
CHAPTER 15. COINSURANCE ON COMPLETION

- 15-1. GENERAL. The lender may choose to coinsure a mortgage on completion (i.e., without coinsuring construction advances and with only a single closing). All requirements of this handbook apply to projects insured upon completion except as modified by this chapter.
- 15-2. COMMITMENT TO COINSURE ON COMPLETION. The commitment must require construction to start within 60 days of commitment issuance. It is effective through the scheduled construction period.
- A. You must use the format in Appendix 24c. You may reprint it on your letterhead.
- B. You may never issue a commitment before:
- 1) The required HUD processing in paragraphs 6-8 through 6-13 is complete for:
 - Environmental assessment and Finding of No Significant Impact (FONSI)
 - Previous participation review
 - Affirmative Fair Housing Marketing Plan
 - Intergovernmental review (if applicable)
 - Housing need/market analysis
 - 2) You have approved a complete master set of drawings and specifications.
- 15-3. REQUIREMENTS BEFORE CONSTRUCTION CAN BEGIN. You must ensure that:
- A. There is a valid firm commitment outstanding and the project was processed and underwritten following the requirements of this handbook.
- B. The project complies with applicable zoning laws and regulations.
- C. You have received the construction contract (Form HUD-92442 - See Appendix 26).
- D. Any permitted commitment and inspection fees that you elect to charge under paragraph 4-5 have been paid.
- E. You have given the general contractor the determination of prevailing wages from the HUD field office pursuant to paragraph 6-13.

(15-3) F. A pre-construction conference has been held pursuant to paragraph 12-2.

G. The Agreement and Certification is signed (Appendix 33b).

15-4. EXTENSION OF CONSTRUCTION START DATE OR COMMITMENT. See paragraph 6-6 C for instructions.

15-5. CONSTRUCTION PERIOD

A. Construction change, Form HUD-92437 (Change Orders). Process the same as in paragraph 13-6, except that you do not have to determine whether there are funds available for increased costs or notify the surety unless you think the mortgagor will be unable to defray the cost of the increase, leading to a lien on the property that could delay endorsement.

B. Property Insurance Schedule and requirements. When on-site construction is 80 percent complete, and, in any event, before endorsement of the credit instrument, you must prepare:

1) Property Insurance Schedule, Form HUD-92329, that:

a) Correctly shows the insurable value of the completed structures.

b) Reflects any changes in cost occurring after the firm commitment was issued.

2) Property Insurance Requirements, Form FHA-2447.

a) Fill out and date the FHA-2447 as of its preparation.

b) In the space provided in paragraph 3, put the date of the HUD-92329.

c) Staple a copy of the HUD-92329 to each copy of the FHA-2447. Keep the original for the project docket.

C. Permission to occupy. Same as paragraph 13-13.

D. Cost certification. Same as paragraph 13-14.

E. Mortgage increase. Same as paragraph 13-15.

15-6. PREPARATION FOR CLOSING

A. Firm commitment conditions. You must ensure that there is a valid firm commitment outstanding and that the mortgagor has complied with all its conditions and with the FHA-2580.

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

15-7. REVISION OF FORMS. Same as paragraph 12-3.

15-8. CLOSING DOCUMENTS. Unless noted in paragraphs A through D, below, the documents listed and instructions about them are the same as for insurance of advances. (See Chapters 12 and 14.) Starred (*) items are required HUD forms or formats.

Mortgagor's organizational documents
Lease (if there is a leasehold - see Form FHA-2070 for required lease provisions) (Appendix 66)
Surveyor's plat
* Surveyor's Certificate (FHA-2457)
Evidence of zoning compliance
* Building permits
* Mortgage (Deed of trust)
* Note
* Regulatory Agreement (Appendix 36)
* Building Loan Agreement (Appendix 32)
Title policy
* Construction contract (HUD-92442)
* Latent defects escrow or bond (FHA-3259)
* Escrow Deposit Agreement (FHA-2456)
* Assurance of Completion for Offsite Facilities (FHA-2446)
* Mortgagor's Oath
* Mortgagor's attorney's opinion (see paragraph 12-5 F)
* Contractor's Prevailing Wage Certificate (HUD-92448)
Chattel mortgage or security agreement
* Assurance of funds to meet operating deficit (FHA-2476, 2477 and 2476a)
* Request for endorsement of credit instrument (FHA-2455) (Appendix 56)

NOTE: The endorsement package must also contain the Agreement and Certification (Appendix 33b), which was signed and filed with the lender before construction start.

A. Title policy. Title evidence must be continued to date of credit instrument endorsement.

B. Latent defects escrow. At endorsement, the mortgagor must:

- 1) Make a cash escrow deposit (or substitute an unconditional and irrevocable letter of credit) of 2-1/2 percent of the principal amount of the mortgage, or

- (15-8) 2) Provide a surety bond of 10 percent of cost of construction or substantial rehabilitation.

This amount, in whatever form, must be retained by the lender for at least 18 months after substantial completion. (See paragraph 14-5 and Handbook 4561.2, Servicing.)

- C. Property insurance requirements. If you did not notify the mortgagor of these requirements pursuant to paragraph 15-5 B, do so immediately.

15-9. HUD ENDORSEMENT. After closing, submit the credit instrument for endorsement to the HUD field office with jurisdiction.

- A. The request for endorsement must be 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 substantial rehabilitation has been completed and inspected in full compliance with all program requirements.
- 3) All parties requiring clearance under HUD's previous participation procedures received it.
- 4) All conditions of the firm commitment and the FHA-2580 have been satisfied.
- 5) HUD written approval was obtained for:
 - Environmental review and Finding of No Significant Impact (FONSI)
 - Affirmative Fair Housing Marketing Plan
 - Intergovernmental review (if applicable)
- 6) Prevailing wages were paid and all other labor standards and equal employment requirements followed.
- 7) You have (or have not) obtained reinsurance and, if so, the amount.
- 8) 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.

(HUD endorsement - con't.)

- (15-9) 2) If you have completed all pre-endorsement review requirements pursuant to paragraph 2-7, the HUD letter granting full underwriting authority.
- 3) Copy of appraisal and limited plan package (as described in paragraph 12-6 B.3).
- 4) Copies of firm commitment with signed copies of Forms HUD-92264 and 92264-A attached.
- 5) Mortgagee's Certificate (Appendix 37) and Mortgagee's Attorney's Opinion (Appendix 38).
- 6) Your check for .4 percent of the face amount of the mortgage for the first year's MIP.
- 7) 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.
- 8) Management certification.
- 9) 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
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(HUD endorsement - con't.)

(15-9) 10) A statement by an authorized Senior corporate official that you have increased your sound capital resources by \$1 per \$300 of the mortgage amount to be endorsed.

11) Completed Form FHA-290, Closing Memorandum (See Appendix 25), if required by HUD field office with jurisdiction.

15-10. CLOSEOUT OF CONSTRUCTION ESCROW. Same as paragraph 14-7.

15-11. CLOSEOUT OF WAGE ESCROWS. Same as paragraph 14-8.

15-12. GUARANTEE INSPECTION. Same as paragraph 14-9.

15-13. DOCKET PREPARATION. Same as paragraph 12-8.
