

# **CONSTRUCTION DISBURSMENT GUIDE (MHDC 2400)**



**MISSOURI HOUSING DEVELOPMENT COMMISSION**

**1201 Walnut Street,  
Suite 1800  
Kansas City, Missouri 64105**

**Updated January 10, 2025**

The following guidance provides information and instruction for the mortgagor/owner and the general contractor to request and process payment for MHDC developments with construction loans administered by MHDC. All disbursements will be made in accordance with the Capital Advance Agreement, Disbursing Agreement, Construction Contract, various escrow agreements, and other documents related to MHDC's multifamily housing loan programs and the Low-Income Housing Tax Credit (LIHTC) Programs.

The mortgagor/owner and the general contractor are responsible for providing the appropriate designated forms and supporting documentation to MHDC in order to ensure all disbursements are verifiable and legitimate. The utilization of MHDC forms will be required to process any request for payment for any disbursements related to MHDC developments.

### **FAILURE TO MEET**

Failure to comply with the time frames and requirements established by this guide may result in the disapproval of the principal(s) of the mortgagor entity or the general contractor from participating in future MHDC multifamily housing programs.

### **IDENTITY OF INTEREST**

For the purposes of this guide, an identity of interest is any financial interest or family relationships which exist between the mortgagor/owner, officers, stockholders or general partners of the mortgagor, developer, sponsor and the general contractor, subcontractor, equipment lessor or material supplier.

### **CONSTRUCTION DRAW DOCUMENTS AND FORMS**

The following Construction Disbursement forms and documents are used to request payment of MHDC funds and all other sources of funding for the expenses incurred for new construction or rehabilitation of any MHDC development with construction loans administered by MHDC.

All documents submitted must be completed in their entirety. Incomplete documents or documents without signatures will be returned to the mortgagor for correction. Electronic submissions of construction draw documents are accepted, but MHDC reserves the right to request originals.

1. Application for Advance of Mortgage Proceeds (MHDC Form 2420)
2. Disbursement Schedule (MHDC Form 2430)
3. Supporting Documentation
4. Contractor's Advance (MHDC Form 2440)
5. Application and Certification for Payment (AIA Document G702)

6. Continuation Sheet (AIA Document G703)
7. Contractor's Prevailing Wage Certificate (MHDC Form 2450)\*  
*\*for projects with 12 or more HOME units*

### **Application for Advance of Mortgage Proceeds (MHDC Form 2420)**

The Application for Advancement of Mortgage Proceeds (MHDC Form 2420) is used to provide directions of payment for the Disbursing Agent identified in the MHDC Disbursing Agreement. The MHDC Form 2420 must include the MHDC project information, designated payee for each amount requested, and the source of funds used for each amount requested.

The MHDC Form 2420 must be signed by the owner/mortgagor for each requested disbursement and must represent actual amounts disbursed. Electronic signatures are accepted, but MHDC reserves the right to request originals.

### **Disbursement Schedule (MHDC Form 2430)**

The Disbursement Schedule (MHDC Form 2430) represents the scheduled and completed values agreed upon by MHDC and the owner/mortgagor and is used to track expenditures related to the hard and soft costs of the project. The scheduled values must be identical to the amounts contained on form MHDC 2013. The Disbursement Schedule must also include the types and amounts of all funding sources for the entire construction period.

The Owner/Mortgagor must submit an updated Disbursement Schedule with each draw request. The Disbursement Schedule must reflect the actual costs processed to-date, current draw request totals, and revised amounts remaining.

### **Supporting Documentation for Disbursement Schedule (MHDC Form 2430)**

All disbursement requests for soft cost line items on the Disbursement Schedule must include supporting documentation that clearly identifies:

1. The vendor
2. The amount
3. The date of the activity
4. The project
5. The type of activity

For all soft cost amounts being requested for reimbursement, the mortgagor/owner must provide proof of payment and a copy of the invoice.

### **Contractor's Advance (MHDC Form 2440)**

The Contractor's Advance (MHDC Form 2440) is used to provide detailed tracking of the construction line item on the Disbursement Schedule. An updated Contractor's Advance must be submitted with each draw request and include construction costs, actual construction costs processed to-date, current construction draw request totals, and any revised amounts remaining and retainage.

