
CHAPTER 5. CONSTRUCTION PERIOD

- 5-1. CONSTRUCTION CONTRACTS.
- a. Form of Contract - Sales Type Cases. Either a lump-sum (FHA Form 2442) or cost-plus contract (FHA Form 2442-A) may be used according to the wished of the contracting parties. See discussion on these contract forms in the initial endorsement section of Chapter 3.
 - b. Construction Contract, Lump-Sum, FHA Form 2442. Incentive Payment Rider, FHA Form 2443, is applicable and should be prepared in accordance with the instructions contained therein.
- 5-2. WARRANTIES. The contract should contain an obligation on the part of the contractor to deliver warranties on FHA Form 2544 and it should also contain a provision to the effect that no payment shall be due thereunder from the cooperative corporation until the contract has been fully performed and cooperative purchasers for all of the units in the project have been obtained and approved by the Field Office Director.
- 5-3. CONSTRUCTION CHANGES. The procedures to be followed are the same in Management and Sales Type projects. See instructions for Management Type covered in the section titled "Construction Period".
- 5-4. PERMISSION TO OCCUPY. In Sales Type Insurance of advances projects, the corporation should establish, subject to the approval of the Field Office Director, a "monthly carrying charge" for each unit to be occupied prior to completion of the entire project. It is suggested that this monthly charge shall not be more than rents charged for comparable dwelling units in the area, or an amount equal to the estimated monthly cost of operation of the project to the mortgagor corporation, whichever is the greater. Occupancy may be permitted under an interim occupancy agreement adopted from the Model Form of Occupancy Agreement used in Section 213 Management Type Cases. In granting permission to occupy prior to completion, the mortgagor and individuals involved should be advised that the monies so collected shall be considered as corporation income to be used for appropriate corporation purposes and any amount remaining at the time of release may be used in any of the following ways:

- (5-4) a. To Defray the Expenses of all Individual Members in connection with the release from the blanket mortgage and the transfer and recording of the individual mortgages;
- b. Disbursement to all Members as a patronage refund; or
- c. Application as a Prepayment to the blanket mortgage prior to execution of releases, which will result in lower individual mortgages.

NOTE: The above is based on the principle that income from occupancy of projects prior to completion and commencement of amortization accrues to the benefit of the mortgagor corporation as a whole, and not for the sole benefit and credit of the individual members from whom such interim payments are received. This provision should be made a part of the interim Occupancy Agreement.