

10.1

Start of Construction

- A. General Contractor shall provide the Lender’s ~~Pre-construction~~PreConstruction Conference Coordinator (PCCC), U.S. Department of Housing and Urban Development (HUD) Office of Residential Care Facilities (ORCF) Construction Manager (CM), HUD Labor Relations Specialist, ~~(LRS)~~, and HUD Contract Inspector, ~~(CI)~~, letters indicating the date (actual date, not anticipated) of Initial Construction Start (the beginning of initial site clearing and preparation) and the date of Permanent Construction Start (permanent on-site building elements put in place, such [aas](#) footings and utility lines).
- B. Letters can be transmitted in PDF format, via email to all recipients.
- C. As there is no HUD form for these letters, the General Contractor shall use their letterhead.
- D. For Substantial Rehabilitation projects, the construction start date shall be the actual date that work begins on the project. This date shall be verified by the ~~project architect~~Supervisory Architect.
- E. The HUD Contract Inspector must record the date of Initial Construction Start and the date of Permanent Construction on the HUD Representative’s Trip Report ([Form](#) HUD-95379-ORCF).

10.2

Early Start of Construction

Early Start of Construction may be authorized only in 241(a) transactions, only after a firm commitment has been issued, and only in accordance with established procedures found in Appendix 10.1. Where it occurs:

- A. A ~~Pre-construction~~PreConstruction Conference is required before the start of initial construction in accordance with Section 10.3 below;
- B. Construction inspections must be done in accordance with Section 10.4 below; and

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40 C. Authorization of any insured advances cannot occur until the endorsed instrument is recorded  
41 at Initial Closing.  
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## 10.3

### Lender Duties Related to the ~~Pre-~~ PreConstruction Conference

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45 A. Prior to the ~~Pre-construction~~PreConstruction Conference

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47 1. The lender will identify a ~~Pre-construction~~PreConstruction Conference Coordinator  
48 (PCCC). -The Lender Narrative (or for Early Start, the Memo Requesting for Post-  
49 Commitment. Early Start of Construction (Form HUD-9442-ORCF)) will include the  
50 contact information for this person. (Note: If the Originating Lender will be assigning  
51 the loan at Initial Closing, the Servicing Lender shall designate a PCCC who will  
52 coordinate and conduct the ~~Pre-construction~~PreConstruction Conference as described  
53 below).  
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- 55 2. The Firm Application package or Early Start Documents will include Division 00 73  
56 00 (Master Format 2010 or latest revision) of the project specifications, which  
57 includes the Supplementary Conditions of the Contract for Construction (HUD-  
58 92554-ORCF) and the preliminary Davis-Bacon wage determination. The ORCF  
59 Underwriter (UW) will forward this document and the Lender Narrative (or for Early  
60 Start, the Memo Requesting Early Start of Construction) to the HUD Regional-Labor  
61 Relations ~~Officer (RLRO)~~Specialist (LRS)/designee. This document will include the  
62 project location, number of stories, details on commercial areas, a statement as to  
63 whether all units have both a kitchen/kitchenette and bathroom, and the contact  
64 information for the PCCC.  
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- 66 3. The ~~RLROLRS~~RLROLRS/designee shall notify the U/W via email either confirming that the  
67 wage determination is correct, or advising that the wage determination must be  
68 changed. If a change is required, the ~~RLROLRS~~RLROLRS/designee shall attach an electronic  
69 copy of the correct wage determination. Upon receipt, the U/W will email a copy to  
70 the ORCF Construction Manager (CM) and to the PCCC.  
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- 72 4. The wage determination is subject to modification and must be current as of the date  
73 of Initial Closing/Early Start. The PCCC shall consult with the ~~RLROLRS~~RLROLRS/designee  
74 to obtain any wage determination updates for inclusion in the project specifications to  
75 be signed at the ~~Pre-construction~~PreConstruction Conference.  
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- 77 5. Prior to the ~~Pre-construction~~PreConstruction Conference, the PCCC will email the  
78 ORCF CM to request the name and contact information of the HUD Contract  
79 Inspector.  
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- 81 6. The PCCC will notify via email the following ~~Pre-construction~~PreConstruction

82 Conference attendees of the location, date, and time of the ~~Pre-~~  
83 ~~construction~~PreConstruction Conference:

- 84 a. Borrower Representative
- 85 b. Borrower's Architect
- 86 ~~b.~~ Borrower's Supervisory Architect
- 87 c. (same as Architect unless there is an identity of interest with the Borrower  
88 and/or General Contractor)
- 89 d. Regional Green Building Standard-Keeper, if applicable (Green MIP  
90 Program)
- 91 e. General Contractor
- 92 ~~d.f.~~ Labor Relations ~~Officer~~Specialist / Designee
- 93 ~~e.g.~~ ORCF Underwriter (UW) (optional attendee)
- 94 ~~f.h.~~ ~~ORCF~~HUD Contract Inspector (CI)
- 95 ~~g.i.~~ ORCF Account Executive (AE) (optional attendee)
- 96 ~~h.~~ ~~ORCF Closing Coordinator (Closer)~~ (optional attendee)
- 97 ~~i.~~ ORCF CM
- 98 j. ORCF Construction Manager (CM)
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100 If the PCCC wishes to have the meeting at the HUD office (corresponding to the  
101 date/time of the Initial Closing), they shall contact the HUD Closing Attorney to  
102 make arrangements. The HUD staff listed above shall either attend the ~~Pre-~~  
103 ~~construction~~PreConstruction Conference in person or participate via conference call.  
104 Should the ~~RLROLRS~~/designee determine that they need to make a *separate*  
105 presentation on Davis-Bacon requirements, the ~~RLROLRS~~/designee shall advise the  
106 PCCC.

107  
108 B. The ~~Pre-construction~~PreConstruction Conference

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- 110 1. The format shall follow the Lender's ~~Pre-construction~~PreConstruction Conference  
111 Agenda (available on the Section 232 Program website).
- 112
- 113 2. The PCCC shall include the most recent Davis-Bacon wage determination in the  
114 project specifications signed at the ~~Pre-construction~~PreConstruction Conference.  
115 Note, if a revised Davis-Bacon wage determination is required, the change will be  
116 made via addendum requiring subsequent changes to other documents such as the  
117 Firm Commitment (Exhibit B: Index to Drawings and Specifications) and the  
118 Construction Contract, which lists the Plans and Specifications.
- 119
- 120 3. At the ~~Pre-construction~~PreConstruction Conference, the "Suggested Format for  
121 Signature Pages: Electronic HUD Set of Plans and Specifications" (Appendix 10.5),  
122 and two (2) hardcopy sets of the plans and specifications, shall be prepared and  
123 distributed as follows:  
124  
125 "HUD Inspection Set" of Plans and Specifications  
126 • Legible, half-size set of Plans, and full-size Specifications manual, annotated,  
127 "HUD Inspection Set" on each

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- Both shall be signed and dated on the front sheet of the plans and cover of the specifications by the Architect, General Contractor, General Contractor’s Surety (if applicable), and the Borrower
  - Sent to the HUD Contract Inspector

133 “HUD As-Built Set” of Plans and Specifications

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- Full-size set of Plans, and full-size Specifications manual, annotated, “HUD As-Built Set” on each
  - Both shall be signed and dated on the front sheet of the plans and cover of the specifications by the Architect, General Contractor, General Contractor’s Surety (if applicable), and the Borrower
  - Given to the General Contractor
  - This set is not to be used for construction purposes, but rather is red lined as any changes are made to the original documents.

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144 “HUD Master Set” of Plans and Specifications

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- “HUD Master Set – Plans,” cover sheet (Appendix 10.5) shall be executed, and electronically “attached” to the front of a PDF version of the Plans (Plans identical to those used for the Inspection and As-Built Sets above)
  - “HUD Master Set – Specifications,” cover sheet (Appendix 10.5) shall be executed, and electronically “attached” to the front of a PDF version of the Specifications (Specifications identical to those used for the Inspection and As-Built Sets above)
  - ~~PDFs~~PDFs shall be sent on a flash drive, ~~CD, or DVD~~, to the ORCF CM

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4. Early Start: If plans and specifications are complete at the time of Early Start, they will be prepared as described above. If plans and specifications are not complete at the time of Early Start, they will be required to be signed prior to Initial Closing.

158 C. After the ~~Pre-construction~~PreConstruction Conference

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1. The General Contractor shall notify the PCCC, Supervisory Architect, HUD Contract Inspector, and ORCF CM of the date that construction starts. See Section 10.1.A above.
  2. Within one working day following the start of construction, the PCCC shall notify the ~~RLR~~RLRS/designee, and the ORCF CM of the applicable wage determination being used for the project (attach to an email). In the event that construction did not begin within 90 days after Initial Closing, the ~~RLR~~RLRS (or his/her designee) shall determine whether the wage determination had been modified and whether any updates must be incorporated into the Construction Contract.

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## 10.4

## HUD Construction Monitoring

### A. Purpose of Inspection.

1. Inspection means the periodic observations made of construction at the site of a care facility project by a HUD ~~representative~~ ~~(inspector)~~ [Representative \(HUD Contract Inspector\)](#) for the purpose of protecting HUD's interests. Inspections are made to evaluate the General Contractor's and Architect's performance, to ~~obtain~~ [confirm](#) construction in accordance with the contract documents, and to report on conformance with prevailing wages and other contract requirements.
2. The instructions for inspection services, and the review of inspection deliverables, are described in the applicable Construction Inspection Services Contract, administered by HUD's Office of the Chief Procurement Officer (OCPO), and managed by the assigned ~~Government Technical Contracting Officer's~~ [Representative \(GTR\)](#) ~~COR~~, [Subordinate Contracting Officer's Representative \(SCOR\)](#), and ~~or Government Technical Monitor (GTM)~~ [ORCF Construction Manager \(CM\)](#).

### B. Access. At all times, HUD has the right of access to the property and the right to inspect all work performed and materials furnished to complete the project.

### C. Upon HUD's issuance of the Early Start of Construction approval, or Initial Closing, the ORCF CM shall transmit the following executed documents, where applicable, to the assigned HUD Contract Inspector:

1. "HUD Inspection Set" of the Plans and Specifications
2. Firm Commitment, and Amendments
3. Construction Contract [\(Form HUD-92442-ORCF\)](#), with all applicable attachments
4. [Contractor's and/or Mortgagor's Cost Breakdown, \(Form HUD-92328-ORCF\)](#)
- 4.5. [Owner-Architect Agreement \(AIA Document B108\)](#)
6. [HUD Amendment to B108 \(Form HUD-92408-ORCF\)](#)
- 5.7. [Design Architect's Architect Certification \(Form HUD-91124-ORCF\)](#)
8. [Design Professional's Certification of Liability Insurance \(Form HUD-91123-ORCF\)](#)
- 6.9. [Offsite Escrow Agreement and/or Offsite Construction Contract, if applicable](#)

215 7.10. \_\_\_\_\_ Demolition Escrow Agreement and/or Demolition  
216 Construction Contract, if applicable

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218 8.11. Early Start of Construction approval, if applicable.  
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221 D. Field Supervision. The ORCF CM shall ~~keep~~be kept informed of the general quality of  
222 inspections and the performance of inspectors by maintaining close contact with their  
223 work through job site visits. A regular routine for supervising field operations ~~should~~will  
224 be established and followed. Required and suggested methods of field supervision  
225 follow:

226  
227 ~~1. a minimum of two field review inspections should be made on each project to~~  
228 ~~evaluate the performance of the HUD Contract Inspector. Field review~~  
229 ~~inspections shall be recorded on a HUD Representative's Trip Report;~~

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231 ~~2.1.the~~The HUD Contract Inspectors may be accompanied during their rounds. This  
232 method is particularly advantageous in training new inspectors;

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234 ~~3.2.construction should~~Construction must be field reviewed where the use of  
235 questionable methods of construction, materials, uncorrected non-compliance, or  
236 other problems are reported; and

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238 ~~4.3.~~Projects shouldmust be field reviewed at construction stages where major problems  
239 have occurred in that jurisdiction.

240  
241 4. Construction progress/draw meetings. During construction, the General Contractor,  
242 Borrower, Borrower's Supervisory Architect, and the HUD Contract Inspector must  
243 attend monthly job meetings at the job site when monthly draw requests for advances  
244 are prepared. The Lender must review the draw initially for acceptability.

245 a. The Borrower's representative must be a member of the borrower entity,  
246 usually a general partner or managing member.

247 b. The HUD Contract Inspector must:

248 i. Comment to the group on the quality of construction and of the  
249 Supervisory Architect's observations and the Contractor's supervision.

