LENDING TO CONTRACTORS

Risk Management Association
Carolinas-Virginias Chapter

NCBankers ASSOCIATION
Strong Banks, Strong Communities

Lacy Cross:
Sr. Commercial Banking Officer
828-230-3201
Lacy.Cross@movementbank.com

What's the Difference!
How do they make money!

SERVICE CONTRACTORS

WHOLESALE CONTRACTORS

<u>SERVICE-Contractors):</u> HVAC, Plumbers, Engineers, Graders, Landscapers, Electricians, Surveyors

- **Market Data: (Competition: Size and Numbers: Territory- Local, State, Regional, National)**
- ***Buying Power & Pricing Power***
- **Do you know your client? What do you know about your client & experience?**
- **Employees (Payroll or Contract Worker)**
- **Size of Company: (Size of Staff):** ***Buying Power & Pricing Power***
- **Who's your clients/customers: (Retail – B2B – B2C)**
- **Contracts : Single or Bulk…..New Work or Service Work / Repeat Service Work**
- **Fleet Vehicles vs Pay Employees for own vehicle utilization**
- **Inventory on Hand / Turn Times: -- Controlling what if's! (** ***COVID / Hurricane Helene / Tarrifs*** **)**
- **Cash Cycle: Invoicing Terms or Cash at Completion or Deposits**
- **Market Disrupters: (Weather, Competition, COVID, Supply/Demand, Tarrifs)**
- **Own vs Rent Facilities**
- **Competition**
- **Price Fluctuations: (Surge Charge for Gas) (Supply and Demand for Parts-Copper)**
- **Financials: (Cash Flow, Carry ability, Liquidity-Cost Overruns, Unknowns)**


U-HAUL


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SERVICE Contractors:

- **LOAN STRUCTURES:**

1. **TERM REAL ESTATE LOANS**
2. **OPERATING LINES OF CREDIT**
3. **FLEET VEHICLES**
4. **INVENTORY LOANS**
5. **EXPANSION LOANS: (Location, Campus, Product Line, Buy Outs of Partners)**
6. **EQUIPMENT LOANS**

- **THE REST OF THE STORY:**

1. **Growing Pay Roll too fast!**
2. **Growing Sales is not Growing Margins**
3. **Buying Inventory (Too Much, Too Late, Not Enough)**
4. **Selling Bids, can't support growth, loose reputation**
5. **FRAUD….Family Employees**
6. **Work vs Business Operations (You know how to fix it {BUT} Do you know how to RUN a Business)**
7. **Out dated products and or inventory**
8. **Not bringing in new products, working with same materials**

Do You Understand What the Numbers Say?

1120S (Business) Financial Information				
Year	2022	2023	2024	2025
Net Sales	4,549,812	5,011,981	7,118,452	3,473,961
NIBT per books	-139,150	738	223,742	459,975
Depreciation	707,926	834,897	1,883,295	
Interest	71,799	96,876	90,364	
Company Distributions	-	-	34,150	
Gross Cash Flow	640,575	932,511	2,163,251	919,950

Partnership Debts

Creditor	Amount	Monthly Payment	Comments
BANK	104,000	3,821	Containers
BANK	69,000	1,647	Containers
BANK	60,000	1,420	Chevy 5500
BANK	73,300	1,761	Contrainters
BANK	39,000	1,061	Compactor
BANK	45,000	1,537	Containers
BANK	30,300	846	PJ's
BANK	114,000	1,700	Chevy 6500 HL
BANK	220,000	5,000	FL-Palfinger Grapple
BANK	88,000	1,980	Pete 567 & pJ's
BANK	88,130	2,613	Inventory
BANK	123,950	3,900	Containers
BANK	54,000	3,195	L70H Loader
BANK	34,000	1,338	331G Compact Track
BANK	10,000	1,387	MAC-WF
BANK	72,800	1,685	2014 Mack CXU
BANK	25,000	1,405	2015 Mack CXU
BANK	50,000	1,783	EAST-WF
BANK	33,000	1,826	Sterling RT, Loader Scale, PTO
BANK	8,600	2,185	J&J-WF, Chip Trailer
BANK	267,000	3,977	RC-B66, Scales, Kiosk
BANK	226,455	100	2 Titan WF and KWT880
BANK	140,000	995	2 Titan WF and KWT880

