

CHAPTER 11. FINAL CLOSING - INSURANCE UPON COMPLETION

- 11-1. PREPARATION FOR CLOSING. Completion, for the purpose of closing the mortgage transaction, means that the project has been completed in accordance with the drawings and specifications, except for approved items of delayed completion covered by an acceptable escrow agreement, and the entire project has been accepted for occupancy by local authorities having jurisdiction and by the lender and HUD-FHA. The procedure and instructions are set out in Reference 2 of the Foreword.
- 11-2. DOCUMENTS. The documents required at closing are, for the most part, listed in FHA Form 1022, FHA Legal Requirements for Closing, and are largely self-explanatory, except as discussed below.
- 11-3. MORTGAGE. Same as Reference 2 of the Foreword.
- 11-4. TITLE POLICY. Title evidence is to be continued to the date of endorsement of the credit instrument or recordation of the mortgage, whichever is later.
- 11-5. CONTROL OVER MORTGAGOR. Reference 2 of the Foreword.
- 11-6. IDENTITY OF INTEREST. Reference 2 of the Foreword.
- 11-7. ASSURANCE OF PERFORMANCE UNDER GUARANTEE. Before endorsement of the credit instrument, the mortgagor must furnish satisfactory evidence that the work of the contractor is covered by a guarantee, running for a period of one year from the date of substantial completion, against defects due to faulty materials and/or workmanship. Performance will be assured by one of the following:
- a. Surety Bond: FHA Form 3259, Surety Bond Against Defects due to Defective Materials and/or Faulty Workmanship, by a surety on the accredited list of the U.S. Treasury and drawn in an amount not less than 10% of the cost of construction as estimated by HUD-FHA.
 - b. Cash Escrow. A cash escrow equal to 2 1/2% of the principal amount of the mortgage, to be retained in escrow by the mortgagee for a period of one year.
- 11-8. INCOMPLETE ON-SITE FACILITIES. Same as Paragraph 3-1.

4440.1

- 11-9. INCOMPLETE OFF-SITE FACILITIES. All off-site sewer, water, electrical, and gas facilities must be completely installed and properly connected. Other off-site facilities such as streets, walks, curbs and gutters may be incomplete but safe, and adequate facilities for ingress and egress must be provided.
- a. In all cases involving incomplete facilities, the certifications of completion will be accepted only if they are accompanied with assurances satisfactory to the Field Office Director that the

incomplete facilities will be completed within a reasonable time after endorsement of the credit instrument.

b. The type of assurance with regard to completion of facilities shall be one of the following:

- (1) Public Authority or Utility: An assurance by a public authority or public utility company that such authority or company will complete the facilities without cost to the mortgagor.
- (2) Cash Escrow: A cash escrow held by or under the control of the mortgagee in an amount equal to at least the HUD-FHA estimate of the cost of completion. The escrow must provide that the funds cannot be released to the mortgagor except upon completion of all facilities to the satisfaction of HUD-FHA. It must further provide that the mortgagee has the right to expend the funds to the extent available for completion of such facilities, or to use such funds to reduce the principal amount of the insured mortgage by applying such funds to the last maturing installments of principal, upon receipt from HUD-FHA of notice to do so at such time as, in the opinion of the Field Office Director, completion of the facilities is being unreasonably delayed.

11-10. PROPERTY INSURANCE REQUIREMENTS If notice has not been given to the mortgagee, the Field Office Director will immediately give such notice. See Reference 3 of the Foreword.

11-11. REQUEST FOR ENDORSEMENT OF CREDIT INSTRUMENT - Certificate of Mortgagee and Mortgagor, FHA Form 2455.

12/72

Page 11-2

4440.1

The procedure concerning outstanding obligations is the same as in Paragraph 7-1. Where the mortgagee has deferred or intends to defer collection of a discount, the instructions in Reference 3 of the Foreword shall apply.

11-12. LEASEHOLDS. Same as Reference 3 of the Foreword.

11-13. OPERATING DEFICIT. If an operating deficit was projected on FHA Form 2264, the sponsors, at closing, must provide for funds to meet the deficit in the manner set forth in Reference 3 of the Foreword. The commitment requirements concerning funding shall not be waived, in whole or in part, nor shall the Field Office Director authorize any amendments or modifications between the dates of start of construction and closing, without the prior written approval of the Director, Unsubsidized Housing Programs.

11-14. PUBLIC APPROVALS. It having been determined before issuance of the commitment that the proposed project will not violate zoning laws or regulations, no further evidence will be needed unless, before endorsement of the credit instrument, questions or litigation have arisen in connection therewith. If so, the Field Office Director will require submission of such additional evidence as, in his opinion, may

be necessary to substantiate the fact that no violations are involved.

- 11-15. COLLATERAL AGREEMENTS. Same as Reference 3 of the Foreword.
- 11-16. CHATTEL MORTGAGE OR ATTORNEY'S CERTIFICATE. Same as Paragraph 4-1.
- 11-17. MORTGAGOR'S ATTORNEY'S OPINION. Same as Reference 3 of the Foreword.
- 11-18. COST CERTIFICATION. Same as Paragraphs 5-1 thru 5-14.
- 11-19. ADVANCE AMORTIZATION REQUIREMENTS. Same as Paragraph 4-3.
- 11-20. DETERMINATION OF MAXIMUM INSURABLE MORTGAGE, FHA FORM 2580. Same as Paragraph 6-1.
- 11-21. EXCESS MORTGAGE PROCEEDS. Same as Paragraph 6-2 except that the reference to FHA Form 3305 is to be read as FHA Form 3305A.

Page 11-3

12/72

4440.1

- 11-22. ENDORSEMENT OF CREDIT INSTRUMENT. The Field Office Director will make the endorsement on the credit instant only upon receiving the closing attorney's certification that such endorsement is in order, and upon payment of the first year's mortgage insurance premium. In no event shall the Field Office Director endorse the credit instruments for an amount greater than the principal balance of the mortgage which would have been outstanding if all payments to principal due before the date of endorsement, (including required advance amortization payments if any) had been paid. Nor shall he endorse for insurance on a date of the first principal payment, until he has determined that all principal payments due have actually been made and the mortgage otherwise is current.
- 11-23. REVISION OF INSTRUMENTS PRIOR TO ENDORSEMENT. After commencement of construction, no commitment may be amended or reissued to permit any revision of terms or conditions of the mortgage which will result in any change in its principal amount (except as noted below), interest rate, or amortization provisions without the prior approval of the Director, Office of Loan Management. The instructions in Reference 4 of the Foreword will govern concerning amendments or reissuances. The instructions in Reference 3 of the Foreword will apply, except that the mortgage increase, if authorized, will be accomplished by an amended commitment.
- 11-24. CHRONOLOGY OF MORTGAGE TRANSACTIONS, FHA FORM 260. Same as Paragraph 8-4.
- 11-25. DISTRIBUTION OF CLOSING INSTRUMENTS. Same as Paragraph 9-1 thru 9-4.
- 11-26. REQUISITION FOR AMORTIZATION SCHEDULE. Same as Paragraph 10-1.

12/72

Page 11-4