



Commercial Construction Lending Overview & Checklist

Useful Definitions:

- **Retainage**- A portion of the agreed upon contract price deliberately withheld until the work is substantially complete to assure that contractor or subcontractor will satisfy its obligations and complete a construction project.
- **Date Down**-Cost to check title for any liens filed by contractors or subcontractors.
- **Hold Back**- Cash Equity held in a controlled savings account used first for project costs before bank funds.
 - If using existing land as equity then no hold back is required, provided that equity is at least 15% of the project cost.
- **Stabilization**- Once occupancy is received and the time it will take for the property to be fully utilized.
- **Loan Interest Reserves**- The interest accrued during the construction phase, which is funded out of the loan proceeds paid to the bank monthly.
- **Contingency**- A pre-determined amount to account for unexpected construction costs.

Pre-Construction Reminders:

- **Feasibility**- A feasibility study is an analysis of how successfully a project can be completed, accounting for factors that affect it such as economic, technological, legal and scheduling factors.
- **Zoning**- The process of dividing land in a municipality into zones (e.g. residential, industrial) in which certain land uses are permitted or prohibited.
- **Land Use**- Involves the management and modification of a natural environment or wilderness into a built environment such as a settlement or a semi-natural habitat such as an arable field, pasture, or managed woods.
- **Permits**- Check with your city, state and county for construction permit requirements.
- **Environmental Report**- Desktop Environmental or Phase I may be required to determine if land is clean of any environmental issues.

Minimum Project Size: \$250,000

Loan to Cost:

- The loan is generally 85% of cost OR appraised value, whichever is less.
 - Cost is defined as the cost to build including:
 - Land
 - Soft costs (engineering, permits, plans)
 - Hard costs (building structure, landscape etc)
 - Interest reserves
 - Building contingency

Equity/Down Payment:

- Cash down payment can be made in purchasing the land.
- Project equity could come from a separate piece of real estate that isn't involved in the construction project.
- Any pre-paid soft costs (architectural, engineering, financing, and legal fees, and other pre-construction expenses) can be included as equity.
 - **How to present equity to the bank**
 - The bank will require copies of paid invoices or credit card receipts/canceled checks in order for this to be considered.
 - Copy the canceled check/credit card statement/credit card slip with the invoice for each bill and label the top of the sheet with the corresponding line item on the budget.
- If cash is required for the project, funds will be required to be paid at loan closing and escrowed.

Credit/Underwriting:

- Credit Score: 700+
- Experience in a previous construction project is favorable.
- Net worth greater than \$750,000 is suggested.
- Stable recurring cash flow is crucial.

Loan Structure:

- 6-18 month construction time period.
 - Interest only payments during construction and stabilization. The interest payment will come from interest reserves until depleted or converted to permanent loan.
- Option 1: All-in-One Loan-- After stabilization and/or interest only period expires, the loan is converted into a conventional commercial term loan at a predetermined interest rate.
 - If using the SBA 504 loan program, this is when your SBA loan will start.
- Option 2: Construction Only Loan—Construction project only. Floating interest rate and will need to be refinanced at the end of the construction term (balloon payment).

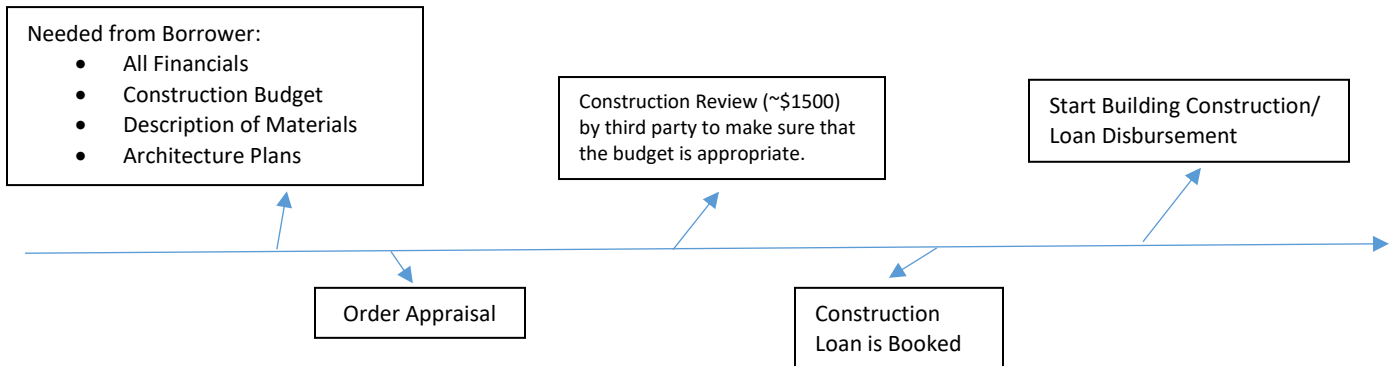
Needed for Bank Loan Application?