250 ii. Comment on all known construction defects and deficiencies (non-  
251 compliance).

252 iii. Explain that changes in the work from the contract documents (non-  
253 compliance) must be resolved by approved change order requests for  
254 the work done in accordance with the contract documents. All change  
255 orders must receive prior approval before work commences, subject to  
256 the change order.

257 iv. Inform parties of HUD policy for holdback of construction advances  
258 until non-compliance is corrected.

259 v. Record on Form HUD-95379-ORCF the issues raised at the meeting.

260 c. Monthly meetings may also be used to resolve equal opportunity and labor  
261 disputes. When such disputes are known, the HUD Office of Davis-Bacon  
262 and Labor Standards (DBLS) and Equal Employment officers must be invited  
263 to attend.  
264

265 E. HUD Contract Inspector's Duties. The HUD Contract Inspector is a HUD Representative,  
266 not a superintendent for the General Contractor or "clerk of the works" for the Borrower or  
267 Architect. The HUD Contract Inspector, as HUD's agent, must endeavor in a tactful, helpful  
268 and courteous manner to obtain construction that conforms to the drawings, specifications,  
269 and sound construction practice within the scope of the contract. The HUD Contract  
270 Inspector must be factual and specific in all statements in reporting and recording significant  
271 construction developments observed.  
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273 1. Orientation. Upon assignment to a project, the HUD Contract Inspector will study  
274 the drawings and specifications and become familiar with the conditions at the  
275 site. If, during this examination or during construction, any nonconformity with  
276 HUD requirements or site conditions not considered in the design is found, they  
277 are to immediately notify the ORCF CM in writing with specific facts. The ORCF  
278 CM will work with the Lender, Borrower, Supervisory Architect (Architect),  
279 General Contractor and other related parties to resolve the non-compliance.  
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281 2. Facilities. The General Contractor (GC) must furnish the HUD Contract Inspector  
282 with an enclosed working space. Adequate, but not elaborate, facilities should be  
283 required as soon as actual construction begins at the site.  
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285 3. Inspections. The HUD Contract Inspector shall make one job site visit each month  
286 to coincide with monthly draws, except when HUD determines no inspection is  
287 necessary due to the progress of the work in a particular period. Additional visits  
288 may be required, as necessary due to follow-up or unforeseen conditions, as  
289 approved by the ORCF CM in writing. Visits should be scheduled to observe  
290 major construction operations without neglecting lesser operations. Sufficient  
291 time must be allotted to each visit to make a complete inspection.  
292

293 a. The major functions during inspection are to: Evaluate the construction  
294 supervision of the General Contractor, and contract administration of the  
295 Architect; report on occupancy, delays, disputes, and changes; review  
296 completed units and execute the Form HUD-92485-ORCF, Permission  
297 to Occupy as required; report any non-compliances with the contract  
298 documents observed by the HUD Contract Inspector and/or the  
299 Architect; determine that the amounts requested by the General  
300 Contractor and recommended by the Architect for payment are  
301 reasonable; conduct employee wage interviews using Form HUD-11;  
302 and report on labor and EEO compliance.

- 303                    b. Each inspection shall be recorded on a HUD Representative's Trip  
304                    Report, Form HUD-95379-ORCF and executed by the HUD Contract  
305                    Inspector.
- 306                    c. Reporting requirements. Electronic copies of the following documents  
307                    executed during inspection must be promptly sent to the ORCF CM with  
308                    the HUD Representative's Trip Report, Form HUD-95379-ORCF:
- 309                    i. Contractor's Requisition, Form HUD-92448-ORCF (see Chapter  
310                    10.8 for additional guidance):
- 311                    ii. Original signed copies to be forwarded to the Lender by the  
312                    Architect.
- 313                    d. Request for Construction Changes on Project Mortgages (Change  
314                    Order), Form HUD-92437-ORCF (see Chapters 10.9 -10.12 for  
315                    additional guidance):
- 316                    i. Upon acceptable review the HUD Contract Inspector shall place  
317                    their initials and date in top right corner of first page.
- 318                    ii. Original signed copies to be forwarded to the Lender by the  
319                    Architect.
- 320                    iii. Lender will review and if approved, send to ORCF CM for final  
321                    approval.
- 322                    iv. ORCF CM will send to Lender, Architect, Borrower, and HUD  
323                    Contract Inspector upon approval.
- 324                    e. Permission to Occupy, Form HUD-92485-ORCF:
- 325                    i. Original signed copies to be forwarded to the Lender by the  
326                    Architect.
- 327                    ii. When all required signatures (Architect, Borrower, General  
328                    Contractor and HUD Contract Inspector) are affixed, Lender will  
329                    execute and send the document to the ORCF CM for final  
330                    approval.
- 331                    iii. Upon execution by the ORCF CM (as FHA authorized agent),  
332                    copies are forwarded to Lender, Architect, Borrower, and HUD  
333                    Contract Inspector.
- 334                    f. Request Approval Advance of Escrow Funds, Form HUD-92464-ORCF  
335                    (see Chapter 10.15 for additional guidance):
- 336                    i. Original signed copies of completed work associated with Offsite,  
337                    Change Order or Demolition escrow to be forwarded to the Lender  
338                    by the Architect. The Architect and HUD Contract Inspector are  
339                    not required to execute Form HUD-92464-ORCF associated with  
340                    minor movables.
- 341                    ii. Lender will review and if approved, send to ORCF CM for final  
342                    approval.
- 343                    iii. ORCF CM will send to Lender upon approval.

344

345                    4. Start of Construction. The HUD Contract Inspector will report the date of initial  
346                    construction start, and the date of permanent start of construction on Form HUD-  
347                    95379-ORCF. (See Chapter 10.1)

- 348                   a. The date of the initial construction start, used for recording and reporting  
349 purposes, is the "start of construction" as used in connection with labor  
350 standards and prevailing wage requirements. This is defined as the  
351 beginning of initial site clearance and preparation, provided these  
352 activities are pursued diligently and are followed, without appreciable  
353 delay, by other construction activities.  
354                   b. The date recorded as the start of permanent construction, used for the  
355 purpose of determining the earning of the inspection fee, will correspond  
356 to the first day that permanent on-site building elements were put into  
357 place, such as footings and/or foundations, pilings, utility lines, etc.  
358                   c. While excavation is an integral part of foundation work, it does not  
359 constitute a start of permanent construction.  
360

361     5. Shop Drawings and Other Data. During the construction period, the HUD  
362 Contract Inspector must check whether shop drawings are being submitted by the  
363 General Contractor for approval by the Supervisory Architect as required by the  
364 AIA General Conditions of the Contract. Upon request by the Architect or the  
365 HUD Contract Inspector, the General Contractor will keep copies of tests,  
366 certifications and any other data required by the contract documents onsite for  
367 review.  
368

369     6. Work Stoppage. The HUD Contract Inspector will report to the ORCF CM on  
370 Form HUD-95379-ORCF any work stoppage. The reason for the work stoppage  
371 should be stated, and when resumption of construction is anticipated.  
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373     7. Permission to Occupy (PTO). The HUD Contract Inspector will complete the  
374 portion, "FHA Inspection Report," of the Permission to Occupy, Form HUD-  
375 92485-ORCF, when submitted, to request permission to occupy specific living  
376 units, commercial or other space. The Form is to be submitted when the HUD  
377 Contract Inspector reports safe ingress and egress to the units and/or building, as  
378 evidenced by a Certificate of Occupancy (CO) from the locality. In the event that  
379 scheduling does not permit the HUD Contract Inspector to inspect the completed  
380 units on a timely basis, then the ORCF CM may authorize the Architect to issue a  
381 phased Permission to Occupy (PTO) on condition that the Inspector will inspect  
382 the completed units at the next regularly scheduled site visit. Units and spaces  
383 should not be occupied prior to approval by HUD. The required insurance forms  
384 must be submitted with the PTO. The ORCF CM will approve the permission to  
385 occupy. (See Chapter 10.7 for additional guidance)

386                   a. The HUD Contract Inspector will also include the number of units  
387 occupied prior to approval as a non-compliance, on the Form HUD-  
388 95379-ORCF as well as the date occupancy took place.

389                   b. Occupancy prior to the execution of Form HUD-92485-ORCF will be  
390 reported by the ORCF CM to ORCF Director of Production by written  
391 memorandum.  
392

393     8. Additional duties of the HUD Contract Inspector:

- 394 a. Advises the Architect administering the construction contract on HUD  
395 requirements;  
396 b. Reviews the Architect's job log;  
397 c. Reviews copies of the Architect's decisions;  
398 d. Reports on project construction progress to the ORCF CM on Form  
399 HUD-95379-ORCF;  
400 e. Notifies the ORCF CM, Architect and the General Contractor if an  
401 identity of interest exists between the Borrower and the General  
402 Contractor, or if it is determined that there are any essential variations in  
403 the cost of the work installed, materials stored, and the request for  
404 construction advances recommended by the Architect; and  
405 f. Conducts interviews with an appropriate sampling of the laborers and  
406 mechanics engaged, and records the interview information on Record of  
407 Employee Interview, Form HUD-11, in connection with wage and labor  
408 compliance in the construction of the project.

409  
410 9. Construction record. From the initial construction start through final 12-Month  
411 Warranty inspection, the HUD Contract Inspector shall be responsible for  
412 maintaining a record of construction that includes minutes of the PreConstruction  
413 Conference as well as reports of required warranty inspections. All forms, reports,  
414 decisions and documents relevant to construction or inspection reporting shall be  
415 recorded in the binder in chronological order. All required documents shall be  
416 electronically scanned and saved using an unaltered electronic means, such as a  
417 .pdf file that is easily downloadable into existing HUD software. File names for  
418 all scanned and saved contract deliverables shall utilize a HUD standardized file  
419 naming protocol provided by the ORCF CM. The forms and documents listed  
420 below shall be included in the Construction Inspection Record Binder, when  
421 applicable.

- 422 a. HUD Master Set of Drawings and Specifications.  
423 b. Off-site Drawings and Specifications.  
424 c. Construction Contract, Form HUD-92442-ORCF.  
425 d. Owner-Architect Agreement AIA Document B108 and HUD  
426 Amendment to B108, Form HUD-92408-ORCF.  
427 e. Construction Progress Schedule, Form HUD-5372.  
428 f. Contractor's and/or Mortgagor's Cost Breakdown, Form HUD-92328-  
429 ORCF.  
430 g. HUD Representative's Trip Report, Form HUD-95379-ORCF  
431 h. Contractor's Requisition, Form HUD-92448-ORCF.  
432 i. Request Approval Advance of Escrow Funds, Form HUD-92464-ORCF.  
433 j. Request for Construction Changes on Project Mortgages, Form HUD-  
434 92437-ORCF, AIA G710, and Architect's supplemental instruction or  
435 equivalent.  
436 k. Letters, memoranda, notes, and worksheets.  
437 l. Architect's Field Reports.  
438 m. Permission to Occupy, Form HUD-92485-ORCF.

439                   n. Record of established escrows including amounts escrowed and a  
440 complete list of unfinished construction items, record of call back  
441 inspections and recommendations for monies to be released.  
442

443 10. Projects of Insurance upon Completion: The HUD Contract Inspector will report  
444 the percentage of completion of the project on Form HUD-95379-ORCF within 5  
445 business days of the inspection. This percentage is an approximation for general  
446 information and is not used for disbursement.  
447

448 11. Off-site inspection. The HUD Contract Inspector checks all off-site construction  
449 for conformity with the terms of the contract and reports work progress by  
450 percentages on Form HUD-95379-ORCF. Progress or completion is also reported  
451 on Request Approval of Advance of Escrow Funds, Form HUD-92464-ORCF.  
452

453 F. Reporting and dealing with serious construction problems. The ORCF CM must identify and  
454 report, by electronic mail, to the ORCF Director of Production (with copy to the Lender and  
455 ORCF Closer), all insured Healthcare projects under construction or in the guarantee period  
456 that have serious construction defects, or other serious construction related problems. This  
457 information will be used to reply to inquiries, as an "early warning system" on troubled  
458 projects, and to determine if assistance by the ORCF CM is necessary.  
459

460 1. The HUD Contract Inspector must identify all construction problems that may  
461 delay completion or lead to foreclosure or assignment of the mortgage to HUD by  
462 using Form HUD-95379-ORCF, HUD Representative's Trip Report, such as:

463                   a. Work stoppage.

464                   b. Builder abandons job.

465                   c. A change in the General Contractor, Borrower or Supervisory Architect  
466 during construction.

467                   d. Construction defects untreated for 30 days of the first notification to the  
468 General Contractor.

469                   e. Builder cannot or will not correct any construction defect or latent  
470 defect.