The percent requested for general requirements, builder's overhead, and builder's profit must not exceed the percentage of construction completion of the development.

MHDC may require detailed documentation/invoices for construction amounts requested. Additionally, MHDC may require copies of construction contracts signed by the General Contractor and Subcontractor and/or second tier subcontractors for any work being performed on the construction site.

### **Application and Certification for Payment (AIA Document G702)**

The Application and Certification for Payment (AIA Document G702) is used by the General Contractor to request payment for work performed in accordance with the construction contract. The G702 must include a notarized signature from the General Contractor and a signature from the Inspecting Architect.

The G702 must contain the original amount of the construction contract and any increase or decrease to the contract. Any increase or decrease to the construction contract must be in accordance with the approved Change Orders submitted using the AIA Document G701. A G702 must be submitted with each draw request and include construction costs with the amount requested for payment and the revised remaining and retainage amounts.

### **Continuation Sheet (AIA Document G703)**

The Continuation Sheet (AIA Document G703) is a continuation of the G702 and contains the list of individual trade categories used to perform the scope of work identified in the construction documents. The scheduled value contract amounts on the G703 must be identical to the amounts and categories contained on MHDC FIN 115.

The General Contractor must submit an updated G703 with each draw request, reflecting the actual costs processed to-date, current request totals, and revised remaining amounts.

## **Contractor's Prevailing Wage Certificate (MHDC Form 2450)\***

***\*for projects with 12 or more HOME units***

The Contractor's Prevailing Wage Certificate (MHDC Form 2450) is the form used to certify the work performed on the current Application and Certification for Payment (AIA Document G702) was completed in accordance with the requirements of Davis Bacon Prevailing Wage and that there are no outstanding compliance issues. The certification must be certified by the General Contractor and the Inspecting Architect. The Contractor's Prevailing Wage Certificate (MHDC Form 2450) is required for projects with 12 or more HOME units.

## **INITIAL DRAW REQUEST**

The MHDC construction disbursement process begins with the submission of the initial draw request. The initial draw request must be submitted seven (7) days prior to the initial closing date for all construction loans. The following items must be included with the initial draw or documentation must be provided that the items have previously been paid:

1. All Insurance Invoices
2. The Invoice for Title & Disbursing
3. Building Permits
4. Letter of Credit
5. Construction inspection fee, appraisal fee, construction cost analysis fee
6. MHDC loan fees, as applicable

The initial draw request must contain the following forms:

- Application for Advance of Mortgage Proceeds (MHDC Form 2420)
- Disbursement Schedule (MHDC Form 2430)
- Supporting Documentation-All documents must be complete and in order of the MHDC Form 2420

If permits, bonds, builders risk insurance, or a letter of credit are drawn from construction costs, the following forms must also be included:

- Application and Certification for Payment (AIA Document G702)
- Continuation Sheet (AIA Document G703)
- Contractor's Advance (MHDC Form 2440)

## **MONTHLY DRAW REQUESTS**

The monthly draw process follows the same process that is used for the initial draw with the addition of the Contractor's Prevailing Wage Certificate (MHDC Form 2450) for applicable projects, and all required supporting documentation. All monthly draw request should be submitted to the Construction Disbursement email address [DRAWS@MHDC.COM](mailto:DRAWS@MHDC.COM).

The monthly draw requests must contain the following forms:

- Application for Advance of Mortgage Proceeds (MHDC Form 2420)
- Disbursement Schedule (MHDC Form 2430)
- Supporting Documentation-All documents must be complete and in order of the MHDC Form 2420
- Contractor's Advance (MHDC Form 2440)
- Application and Certification for Payment (AIA Document G702)
- Continuation Sheet (AIA Document G703)
- Contractors Prevailing Wage Certificate (MHDC Form 2450)\*  
*For projects with 12 or more HOME units*

Within seven (7) business days after disbursement, the Title Insurer must provide MHDC an updated endorsement policy increasing the liability amounts and extending the date of MHDC's mortgagee title policy, along with copies of any intervening matters that were discovered of record since the date of the last endorsement for all MHDC loans. Endorsements for non-MHDC loans or other record showing the amounts disbursed must be provided within seven (7) business days after disbursement.

