

# **SECTION 184 INDIAN HOUSING LOAN**

## **GUARANTEE PROGRAM**

### **Processing Guidelines 2011**

## **Chapter 9: Processing Construction Loans for Alaska**

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### **9.1 OVERVIEW**

As a result of unique logistical and market conditions which exist in remote rural Alaska communities, the Alaska Office of Native American Programs has developed this chapter in the Section 184 Indian Housing Loan Guarantee Program Guidebook for use by lenders in originating new construction mortgage financing. Most mortgage financing plans provide only permanent financing. That is, the lender will not usually close the loan and release the mortgage proceeds unless the condition and the value of the property provide adequate loan security. When new construction is involved, this means that a lender typically requires the construction to be complete before a long-term mortgage is made.

When a borrower wants to have a new house constructed, the borrower usually has to obtain financing to construct the new dwelling, referred as an interim loan, and a permanent mortgage when the work is complete to pay off the interim loan. Often interim financing for new construction has been difficult to obtain and is a major requisite in the delivery system for new housing in rural Alaska communities.

The Section 184 Program was designed to address this situation. Only one closing is used in the Section 184 Program. In the case of a loan that includes new construction, an estimate of construction costs, including a contingency allowance, is included in the loan. At the time of loan closing the amount allocated for construction is placed in an escrow account. The escrow account may also include funds to cover up to six mortgage payments (PITI) to assist the borrower in making monthly payments during the construction period. The construction period is generally limited to 9 months but a 3- month extension may be granted.

Lenders may elect to offer separate construction and permanent loans. However, under this election, only the permanent loan would be guaranteed under Section 184. In such cases, the loan is treated as an acquisition of an existing structure after construction has been

completed. Lenders may request a commitment for the applicant, prior to making the construction loan.

The permanent loan guarantee will be honored by HUD in all circumstances. Disqualification of lenders for failure to comply with requirements is addressed in [Chapter 3](#).

## 9.2 LOAN TERMS AND REQUIREMENTS

- A. **Firm Commitment Requirements.** For approval of a loan guarantee prior to the construction period, additional documents must be submitted by the lender in addition to those specified in the processing guidelines, Paragraph 5.23(c), as listed below:
1. **Construction Loan Agreement.** This agreement is between the lender and applicant and specifies the terms during the construction period. (see Appendix 9.1)
  2. **Construction Loan Rider.** This document amends the mortgagee's Deed of Trust or Security Deed between applicant and lender which further covenant the terms of the loan. (see Appendix 9.4)
  3. **Approved Builder Form.** The lender must submit the name of the builder as approved by the lender. Owner/Builders are not prohibited, but it is recommended that the work be performed by a general contractor registered to work as a contractor under Alaska Statutes (AS 08.18) with experience, qualifications and a track record of similar work.
  4. **Architectural Exhibits.** The applicant may decide to employ an architect or design consultant to prepare the proposed construction documents. The applicant must provide the lender with documents, which clearly describe the scope of work and construction schedule. The following list of exhibits are recommended:
    - **Plot Plan of the Site.** Shows the location of the structure with setbacks, driveways, water/sewer lines and other relevant detail. Shows the flood elevation.
    - **Plans and Specifications.** Shows elevations, floor plan and sufficient details of materials and finishes to direct the work. All work must be in accordance with local building codes, as applicable.
    - **Schedule of Amounts for Contract Payments Form, HUD-51000)** (see Appendix 9.5) Shows construction loan breakdown by the contractor in sufficient detail to guide construction draw downs by the application. It may be convenient to use columns (1) Item Number and (2) Description of Item in the Period Estimate for Partial Payment form, HUD-51001(see Appendix 9.7) or the Draw Request form (see [Appendix 9.9](#)) which would be the basis for construction draws. It is important that the lender analyze the breakdown in order to avoid "front loading" of draws. (In some instances, lender may request supporting bids from subcontractors and suppliers.)
    - **Construction Progress Schedule.** Contractor's planned construction schedule to cover the period of time from the starting date stipulated in the contract through the date of actual contract completion. The schedule may be computer or manual generated as long as the information is

realistic and accurate in a format providing acceptable data. The lender may compare the schedule with periodic Compliance Inspection Reports to monitor progress. If the lender finds, as the work progresses, that there is or has been a slowdown of construction, he/she shall discuss the matter with the borrower and request that the borrower cause the contractor to correct the undesirable condition and, if possible, to recover the lost time.

- **Homeowner/Contractor Agreement.** The agreement is between the borrower and the contractor (optional) and specifies the terms of the construction contract and incorporating the architectural exhibits into the contract. At a minimum, the Agreement should (1) describe the work to be performed; (2) state when work will start and finish; (3) state the total amount to be paid to the contractor and terms of payment; (4) provide provision for binding arbitration on any disputes; and (5) provide a one year warranty on all work completed by the contractor. If the lender has determined the borrower has sufficient experience to do the work or act as the general contractor, the lender should obtain a Self-Help Agreement from the borrower.
- B. **Timing.** Loan closing must occur after the receipt of a Firm Commitment and prior to the start of construction. Lenders who close the loan or allow construction to begin before receipt of the Firm Commitment, run the risk that errors could be found in the underwriting criteria and the loan would be rejected. Any funds spent on the rejected loan would not be guaranteed.
- C. **Interest rate.** The interest rate on the loan must be a fixed rate for the term of the loan. Since the loan is fully guaranteed, the rate should reflect market rates for permanent, rather than construction financing.
- D. **Compliance.** Secondary mortgage lenders (investors) are encouraged to be bonded, and require lenders who hold the construction escrow account to be bonded to ensure compliance with their responsibility to applicant.
- E. **Valuation.** Appraisal procedures will comply with industry standards by using the HUD Uniform Residential Appraisal Report (URAR) format. The market data approach to value estimation should be used where practicable. Generally, comparable sales should be closed within the last 12 months preceding the date of the appraisal, and should be within the community of the subject property. In some rural areas of the state where there is a very low inventory of housing, older sales may be used if adequately explained. When adequate market data is not available, the cost approach will be used and supported by the Marshall and Swift Handbook or other acceptable source with comments provided to explain all adjustments. For new construction, the appraisal is made from a complete set of plans and specifications, which will be incorporated into the loan as part of the Architectural Exhibits and must provide a supported and defensible estimate of value.
- F. **Owner/Builder wages are not an eligible construction expense.** An applicant may act as his/her own general contractor; however, he/she cannot be compensated for labor. The applicant could not act as the actual trades contractor unless he/she is skilled in that area.
- G. **Building on own land.** An applicant can use equity created in the past, i.e., built foundation or the on-site infrastructure, if the appraisal supports its value. If the applicant

is acting as a general contractor or is having a house built on land already owned or being acquired separately, maximum financing is available if the borrower receives no cash from the settlement. (The lender must condition its approval to assure cash is not received at closing.) The appropriate loan-to-value limits are applied to the lesser of:

1. The appraised value; or
2. The acquisition cost of the property, which includes:
  - The builder's price or the sum of all subcontractors' bids, materials, etc.
  - Cost of land. If the land was owned more than 6 months or was received as an acceptable gift, the value may be used instead of its cost.
  - Lender fees and other costs associated with any construction loan obtained by the borrower to fund construction of the property.
  - Allowable closing costs.

### 9.3 COSTS ELIGIBLE FOR INCLUSION IN MORTGAGE

- A. **Closing Costs.** Allowable closing costs to be paid by the applicant must be typical, reasonable and customary for the area (as determined by HUD) and may include:
- B. **General.** All closing costs assessed to the borrower must comply with the Real Estate Settlement Procedures Act (RESPA; 24 CFR Part 3500). RESPA information can be found at [www.hud.gov](http://www.hud.gov). All fees charged must be for services that are actually performed and must bear a reasonable relationship to the service provided.
- C. **Financed Closing Costs.** When calculating the acquisition cost, lenders may add closing costs to the sales price or contractor's price as stated in the written cost estimate. The closing costs that may be added to the sales price or the contractor's written price estimate when calculating the acquisition cost are those to be paid by the applicant. These closing costs must be typical, reasonable, and customary for the area (as determined by the OLG).
- D. **Loan Guarantee Fee.** The 1% loan guarantee fee is 100 % financeable. This amount may be added directly onto the mortgage amount, paid in cash, and/or paid by the seller (up to six percent of the sales price).
- E. **Lender Paid Closing Costs.** Lenders may pay the applicant's closing costs (and prepaid items). Premium pricing or discount points are acceptable provided they are in compliance with Section 32 of RESPA.
- F. Closing costs paid in this manner cannot be added to the sales price or the contractor's written price estimate when calculating the acquisition cost and the maximum mortgage amount and must be disclosed on the HUD-1 Settlement Statement. The amount paid on the applicant's behalf for each item may not exceed the allowable fee recognized by the HUD office having jurisdiction of the area where the property is located.
- G. **Estimated Closing Costs.** Lenders must comply with the provisions of RESPA and provide loan applicants with a Good Faith Estimate of settlement costs and a preliminary HUD-1 settlement statement. The estimate must contain the settlement charges that the applicant will normally pay at or before settlement based upon common practices in the

locality of the mortgaged property. The estimate of closing costs used in calculating the acquisition cost and mortgage during processing and underwriting must be a reasonable reflection of actual closing costs at the time of settlement.

