

CONSTRUCTION ADMINISTRATION UNIT PROCEDURES

The Construction Administration Unit is responsible for all assigned construction loans, commencing with loan closing and continuing until the loan is either a) repaid in full , or b) loan proceeds have been completely disbursed and expected lease-up has occurred. In addition, the unit is responsible for the administration of assigned land development loans, as well as those for the renovation of existing properties. This responsibility is to include such loans in which the Bank from time to time participates with other lenders, regardless of whether or not the Bank is the "lead" lender. Further, the Unit is solely responsible for the maintenance of the list of approved local Construction Progress Inspectors.

The Construction Administration function, by its nature, is necessarily independent and separate from the Real Estate and Commercial underwriting function. It consists of three (3) principal parts, namely, **LOAN REVIEW**, **LOAN ADMINISTRATION**, and **LOAN REPORTING**, each of which are discussed in detail here.

I. LOAN REVIEW

The CFO will familiarize him/herself with the details of the loan transaction in order to effectively administer the loan forward by conducting a review of the case, noting any obvious errors, problems or discrepancies. The review will consist of a timely examination of materials provided him/her upon formal assignment of the "closed" construction loan, which, at minimum, should consist of:

- A. A copy of the original approval, as well as copies of any approved modifications.
- B. If the loan was closed by outside counsel, a duplicate copy of the "closing binder". Should the loan have been closed without the benefit of counsel, the CFO should be supplied with:
 - 1. A copy of the executed **Deed of Trust Note**
 - 2. A copy of the executed **Guaranty of Payment**
 - 3. A copy of the **Guaranty of Completion**
 - 4. A copy of the executed **Deed of Trust**
 - 5. A copy of the executed **Loan Agreement**
 - 6. Copies of executed **Lease/Sale Contract Assignments**
 - 7. A copy of the **Title Insurance Commitment** (binder) w/exhibits
 - 8. A copy of the **General Contract, w/Agreement to Complete**
 - 9. A copy of the **Architect's Contract, w/Agreement to Complete**
 - 10. All applicable **Bonds** (Payment, Performance, Completion)
 - 11. A list of **Major Subcontractors**, w/available **Subcontracts**
 - 12. Copies of all applicable **Permits** (Building, Grading, etc.)
 - 13. A copy of the **Appraisal**
 - 14. Copies of all recorded **Plats**
 - 15. A copy of the current certified **Survey**
 - 16. A copy of the approved **Site Plan**

17. **Final Plans and Specifications**
18. **Cost Breakdowns and Loan Budgets**
19. **Evidence of required Insurance coverage**
20. **Soil Reports**
21. **Environmental Assessment**
22. **Projection of Progress of Construction**
23. **Form of Lease or Form of Contract of Sale, as applicable**
24. **Copies of all existing Leases/Contracts of Sale**
25. **Initial Draw Request, including evidence of Equity Investment**
26. **Plans Review, w/CAM responses**
27. **Initial Inspection Report**
28. **A copy of the Settlement Sheet**
29. **The Closing Memo**

II. Loan Administration

A. File Set-up and Maintenance

The CFO shall start a **Construction File** for each loan assigned, which file shall contain the following sections, in the following order:

- Section 1** Copies of original loan approvals
- Section 2** General post-closing correspondence and Blue Sheets, in chronological order.
- Section 3** Copy of Loan Agreement, Loan Advance Record, Written Requisitions, and Loan Advance Request Form copies.
- Section 4** Construction Progress Inspector's Reports and Change Orders.
- Section 5** Title updates.
- Section 6** Lien waivers and Location Surveys.

Note: Certain loans may require the CFO to prepare and maintain supplemental files, such as **Sales Files, Release File and Leasing Files**, based on the complexity of the case. In all instances, the supplemental files, as well as the Construction File, will be maintained in a neat and orderly fashion, with current information readily available.

B. Requisition Processing

Construction loan proceeds are disbursed in accordance with the terms and conditions of the loan documents, specifically the Loan Agreement. Whereas the method of disbursement (wire transfer, direct debit, check, etc.) may vary from loan to loan, the following are generally pre-conditions to any loan advance:

- 1) Direct Cost Requisition (Commercial Loans), or Draw Schedule (SFR Loans) – Signed by the Borrower, the General Contractor, the Architect and/or such other parties as may be specifically required by the loan documents.
- 2) Construction Progress Inspector's Report – A verbal report from the Inspector Engineer (shortly followed by a written report and supporting photographs), indicating that the work reflected on the Requisition has been completed substantially in compliance with the approved plans and specs and is in place. The written report should contain an assessment of the status and quality of the work, as well as the adequacy of the construction progress and sufficiency of loan funds to complete.
- 3) Title Bring-To-Dates (Updates) – In jurisdictions where Mechanics Liens can take precedence over periodic loan advances, title insurance coverage should be brought current prior to each advance. In jurisdictions where Mechanics Liens cannot take precedence, prudent administration dictates that title should "occasionally" be brought current, should the administrator be aware of contractor, sub-contractor or supplier payment difficulties. In such circumstances, filed liens, even though subordinate to the Bank's lien, may adversely affect the delivery either of portions (for sale projects) or the entirety (third-party loan sales) of the loan collateral package, potentially and unnecessarily limiting or reducing the Bank's remedies under the loan documents.
- 4) Lien Waivers/Certificates – Where applicable, lien waivers from the general contractor, sub-contractors, and/or suppliers should be received for the previous months' funding.
- 5) Location/"As-Built" Surveys – Post-closing surveys are required upon the completion of foundations, or in other instances where the possibility exists that the improvements constructed may encroach upon adjacent property lines, restrictive easements, or set-backs, thus potentially adversely affecting title.
- 6) Indirect Cost Requisitions – Receipts and/or other satisfactory evidence of payment of major indirect or "soft" costs are generally required when reimbursement is requested.

