

Construction Loan Guide

Our goal at AES is to make the construction funding process as simple as possible. This package will assist you in understanding the construction funding process. A construction loan is a **promise**. You are promising that you will complete your construction project on time and within budget. How you access money during the construction process is called the Draw Process or Inspection Process. Your Lender will be happy to explain the process for this Project.

Draw Schedule *is a detailed payment plan for a construction project. If a bank is financing the project, the draw schedule determines when the bank will disburse funds to you and the contractor. The goal is to make progress payments to the contractor as work is completed.*

Please keep in mind that a cost sheet provided by your builder or a spreadsheet you have created yourself does not always translate into an efficient funding strategy. **You should confirm with your Lender the Draw Schedule they prefer.** Then you should convert your cost sheet to that format.

EVERYONE SHOULD BE ON THE SAME PAGE WHEN IT COMES TO HOW A CONSTRUCTION PROJECT WILL BE FUNDED.

AES will provide you with a project review. Part of this review will be the funding format that best suits the Project. All parties will have to agree to this funding format before the Project can proceed with AES.

No Work Affidavit *Whether the construction project is building on a vacant lot or an existing building that will be renovated, the affidavit states that construction had not started nor building materials delivered at the time the site inspection of the affidavit is performed.*

DO NOT START WORK OF ANY KIND ON YOUR PROJECT UNTIL YOUR LOAN HAS CLOSED! NO-DUMPSTERS-TEMP POLES-DEMOLITION-EQUIPMENT-MATERIALS- DIRT WORK

Project Documents

Please understand that it is your responsibility to provide all required information to your Lender. Misinformation presented to your Lender can cause severe problems with your construction loan process.

Plan

To complete any project, you will need a plan. The following documents will be required to Set Up, Close, Fund, and Complete your construction project with your Lender.

Pre-Closing Documents

- Executed Contract
- Stamped Digital Plans
- Budget/Cost Sheet/Schedule of Values
- Draw Schedule
- Contractor License /Insurance/ Self Build Affidavit
- Flood Insurance

Post Closing Documents/ Draw #1

- Survey Spotting Improvements/Spot Survey
- Soil Treatment Certificate/ Termite Certificate
- Flood Elevation Certificate
- All Necessary Building Permits

Framing Draw Documents/ Draw #2

- Flood Insurance Policy

Final Draw Report Documents (Prepare with your Lender & builder)

- Final Survey (Showing all improvements and Flood Zone)
- Home Owners Insurance Policy
- Clear Lien and Privilege Certificate
- Certificate of Occupancy

If you are working with a reputable professional builder, he/she will be able to assist you with the majority of the required documents. Please contact your Lender for a specific list of required documents. This will expedite the funding of your Project.

Permitting

Proper permitting is vital to the success of your construction project. Please consult with your contractor or local permitting office to confirm that they understand the full scope of your Project. Your Lender will require a permit before funding can begin.

Improper permitting can result in the following:

- Work Stoppage
- Fines
- Funding Delays
- The inability to acquire a Certificate of Occupancy
- Financial liability in the event of an insurance claim

Basic Permitting Requirements

Most municipalities follow standard building codes; To ensure life safety in construction, there are several requirements for proper permitting. There are costs involved in acquiring a building permit. In a perfect world, you should have your building permit before you close on your construction loan.

- **Demolition/Site Preparation**
All structural demolition usually requires a separate permit. This can even include removing a fence.
- **Framing**
If you are adding or repairing existing framing, it is strongly advised that you consult with your permitting office on your complete scope of work. They will be able to advise you on the proper procedures.
- **Electrical-Plumbing-HVAC (Air & Heat)**
In theory, if you are changing out a ceiling fan, you need a permit. I know that sounds extreme. All of these disciplines in any capacity require a permit.
- **Structural/Additions**
All structural repairs require a set of architectural drawings stamped by an engineer, Including additions to existing structures.. This is probably the most common oversight in construction.

One more thing about permitting. If your builder tells you, "you don't need a permit....."

GET ANOTHER BUILDER!

Construction Budget

The most vital part of **your** construction project is your construction budget. It will determine your success or failure. Having an accurate and detailed budget is vital. You need to make sure you are borrowing enough money to complete your Project. Cost overruns are viewed as a mistake. This mistake will cost you money. AES has provided you with a cost template to help you prevent this costly and time-consuming situation. A 10%-20% contingency is advised for all renovation projects and self-subcontracted projects.

If you request contingency funds, you will need to give a detailed explanation and supporting documentation of what those funds will be used for.

Start-up Funds/Deposits

In most cases, deposits cause problems for you and your Lender. Your Lender will be hesitant when it comes to funding for materials that have not been installed or for work that has not been completed. The whole concept behind a construction loan is that you will improve the value of the bank's collateral as you complete work. This is the only security your Lender has. You should address any deposit request with your Lender before closing.

Most professional builders have commercial accounts with their suppliers. This significantly reduces the need for additional capital deployments. Please consult with your builder on their need for start-up funds or deposits.

If your builder is requesting a deposit, please have him/her contact your Lender directly to discuss the procedure.

Self-Build/Self Contracted Projects

The law in some states, Louisiana, for example, allows you to build your own house. In other words, you will be authorized to act as a contractor for your Project. The most significant stipulation is that this has to be **your house!** You cannot Self-Sub an investment property. Your Lender will require you to sign an Affidavit Claiming Exemption From Licensure. We have included one in this package.

If choosing to Self-build, you will likely be required to supply supporting estimates from all major subcontractors and suppliers to substantiate your cost breakdown. You may also need to provide licenses and insurance for all major subcontractors.

Here are a few things to keep in mind when considering a Self-Build Project.

Time: Do have enough time to devote to the Project. The carrying costs on a construction loan need to be taken into consideration. Perhaps you will save money, in the long run, by choosing a reputable professional builder.

Suppliers: If you choose to take this on, AES recommends setting up accounts with suppliers for all the materials you need to complete your Project. Suppliers traditionally give you 30-60 Day terms. This will reduce the need for capital deployments and increase your efficiency.

Subcontractors: Most states require that all subcontractors be adequately licensed and insured. If you are not a licensed electrician, you will have to hire one to complete your Project's electrical work. This is very important to the value and life safety of your Project.

Permitting: Please meet with your municipality's building department to make sure you are following the law. Tell them what your plan is. They are here to help.

Contingency: You should have a capital reserve of 10%-20%. Things are going to happen. You will need additional capital.

If you have a request for contingency funds, you will need to give a detailed explanation and supporting documentation of what those funds will be used for.

Building your own home can be very rewarding and cost-effective. Make sure you are ready. It is not like what you see on tv.

Questions to Ask Your Lender Before you Close your Construction Loan!

- How do you handle Builder Deposits?
- How long does it take for funds to be released?
- How will I know funds have been released?
- How will I access my construction funds?
- Who is responsible for paying my builder?
- How do you handle change orders and cost overruns that exceed the presented budget?
- Do you fund invoices?
- Do you fund materials?
- What Draw schedule are we going to use for this Project?

For More Information on AES please visit our website www.aesrequest.com.

Congratulations on your construction project!

We look forward to working with you.

Paul R. Pablovich

LA# 882304

Broker LA# 995685319-CORP

Paul@aesrequest.com