- H. **Truth in Lending Disclosure.** The lender is required to provide a truth in lending (TIL) disclosure to the borrower three days before closing if the APR changes significantly. Pursuant to Federal law, the APR cannot increase more than .125% or a new TIL disclosure must be provided and the three day waiting period restarts.
- I. **Lender Fees.** Lenders may charge applicant for typical, reasonable, and customary fees associated with administering construction. These fees may include charging the applicant for the cost of construction inspections. In addition to the origination fee, the Department will allow lenders to charge an administration fee of up to 2% for loans involving construction advances. These are cost eligible for financing in the mortgage (up to the LTV and the borrower's debt to income ratio).
- J. **Contingency Reserve.** The construction cost estimate must include a contingency reserve of at least 10% (see Paragraph 7.3(b), which is intended to be held for unforeseen circumstances during the construction period. Release of funds shall be made through an approved change order request form, Request for Acceptance of Changes in Approved Drawings and Specifications form HUD-92577. (see Appendix 9.11)
- If the lender believes that a contingency reserve of more than 10% is needed, the lender may require the borrower to increase the amount but under no circumstances shall a contingency reserve be more than 20%.
  - Provided construction is progressing satisfactorily and on schedule (minimum of 95% complete), funds in the contingency reserve, which are anticipated to be remaining at completion, may be approved by the lender for items other than unforeseen circumstances (i.e., upgrades or improvements). However, lenders should ensure funds are retainage in escrow (an amount equal to 1-1/2 times that estimated) for any uncompleted work before authorizing depletion of the contingency reserve.
  - Remaining funds in the contingency reserve at the Final Release Notice stage may be used to reimburse costs to the borrower for change orders, which resulted in an increase in costs where the applicant placed additional monies into the construction escrow account.
  - Unforeseen construction costs in excess of the contingency reserve must be paid by the applicant outside the mortgage agreement.
  - Less than 10% contingency may be approved by the Office of Loan Guarantee Office on a case-by-case basis provided other risk sharing considerations exist. For example, a construction contract with a contractor who has obtained a materials and performance bond on the work may justify a reduction of the contingency reserve.
- K. **Mortgage Costs During Construction Period.** An allowance for mortgage payments for up to 6 months (including PITI) can be included in the construction escrow account to enable the borrower to make payments during the construction period.
- The mortgage must begin amortization with the first monthly payment, whether or not construction of the property has started.

- Mortgage payments may be withdrawn by the lender on a monthly basis.
- If the construction period extends beyond 6 months, the applicant must begin to make mortgage payments from non-escrow funds.
- For approved extensions, the applicant must begin to make mortgage payments from non-escrow funds.

## 9.4 CONSTRUCTION PERIOD

The construction period begins when the loan is closed. Construction will be limited to 9 months; however, an additional 3 months extension may be granted by the lender if the applicant and the builder can provide adequate justification for the extension. Such extensions will not affect the term of the mortgage nor can the amount of the mortgage be increased to cover any cost overruns associated with the construction delay. Extension requests should be submitted for approval to the Office of Loan Guarantee.

## 9.5 ADMINISTRATION DURING CONSTRUCTION

Lenders participating in the program have a fiduciary responsibility to administer new construction activities in a manner, which limits the risks to the Section 184 program. Lenders must use due diligence in assessing the information submitted and satisfy themselves that the construction project as proposed can be met within time and budget constraints.

Due diligence, for this purpose, is defined as compliance with the processing requirements of the Section 184 Indian Loan Guarantee Program, maintaining accurate and appropriate accounting records, and using prudent contract administration judgment. Lenders who do not exhibit due diligence or have not taken active steps to prevent the occurrence of a default may be exempted from further participation in new construction loan activities.

If a builder defaults during the construction period, lenders are expected to work with the applicant and the builder to try to resolve the problems leading to default, rather than choosing the early assignment option. Because mortgage payments due during the construction period are included in the construction escrow account, the builder default should not lead to a borrower payment default, unless, the builder's default extends beyond the period for which mortgage payments have been reserved. Therefore, a lender should assign a Section 184 construction mortgage to HUD only after the applicant fails to make three mortgage payments from his or her own funds. HUD will then be responsible for the foreclosure proceedings. Upon closing of the loan, the lender shall provide for:

- A. **Construction Escrow Account.** Proceeds designated for construction (including the contingency reserve and the mortgage payment reserve) should be deposited in an interest-bearing account insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA). The construction escrow account must be fully funded at loan closing. The interest income earned by the Construction Escrow Account must be paid to the borrower or applied to the unpaid principal loan amount. Payment is subject to agreement between the lender and the borrower.
- B. **Builder Insurance During Construction.** The builder must have builder's risk insurance in an amount equal to or greater than the total mortgage amount. In addition, the builder must have liability coverage against injury or death to others who may enter

onto the job site and workmen's compensation, which at a minimum will provide liability coverage for any persons working on the job site. Once the improvements have been fully completed or the borrower occupies the property (whichever comes first), the borrower must have in place hazard insurance. If applicable, the borrower must also have flood insurance. When these required policies go into effect, the builder's risk may be cancelled.

- C. **Inspections During Construction.** All construction inspections, including the final inspection, must be performed by a qualified inspector, who is a disinterested third party and cannot be personally or financially related to the builder, applicant or other interested party, as approved by the lender. Local Indian Housing Authority (IHA) staff may do construction inspections if they are qualified and acceptable to the lender, except when the IHA is the borrower.

Construction inspection fees are considered a construction cost and should be paid from the applicant's loan funds by the lender and included as part of the total price of the home.

Due to high transportation costs for on-site inspections in remote locations, 60% of the inspections (excluding the final inspection), may be completed by video, including narrative in the format approved by the lender to ensure adequate coverage of the work completed. The video should be taken by a disinterested third party and must be fully representative of all work performed for which the purpose of the inspection is being conducted.

Improvements must be satisfactorily completed in compliance with industry standards to the satisfaction of the inspector. Any deficiencies must be expeditiously corrected and noted in the subsequent report. The inspector must confirm the percentage of completion in accordance with the approved architectural exhibits. When acceptable, the inspector completes a Compliance Inspection Report form, HUD-92051(see Appendix 9.13) and sends it to the lender for review.

The lender may determine that additional compliance inspections are required throughout the construction period to ensure that the work is progressing in a satisfactory manner.

- D. **Release of Funds from the Construction Escrow Account.** The lender may not release funds from the Construction Escrow Account until the lender has received a Compliance Inspection Report form, HUD-92051(see Appendix 9.13), and the Draw Request form (see Appendix 9.9), Periodic Estimate for Partial Payment form, HUD-51001 (see Appendix 9.7), certifying that the work has been completed in compliance with the accepted plans, specifications and architectural exhibits. Allowable fees paid by the applicant or on the applicant's behalf may be reimbursed provided they are listed and documented. Under no circumstances is a payment request to be approved for work that is not yet completed, with the exception of a payment for materials and shipping costs. It is the responsibility of the lender to obtain written approval from the applicant before each draw payment is provided to the builder.

1. **Materials and Shipping Costs.** The lender may disburse payments for building materials or components to be shipped and stored on site provided satisfactory evidence that:

- The applicant has acquired title to the material as necessary to perfect the lender's lien;

- Prior to shipment, the material is stored and protected from weather in a bonded-storage yard or other suitable place as may be approved by the lender;
- The material is insured to cover its full value; and
- The material will be used for this contract.

Before any progress payment, the lender shall obtain such documentation as required to assure the protection of the applicant's interest in such materials. A progress payment may be made for up to 90% of the invoiced building materials value, including shipping costs. For approval, lenders must attach original invoices to a listing of the materials on the Schedule of Materials Stored, form HUD-51003 (see Appendix 9.15), which corresponds to the arrangement established on the Schedule of Contract Payments, Form HUD-51000. (see Appendix 9.5) Also, required documentation must include a Bill of Lading verifying that the materials have been accepted by the shipping agent, proof that transportation or marine insurance is sufficient to cover any loss materials in transit and execution of a Security Agreement and UCC-1 as necessary to perfect the lender's lien.

The lender must require an acknowledgement of payment and releases of liens from the contractor, all subcontractors, and suppliers. The first deed of trust on the property may serve as security on the materials. Only if the subject property is not available to use as collateral may other real or personal property be considered for use as collateral. The remaining 10% may be paid upon arrival of materials, once inventoried on-site. Applicants are responsible that the materials are sufficiently protected from weather and loss once delivered on-site. Any damage or loss sustained not recoverable through insurance is the responsibility of the applicant.

2. **Number of Progress Payments.** Generally no more than 10 construction payments should be made, approximately one per month, on the escrow account. The lender or its agent will release escrow funds only upon satisfactory completion of the proposed construction, pursuant to the Loan Agreement.

E. **Change Orders.** The change order request form, Request for Acceptance of Changes in Approved Drawings and Specifications, form HUD-92577 (see Appendix 9.11), shall be prepared by the applicant or builder for all changes to the Architectural Exhibits, and must be submitted to the lender for prior approval. Work must be 100% complete on each change order item before the release of any monies to the applicant or builder.