The General Contractor is responsible for submitting lien waivers to the Title Company in a timely manner and in accordance with the Disbursing Agreement. MHDC may require copies of the lien waivers and supporting documentation for proof of payments.

## **CHANGE ORDERS**

Any adjustments made to the previously approved Contractor's/Mortgagor's cost breakdown (FIN 115), the construction contract, or construction line items must be made through a Change Order AIA Document G701.

All change orders require the submission of supporting documentation for MHDC review and approval and must be approved by the designated MHDC inspector. All change orders must be submitted prior to the final paid application to Contractor. Absolutely no work to which the change order pertains will be allowed to begin prior to the proper execution and approval of that particular change order.

Please submit two change orders with original signatures electronically signed and verified,

along with copies of drawings, specifications or other supporting documentation. Change orders involving MHDC construction loans must be submitted with the monthly draw request on the AIA G701 form with original signatures of the:

- Inspecting Architect
- Owner
- Contractor

## **RETAINAGE AND FINAL DRAW REQUEST**

MHDC will withhold five percent of the construction/ rehabilitation costs as retainage during the construction period. MHDC may elect to withhold ten percent of the construction/rehabilitation costs and may reduce the retainage amount at 50 percent completion to five percent of the construction cost if approved by the Owner and MHDC.

Retainage will be released at project completion with the submission of the G704 Certificate of Substantial Completion for entire development, Contractor's Cost Certification and Letter of Credit or escrow account for latent defects (Latent Defect Escrow is for projects prior to 2022). At project completion the Contractor must establish an escrow account or letter of credit equal to 2.5 percent of the construction contract. The letter of credit expiration date must be 15 months from the certificate of substantial completion for the entire development.

If incomplete items are identified at the final inspection, MHDC may require the establishment of an Incomplete Work Escrow equal to 150 percent of the cost of the remaining work to be completed before conversion can occur.

Savings in line items after the final advance of mortgage proceeds is calculated will not be advanced to the mortgagor. At the discretion of MHDC, any savings in any line items may result in a reduction of tax credits, the mortgage note amount or an increase in property reserves. HOME program regulations require any undisbursed funds be returned to the U.S. Department of Housing and Urban Development (HUD).

## **CUTOFF DATES**

**Date of Substantial Completion** is the date certified by the architect and confirmed by MHDC's construction inspector when the Scope of Work or a designated portion of work has been sufficiently completed, in accordance with the construction contract. The date of Substantial Completion for the entire development establishes the start date of the latent defects period for the General Contractor. In addition, the date of Substantial Completion should be used as the cutoff date for the Contractor's Cost Certification. The AIA document G704 is used to confirm the actual date and must be signed by all required parties.

The **Final Inspection Date** is determined by the approval of the Owner, Architect and the MHDC representative and based on the completion of the final punch list items. All items must be completed to the satisfaction of Owner, Architect and MHDC representative. In addition, any remaining items from the punch list must be identified and an incomplete work

escrow account may be established. The final inspection date should be the cutoff date for the Mortgagor's/Tax Credit Cost Certifications.

### **ESCROW RELEASES**

The Request for Release of Escrows (MHDC Form 2460) is the form used to request payment from a funded escrow account. The escrow will be released in accordance with the Escrow Agreement signed by Owner/Mortgagor and must be submitted with the required supporting back up documentation.

The following escrow accounts may be held by MHDC:

- Lease Up Reserve
- Operating Reserve
- Replacement Reserve
- Social Services Reserve
- Tax and Insurance
- Incomplete Work Item(s)
- Special Needs Reserve
- Others as noted in the Firm Commitment

### **Lease Up Escrow Guidelines**

Lease Up Escrow can be used for expenses related to preparing the development for leasing. Examples include leasing staff salary, office and cleaning supplies, furniture, training, computer setup, background checks, ribbon cutting expenses, snacks, non-alcoholic drinks, snow/ice removal, lawn care, and advertising. Salary submissions should include time sheet, pay stub, and proof of payment.

If unclear if an expense could be deemed eligible for lease up, please check with the Construction Disbursement Department.

