A. Contractor’s Monthly Requisition must be made on the Contractor’s Requisition – Project Mortgages. The Contractor’s Prevailing Wage Certificate on the form’s reverse side must be signed. The Contractor’s Requisition – Project Mortgages shall be a 2-sided form executed by the Contractor, and Supervisory Architect. The Contract Inspector must then review for acceptability and any modifications and execute the document. If acceptable, the document is forwarded to the Lender’s mortgage credit analyst for further processing, and inclusion in the Application for Insurance of Advance of Mortgage Proceeds.

1. Eligible items for inclusion on the Contractor’s Requisition – Project Mortgages.
   a. Acceptably completed onsite work, i.e. in full compliance with contract documents;
   b. Materials acceptably stored onsite itemized by quantity and cost with supporting invoices;
   c. Components acceptably stored offsite, where provisions are made at initial closing (including an acceptable Assurance of Completion for Offsite Improvements), and requirements of Paragraph B below are met.
   d. The Architect determines amounts due by job site observation of acceptable work. (The Contract Inspector makes the determination if there is no Architect.)
   e. The Contract Inspector:
      (1) Checks the Architect’s determination using the Contractor's and/or Mortgagor's Cost Breakdown, and trade item cost breakdowns (guides) to assure that amounts are reasonable for acceptable work and those funds remain for unacceptable and incomplete work;
      (2) Spot checks the count of stored onsite items, determines that storage is acceptable, and assures that amounts are reasonable for approval;
      (3) Checks the invoice and certificate for stored off-site items, and approves payment after assuring that funds remain for transportation to the site and erection.

2. Ineligible items for inclusion on the Contractor’s Requisition – Project Mortgages.
   a. Noncompliant work and work supported or dependent upon noncompliant work. Work changes completed in anticipation of future change order approvals are noncompliant work.
   b. Additive change orders. See Production, Chapter 10.9.
   c. Off-site work. See Paragraph C below for the contractor’s requisition of payment, and release of funds to the Borrower for acceptably completed offsite work.
   Where there is disagreement with the requisition, the Contract Inspector may modify the contractor’s requested amount by:
   a. Entering trade item modification(s) on the Contractor’s Requisition – Project Mortgages;
   b. Explaining the modification(s) in the HUD Representative’s Trip Report.
   c. Completion of the Contractor’s Requisition – Project Mortgages, Items (1) through (13) are made by the Lender.

   a. In order to help the Contract Inspector reconcile differences with contractor claims, the contractor will submit receipts, bills of lading for onsite deliveries, billings for onsite work, evidence of onsite payrolls, etc.
   b. Surveys may be submitted with each contractor’s requisition for improvements not previously shown on a survey, especially regarding:
      (1) Where the structures site or setting of finished floor elevations are questioned;
      (2) Location of materials stored onsite.
   c. A survey is required for the next to last advance.

B. Components Stored Off-site.

1. Eligible Building Components. Only “building components” qualify for insurance of advances when stored offsite.
   a. An “eligible building component” is a manufactured or pre-assembled building element which, by reason of bulk, size or weight, vulnerability to weather conditions or lack of space at the site, is impractical to store at the site.
   b. Eligible building components comprise, but are not limited to:
      (1) Precast concrete floor, wall, and roof panels;
      (2) Assembled bath and/or kitchen core units;
      (3) Fully fabricated structural steel beams and columns.
   c. Items that are not eligible “building components” are (but not limited to): kitchen appliances, carpeting, wood roof trusses, etc.