- If the change order results in an increase of costs, the borrower must place additional monies into the construction escrow account for payment upon acceptance of the change.
- If a change order results in a decrease of costs, the difference cannot be released and will be applied to prepay the mortgage principal after completion of the work.
- If a change order results in both an increase and decrease of costs which the offset cumulatively totals more than 10% of the loan, a revised appraisal must be completed to ensure the value has not decreased.

F. **Extensions.** If the work is not completed within the time frame, the applicant and builder must request an extension of time on the change order request form, Request for

Acceptance of Changes in Approved Drawings and Specifications, form HUD-92577(see Appendix 9.11), and provide adequate reasons to justify the extension. If acceptable, the lender should verify the status of the work and may order an additional compliance inspection of the property.

- G. Final Inspection.** When all work has been completed, the applicant must submit the Periodic Estimate for Partial Payment, form HUD-51001 (see Appendix 9.7), marked "Final" and provide a Mortgagor's Letter of Completion, requesting a final inspection and indicating all work is satisfactorily complete. Upon receipt, the lender will schedule an inspection. The inspector must visit the site, determine whether the work was completed according to the approved architectural exhibits/changes orders, and complete the Compliance Inspection Report, Form HUD-92051. (see Appendix 9.13) The document must be accompanied with photographs representative of the work completed.

Exterior photographs showing site work, all sides of the dwelling and the interior are required. If the final inspection discloses any minor punch list items that do not affect health/safety or livability and occupancy of the dwelling, and circumstances such as weather conditions prevent timely completion, the inspector will so certify and identify each item and its associated value to complete the Compliance Inspection Report and provide the report to the lender.

- H. Closeout.** After a review of the case file to ensure that all work has been completed, the lender will obtain from the principal contractor(s) lien releases to the date of the final payment for all work done, labor performed, and materials and equipment provided. If a Certificate of Occupancy is required by the local governmental jurisdiction, it must be submitted with the lender's transmittal. The lender will prepare a transmittal to the Office of Loan Guarantee (OLG) identifying any unused construction funds or contingency reserves to be applied to the principal balance of the mortgage along with a copy of the "Final" Compliance Inspection Report, form HUD-92051. (see Appendix 9.13)

If the "Final" Compliance Inspection Report lists any punch items the lender will be required to retain in the escrow account an amount equal to 1-1/2 times that estimated to complete the work. The lender must complete the Mortgagee's Assurance of Completion, form HUD-92300 (see Appendix 9.16), and submit PART 1 and PART 2 to HUD. This work is normally limited to 180 days and may be verified by videotape or photographs. Once all work is completed the lender will complete PART 4, certifying all items have been completed in a satisfactory manner.

- I. Final Release Notice.** If the Office of Native American Programs (ONAP) accepts the "Final" Compliance Inspection Report (see Appendix 9.13), a Final Release Notice (see Appendix 9.21) will be issued which authorizes the release of all monies remaining in the Construction Escrow Account, including all retainage with the exception of any held for uncompleted work. The lender may retain a holdback, for a period not to exceed 35 days or the period required by State law to file a lien, whichever is longer. A copy of the final inspection report and the Final Release Notice shall be given to the applicant.

## 9.6 SUBMISSION AT COMPLETION OF CONSTRUCTION

Within 30 days of the issuance of the Final Release Notice, the lender shall submit the following documentation to HUD:

- **Warranty of Completion of Construction, form HUD 92544** (see Appendix 9.22)  
Contractor's 1-year warranty of work and materials. Required only when a general contractor is performing the work.
- **Compliance Inspection Reports.** All reports must be included, prepared on form HUD-92051 (see Appendix 9.13), and signed by the inspector.
- **As-built drawings.** A set of as-built drawings from information maintained and provided to the lender showing all approved changes noted on a set of the original plans. Also, include the as-built survey showing the house location within the lot.
- **Mortgagor's Letter of Completion.** Applicant certification that construction has been completed in a workmanlike manner in accordance with the plans and specifications and approved change orders, if any.
- **Certificate of Occupancy.** (If applicable)
- **Final Release Notice.** Authorization for release of the final draw and all retainage including instructions on prepaying the mortgage with any remaining escrow funds. (see Appendix 9.21)

## 9.7 UNFORESEEN CIRCUMSTANCES DURING CONSTRUCTION

Construction activities in rural Alaska communities are high-risk ventures with many pitfalls awaiting the participants. Lenders participating in the Section 184 Indian Loan Guarantee Program are expected to use due diligence and care in the administration of new construction loans. However, even with the utmost care and attempts to mitigate unforeseen circumstances, a lender may find that the construction cannot be completed with the funds available. Under such circumstances, the lender must assess all the factors and make a choice between two courses of action:

- A. **Occupancy of Property.** A dwelling exhibiting all required living amenities may have certain areas that are unfinished or incomplete. Typically, in new construction, the owner may purposely leave the lower level of a split entry dwelling unfinished, since this area is not obvious from the habitable area or the exterior of the dwelling. Such a dwelling would be acceptable for financing.

Notwithstanding an event where the property is less than 100% complete based on the plans and specifications, the contingency reserve is depleted, and the applicant has exhausted his/her resources and credit limits, the lender may determine that the property is habitable for possession by the applicant.

A lender-selected inspector will conduct a "final inspection" to review the property to determine its habitability. Punch list items and their value will be compiled for submission to the lender.

1. If it is determined that the property meets the minimal standards, a punch list of items required to achieve 100% completion is provided to the lender. Depending on the nature of the items, the lender should determine if the applicant, given additional time, has the capability or the resources of providing "sweat equity" to complete the dwelling. Notice and prior approval of the Office of Loan Guarantee is required:
  - Lender must counsel the applicant about his/her obligations and encourage fulfillment of his/her responsibilities.

- Applicant must agree to accept the mortgage amount despite the reduced value of the unfinished property.
- Punch list items must meet the plans and specifications as originally approved and upon which the appraised value is based. Work should be completed within 2 years of final inspection. The lender assumes the responsibility to verify that the punch list items have been completed.

2. Minimal Habitability Standards:

- There must be no health and safety hazards, which create a threat to occupants.
- Major interior and exterior work must be completed; exceptions could be work not affecting the beneficial use of the dwelling.
- Plumbing must comply with the minimal standards established by the applicable tribal, borough or state authority.
- There must be permanently installed appliances, including a range/oven and refrigerator.
- Heating systems must have the capacity to maintain a minimum temperature of 65°F during the coldest weather in the area.
- Electrical system must supply energy requirements for lighting and operation of appliances.

- B. **Default and Subsequent Assignment.** If the work is not started within 30 days or if the work ceases for more than 30 days or is not progressing reasonably and according to schedule, the lender may consider the loan to be in default. In the event of a default and subsequent assignment of the mortgage during the construction period, lenders must send a letter to HUD. This letter should describe, in sufficient detail, the events which led to the default, balances owing and funds remaining in the escrow account. The lender should request a final inspection of the property to compensate the contractor for all work completed through the date of assignment.
- C. **Final Inspection.** The HUD Office of Loan Guarantee will assign an inspector to review the property. The inspector will use the Compliance Inspection Report and the draw request form or Periodic Estimate for Partial Payment to document the amount of work that has been completed since the start of construction and determines the value of the completed work to authorize release of escrow funds. Additionally, the inspector will itemize the work necessary to complete construction and the estimated cost.
- D. **Final Release.** HUD will authorize release of payments for completed work, as well as the release of any retainage. Lender should request a Final Release Notice with a claim for loan guarantee benefits. If funds remain in the escrow account, the amount of the claim must be reduced by the funds remaining.

# CONSTRUCTION LOAN AGREEMENT

This Agreement is made this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, between \_\_\_\_\_ (Borrower) and \_\_\_\_\_ (Lender) to establish the conditions under which the Lender will advance proceeds of a loan to be used to purchase and construct the property described below. The property is located at \_\_\_\_\_ (address/reservation) State of \_\_\_\_\_ and/or is described as:

1. The loan will be in the principal sum of \$\_\_\_\_\_ Dollars to be advanced by Lender to Borrower as provided in this agreement and will be secured by a mortgage or deed of trust (Mortgage), which will be a first lien on the property.
2. Payments required under the mortgage or deed of trust must be made by the Borrower on the date specified, even though the proposed construction may not be completed or the property may not be suitable for occupancy, on the anticipated date.
3. The Lender intends to request the Assistant Secretary for Public and Indian Housing (Assistant Secretary) to guarantee the loan under the provisions of Section 184 of the Housing and Community Development Act of 1992; therefore, Borrower agrees to conform to, and to cause the unit to be constructed in conformance with all requirements of Office of Loan Guarantee (OLG).
4. The Lender will place funds allocated to construction, contingency reserve, mortgage payments and other fees totaling \$\_\_\_\_\_ in a secured interest bearing account, trust or escrow for the benefit of the Borrower (hereafter "escrowed funds"). The income earned on the escrowed funds will be paid upon issuance of the Final Release Notice. If the Borrower should default under the mortgage or deed of trust, the lender should contact OLG Servicing within 5 business days.

