
Construction
Monitoring

Target Audience

- Construction Loan Administrators
- FHA Chief Underwriters
- Loan Originators
- HUD and Lender Underwriters
- 3rd Party Architectural and Cost Analysts
- 3rd Party Needs Analysts
- Energy Consultants
- HUD Construction Analysts
- HUD Branch Chiefs and Directors
- Contract Inspectors
- Sponsors and Owners
- Development Consultants and Brokers
- Anyone wanting to broaden their knowledge of HUD policies and procedures

Topics

- What It Is
- Why It Matters
- Construction Risk Factors
- The Players and Their Roles and Responsibilities
- Outline of the Process
- When Things Go Bad

What is Construction Monitoring?

The collaborative effort of all parties involved in producing an FHA multifamily construction project to see that the project is brought successfully from initial endorsement to final closing.

Why is Construction Monitoring Important?

- The Construction Period is a time of critical risk
  - The Southwest Region regards the construction period to be a time of significant risk, with project failure and foreclosure a potential any time the process is disrupted.
  - Significant FHA Loan Proceeds are expended during the process for a project that is not habitable and cannot generate income until the end of the process.
- Both short-term and long-term viability are at risk for projects that encounter significant issues during the construction phase.

Why is Construction Monitoring Important? (cont.)

As of May 7, 2019, the Southwest Region had 146 FHA projects under construction with a total mortgage value of $3,850,791,383.

This represents a considerable risk to the department.

Six of these are officially in the “Construction Problem Resolution status, along with one Section 202 project. Another 17 projects are 10% or more behind schedule.

Major Construction Risk Factors (What can possibly go wrong?)

1. A Project That is Not On Schedule.
   - Missing the due date delays lease-up and income
   - Delayed Lease-up can have an opportunity cost and can allow a comparable project a competitive advantage.
   - Interest costs escalate when a project is behind.
   - Liquidated damages accrue.

Major Construction Risk Factors

1. A Project That is Not On Schedule.
    - Retainage releases are delayed.
    - MOST IMPORTANT - A slipping schedule is generally an indication of a systemic issue with the construction process.
    - Failure to bring in the project on time is a violation of the Building Loan Agreement and subjects the owner to a declaration of a technical default.

Major Construction Risk Factors (cont.)

2. Conflicts Between Owner and Contractor
3. Site Access Blockage and Lack of Utilities
4. Failure to Follow HUD Policies and Procedures
   - Davis-Bacon Wages and Payroll Reporting
   - Failure to Process Change Orders Timely
   - Making Changes to the Design Without an Approved Change Order (including ASI's that are not followed up with a change order)

Major Construction Risk Factors (Cont.)

5. Weather Management
   - Different from weather days
   - Failure to protect in-place construction from weather damage, or
   - Failure to manage the site, to take steps to keep the project moving forward when chronic extreme weather persists
6. Failure to Prepare for the Lag in Cash Flow
7. Inability to Acquire or Mobilize Subs
8. Failure of Subcontractors to Provide Quality Work

Major Construction Risk Factors (Cont.)

9. Failure of the GC to Manage Resources, Sequencing or Costs (including subcontracts)
10. Issues with Executing Draws
11. Inadequate Performance of the Architect, Contract Inspector, Owner or HUD
12. Timing of Component and Material Delivery
13. Municipal Intervention
14. Strikes

Major Construction Risk Factors (Cont.)

15. Climate Catastrophe
16. Contractor Induced Damage
    - o Careless use of a torch
    - o Pressurizing a water line when it is not ready
    - o Improper setup of a crane
17. Unrealistic Construction Schedule
18. Accident or Injury
19. Lack or Protection for Price Increases

The Players - Their Roles and Responsibilities

- The Architect
- The General Contractor
- The Subcontractors
- The Contract Inspector
- The Owner
- HUD
- The Lender

The Process

- Preliminaries
- Closing and the Preconstruction Conference
  - Participants
  - Plans Signed
  - Discussion of HUD Policies and Procedures
    - Draws
    - Inspections
    - Davis-Bacon
    - Change Orders

The Process

- Start of Construction
  - Mobilization
  - Posting of Signs
  - Construction Start Letter
  - What About Early Starts?

The Process

- Architect's Administration of the Contract
  - Site Visits and Log
  - Draw Review
  - Change Order Administration
  - Calling Balls and Strikes
  - Correction of Defective Work
  - ASI's
  - RFI's

The Process

- Monthly Draws
- Change Orders
- HUD's Contract Inspector Role & Reports
- HUD Office Review
  - The Construction Manager's Role
  - Tracking Progress of All Projects
  - Monitoring Projects at Risk

The Process

- How HUD Monitors Projects At Risk
  - Bi-Weekly Discussion
  - Elevation to Critical Status
  - Notification and Engagement of Lender
    - Collaborative Effort Between HUD and Lender
  - Flagging and Sanctions

The Process

- Project Closeout
  - TCO's, CO's and Permission to Occupy
  - Final Trip Report
  - IDC's
  - Cost Certification
  - Warranty Inspections
  - Final Endorsement