

## Construction Lending Questionnaire

	Yes	No		Yes	No
<b>General Questionnaire</b>			<i>Construction Loan Applications</i>		
<i>Construction Loan Policies and Objectives</i>					
1. Has the board of directors adopted written construction lending policies that:			3. Does the institution require:		
a. Establish procedures for reviewing construction loan applications?.....			a. A history of the contractor's prior construction experience and a schedule of other projects the contractor currently has under construction?.....		
b. Require agreements by borrowers for completion of improvements in accordance with approved construction specifications and cost and time limitations? .....			b. Trade reputation credit checks, current and historical financial statements? ....		
c. Define qualified collateral and minimum margin requirements? .....			4. Do project cost estimates include: .....		
d. Identify acceptable appraisal or valuation techniques? .....			a. Land and construction costs? .....		
e. Specify inspection procedures? .....			b. Related off-site expenses? .....		
f. Define methods of disbursing loan proceeds? .....			c. Legal services and insurance expenses?.....		
g. Delineate standards for take-out commitments?.....			d. Loan interest? .....		
h. State completion bonding requirements? .....			5. Are estimated cost breakdowns available for each stage of construction?.....		
i. Establish minimum standards for documentation? .....			6. Are cost estimates of more complicated projects reviewed by qualified personnel, i.e., an architect, construction engineer, or independent estimator? .....		
j. Outline aggregate limit for construction loans? .....			7. Do construction borrowers contribute equity to a proposed project in the form of money or real estate and is it included in the budget? .....		
k. Specify extensions of credit in particular types of construction projects? .....			8. Are commitment fees required on construction loans? .....		
2. Are construction lending policies and objectives reviewed at least annually to determine if they are compatible with changing market conditions? .....			9. Does the institution require:		
			a. Personal guarantees by the borrower?		
			b. Personal completion guarantees by the contractor? .....		

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<i>Construction and Loan Agreements</i>					
10. Are construction and loan agreements signed prior to actual loan disbursement? ...			h. For projects that are developed in phases, does the institution authorize individual starts and require periodic sales reports? .....		
11. Are construction and loan agreements reviewed by experts:			<i>Collateral</i>		
a. To determine that building specifications conform to appropriate codes, ordinances, and restrictions? ...			15. Does the institution use first liens on real estate in order to secure collateral?.....		
b. To ensure a perfected lien position?....			16. Are chattel mortgages taken on real estate construction improvements? .....		
12. Are all change orders approved in writing? .			17. Do construction loans have take-out commitments that are predicated upon achievement of a specified minimum rent or lease occupancy? .....		
13. Do construction and loan agreements set a specific date for project completion and sell out? .....			18. Are construction loans that are subject to the institution's own take-out commitment limited to a percent of the appraised value of the completed project? .....		
14. Do construction and loan agreements require that:			19. In conjunction with construction loan review, are unsecured lines of credit to contractors periodically monitored by management? ....		
a. The contractor not start work until authorized to do so by the institution? .			<i>Appraisals</i>		
b. On-site inspections be permitted? .....			20. Are feasibility studies obtained and do they support the viability of new development projects? .....		
c. Disbursement of funds be based upon progress of the project? .....			21. Are appraisals approved in writing by the permanent lender where construction loans are subject to a take-out commitment?.....		
d. The institution be allowed to withhold disbursements if work is not performed in accordance with approved specifications? .....			22. Does the institution have an internal review procedure by appropriately qualified personnel to determine whether construction appraisal procedures are consistently being followed and that appraisal documentation supports the appraiser's conclusions?.....		
e. A portion of the loan proceeds be retained pending satisfactory completion of the construction? .....					
f. The lender be allowed to assume prompt and complete control of the project in the event of default? .....					
g. The contractor have builder's risk and hazard insurance? .....					

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<i>Inspections</i>							
23. Are inspections conducted on a timely basis in order to allow monitoring of the project during all stages of construction? .....				32. Does the institution obtain waivers of subcontractors' and materialmen's liens as work is completed and disbursements made? .....			
24. Are sites inspected for environmental risk and liability (refer to TB 16)? .....				33. Does the institution obtain sworn and notarized releases of mechanics' liens from the general contractor at the time construction is complete and before final disbursements? .....			
25. Are inspection reports sufficiently detailed and documented to support disbursements? .....				<i>Take-out Commitments</i>			
26. Are inspection and disbursement functions segregated? .....				34. Are take-out agreements reviewed by counsel for enforceability? .....			
27. Are inspectors rotated? .....				35. Are the financial statements of permanent lenders obtained and reviewed to determine their financial viability? .....			
28. Are spot checks made of the inspector's work? .....				36. Does the institution require take-out agreements to include an "Act-of-God" clause that provides for an automatic extension of the completion date in the event that construction delays occur for reasons beyond the builder's control? .....			
29. Do inspectors have sufficient expertise to determine compliance with plans and specifications? .....				<i>Completion Bonding Requirements</i>			
<i>Disbursements</i>							
30. Does a review of the undisbursed loans in process (LIP) account indicate that there are sufficient funds to complete projects? ...				37. Does the institution require a completion bond for all construction loans? .....			
31. Are disbursements:				38. Has the institution established minimum financial standards for borrowers who are not required to obtain completion bonding?			
a. Advanced on a percentage of completion method? .....				39. Does legal counsel review completion bonds for acceptability? .....			
b. Made only after reviewing complete written inspection reports? .....				<i>Documentation</i>			
c. Subject to written preauthorization by the contractor, inspector, and authorized officer? .....				40. Does the institution require that documentation files include:			
d. Compared with original cost estimates and previous disbursements? .....				a. Loan applications? .....			
				b. Financial statements for the borrower, builder, and guarantors? .....			

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c. Credit and trade checks on the borrower and builder? .....				42. Do documentation files note all of the borrower's other loan and deposit account relationships?.....			
d. A copy of plans, specifications, and the building permit?.....				43. Does the institution maintain tickler files that will give at least 30 days advance notice before expiration of:			
e. A survey of the property?.....				a. Take-out commitment? .....			
f. Construction and loan agreements? ....				b. Hazard insurance?.....			
g. Appraisal and feasibility study? .....				c. Public liability insurance?.....			
h. Up-to-date preliminary title search? .....				<i>Construction Loan Accounting Records</i>			
i. Assigned tenant leases or letter of intent to lease?.....				44. Is the preparation, addition, and posting of subsidiary real estate construction loan records performed and adequately reviewed by persons who do not also issue official checks or drafts or handle cash?.....			
j. Copy of take-out commitment? .....				45. Are the subsidiary real estate construction loan records reconciled, at least monthly, to the appropriate general ledger accounts and reconciling items adequately investigated by persons who do not also handle cash? .....			
k. Copy of the borrower's application to the take-out lender? .....				46. Are documents supporting recorded credit adjustments checked or tested subsequently by persons who do not also handle cash? .....			
l. Inspection reports? .....							
m. Disbursement authorizations? .....							
n. Undisbursed loan proceeds and contingency or escrow account reconcilements?.....							
o. Insurance policies? .....							
41. Are standardized check lists used to control documentation for individual files?.....							

Comments

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