(WHOLESALE-Contractors):
Stone/Mulch Suppliers, Nurseries, Equipment Renta Companies, Concrete Companies

- **Market Data: (Competition: Size and Numbers: Territory- Local, State, National)**
  - ***Buying Power & Pricing Power***
- **Do you know you client? What do you know about your client & experience?**
- **Employees (Payroll or Contract Worker)**
- **Size of Company: (Size of Staff):** ***Buying Power & Pricing Power***
- **Who’s your clients/customers: (Retail – B2B – B2C)**
- **Contracts : Single or Bulk**
- **Fleet Vehicles vs Pay Employees for own vehicle utilization:** ***DILIVERIES***
- **Inventory on Hand / Turn Times: Do they grow or create their inventory (** ***Christmas Trees / Rock Quarries*** **)**
- **Cash Cycle: Invoicing Terms or Cash at Completion or Deposits**
- **Market Disrupters: (Weather, Competition, COVID, Supply/Demand, Tarrifs)**
- **Own vs Rent Facilities**
- **Price Fluctuations: (Surge Charge for Gas) (Supply and Demand for Parts-Copper)**
- **Financials: (Cash Flow, Carry ability, Liquidity-Cost Overruns, Unknowns)**

Wholesale Contractors:

- **LOAN STRUCTURES:**

1. **TERM REAL ESTATE LOANS**
2. **OPERATING LINES OF CREDIT**
3. **FLEET VEHICLES**
4. **INVENTORY LOANS**
5. **EXPANSION LOANS: (Location, Campus, Product Line, Buy Outs of Partners)**
6. **EQUIPMENT LOANS**

- **THE REST OF THE STORY:**

1. **Growing Pay Roll too fast!**
2. **Growing Sales is not Growing Margins**
3. **Buying Inventory (Too Much, Too Late, Not Enough)**
4. **Selling Bids, can't support growth, loose reputation**
5. **FRAUD….Family Employees**
6. **Work vs Business Operations (You know how to fix it {BUT} Do you know how to RUN a Business)**
7. **Out dated products and or inventory**
8. **Not bringing in new products, working with same materials**

Building Contractors: A & D (Acquisition and Development)

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- Market Data: (Local and National Data Sets): Know your market and product line!
- Do you know your client?   What do you know about your client & experience?
- Who is your client working for? (i.e. Who is the buyer) – Individuals or Track-Buyers
- Size of Project and Estimated Completion Time
- Sale Out Process: (1 @ Time OR Bulk Sales)   /   Price Point: Retail or Discounted
- Price Point: (Days on Market, Inventory, Supply & Demand)
- Utilities: (Access, Creation, Ongoing Maintenance – Public or Private)
- Road Systems: Access to Property, Movement/Flow Inside of Project
- Local Knowledge Team: (Realtors, Builders, Engineers, Surveyors, Site Developers)
- Topography: (G I S is your friend!) (Google Earth)
- HOA’s
- Unknown: Weather, Sub’s, Zoning, Government, Neighbors, Rock, Permitting / Entitlements
- Financials: (Cash Flow, Carry ability, Liquidity-Cost Overruns, Unknowns)

THE REST OF THE STORY

Neighbors : Entrance Access : Drain Line-Main Line : Weather

Building Contractors TRAC-BUILDERS

Market Data: (Local and National Data Sets): Know your market and product line!

Do you know your client?   What do you know about your client & experience?

Who is the BUYER!

Fixed Budget : " *Change Orders* "   *or*   " *Model Upgrades* "

Size of Project (Usually Large) and Estimated Completion Time (Usually Quick as possible)

Utilities: (Access, Creation, Ongoing Maintenance – Public or Private)

Road Systems: Access to Property, Movement/Flow

Design Concept and Finishes: (Extreme Receptiveness)

Price Point: (Days on Market, Inventory, Supply & Demand)

Lots Under Control   VS   Lots Under Ownership

Local Knowledge (*DISGUISED*) Team: (Realtors, Builders, Engineers, Surveyors, Site Developers)

Topography

HOA's

Unknowns: Weather, Sub-Contractors, Zoning, Government, Neighbors, Permitting

Financials: (Cash Flow, Carry ability, Liquidity-Cost Overruns, Unknowns): *WHO is the actual borrower*?


