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Business Lending News

SBA CONSTRUCTION LOANS: BUILDING YOUR PORTFOLIO STEP-BY-STEP

With residential and commercial construction picking up, contractors and construction companies are hungry for financing. So it's a good time to give a leg up to local construction companies and at the same time help build up your local economy - and your SBA portfolio.

Construction loans are a specialty. So it's a given that your organization needs to follow SBA's specific procedures. Step-by-Step. Like everything SBA, following procedures gives you a better chance of collecting the full guaranty even in the off-chance a loan goes bad. Going the construction route? Here's a rundown of what you must document in your files:

- Budget for the entire project, not just the loan amount
- Copy of the executed construction contract and due diligence performed on the contractor, e.g., permits, licenses, good standing, insurance. The construction contract also should contain a provision that any material changes must have the lender's prior written consent
- Copy of the final project plans
- All building permits and bonds necessary to comply with state and local building laws and regulations
- It's wise to consider having fund disbursements handled by a third-party fund control company, even if your credit union has a dedicated construction loan department. Here's why: SBA states that for loans with a construction component of \$350,000 or more, lenders must obtain a copy of the contractor's bond if they keep disbursements in-house.* Because bonds are expensive, the only way to waive the bond is for a third party to control disbursement. How it works: Your organization is the lender. Fund control companies have the expertise to gather all draw documents, perform site inspections, and review all items such as plans and overruns. After verifying the accuracy of funds requested for payment, they'll request the funds from you so they can pay all parties needing payment.
- Important Note: Copies of all third-party fund control company inspections (or inspections conducted by your construction lending department if you have one) must be obtained before funds are disbursed
- Appraisal showing the "As Is" value of the property and the estimated "As Built" value. Before paying the final draw, your organization as the lender MUST obtain an "As Built" certificate from the same appraiser to support that the final appraised value equals or exceeds the estimated "As Built" value in the appraisal
- Borrower's injection MUST be paid in full before the first disbursement

You also should obtain documentation showing that the borrower has funds to pay for any cost overruns that may occur from modifications to the contract. And finally: remember to wrap up the final construction loan with all Mechanics Lien Releases, the Notice of Completion, the Certificate of Occupancy and your "As Built" certification.

When you take them step-by-step, construction loans can be profitable elements of your SBA loan portfolio!

At J.R. Bruno & Associates, we've been assisting organizations with SBA and business loans for a number of years: 22 and Counting. For all things SBA, [Contact JRB!](#)

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[*SOP 50 10 5 \(I\) Subpart B, Chapter 5, Item VI B, pg. 178](#)

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