Lender shall release the construction escrow funds by check, payable to the Borrower and the contractor or other appropriate payee who performed the work and supplied the materials in connection with this Agreement. The funds shall not be released until a Draw Request signed by both the Mortgagor and contractor, and, except for a possible payment for materials and shipping, an executed Compliance Inspection Report (Form HUD-92051) is approved by the Mortgagee. The Final Release of the construction escrow funds is to take place only after the final acceptance of work by local or tribal jurisdiction or other professional as approved by OLG.

The Lender or OLG may determine that additional compliance inspections are required throughout the construction period to ensure that the work is

progressing in a satisfactory manner. However release of funds is not authorized on this type of inspection. The Borrower or builder is responsible for paying the inspection fee. The Lender may require a property inspection if there have been no draw requests for more than 30 days.

If a Mortgage Payment Reserve is established in the escrow account, the Lender may draw from the account to make the monthly mortgage payments provided the dwelling has not been occupied and/or the Final Release Notice has not been issued.

5. The amount specified in paragraph 1 includes the approved construction costs. If the construction escrow account is not fully disbursed, the remaining balance may be applied as a partial prepayment of the loan, if the contingency reserve is part of the mortgage. However, such prepayment will not extend or postpone the due date of any monthly installment due under the note, nor change the amount of such installments. If the Borrower, (or other person, organization or agency) put his or her own money into the contingency reserve account then the Borrower or funding agency or person can be refunded the money remaining in the account after the issuance of the Final Release Notice.
6. The Borrower will complete all construction on the property in accordance with the plans and specifications as accepted by the Lender and/or OLG.
7. Changes in the plans and specifications must be approved by the lender prior to the beginning of construction. Construction must be 100 percent complete on each change order item before release of any monies.
8. Borrower will cause all improvements to be made in a workmanlike manner and in accordance with all applicable statutes and regulations. All licenses, permits and privileges required by local or tribal governmental authorities to construct the property will be obtained by the Borrower or his/her contractor.
9. Representatives of the Lender and OLG shall have the right to enter upon the property at all times during the period of construction and on completion of construction to determine whether the work conforms with this agreement and to determine the amount of the Construction Escrow Account to be released by the Lender.
10. Borrower will furnish such records, contracts, bills and other documents relating to the property and the construction as the Lender or OLG may require.
11. Without prior written consent of the Lender, no materials, equipment fixtures, or any part of construction financed with this loan shall be purchased or installed subject to conditional sales contracts, security agreements or lease agreements. In addition, no right may be reserved or accrued to anyone to remove or repossess any item, or to consider it as personal property.
12. The Borrower shall cause either this instrument or the construction contract to be filed in the public or tribal records, if the effect of recording will be to relieve the mortgage property from mechanic's and material liens. Before any advance

under this agreement, the Lender may require the Borrower to obtain acknowledgement of payment and releases of lien from the contractor and all subcontractors dealing directly with the principal contractor. These releases shall cover the period down to the date covered by the last advance, and concurrently with the final payment for the entire project. Such acknowledgements and releases shall be in the form required by local, tribal or state lien laws and shall cover all work done, labor performed and materials (including equipment and fixtures) furnished for the project.

13. Borrower shall cause work to begin within 30 days following the date of this agreement. Borrower shall have work completed within \_\_\_\_ months following the date of this agreement. Work shall be performed with reasonable diligence; therefore, work is never to cease for more than 30 consecutive days. Should Borrower fail to comply with these terms, the Lender may refuse to make further payments under this agreement the lender should contact OLG servicing within 5 business days.
14. In the event any Stop Notices, Notices to Withhold, Mechanic's Liens, or claims of liens are filed against the property, the Lender, after five (5) days' notice to the undersigned of its intention to do so, may pay any or all such liens or claims, or may contest the validity of any of them, paying all costs and expenses of contesting the same.
15. Failure of the Borrower to perform under the terms of this Construction Loan Agreement shall make the loan amount, at the option of the Lender, due and payable.
16. The borrower acknowledges receipt of the accepted plans and specifications that are incorporated into this agreement which copies are maintained by the Lender and in the Program Office of Native American Programs.

\_\_\_\_\_  
Borrower(s) Signature(s)

\_\_\_\_\_  
Date

\_\_\_\_\_  
Lender Signature

\_\_\_\_\_  
Date

## CONSTRUCTION LOAN RIDER

THIS CONSTRUCTION LOAN RIDER is made this \_\_\_\_\_ day of, 20\_\_ and is incorporated into and shall be deemed to amend and supplement the Mortgage, Deed of Trust or Security Deed (Security Instrument) of the same date given by the undersigned (Borrower) to secure Borrower's Note (Note) to (lender) of the same date and covering the property described in the Security Instrument and located at:

(property address)

ADDITIONAL COVENANTS. In addition to the covenants and agreements made in the Security Instrument, Borrower and Lender further covenant and agree as follows:

- A. All replacements and additions, and Borrower's interest in the Construction Escrow Account established in connection with this Security Instrument shall be covered by this Security Instrument.
- B. Loan proceeds are to be advanced for the construction of the premises in accordance with the Construction Loan Agreement dated \_\_\_\_\_, 20\_\_\_\_, between the borrower and lender. This agreement is incorporated by reference and made a part of this mortgage. No advances shall be made unless approved by the Assistant Secretary of Public and Indian Housing, Department of Housing and Urban Development.
- C. If the construction is not properly completed, performed with reasonable diligence, or is discontinued at any time except for strikes or lockouts, the lender is vested with full authority to take the necessary steps to protect the construction and the property from harm, continue existing contracts or enter into necessary contracts to complete the construction. All sums expended for such protection shall be added to the principal indebtedness, and be secured by the mortgage and be due and payable on demand with interest as set out in the note.
- D. If the borrower fails to make any payment or to perform any other obligation under the loan, including the commencement progress, and completion provisions of the Construction Loan Agreement, and such failure continues for a period of 30 days, the loan shall, at the option of the lender, be in default.

BY SIGNING BELOW, Borrower accepts and agrees to the terms of the covenants contained in this Construction Loan Rider.

\_\_\_\_\_  
Signature/Date Borrower

# Schedule of Amounts for Contract Payments

U.S. Department of Housing and Urban Development  
Office of Public and Indian Housing

OMB Approval No. 2577-0157  
(Exp. 12/31/2011)

No progress payments shall be made to the contractor unless a schedule of amounts for contract payments in accordance with the construction contract is received.

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. This agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless that collection displays a valid OMB control number.

Construction practices and HUD administrative requirements establish the need that HAs maintain certain records or submit certain documents in conjunction with the oversight of the award of construction contracts for the construction of new low-income housing developments or modernization of existing developments. These forms are used by HAs to provide information on the construction progress schedule and schedule of amounts for contract payments. Responses to the collection of information are required to obtain a benefit or to retain a benefit. The information requested does not lend itself to confidentiality.

Project Name and Location	Project Number
---------------------------	----------------

Name, Address, and Zip Code of Contractor
---

Nature of Contract	Contract Number
--------------------	-----------------

Approved for Contractor by	Title	Date (mm/dd/yyyy)
----------------------------	-------	-------------------

Approved for Architect by	Title	Date (mm/dd/yyyy)
---------------------------	-------	-------------------

Approved for Owner by	Title	Date (mm/dd/yyyy)
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Item No. (1)	Description of Item (2)	Quantity (3)	Unit of Measure (4)	Unit Price in Place (5)	Amount of Sub-Item (6)	Amount of Principal Item (7)

<b>Total Amount of Contract or Carried Forward</b>	\$
--	----

To the best of my knowledge, all the information stated herein, as well as any information provided in the accompaniment herewith, is true and accurate. **Warning:** HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

Signature of authorized representative	Date signed (mm/dd/yyyy)
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## Instructions for Preparation of form HUD-51000

1. A separate breakdown is required for each project and prime contract instructions for preparation are given below.
  - a. **Heading.** Enter all identifying information required for both forms.
  - b. **Columns 1 and 2.** In column 1, enter the item numbers starting with No. 1, and in column 2 enter each principal division of work incorporated in the contract work.
    - (1) **Master List.** The Master list contains the basic items into which any construction contract may be subdivided for the purpose of preparing the Construction Progress Schedule and the Periodical Estimates for Partial Payments. Only those items shall be selected which apply to the particular contract. To ensure uniformity, no change shall be made in the item numbers. Generally, about 25 to 40 major items appear in a contract.
    - (2) **Items Subdivided.** In the Contractor's breakdown, against which all periodical estimates will be checked prior to payment, each major item must be subdivided into sub-items pertinent to the project involved and in agreement with the Contractor's intended basis for requesting monthly payments.
  - c. **Column 3.** Enter the total quantity for each sub-item of each principal division of work listed in the breakdown.
  - d. **Column 4.** Enter the appropriate unit of measure for each sub-item of work opposite the quantities described in column 3, such as "sq. ft.," "cu. yd.," "tons," "lb.," "lumber per M/BM," "brickwork per M," etc., applicable to the particular sub-item. Items shown on "lump sum" or equivalent basis will be paid for only on completion of the whole item and not on a percentage of completion basis.
  - e. **Column 5.** Enter the unit price, in place, of each sub-item of work.
  - f. **Column 6.** Enter the amount of each sub-item obtained by multiplying the quantities in column 3 by the corresponding unit prices in column 5.
  - g. **Column 7.** Enter the amount of principal item only, obtained by adding the amounts of all sub-items of each principal division of work listed in column 6. Continue with the breakdown on form HUD-51000.
  - h. The "Schedule of Amounts for Contract Payments" shall be signed and dated in the space provided at the bottom of each sheet of the form by the individual who prepared the breakdown for the Contractor.
2. The minimum number of copies required for each submission for approval is an original and two copies. When approved, one fully approved copy will be returned to the Contractor.