Invoices for lease up should include name of the development and property address, date of service, and description of the service. Backup should be in order of how expenses are listed on the 2460. If requesting reimbursement, a full invoice and proof of payment are required along with a cancelled check or bank statement showing the transaction. If paid by credit card, the credit card statement and proof of payment to credit card company should be included.

Items not lease up eligible include the following:

- Late fees
- Reconnect fees
- Hotel room service
- Non-refundable deposits



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- Insurance and taxes (this should be included in the monthly construction draws)
- Past due balances cannot be included for payment. Original invoices are required if submitting for a past due amount.
- Other items could be determined ineligible at the discretion of the Construction Disbursement Staff.

### **CONSTRUCTION INSURANCE REQUIREMENTS**

For all developments receiving an MHDC loan, concurrently with or prior to the construction loan closing by MHDC for construction of the property, the Mortgagor and/or Property Management Company shall have in its possession or control and in full force and effect, the following types of insurance:

Blanket fidelity bond and crime coverage as part of general liability insurance covering all officials and employees of the owner and/or property management company, as applicable, including non-compensated officers, in an amount equal to the average anticipated loan disbursements during the construction period. The minimum limit shall be the lesser of \$50,000 or the total MHDC mortgage amount divided by the estimated number of months in the construction period, plus two (2), and rounding the quotient to the nearest \$50,000.00.

Standard form of Builder's Risk Insurance policy or policies, written upon the standard Builder's Risk Completed Value form, for Fire, Extended Coverage and Vandalism and Malicious Mischief Insurance, in an aggregate amount equal to 100 percent of the Insurable Value of the completed building or buildings. In the case of loans issued by MHDC for rehabilitation of an existing structure, the Builder's Risk Insurance policy shall contain a special endorsement insuring building coverage for the existing structure, in an aggregate amount equal to the greater of 100% of the Insurable Value of the existing structure or the cost of acquisition of the existing structure, whichever sum is greater.

The Builder's Risk Insurance policy or policies shall show the Mortgagor as the Insured and may also show as additional insured's the general contractor and other contractors and subcontractors, as their interest may appear.

Each policy shall carry the standard form of Non-Contribution Mortgage or Mortgagee Clause showing loss, if any, payable to Missouri Housing Development Commission, 1201 Walnut, Suite 1800, Kansas City, Missouri 64106, its successors or assigns, as its interest may appear. A signed Certificate of Insurance, in a form approved by MHDC, showing the nature and limits of such insurance and evidencing such insurance to be in full force and effect, shall be provided to MHDC, who shall hold such policy until the earlier of the date the policy becomes ineffective, or the loan shall be paid in full. Mortgagor shall assure the insurance remains in full force and effect for so long as any mortgage upon the property is held by MHDC. Upon cancellation of the Builder's Risk Insurance or any portion thereof, Permanent Insurance shall be affected.

The following liability coverages are to be provided by the Mortgagor and the Contractor:

- Worker's Compensation and Employers' Liability Insurance (statutory or voluntary)

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covering all employees of the Mortgagor and the Contractor and any other facilities, the revenues of which are pledged to project operations; and

- Public Liability Insurance on a Comprehensive General Liability form with limits of not less than \$1,000,000.00 per occurrence to protect the Mortgagor during the construction phase from

claims involving bodily injury and/or death and damage to the property of others. In the case of loans issued by MHDC for the rehabilitation of an existing structure, the general liability policy shall include coverage for underground explosion and collapse hazard; and

- Vehicle Liability Insurance with limits of not less than \$1,000,000.00 per accident to protect the Contractor and Mortgagor from claims from bodily and/or death and against claims for damage to property of others arising from the Contractors' and/or the Mortgagors' operations of vehicles. Such insurance shall include coverage for employers' owned, non-owned and/or hired vehicles, where applicable.

