



HIT THE NAIL ON THE HEAD

Construction Loan
Administration Best Practices

Panelists:

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Hit The Nail on the Head

- Picking the winning team
- Recognizing potential risks during construction
- Working together to find solutions

You know I got that land that Grandpa left me? I was thinking that me and Cousin Cliff could build some apartments on it. You reckon we need an architect for that? What about a contractor license?

Key Factors for a Successful Development Team

- Development Team partnering with Lender
- GC HUD Experience
- Site Personnel
- Scheduling/Sequencing
- Quality Control Plan
- Achieving 100% Completion

How many change orders does it take to build apartments?

A. 1 to 5

B. 5 to 10

C. Too many

D. None of the above

Why are seeing more COs than ever before?

- Time extensions
 - Labor delays
 - Materials shortages
 - Overly aggressive construction schedules
- Increased costs during construction
 - Factors, Material Types and Costs
 - HUD is willing to consider cost increases during construction when supported. This impacts cost certification.

Hitting the nail on the head.

- Make sure the construction schedule is not overly aggressive.
- Projects that are 10% or more behind schedule need to be scrutinized for issues and possible Time Extension Change Orders.
- Projects experiencing increased costs in materials should submit change orders as the increases are realized.
- Supporting documentation for all change order requests is key for approval.

I got a great deal on 280 refrigerators and enough lumber for six buildings. Where can I store the materials?

- A. Brother-in-law's mini storage complex
- B. On the site
- C. At the seller's warehouse
- D. None of the above
- E. All of the above

Creative solutions for materials management

- Onsite Storage
 - Acceptable onsite storage is allowed.
 - Must maintain inventory and cost records for inspections.
- Adjacent Site Storage
 - Storage at neighboring sites through leases or common ownership.
- Offsite Storage:
 - Can alleviate unexpected pricing increases and delays from supply chain.
 - Requires HUD approval!

MAP Guide A.12.3.1 says...

Offsite Storage

- A. Only **“building components”** qualify for insurance of advances when stored offsite.
- B. An “eligible building component” is a manufactured or pre-assembled building element which, by reason of bulk, size or weight, vulnerability to weather conditions or lack of space at the site, is impractical to store at the site.
- C. Eligible building components comprise, but are not limited to:
 - 1. Precast concrete floor, wall, and roof panels;
 - 2. Assembled bath and/or kitchen core units; and
 - 3. Fully fabricated structural steel beams and columns.
- D. Items that are not eligible “building components” are (but not limited to):
 - 1. Kitchen appliances;
 - 2. Carpeting,
 - 3. Wood roof trusses, etc.

Hitting the nail on the head.

- Discuss need for materials storage during UW Phase.
- Best Practice to obtain Offsite Storage Approval: Initial Endorsement.
- Post Initial Endorsement: Review of Components, Legal Costs & Doc Amendments required.

When does a construction project need life support?

CPR is more dynamic than ever at pinpointing data to determine elevated risk during construction.

- Schedule Variance (SV)
- SV Trends
- Trip Hangers
- Dev team players with same focus and cooperating

How does HUD monitor at risk projects?

- Elevated Risk
- Critical Risk
- CPR Team schedule periodic meetings with Lender/Development Team
- CPR Official Notification to Lender
 - Collaborative Effort Between HUD and Lender
- Flagging and Sanctions

Lender CLA Best Practices

- Monitor construction progress through site inspections, draw schedules, and trip reports.
- Review and submit COs on behalf of the Mortgagor in a timely manner.
- Work with HUD and the Development Team to resolve construction delays, work stoppage, and other risks that require CPR.

Hit the nail on the head!

Take aways:

- Development team experience
- Timely filing of Change Orders
- Plan for proper management of stored materials
- Communicate with HUD partners
- Be a proactive lender