



Construction Loan Disbursements

July 25, 2018



Logistics



- Phones
 - Mute if you're in a noisy location
 - Don't put us on hold – even if you have great music!
- Join the discussion!

OIG - Analysis of Failed Banks

Common Elements

- Aggressive objectives
- Rapid portfolio growth
- CRE and CLD concentrations
- Insufficient capital reserves

Focus areas

- Aggressive growth
- CLD Concentrations
- Specific Funding Sources
- Ineffective Controls
- Poor Risk Management
- Compensation Incentives



Ineffective Internal Controls

- Board did not assure controls matched growth
- Common weaknesses
 - Frequent exceptions
 - Ineffective loan monitoring
 - Inadequate documentation of collateral
 - Inadequate monitoring of participation loans
 - No independent review



Objectives

- Protect assets of the bank and investors
 - Get a completed, lien-free piece of collateral that matches our as-complete description from appraisal
 - Early detection of problem projects (schedule and cost)
 - Timely completion
 - Funding in line with completion
 - Identify and evaluate change orders (design, cost, schedule)
 - Monitor and evaluate soft costs disbursements
- Conform to
 - Regulations
 - Loan docs
 - Policies and procedures
- Manage reputational risks
- Provide service consistent with Bank objectives
- It's tempting to list "Help borrowers succeed", but that may imply participation in management.

Stakeholders

- Bank and investors
- Credit Admin
- Business Line
- Originator
- Loan Admin
- Participating lenders
- Bridge and take-out lenders
- Agencies
- Housing authority

- Municipality
 - Planning, building, approvals, CO

- Borrower and investors
- Seller
- Contractor
- Subs and suppliers
- Project architect/designers
- Buyers
- Tenants
- Community

- Consultants
 - Title companies
 - Insurance
 - Funds control
 - CPM
 - Surety

Actions

- Procedural
 - Prepare
 - Submit
 - Report
 - Order
 - Evaluate
 - Verify
 - Review
 - Notify
 - Decide
 - Enforce
 - Reject
 - Fund
- Managerial
 - Monitor
 - Advise
 - Anticipate
 - Challenge, question, test
 - Resolve
- Executive
 - Concur
 - Authorize
 - Approve exceptions
 - Negotiate

Disbursement Requests - Borrower

Documentation

- Borrower payment application form
 - Authorize disbursements
 - Identify loan budget for each request (spreadsheet based on loan budget provided to borrower, followed by call)
 - Renew reps and warrants
 - Affirm conformance with loan requirements?
 - Disclose revisions, problems, new issues?
 - Additional agreements for project services?
 - Additional requirements under permit?
 - Certification
 - Entire budget, incl soft costs
- Contractor's request
 - Ex owner/builder if adequate detail
 - Architect signature?
 - Where engaged for CPM
 - May not be a design team, e.g. for rehab
 - Notary
 - Not always provided
- Conditional and unconditional lien waivers
 - Even if they only filed a prelim
- Supporting invoices for out of contract items
- Deposits, off-site storage, insurance
- Tax reporting information for subs and suppliers funded directly