

Construction Loan Checklist



Not sure where to begin when it comes to construction financing? No problem. Here's a quick checklist that can help you get started:

✓ Licensed General Contractor

A licensed general contractor is required for all construction loans. We will not accept an owner-builder or a "construction supervisor". The only owner-builder loan we will consider is where the owner-builder is also a licensed general contractor.

✓ Construction Contract and Specifications

The construction contract identifies the price of the job, the draw schedule, the scope of the contractor's and homeowner's obligations plus other items. The specifications will identify what types of materials will be used for the job and what allowance limits are set for various items (such as fixtures). The construction contract and accompanying specifications must be signed by the contractor and homeowner.

✓ Plans

We can work with an initial set of plans for ordering the appraisal if the borrower does not make any changes to the plans. The final plans must be consistent with the plans the appraiser used and must have an official approval stamp from the Department of Planning and Permitting office of the appropriate county. Also, each page must be signed by the borrower and contractor.

✓ Bond

The bond insures completion of the project for the homeowner and the lender. Most contractors will get a completion bond from a materials supplier (e.g., Honsador or HPM). When purchasing a certain amount of materials from the supplier the bond is provided at no charge. For very large projects your client may need to get a surety bond from an insurance company (must be A-rated or better), which will be an additional cost paid by the borrower. The borrower, lender, contractor and bonding company all must sign the bond.

✓ Permit

This should be provided hand-in-hand with the final approved plans and must be submitted to Finance Factors before closing.

✓ Inspections

At each draw from the construction contract, we require the appraiser to inspect the project to ensure compliance with the plans and the draw schedule before releasing funds to the bonding company to pay the contractor. For construction contracts in excess of \$750,000 we require either an engineer or architect to do the inspections.

So, if you have a client that's ready to build on a vacant lot, or if someone you know needs to do major renovations or make an addition to their home, call us today. Finance Factors can help!



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