
CHAPTER 3
COMPLETION OF REPAIRS PURSUANT TO SECTION 223(f)

- 3-1. GENERAL. HUD can elect during three processing stages when repairs, replacements and improvements (required repairs) may/must be made. They are:
- A. Conditional Commitment. This optional processing stage is typically only used for purchase transactions where the buyer is not known. Follow the same procedures as when required repairs are defined at firm commitment.
 - B. Firm Commitment must always be issued whether or not a conditional commitment is issued. The Commitment To Insure Upon Completion Section 207 (Pursuant to Section 223(f), Form FHA-2453MM must be valid and outstanding until project closing. See Handbook 4425.1 for extensions of the commitment. If there are still required repairs at this stage, the commitment to insure upon completion must either:
 - 1. Require that repairs be completed before closing, or
 - 2. Permit completion of repairs, except for "critical repairs" after closing. See paragraph 3-5.E. for the definition of critical repairs.
 - C. Closing is always an endorsement of the instrument to insure the permanent mortgage. An escrow is always required for completion of any repairs after closing.
- 3-2. COMPLETION OF REPAIRS BEFORE CLOSING.
- A. Completion of All Repairs Before Closing. Require a site visit(s) and report(s) by a HUD representative to confirm satisfactory completion of all required repairs before going to closing.
 - B. Partial Completion of Repairs Before Closing. Modify the list of required repairs to reflect the balance of outstanding work. Use the revised list as the Work Write-up for the closing, and require the schedules in paragraph 3-3. below.
- 3-3. REPAIRS DELAYED UNTIL AFTER CLOSING. Require the following schedules where repairs are to be delayed.

- (3-3) A. Schedule of Values for periodic payment of completed repairs. Accept any format suitable for the required work that easily accommodates establishing the value of partially completed work.
- B. Progress Schedule. All repairs must be completed within 12 months of loan closing.
- C. Schedule of Delayed or Interrupted Occupancy or Income must list:
1. All facilities for which occupancy or income will be delayed or interrupted by repairs delayed until after closing.
 2. Period of delayed or interrupted occupancy or income.
 3. Projected completion date for each facility having delayed or interrupted occupancy or income.

3-4. INSPECTION OF COMPLETED REPAIRS.

- A. HUD Representative's Functions. Monitor and report the completion of repairs and compliance with commitment or closing conditions, report any conditions that contribute to mortgage risk, and monitor the contractors' and supervisory architect's performance where they are employed.
1. Make progress inspections where the scope or nature of the work dictates.
 2. Make latent defects inspections.
- B. Assignment Documents.
1. Conditional or firm commitment as applicable, or the Escrow Agreement where closing has occurred.
 2. Survey, Surveyor's Report and Legal Description.
 3. List of Required Repairs (Work Write-up.)
 4. Specification, and drawings, where required.
 5. Schedule of Values. (Required only for projects with repairs delayed after closing.)
 6. Progress Schedule. (Required only for projects with repairs delayed after closing.)
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- (3-4) 7. Schedule of Delayed or Interrupted Occupancy or Income. (Required only for projects with repairs delayed after closing.)
8. Agreement and certification.
- 3-5. INSPECTION REPORTS must be filed on Form HUD-5379 for each monitoring visit. Complete the report in accordance with Handbook 4480.1, and report on the following as they may apply.
- A. Noncompliance with provisions of the commitment or closing, e.g., work write-up, specifications, drawings, etc., including changes to the work without prior HUD approval.
 - B. Adverse Conditions, e.g., slow work completion, destruction of work, new municipal requirements, disputes, etc.
 - C. Availability for Use of facilities listed on the schedule of delayed or interrupted occupancy. Identify by dwelling unit/care room numbers or other specific designation.
 - D. Municipal Authorizations. Permissions to occupy, use permits, etc. Where applicable, these must be issued before closing, unless related to work delayed until after closing.
 - E. Critical Repairs must be completed and reported before closing. Critical repairs are any individual or combination of repairs required to correct conditions that:
 - 1. Endanger the safety or well-being of residents, patients, visitors or passers-by,
 - 2. Endanger the physical security of the property,
 - 3. Adversely affect project or unit(s) ingress or egress,
 - 4. Render more than 5 percent of the units unsuitable for occupancy, or prevent the project from reaching sustaining occupancy,
 - 5. The appraiser identifies as the basis for the project reaching sustaining occupancy.

4435.01 REV-1

- (3-5) F. Items of Delayed Completion. Provide a detailed list of any exterior work for delayed completion, the recommended escrow amount, and the recommended completion date. The date for completion of items of delayed completion may not be later than 12 months after closing.
- G. Wage Interviews. Conduct wage interviews for Davis-Bacon wage rate compliance only where a project benefits under 24 CFR Part 511, Rental Rehabilitation Grant Program, or 24 CFR Part 850, Housing Development Grants. Wage interviews are not required for other Section 223(f) projects.
- 3-6. REPAIR COMPLETION. All work must be acceptably completed before the loan closing, except that:
- A. Minor Exterior Work, which cannot be completed because of weather conditions, may be completed after closing, on projects for which prior provisions were not made for completion of noncritical work after closing. Require an escrow two and one half (2 1/2) times the repair cost estimate in such instances.
- B. Noncritical Repairs may be completed after closing when the commitment provides for it and a completion escrow is established at closing, except that:
1. All critical repairs must be completed before closing, and
 2. A deposit must be made to the Operating Deficit Account for all facilities for which delayed repairs will delay or interrupt occupancy or income for any period.
- C. Repair Monitoring. All work must be monitored and accepted whether it is performed before or after closing.
- 3-7. FINAL REPORT must be made upon completion of all work. The final report must show that:
- A. All Work Is Acceptably Completed in accordance with the conditional commitment or firm commitment and/or closing escrow, as applicable, and approved changes,
- B. Offsite Work Is Completed or that the municipality has

given written assurance for its completion,

C. Utilities Are Connected,

6/93

3-4

4435.01 REV-1

- (3-7) D. Permanent Ingress and Egress Facilities Are Provided, and
- E. Applicable Municipal Inspections, approvals, etc., have been issued.
- 3-8. CHANGES in the work, including associated cost changes, must be submitted on Form HUD-92437.
- A. Mortgagor, Mortgagee and HUD must sign all changes.
- B. Contractor and Mortgagor's Architect, if employed, must sign all changes.
- 3-9. PROGRESS PAYMENTS. If progress payments (partial release of escrow) are to be made for completion of repairs after closing, they must be based on the Schedule of Values approved by HUD for release of escrow funds. Use Form HUD-92464. See paragraph 1-21.A.
- 3-10. MORTGAGOR'S SUPERVISORY ARCHITECT'S SERVICES. If required by HUD to monitor completion of repairs because of the nature or scope of work, the architect must be employed by use of AIA Document B181 and HUD Addenda. The services must also include approval of changes, and certificates for payment.
- 3-11. LATENT DEFECTS INSPECTION must be made before the end of 12 months after the completion of work. Make other inspections as conditions require.
- 3-12. FORM OF CONTRACT is not prescribed. Mortgagor may accomplish the required work with force account or various means of contracting.
- 3-13. COST CERTIFICATION is in accordance with Chapter 5. The mortgagor submits a certificate of actual costs using Form FHA-2205A, except that cost certification is not required for refinance transactions where the mortgage is less than 70 percent of value.
- A. The General Contractor, if any, cost certifies in accordance with Chapter 5.
- B. A Supplemental Cost Certification is required where

repairs are completed after closing. See Chapter 5.
