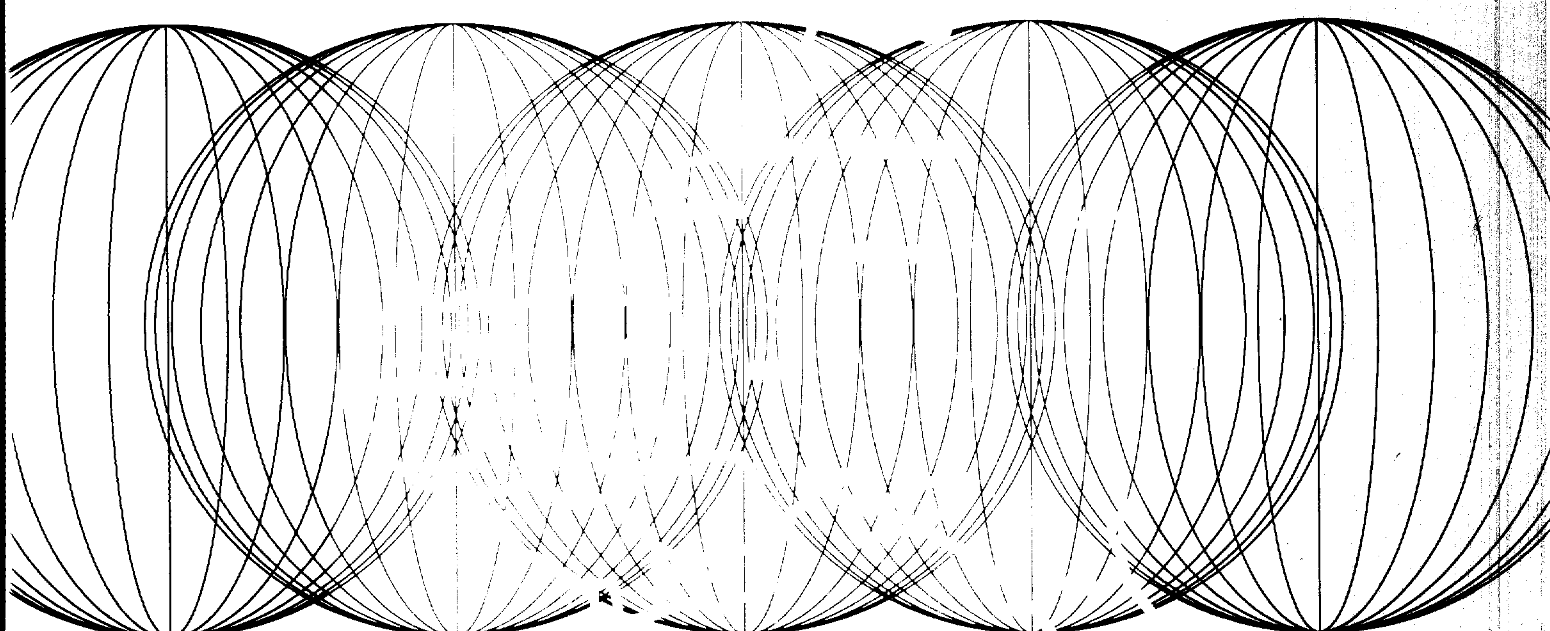
FROM PLANNING TO MARKETS
HOUSING IN EASTERN EUROPE

**MORTGAGE LENDING TRAINING COURSE:
BASICS OF CONSTRUCTION LENDING**

**INSTRUCTOR'S GUIDE AND
TRAINING MATERIALS**



THE URBAN INSTITUTE

Prepared for the Office of Housing and Urban Programs (USAID)

PN-ABY-506
ISN 99143

MORTGAGE LENDING TRAINING COURSE: BASICS OF CONSTRUCTION LENDING

INSTRUCTOR'S GUIDE AND TRAINING MATERIALS

Prepared by

William R. Mawhinney
(Fannie Mae International Housing Finance Services)

The Urban Institute
2100 M Street, NW
Washington, DC 20037

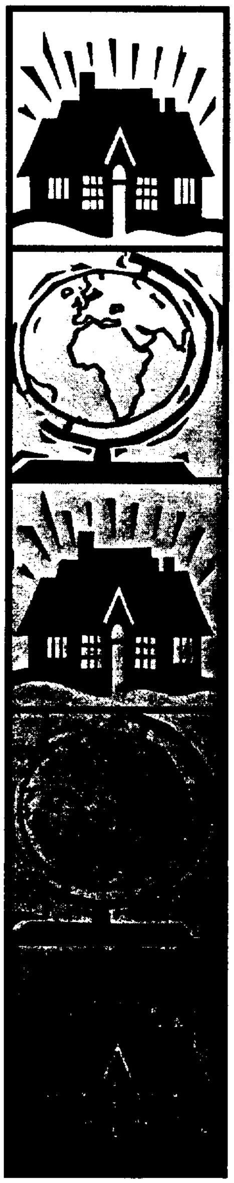
UI Project 06306-011
August 1995

Prepared for

Housing Sector Reform Project, Russian Federation/City of Moscow
Project 110-0008
U.S. Agency for International Development, ENI/EEUD/UDH
Contract No. CCS-0008-C-00-2055-00, Task Order No. 11

FannieMae

FINAL REPORT
FOR THE URBAN INSTITUTE PROJECT
NO. 06306-11-02



by

William R. Mawhinney, Jr.

