
CHAPTER 14. FINAL CLOSING - INSURANCE OF ADVANCES

14-1. PREPARATION FOR FINAL CLOSING. This chapter covers only coinsurance of advances. (See Chapter 15 for coinsurance on completion.)

A. Preparation for final closing. The project must be:

- 1) Completed according to the drawings and specifications (except for approved items of delayed completion covered by an acceptable escrow agreement).
- 2) Accepted for occupancy by the lender and local government with jurisdiction.

B. Timing. Final closing cannot take place until the title company issues a title policy free of liens except acceptable liens pursuant to Chapter 18.

C. Closing site. Any place agreed to by the lender and mortgagor except a HUD field office.

14-2. REVISION OF FORMS. Same as for initial closing. (See paragraph 12-3.)

14-3. FINAL CLOSING DOCUMENTS. Those that are the same as at initial closing are listed below and described in paragraph 12-5. They need to be collected only once unless an updated document is required. Required updates are starred (*); other items may need updating if changes have occurred since initial endorsement. Paragraph 14-4 describes documents required only at final closing.

Mortgagor's organizational documents

Lease (if there is a leasehold)

Mortgage (or Deed of Trust)

Note

Coinsurance regulatory agreement

Mortgagor's Certificate

Mortgagor's attorney's opinion

Mortgagor's Oath

* Title Policy

* Hazard insurance policy

Assurance of funds to meet operating deficits

Request for Final Endorsement of Credit Instrument (Form FHA-2023)

14-4. ADDITIONAL REQUIREMENTS AT FINAL CLOSING. Required HUD forms and formats are starred (*).

A. Chattel mortgage or security agreement

B. Survey of completed project

(14-4) C. Surveyor's certificate (FHA-2457)*

D. Latent defects escrow

E. Contractor's Prevailing Wage Certificate (HUD-92448)*

F. Increase Note and related material, if necessary

14-5. LATENT DEFECTS ESCROW. Must be retained for 18 months after substantial completion of the project. (See paragraph 14-9, and Handbook 4561.2 for details on guarantee inspections and release of this escrow.)

A. If a completion assurance agreement (Form FHA-92450) is used, 2-1/2 percent of the construction contract sum must be retained in cash or letter of credit.

B. Assurance of completion through bonds issued by a surety (Form FHA-2452) automatically covers latent defects.

C. If a personal indemnity agreement (Form FHA-2459) is used, the escrow must be established by cash or letter of credit at completion.

14-6. HUD FINAL ENDORSEMENT

A. After final closing, the lender must submit the credit instrument for final endorsement to the HUD field office with jurisdiction. The request for endorsement must be by letter signed by a senior corporate official certifying that:

- 1) The loan has been processed, underwritten, and closed in full compliance with all program requirements.
- 2) Construction or rehabilitation has been completed, inspected, and found in full compliance with all program requirements.
- 3) Prevailing wages were paid and all other labor standards and equal opportunity requirements followed.
- 4) You have (or have not) obtained reinsurance and, if so, the amount.
- 5) The project is (or is not) financed through the sale of bonds.

B. Attach to the letter:

- 1) Copy of your HUD 221(d) coinsurance preliminary approval letter.

- (14-6)
- 2) If you have completed all pre-endorsement review requirements, the HUD letter granting full underwriting authority.
 - 3) Signed copies of Forms HUD-92264 and HUD-92264-A.
 - 4) Certified copies of mortgage (deed of trust) with attached regulatory agreement, note and duplicate original of title policy and certified copies of escrow agreements. (If recorder-certified copies cannot be obtained in time for HUD endorsement, HUD may accept copies certified by the title company.) HUD will keep these documents.
 - 5) New mortgagee's attorney's opinion.
 - 6) A statement signed by an authorized senior corporate official that you have increased your sound capital resources by \$1 per \$300 for any increase in the mortgage amount since initial endorsement.
 - 7) Management certification.
 - 8) Information sheet containing the following:
 - a) Superseded project number (the old FHA project number if the project's previous mortgage loan was insured or held by HUD)
 - b) Servicer name, address and FHA mortgagee number
 - c) Management agent name, address and Employer Identification Number
 - d) Month/day the project's fiscal year ends. Project annual financial statements are due 60 days after this date.
 - e) If the project is subsidized, include the following:
 - Subsidy type (Section 8, Rent Supplement or Rental Assistance Program)
 - If the project receives Section 8 assistance, the Section 8 program type (e.g., moderate rehabilitation, new construction, loan management set-aside or property disposition set-aside)
 - Number of units of each subsidy type
 - 9) Completed Form FHA-290, Closing Memorandum (See Appendix 25), if required by HUD field office with jurisdiction.

- 14-7. CLOSEOUT OF CONSTRUCTION ESCROW. If escrows were set up for completion items, you must:
- A. Inspect the work when it is completed.
 - B. If it is acceptable, release the cost-certified amount for only work actually done.
 - C. Release any balance after:
 - 1) All work is inspected and approved.
 - 2) All contractor obligations are paid.
 - D. Complete required work if mortgagor and contractor do not.
- 14-8. CLOSEOUT OF WAGE ESCROWS. Must be approved by HUD Labor Relations.
- 14-9. GUARANTEE INSPECTIONS. Done to ensure against defects in materials or workmanship that appear within 12 months after substantial completion. (See paragraph 13-11 for definition of substantial completion and paragraph 14-5 for latent defects escrow requirement).
- A. Inspect at 9 and 12 months to ensure compliance with HUD requirements. Withhold the latent defects escrow for 18 months.
 - B. For details, see Handbook 4561.2 on servicing.
- 14-10. DOCKET PREPARATION. Update the permanent project docket in your files (See paragraph 12-8) by adding:
- A. All documents related to the construction period (advances, change orders, inspections, labor standards, cost certification, etc.)
 - B. All final endorsement documents, filed in a separate section.