CARL Mortgage Application with the Sales Agreement and the URA Approved Proposal. The Lender will lock in the mortgage rate for 60 days. The rate is the Fannie Mae 30 year, 60 day index (today’s Fannie Mae rate can be found here: www.bit.ly/30year60day) plus 1%.

16. The Lender will process the application with all verifications necessary to make an underwriting decision. The Lender will order the as-is and as-completed appraisal and title work. If the as-completed appraisal (or post-appraised value) is lower than the cost to acquire and rehab the home, the borrower will need to cover the difference (i.e. appraisal gap).

17. Upon approval of the application, the URA will provide a 15% guarantee to the lender. The purpose of the guarantee is to mitigate risk to the lender and allows the borrower to pay a 5% down payment without mortgage insurance. If the borrower defaults, the URA will pay 15% or up to $35,000 of the loan amount to the lender.

18. After closing, the borrower will need to provide copies of the building permits to the lender, along with signed URA Borrower/Contractor Agreement and a No-Lien Agreement before the work commences. This initial No-Lien Agreement requires a Public Notary (PCRG has a notary on staff and so does the URA; this service can be used a no cost to the borrower).

19. The Borrower or the Contractor will need to finance the work up to the first draw payment. At this point, any changes to the Final Proposal must be submitted on the Contractor’s letterhead, include a description of the changes, and the costs. This letter must be signed by the Borrower and the Contractor and sent to the URA Construction Advisor and Lender for approval.

20. The URA Construction Advisor will act as the stage inspector and provide up to 5 inspections of the completed work. The Contractor and Borrower will submit a fully executed URA Payment/Inspection Request Form to the URA Construction Advisor. If the URA Construction Advisor approves the work, the approved inspection form will be sent to the Lender. The Lender will then cut a check to the Contractor (or deposit the funds into the Contractor’s account if the Contractor has an account with the Lender). Each draw payment will require the Contractor to sign a No-Lien Agreement; these do not require a Public Notary.

21. When the Contractor is ready for the final draw payment, the Contractor will submit a Completion Certificate which will be signed by the borrower. The Contractor will also have to sign a final No-Lien Agreement which will require a Public Notary (notary services can be provided by PCRG or the URA at no cost).

22. The expected construction period will be approximately 3-6 months depending on the scope of work. During this time, the borrower is able to make interest-only payments. If the rehab work requires more than 6 months, an extension may be requested, but a fee will be charged. If an extension is not filed, the loan will convert to a permanent mortgage and amortization will begin (i.e. principal and interest payments).