Task Order No. 8B
Association of Mortgage Banks
Construction Finance Course

August 1995

The Federal National Mortgage Association prepared this report under a subcontract from The Urban Institute, under Prime Contract No. CCS-0008-C-00-2055-00 for Component 3, The Russian Federation and the Municipality of Moscow, of Project No. 110-0008, Shelter Sector Reform Project, from the U.S. Agency for International Development, Bureau for Private Enterprise, Office of Housing and Urban Programs

Fannie Mae International Housing Finance Services

Washington, DC, USA

2

CONTENTS

A. Instructors' Guide

Introduction

The association of Mortgage Banks Construction Lending course is designed to assist participants to organize staff and in general develop lending policies and practices necessary to originate and administer loans for the construction of single-family and multi-family housing.

The course provides typical fundamental concepts and practices used by U.S. financial institutions when originating and administering construction loans.

The course begins with a look at why lenders make construction loans and what they need in the way of organization and resources to provide financing for housing in Russia.

The course then walks participants through what is involved in each aspect of the construction lending process from marketing to potential borrowers, through taking the application, underwriting the loan, making the credit decision, and administering the loan until it is repaid.

The course discusses possible indications of problem loans and some actions to be taken to resolve problems that occur.

There is a discussion about the importance of safeguarding documents and managing files and records.

The course concludes with a case problem which requires participants, as members of assigned groups, to analyze a loan request using cash flow projections prepared by the borrower.

The participants are prepared to analyze the cash flow projection after receiving explanation of the Time Value of Money, Net Present Value and Internal Rate of Return. Instruction is given for use of the Hewlett-Packard HP-12C calculator, and participants have the opportunity to perform basic exercises to develop their capability.

This Instruction Guide contains all of the materials that you will need to plan and present this course. The Guide is organized into 11 chapters that cover the sessions that constitute the main course content. A suggested course schedule is shown following this introduction.

Each chapter in this Guide begins with a notation of the time allotment and the suggested teaching methods of the session.

A lecture outline follows, with adequate space provided in the left margin for you to write your own notes or sample questions to stimulate discussion as well as any other cues that will help your presentation.

It is important to recognize that these sessions are not meant to be read "as is". It is your responsibility as the course instructor to bring these sessions alive, and to make each topic interesting and practical. As the AMB continues to offer this course, you will also want to update the lectures with information on changes in law and business practices, current events and regulatory developments, and any other pertinent information that will keep the course relevant to your students' needs.

Please note that the suggested format for each session is "Lecture and Guided Discussion." Keep in mind that a lecture is simply one-way communication at best, because it places your students in the role of passive listeners. A lecture also gives you limited opportunity as the instructor to know if your students understand, agree, disagree or are confused about the material you are presenting. For this reason, it is essential that you intersperse your lecture with questions that promote understanding and stimulate an exchange of ideas.

Questions should come naturally and follow logically in response to what has already been said. It is good idea to pose a question, allow the class to think about it, and then call on one person to answer. If you call on someone before asking the question, the rest of the class may relax and ignore the question instead of trying to develop and answer.

A collection of master pages for producing overhead transparencies are provided following the sample lectures for use in illustrating your remarks. These overhead masters are numbered, and prompts are provided with in the lecture outlines to signal that an overhead should be used.

A quiz for the course is included at the conclusion of this Guide, together with an Answer Key. As the course continues to be offered, and as the content continues to change, you will also want to revise and update the quiz as needed.

Suggested Course Schedule

Monday	Tuesday	Wednesday	Thursday	Friday
Welcome and Goals of Course	Session 4: Application and Underwriting Project	Session 8: Loan Administration	Session 12: Case Work	Session 16: Presentation of Cases
Break	Break	Break	Break	Break
Session 1: Construction Lending A Western Perspective	Session 5: Underwriting the Borrower	Session 9: Problem Loans and Files Management	Session 13: Case Work	Presentation of Cases
Break	Break	Break	Break	Break
Session 2: Managing the Business	Session 6: Worksheets	Session 10: Cash Flow Analysis	Session 14: Case Work	Quiz Award of Certificates Course Evaluation
Break	Break	Break	Break	Break
Session 3: Developer and Loan Origination	Session 7: Commitment and Closing	Session 11: Case Problem Assignment	Session 15: Case Work	