471                   f. Use of questionable methods of construction or materials.

472                   g. Extended periods of bad weather, strikes, etc.

473                   h. Controlling jurisdiction issues a stop work order.

474                   i. Slow start or progress of off-site work that would impair project  
475 occupancy.

476                   j. Other conditions of such nature or magnitude as to potentially cause a  
477 default and warranting attention by HUD personnel.

478                   k. Work being performed that is not in compliance with HUD approved  
479 plans and specifications.

480                   l. Architect does not report all observed non-compliance with HUD's  
481 approved plans and specifications, per the job set.

482                   m. Architects' inadequate performance and misrepresentation on Field  
483 Reports.  
484

- 485           2. [The ORCF CM must prepare a referral memorandum to the ORCF Direction of](#)  
486 [Production when a delay in completion may lead to foreclosure or assignment of](#)  
487 [the mortgage.](#)
- 488
- 489           3. [The referral memorandum must include full details of the construction related](#)  
490 [problem, including:](#)
- 491               a. [A copy of Form HUD-95379-ORCF, which identifies the problem.](#)  
492               b. [The HUD Contract Inspector's opinion of the cause and recommendation](#)  
493 [for correction.](#)
- 494               c. [A report of actions by the ORCF CM.](#)  
495               d. [A report of actions by the Borrower, Architect, General Contractor, and](#)  
496 [bonding company \(when appropriate\).](#)
- 497               e. [A plan of action to be undertaken by ORCF if the mortgage is assigned](#)  
498 [to HUD during construction or foreclosure is initiated by the Lender.](#)
- 499
- 500           4. [Only the initial report is required unless the ORCF Direction of Production](#)  
501 [requests further action or follow-up by the ORCF CM.](#)
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## 10.5

### Architect's Duties in Administering Construction Contract

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505 The Architect's duties shall be in accordance with ~~Item 6, of the Lender's Pre-~~  
506 [constructionPreConstruction](#) Conference Agenda (available on the Section 232 Program  
507 website), including:

- 508
- 509 A. Provide services in accordance with ~~the~~[AIA Document B108, Owner-Architect Agreement](#)  
510 [and HUD Amendment to B108 \(Form HUD-92408-ORCF\) and ORCF's program](#)  
511 [obligations.](#)
- 512
- 513 B. Have no identity of interest with the Borrower or General Contractor. An identity of interest  
514 is defined in the Construction Contract ([Form HUD-92442-ORCF](#)).
- 515
- 516 ~~C. Ensure~~[C. The Architect administering the construction contract shall](#)  
517 [ensure](#) construction is carried out in accordance with the contract documents.
- 518
- 519           1. Restrict materials, products, and equipment to those specified.
- 520
- 521           2. Restrict all deviations to those ~~substantially~~[substantially](#) consistent with the ~~original design~~  
522 ~~concept~~[HUD approved Construction Documents \(Master Plans\)](#), including form,  
523 color, and texture. [The Architect shall immediately inform the Borrower, Lender, or](#)  
524 [Lender's Representative and the HUD Contract Inspector of any changes to plans and](#)  
525 [specifications.](#)
- 526

- 527 3. When arriving at the net amount due on every requisition, compare the cost of the
- 528 work and materials with the cost to complete the project. Current and previous
- 529 payment must relate to the total cost for completion.
- 530
- 531 4. Restrict substitution of items of a different design or size from those specified to
- 532 those that are equivalent in utility (i.e., durability, quality, and ease of maintenance).
- 533
- 534 5. Restrict substitution of any material differing in composition or appearance from the
- 535 one specified to one which is equivalent in its attributes (i.e., character, quality,
- 536 durability, and ease of maintenance).
- 537
- 538 6. ~~Keep a log~~Maintain an Architect's Log on the site that is readily available to the
- 539 Borrower and HUD Contract Inspector.
- 540
- 541 7. Ensure construction changes comply with the Green MIP program, if applicable.
- 542 (See Mortgagee Letter 2022-13 for guidance).
- 543

- 544 D. Architect's ~~supplemental instructions~~Supplemental Instructions (ASI). The
- 545 ~~architect~~Architect administering the construction contract may issue field orders using
- 546 American Institute of Architects' (AIA) Document G710, Architect's Supplemental
- 547 Instructions, or a similar form.
- 548
- 549 1. Supplemental instructions must not involve a change in contract sum or contract time.
- 550
- 551 2. Uses of supplemental instructions:
- 552 a. ~~a.~~ Directive to General Contractor to bring construction into
- 553 compliance with the contract documents.
- 554 b. ~~b.~~ Interpretation or clarification of the contract drawings and
- 555 specifications.
- 556 c. ~~c.~~ Order minor changes in the work, not involving cost.
- 557 d. ~~d.~~ Accept specified "equivalent" materials.
- 558 e. ~~e.~~ Record other "field orders" that are not construction changes.
- 559
- 560 E. The Architect administering the construction contract is responsible for reporting in writing
- 561 the results of periodic visits to the construction site. The Architect's Field Report ~~should and~~
- 562 Log must provide information regarding assessment of the progress of the work and a record
- 563 of the actions taken to ~~insure~~ensure that the work is being accomplished in the best interests
- 564 of all the parties.
- 565
- 566 1. The AIA Document G711, Architect's Field Report, may be used, or a similar other
- 567 format.
- 568
- 569 2. A Field Report of each visit shall show as a minimum the following:
- 570 a. Date of inspection
- 571 b. HUD project identification and location
- 572 c. Time, weather, and temperature range

- d. Estimated percent of completion
- e. Work in progress and conformance with the General Contractor's Progress Schedule or any work stoppage / slow down
- d. Any changes to plans and specifications which modifies the HUD Inspection set (Construction Documents)
- f. Persons Appropriate number of persons present at work the jobsite by trade
- g. Observations and items to verify for construction defects uncured for more than 30-days
- h. Information or action required for any deficiencies noted on the Field Reports
- i. Firm name and signature of the Supervisory Architect

3. The Architect shall maintain an up-to-date “Architect’s Log” that is readily available to the Borrower and HUD Contract Inspector. Architect’s Log must include the Architect’s assessment of the progress of the work and a record of the actions taken to ensure that the work in being accomplished per the contract documents. Include the following in the Architect’s Log:

- a. Architect’s Field Reports (AIA G711 or similar format) & Consultants’ Field Reports;
- b. Meeting Notes (if separate from the Field Report);
- c. Proposal Requests (PR), Architect Supplemental Instructions (ASI) & Change Order (CO) logs;
- d. Copy of the HUD PreConstruction Conference handouts – for reference during construction.

## 10.6

### Architect’s Adequacy

The provision for the Architect's administration of the construction contract is covered by the Owner-Architect Agreement, AIA Document B108, HUD Amendment to AIA Document B108, and by the General Conditions of the Contract for Construction, AIA Document A201. It is the responsibility of the HUD Contract Inspector to determine the adequacy of the Architect's administration. The adequacy of the Architect's administration in this context is results-oriented, meaning the construction fully complies with the contract documents; the determination of adequacy will not be based on the number of visits, or the length of time spent by the Architect on the job.

A. Deficient administration. If the Architect does not immediately report all observed non-compliances with contract documents and unacceptable performances by the General Contractor and exploit all avenues to obtain compliance with the contract, then the Architect's administration of the construction contract will be considered deficient. The Architect is not responsible for actual construction, construction means, methods, techniques or other related responsibilities of the General Contractor. However, the Architect must keep the Lender, Borrower and HUD informed of the progress of the work, including any

615 [unauthorized changes or deviations to the approved plans and specifications](#), and endeavor to  
616 guard the Borrower and HUD against defects and deficiencies in the construction.  
617

- 618 B. Reasons for termination of services. Inadequate performance, undue delay,  
619 misrepresentation, failure to act on the part of the Architect or the Architect's associates and  
620 employees, and any other material breach of Owner-Architect Agreement shall be reason for  
621 the termination of the Architect's services on the project and may adversely affect the firm's  
622 acceptability on future projects.  
623
- 624 C. ORCF actions. The HUD Contract Inspector shall bring to the attention of the Architect  
625 specific areas in which services are considered deficient. Sufficient time and appropriate  
626 assistance shall be given to obtain necessary compliance.  
627
- 628 1. When the Architect's performance is *first* observed as deficient, in addition to the  
629 HUD Representative's Trip Report, the ~~inspector~~[HUD Contract Inspector](#) shall also  
630 prepare a written memorandum to the [ORCF](#) CM of the deficiency advising of any  
631 planned actions or assistance. The memorandum should recommend that future  
632 requests for Architectural inspection fees be disallowed until performance improves  
633 to an acceptable level.  
634
  - 635 2. An immediate follow-up by the [ORCF](#) CM is always required. Conferences with the  
636 HUD Contract Inspector, the Supervisory Architect, and the Lender should be  
637 arranged, and a target date established for the Architect to obtain compliance. The  
638 [ORCF](#) CM shall inform ORCF Management of current problems and of established  
639 target dates for corrections. Deficiencies related to misrepresentation, undisclosed  
640 identity of interest and known illegal kick-backs should be immediately referred to  
641 HUD's Office of Counsel with a copy to ORCF. All actions shall be clearly  
642 documented.  
643
- 644 D. Request for contract termination. When compliance with the Owner-Architect Agreement  
645 [and HUD Amendment](#) cannot be obtained within thirty (30) days, ORCF Management shall  
646 request termination of the Architect's contract in accordance with the provisions of the  
647 Owner-Architect Agreement. Upon termination, the Architect shall be entitled to no more  
648 than the prescribed portion of the fee determined by the percentage to which construction  
649 was completed on the date that the Architect was removed from the project. The Borrower  
650 may pursue other legal remedies for the Architect's failure to perform, including the recovery  
651 of any monetary damages.  
652
- 653 E. Contract termination. The Borrower will hire an independent Architect who is acceptable to  
654 all parties to continue the administration of the project construction documents. In no event  
655 will HUD or the HUD Contract Inspector ~~does not~~ assume the Architect's responsibilities or  
656 assume any liability for the Architect's work.  
657  
658

## 10.7

## Permission to Occupy, Final Trip Report, and

## Warranty Inspections

### A. Permission to Occupy.

Permission to Occupy ~~—Project Mortgages~~ ~~(Form HUD-92485-ORCF)~~ must be executed by the ~~HUD~~ ORCF CM before the Borrower permits occupancy of any dwelling unit, care facility unit, or other project service facility.

1. Physical completion – The work or portion thereof, for which Permission to Occupy is approved, must be sufficiently completed in accordance with the contract documents so the Borrower can occupy or utilize the identified portion of the work for its intended use.
  - a. Support facilities (utilities, disability access, vehicular access and parking, fire & life safety equipment, etc.) must be in place.
  - b. Acceptability of each unit and facility for which a Permission to Occupy is requested must be established:
    - i. Property must be inspected and Permission to Occupy ~~—~~ Project Mortgages must be signed by the Borrower, Supervisory Architect, General Contractor, and HUD Contract Inspector (CI).
    - ii. Minor items that do not preclude occupancy are permitted but must be listed as an attachment to the Permission to Occupy ~~—Project Mortgages.~~ Project Mortgages. Before a Permission to Occupy may be issued, the property must be in full compliance with all accessibility laws for persons with disabilities, including the Fair Housing Act, 42 U.S.C. §§ 3601-19; Section 504 of the Rehabilitation Act of 1973; and the Americans with Disabilities Act; including the applicable accessibility requirements (e.g., the Uniform Federal Accessibility Standards (UFAS), ADA Standards, and Fair Housing Accessibility Guidelines).
    - iii. The General Contractor is fully responsible for any incomplete or improperly performed contract work whether or not listed.
2. Documents Submission – The Lender must sign the Permission to Occupy ~~—~~ Project Mortgages agreeing with the request and stating that insurance risks have been covered for the project. The Borrower must include the following documents with the completed Permission to Occupy ~~—~~ Project Mortgages:
  - a. A Certificate of Occupancy or equivalent permit from the governing municipal or other local authority for all units and facilities on the Permission to Occupy, and any other required permits or authorizations;
  - b. A valid and current Certificate of Property Insurance, Certificate of Fidelity Insurance, and Certificate of Professional Liability Insurance from the Borrower's insurance company;
  - c. Satisfaction of any Firm Commitment Special Conditions related to the Permission to Occupy, if applicable.