Branch
5593 Old Clyde Rd


PROPOSED LOT LINE (TYP)
PROPOSED SINGLE FAMILY LOT (TYP)
PROPOSED ASPHALT PAVEMENT
EXISTING NCDOT RIGHT OF WAY
MATCHLINE (SEE SHEET C202)
MATCHLINE (SEE SHEET C201)

1. **Property.** This is an agreement to purchase and sell fully developed, residential Lots (as defined in Section 12 below), together with all rights, privileges, easements and interests appurtenant thereto (collectively, the "Property"). Seller shall sell and Buyer shall purchase a total of fifty-three (53) Lots, each with minimum lot dimensions of 60' wide by 120' deep and with minimum building pad dimensions of 40' wide by 60' deep. The Lots are shown as Lots 2

3. **Purchase Price.** Buyer shall purchase the Property in multiple takedowns of one or more Lots, and the purchase price for the Property shall be paid on a per Lot basis in immediately available funds, subject to adjustments, prorations and credits as herein provided. The purchase price per Lot shall be Ninety Thousand and No/100th Dollars ($90,000.00) (the "Purchase Price").

4. **Earnest Money.**

a. Within ten (10) business days after the date in which Buyer issues a Notice of Suitability for the Property pursuant to Section 9 below, the parties shall execute an escrow agreement in form substantially as shown by **Exhibit B** attached hereto and incorporated herein (the "Escrow Agreement"). Subject to the provisions of subsection 5a below, upon the parties' execution of the Escrow Agreement, Buyer shall deposit the sum of Four Hundred Seventy-seven Thousand and No/100th Dollars ($477,000.00) (the "Earnest Money") with Chicago Title Company, LLC ("Escrow Agent"). The Escrow Agent shall deposit such cash in an escrow account with a federally insured bank, as required by the Escrow Agreement. Buyer shall determine, at Buyer's sole discretion, whether the escrow account shall be interest-bearing; however, any interest earned on any funds held in escrow shall be for the benefit of Buyer. If Buyer fails to deliver the Earnest Money as required herein, and such failure continues for a period of ten (10) days after written notice from Seller, then either party may terminate this Agreement by written notice to the other at any time prior to the deposit of the Earnest Money. If this Agreement is so terminated, this Agreement shall be deemed to have terminated as of the date that the Earnest Money was originally to have been delivered by Buyer, and there shall be no remedy hereunder to either Seller or Buyer other than the termination of this Agreement.

b. At each Closing, the Earnest Money shall be credited to Buyer against the Purchase Price in the amount of Nine Thousand and No/100th Dollars ($9,000.00) for each Lot purchased by Buyer at a particular Closing. The remaining Earnest Money shall be credited to Buyer in full against the Purchase Price on the last Lot to be purchased hereunder, or as otherwise provided herein.

a. Preliminary Condition to Buyer's Performance. Buyer's performance of any of its obligations hereunder is contingent upon Seller having delivered to Buyer copies of all recorded plats of the Land, the Subdivision, and the Lots, and a copy of Seller's owner's policy of title insurance, insuring Seller's ownership interest in the Property as marketable, fee simple title, subject to no exceptions or conditions other than the Permitted Exceptions