Flood insurance is required whenever the property is located in an area of special flood hazards in which flood insurance is available under the National Flood Insurance Act. It is the responsibility of the mortgagee to notify MHDC if such insurance is required. Required flood insurance shall be provided for the subject property during the term of the mortgage loan. The insurance shall be in an amount at least equal to the outstanding principal balance of the loan or the maximum amount of insurance available with respect to the project under the National Flood Insurance Act, whichever is less. The policy shall show the Mortgagor as the Insured and shall show loss, if any, payable to Missouri Housing Development Commission, 1201 Walnut, Suite 1800, Kansas City, Missouri 64106, its successors or assigns, as its interest may appear. A Binder or Endorsement of such insurance, showing the nature and limits of such policy and evidencing such insurance to be in full force and effect, shall be delivered to MHDC at or prior to the time of the issuance by MHDC of any loan proceeds. The original policy, when issued, shall be delivered to MHDC to be retained in its possession. Mortgagor shall assure that such insurance coverage remains in full force and effect for so long as any mortgage on the property is held by MHDC.

All of the insurance coverages required herein during construction and subsequent to construction shall contain an endorsement which insures against loss caused by earthquakes so long as such endorsement is commercially available, in the City of St. Louis, and in the counties of St. Louis, Jefferson, Butler, Cape Girardeau, Carter, Dunklin, Iron, Madison, Mississippi, New Madrid, Pemiscot, Perry, Reynolds, Ripley, St. Francois, St. Genevieve, Scott, Stoddard, Washington, and Wayne, Missouri, during the term of the mortgage loan. It is the responsibility of the mortgagee to notify MHDC if such insurance is required.

The policy shall show the Mortgagor as the Insured and shall show loss, if any, payable to Missouri Housing Development Commission, 1201 Walnut, Suite 1800, Kansas City, Missouri 64106, its successors or assigns, as its interest may appear. A Binder or Endorsement of such Insurance, showing the nature and limits of such policy and evidencing such insurance to be paid in full force and effect, shall be delivered to MHDC at or prior to the time of the issuance by MHDC of any loan proceeds. The original policy, when issued, shall be delivered to MHDC to be retained in its possession. Mortgagor shall assure that such insurance coverage remains in full force and effect for so long as any mortgage on the property is held

All insurance carriers shall have a "Best Rating" of B+ or better; and shall be a licensed, admitted carrier in the State of Missouri or an eligible surplus lines insurer in the State of Missouri.

### **STORED MATERIALS**

Any construction materials requiring storage must be approved by MHDC staff prior to the purchase. The stored materials should be held on site in a secured trailer or bonded warehouse within a 50 mile radius from the site. The stored materials must have appropriate insurance coverage.

### **MONTHLY INTEREST**

MHDC will calculate and issue a monthly interest billing statement for each funding source secured by MHDC mortgages. The statements will be based on the outstanding principal on the 20<sup>th</sup> of each month. The interest rate will be based on the interest rate established on the Deed Trust Note. The monthly interest may be billed in advance depending on the timing of monthly draws. All outstanding interest invoices must be paid in full prior to loan conversion.

### **LOAN CONVERSION**

It is the responsibility of the owner and development team to submit all loan conversion checklist items to MHDC in appropriate time for review and approval ahead of loan conversion. If checklist items are not received with ample time for review, loan modification may be required and costs associated with modification are the responsibility of the owner. Checklist items must be complete prior to receiving an 8609 for review.

All escrows as noted in the Firm Commitment must be fully funded prior to Conversion. If outside lenders are holding escrows, proof of funding must be provided to MHDC.

If the loan conversion occurs after September 1st, property taxes will not be escrowed for that year and is the responsibility of the development. A tax receipt and proof of payment must be submitted to the Construction Disbursement department to complete the conversion checklist.

### **PERMANENT INSURANCE REQUIREMENTS FOR CONVERSION**

The requirements for this type of insurance are applicable when MHDC has extended a loan, which has not been paid in full at the time of completion of construction and/or cancellation of the Builders' Risk Policy or any portion thereof. The Mortgagor shall, in all cases, assure MHDC that there is no gap period in insurance protection during the transition from the Builder's Risk Insurance to Permanent Insurance. Permanent Insurance requirements shall include all the following types of coverages, unless MHDC shall specifically waive, in writing, any one or more of the coverages described below:

Blanket Fidelity Bond covering all officials and employees, including non-compensated

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officers of the Management Company, in an amount equal to two months' gross revenues or \$50,000.00, whichever is greater, unless greater amounts are required by the Mortgagor. Where the gross revenues for a project are substantially below the minimum \$50,000.00 bonding requirements for operation, the bond shall be reduced to that sufficient to cover two months' gross revenues. The cost of the Fidelity Bond is not an allowable project expense.