- 703 3. Partial Occupancy Approval:
- 704 a. Favorably consider partial occupancy of units as they become available; where
- 705 vandalism could be minimized, needed project income is provided, an earlier rent-
- 706 up date could be achieved, utility costs for occupied units can be metered
- 707 separately from the General Contractor's utilities, etc.;
- 708 b. Approve a series of Permission to Occupy as units or facilities become available,
- 709 e.g., individual buildings on multi-building projects, or individual floors or wings
- 710 on larger buildings;
- 711 c. Approve a single Permission to Occupy for all units where dictated by
- 712 management considerations, e.g., very small projects;
- 713 d. Discussion shall be held during the ~~Pre-construction~~[PreConstruction](#) Conference
- 714 regarding the handling of all Permission to Occupy submittals.
- 715
- 716 4. Signatures, Approval, and Permission:
- 717 a. Permission to Occupy ~~—~~ Project Mortgages is signed by the Borrower,
- 718 Supervisory Architect, General Contractor, and [HUD](#) Contract Inspector (CI);
- 719 b. Approval ~~—~~ The ORCF CM checks either, "as reported above," or "as
- 720 modified by me," and signs and dates above "Chief Architecture and
- 721 Engineering," and "Deputy," as the Federal Housing Administration's
- 722 "Authorized Agent~~22.2~~,"
- 723 c. Distribution: Lender, General Contractor, Borrower, Supervisory Architect,
- 724 HUD Contract Inspector, ORCF Closer, HUD Attorney, and ORCF AE.
- 725

726 B. Final Construction Completion / Final Trip Report.

727

728 The Architect and [HUD](#) Contract Inspector make the final inspection upon written request of

729 the General Contractor.

730

- 731 1. The Architect determines that all punch list items have been completed unless they
- 732 are beyond the control of the General Contractor. (Items of delayed completion)
- 733
- 734 2. The inspector prepares the final inspection report on HUD Representative's Trip
- 735 Report. ~~The (Form HUD-92485-ORCF).~~ [The HUD Contract](#) inspector:
- 736 a. Reports onsite construction complete though there may be items of delayed
- 737 completion;
- 738 b. Lists and describes any items of delayed completion and estimate of cost of
- 739 completion for each item. (Note: Escrow must not be less than 150 percent of
- 740 the estimate to complete and must not exceed 2 percent of the mortgage.
- 741 Work must be completed within 12 months of the date of the Final Trip
- 742 Report);
- 743 c. Lists any offsite work and reports percentage of completion for each;
- 744 d. Includes the following endorsements:
- 745 i. "Construction acceptably completed." (If there are items of delayed
- 746 completion, add, "subject to escrow of funds to assure completion of
- 747 listed items of delayed completion.")

- 748 ii. "All offsite sewer, water, electrical and gas facilities are complete,  
749 connected and operable, and safe, adequate, all-weather ingress and  
750 egress provided." (If offsite item incomplete, adds, "except as stated  
751 at the time of inspection.")  
752
- 753 3. The ORCF CM reviews the Final Trip Report, and if acceptable, signs and dates the  
754 Report, and distributes copies to: Lender, Borrower, General Contractor, Supervisory  
755 Architect, HUD Contract Inspector, ORCF Closer, ~~HUD Attorney~~, ORCF AE  
756 [assigned to the project](#), and HUD Labor Relations Specialist.  
757

758 C. Warranty Inspections.

759 A minimum of two inspections are made of all work to discover and require correction of  
760 latent defects (defective or nonconforming work not observed during construction) within  
761 one year of the date of the Final Trip Report.  
762

- 763 1. The HUD Contract Inspector schedules warranty inspections.  
764 a. First must be within nine months of final completion and shall provide for  
765 inspection of the entire project.  
766 b. Other inspections may be necessary to ~~assure~~[ensure](#) inspection of seasonal  
767 items such as heating and landscaping.  
768 c. The last inspection must be not later than the 10th day of the 12th month to  
769 check previously reported defects and correction; and discover any additional  
770 defects.  
771
- 772 2. The inspector reports each warranty inspection on HUD Representative's Trip  
773 Report.  
774 a. If work is acceptable, state, "All observable work acceptable at the time of this  
775 inspection."  
776 b. If unacceptable, list latent defects.  
777 i. Describe each item.  
778 ii. Recommend method of correction.  
779 iii. Estimate current cost of correction.  
780 [iv. To assure completion, an escrow of 150% of cost \(determined by the](#)  
781 [Supervisory Architect\) will be required for latent defects.](#)  
782 c. Check any item of delayed completion and list completed and uncompleted  
783 items under a separate heading.  
784 d. Note any improper maintenance or casualty damage under a separate heading.  
785
- 786 3. The ORCF CM reviews each warranty inspection, and if acceptable, signs and dates  
787 the Report, and distributes copies.  
788  
789

790 **10.8**

**Insurance of Advances and Related Matters**

791 A. General.

792 Insurance of advances is the process of releasing HUD insured mortgage funds and other  
793 funds necessary for the construction, acquisition, and/or refinancing of the project. The  
794 following general criteria apply to advancing such funds.  
795

- 796 1. All escrowed funds for on-site improvements (with the possible exception of  
797 grant/loan proceeds furnished by a government agency or instrumentality or tax credit  
798 proceeds) must be disbursed before mortgage proceeds. See Appendix 10.2 for  
799 instructions on grants/loans and tax credits.  
800
- 801 2. The amount of construction funds approved and advanced for insurance must be  
802 consistent with construction progress approved by the HUD Contract Inspector.  
803
- 804 3. Other mortgageable items must be supported with proper bills and/or receipts before  
805 funds can be approved and advanced for insurance.  
806
- 807 4. The amount advanced for construction items [completed](#) must be adjusted for a 10  
808 percent retainage.  
809
- 810 5. The final amount approved for insurance must be supported by certified costs  
811 recognized in the cost certification review.  
812

813 B. The Application for Insurance of Advance of Mortgage Proceeds ([Form HUD-92403-ORCF](#))  
814 is initiated by the Borrower. The initial and final advances are submitted by the Lender to  
815 HUD for review and approval. Interim advances are [initially submitted to the Lender for](#)  
816 [review, and finally](#) approved by the Lender (including those advances requesting a Partial  
817 Release of Retainage), based upon ~~the approval of the Supervisory Architect and the~~ HUD  
818 Contract ~~Inspectors' Inspector's~~ approval of the construction amount using the Contractor's  
819 Requisition ~~— Project Mortgages —~~ ([Form HUD-92448-ORCF](#)). (Mortgagee signs the  
820 Application for Insurance of Advance of Mortgage Proceeds, and Contractor's Requisition —  
821 Project Mortgages as described in C. below.)  
822

823 C. For the initial and final advances, the ORCF ~~Closer~~ [Closing Coordinator \(CC\)](#) and ORCF  
824 Workload Manager (WLM) sign the Application for Insurance of Advance of Mortgage  
825 Proceeds, and Contractor's Requisition — [Project Mortgages](#), in the following spaces:  
826

- 827 1. CC signs in Mortgage Credit Examiner box, and WLM signs as Authorized HUD  
828 Official, for the Application for Insurance of Advance of Mortgage Proceeds, and  
829
- 830 2. CC signs as Chief Mortgage Credit, and WLM signs under Director, Housing  
831 Development, for the Contractor's Requisition — [Project Mortgages](#).  
832
- 833 3. Supporting materials to the Application for Insurance of Advance of Mortgage  
834 Proceeds include supporting bills/receipts and the Contractor's Requisition — Project  
835 Mortgages, if requesting construction funds.  
836

837 D. The Lender's role in processing the Application for Insurance of Advance of Mortgage  
838 Proceeds is as follows.

- 839
- 840 1. ~~1.~~—Completes application indicating and approving:
    - 841 a. Amount requested by Borrower;
    - 842 b. Approximate disbursement date;
    - 843 c. Amount to be advanced from mortgage proceeds for work completed;
    - 844 d. Amount disbursed from Borrower's front money escrow, if any; and
    - 845 e. Total loan proceeds disbursed including current request.
  - 846
  - 847 2. ~~2.~~—Submits initial and final application to ORCF Closer for review and approval.
  - 848
  - 849 3. ~~3.~~—Processes and approves interim advances and change orders for acceptability.
  - 850
  - 851 4. ~~4.~~—Ensures clear title before advancing ~~the~~an approved disbursement.
  - 852
  - 853 5. ~~5.~~—Notifies HUD and Borrower in writing if clear title does not exist.
  - 854
  - 855 6. Notifies HUD in writing if known unauthorized changes to plans, specifications  
856 and/or increased costs exist prior to next advance.
  - 857
  - 858 7. Makes site visits (as needed) to resolve any issues that may adversely affect the  
859 underwriting of the loan.

860

861 E. Stages of Advances.

862

863 In cases involving insurance of advances, HUD and the Lender's processing of the advance  
864 is divided into the following stages:

- 865
- 866 1. Initial advance. Refers to the first application and coincides with the Initial Closing of  
867 the credit instrument. The initial advance will be reviewed by the ORCF Closer, and  
868 executed by the ORCF Closer and ORCF WLM. The Lender shall submit the  
869 Application for Insurance of Advance of Mortgage Proceeds, Application for  
870 Insurance of Advance of Mortgage Proceeds, with supporting documentation for HUD  
871 approval.
  - 872
  - 873 2. Interim advances. Interim advances are subsequent applications up to completion of  
874 the project. Interim advances will be processed and approved by the Lender.
  - 875
  - 876 3. Next to Final Advance. When HUD has consent from ~~the~~Lender, Borrower, and  
877 surety, if any, all but 2 ½% of the construction retainage may be released.  
878 Note: This ~~only~~only applies only to non-identity of interest General Contractors or where  
879 the General Contractor's identity of interest is a project ownership of less than 5  
880 percent.

881

882 4. Final Advance. It is any remaining balance of mortgage proceeds at Final Closing.  
883 This advance takes into consideration funds necessary to set up the escrows for  
884 “Items of Delayed Completion” and “To Be Paid in Cash Items”. The final advance,  
885 using the Application for Insurance of Advance of Mortgage Proceeds, is to be  
886 processed by HUD.  
887

888 F. Instructions for Approval of Initial/Interim Advances. These instructions can be found in  
889 Appendix 10.2.  
890

891 G. General Contractor’s Monthly Requisition and Related Matters. See Appendix 10.3 for  
892 instructions on completing the Contractor’s Requisition – Project Mortgages, and related  
893 matters.  
894

895 H. Next to Final Advance. The final advance is requested when construction is acceptably  
896 complete, even though there may be items of delayed completion.  
897

898 1. It may provide for the release of the General Contractor’s retainage provided the  
899 conditions in Section 10.15.D have been met.  
900

901 2. The balance of the off-site escrow may be released provided:

902 a. The off-site sewer, water, electrical and gas facilities are completely installed and  
903 connected; and safe and adequate all-weather facilities for ingress and egress are  
904 provided;

905 b. All other required off-site construction, if any, is completed;

906 c. Otherwise, completion is to be assured by a cash deposit in an amount equal to  
907 150 percent of the HUD estimate of the cost of such off-site construction.  
908

909 I. Final Advance. The Application for Insurance of the Final Advance requests any remaining  
910 balance of mortgage proceeds. It ensures that:  
911

912 1. The Borrower’s cost certification has been approved and the Maximum Insurable  
913 Mortgage Letter has been issued approving the final maximum mortgage amount.  
914 See Production, Chapter 11.  
915

916 2. The Application for Insurance of Advance of Mortgage Proceeds is accompanied by a  
917 completed Contractor’s Requisition – Project Mortgages, with required Contractor’s  
918 Prevailing Wage Certificate, if the General Contractor’s retainage has not been  
919 previously disbursed. Refer to Section 10.15.D for instructions on releasing the  
920 General Contractor’s retainage.  
921

922 3. The sum to be approved for advance is the balance of the mortgage proceeds, based  
923 on the final approved [Mortgagor’s/Borrower’s](#) Certificate of Actual Cost ([Form HUD-](#)  
924 [92330-ORCF](#)).  
925

926 4. Establishment of the escrow under the provisions of the Escrow Agreement for  
927 Incomplete Construction ([Form HUD-92456-ORCF](#)).

928  
929 5. Request for Final Endorsement ~~of Credit Instrument~~ ([Form HUD-92023-ORCF](#)), or  
930 Commitment to Insure Upon Completion ([Form HUD-92453-NH](#)), have been  
931 submitted and reviewed.

932  
933 J. For instructions on establishing the escrow for the Borrower's unpaid construction costs  
934 under the provisions of the Escrow Agreement for Non-Critical Deferred Repairs ([Form](#)  
935 [HUD-92476-ORCF](#)), see Production, Chapter 9.

936  
937 K. Keeping the mortgage in balance.

