



OFFICE OF PUBLIC AND INDIAN HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-5000

**Date: August 3, 2023**

**Dear Lender Letter 2023-07**

**To:** All Tribes  
All Tribally Designated Housing Entities  
All Section 184 Approved Lenders  
All Section 184A Approved Lenders  
Department of Hawaiian Home Lands

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**Subject** Temporary Expansion of Single Close Construction and Rehabilitation Loan Reimbursement for Stored Materials and Shipping Costs Policy

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**Purpose** The purpose of this Dear Lender Letter (DLL) is to provide notice of the temporary expansion of the single close construction and rehabilitation loan reimbursement for stored materials and shipping costs policy.

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**Effective Date** This DLL is effective immediately and shall expire two years from the date of publication.

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**Public Feedback** HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide feedback on this policy document, please send feedback to Office of Loan Guarantee at [Section184Comments@hud.gov](mailto:Section184Comments@hud.gov). HUD will consider the feedback in determining the need for future updates.

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**Affected Programs** This DLL applies to the Section 184 and Section 184A programs.

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## Background

Current Section 184 and Section 184A single close construction and rehabilitation loans policies permit Lenders to reimburse for stored materials and shipping cost when the loan is for the construction or rehabilitation of homes in approved remote locations<sup>1</sup>, all areas of Alaska, and remote Hawaiian Home Lands. Under current policies, Lenders are permitted to reimburse a contractor with a Construction Loan Agreement with the Borrower for building materials or components shipped and stored on site provided certain written verification is provided to HUD.

Beginning in 2021 many essential building materials, such as windows, cabinets, electric breaker boxes were in short supply. For example, one survey of home builders showed:

- more than 90% of builders reported shortage of appliances and framing lumber;
- 90% of builders reported shortage of plywood; and
- 87% of builders reported shortage of windows and doors.<sup>2</sup>

According to one estimate, in 2022 the rising prices of lumber caused the cost of an average new single-family home to increase by more than \$18,600.<sup>3</sup> While shortage of raw materials may be less prevalent today, certain construction materials have continued to rise and impact Borrowers.<sup>4</sup> For example, as of April 2023 one report indicated cement increased 13.7%, construction sand/gravel/crushed stone increased 12.4%, and prestressed concrete products increased 23.6%.<sup>5</sup>

To respond to certain continuing supply chain challenges and to help Borrowers mitigate the effects of such supply chain issues in the future, OLG is expanding the policy on single close construction and rehabilitation loan reimbursement for stored materials and shipping costs.

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<sup>1</sup> Office of Loan Guarantee's current policy defines "remote locations" to mean "communities that are located off existing road systems and only accessible by water or air."

<sup>2</sup> See <https://nahbnow.com/2021/06/record-number-of-builders-report-material-shortages/>

<sup>3</sup> [https://nahbnow.com/2022/01/latest-wave-of-rising-lumber-prices-adds-more-than-18600-to-the-price-of-a-new-home/?\\_ga=2.158689274.1764191642.1643364220-1912667431.1643364220](https://nahbnow.com/2022/01/latest-wave-of-rising-lumber-prices-adds-more-than-18600-to-the-price-of-a-new-home/?_ga=2.158689274.1764191642.1643364220-1912667431.1643364220)

<sup>4</sup> <https://www.agc.org/news/2022/12/09/construction-materials-costs-rise-101-percent-between-november-2021-and-november-2022-double-digit>

<sup>5</sup> <https://www.statista.com/statistics/1046602/inflation-construction-materials-us>

With this expansion, Borrowers will have the opportunity to control and potentially reduce their construction or rehabilitation costs by pre-purchasing building materials and/or components, which must be securely stored prior to the construction or rehabilitation of the home. This expansion serves to provide Borrowers and builders with greater certainty as to their costs and ability to timely access needed building materials, thereby avoiding potentially rising materials costs, which leads only to higher loan amounts, and delays in the rehabilitation and construction timeline.

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### **Summary of Changes**

For a two-year period beginning on the effective date of this DLL the Office of Loan Guarantee (OLG) is expanding the single close construction and rehabilitation loan reimbursement for stored materials and shipping costs policy for **all** Section 184 Eligible Areas and **all** Hawaiian Home Land areas.

The pre-purchased materials may be stored in a secured location on or off-site.

The materials must be insured and name the Borrower and Lender as loss payee under the insurance policy.

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### **Reimbursement for Stored Materials and Shipping Costs**

Under this DLL, Section 184 and Section 184A single close construction and rehabilitation loans may now include the pre-purchase of stored materials, which must be securely stored and insured on or off-site prior to the construction or rehabilitation of the home, and shipping costs for loans on properties located in all Section 184 Eligible Areas and all Hawaiian Home Land areas.<sup>6</sup>

As a reminder, to include these costs under the Section 184 and Section 184A loan, the Lender must include in the endorsement case binder written verification of the following:

- prior to shipment confirmation the materials are stored and protected from weather in a bond-storage yard or other suitable place, as may be approved by the Lender;
- the materials are insured to cover its full value as verified by purchase invoices, with the borrower and Lender jointly named as loss payee under the insurance policy; and
- the materials are referenced in the itemized estimates section of the construction contract and are being used exclusively for the approved contract.

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<sup>6</sup> [https://www.hud.gov/sites/dfiles/PIH/documents/184\\_Map\\_States\\_and\\_Counties.pdf](https://www.hud.gov/sites/dfiles/PIH/documents/184_Map_States_and_Counties.pdf)

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This expansion shall be effective for a two-year period starting from the effective date of this notice. During this period the reimbursement for stored materials and shipping cost policies shall no longer be limited to remote Section 184 Eligible Areas and remote Hawaiian Home Land areas.

As part of the endorsement case binder submission the Lender must include a cover letter indicating the contractor is utilizing the benefits of this DLL. The cover letter should identify the provisions of the Construction Loan Agreement, or any other document, which addresses the contractor's pre-purchase and stored materials and shipping costs provisions.

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**Questions**

Any questions regarding this DLL may be directed to [Section184comments@hud.gov](mailto:Section184comments@hud.gov)

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**Signature**



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Richard J. Monocchio  
Principal Deputy Assistant Secretary for  
Public and Indian Housing