
CHAPTER 2
CONSTRUCTION STAGE FOR INSURANCE UPON COMPLETION PROJECTS

- 2-1. BASIC REQUIREMENTS for insurance upon completion projects during the construction stage are generally the same as for projects with insured advances. However, because HUD does not insure advances for the construction loan, HUD does not monitor the mortgagee's disbursements. Additionally, because HUD has no risk exposure until final closing, HUD does not become involved in the workout of problems per Chapter 4. Following are major variations during the construction stage for insurance upon completion projects from projects with insured advances.
- 2-2. FIRM COMMITMENT TO INSURE UPON COMPLETION, Forms FHA-2453, FHA-2453-MM (Section 207 pursuant to Section 223(f)) and FHA-2453-NH (Section 232), must be valid and outstanding until project closing, i.e., endorsement of the permanent mortgage.
- A. No Initial Closing. The construction stage starts with the issuance of the Firm Commitment. HUD does not insure advances from the construction loan for insurance upon completion projects, therefore, there is no initial closing.
- B. Construction/Rehabilitation Must Start within the period provided by the firm commitment.
- C. Extensions. See Handbook 4425.1 for the extension of:
1. The period within which construction/rehabilitation must start, and
 2. The firm commitment expiration date, where required to permit project completion and final closing.
- 2-3. REQUIRED DOCUMENTS include:
- A. Construction Contract. The HUD Form of Construction Contract need not be used, however, the following must be made a part of the contract used:
1. General Conditions, AIA Document A201,
 2. Supplementary General Conditions, Form HUD-2554,
 3. Davis-Bacon Wage Rates,

- (2-3)
4. Amendment To The Construction Contract To Identify Identities Of Interest Between Owner/Contractor/Subcontractors/Architect, Appendix 8, Handbook 4430.1 REV-1, and
 5. Cost certification criteria from Form HUD-92442-A, Article 10, where an identity of interest exists, or a "cost plus" form of contract is used.
- B. A Complete Master Set of Drawings and Specifications and two duplicate sets.
- C. The Agreement and Certification, Form HUD-3305A, or HUD-3306A executed by the mortgagor, mortgagee, and HUD.
- D. A Title Policy or title evidence showing:
1. Insured property free of all encumbrances other than said mortgage and acceptable reservations of title.
 2. Proof that no unpaid obligations exist except as previously approved by HUD.
 3. Title policy continued to date of credit instrument endorsement.
- E. Survey and Surveyor's Certificate, Form HUD-92457.
- F. Contractor's Requisition Project Mortgages, Form HUD-92448. The Contractor's Prevailing Wage Certificate must be submitted to HUD at the time the mortgage is presented for insurance pursuant to a commitment to insure upon completion.
- G. Assurance Of Funds To Meet Operating Deficit. Complete Forms FHA-2476, Agreement of Sponsors To Furnish Additional Funds, FHA-2476-A, Escrow Agreement, and FHA-2477, Bond Guaranteeing Sponsors, Performance, to assure funds are available to carry the project to a sustaining occupancy position after final closing.
- H. Assurance of Completion is not applicable to insurance upon completion projects.
- I. Warranty Against Latent Defects, is required in accordance with paragraph 2-21 below.
- 2-4. THE PRECONSTRUCTION CONFERENCE must precede the initial start of construction. See paragraph 1-2.

- 2-5. CONSTRUCTION MONITORING AND REPORTING must be performed in accordance with paragraph 1-3 to assure that the completed project provides an acceptable mortgage risk upon endorsement of the permanent mortgage.
- 2-6. LABOR AND FHEO LIAISON. See paragraph 1-4.
- 2-7. CONTRACTOR'S MONTHLY REQUISITIONS are not applicable for projects insured upon completion.
- 2-8. OFFSITE CONSTRUCTION.
- A. Monitoring is recorded by the construction representative on Form HUD-5379.
 - B. Advance Of Funds monitoring by HUD is not applicable for insurance upon completion projects.
- 2-9. CONSTRUCTION CONTRACT CHANGES AND ARCHITECT'S SUPPLEMENTAL INSTRUCTION. See paragraphs 1-8 and 1-9. Construction Changes, Form HUD-92437 (Change Orders) are processed the same as in paragraph 1-8, except as modified below:
- A. An Escrow is not required for additive change orders, because HUD has no risk exposure until final closing. The mortgagor must be able to provide the additional funds required and must not have any outstanding obligation in connection with construction other than the insured mortgage at the time the mortgage is presented for insurance.
 - B. Surety Approval is not required for the approval of additive change orders regardless of the percentage of contract increase.
- 2-10. PERMISSION TO OCCUPY applies as in paragraph 1-11.
- 2-11. FINAL HUD REPRESENTATIVE'S TRIP REPORT and items of delayed completion apply as in paragraph 1-12.
- 2-12. GUARANTEE PERIOD applies as in paragraph 1-13.
- 2-13. APPLICATION FOR INSURED ADVANCES is not applicable for projects insured upon completion.
- 2-14. WORKING CAPITAL DEPOSIT is not required for insurance upon completion projects.
- 2-15. PROPERTY INSURANCE SCHEDULE AND REQUIREMENTS. When on-site

construction is 80 percent complete, (before endorsement of the credit instrument) HUD must prepare:

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- (2-15)A. Property Insurance Schedule, Form HUD-92329, that:
1. Correctly shows the insurable value of the completed structures.
 2. Reflects any changes in cost occurring after issuance of firm commitment.
- B. Property Insurance Requirements, Form HUD-92447.
- 2-16. MIP is not charged until the project reaches final closing.
- 2-17. COST CERTIFICATION. See Chapter 5.
- 2-18. CLOSING must occur within the period provided in the commitment.
- 2-19. Extension of Firm Commitment instructions are in Handbook 4425.1.
- 2-20. BUILDER'S WARRANTY. The general contractor must provide one of the following at final closing to assure correction of any latent defects.
- A. Cash Escrow Deposit of 2 1/2 percent of the principal amount of the mortgage, to be retained in escrow by the mortgagee for a period of 15 months, or
 - B. Surety Bond in the amount of 10 percent of the cost of construction or substantial rehabilitation (running for 2 years after substantial project completion). The bond must be on Form HUD 3259, Surety Bond Against Defects Due To Defective Materials And/Or Faulty Workmanship.