



ASSET EVALUATION SERVICES,LLC

CONSTRUCTION PAY APPLICATION SYSTEM

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 promise that you will complete your construction project on time and within budget. How you access money during construction is called the Draw Process or Inspection Process.

AES would strongly advise you not to close on your construction loan without a building permit.

Permitting

Basic Permitting Requirements

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 closing 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!

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 remember that a cost sheet provided by your builder or a spreadsheet you created 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 Overview Report free of charge. 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

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 a cost template to help 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 for those funds.

Start-up Funds/Deposits

In most cases, deposits cause problems for you and your Lender. Your Lender will be hesitant regarding 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 the 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.

Capital Reserves

AES recommends having a large enough capital reserve before closing your construction loan to avoid having to rely on your Lender for material deposits and purchases. However, regardless of the bank, it can lead to a loss of control and time. Banks generally require documentation for funding these expenses, but the process varies.

Having sufficient cash reserves allows you to acquire materials on your timeline, not the banks.

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
- Building Permit

Post Closing Documents/ Draw #1

- Survey Spotting Improvements/Spot Survey
- Soil Treatment Certificate/ Termite Certificate
- Flood Elevation Certificate

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 get in touch with your Lender for a specific list of required documents. This will expedite the funding of your Project.

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

