

CHAPTER 3. INCOMPLETE ON-SITE FACILITIES

3-1. CONDITIONS FOR APPROVAL. It is desirable that all on-site construction be 100% complete before approval of a final advance of mortgage proceeds. There may however, be circumstances where it is desirable that approval of a final advance be given before 100% completion of on-site construction.

- a. Approval of a final advance before full completion will be given only in cases in which for items of on-site construction are incomplete and will be coupled with a requirement that funds be placed in escrow to assure completion of such minor items, as provided in the certificate of mortgage insurance on FHA Form 2403, and in footnote on Request for Final Endorsement of Credit Instrument, FHA Form 2023. (For procedure in connection with FHA Form 2023, see Paragraph 6-3).
- b. Approval of a final advance of mortgage proceeds moreover, will be given only in those cases in which:
 - (1) All on-site items in the entire project are completed, except those which qualify as items of delayed completion, as set forth in underwriting architectural procedures;
 - (2) All off-site utilities such as sewer, water, electrical, and gas facilities are installed and connected, and the buildings are served by safe and adequate all-weather facilities (either permanent or temporary) for the ingress and egress of pedestrian and vehicular traffic, including fire apparatus, and all other construction requirements have been acceptably accomplished or acceptably assured;
 - (3) The DO/CU recommends that funds be placed in escrow for the completion of minor items because immediate completion is inadvisable or impossible, due to weather or other conditions beyond control; and
 - (4) The aggregate estimated cost of completing the above items does not exceed 2% of the principal amount of the mortgage.

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3-2. ESCROW FOR COMPLETION. With respect to all incomplete items, the amount held in escrow for completion must be at least one and one-half (1 1/2) times the estimated cost of completion. The amount of any escrow shall be sufficient to assure an incentive to complete the work, taking into consideration a possible rise in cost. Such escrow will be held by the mortgagee in accordance with the terms of the Escrow Deposit Agreement, FHA Form 2456, and the Director will ascertain that the items to be completed are properly identified by attachment to FHA Form 2403. (See Paragraphs 6-2 and 6-3).

3-3. CONDITIONS FOR PAINTING ESCROW. In many instances the desirability of selection of color schemes by the incoming tenant is recognized. In

order to enhance rentability, and if acceptable to the DO/CU, an escrow may be established to cover the cost of final interior painting of apartments without regard to the usual 2% of the principal mortgage amount limitation on escrows previously mentioned. This is conditioned upon the builder being bound to complete all work covered by the approved plans and specifications within a fixed period of time (not in excess of one year from the date of final endorsement for mortgage insurance) and without any additional charge either to the mortgagor corporation or to the incoming tenants.

- 3-4. DISTINCTION BETWEEN FORMS OF ASSURANCE. When a request for approval of a final advance is received in a case in which off-site facilities are incomplete, a distinction must be made between those cases in which the assurance of installation and completion is in the form of a cash escrow, and those cases in which such assurance is in other form. In approving or disapproving the final advance the Field Office Director will be guided by the following instructions.
- 3-5. CASH ESCROW. When the completion and installation of off-site facilities is assured by a cash escrow, and all off-site sewer, water, electrical, and gas facilities are completely installed and connected, and other off-site facilities such as streets, walks, curbs, and gutters are incomplete but safe, and adequate facilities for ingress and egress are provided, approval of the final advance of mortgage proceeds may be given. The Field Office Director will however require that the escrow agreement remain in force and will diligently pursue the completion of off-site facilities as assured by the escrow.

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- 3-6. OTHER FORMS OF ASSURANCE. In those cases in which the assurance of installation and completion of off-site facilities is in a form other than a cash escrow, the final advance of mortgage proceeds cannot be approved. Instead, the Field Office Director will invoke the provisions of the building loan agreement and construction contract wherein it is provided that the 10% holdback will be retained until 100% completion of off-site facilities.
- 3-7. OFF-SITE UTILITIES. If off-site utilities are completely installed and connected, and ingress and egress is provided, the request for the final advance may be treated as an ordinary application for advance of mortgage proceeds and may be approved in an amount which, when added to previous advances of mortgage proceeds, will equal 90% of the total advances to which the mortgagor will be entitled at 100% completion. In such cases:
- a. FHA Form 2403 will not be treated as approval of a final advance, nor will the submission of Request for Final Endorsement of Credit Instrument, FHA Form 2023, be in order.
 - b. Following 100% completion of all off-site facilities, the Field Office Director will require submission of a new FHA Form 2403 for approval of the final advance, and subsequent submission of FHA Form 2023.
 - c. The Field Office Director will endeavor to obtain completion at

the earliest possible time.