

Construction Loan Terms and Definitions

Architect:

An individual who designs and supervises the professional design for the construction of buildings or other structures.

“As completed” appraisal:

An estimate of the anticipated value of a property immediately upon completion. The “as completed” appraisal is generated prior to or during construction. The appraiser relies on the plans and specs to gain sufficient understanding of the finished product in order to establish a value estimate.

Builder's Risk Insurance:

Insurance coverage on a construction project during construction, including extended coverage that may be added to the contract for the customer's protection

Building Permit:

A written document issued by the appropriate governmental authority permitting construction to begin on a specific project in accordance with drawings and specifications approved by the governmental authority.

Contingency: A line-item amount in the project budget dedicated to cost overruns.

Contractor's General Liability Insurance:

Insurance that will pay for various and sundry damages for which the contractor may become legally responsible.

Fixed Price Contract:

A contract between the borrower and general contractor specifying the scope of the agreed-upon project and the set price. Absent change orders, the price is not subject to change. The bank is not a party to this contract.

Flood Insurance:

Insurance against potential loss from flooding.

General Contractor:

A properly licensed individual or company who assumes primary responsibility for a construction project. The GC engages and manages subcontractors if necessary. If subcontractors are required, the GC compensates them directly and incorporates their charges into his overall price.

General Contractor Affidavit & Waiver of Lien:

The general contractor's sworn statement that

- a) the project is complete (final waiver of lien only),
- b) the GC is in receipt of full payment for the work completed to date,
- c) all subs have been paid and are not in a position to lien the property, and
- d) the GC relinquishes his right to encumber the subject property as security for a debt created by nonpayment of charges for labor, services or materials supplied for a work of improvement.

Notice of Commencement (NoC): The document that gives notice that improvements will be made to a specific piece of real property. The NoC which is required by construction lien law in some states, provides contact information for the owner, lender and general contractor. In some areas, building inspections cannot be performed if the NoC has not been properly recorded and posted.

Notice to Owner (NTO): Legal notice required in some jurisdictions for workmen and materialmen to preserve their right to lien real property in order to secure payment for labor or materials they are providing for improvements to the site.

Owner's General Liability Insurance:

Insurance that will pay damages for which the owner (our borrower) becomes legally responsible.

Plans and Specs:

Plans: All drawings needed for complete execution of a specific project. These graphic representations show the location, geometry, and dimensions of a project or its elements in sufficient detail to facilitate construction.

Specs: A detailed, exact statement of particulars, especially statements prescribing materials and methods, quantitative and qualitative information pertaining to material, products, and equipment to be incorporated into a specific project. Exhibit B2)

Retainage: Funds held back from a contractor in order to ensure the proper performance of the contract. Retainage is held back at a fixed percentage of each payment due to the contractor.

Survey:

The precise measurement of a parcel of land to determine all its dimensions, both vertical and horizontal.

Title Insurance:

Insurance against loss or damages resulting from defects or failure of title to a particular parcel of real property.

Title Search:

An examination of public records and court decisions to disclose the current facts regarding ownership of real estate

Title Update:

Investigation and documentation that no liens or encumbrances have been placed against a property since the last title search (i.e., during construction), thereby clouding the title.

Worker's Compensation Insurance:

An employer's insurance against financial risk associated with the statute that holds employers responsible for medical expenses and disabilities of workers injured while on the job.