938 Soft cost overruns such as interest, taxes, MIP, and insurance resulting from construction  
939 delays at the fault of the General Contractor (i.e., poor performance) are funded from the  
940 liquidated/actual damages clause in the construction contract. This clause is not a penalty. It  
941 instead provides a source of funds to cover the increased soft costs. When the interest  
942 allocation is near exhaustion, HUD ~~should~~must be notified immediately. The Lender should  
943 follow the following procedure:

- 944  
945 1. When the interest allocation is near exhaustion, ask the Architect and the HUD  
946 Contract Inspector to estimate an expected completion date.
- 947 a. Compute the minimum liquidated damages for the period between the  
948 completion date specified in the construction contract, as adjusted by  
949 approved change orders, and the assumed completion date.
  - 950 b. When the interest allocation has been exhausted, ~~Developer's fee if~~  
951 ~~applicable, or~~ the working capital escrow should be used to keep interest  
952 current.
  - 953 c. Transfer the computed liquidated damages amount from column I,  
954 Construction, to Column G, Carrying Charges and Financing, on the  
955 Financial Record of Mortgage Loan Transaction ([Form HUD-92451-](#)  
956 [OHF](#)).
  - 957 d. Allocate full amount to interest, initially.
  - 958 e. Funds may be used for MIP, taxes, or insurance payments, if requested,  
959 after the funds for these line items and ~~non-profit Developer's fee, if~~  
960 ~~applicable and~~ working capital escrow are exhausted. However, funds  
961 transferred from the construction account may be used to cover only the  
962 cost of these items attributable to the period in Paragraph 1 above,  
963 specified in the construction contract and the assumed completion date.
- 964  
965 2. Notify the Borrower, General Contractor, HUD and surety, if any, by certified mail of  
966 the amount and the reason for the transfer.
- 967  
968 3. Require written acknowledgment from HUD and surety, if any, before transferring  
969 funds.
- 970  
971 4. The amount of transferred funds must be reflected on subsequent Contractor's  
972 Requisition — Project ~~Mortgages~~Mortgages as a decrease to item 7, Sum of Cost  
973 Breakdown Items Plus Inventories of Materials.

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5. After review of the cost certification documents, if the full amount of transferred funds was not needed to cover the cost of interest, MIP, taxes, and insurance attributable to the period identified, the balance will be transferred back to the construction account.
6. In processing the Contractor's Requisition — Project Mortgages, before releasing the General Contractor's retainage, make adjustment for the lesser of actual or liquidated damages determined in the cost certification review.
7. This procedure should be invoked only if, after consulting with ORCF Management, it can be confirmed that the problems causing the delay will be remedied within a reasonable time.

## 10.9

### Construction Change Orders – General

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- A. General Instructions. Construction contract changes (change orders) must be requested by the Borrower through the Lender. Request for Construction Changes on Project Mortgages ([Form HUD-92437-ORCF](#)) is used for on-site changes during construction in all projects involving Insurance of Advances of Mortgage Proceeds, and Insurance Upon Completion, when the change involves a change in the scope of work, or a change in construction time. Multiple construction changes may be placed on a single form. However, both a construction change(s) and a time extension change may not be listed on the same form. Forms must be signed by the Borrower's [Supervisory Architect](#), the Borrower, and the General Contractor, ~~and the Lender (including the as well as reviewed by the HUD Contract Inspector prior to being forwarded to the Lender by the Architect. The Lender (along with Lender's Architectural Reviewer, Cost Analyst, Appraiser, and Mortgage Credit Specialist, as necessary). The Contract Inspector)~~ shall review ~~the change order for technical acceptability, ensure adequate funds are available to cover cost, and for duplication within the drawings if approved, sign and approve or disallow prior to submission~~ send to the ~~Lender for approval~~ [ORCF CM](#). Final change order approval and distribution is made by the [ORCF CM](#). All change orders must receive prior approval by HUD in the form of a CO before work is commenced.
1. The General Contractor shall maintain a Change Order Log, showing the status of potential Change Orders. An updated copy must be kept on site, in the construction office, and a copy provided to the HUD Contract Inspector whenever changes are made to the Log.
  2. The ~~project~~ [Supervisory Architect](#) shall draft and assemble attachments for each Change Order clearly describing each change, and the reason for the change. Required attachments for physical changes include:
    - a. Appropriate modifications to the contract drawings and specifications,
    - b. An Architect's narrative describing the change as well as an Architect's Change

1018 Order Checklist confirming that the change(s):

- 1019 i. ~~Conforms~~conforms to the original ~~intent of the~~ contract drawings and  
1020 specifications; or
- 1021 ii. is necessary to overcome an impediment to construction; or is a  
1022 betterment, an equivalent, or an addition desired by the Borrower,
- 1023 iii. is permissible under the applicable zoning, building, housing, and  
1024 other codes, ordinances and/or regulations, as modified by any and all  
1025 waivers obtained from appropriate officials;
- 1026 iv. incorporates foundation designs that reflect site soils limitations and  
1027 design recommendations included in the foundation soils report and  
1028 any other geotechnical reports (if applicable);
- 1029 v. complies with the HUD Minimum Property Standards; all applicable  
1030 accessibility laws for persons with disabilities, including the Fair  
1031 Housing Accessibility Guidelines Act, 42 U.S.C. §§ 3601-19; Section  
1032 504 of the Rehabilitation Act of 1973; and the Americans with  
1033 Disabilities Act; including the applicable accessibility requirements  
1034 (e.g., the Uniform Federal Accessibility Standards (Direct link:  
1035 [http://portal.hud.gov/hudportal/documents/huddoc?id=AccessMatrixS](http://portal.hud.gov/hudportal/documents/huddoc?id=AccessMatrixSec232.docx)  
1036 ec232.docx); as well as any state or local law that requires higher  
1037 accessibility requirements; UFAS), ADA Standards, and Fair Housing  
1038 Accessibility Guidelines); and all other applicable HUD Standards,  
1039 guidelines and criteria;
- 1040 ~~vi. complies with the applicable State Energy Efficiency Design Code,~~  
1041 ~~vi. meets or exceeds the HUD minimum energy codes which are the~~  
1042 ~~International Energy Conservation Code (IEEC 2009), or for any~~  
1043 ~~buildings greater than 3 stories above grade, the American Society of~~  
1044 ~~Heating, Refrigerating and Air Conditioning Engineers Standard 90.1~~  
1045 ~~(ASHRAE 90.1, 2007) or as updated and published by HUD.~~  
1046 ~~vii. includes written approval by the Energy Professional for projects~~  
1047 ~~under the Green MIP Program, if applicable.~~
- 1048 ~~vii-viii.~~ viii. for Substantial Rehabilitation, structures ~~must meet~~ seismic  
1049 ~~zones 3 and 4 meet three fourths (3/4) of the seismic force level~~  
1050 ~~resistance contained in ASCE 31-03: Seismic Evaluation of Existing~~  
1051 ~~Buildings; requirements published by the American Society of Civil~~  
1052 ~~Engineers (ASCE) and its affiliate the Structural Engineering Institute~~  
1053 ~~(ASCE/SEI) for ASCE 41-13, as determined by a registered engineer~~  
1054 ~~familiar with lateral force design (if applicable). For additional~~  
1055 ~~guidance see Chapter 4.1, and~~
- 1056 ~~viii-ix.~~ ix. incorporates noise attenuation measures which are sufficient to  
1057 mitigate interior noise levels to an “Acceptable” level and complies  
1058 with the recommendations of the Noise Engineer (if applicable).
- 1059 ~~b. e.~~ Backup documentation for amount(s) requested consisting of itemized  
1060 ~~quantities.~~
- 1061 ~~b.c.~~ Quantities and costs (including itemized Builder’s Fees).
- 1062

- 1063 3. After the General Contractor ~~or~~and Supervisory Architect has drafted the Change  
1064 Order, and included all necessary attachments, the HUD Contract Inspector ~~will~~shall  
1065 review the change order ~~in the field~~during an inspection for technical acceptability  
1066 and for duplication within the drawings. ~~If, and approve or disallow items as~~  
1067 necessary. Upon completion of the review, the HUD Contract Inspector shall place  
1068 their initials and date in top right corner of the first page. The Lender (along with  
1069 Lender’s Architectural Reviewerand ~~Cost Analyst (per the instructions below), and~~  
1070 Lender’s, Appraiser, and Mortgage Credit Specialist (as required by the instructions  
1071 below), will then review and process the Change Order. The Change Order is then  
1072 reviewed, as necessary) shall review, and signed by the Lender, who then ensure  
1073 adequate funds are available to cover cost and if approved, signs and sends the  
1074 complete Change Order package to the ORCF CM for final review and approval.  
1075 Copies of the fully executed Change Order will then be distributed as listed below in  
1076 10.9.M. All change orders must receive prior approval before work subject to the  
1077 change order is commenced.
- 1078
- 1079 4. Approve change orders only when they are necessary, a betterment, or an equivalent.  
1080 The following information shall appear in the Change Order submission:  
1081 a. Classification as listed below in 10.9.C (necessity, betterment, etc.);  
1082 b. Qualification for payment from the contingency reserve, or Borrower cash  
1083 escrow;  
1084 c. Whether change order results from error, omission, or negligence on the part of  
1085 the Architect, General Contractor, or Borrower.
- 1086
- 1087 5. Do not approve any change orders submitted after the final HUD Contract Inspector’s  
1088 Final Trip Report; ~~(100%)~~, except where:  
1089 a. The change order pertains to “Items of Delayed Completion,” or  
1090 b. Prior written approval is given by the ORCF CM.
- 1091
- 1092 6. Surety approval must be secured in writing before approving any change or aggregate  
1093 of changes that increase the contract price 10 percent or more. There is no consent  
1094 requirement where the project’s assurance of completion is by a cash escrow or letter  
1095 of credit.
- 1096
- 1097 7. Change Orders must be submitted in a timely manner: during construction. HUD  
1098 ~~regulations prohibit~~Policy prohibits processing of change orders after the 100% Final  
1099 Trip Report.
- 1100
- 1101 8. ~~The~~Prior to submission to HUD, the form selected must be signed by:  
1102 a. Borrower,  
1103 b. General Contractor,  
1104 c. Architect, and  
1105 d. Lender
- 1106
- 1107 9. All offsite changes must be:  
1108 a. Requested in a letter or other format acceptable to ORCF. ~~The~~Form HUD-

1109 [92437-ORCF](#), Request for Construction Changes on Project Mortgages, shall  
1110 not be utilized for this purpose.

- 1111 b. The request will be otherwise documented and processed in the same manner  
1112 as on-site changes.

1113  
1114 10. HUD will endeavor to promptly review all requests submitted. All construction  
1115 change requests must be reviewed, signed, and dated by the ORCF CM.

1116  
1117 11. Voiding Changes. If an approved change is not made, it must be nullified by a  
1118 Request for Construction Changes on Project Mortgages restoring the drawings and  
1119 specifications to the status prior to the change request or to a status acceptable to  
1120 HUD.

1121  
1122 12. Unapproved Changes. When there are unapproved changes in construction, the HUD  
1123 Contract Inspector is required to modify the amount of the General Contractor's  
1124 requisition to cover any additional costs related to the unapproved construction  
1125 including, without limitation, those required to remove work that does not conform to  
1126 the plans and specifications as approved by HUD originally or in accordance with  
1127 approved Change Orders.

1128  
1129 B. General Change Order Policies.

1130  
1131 1. Changes must be accurately reported and accounted for pursuant to U.S. Criminal  
1132 Code, Section 1010, Title 18, U.S.C.

1133  
1134 2. The Change Order process is not to be implemented as a means for making  
1135 fundamental alterations to a project as approved and underwritten, particularly  
1136 with respect to retaining its full operational functions, amenities, and value.

1137  
1138 3. HUD does not initiate any changes but may require them as a condition of  
1139 approval in connection with a change proposed by the Architect, Borrower, or  
1140 General Contractor.

1141  
1142 4. All [proposed](#) changes must be [reviewed and](#) approved in writing by the Lender  
1143 and HUD before related work begins.

1144  
1145 5. Any change that is made without formal approval, even though tentatively agreed  
1146 to as technically acceptable, must be recorded by the [HUD](#) Contract Inspector as a  
1147 noncompliance. This stands until, and unless, the Request for Construction  
1148 Changes on Project Mortgages, is approved, and also affects payment of  
1149 advances.

1150  
1151 C. Change Order Classification.

