

CONTENTS

CHAPTER 6. CONSTRUCTION AND HOME IMPROVEMENT LOANS

PARAGRAPH	PAGE
6.01 Overview.....	6-2
6.02 Basic Methods of Handling Construction Financing.....	6-2
6.03 The Builder.....	6-2
6.04 Documentation Requirements.....	6-2
6.05 Construction Inspections.....	6-3

6.01 OVERVIEW

Borrowers may use the proceeds of a Native American Direct Loan (NADL) to build homes that meet their individual needs and are not required to follow any one specific floor plan or design model. Construction loans may range from small to relatively large sums. The time to complete the improvement may extend over a substantial length of time, and the contractor may not be willing to defer payment until the construction is fully completed. If the contractor insists on payment before the project is completed, partial disbursements may be made from the loan proceeds as the improvement progresses. The principles and procedures outlined in this chapter for construction loans may be applied to repair, alteration, or improvement loans. Direct loans for the purchase of an existing dwelling loan may include the cost of repairs, alterations, or improvements, if the cost meets the reasonable value requirements.

6.02 BASIC METHODS OF HANDLING CONSTRUCTION FINANCING

a. Turnkey. Stations should encourage turnkey projects whenever possible to minimize risk to the Department of Veterans Affairs (VA). If a Veteran's application has been approved and the builder is willing to complete the construction or improvements prior to disbursement of the loan funds, VA will issue a commitment to, or on behalf of, the Veteran stating the terms and conditions under which it will make the loan to the Veteran upon completion of the proposed construction or improvements.

b. Staged Disbursements. In the case of a construction or home improvement loans in which it has been determined that staged disbursements are necessary, payments will be made in accordance with a stage-payment plan. Payments will be made only upon completion of significant and easily distinguishable items in the construction or improvement contract. The payments are to be computed so that a minimum of ten percent of the construction amount is withheld until the final payment.

6.03 THE BUILDER

Borrowers are given maximum flexibility in selecting their contractor, but must use a licensed contractor. The contractor must be licensed in the State or approved by the tribe which has jurisdiction over the land on which the house is being constructed.

6.04 DOCUMENTATION REQUIREMENTS

a. Borrowers must submit detailed plans and specifications to VA for review.

1. Plans and specifications for new construction must be developed by an architect and/or the proposed general contractor. The architect must be State-Certified and the plans and specifications must be stamped by an architect or engineer with such certification. The plans must detail exactly what the contractor proposes to do. The plans should show elevations

Chapter 6: Construction and Home Improvement Loans

and include a floor and plot plan. The specifications must state model types and exact materials or processes to be used.

2. VA may require that the plans and specifications for home improvement be developed by an architect or contractor, depending upon the nature of the work.

3. Any person developing work plans and specifications must possess sufficient expertise to effectively undertake that effort.

b. Site Map and Legal Description of the Property. The borrower is responsible for determining the property's legal description (if one does not exist), at his/her cost, by having a survey of the exterior boundaries of the property performed by a license land surveyor.

c. Plot Plan. The borrower must provide a plot plan showing the location of the structure with setbacks, driveways, water/sewer lines and other relevant details. This plan should include the finished grade elevations at the property corners and building corners. The plan should, where feasible, indicate the required flood elevation.

d. Construction Contract. The borrower and the contractor must have a construction contract that specifies the terms of the construction project. At a minimum, the contract must describe the work to be performed, include the dates when the work will start and be completed, state the total amount to be paid to the contractor, and must detail the construction drawdowns. Construction draws will be made in four to six payments. VA or its agent will release funds only upon satisfactory completion of the construction phase. A ten percent hold back is required, and the final payment will not be disbursed until the construction is completed, and an acceptable final inspection report is received. The full contract amount must never be disbursed before the final inspection report is received or before the loan closes. The contract must also provide for binding arbitration on disputes.

e. Change Orders. Change orders are required when the construction deviates from the approved plans and specifications. If the change order results in a cost increase, the borrower must place additional monies into the construction escrow account for payment of the approved change. If a change order results in a cost decrease, the difference will be applied to prepay the mortgage principal after completion of the work.

6.05 CONSTRUCTION INSPECTIONS

The purpose of VA inspections during construction is to ensure that all onsite and offsite improvements have been acceptably completed according to the plans and specifications, and VA Minimum Property Requirements are met.

a. Qualified State/Local Licensed Inspectors. Only qualified State/local licensed inspectors (e.g., VA inspectors) can perform the construction inspections. The inspector must be a disinterested third party and cannot be personally or financially related to the builder, borrower, or other interested party. The tribal staff may conduct the inspections if they are qualified and acceptable to VA.

- b. Costs of Inspections. Inspectors may charge, per inspection, the amount approved by the VA office for the area.

- c. Contractor's Responsibility. When needed, the contractor is responsible for contacting the inspector directly to schedule inspections.

- d. Final Inspection. The contractor must schedule a final inspection with the inspector when construction is completed. The inspector will determine whether construction is satisfactorily completed according to the plans and specifications, and must complete the final Compliance Inspection Report. Photos of the exterior and interior work are required. Release of the final escrow draw will depend upon the successful completion of this inspection.

- e. Compliance Inspection Report. All compliance inspections will be reported on [VA Form 26-1839](#), *Compliance Inspection Report*.