

RESCINDED

Construction Lending Questionnaire

This document and any attachments are replaced by Comptroller's Handbook -
Commercial Real Estate Lending

Yes No

GENERAL QUESTIONNAIRE

Construction Loan Policies and Objectives

1. Has the board of directors adopted written construction lending policies that:
 - Establish procedures for reviewing construction loan applications?
 - Require agreements by borrowers for completion of improvements in accordance with approved construction specifications and cost and time limitations?
 - Define qualified collateral and minimum margin requirements?
 - Identify acceptable appraisal or valuation techniques?
 - Specify inspection procedures?
 - Define methods of disbursing loan proceeds?
 - Delineate standards for take-out commitments?
 - State completion bonding requirements?
 - Establish minimum standards for documentation?
 - Outline aggregate limit for construction loans?
 - Specify extensions of credit in particular types of construction projects?
2. Are construction lending policies and objectives reviewed at least annually to determine if they are compatible with changing market conditions?

Construction Loan Applications

3. Does the institution require:
 - A history of the contractor's prior construction experience and a schedule of other projects the contractor currently has under construction?
 - Trade reputation credit checks, current and historical financial statements?
4. Do project cost estimates include:

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	Yes	No
<ul style="list-style-type: none">• Land and construction costs?	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none">• Related off-site expenses?	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none">• Legal services and insurance expenses?	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none">• Loan interest?	<input type="checkbox"/>	<input type="checkbox"/>
5. Are estimated cost breakdowns available for each stage of construction?	<input type="checkbox"/>	<input type="checkbox"/>
6. Are cost estimates of more complicated projects reviewed by qualified personnel, i.e., an architect, construction engineer, or independent estimator?	<input type="checkbox"/>	<input type="checkbox"/>
7. Do construction borrowers contribute equity to a proposed project in the form of money or real estate and is this included in the budget?	<input type="checkbox"/>	<input type="checkbox"/>
8. Are commitment fees required on construction loans?	<input type="checkbox"/>	<input type="checkbox"/>
9. Does the institution require:		
<ul style="list-style-type: none">• Personal guarantees by the borrower?	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none">• Personal completion guarantees by the contractor?	<input type="checkbox"/>	<input type="checkbox"/>
Construction and Loan Agreements		
10. Are construction and loan agreements signed prior to actual loan disbursement?	<input type="checkbox"/>	<input type="checkbox"/>
11. Are construction and loan agreements reviewed by experts:		
<ul style="list-style-type: none">• To determine that building specifications conform to appropriate codes, ordinances, and restrictions?	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none">• To ensure a perfected lien position?	<input type="checkbox"/>	<input type="checkbox"/>
12. Are all change orders approved in writing?	<input type="checkbox"/>	<input type="checkbox"/>
13. Do construction and loan agreements set a specific date for project completion and sell out?	<input type="checkbox"/>	<input type="checkbox"/>
14. Do construction and loan agreements require that:		
<ul style="list-style-type: none">• The contractor not start work until authorized to do so by the institution?	<input type="checkbox"/>	<input type="checkbox"/>

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• On-site inspections be permitted?	<input type="checkbox"/>	<input type="checkbox"/>
• Disbursement of funds be based upon progress of the project?	<input type="checkbox"/>	<input type="checkbox"/>
• The institution be allowed to withhold disbursements if work is not performed in accordance with approved specifications?	<input type="checkbox"/>	<input type="checkbox"/>
• A portion of the loan proceeds be retained pending satisfactory completion of the construction?	<input type="checkbox"/>	<input type="checkbox"/>
• The lender be allowed to assume ownership and complete control of the project in the event of default?	<input type="checkbox"/>	<input type="checkbox"/>
• The contractor have builder's risk and hazard insurance?	<input type="checkbox"/>	<input type="checkbox"/>
• For projects that are developed in phases, does the institution authorize individual starts and require periodic sales reports?	<input type="checkbox"/>	<input type="checkbox"/>

Collateral

15. Does the institution use first liens on real estate in order to secure collateral? Yes No
16. Are chattel mortgages taken on real estate construction improvements? Yes No
17. Do construction loans have take-out commitments that are predicated upon achievement of a specified minimum rent or lease occupancy? Yes No
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? Yes No
19. In conjunction with construction loan review, are unsecured lines of credit to contractors periodically monitored by management? Yes No