Once the CFO has determined that appropriate conditions have been met (to include compliance with any pre-sale or pre-leasing restrictions or covenants) and a loan advance is warranted, a Loan Advance Checklist is completed and submitted to the designated administrative individual within the Construction Administration Unit for funding. A copy of the Checklist is retained in the Construction File for future reference.

C. Monitoring the Project

The CFO is required to continuously monitor the status of the project through consideration and review of such information as the adequacy of construction progress, the availability and sources of funds to complete the project, sufficiency of the interest reserve, and the momentum of sale/leasing activity, Borrower compliance and the sales/leasing levels, terms and/or covenants. Anticipating problems resulting from delays in construction, cost overruns, market changes, etc., allows the CFO to recommend and implement corrective action before the uncomfortable situation becomes unmanageable. Careful analysis of the requisition packages, combined with frequent communication with the inspecting engineer and the Borrower, should alert the CFO to serious potential problems. Periodic visits to the job sites also provide usefully information regarding the status of construction, the condition of the job site, and the competing activity in the immediate vicinity of the subject projects.

D. Final Disposition

- 1) Single-Payoff Loan- In those cases where the loan is to be repaid by a single, lump-sum payment (e.g. turnkey projects, or those delivered to a permanent lender), it is the responsibility of the CFO to insure that all pre-conditions to the repayment have been met. The Buy-Sell Agreement and other documents detailing the terms and conditions of the sale of the loans should be closely reviewed for such items as leasing requirements, change order approvals, required surveys, financial condition of the Borrower/Guarantors, etc. Caution should be exercised in assuring that the Bank has no potential or actual liability to any party following the payoff (i.e. warranties, guaranties, indemnifications, recourse or other assurances not typically given in consideration of a loan payoff, per policy). Interest should be collected through the date "good funds" are available to the Bank and said "good funds" should be in receipt prior to any formal release of collateral or evidence of debt.
- 2) Individual Unit Payoffs – In those instances where repayment is effected through the sales of individual units over a period of time, it is the responsibility of the CFO to insure that release prices quoted, including applicable fees, if any, are consistent with the governing loan documents. Schedules itemizing identifying the payments received and units released should be kept current for collateral and debt reconciliation. Appropriate release instruments should be prepared, executed and remitted for filing.
- 3) Third Party Document Purchase – When a permanent lender is purchasing bank-owned documents, the CFO is responsible for coordinating the proper execution of assignments and endorsements, as well as delivering the original documents to the appropriate parties. Endorsements should be made "without recourse", and assignments should contain to warranties which might results in future liability to the Bank. It is the CFO's responsibility to attend any closing in conjunction with the sale of the Bank's documents in order to insure accurate disposition of the same.

- 4) Income Stabilization – Unless sooner reassigned, loan oversight will remain the CFO's responsibility after the completion of construction in those instances where the income-producing property has not yet reached the desired level of income required to carry the loan, as projected and defined in the underwriting package and loan documentation.

III. Reporting

In addition to any *ad hoc* reporting required from time to time, it is the responsibility of the Construction Administration Officer to periodically (presently established quarterly) complete a Loan Progress Report for each of his/her administered loans for the direct purpose of educated review, discussion and evaluation of the construction loan portfolio by Bank management. This report has traditionally proven a very useful tool in the analysis of that specific segment of the portfolio by other agencies whose responsibility it is, both internal and external.

ITEMS REQUIRED FOR CONSTRUCTION LOAN APPROVAL

1. Proposed Construction Loan Budget
2. Detailed Description of Proposed Improvements
3. Identity of Proposed General Contractor

ITEMS REQUIRED PRIOR TO CONSTRUCTION LOAN CLOSING

1. Detailed Direct Cost Breakdown
2. Detailed Indirect Cost Breakdown
3. Appraisal
4. Complete Copy of Project Plans and Specifications (Sitework, Architectural, Structural, Plumbing, Electrical, and HVAC Drawings, including the latest Revisions and all Addenda)
5. Outline Survey, including all existing and required Easements
6. Soils Test Report
7. Proposed Construction Schedule
8. Approved Site Plan
9. Copy of the General Contract
10. Copy of the Architect's Contract
11. List of all Major Subcontractors, with copies of all available Subcontracts
12. Evidence of Availability of all necessary Utilities
13. Copy of the Building Permit, as well as copies of any other required Permits (Plumbing, Electrical, Mechanical), if available.
14. Environmental Report
15. Copies of all Leases
16. Evidence of Insurance (Builder's Risk, Workmen's Compensation, General Liability & Property Damage, Flood)
17. General Contractor's Agreement to Complete
18. Architect's Agreement to Complete