1152  
1153 1. Necessary changes are those that arise from:

- 1154 a. Latent conditions that differ from conditions contemplated by the construction

- 1155 documents;
- 1156 b. Changes in the applicable codes, ordinances, etc. after:
- 1157 i. Initial closing for insured advances;
- 1158 ii. Firm Commitment for insurance upon completion;
- 1159 c. Errors or omissions by the Architect;
- 1160 d. Physical damages to completed construction.
- 1161
- 1162 2. Betterment changes are those that are economically justified. They must either:
- 1163 a. Increase net income;
- 1164 b. Reduce long-term project maintenance and/or operating expenses;
- 1165 c. Otherwise enhance the value of the mortgaged property.
- 1166
- 1167 3. Equivalent changes are those proposed because:
- 1168 a. Specified item is not readily available and the substitution provides equivalent
- 1169 or better utility, or
- 1170 b. Proposed substitution reduces the contract price but provides equivalent or
- 1171 better utility and performance.
- 1172
- 1173 D. Additive Change Orders. An Additive Change Order does not give any explicit or implied
- 1174 assurance that an increase in the insured mortgage amount will be granted.
- 1175
- 1176
- 1177 1. Require the Borrower, except for “necessary” change orders on substantial
- 1178 rehabilitation projects, to escrow funding with the Lender for any additive change
- 1179 order where HUD first estimates that the aggregated change orders equal or exceed a
- 1180 \$5,000 increase in the construction contract price, and for all subsequent additive
- 1181 change orders.
- 1182 a. Excess mortgage proceeds, if available, may be used to fund the escrow for
- 1183 “necessary” and “betterment” change orders. However, any excess mortgage
- 1184 proceeds used to fund the escrow for General Contractor estimated costs in
- 1185 excess of HUD estimated costs, or HUD estimated costs in excess of General
- 1186 Contractor estimated costs, may not be disbursed until ~~final closing~~[Final](#)
- 1187 [Closing](#).
- 1188 b. Permit Lender to accept a third-party letter of credit instead of a cash deposit,
- 1189 subject to the Lender agreeing to provide the cash equivalent, where the letter
- 1190 of credit is not immediately ~~met~~[posted](#).
- 1191 c. Recognize the cost of third-party paid change orders at cost certification,
- 1192 where there are available mortgage savings.
- 1193
- 1194 2. On substantial rehabilitation projects, approve payment from the established
- 1195 contingency reserve in an amount not to exceed the HUD cost estimate for
- 1196 “necessary” additive change orders. “Betterment” change orders are not eligible for
- 1197 payment from the contingency reserve.
- 1198 a. Require an escrow for any amount ~~that~~[by which](#) the General Contractor’s
- 1199 cost estimate exceeds the HUD estimate.
- 1200 b. Authorize use of excess mortgage proceeds, if available, to satisfy the escrow

1201 requirement Excess mortgage proceeds, if available, may be used to fund the  
1202 escrow for “necessary” and “betterment” change orders. However, any  
1203 excess mortgage proceeds used to fund the escrow for General Contractor  
1204 estimated costs in excess of HUD estimated costs, or HUD estimated costs in  
1205 excess of General Contractor estimated costs, may not be disbursed until  
1206 final closing.

1207  
1208 3. Approve the following forms for Borrower’s application of funds for completed  
1209 additive change orders:

- 1210 a. Request ~~for Approval of~~ Advance of Escrow Funds ([Form HUD-92464-](#)  
1211 [ORCF](#)), where an escrow is used. Note: This form must be submitted to  
1212 HUD for approval.
- 1213 b. The Application for Insurance of Advance of Mortgage Proceeds, where a  
1214 rehabilitation project’s contingency funds or ~~non-profit’s Developer’s fee or~~  
1215 excess mortgage proceeds are used.

1216  
1217 E. Deductive Change Orders.- Where the HUD estimated decrease in contract price for any  
1218 aggregation of change orders:

- 1219 1. Remains less than 2-1/2 percent of the contract price reduce the “final” Contractor’s  
1220 Requisition – Project Mortgages, by the appropriate amount.
- 1221 2. Equals or exceeds 2-1/2 percent of the contract price and for all subsequent deductive  
1222 change orders regardless of the amount:
  - 1223 a. Reflect the decrease in the Contractor’s Requisition – Project Mortgages, Item  
1224 (8).
  - 1225 b. Reduce the original mortgage amount at cost certification, where required.

1226  
1227 F. Changes that adversely affect income are a basis for change order rejection, except where it is  
1228 a necessary change order, and the situation is unavoidable.

1229  
1230 G. Extension of Contract Time.

- 1231 1. Approve an extension only where:
  - 1232 a. The delay was beyond the General Contractor’s control (e.g., strikes, differing  
1233 site conditions, bad weather exceeding the average for the season, etc.) and is  
1234 documented or associated with an approved change order,
  - 1235 b. The extension request was submitted within the limit provided by the contract  
1236 and the general conditions for delays beyond the General Contractor’s control,  
1237 and submitted concurrently with any requested changes in the work, and
  - 1238 c. The request is accompanied by a surety’s written consent. There is no consent  
1239 requirement where the project’s assurance of completion is by a cash escrow or  
1240 letter of credit.
- 1241 2. Require funding for the increased cost for overhead, interest, taxes, insurance, MIP,  
1242 and General Contractor’s general requirements by use of a cash escrow, or excess  
1243  
1244  
1245  
1246

- 1247 mortgage proceeds, or ~~non-profit's Developer's fee, if applicable,~~ or from contingency  
1248 reserve.  
1249
- 1250 3. HUD enforces liquidated damages in accordance with the contract.  
1251
- 1252 4. Required documentation. Within 21 days of the date a construction delay occurs, the  
1253 General Contractor must document it with the Architect and include:  
1254 a. Date of occurrence and number of calendar days it covered.  
1255 b. Effect on construction progress.  
1256 c. Cause of the delay. If the cause is of a continuing nature, submit the extension  
1257 request when the cause ceases, but still record the initial date of occurrence and  
1258 its effects on construction.  
1259 d. Extension request must also include written consent of the surety and conform  
1260 to AIA Document A201.  
1261
- 1262 H. Changes to Items of Delayed Completion. These are the only construction contract changes  
1263 that ORCF can approve after project completion. All others require ORCF consent.  
1264
- 1265 I. Emergency changes.  
1266
- 1267 1. The only time a change can be made without prior written approval of the Lender and  
1268 HUD is in emergencies that:  
1269 a. Endanger life or property; or  
1270 b. Halt construction.  
1271
- 1272 2. In these instances, the Architect must notify the Lender and HUD and, as soon as  
1273 possible, submit a Request for Construction Changes on Project Mortgages.  
1274
- 1275 J. Insurance Upon Completion. The Request for Construction Changes on Project Mortgages,  
1276 are processed in the same way as Insurance of Advance cases, except as modified:  
1277
- 1278 1. An escrow is not required for additive change orders. The Borrower:  
1279 a. Must be able to provide the additional funds required; and  
1280 b. Must not have any outstanding obligation in connection with construction other  
1281 than the insured mortgage at the time the mortgage is presented to HUD for  
1282 insurance upon completion.  
1283
- 1284 2. Surety approval is not required for the approval of additive change orders regardless  
1285 of the percentage of contract increase.  
1286
- 1287 K. Changes to offsite construction must be requested by letter or other acceptable format. The  
1288 Request for Construction Changes on Project Mortgages may be used as a general guide, but  
1289 the form itself may not be utilized for this purpose.  
1290
- 1291 L. Other Changes. These changes necessitated by error, omission, or negligence of Architect,  
1292 Borrower, or General Contractor must be so recorded by [the ORCF CM](#) or HUD

1293 ~~architectural staff or~~ Contract ~~inspector,~~Inspector, on the Request for Construction Changes  
1294 on Project Mortgages.

1295  
1296 1. Record the reason for the determination.

1297  
1298 ~~+~~2. Indicate that the cost effect must not be included in the mortgage amount.

1299  
1300 M. Distribution of fully executed Change Orders: Lender, Borrower, Supervisory Architect,  
1301 General Contractor, and HUD Contract Inspector.

1302  
1303

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## **10.10** Change Orders – HUD Contract Inspector Instructions

1304  
1305 A. For specific situations, see the appropriate subject heading.

1306  
1307 NOTE: For projects involving insurance upon completion, references here to "contract  
1308 requirements" or "contract documents" include the conditions and provisions of the  
1309 commitment if there is no construction contract.

1310  
1311 B. Contemplated changes are first discussed among the Architect, General Contractor, Borrower,  
1312 Lender, and HUD Contract Inspector.

1313  
1314 C. The HUD Contract Inspector will make a preliminary determination of technical acceptability  
1315 before a change order is submitted for approval ~~of~~to the Lender and the HUD ~~Office~~ORCF  
1316 CM. (This preliminary determination neither commits HUD to the change, nor relieves the  
1317 Architect ~~or,~~ the General Contractor or the Lender from completing the process described  
1318 below.)

1319  
1320

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## **10.11** Change Orders – Lender’s Architectural Reviewer and Cost Analyst’s Instructions

1321  
1322 A. Architectural Reviewer. Review all requested changes for technical acceptability.

1323  
1324 B. Cost Analyst.

1325  
1326 1. Construction changes:  
1327 a. The Lender’s Cost Analyst will produce a cost estimate for each construction  
1328 change request submitted by the Borrower. Apply current data to accepted or  
1329 amended change order quantities. Include amounts for general requirements  
1330 and builder’s overhead and profit using the percentage of each from the  
1331 “Replacement Cost” tab of the Maximum Insurable Loan Calculation (Form  
1332 HUD-92264A-ORCF) at Firm commitment.

- 1333 b. Compare estimate with Borrower’s estimate. If reasonable, use Borrower’s  
1334 figure, otherwise use HUD’s estimate.  
1335 c. Complete cost entries on the Request for Construction Changes on Project  
1336 Mortgages and forward completed form to the Lender’s Appraiser and  
1337 Mortgage Credit Specialist, if applicable (see “Lender’s Appraisal and  
1338 Mortgage Credit Instructions,” below)  
1339  
1340 2. Approved time extensions:  
1341 a. Calculate additional general requirements cost due to extension of time.  
1342 i. Divide cost of general requirements from the approved Contractor’s  
1343 and/or Mortgagor’s Cost Breakdown ([Form HUD-232892328-ORCF](#))  
1344 by the number of months estimated for construction from the  
1345 “Replacement Cost” tab of the Maximum Insurable Loan Calculation  
1346 at Firm commitment. Sixty-five percent (65%) of this amount is the  
1347 estimate per month of additional general requirements.  
1348 ii. Use one quarter of the monthly estimate per week.  
1349 iii. There is no cost effect for extensions of time for less than one week  
1350 (seven calendar days).  
1351 b. Complete cost entries on the Request for Construction Changes on Project  
1352 Mortgages and forward completed form to the Lender’s Mortgage Credit  
1353 Specialist (see “Lender’s Appraisal and Mortgage Credit Instructions,” below)  
1354  
1355

## 10.12

### Change Orders – Lender’s Appraisal and Mortgage Credit Instructions

- 1356  
1357 A. Appraisal.  
1358  
1359 1. The Lender’s Appraiser must review all requested changes that may affect  
1360 marketability, value, income, or maintenance or operating cost. The Lender’s  
1361 Appraiser must identify and explain any estimated increase or decrease in net project  
1362 income on the reverse of the Request for Construction Changes on Project Mortgages.  
1363  
1364 2. If applicable, per A.1 above, the Lender’s Appraiser must forward a Maximum  
1365 Insurable Loan Calculation reflecting the new data for the Lender’s Mortgage Credit  
1366 Specialist’s re-determination of the maximum insurable mortgage.  
1367  
1368 B. Mortgage Credit.  
1369  
1370 1. Processing.  
1371 a. If the Borrower’s or General Contractor’s estimate for the change order exceeds  
1372 HUD’s estimate, the difference must be escrowed with the Lender. Excess  
1373 mortgage proceeds, if available, may be used to satisfy this requirement.  
1374 Conversely, that portion of HUD’s estimate which exceeds the Borrower’s or  
1375 General Contractor’s estimate must be restricted and held until Final Closing to