### Master List of Items

Item No.	Division of Work	Item No.	Division of Work	Item No.	Division of Work
1	Bond	20	Rough Carpentry		
2	General Conditions \1	21	Metal Bucks	44	Retaining Walls
3	Demolition & Clearing	22	Caulking	45	Storm Sewers
	<b>Structures</b>	23	Weatherstripping	46	Sanitary Sewers
4	General Excavation	24	Lath & Plastering-Drywall	47	Water Distribution System
5	Footing Excavation	25	Stucco	48	Gas Distribution System
6	Backfill	26	Finish Carpentry	49	Electrical Distribution System
7	Foundation Piles & Caissons	27	Finish Hardware	50	Street & Yard Lighting
8	Concrete Foundations	28	Glass & Glazing	51	Fire & Police Alarm System
9	Concrete Superstructures	29	Metal Doors	52	Fire Protection System
10	Reinforcing Steel	30	Metal Base & Trim	53	Street Work
11	Waterproofing & Dampproofing	31	Toilet Partitions	54	Yard Work
12	Spandrel Waterproofing	32	Floors	55	(Other)
13	Structural Steel	33	Painting & Decorating	56	(Other)
14	Masonry	34	Screens		
15	Stonework	35	Plumbing		<b>Equipment</b>
16	Miscellaneous & Ornamental Metal	36	Heating	57	Shades & Drapery Rods
17	Metal Windows	37	Ventilating System	58	Ranges
18	Roofing	38	Electrical	59	Refrigerators
19	Sheet Metal	39	Elevators	60	Kitchen Cabinets & Work Tables
		40	Elevator Enclosures—Metal	61	Laundry Equipment
		41	Incinerators—Masonry & Parts	62	(Other)
		42	(Other)		
		43	(Other)	63	<b>Punch List \2</b>
				64	Lawns & Planting

1 General Conditions should be 3% to 5% of contract amount.

2 Punch List should be approximately 1/2 of 1% or \$30 per dwelling unit, whichever is greater.

# Periodic Estimate for Partial Payment

**U.S. Department of Housing and Urban Development**  
Office of Public and Indian Housing

OMB Approval No. 2577-0157  
(exp. 12/31/2011)

Submit original and one copy to the Public Housing Agency.  
Complete instructions are on the back of this form.

Public reporting burden for this collection of information is estimated to average 3.5 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. This agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless that collection displays a valid OMB control number.

This information is collected under the authority of Section 6(c) of the U.S Housing Act of 1937 and HUD regulations. HAs are responsible for contract administration to ensure that the work for project development is done in accordance with State laws and HUD requirements. The contractor/subcontractor reports provide details and summaries on payments, change orders, and schedule of materials stored for the project. The information will be used to ensure that the total development costs, identified in the ACC, are kept as low as possible and consistent with HUD construction requirements. Responses to the collection are necessary to obtain a benefit. The information requested does not lend itself to confidentiality.

Name of Public Housing Agency	Periodic Estimate Number	Period From (mm/dd/yyyy) To (mm/dd/yyyy)
-------------------------------	--------------------------	---

Location of Project	Project Number
---------------------	----------------

Name of Contractor	Contract Number
--------------------	-----------------

Item Number (1)	Description of Item (2)	Completed to Date (3)
		\$

<b>Value of Contract Work Completed to Date (Transfer this total to line 5 on back of this sheet)</b>	<b>\$</b>
---	-----------

## Instructions

**Headings.** Enter all identifying data required. Periodic estimates must be numbered in sequence beginning with the number 1.

**Columns 1 and 2.** The "Item Number" and "Description of Item" must correspond to the number and descriptive title assigned to each principal division of work in the "Schedule of Amounts for Contract Payments", form HUD-51000.

**Column 3.** Enter the accumulated value of each principal division of work completed as of the closing date of the periodic estimate. Enter the total in the space provided.

**Certifications.** The certification of the contractor includes the analysis of amounts used to determine the net balance due. In the first paragraph, enter the name of the Public Housing Agency, the contractor, and the date of the contract. Enter the calculations used in arriving at the "Balance Due This Payment" on lines 1 through 16.

Enter the contractor's name and signature in the certification following line 16.

The latter portion of this certification relating to payment of legal rates of wages, is required by the contract before any payment may be made. However, if the contractor does not choose to certify on behalf of his/her subcontractors to wage payments made by them, he/she may modify the language to cover only himself/herself and attach a list of all subcontractors who employed labor on the site during the period covered by the Periodic Estimate, together with the individual certifications of each.

## Certification of the Contractor or Duly Authorized Representative

According to the best of my knowledge and belief, I certify that all items and amounts shown on the other side of this form are correct; that all work has been performed and material supplied in full accordance with the items and conditions of the contract between the (name of owner)

\_\_\_\_\_ and (contractor) \_\_\_\_\_

dated (mm/dd/yyyy) \_\_\_\_\_, and duly authorized deviations, substitutions, alterations, and additions; that the following is a true and correct statement of the Contract Account up to and including the last day of the period covered by this estimate, and that no part of the "Balance Due This Payment" has been received.

1. Original Contract Amount \$ \_\_\_\_\_

### Approved Change Orders:

2. Additions (Total from Col. 3, form HUD-51002) \$ \_\_\_\_\_

3. Deductions (Total from Col. 5, form HUD-51002) \$ \_\_\_\_\_ (net) \$ \_\_\_\_\_

4. Current Adjusted Contract Amount (line 1 plus or minus net) \$ \_\_\_\_\_

### Computation of Balance Due this Payment

5. Value of Original Contract work completed to date (from other side of this form) \$ \_\_\_\_\_

### Completed Under Approved Change Orders

6. Additions (from Col. 4, form HUD-51002) \$ \_\_\_\_\_

7. Deductions (from Col. 5, form HUD-51002) \$ \_\_\_\_\_ (net) \$ \_\_\_\_\_

8. Total Value of Work in Place (line 5 plus or minus net line 7) \$ \_\_\_\_\_

9. **Less:** Retainage, \_\_\_\_\_ % \$ \_\_\_\_\_

10. Net amount earned to date (line 8 less line 9) \$ \_\_\_\_\_

11. **Less:** Previously earned (line 10, last Periodic Estimate) \$ \_\_\_\_\_

12. Net amount due, work in place (line 10 less line 11) \$ \_\_\_\_\_

### Value of Materials Properly Stored

13. At close of this period (from form HUD-51004) \$ \_\_\_\_\_

14. **Less:** Allowed last period \$ \_\_\_\_\_

15. Increase (decrease) from amount allowed last period \$ \_\_\_\_\_

16. **Balance Due This Payment** \$ \_\_\_\_\_

I further certify that all just and lawful bills against the undersigned and his/her subcontractors for labor, material, and equipment employed in the performance of this contract have been paid in full in accordance with the terms and conditions of this contract, and that the undersigned and his/her subcontractors have complied with, or that there is an honest dispute with respect to, the labor provisions of this contract.

Name of Contractor	Signature of Authorized Representative	Title	Date (mm/dd/yyyy)

## Certificate of Authorized Project Representative and of Contracting Officer

Each of us certifies that he/she has checked and verified this Periodic Estimate No. \_\_\_\_\_; that to the best of his/her knowledge and belief it is a true statement of the value of work performed and material supplied by the contractor; that all work and material included in this estimate has been inspected by him/her or by his/her authorized assistants; and that such work has been performed or supplied in full accordance with the drawings and specifications, the terms and conditions of the contract, and duly authorized deviations, substitutions, alterations, and additions, all of which have been duly approved.

We, therefore, approve as the "Balance Due this Payment" the amount of \$ \_\_\_\_\_.