b. Conditions to Buyer's Obligation to Close. Buyer's obligation to close on the purchase of Lots under this Agreement is contingent upon satisfaction of all of the following conditions (collectively, the "Conditions to Closing"): (1) all of Seller's warranties, representations and covenants contained in this Agreement shall be and remain true, correct and complete and fully performed as of the Effective Date and through the final Closing; (2) a final plat showing the Lots as separately existing parcels of land shall have been approved by the Town of Canton (the "Governing Jurisdiction") and recorded at the Haywood County Registry, (the "Plats"); (3) there shall have occurred no material adverse change in the physical, financial or legal conditions of the Property from the conditions existing as of the Effective Date; (4) Seller shall deliver good and marketable title to the Property to Buyer as provided in Section 8 below, and the Title Company shall be unconditionally prepared to issue a standard ALTA owner's form title insurance policy insuring good and marketable fee simple title to the Property with a liability limit in the amount of the Purchase Price at standard premium rates; (5) the Lots to be purchased must meet all of the Development Specifications (as defined in Section 12 below); (6) there shall be no development preconditions to the issuance of a building permits for the construction of single-family residences on the Lots to be purchased; (7) there shall be no preconditions to the issuance of certificates of occupancy for single-family residences on the Lots to be purchased other than construction of such residences in accordance with applicable building permits and codes; and (8) any approvals from homeowners associations or architectural review boards necessary for Buyer to construct Buyer's intended products on the Lots shall have been received.

13. **Pre-Closing Lot Inspection**. Prior to each scheduled Closing, Buyer may perform re-inspections of the Lot(s) to be purchased and prepare a list of all items not in compliance with the Conditions to Closing. Seller shall correct all items as described on the list within fifteen (15) days after the inspection and prior to the Closing. Seller's failure to timely correct all such items shall constitute a default by Seller under this Agreement, for which Seller shall not be entitled to any further right to cure. In such event, in addition to all rights and remedies Buyer may have pursuant to subsection (b) of Section 27 below (Seller's Default), Buyer may, at its option: (a) correct the items and receive a credit against the Purchase Price for Buyer's expenses plus ten percent (10%); (b) complete the Closing and allow Seller to complete the items after the Closing; (c) delete the defective Lot(s) from the Agreement and proceed to close on alternative Lots that meet all of the Development Specifications; or (d) refuse to close until all of the Lots designated for takedown comply with the Development Specifications, in which event the Closing Schedule shall be suspended and adjusted accordingly, and the escalator to the Purchase Price, if any, shall be abated. Notwithstanding the foregoing, neither the failure to perform a pre-closing Lot inspection nor the failure to discover a deficiency or instance of noncompliance during any inspection shall relieve Seller of its obligation to deliver Lots that meet all of the Conditions to Closing.

SELL OUT EQUATION:

TOTAL LOTS: 53

SALE PRICE: $90,000…….(Via take downs to National Builder)

TOTAL PROJECT COST: $3,341,000

AVERAGE COST PER LOT DEVELOPED: $63,038

PROFIT AFTER EXPENSES FOR DEVELOPER PER LOT: $26,500

Total Profit for Development for Developer: $318,000

STRUCTURING OF LOAN:

TOTAL LOTS: 53

SALE PRICE: $90,000…….(Via take downs to National Builder)

TOTAL PROJECT COST: $3,341,000

AVERAGE COST PER LOT DEVELOPED: $63,038

Loan Amount: 85% of Cost = $2,840,000

1. **At what percentage do you want to be out of the development of LOTS:**
   a. **75% of lots = 39**

1. **At what LOT RELEASE FEE will you have based on you bank's loan to Development Cost: (USING-85% of cost) = $2,840,000**

   $2,840,000 / 39 lots = $72,900 Release Fee

   So at time of release, BUYER PAYS $90,000 - $72,900 release fee = $17,100 profit to developer at release!

Interest Only Payments: Prime Plus 1% example: $170,400 / 12 = $14,200

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THE REST OF THE STORY:

Can developer cover interest payments based off sale of lot: YES

1. **Can bank get out of the development prior to all lots being sold: YES**
2. **Does a $90,000 Sale price make market since based on Data: YES**

1. **(Problem): Weather causes delay is site development, market changes.**
2. **(Problem): Delay of Closing on Pads by Buyer due to delays on inspections and requirements by the buyer, time is money to developer. Carry Cost is extended!**
3. **(Problem): *2008-2009 Happened*….National Builder Backed out of Take Down of Bulk Lot Sales…..(*What's Going to happen Hurricane Helene*)**

1. **INSPECTIONS: (*Each bank's policy is different! In-House or 3rd Party*)**

BUILDING CONTRACTORS: SPEC-Builders - Residential

Market Data: (Local and National Data Sets): Know your market and product line!