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- ensure funds to complete the project.
- b. Process the cost and appraisal findings and show the cumulative effect on cost of all approved change items.
  - c. Additive Change Orders. Do not give any explicit or implied assurance that an increase in the insured mortgage amount will be granted when approving construction changes.
    - i. Require the Borrower, except for “necessary” change orders on substantial rehabilitation projects, to fund escrow ~~funding~~ with the Lender for any additive change order where HUD first estimates that the aggregated change orders equal or exceed a \$5,000 increase in the construction contract price, and for all subsequent additive change orders.
      - 1. Excess mortgage proceeds, if available, may be used to fund the escrow for “necessary” and “betterment” change orders. However, any excess mortgage proceeds used to fund the escrow for General Contractor estimated costs in excess of HUD estimated costs, or HUD estimated costs in excess of General Contractor estimated costs, may not be disbursed until ~~final closing~~Final Closing.
      - 2. Permit Lender to accept a third-party letter of credit instead of a cash deposit, subject to the Lender agreeing to provide the cash equivalent, where the letter of credit is not immediately ~~met~~posted.
      - 3. Recognize the cost of third-party paid change orders at cost certification, where there are available mortgage savings.
    - ii. On substantial rehabilitation projects, approve payment from the established contingency reserve in an amount not to exceed the HUD cost estimate for “necessary” additive change orders. “Betterment” change orders are not eligible for payment from the contingency reserve.
      - 1. Require an escrow for any amount ~~that by which~~ the General Contractor’s cost estimate exceeds the HUD estimate.
      - 2. Authorize use of excess mortgage proceeds, if available, to satisfy the escrow requirement, subject to the disbursement limitations in 1 a. above.
    - iii. Approve the following forms for Borrower’s application of funds for completed additive change orders:
      - 1. Request for Approval of Advance of Escrow Funds, where an escrow is used. Note: This form must be submitted for approval.
      - 2. The Application for Insurance of Advance of Mortgage Proceeds, where a rehabilitation project’s contingency funds excess mortgage proceeds are used.
  - d. Deductive Change Orders. Where HUD ~~estimated~~estimates decrease in contract price for any aggregation of change orders:

- 1422 i. Remains less than 2 ½ percent of the contract price, reduce the “final”  
1423 Contractor’s Requisition — Project Mortgages, by the appropriate  
1424 amount.
- 1425 ii. Equals or exceeds 2 ½ percent of the contract price and for all  
1426 subsequent deductive change orders regardless of the amount:  
1427 1. Reflect the decrease in the Contractor’s Requisition – Project  
1428 Mortgages, Item (8)  
1429 2. Reduce the original mortgage amount at cost certification,  
1430 where required.
- 1431 e. Recalculate the maximum insurable mortgage when any approved construction  
1432 change or changes adversely affect net income, e.g., a change that causes an  
1433 increase in operating costs.
- 1434 i. Lender’s Appraiser completes a Maximum Insurable Loan Calculation  
1435 with an updated income and expense analysis.
- 1436 ii. Re-determine the maximum insurable mortgage.
- 1437 iii. If the re-determined mortgage is lower than the original mortgage  
1438 amount, as a condition of approval of the change order, indicate in  
1439 item 3b of the Request for Construction Changes on Project Mortgages  
1440 that subsequent Contractor’s Requisition — Project Mortgages, must  
1441 be reduced by the greater of:
- 1442 1. The difference in mortgage amounts;  
1443 2. The net increase in costs resulting from acceptable construction  
1444 changes.
- 1445 f. Extensions of time.
- 1446 i. Lender’s Architectural Reviewer, and Cost Analyst are responsible for  
1447 determining whether the delay was beyond the General Contractor’s  
1448 control and, if so, the length of the approved time extension.
- 1449 ii. Calculate the cost increase due to the extension:
- 1450 1. Compute pro-rata daily rate ~~for~~of interest, (based on interest  
1451 rate), taxes and insurance by using estimates in the  
1452 “Replacement Cost” tab of the Maximum Insurable Loan  
1453 Calculation. as amended, and multiply these rates by the  
1454 approved time extension.
- 1455 2. An additional year of MIP will be required if the approved time  
1456 extension, when added to the estimated construction term plus  
1457 the 2 months included in the “Replacement Cost” tab of the  
1458 Maximum Insurable Loan Calculation plus previously  
1459 approved time extensions, will require an additional MIP  
1460 payment during the construction period.
- 1461 3. Add the additional general requirements, if any, noted by the  
1462 Lender’s Cost Analyst on the change order request.

1464 NOTE: Only Item 3 above amends the construction contract price on the  
1465 Request for Construction Changes on Project Mortgages.  
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- iii. Determine the source of funds for any increase due to the extension, i.e., cash, excess mortgage proceeds ~~or non-profit's Developer's fee~~, or contingency reserve funds.
  - iv. Requests for release of excess mortgage proceeds or contingency reserve funds set aside to fund time extensions are submitted on the Application for Insurance of Advance of Mortgage Proceeds.
  - v. Releases from a cash deposit are made using the Request for Approval of Advance of Escrow Funds.
  - vi. These funds may be released only after the account for the soft cost item(s) being requested has been exhausted on the Financial Record of Mortgage Loan Transaction.
2. Requests for disbursement of contingency reserve funds and non-profit's Developer's fee for completed change order items are made on the Application for Insurance of Advance of Mortgage Proceeds. All requests:
- a. Must be accompanied by a certification by the Borrower's supervisory Architect and the [HUD](#) Contract Inspector that all the work covered by the change order has been acceptably completed in accordance with contract documents;
  - b. Must include the Borrower's certification relative to payment to the General Contractor contained on the Request for Approval of Advance of Escrow Funds;
  - c. Must include the criminal certification contained on the Request for Approval of Advance of Escrow Funds for certifications made in paragraphs a and b above;
  - d. Are subject to a 10 percent retainage.
3. Change orders funded from excess mortgage proceeds. Excess mortgage proceeds may be used to fund either "necessary" or "betterment" change orders.
- a. These funds may be used to fund HUD's estimate of increased costs as well as any portion of the General Contractor's estimate which ~~exceeds~~[exceed](#) the HUD estimate. The portion which exceeds HUD's estimate must be restricted until Final Closing.
  - b. Funds are released in the same manner as contingency reserve funds.
4. Releasing Cash Deposit. The Borrower submits through the Lender the Request for Approval of Advance of Escrow Funds when construction covered by a cash deposit is complete and acceptable to HUD.
- a. The Borrower's supervisory Architect and the HUD Contract Inspector must certify on the Request for Approval of Advance of Escrow Funds that all work and materials covered by the change order are satisfactory and consistent with contract drawings.
  - b. If construction costs were paid in full with other than the cash escrow or excess mortgage proceeds before submitting the disbursement request to HUD for approval, the Borrower must submit a receipt of payment signed by the General Contractor.

- 1513 c. If construction costs will be paid after HUD’s approval for the release of the  
1514 funds deposited for the construction change, before the next Application for  
1515 Insurance of Advance of Mortgage Proceeds is submitted, the Borrower must  
1516 submit a receipt of payment signed by the General Contractor.  
1517
- 1518 5. Change Order Summary Sheet showing cumulative cost of all executed change orders  
1519 ~~should~~must contain, at least:
- 1520 a. The date the change order was received by the Lender and signed by the  
1521 Borrower, Architect and General Contractor;
- 1522 b. The date HUD received the change order;
- 1523 c. The date the Lender’s Mortgage Credit Specialist processed the change order;
- 1524 d. The Borrower’s or General Contractor’s estimate of cost for the change order;
- 1525 e. HUD’s estimate of cost for the change order;
- 1526 f. The amount of change orders to be funded from contingency reserve, ~~non-~~  
1527 profit’s Developer’s fee, or excess mortgage proceeds;
- 1528 g. The required cash escrow deposit, if any;
- 1529 h. The HUD percentage of cost increase or decrease.  
1530  
1531

## 10.13

### Labor and Fair Housing and Equal Opportunity (FHEO)

- 1532
- 1533 A. Wages
- 1534
- 1535 1. Payrolls. General Contractor payrolls are submitted directly to the designated HUD  
1536 Labor Relations Specialist weekly for each week in which contract work is  
1537 performed.  
1538
- 1539 2. On-site interviews. The ~~ORCF CM forwards~~HUD Contract Inspector submits PDF  
1540 copies of the Record of Employee Interview (HUD-11), ~~which are submitted by the~~  
1541 HUD Contract Inspector,) to the ORCF CM. The HUD 11’s are forwarded to Office  
1542 of Davis-Bacon and Labor Relations Staff, Standards staff.  
1543
- 1544 B. Labor violations. The ORCF CM shall advise the Office of Davis-Bacon and Labor  
1545 Relations Staff, Standards staff of continuing minor infractions that cannot be resolved or of  
1546 any identified or suspected major violations.  
1547
- 1548 C. FHEO violations. The ORCF CM shall advise the applicable HUD Director of FHEO of  
1549 continuing ~~minor violations that cannot be resolved or of any identified or suspected major~~  
1550 violations.  
1551  
1552

## 10.14

### Surveys

1554 [ALTA/ACSM](#) Surveys must be performed by a licensed surveyor ~~and show the exact location of~~  
1555 ~~on-site improvements, including utility lines and easements, as described in~~ accordance with  
1556 the Survey Instructions and Borrower's Certification, [Form HUD-91111-ORCF](#), and as outlined  
1557 below:

1558  
1559 A. The General Contractor must give the Borrower and HUD surveys:

1560 1. At any time the Borrower or HUD requires, and

1561 ~~2. When construction is complete ("as-built" survey).~~

1562  
1563 2. [An As-Built ALTA/ACSM Survey is required for both Construction Completion](#)  
1564 [\(Final Trip Report\) and Final Closing. The ALTA/ACSM As-Built Land Title](#)  
1565 [Survey, including all above-ground and below-ground improvements, shall be in](#)  
1566 [accordance with the Survey Instructions and Borrower's Certification, Form HUD-](#)  
1567 [91111-ORCF.](#)

1568  
1569  
1570 B. The HUD Contract Inspector, when uncertain of the location of construction or stored  
1571 materials in relation to property lines or easements, may ask the Architect to require a survey  
1572 with the next General Contractor's requisition.

1573  
1574 C. If encroachments are found, the HUD Contract Inspector must notify the ORCF CM by  
1575 memorandum explaining the conditions. (Encroachments may jeopardize the entire property  
1576 as security for an insured mortgage.)  
1577  
1578

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## 10.15

## Escrowed Funds, Letters of Credit, Deposits, Retainage and Related Matters

1579  
1580 A. Borrower's Application for Escrowed Funds.

1581  
1582 1. Request for Approval of Advance of Escrow Funds; must be used where the escrow is  
1583 to ensure completion of offsite improvements, demolition, additive change orders,  
1584 minor movable equipment, [critical](#), non-critical [or Borrower elected](#) repairs (under the  
1585 Section 223(f) ~~program~~ and [Section 223\(a\)\(7\) programs](#)), or Borrower's unpaid  
1586 construction items at Final Closing.

1587  
1588 2. The Borrower initiates and forwards the Request for Approval of Advance of Escrow  
1589 Funds to the Lender for its review before submitting the disbursement request to  
1590 HUD for approval.

1591  
1592 3. Require the HUD inspector to reflect the percentage of acceptably completed escrow  
1593 work on the HUD Representative's Trip Report; and forward a copy after review to  
1594 the Lender for use in reviewing the Request for Approval of Advance of Escrow  
1595 Funds.  
1596

- 1597 4. Do not authorize advances in excess of the documented percentage completed, less  
1598 previous payments and a 10 percent retainage.  
1599
- 1600 B. Release of letters of credit. In the event of a claim:  
1601
- 1602 1. Assignment. HUD will not accept an assignment of the letter of credit to HUD from the  
1603 Lender.  
1604
- 1605 2. Un-drawn Balance. HUD will treat any un-drawn balance from a letter of credit or  
1606 escrow agreement as cash held by the Lender.  
1607
- 1608 3. Cash equivalent. The Lender is required to provide cash equal to the un-drawn  
1609 balance, if demand on a letter of credit is not met.  
1610
- 1611 C. Working Capital Deposit is established with the Lender at initial closing. It may be funded  
1612 by cash, letter of credit or excess mortgage proceeds, if any.  
1613
- 1614 1. Purpose. The deposit is used to:  
1615 a. Defray cost of pre-operations marketing and initial rent-up. This includes:  
1616 sales and advertising, model furnishing, and equipment and supplies essential  
1617 to initial rent-up, etc.;
- 1618 b. Escrow funds for items due during the first operating year that project income  
1619 is not expected to cover, including real estate taxes, permanent property  
1620 insurance premiums, ground rents and assessments;
- 1621 c. Cover shortfalls in interest, taxes, property insurance premiums, ground rents  
1622 and assessments during construction after funds available under the Building  
1623 Loan Agreement are exhausted;
- 1624 d. Potentially allocate funds to the Reserve for Replacement (R4R) account for a  
1625 project with low-income housing tax credits, where acceptable to the  
1626 Borrower and HUD;
- 1627 e. The new construction contingency portion of the escrow will be used for  
1628 change orders and cost overruns.  
1629
- 1630 2. Control and Release of Escrow. The Lender controls disbursements from the escrow,  
1631 subject to HUD approval where appropriate (where required by escrow agreement),  
1632 except where the Borrower certifies at firm commitment that any balance of the  
1633 escrow will be applied to the reserve for replacements or additional betterments on a  
1634 LIHTC, Historic Tax Credit, or New Markets Tax Credit project. In reviewing a  
1635 Borrower's request for release of part of the escrow, consider the following:  
1636 a. Borrower's request for the release of such escrow funds must be by letter to  
1637 the Lender, rather than on the Application for Insurance of Advance of  
1638 Mortgage Proceeds;
- 1639 b. None of the escrow can be used to defray any of the hard costs of construction  
1640 applicable to the "Total for All Improvements." in the "Replacement Cost" tab  
1641 of the Maximum Insurable Loan Calculation;
- 1642 c. Avoid premature disbursements and unnecessary expenditures;

