



## RENOVATION MORTGAGE CONTRACTOR PAYMENT SCENARIOS

### IMPORTANT THINGS TO KNOW ABOUT EACH DRAW

- Paperwork & Signatures from both the Client & Contractor is REQUIRED
- Proof of Permits or Proof that permits are NOT needed should be done for Draw #1
- Inspection of the job site and pictures of the completed work for each draw are REQUIRED
- 10% holdback on each draw is REQUIRED (\$10,000 draw request nets \$9,000 check to contractor)
- Most jobs have up to 5 draws, but more can be requested for an additional fee per draw.
- Notification & Scheduling of each Draw Inspection with a list of requested items is REQUIRED
- Access to the property is REQUIRED. If the inspector cannot get in you cannot get paid.

#### FINAL DRAW:

The final draw inspection is when the entire project is 100% complete and the final inspection is performed. If the local jurisdiction requires an occupancy permit or any other documentation to close out the project this will need to be presented to the lender in order for them to release the final payment. The final draw paperwork will include a lien waiver and the request for all HOLD BACK funds to be released. Remember that 10% of each previous draw was held back.

### TYPES OF PAYMENT TERMS

#### **50% / 50%** (Most common with FHA renovations under \$35,000 with no structural components)

This scenario is simple. At closing the project is funded 50% and the final 50% is funded once the job is 100% complete and all inspections, permits and documents to close the file have been presented to the lender.

#### **DRAWS WITH MONEY UP FRONT**

This scenario pays some money UP FRONT at closing. Typically the amount is either ½ of the materials money or some cap such as a flat \$15,000 to provide the contractor with an initial up front draw to be used to get the project started. This is considered Draw #1.

#### **DRAWS WITH NO MONEY UP FRONT**

This scenario pays the same way ACCEPT there is NO upfront draw. The first draw will be Draw #1 when a portion of the work is complete and a draw inspection is requested. All of the same IMPORTANT ITEMS pertain to these draws just like the above listed scenario. The only difference is that NO MONEY is paid at closing upfront.

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