

CONSTRUCTION DISBURSMENT GUIDE (MHDC 2400)



MISSOURI HOUSING DEVELOPMENT COMMISSION

**920 Main, Suite 1400
Kansas City, Missouri 64105**

Effective December 16, 2021

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 the 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 five (5) 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

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.

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
- 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 Contractor's Cost Certification and Letter of Credit or escrow account for latent defects. 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

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 20th 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.

Exhibits

1. Application for Advance of Mortgage Proceeds (MHDC 2420)
2. Disbursement Schedule (MHDC 2430)
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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)