Public Liability Insurance on a Comprehensive General form with limits of not less than \$1,000,000.00 per

occurrence to protect the Mortgagor from claims involving bodily injury and/or death and property damage which may arise from the Mortgagor's operation, including any use or occupancy of its facilities, grounds, and structures, and shall include independent contractor's coverage, where applicable.

Vehicle Liability Insurance. If the Mortgagor owns or operates a vehicle in the operation of the project, including non-owned and/or hired vehicles operated for the benefit of the Mortgagor, the Mortgagor shall procure and maintain Vehicle Liability Insurance. Vehicle Liability Insurance with limits of not less than

\$1,000,000.00 per accident to protect the Contractor and Mortgagor from claims from bodily and/or death and against claims for damage to property of others arising from the Contractors' and/or the Mortgagors' operations of vehicles. Such insurance shall include coverage for employers' owned, non- owned and/or hired vehicles, where applicable.

Workers Compensation and Employers Liability Insurance (statutory or voluntary) for all employees of the Mortgagor or Management Company, as applicable, and other facilities, the revenues of which are pledged to project operations.

Property, Fire and Extended Coverage Insurance shall be provided for the subject property and may be either blanket coverage or by specific allocations to individual structures. Such insurance shall be evidenced by standard Property, Fire and Extended Coverage Insurance policy or policies, in an amount not less than necessary to comply with the applicable Co-insurance Clause percentage, but in no event shall the amounts of coverage be less than 80% if the Insurable Values or not less than the unpaid balance of the insured mortgage, whichever is the lesser. The Permanent Insurance policy shall show the Mortgagor as the Insured and shall carry the standard form of Non-Contribution Mortgage or Mortgagee Clause, showing loss, if any, payable to Missouri Housing Development Commission, 1201 Walnut Street, Suite 1800, Kansas City, Missouri 64106 its successors or assigns, as its interest may appear.

Boiler Explosion Insurance. If the boiler or boilers located in the subject property are other than steam boilers, specific Boiler Explosion Insurance generally is not required. If there is a steam boiler or boilers in operation in connection with the subject property, specific Boiler Explosion Insurance is required. In determining the adequacy of the amount or amounts of this coverage there must be careful review and consideration of all the facts and exposures for the purpose of estimating the maximum possible amount of a single loss by steam boiler explosion.

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The minimum limit of Boiler Explosion Insurance, when required, is \$100,000.00 per accident, per location. After due examination of all the related information in any given case, it may be determined this required minimum limit of \$100,000.00 is inadequate. In that event, a greater amount of coverage should be provided.

Boiler Explosion Insurance, as herein required, shall be evidenced by standard form of Boiler and Machinery policy or policies showing the Mortgagor as the Insured and shall have attached standard Mortgage Interest Endorsement, showing loss, if any, on the property of the Insured, to be adjusted with and payable to the Insured and Missouri Housing Development Commission, 1201 Walnut, Suite 1800, Kansas City, Missouri 64106, its successors or assigns, as its interest may appear. It is the responsibility of

the mortgagee to notify MHDC if such insurance is required and to provide a Certificate of Insurance, showing the nature and limits of such policy and evidencing such insurance to be paid in full force and effect, to MHDC at or prior to the time the policy takes effect. The original policy, when issued, shall be delivered to MHDC to be retained in its possession. Mortgagor shall assure that such insurance coverage remains in full force and effect for so long as any mortgage on the property is held by MHDC.

All insurance carriers shall have a "Best Rating" of B+ or better; and shall be a licensed, admitted carrier in the State of Missouri or an eligible surplus lines insurer in the State of Missouri.

## Exhibits

1. Application for Advance of Mortgage Proceeds (MHDC 2420)
2. Disbursement Schedule (MHDC 2430)
3. Contractor's Advance (MHDC 2440)
4. Application and Certification for Payment (AIA Document G702)
5. Continuation Sheet (AIA Document G703)
6. Contractor's Prevailing Wage Certificate (MHDC 2450)
7. Change Order (AIA Document G701)
8. Request for Release of Escrows Funds (MHDC 2460)