Do you know you client?   What do you know about your client & experience?

Who is the BUYER!

Size of Project and Estimated Completion Time

Utilities: (Access, Creation, Ongoing Maintenance – Public or Private)

Road Systems: Access to Property, Movement/Flow

Design Concept and Finishes

Price Point (Days on Market, Inventory, Supply & Demand)

Local Knowledge Team: (Realtors, Builders, Engineers, Surveyors, Site Developers)

Topography

HOA’s

Unknowns: Weather, Sub-Contractors, Zoning, Government, Neighbors

Financials: (Cash Flow, Carry ability, Liquidity-Cost Overruns, Unknowns)

Mind Set (*Spec Builder is NOT a custom Builder and Vise Versa*)

STRUCTURING OF LOAN:

SALE PRICE: $565,000

TOTAL PROJECT COST: $375,000

Loan Amount: 85% of Cost = $480,000

Builders Profit Prior to Expenses: 105,000

Max 75% Loan to Value: (*Lessor of the Two*)

CONSTRUCTION BUDGET:

07205 - Electrical - Electrical Fixtures	1	$4175	$4,175.00
07225 - Electrical - Subcontractor	1	$16812.75	$16,812.75
07325 - Natural or Propane Gas Lines - Subcontractor	1	$1400	$1,400.00
07420 - Plumbing - Fixtures	1	$4375	$4,375.00
07425 - Plumbing - Subcontractor	1	$13500	$13,500.00
07430 - Plumbing - Water Heaters	1	$1300	$1,300.00
07530 - Water / Sewer Systems - Subcontractor	1	$1192.69	$1,192.69
07535 - Water / Sewer Systems - Water Meter	1	$2800	$2,800.00
07545 - Water / Sewer Systems - Sewer Tap	1	$2800	$2,800.00
08005 - Fireplace - Fireplace Materials	1	$2800	$2,800.00
08035 - Fireplace - Subcontractor - Fireplace	1	$500	$500.00
08115 - Fireplace - Mantle Materials	1	$350	$350.00
09010 - Roofing - Materials	1	$3200	$3,200.00
09015 - Roofing - Subcontractor	1	$2000	$2,000.00
10110 - Drywall - Materials	1	$1000	$1,000.00
10115 - Drywall - Subcontractor	1	$14000	$14,000.00
10215 - Insulation - Subcontractor	1	$5112.21	$5,112.21