Authorized Project Representative	Date (mm/dd/yyyy)	Contracting Officer	Date (mm/dd/yyyy)

**Warning:** HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

# SAMPLE DRAW REQUEST

Development

U.S. Department of Housing and Urban

Section 184 Indian Housing Loan Guarantee

Program

Borrowers Name & Property Address:

Lenders Name & Address:

This Draw Number                      Date:

Construction Item	Total Escrow	Previous Draw (1)	Request for This Draw (2)	Total of Column (1) & (2)	Accepted Amounts Due
Well Drilling/Permits/Equipment					
Excavation/Site Preparation					
Foundation/Slab					
Modular Delivered					
Affixed to Foundation					
Foundation Damp Proofed					
Backfilled					
Septic					
Plumbing Hookup					
Electrical Hookup					
Heating System					
Finished Grading					
Finished Landscaping					
Exterior steps/porches/decks					
Gutters/Downspouts					
Driveway/Walkway					
Appliances					
Masonry					
Siding					
Roof					
Shutters					
Paint (exterior/interior)					
Caulking					
Fencing					
Grading					
Windows					
Weather Stripping					
Doors (Exterior/Interior)					



# Request for Acceptance of Changes in Approved Drawings and Specifications

U.S. Department of Housing and Urban Development  
Office of Housing  
Federal Housing Commissioner

OMB Approval No. 2502-0117 (exp. 09/30/2012)

**See Instructions and Conditions on Page 2.**

**Public reporting burden** for this collection of information is estimated to average 30 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. This information is required to obtain benefits and mandatory. HUD may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

Section 203(b)(7) of the National Housing Act authorizes the Secretary of the Department of Housing and Urban Development to use his/her discretion with respect to the handling of insurance, repairs, and alternations. Builders who request changes to HUD's accepted drawings and specifications for proposed constructions properties as required by homebuyers, or determined by the builder use the information collection. The lender reviews the changes and amends the approved exhibits. These changes may affect the value shown on the HUD commitment. While no assurances of confidentiality are pledged to respondents, HUD generally discloses this data only in response to a Freedom of Information request.

Property Address	Case(s) No.	Request No.
Mortgagee's Name & Address	We request acceptance of the following changes in the approved drawings and specifications of the above numbered case or cases. <b>We Request</b> <input type="checkbox"/> <b>We Do Not Request</b> <input type="checkbox"/> an increase in the value and loan amounts if these changes warrant such an increase.	
Description:	Builder's Estimate of cost on each change	HUD/VA Estimate of effect on cost of each change
Borrower (If known)	Date	
Builder or Sponsor	Date	
For Mortgagee	Date	

Determination as to Acceptability  
 Changes Acceptable     
  Changes Unacceptable     
  Changes Acceptable, provided (list any conditions)

**Endorsement to Notice of Value** (for VA use only)

This endorsement takes precedence over and specifically amends the outstanding NOV for the property with the above identifying number. Any condition stated on the outstanding NOV, not specifically referred to and modified herein, remains in full force and effect until expiration of the validity period. Established reasonable value revised to \$

<input type="checkbox"/> Department of Veterans Affairs	Authorized Agent	I.D. Number	Date
<input type="checkbox"/> Federal Housing Commissioner	DE <input type="checkbox"/>		

Previous edition may be used until supply is exhausted

VA Form 26 - 1844

form HUD - 92577 (04/2005)  
ref Handbooks 4145.1, 4115.3, 4000.4, 4240.4

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### Instructions

The mortgagor in this request is defined as the owner or possible future owner of the property, whose interest in the property is evidenced by any written contract of sale, deed, receipt of down payment, letter or other instrument dated prior to the signing of this request by the builder or sponsor.

If acceptance by the VA is requested, the original and at least two copies of this form shall be submitted by the mortgagee. If acceptance by HUD is requested, the original and at least one copy of this form shall be submitted by the mortgagee. Upon determination as to acceptability of the request, the original will be returned to the mortgagee for transmittal to the builder or sponsor. If the request covers more than one case and mortgagors are unknown, submit one additional copy for each additional case.

Designate each requested change by a letter (using a, b, c, etc.). If additional space is necessary to properly describe the changes, use this side of the form or an attachment. Also, attach revised drawings and/or supporting descriptive data when necessary. State the amount by which the construction cost will be increased or decreased as the net result of each proposed change.

This request shall be signed by (1) the borrower, if any, (2) the builder or sponsor, and (3) the mortgagee. If the borrower, as defined above, is unknown, the builder or sponsor shall insert "Unknown" in the space for the mortgagor's signature and initial this insertion.

Builder accepts all risk for constructing change(s) prior to receiving HUD or VA acceptance.

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### Conditions of Acceptance

Acceptance of changes implies in no way that the mortgage insurance or Notice of Value of the above case or cases will be increased when the net effect of all accepted changes is an increase in the total construction cost. Acceptance of changes is subject to the condition that inspection will show that all construction involved equals or exceeds the applicable HUD or VA Minimum Property Standards and all Local Codes and ordinances.

In accepting any changes it is assumed that they will be executed. If an accepted change is not executed, it must be nullified by submitting another copy of this form amending the construction exhibits so as to restore the drawings and specifications to the status existing prior to acceptance of the change or to a modification of such prior existing status as may be specified.

# Compliance Inspection Report

**U.S. Department of Housing and Urban Development**  
Office of Housing  
Federal Housing Commissioner

OMB No. 2502-0189  
(exp. 04/30/2011)

**Note:** Reports of Final and Repair Compliance Inspections left at site always require reviewer's signature to be Official. Consult mortgagee for official reports.

Builder's Name and Address	a. <input type="checkbox"/> Report not left at site. b. <input type="checkbox"/> Report not official without reviewer's signature.	FHA Case Number <hr/> Date of Inspection (mm/dd/yyyy)
Mortgagee's Name and Address	Property Address	

## I. Inspection of On-Site Improvements Reveals

- |  |   |
|--|---|
| 1. Construction <input type="checkbox"/> was, <input type="checkbox"/> was not begun prior to the date of mortgage insurance approval shown on the commitment, statement of appraised value or "Early Start" letter. (Applies to the initial report on new construction)<br>2. <input type="checkbox"/> Builder other than named in application<br>3. <input type="checkbox"/> Unable to make inspection. (Explain below)<br>4. <input type="checkbox"/> Accepted construction exhibits not available at site<br>5. <input type="checkbox"/> Individual Sewage disposal system; <input type="checkbox"/> Individual Water supply system<br><input type="checkbox"/> No noncompliance. <input type="checkbox"/> Correction essential as explained below.<br><input type="checkbox"/> Submit Health Department letter<br>6. <input type="checkbox"/> Correction req'd. by rpt. dated _____ not acceptably completed<br>7. <input type="checkbox"/> Repairs required by form HUD-92800.5B not acceptably completed<br>8. <input type="checkbox"/> Correction essential as explained below<br><input type="checkbox"/> a. Will examine at next inspection<br><input type="checkbox"/> b. Do not conceal until reinspected<br>9. <input type="checkbox"/> No noncompliance observed | 10. <input type="checkbox"/> Acceptable variations as described below (Request for Change, form HUD-92577, may be submitted).<br>11. <input type="checkbox"/> Extensive noncompliance as explained below (see IV.A below)<br>12. <input type="checkbox"/> On-site improvements acceptably completed subject to receipt of certification that mortgagee's inspection reveals satisfactory completion of all items listed below.<br>13. <input type="checkbox"/> On-site improvements acceptably completed except items listed below, completion of which is delayed by conditions beyond control of the builder (see IV.B below).<br>14. <input type="checkbox"/> On-site improvements acceptably completed<br>15. <input type="checkbox"/> Off-site improvements<br><input type="checkbox"/> a. Correction/Completion essential as explained below<br><input type="checkbox"/> b. Completion assured by escrow agreement or governing authority<br><input type="checkbox"/> c. Acceptably completed |
|--|---|

## II. Explanation of statements checked in Parts I and III

	<input type="checkbox"/> Initial Inspection <input type="checkbox"/> Framing Inspection <input type="checkbox"/> Final Inspection <input type="checkbox"/> Other (explain) <input type="checkbox"/> Repair Inspection	Inspection Number	
No.		No.	

**Certification:** I certify that I have carefully inspected this property on this date. I have no personal interest, present or prospective, in the property, applicant, or proceeds of the mortgage. To the best of my knowledge I have reported all noncompliance, work requiring correction, and unacceptable work.

**Warning:** HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

Signature	Date (mm/dd/yyyy)	<input type="checkbox"/> Fee Inspector <input type="checkbox"/> Appraiser <input type="checkbox"/> DE Staff Inspector <input type="checkbox"/> HUD Inspector	ID Number
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## III. Specific Conditions Required by the HUD-92800.5B, Not Requiring Field Inspection

16. <input type="checkbox"/> Submit items or resubmit incomplete items as noted above.	17. <input type="checkbox"/> Acceptable Compliance with all specific conditions not requiring field inspection.	18. <input type="checkbox"/> Submit Termite Soil Treatment Guarantee. <input type="checkbox"/> None	
Approved	Signature	Date (mm/dd/yyyy)	ID Number
<input type="checkbox"/> as modified by me			<input type="checkbox"/> Direct Endorsement Underwriter <input type="checkbox"/> Chief Architect <input type="checkbox"/> Deputy

## IV. To Mortgagee: When signed below, refer to the statement on the back corresponding to the designation checked.

<input type="checkbox"/> <b>A. Noncompliance</b> <input type="checkbox"/> (a) Variations from exhibits. <input type="checkbox"/> (b) Unacceptable construction. <input type="checkbox"/> (c) Premature construction.	<input type="checkbox"/> <b>B. Compliance --</b> Incomplete Items. "Mortgagee's Assurance of Completion", HUD-92300, may be submitted. for completion \$ _____ not later than:(mm/dd/yyyy)	<input type="checkbox"/> <b>C. Final Acceptance.</b> Closing papers may be submitted provided mortgage credit analysis is acceptable	
Signature	Date (mm/dd/yyyy)	<input type="checkbox"/> Direct Endorsement Underwriter <input type="checkbox"/> Director of Housing Development <input type="checkbox"/> Deputy	ID Number

