

## **CONSTRUCTION LOAN: DOCUMENTS REQUIRED FOR DEPOSITS AND STORED MATERIALS**

DCMI's policy pertaining to requests for deposits and materials stored is summarized below.

DCMI's progress monitoring inspection engagement includes a review of the provided requisition documentation, physical assessment of the subject property relative to the request for payment and recommendation for payment based on our verification of work in place.

**DCMI is unable to recommend disbursement for deposits or materials stored off-site – it is beyond our purview.**

The risk of releasing construction loan funds for work that is not complete must be measured by the client's credit management team. We provide guidance to our clients in these circumstances but must rely solely on our client's risk management policy to disburse funds for work that is not in place.

There are industry acceptable mitigators which protect Lenders in this situation while allowing the project to advance.

### **REQUEST FOR DEPOSITS TO PURCHASE MATERIALS [NOT LABOR]**

Developers/Borrowers and their General Contractors request funds for deposits to purchase materials. DCMI will not recommend disbursement for deposits. The recommendation will reflect a reduction and the language in report will state:

*DCMI does not recommend disbursement for deposits to secure materials or subcontracts – our policy is to recommend payment for materials on-site only. If Lender is compelled to disburse, DCMI recommends obtaining an executed proposal or contract, invoice, and certificate of insurance from the supplier/vendor of the materials/equipment. DCMI recommends direct disbursement to the supplier/vendor to prevent diversion of funds.*

This includes Elevator deposits as well. DCMI's position is to require the borrower to advance their equity rather than allow the Lender [our client] to be at a disadvantage if there is a default by the contractor or their borrower.

The only exception to this policy is a request to pay a utility provider to secure utility installations such as to PEPCO, DOM, WASA, WSSC. These are typically soft costs but if it comes thru as a hard cost – we will defer to the lender to approve the request and recommend direct disbursement to the utility service provider.

### **REQUEST FOR DEPOSITS TO SECURE SUBCONTRACTS [LABOR]**

DCMI never recommends disbursement for a subcontractor labor deposit. Permit must be issued and work must be in place by subcontractor in order to recommend disbursement.

DCMI will not issue a conditional approval. The Lender should not disburse under any circumstance.

# CONSTRUCTION LOAN: DOCUMENTS REQUIRED FOR DEPOSITS AND STORED MATERIALS

## REQUEST FOR MATERIALS STORED OFF-SITE

Developers/Borrowers and their General Contractors and/or Subcontractors may request funds for Materials Stored Off-Site. This is common for mechanical and electrical equipment as well as specialty items such as FFE. In this circumstance, a deposit or partial payment has already been disbursed or the credit of the Stakeholder has been exercised. DCMI will not recommend disbursement for materials stored off-site. The recommendation will reflect a reduction and the language in report will state:

*DCMI does not recommend disbursement for materials stored off-site – our policy is to recommend payment for materials on-site only. If Lender is compelled to disburse, DCMI recommends obtaining a storage affidavit enumerating the value of the materials/equipment and endorsing the storage location of the materials/equipment; bill of sale supporting payment previously received by the supplier/vendor; and a Certificate of Insurance [COI] endorsing the storage location of the materials/equipment, the total value of the materials/equipment stored. Both the Borrower and Lender should be listed as Additional Insured. COI shall include a Marine in Transit or Goods in Transit endorsement to certify the safe transport of the materials/equipment to the project.*

## REQUEST FOR MATERIALS STORED ON-SITE

Developers/Borrowers and their General Contractors and/or Subcontractor's request payment for materials stored on-site.

Provided the materials are adequately secured on-site and the value of the materials can be confirmed by a subcontractor or supplier/vendor invoice; approval is recommended.

## MITIGATORS

The following represent the current industry acceptable mitigators to off-set the risk of disbursing construction loan funds for work that is not in place [e.g., deposits to purchase materials and materials stored off-site].

- 1.0 Verify Builder's Risk Policy Endorses Materials Stored Off-Site, Materials to be Purchased; as applicable. Confirm assignment of Builder's Risk to Developer [Borrower] and Lender in the event of default.
- 2.0 Performance Bond obtained by General Contractor in care of the Developer [Borrower] for the subject project with Lender listed at Dual Rider Obligee. Performance Bond must include an endorsement of materials stored off-site and deposits.
- 3.0 General Contractor secures a letter of credit equal to 30% of the value of the hard cost in care of the Developer and Lender [by assignment]. Confirm General Contractor is bondable by a Lender approved bonding agency.
- 4.0 Developer deposits Cash Reserve equal to 30% of the value of the hard cost in Lender secured account.
- 5.0 Low LTV Ratio – less than 50%.