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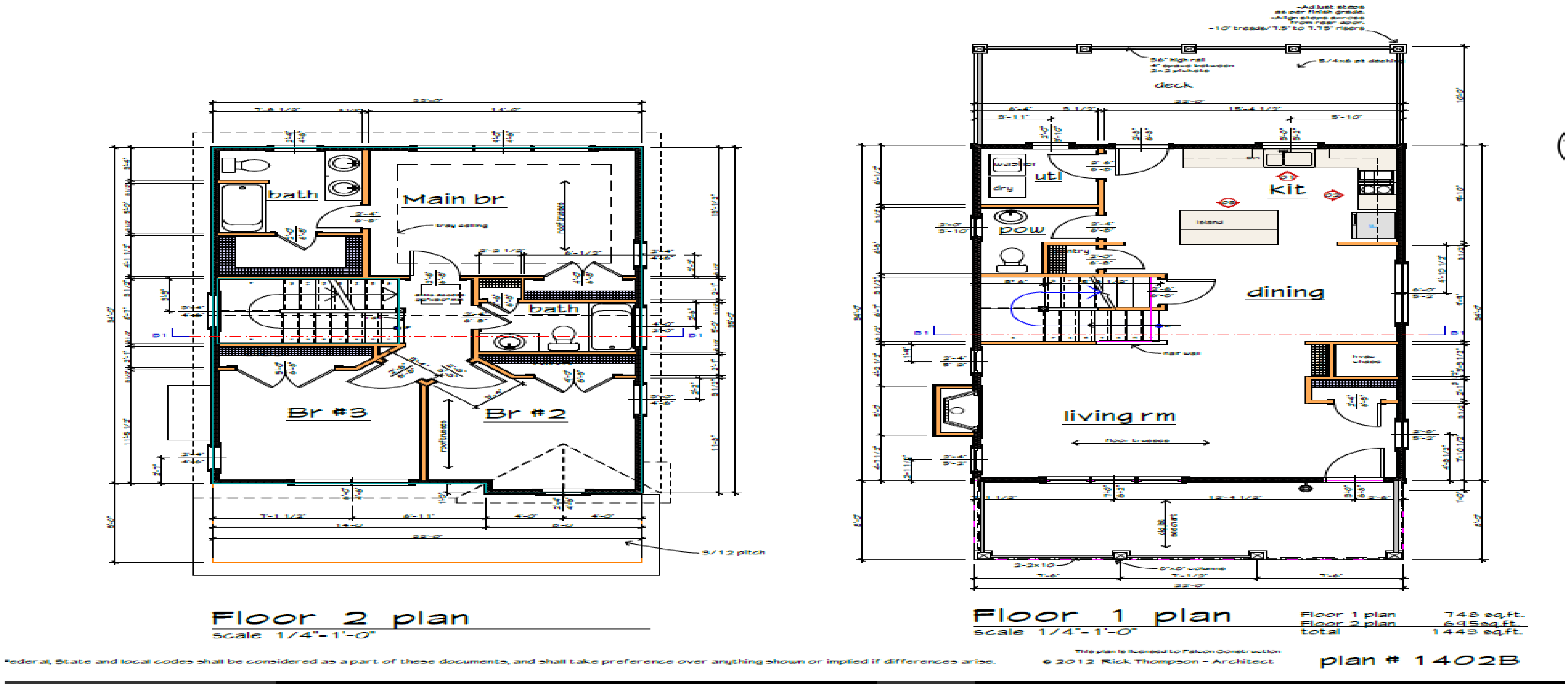
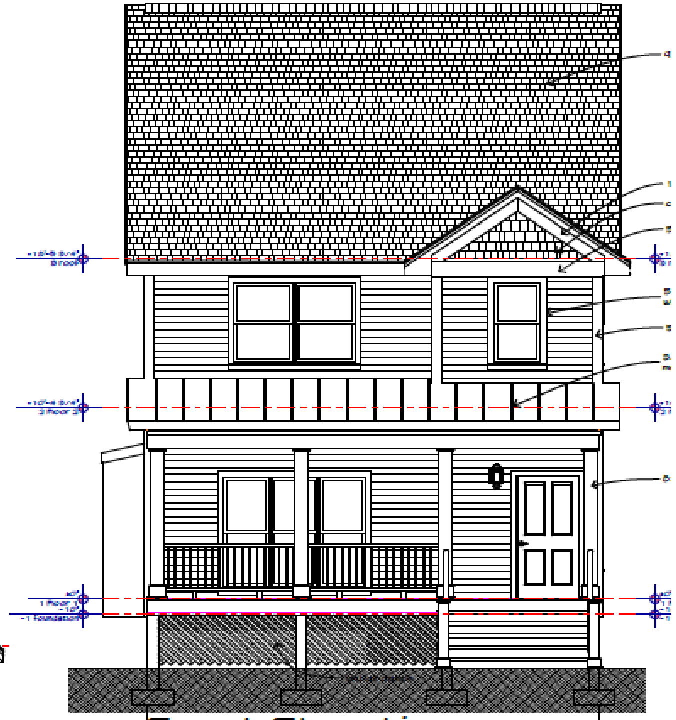
CONSTRUCTION PLANS:

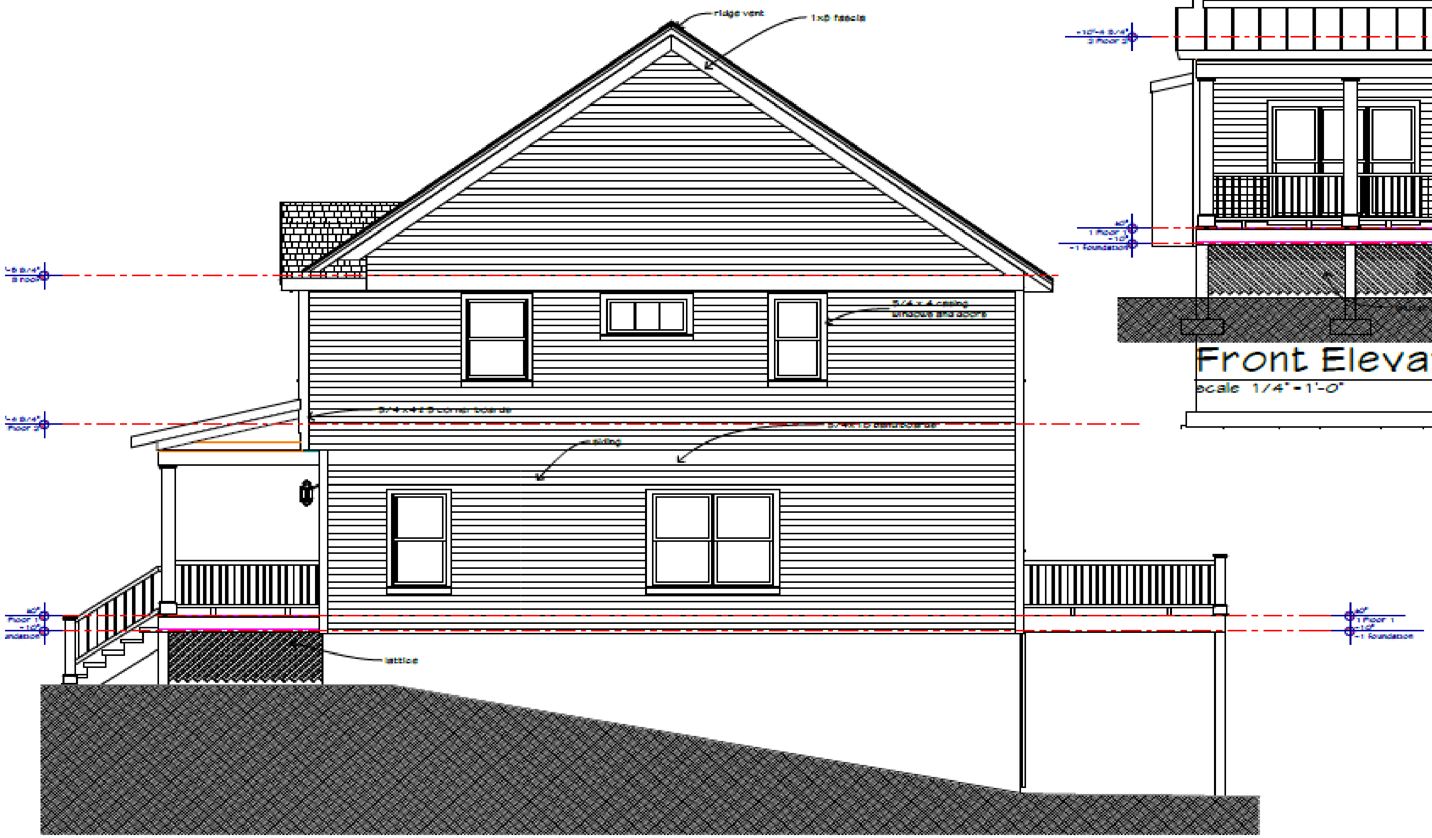


Door List				
Width	Height	Name	Type	Quantity
1'-6"	6'-8"	RD02 Swing	Interior	1
2'-0"	6'-8"	RD02 Swing	Interior	2
2'-4"	6'-8"	RD02 Swing	Interior	5
2'-6"	6'-8"	RD02 Swing	Interior	6
2'-8"	6'-8"	RD01 Door ST	Exterior	2
3'-0"	6'-8"	RD01 Door ST	Exterior	1
4'-0"	6'-8"	RD02 Swing	Interior	2
5'-0"	6'-8"	RD02 Swing	Interior	1
9'-0"	8'-0"	RD07 Overhead	Garage	1
				21