- 1643 d. As portions of a project ~~are~~is ready for occupancy, a partial disbursement may  
1644 be permitted for reasonable opening expenses: however, it must be determined  
1645 that the escrow is not exhausted before the entire project is complete;  
1646 e. ORCF may require that the deposit be used to cover any shortfall in interest,  
1647 taxes, property insurance, ground rent and assessments;  
1648 f. Fully document all expenditures from the escrow.  
1649
- 1650 3. Final Release of Escrow.  
1651 a. The Lender may release any balance in the working capital escrow to the  
1652 Borrower 12 months after Final Closing where the project is not in default and  
1653 when the project has demonstrated to ORCF's satisfaction that the project has  
1654 achieved break-even occupancy for each of six consecutive months. Break-  
1655 even occupancy is defined as 1.0 debt service coverage, based on all sources  
1656 of Project income including ancillary income.  
1657 b. The Lender must hold this escrow until any project financial problems are  
1658 resolved (e.g., has not reached sustaining occupancy, has poor liquidity or  
1659 high payables, is operating at a deficit or is near default).  
1660 c. If the project mortgage is in default, the Lender should use any balance of the  
1661 working capital escrow to cure a default, ~~where a default occurs before the~~  
1662 ~~Escrow's release.~~  
1663 d. The working capital new construction contingency will be refunded to the  
1664 Borrower at Final Closing, if not used.  
1665
- 1666 D. Amount of General Contractor's 10 percent retainage and release. The retainage provides an  
1667 incentive for the General Contractor and Borrower to ~~to~~ promptly complete the project, submit  
1668 cost certification and reach ~~final closing~~Final Closing.  
1669
- 1670 1. Amount of retainage. The Building Loan Agreement requires the Lender to retain at  
1671 least 10 percent of the construction proceeds from each advance. The construction  
1672 contract also provides for 10 percent retainage from the General Contractor's monthly  
1673 payments for acceptably completed work, acceptably stored materials, and where  
1674 applicable, components acceptably stored offsite. The requirement for contingency  
1675 release is as follows:  
1676 a. The General Contractor has no identity-of-interest with the Borrower greater  
1677 than a 5 percent equity interest;  
1678 b. If applicable, prior written consent from the surety company must be attached  
1679 to the request for release; ~~and~~  
1680 c. There are no questions regarding the General Contractor's performance  
1681 concerning the quality of work, compliance with the contract and any change  
1682 orders or work in progress; ~~and~~  
1683 d. Assuming these conditions are met, the existing standard of 10% retainage  
1684 will be required only until 90% completion. After 90% completion, the  
1685 requirement will be 5% retainage until 100% completion and 2.5% retainage  
1686 until the loan reaches Final Closing.  
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2. Release of retainage for identity of interest General Contractor. Except as provided in paragraphs 4 and 5 below, do not release any part of the retainage until ~~final closing~~Final Closing for a General Contractor with an identity of interest.
  
  3. Release of retainage for non-identity of interest General Contractor. Release the General Contractor's retainage or remaining balance at the next to last advance, where requisitioned on the Application for Insurance of Advance of Mortgage Proceeds, and subject to compliance with the following:
    - a. General Contractor's cost certification, where required, has been reviewed and approved;
    - b. General Contractor has disclosed its final obligations on the Request for Final Endorsement of the Credit Instrument;
    - c. All work under the construction contract has been inspected and approved by the controlling jurisdictions and/or authorities;
    - d. Certificates of occupancy or other required approvals for the dwelling units, and non-dwelling facilities, where applicable, have been issued by governmental authorities having jurisdiction. Separate buildings for community rooms, rental offices, laundry rooms, etc., commonly require certificates of occupancy;
    - e. Permission ~~To~~to Occupy ~~—~~ Project Mortgages has been issued by HUD for all units;
    - f. All Davis-Bacon payroll requirements have been satisfied;
    - g. ~~The ALTA/ACSM As-Built Survey, has been submitted to HUD, per the prepared in accordance with Form HUD-91111-ORCF, Survey Instructions and Borrower's Certification (, have been submitted to HUD-91111-ORCF),~~ and
    - h. Retain, where applicable, an adequate amount for the following:
      - i. Items of delayed completion in an amount equal to 150 percent of the HUD Inspector's cost estimate for completion,
      - ii. Any owed or contested amounts indicated by mechanics, subcontractor, supplier, or equipment lessor liens, etc.
      - iii. Lessor of the liquidated damages or actual damages computed at cost certification, and
      - iv. Net effect of negative change orders.
  
  4. Early partial release of retainage.

After 90 percent construction completion, the ORCF CM may approve the partial release of the General Contractor's retainage, and suspend further withholding of retainage from payments due, where:

    - a. The General Contractor has no identity of interest or the General Contractor's only identity of interest is a project ownership of less than 5 percent;
    - b. The General Contractor, Borrower and mortgagee request the early release of the retainage in accordance with Appendix 10.4, and attach the request to the Application for Insurance of Advance of Mortgage Proceeds; ~~and~~
    - c. The surety, if any, has provided written consent to the release; and

- 1734 d. The ORCF CM determines that:
- 1735 i. The General Contractor's general performance warrants partial release
- 1736 of the retainage without conditions, and
- 1737 ii. There are no significant outstanding Labor Standards / Davis-Bacon
- 1738 issues (if applicable), or
- 1739 iii. Partial release of the retainage with conditions, e.g., measures to assure
- 1740 immediate distributions to subcontractors or others, would be in the
- 1741 mutual interest of all participants.
- 1742 e. The un-disbursed retainage must equal or exceed 5 percent of the contract
- 1743 amount.
- 1744
- 1745 5. Projects in difficulty. Release of part of the General Contractor's retainage before 90
- 1746 percent contract completion may be granted only to prevent a default of the construction
- 1747 loan and only if it would solve the project's problems and enable it to reach construction
- 1748 completion.
- 1749 a. Review the General Contractor's performance including:
- 1750 i. The completed work must be satisfactory;
- 1751 ii. The percentage of completed contract work must be sufficient to
- 1752 ensure project completion within the specified contract time; and
- 1753 iii. Do not release any retainage if there are serious, unresolved questions
- 1754 concerning:
- 1755 1. Quality of work,
- 1756 2. Compliance with the contract, including outstanding change
- 1757 orders, or
- 1758 3. Work is progressing behind the General Contractor's
- 1759 construction schedule, as amended by approved change orders.
- 1760 b. Require a written consent for the early release of retainage from the surety, if
- 1761 any, the Borrower and [mortgageeMortgagee](#).
- 1762
- 1763 E. Release of the Initial Operating Deficit. ORCF's AE will consider Lender requests for initial
- 1764 operating deficit draws during lease-up. The Lender's request must be accompanied by:
- 1765
- 1766 1. A review and analysis of the monthly accounting reports detailing progress on lease
- 1767 up as compared to the lease up projections used in underwriting, and
- 1768
- 1769 2. An updated calculation of the sufficiency of the escrow. This analysis and calculation
- 1770 [isare](#) particularly important if the project is experiencing substantial variations from
- 1771 its lease up projections.
- 1772
- 1773 3. Unused portions will be returned to the Borrower twelve months after [final](#)
- 1774 [closingFinal Closing](#) and when the project has demonstrated to ORCF's satisfaction
- 1775 that the Project has achieved a debt service coverage ratio (including the Mortgage
- 1776 Insurance Premium) of at least 1.45 for each month of three consecutive months. The
- 1777 Lender is responsible for [insuringensuring](#) that escrow funds are released solely for
- 1778 project operating needs.
- 1779

1780

## 10.16 Completion of Repairs Pursuant to Section 223(f) and 223(a)(7)

1781

1782

A. Required Repairs are documented by the Lender's Needs Assessor. A list is prepared which categorizes repairs into critical repairs and non-critical repairs.

1783

1784

1785

1. Critical repairs must be completed before closing. Critical repairs are any individual or combination of repairs required to correct conditions that:

1786

1787

a. Endanger the safety or well-being of residents, visitors or passers-by;

1788

b. Endanger the physical security of the property;

1789

c. Adversely affect project or unit(s) ingress or egress;

1790

d. Prevent the project from reaching sustaining occupancy;

1791

e. Require correction of accessibility deficiencies (See Accessibility Matrix available on the Section 232 Program website. Direct link:

1792

<https://www.hud.gov/hudportal/sites/documents/hudoc?id=AccessMatrixSec232.docx>

1793

1794

1795

2. Non-critical Repairs consist of all repairs other than Critical Repairs. Non-critical Repairs may, at the request of the Borrower, be completed after closing.

1796

1797

1798

1799

3. Completion of repairs.

a. Completion of repairs before closing. Lender shall submit a completed [Owner's/Borrower's Certification - Completion of Critical Repairs \(Form HUD-91118-ORCF\)](#), to HUD for review and approval.

1800

b. Completion of repairs after closing. See Asset Management, Chapter 3.2.4 for details regarding Non-Critical Repair Escrows.

1801

1802

1803

4. Payment for Repairs.

1804

a. Repairs completed before closing: No mortgage proceeds may be advanced.

1805

b. Repairs completed after closing: Shall be funded from the Non-Critical Repair Escrow established at Initial Closing.

1806

1807

B. Repair completion. All work must be acceptably completed before the loan closing, except for the following:

1808

1809

1810

1. Exterior Repairs, that cannot be completed because of weather conditions, may be completed after closing, with prior ORCF approval. Include amount(s) to be escrowed.

1811

1812

1813

1814

2. Non-critical repairs may be completed after closing when the commitment provides for it and a completion escrow is established at closing, except that:

1815

1816

1817

a. All critical repairs must be completed before closing, and

1818 b. An additional deposit must be made to the operating deficit account for  
1819 delayed repairs which will delay or interrupt occupancy or income for any  
1820 period.

1821  
1822

## 10.17

### Major Movable Equipment – Requisitions, Inspections, and Changes to Equipment Schedule During Construction

1823  
1824

#### A. Requisitions.

1825

1826 1. The Borrower prepares the Application for Insurance of Advance of Mortgage  
1827 Proceeds, indicating the total amount of Major Movable Equipment delivered to the  
1828 site and installed or stored onsite.

1829

1830 2. Related attachments will include:

1831 a. A summary sheet, and detailed lists all Major Movable Equipment purchased  
1832 and installed/stored on site within the past month;

1833 b. All invoices for equipment purchased.

1834

1835 NOTE: *Deposits* for Major Movable Equipment are not eligible for funding from  
1836 mortgage proceeds.

1837

#### B. Inspection of Major Movable Equipment.

1839

The HUD Contract Inspector:

1841

1842 1. Confirms delivery and installation (or acceptably stored on site) of Major  
1843 Movable Equipment and the invoice amounts;

1844

1845 2. Will only approve payment for equipment actually delivered and installed/stored  
1846 on site, and may change the listed equipment and requested amount on the  
1847 Application for Insurance of Advance of Mortgage Proceeds accordingly, to agree  
1848 with actual delivery and installation / storing;

1849

1850 3. Initials the summary sheet, and documents their observations and conclusions in the  
1851 HUD Representative's Trip Report.

1852

#### C. Changes to the Major Movable Equipment (MME) Schedule during construction.

1854

1855 1. Lender requires the Borrower to submit a revision of the itemized MME list. The  
1856 revised MME list should itemize which specific MME items are being replaced, and  
1857 contain a complete description and cost of the MME items that have been chosen as  
1858 replacements.

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2. The Borrower presents the revised MME list to the Lender for review. The Lender reviews the revised MME list and certifies that the replacement MME items are of equal quality and will perform the intended function of the MME items being replaced. Lender forwards a copy of the revised MME list and certification to the ORCF CM.
3. The ORCF CM forwards a copy of the revise MME List to the HUD Contract Inspector.

Note: If a revised MME item costs more than the item being replaced, the price differential *may* be paid from the Working Capital Escrow.

DRAFT