2. Basic Requirements for insured advances.
   a. The Lender must have agreed to the necessary provisions at initial closing, including an acceptable Assurance of Completion for Offsite Improvements.
   b. The Construction Contract must include the rider “Amendment to the Construction Contract for Payment for Components Stored Offsite.”
   c. Payments are limited to the invoice value of the components.
   d. The contractor and its surety bear full responsibility for fraudulent claims for payment and fraudulent disposition of such payments. Safeguards are to protect against premature payments, against materials that do not meet contract requirements and against losses not covered by insurance.
   e. The construction contract must be secured by a 100 percent performance and payment bond.
   f. Components must be stored at a location approved by the Lender and HUD.
3. Lender’s Responsibilities.
   a. File Uniform Commercial Code (UCC)-1, financing statements with the proper office in the proper jurisdiction.
   b. Make whatever additional filings are necessary to maintain a first lien on the components until they are incorporated into the building(s).
   c. Release the financing statement filings as appropriate.
   d. Unconditionally certify by letter to HUD that the security instrument(s) is (are) a “first lien” on the components covered by the instrument(s). The Lender’s certification must be supported by an opinion from the Lender’s counsel.
   e. In the event of default under the mortgage, either assigns its security interest to HUD or acquires title through foreclosure to the components intended for use or incorporation into the building(s) and conveys title to HUD.

4. General Contractors’ Responsibilities.
   a. All direct and indirect costs associated with the storage and transportation of components stored offsite;
   b. Obtaining a risk of loss insurance policy which covers the components. Evidence of this policy must be submitted to the Lender prior to approval of any advance for components stored offsite;
   c. Assurance that there is a valid security agreement that is a first lien on the components.

5. Contractor’s Requisition. All requests for payment for components stored offsite must be submitted on the Contractor’s Requisition – Project Mortgages, accompanied by the following:
   a. A statement from the Borrower’s Architect certifying that:
      (1) He/she has visited the storage site and inspected the components for which payment has been requested;
      (2) The components are in good condition and they comply with the contract requirements;
      (3) The components are properly stored and protected;
      (4) The components are segregated, in an easily identified manner from other materials stored at the same site and are marked for identification;
   b. A bill of sale accompanied by an itemized invoice transferring title of the components to the Borrower;
   c. A copy of the security agreement provided to the mortgagee by the Borrower;
   d. A copy of the financing statement or statements filed by the Lender in accordance with the Uniform Commercial Code;
   e. A warrantee from the Lender that the security instruments represent a first lien on the building components;
   f. An opinion from the Lender’s attorney that he/she has reviewed the security agreement and associated documents relative to the building components and that the security agreement creates a valid security interest in the collateral and that when the financing statement or statements is (are) duly filed, the secured party will have a first lien.
   a. The Contract Inspector must request an inventory of the "stored components" and a breakdown of the line item of which the stored components are a part before approving payment for the components stored offsite. The breakdown must state:
      (1) Cost of Components (invoice value).
      (2) Cost of transportation from the offsite storage location to the construction site.
      (3) Cost of Installation.
      (4) Costs of any other items included in the line item.
   b. The breakdown is to insure a remaining undisbursed balance sufficient to cover the costs of transportation and installation, and any other items included in the line item.
   c. Do not approve payment for components stored offsite where a contractor's performance is marked by serious deviations from the contract documents, or if payment will cause excessive additional interest costs.
   d. Do not approve any insured advances for components stored offsite where the contractor does not have a 100 percent performance and payment bond.
   e. Do not approve insured advances for components stored offsite in an amount exceeding 50 percent of the contract amount.
   f. The minimum advance is $10,000.
   g. Limit advances for components stored offsite to the cost of components (invoice value) less the usual 10 percent holdback.

C. Offsite Construction. Separate from work done under the Construction Contract for the project. Where offsite work is completed by the Borrower, rather than by a municipality or utility company, a separate construction contract is required, even if completed by the project contractor. Offsite work must also be funded from sources outside the mortgage, except that an escrow for its completion may be funded from available excess mortgage proceeds.

1. Completion Monitoring is performed by the Contract Inspector and reported on the HUD Representative’s Trip Report.

2. Contractor’s Requisition is by letter to the Borrower. Do not use the Contractor’s Requisition – Project Mortgages to reflect the value of acceptably completed offsite work, even if completed by the project contractor. Request for Approval of Advance of Escrowed Funds is used.

3. Construction Changes for offsite work must be requested by letter. Request for Construction Changes on Project Mortgages, may be used as a guide, but the form itself must not be used for offsite change orders. Any additive change order for off-site construction will result in a corresponding increase to the required escrow.