Window List			
W x H Size	Units	Window Type	Quantity
2'-0"x5'-10"	Single	RW1-4 Doublehung	2
2'-4"x4'-6"	Single	RW1-4 Doublehung	4
2'-4"x5'-2"	Single	RW1-4 Doublehung	2
2'-6"x5'-2"	Single	RW1-4 Doublehung	1
3'-0"x5'-2"	Single	RW1-4 Doublehung	1
3'-0"x4'-6"	Single	RW1-4 Doublehung	1
3'-4"x4'-6"	Single	RW1-4 Doublehung	1
4'-0"x2'-0"	Single	RW1-1 Stationary	1
6'-0"x4'-6"	Twin	RW1-4 Doublehung	1
6'-0"x5'-2"	Twin	RW1-4 Doublehung	1
7'-0"x6'-2"	Triple	RW1-4 Doublehung	1
9'-0"x4'-6"	Triple	RW1-4 Doublehung	1
			17



Front Elevation
scale 1/4" = 1'-0"



Right Side Elevation
scale 1/4" = 1'-0"

THE REST OF THE STORY:

Can developer cover interest payments during construction period 1yr?: YES

1. **Can Bank get out of construction with cushion? Yes (LTV/LTC)**
2. **Does Builder have cushion on Sales Price vs Cost/Expenses? YES**
   a. **$105,000 profit per house!**
3. **Inspections (Bank vs Third Party) Based on Bank's Policy!**

1. **(PROBLEM): Sloped Lot, no core drilling was done, dirt did not compact, additional foundation cost of $45,000**

1. **(PROBLEM): Multi-Story House, no master on Main in Retirement Development. Longer lead time on sale of home by 3 months, additional interest carry.**

1. **(PROBLEM) : Due to Foundation issue, Lumber Prices went up, additional cost of $18,000 on construction package.**

1. **(Negative Results): Lost additional $63,000 budget cost, $5,000 additional Interest cost!....Actual Profit was $37,000**

LESSONS LEARNED:

BUILDING CONTRACTORS: CUSTOME – Residential Builders

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Market Data: (Local and National Data Sets): Know your market and product line!

Do you know you client?   What do you know about your client & experience?

Who is the BUYER! (*Build to Suite   VS   Buyer Obtains Construction Loan*)

Fixed Budget Cost or Cost Plus

Size of Project and Estimated Completion Time

Utilities: (Access, Creation, Ongoing Maintenance – Public or Private)

Road Systems: Access to Property, Movement/Flow

Design Concept and Finishes

Price Point: (Days on Market, Inventory, Supply & Demand)

Change Orders

Local Knowledge Team: (Realtors, Builders, Engineers, Surveyors, Site Developers)

Topography   HOA's

Unknowns: Weather, Sub-Contractors, Zoning, Government, Neighbors

Financials: (Cash Flow, Carry ability, Liquidity-Cost Overruns, Unknowns)

Mind Set (Custom Builder is NOT a *Spec Builder and Vise-Versa*)

WHOLESALE CONTRACTOR: *SERVICE COMPANIES*:

(Stone and Mulch Suppliers, Nurseries, Equipment-Rental Companies, Concrete Co)

Market Data: (Competition: Size and Numbers: Territory- Local, State, National)

Buying Power & Pricing Power

Do you know you client? What do you know about your client & experience?

Employees (Payroll or Contract Worker)

Size of Company: (Size of Staff): *Buying Power & Pricing Power*

Who's your clients/customers: (Retail – B2B – B2C)

Contracts : Single or Bulk

Fleet Vehicles vs Pay Employees for own vehicle utilization: *DILIVERIES*

Inventory on Hand / Turn Times: Do they grow or create their inventory (*Christmas Trees/Rock Quarries*)

Cash Cycle: Invoicing Terms or Cash at Completion or Deposits

Market Disrupters: (Weather, Competition, COVID, Supply/Demand, Wars)

Own vs Rent Facilities

Price Fluctuations: (Surge Charge for Gas) (Supply and Demand for Parts-Copper)

Financials: (Cash Flow, Carry ability, Liquidity-Cost Overruns, Unknowns)



CAVA
Wendy's
MOE'S
FIRST WATCH

LOWE'S


QUESTIONS

Lacy Cross: *Sr. Commercial Banking Officer*

828-230-3201

Lacy.Cross@movementbank.com