Appraisals

20. Are feasibility studies obtained and do they support the viability of new development projects? Yes No
21. Are appraisals approved in writing by the permanent lender where construction loans are subject to a take-out commitment? Yes No
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? Yes No

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Inspection

23. Are inspections conducted on a timely basis in order to allow monitoring of the project during all stages of construction? Yes No
24. Are sites inspected for environmental risk and liability (refer to TB 16)? Yes No
25. Are inspection reports sufficiently detailed and documented to support disbursements? Yes No
26. Are inspection and disbursement functions segregated? Yes No
27. Are inspectors rotated? Yes No
28. Are spot checks made of the inspector's work? Yes No
29. Do inspectors have sufficient expertise to determine compliance with plans and specifications? Yes No

Disbursements

30. Does a review of the undisbursed loans in process (LI account) indicate that there are sufficient funds to complete projects? Yes No
31. Are disbursements:
- Advanced on a percentage of completion method? Yes No
 - Made only after reviewing complete written inspection reports? Yes No
 - Subject to written preauthorization by the contractor, inspector, and authorized officer? Yes No
 - Compared with original cost estimates and previous disbursements? Yes No
32. Does the institution obtain waivers of subcontractors' and materialmen's liens as work is completed and disbursements made? Yes No
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? Yes No

Take-out Commitments

34. Are take-out agreements reviewed by counsel for enforceability? Yes No

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35. Are the financial statements of permanent lenders obtained and reviewed to determine their financial viability?	<input type="checkbox"/>	<input type="checkbox"/>
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 delay occurs for reasons beyond the builder's control?	<input type="checkbox"/>	<input type="checkbox"/>
Completion Bonding Requirements		
37. Does the institution require completion bond for all construction loans?	<input type="checkbox"/>	<input type="checkbox"/>
38. Has the institution established minimum financial standards for borrowers who are not required to obtain completion bonding?	<input type="checkbox"/>	<input type="checkbox"/>
39. Does legal counsel review completion bonds for acceptability?	<input type="checkbox"/>	<input type="checkbox"/>
Documentation		
40. Does the institution require that documentation files include:		
• Loan applications?	<input type="checkbox"/>	<input type="checkbox"/>
• Financial statements for the borrower, builder, and guarantors?	<input type="checkbox"/>	<input type="checkbox"/>
• Credit and trade checks on the borrower and builder?	<input type="checkbox"/>	<input type="checkbox"/>
• A copy of plans, specifications, and the building permit?	<input type="checkbox"/>	<input type="checkbox"/>
• A survey of the property?	<input type="checkbox"/>	<input type="checkbox"/>
• Construction and loan agreements?	<input type="checkbox"/>	<input type="checkbox"/>
• Appraisal and feasibility study?	<input type="checkbox"/>	<input type="checkbox"/>
• Up-to-date preliminary title search?	<input type="checkbox"/>	<input type="checkbox"/>
• Assigned tenant leases or letter of intent to lease?	<input type="checkbox"/>	<input type="checkbox"/>
• Copy of take-out commitment?	<input type="checkbox"/>	<input type="checkbox"/>
• Copy of the borrower's application to the take-out lender?	<input type="checkbox"/>	<input type="checkbox"/>
• Inspection reports?	<input type="checkbox"/>	<input type="checkbox"/>

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<ul style="list-style-type: none">• Disbursement authorizations?	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none">• Undisbursed loan proceeds and contingency or escrow account reconcilements?	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none">• Insurance policies?	<input type="checkbox"/>	<input type="checkbox"/>
41. Are standardized checklists used to control documentation for individual files?	<input type="checkbox"/>	<input type="checkbox"/>
42. Do documentation files note all of the borrower's other loan and deposit account relationships?	<input type="checkbox"/>	<input type="checkbox"/>
43. Does the institution maintain tickler files that will give at least 30 days advance notice before expiration		
<ul style="list-style-type: none">• Take-out commitment?	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none">• Hazard insurance?	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none">• Public liability insurance?	<input type="checkbox"/>	<input type="checkbox"/>
Construction Loan Accounting Records		
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?	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input type="checkbox"/>	<input type="checkbox"/>
46. Are documents supporting recorded credit adjustments checked or tested subsequently by persons who do not also handle cash?	<input type="checkbox"/>	<input type="checkbox"/>

COMMENTS

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