- Last 3 years' Personal Tax Returns
- Last 3 years' Business Tax Returns (Of any business owned by the guarantors over 20%)
- Personal Financial Statement (Of any business owned by the guarantors over 20%)
- (If Owner-Occupied Business) Last 3 years Business Tax Returns
- (If Owner-Occupied Business) Interim year to date Income Statement & Balance sheet dated within 30 days
- Building Plans and specifications
- Copy of construction budget provided by general contractor OR borrower
- Sample of Contractor Contract
- Description of Materials form

Questions needing to be answered during Loan Application?

- What is the purchase price or cost of the land?
- Is the land owned free and clear?
- Date of land purchase
- Zoning
- Entitlements
- Name of Architect
- Where are you in the permit process?
- Are plans approved by the city/county?

Loan Process:



If SBA 504 Construction Loan

- Borrower cannot be the General Contractor
- Evidence of Builders Risk and Workers Comp Insurance will be needed from General Contractor

General Contractor:

- Required for all Commercial Projects.
 - Bank must approval General Contractor
 - Bank may require financials from the General Contractor to underwrite the ability of the contractor to complete the job.

Construction Appraisal

- Once the budget is received the bank will order a Construction Cost appraisal to determine the value of the building after construction.

Construction Plan Review for projects over \$1MM (Northwest Constitution Control)

- Fully Set of Plans- in PDF Format
- Specification/ Description of Material
- Detailed Cost Breakdown (Budget)
- Building Contract between borrower and builder
- (If Remodel or Tenant Improvements)- Provide scope of work that describes the work that will be completed.
- Soils- Geotechnical Report
- Any Addendums to Plans
- Construction Schedule
- Appraisal (Ordered by Bank)

Cost Overruns/Change Orders:

Generally in construction projects there is a 5-10% contingency (or more) built into the budget to anticipate cost overruns.

- If the amount of overruns are over the contingency, how will you fund the extra expense?

If Construction is started before the loan is approved/booked

If you have started the construction project before the bank loan has been approved and booked. The bank and title company will need to collect subordination or indemnity agreements from each contractor and sub-contractor that has performed work on the property. This assures proper lien placement by the bank.

Disbursement:

- Borrower fills out budget draw request and draw request form.
 - **Note:** No funds will be disbursed without proper permits
- Inspection is ordered and draw amounts are verified based on percentage completed.
- Once approved, money is disbursed into the borrowers checking account for payment
- All payments are paid directly to the borrower not the contractor/subcontractor.
 - If disbursement is requested more than once a month, an additional disbursement fee may be added
 - See site visits for approval of payments

Loan Costs/Fees (All fees are approximate)

- Generally Bank loan fee will be 1% to 2% based on project.
- Title Insurance- Depending on loan size
- Date Down (Title)- \$150/each
- Recording- \$200
- Appraisal- \$4,500
- Flood- \$20
- Tax Service- \$150-\$500
- Site Visit- 3rd Party- See Below (\$350-\$600/each)

Site Visits:

Monthly site visits are required from our third party vendor, Northwest Construction Control, who will monitor the completion of the project and issue approval for payments. The fee is determined by each project type. Average fee for each site visit ranges from \$350-\$600.

Change Orders: Must be approved before completion by bank and the borrower.

Change orders occur when the actual cost exceeds the budgeted line item due to borrower choosing new material or change to the plans with increase project cost.

- Example: Cabinets from PRESSED Wood to Oak : \$30,000 (Budget) \$60,000 (Actual)
 - If contingency is available, this will need to be approved by the Bank. As well as the borrower will need to pay 15% of the change or pay the full increase out of pocket.
 - If no contingency is available then the borrower will need to pay the full increase out of pocket.

Re-Margin: Re-Margins occur when the borrower needs to add additional cash to the project due to lower market conditions or after using the contingency budget.

All construction lending projects are unique. Please talk with your Business Banker for more information.