<b>For HUD Use Only for concurrence of Direct Endorsement Processing of this Compliance Inspection Report. If signed, this final report is considered processed by HUD and, thereby, convertible to the Veterans Administration.</b>	Signature of HUD Authorized Agent
	Date (mm/dd/yyyy)

Previous editions are obsolete. Retain this record for 30 years or the life of the file    Submit an Original and four copies    ref. Handbooks 4000, 4115.3, 4145, 4165, 4190, & 4240.4    form HUD-92051 (7/87)

**See the statement below that corresponds to the designation checked on the front of the form under section "IV. To Mortgagee".**

**A. Noncompliance.** Construction is not acceptable or all specific conditions have not been fulfilled in accordance with the terms of the related commitment because of :

- (a) **Variations from Exhibits.** Inspection reveals extensive non compliance, involving variations from accepted construction exhibits. The property will be considered ineligible for mortgage insurance (1) unless the work has been corrected so as to effect compliance, or (2) unless reprocessing is requested on the basis of the mortgage security as it is now being constructed, and this is found to be acceptable. Requests for reprocessing must be accompanied by a letter, in duplicate, fully describing the work as now being constructed, signed by the mortgagor and approved by the mortgagee. Where the plan arrangement, or either the exterior or interior appearance is affected, the mortgagor's letter must be accompanied by drawings, in duplicate, fully indicating the variations and signed by both the mortgagor and the mortgagee.
- (b) **Unacceptable Construction.** Construction reveals extensive noncompliance with applicable FHA requirements or good construction practice. The property will be considered ineligible for mortgage insurance until construction has been corrected so as to effect compliance.
- (c) **Premature Construction.** Inspection reveals that construction was begun prior to the date of approval for mortgage insurance (in noncompliance with the commitment or statement of appraised value).

**B. Compliance.** (with incomplete items)

Construction of on-site improvements has been acceptably completed except for any items listed on the front of this form. Completion of those items is delayed by conditions beyond the parties' control. The property will considered acceptable for mortgage insurance and closing papers may be submitted provided:

- (a) All required off-site improvements have been acceptably completed and so reported, or their completion has been assured by an acceptable "Mortgagee's Assurance of Completion" form, and;
- (b) All specific conditions not requiring field inspection as indicated on the front of this form have been acceptably fulfilled or evidence of compliance is submitted with the closing papers, and;
- (c) The closing papers are accompanied by form HUD-92300, "Mortgagee's Assurance of Completion," properly executed and providing for withholding the sum indicated, or by indicating the sum is available on a commercial letter of credit, and for completion of construction not later than the date stated on the front of this form.

**C. Final Acceptance**

Construction has been completed and all specific conditions have been acceptably fulfilled. Closing papers may be submitted provided the mortgagee's credit analysis of the borrower is acceptably completed. Evidence of compliance with specific conditions not requiring field inspection as indicated on the front of this form may be submitted with the closing papers.





# Mortgagee's Assurance of Completion

**U.S. Department of Housing and Urban Development**  
Office of Housing  
Federal Housing Commissioner

OMB Approval No. 2502-0189 (exp. 4/30/2011)

Public reporting burden for this collection of information is estimated to average 6 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. This agency may not conduct or sponsor, and a person is not required to respond to, a collection information unless that collection displays a valid OMB control number.

**Instructions:** Please complete and submit Part 4 to the HUD Field Office as soon as the work is completed and inspected (on or before the specified completion date), and the balance of funds held to assure completion has been disbursed.

**Note:** This is not an escrow agreement. The mortgagee must take such action as it considers necessary, by supplemental agreement or otherwise, to assure itself that the work will be completed if not performed by the mortgagor. The Department holds the mortgagee responsible even if the stipulated escrow amount proves to be insufficient.

Mortgagee's Name, Address, & Zip Code :  <div style="border: 1px solid black; width: 100%; height: 100%; display: flex; justify-content: space-between; align-items: center;"> <div style="border: 1px solid black; width: 45%; height: 40px;"></div> <div style="border: 1px solid black; width: 45%; height: 40px;"></div> </div>	FHA Case No. :
	Mortgagor :
	Property Location :
	(Mark the appropriate box) <input type="checkbox"/> HUD Commitment Date : <input type="checkbox"/> Form HUD-92051
	Completion Date :      Amount of Escrow Fund : \$

**To The Federal Housing Commissioner:** In consideration of your issuing a Mortgage Insurance Certificate in the above numbered case, the undersigned will see that the incomplete construction, alterations and repairs as set forth in the HUD Compliance Inspection Report or HUD Commitment for Insurance identified above are completed on or before the specified completion date. The undersigned further agrees that at the time of completion it will certify to its personal inspection and the satisfactory completion of all items.

**The Items To Be Completed Are:**



Such assurance of completion represents an agreement solely between HUD and the Mortgagee, and does not relieve the Mortgagee of responsibility for assuring itself, by supplemental agreement or otherwise, that the work is completed if not performed by the Mortgagor. The Mortgagee is held responsible even if the stipulated escrow amount proves to be insufficient.

Date :	Signature & Title of Mortgagee's Official :	For Direct Endorsement Underwriters Only : Mark the Box & Enter Your ID No. <input type="checkbox"/>
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# Mortgagee's Assurance of Completion

**U.S. Department of Housing and Urban Development**  
Office of Housing  
Federal Housing Commissioner

OMB Approval No. 2502-0189 (exp. 4/30/2011)

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**Note:** This is not an escrow agreement. The mortgagee must take such action as it considers necessary, by supplemental agreement or otherwise, to assure itself that the work will be completed if not performed by the mortgagor. The Department holds the mortgagee responsible even if the stipulated escrow amount proves to be insufficient.

Mortgagee's Name, Address, & Zip Code :		FHA Case No. :
<div style="border: 1px solid black; width: 100%; height: 100%;"></div>		Mortgagor :
		Property Location :
<div style="border: 1px solid black; width: 100%; height: 100%;"></div>		(Mark the appropriate box) <input type="checkbox"/> HUD Commitment Date : <input type="checkbox"/> Form HUD-92051
		Completion Date :

**To The Federal Housing Commissioner:** In consideration of your issuing a Mortgage Insurance Certificate in the above numbered case, the undersigned will see that the incomplete construction, alterations and repairs as set forth in the HUD Compliance Inspection Report or HUD Commitment for Insurance identified above are completed on or before the specified completion date. The undersigned further agrees that at the time of completion it will certify to its personal inspection and the satisfactory completion of all items.

**The Items To Be Completed Are:**

You are reminded that such assurance of completion represents an agreement solely between HUD and the Mortgagee, and does not relieve the Mortgagee of responsibility for assuring itself, by supplemental agreement or otherwise, that the work is completed if not performed by the Mortgagor. The Mortgagee is held responsible even if the stipulated escrow amount proves to be insufficient.

**To The Federal Housing Commissioner:** The undersigned certifies that a representative has personally inspected the construction, alterations and repairs covered by the assurance of completion mentioned above, and that all said items have been completed in a satisfactory manner. The balance of funds held to assure completion has been properly disbursed.

Date :	Signature & Title of Mortgagee's Official :	For Direct Endorsement Underwriters Only : Mark the Box & Enter Your ID No. <input type="checkbox"/>
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# Mortgagee's Assurance of Completion

**U.S. Department of Housing and Urban Development**  
Office of Housing  
Federal Housing Commissioner

OMB Approval No. 2502-0189 (exp. 4/30/2011)

Public reporting burden for this collection of information is estimated to average 6 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. This agency may not conduct or sponsor, and a person is not required to respond to, a collection information unless that collection displays a valid OMB control number.

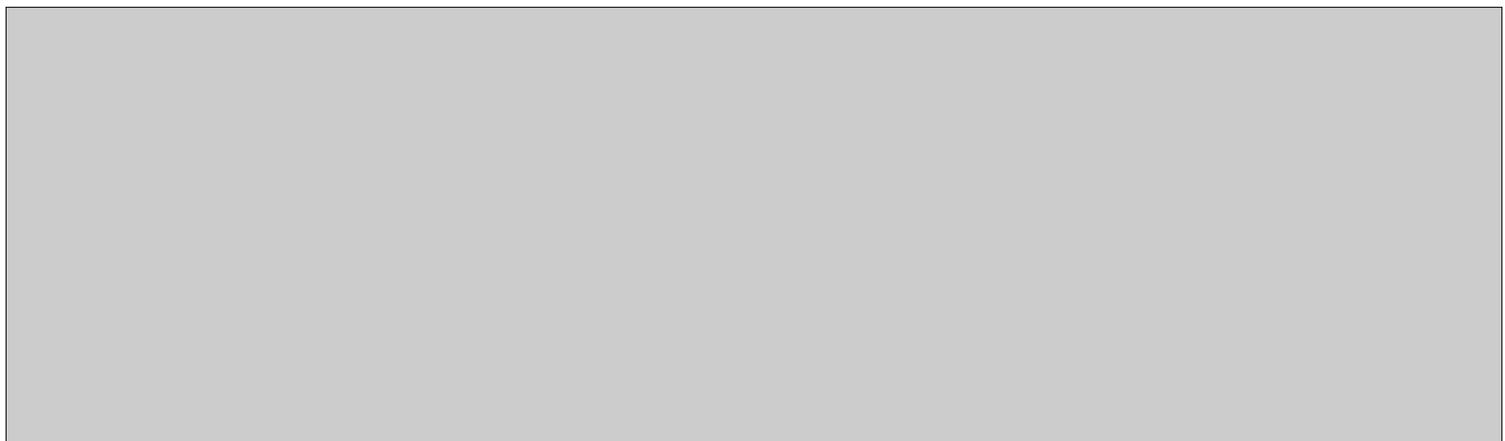
**Instructions:** Please complete and submit Part 4 to the HUD Field Office as soon as the work is completed and inspected (on or before the specified completion date), and the balance of funds held to assure completion has been disbursed.

