

## EXPLANATION OF FORM

The Deed of Trust Note is a security instrument that is the Borrower's (who is also referred to as the "Beneficiary") promise to adhere to all the commitments made in the Deed-of-Trust and stipulates when and how all of the terms of the loan are to be satisfied. The Trustee is the individual who is legally authorized to enforce the Deed-of-Trust. For example, the Trustee may be the Grantee's lawyer or Chief Executive Official.

The Note is not recorded, but must be held in safekeeping, (i.e., a safe deposit box or a drawer or cabinet that is routinely kept locked) by the Lender (who is also referred to as the "Grantee") until all the terms of the loan are satisfied.

At the end of the loan term, the Deed of Trust Note **must** be marked "All Paid" or "Paid in Full" for all amounts paid and/or forgiven and a Certificate of Satisfaction is prepared and either recorded in the Clerk's Office or mailed to the Borrower.

The Deed of Trust Note should stipulate the following:

- A 10-year term and zero percent rate of interest;
- The loan origination date and the original maturity date;
- The monthly amount due and/or forgiven based upon the borrower's ability-to-pay;
- Partial and late payments and default penalties;
- Time and location for payments.
- The complete address of the Trustee's residence;
- The Borrower's requirement to maintain the property to DHCD HQS during the term of the loan;
- The Borrower's requirement to obtain adequate hazard insurance, with the Grantee listed as a loss payee;

- The Borrower's requirement to obtain an annual septic maintenance agreement, if an alternative septic system is installed, as required by the Virginia Department of Health;
- The Lender's right to inspect the property during its rehabilitation and during the term of the loan;
- The Borrower's role in the change order process and role in approving all construction contractor payments;
- The Borrower's requirement to attend a Home Maintenance Education Program;
- The Borrower's requirement to reside in the property rehabilitated for the entire term of the loan;
- Default and resale requirements; and
- The closing document Truth-in-Lending Disclosure Statement.

DHCD's Best Practices also recommends that the Deed of Trust Notes provides:

- ☒ That a Note be recorded with a credit balance provided to the owner at the conclusion of the construction contract. This should eliminate the need for amendments to the mortgage instrument as a result of change orders.
- ☒ That the Deed-of-Trust Note's signatures are notarized.