Standard template when lender or contractor requests money upfront

Dear Sir or Madam

As an active partner in the renovation project at the above referenced property, I am aware the importance of doing everything possible to facilitate the completion of the rehab work as quickly as possible. However, according to the requirements of HUD 4000.1 II.A.8.a., a draw request may be approved for work not completed. There are two exceptions to this rule:

1. materials costs for items, prepaid by the Borrower in cash or by the contractor, where a contract is established with the supplier and an order is placed with the manufacturer for delivery at a later date; and
2. up to 50 percent of materials costs for items, not yet paid for by the Borrower or contractor, where acontract is established with the supplier and an order is placed with the manufacturer for delivery at a later date.

I will be able to create a materials disbursement for either of the two conditions, provided copies of the manufacturer’s invoices are submitted to me as supporting documentation.

Additionally, HUD 4000.1 also states NO funds are to be disbursed prior to all required permits being obtained. *“ The Mortgagee may release funds only when repairs and improvements per the draw request, whether made by the contractor or Borrower, meet all federal, state, and local laws, codes and ordinances, including any required permits and inspections.”*

While I do not presume to instruct you as the mortgagee of your responsibility, I am unable to create or add my name to aa draw request for the requested amount as an advance to be paid to the contractor before work has been performed.