**Note:** This is not an escrow agreement. The mortgagee must take such action as it considers necessary, by supplemental agreement or otherwise, to assure itself that the work will be completed if not performed by the mortgagor. The Department holds the mortgagee responsible even if the stipulated escrow amount proves to be insufficient.

Mortgagee's Name, Address, & Zip Code :		FHA Case No. :
<div style="border: 1px solid black; width: 100%; height: 100%; display: flex; justify-content: space-between; align-items: center;"> <div style="border: 1px solid black; width: 40%; height: 40%;"></div> <div style="border: 1px solid black; width: 40%; height: 40%;"></div> </div>		Mortgagor :
		Property Location :
		(Mark the appropriate box) <input type="checkbox"/> HUD Commitment Date : <input type="checkbox"/> Form HUD-92051
Completion Date :	Amount of Escrow Fund : \$	

**To The Federal Housing Commissioner:** In consideration of your issuing a Mortgage Insurance Certificate in the above numbered case, the undersigned will see that the incomplete construction, alterations and repairs as set forth in the HUD Compliance Inspection Report or HUD Commitment for Insurance identified above are completed on or before the specified completion date. The undersigned further agrees that at the time of completion it will certify to its personal inspection and the satisfactory completion of all items.

**The Items To Be Completed Are:**



You are reminded that such assurance of completion represents an agreement solely between HUD and the Mortgagee, and does not relieve the Mortgagee of responsibility for assuring itself, by supplemental agreement or otherwise, that the work is completed if not performed by the Mortgagor. The Mortgagee is held responsible even if the stipulated escrow amount proves to be insufficient.

**To The Federal Housing Commissioner:** The undersigned certifies that a representative has personally inspected the construction, alterations and repairs covered by the assurance of completion mentioned above, and that all said items have been completed in a satisfactory manner. The balance of funds held to assure completion has been properly disbursed.

Date :	Signature & Title of Mortgagee's Official :	For Direct Endorsement Underwriters Only : Mark the Box & Enter Your ID No. <input type="checkbox"/>
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## FINAL RELEASE NOTICE

184 Case No.: \_\_\_\_\_

Property Address: \_\_\_\_\_

\_\_\_\_\_

To: Mortgagee

We have reviewed the final inspection of the construction of the subject property.

Based on our findings and the documentation in the file, you are hereby authorized to release the final draw along with the holdback. However, if it is required to protect the priority of the Security Instrument, the hold back may be retained for a period not to exceed 35 days (or the time period required by law to file a first lien, whichever is longer), to ensure compliance with state lien waiver laws or other state or tribal requirements.

The mortgage must be prepaid in the amount of \$\_\_\_\_\_, which represents the balance of the contingency reserve, mortgage payment reserve, inspection fees or other miscellaneous fees that were financed and not approved for release.

\_\_\_\_\_  
(DATE)

Director, Loan Guarantee  
Program  
Office of Native American  
Programs

# Warranty of Completion of Construction

U.S. Department of Housing  
and Urban Development  
Office of Housing  
Federal Housing Commissioner

OMB Approval No. 2502-0059  
(Expires 11/30/2010)

This information is required to obtain a HUD-insured single family mortgage. Public reporting burden for this collection of information is estimated to average 3 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. This agency may not conduct or sponsor, and you are not required to respond to, a collection of information unless that collection displays a valid OMB control number. HUD collects this information to determine the insurability of a mortgage on the captioned property and may use it to make a final determination as to whether a defect exists and whether the builder must remedy the defect.

**Privacy Act Notice:** The United States Department of Housing and Urban Development, Federal Housing Administration, is authorized to solicit the information requested in the form by virtue of Title 12, United States Code, Section 1701 et seq., and regulations promulgated thereunder at Title 12, Code of Federal Regulations. While no assurance of confidentiality is pledged to respondents, HUD generally discloses this data only in response to a Freedom of Information Act request.

Lender's Name, Address and Phone Number (Include Area Code)	Name(s) of Purchaser/Owner
FHA/VA Case Number	Property Address

For good and valuable consideration, and in accordance with Section 801 of the Housing Act of 1954, and Public Law 85-857 (38 U.S.C. 3705), the undersigned Warrantor hereby warrants to the Purchaser(s) or Owner(s) identified in the caption hereof, and to his/her successors or transferees, that:

The dwelling located on the property identified in the caption hereof is constructed in substantial conformity with the plans and specifications (including any amendments thereof, or changes and variations therein) which have been approved in writing by the Federal Housing Commissioner or the Secretary of Veterans Affairs on which the Federal Housing Commissioner or the Secretary of Veterans Affairs based the valuation of the dwelling: **Provided, however,** That this warranty shall apply only to such instances of substantial nonconformity as to which the Purchaser(s)/ Owner(s) or his/her (their) successors or transferees shall have given written notice to the Warrantor at any time or times within one year from the date of original conveyance of title to such Purchaser(s)/Owner(s) or the date of initial occupancy, whichever first occurs: **Provided further, however,** That in the event (1) the Purchaser(s)/Owner(s) acquired title to the captioned property prior to the completion of construction of the dwelling thereon, such notice of nonconformity to the Warrantor may be given any time or times within one year from the date of completion or initial occupancy of such dwelling, whichever first occurs, or (2) where it has been necessary to postpone improvements such notice of nonconformity to the Warrantor as to such incomplete items may be given at any time or times within one year from the date of full completion of each of such items.

The term "dwelling" as used herein shall be deemed to include all improvements or appurtenances set forth in the plans and specifications upon which the Federal Housing Commissioner or the Secretary of Veterans Affairs has based the valuation of the property, excepting those constructed by a municipality or other government authority.

The undersigned Warrantor further warrants to the Purchaser(s)/ Owner(s) or his/her (their) successors or transferees, the property against defects in equipment, material, or workmanship and materials supplied or performed by the Warrantor or any subcontractor or supplier at any tier resulting in noncompliance with standards of quality as measured by acceptable trade practices. This warranty shall continue for a period of one year from the date of original conveyance of title to such Purchaser(s) or from the date of full completion of each of any items completed after conveyance of title. The Warrantor shall remedy, at the Warrantor's expense, any defect(s) of equipment, material, or workmanship furnished by the Warrantor. Warrantor shall restore any work damaged in fulfilling the terms and conditions of this warranty.

If a manufactured (mobile) home was erected on this property, the Warrantor further warrants that (1) the property (other than the manufactured unit itself) complies with the submitted construction exhibits; (2) the manufactured home sustained no hidden damage during transportation and erection; and (3) if the home was manufactured in separate sections, the sections were properly joined and sealed.	Manufacturer's Name, Address & Phone Number (Include Area Code)
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This warranty shall be in addition to, and not in derogation of, all other rights and privileges which such Purchaser(s)/ Owner(s) or his/her (their) successors or transferees may have under any other law or instrument, and shall survive the conveyance of title, delivery of possession of the property, or other final settlement made by the Purchaser(s)/ Owner(s), and shall be binding on the Warrantor notwithstanding any provision to the contrary contained in the contract of purchase or other writing executed by the Purchaser(s)/ Owner(s) or his/her (their) successors or transferees heretofore or contemporaneously with the execution of this agreement or prior to final settlement.

This warranty is executed for the purpose of inducing the Federal Housing Commissioner or the Secretary of Veterans Affairs to make, to guarantee or to insure a mortgage on the captioned property, and the person signing for the Warrantor represents and certifies that he/she is authorized to execute the same by the warrantor and by his/her signature the Warrantor is duly bound under the terms and conditions of said warranty. The FHA Commissioner or the Secretary of Veterans Affairs reserves the right to make a final determination as to whether a defect exists and whether the builder must remedy the defect.

<b>Warrantor</b> Warrantor's Title		<b>Purchaser(s)' Acknowledgement</b> Signature of Purchaser		Date (mm/dd/yyyy)
Signature	Date (mm/dd/yyyy)	Signature of Purchaser	Date (mm/dd/yyyy)	
Builder's Name and Address		Builder's Phone Number (Include Area Code)		

**Purchaser Note:** Any notice of nonconformity must be delivered to the warrantor within the period or periods set forth above.

**Warning:** HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802) Provide completed copies of this warranty to both the homebuyer and the builder, at closing. Include a copy of this warranty in the case binder when sent to HUD.