OVERVIEW OF

TYPICAL CONSTRUCTION LOAN TRANSACTION

Step	Stage	Description
1.	APPLICATION & SCREENING	Loan request is reviewed to determine if it is in conformity with Investment Objectives and Lending criteria. General loan terms and conditions are negotiated and agreed upon by Applicant . Applicant submits required good faith deposit with completed application form.
2.	CREDIT ANALYSIS & UNDERWRITING	Loan proposal is given a critical review and analysis using standard tests and ratios to determine that the economic data will support the loan request. Applicants background, credit, financial position and capability must also be satisfactory. Construction Division will conduct a field inspection of subject property.
3.	SUBMISSION TO INVESTMENT COMMITTEE	After loan proposal is reviewed by Construction Loan Committee a written investment proposal is developed incorporating investment objectives and standards as well as the negotiated terms and conditions agreed upon with applicant at time of application.
4.	COMMITTEE APPROVAL	Members of Investment Committee discuss details and merits of investment offering and decline, modify and/or approve proposal based on current investment objectives.
5.	COMMITMENT PREPARATION	Lenders Legal counsel drafts Loan Commitment incorporating specific terms and conditions of proposed loan and prerequisites for loan settlement.
	BORROWERS ACCEPTANCE	Borrowers acknowledge and accept commitment terms by signing and returning executed copy of commitment.
6.	CLOSING DOCUMENT PREPARATION	Construction Loan Coordinator works closely with lenders and borrowers legal counsel and members of Construction Division assisting in the preparation of necessary documentation for loan settlement.
7.	LOAN CLOSING	Required collateral documents evidencing borrowers loan obligation and lenders lien priority are executed at loan settlement.
	LOAN ADVANCES AT CLOSING	First draw of loan proceeds advanced to cover non-construction costs per mutually agreed upon loan budget and disbursement schedule.
8.	LOAN ADVANCES (Additional)	Additional advances from construction loan proceeds are disbursed in accordance with established loan budget and disbursement schedule as authorized by construction inspection report and supporting documents submitted by Borrower, Architect, Inspecting Engineer, General Contractor, etc.
9.	LOAN PAYOFF	Total outstanding balance of loan proceeds repaid at loan maturity/completion of construction, receipt of building occupancy certificate and full compliance with all terms of construction loan agreement.

Session 1
Construction Lending:
A Western Perspective

Time: 1.25 hours ***Format:* *Lecture and discussion***

Construction Lending

Definition of a Construction Loan *[Show OH-1]*

Why Lenders Make Construction Loans

In the United States, construction loans have been a significant part of bank loan portfolios. They generally have been highly profitable, but they are one of the most risky loan products. Well-trained, highly-skilled specialists are required to successfully operate this business. While some banks avoid making these loans, others regard the benefits to be very desirable. Some reasons bank pursue construction loans include the following:

[Ask class to suggest reasons - list on board - then show OH-2]

There are risks for lenders when making construction loans, which include the following:

[Ask class to name some risks and list on board - then show OH-3]

9

What a Bank Needs to Make Construction Loans

[Ask class to suggest needs - list on board - then show OH-4]

Trained Personnel

Employees assigned to the construction lending area should attend courses provided by recognized, reputable trainers, such as the Association of Mortgage Banks. In addition, each lender should establish training programs within their institutions to develop new employees assigned to this lending function.

Organization

[Show OH-5]

The success of a construction lending activity will depend in large part on the proper organization of the staff and the assignment and supervision of duties and responsibilities. While each lender must assess its organizational needs based on its size, source of funds, personnel, market and lending objectives, there are certain functions and practices which are essential to this type of lending.

The organization chart shows a typical structure indicating lines of responsibility and functions of each area.

Source of Funds

The lender must have a reliable source of funds to enable it to fulfill its commitments. Its loan portfolio must be the result of well-planned and carried out cash management program. Construction loans are often funded by demand deposits which require investment in shorter maturities. Savings deposits often fund long-term mortgages.

Credit Policies and Lending Procedures

The importance of a complete, well-documented credit policy is essential to good loan quality. The lending staff must be entirely familiar with the credit policy and their loan underwriting must adhere to the established policies.

[Ask class to indicate matters which they think should be included in credit policy - list on board]

The list supplied by the participants could include the following:

- Loan Committee -- how loans are approved
- Loan Approval Authority - who else might approve and what their limits of approval will be
- Loan Types - the kinds of loans (housing, commercial, industrial, retail)
- Loan Amounts - regulatory and intemal limits
- Loan Terms - regulatory and internal limits
- Loan Pricing - interest and fees
- Security - land; leaseholds; structures
- Disbursements - retainage required; stored materials
- Repayment - housing (110-125% of unit loan); multi-family (40% per sales)
- Appraisals - list of approved appraisers; appraisal standards
- Equity Requirements - minimum equity; kinds of equity (i.e. land, cash, fees, materials, labor)
- Credit Criteria - net worth; liquidity
- Loans to One Borrower - regulatory and internal limits

11

- Personal Guarantees - secured or unsecured; full or partial
- Legal - when lawyer must be used; designation of acceptable lawyers
- Commitments - standard terms and conditions
- Documentation - note, mortgage, construction loan agreement
- Title - ownership or right to use unencumbered by liens
- Insurance - standards for acceptable insurers; kind required for loan types
- Underwriting Procedures - steps that must be taken by all lending officers
- Administration Procedures - how administrators must administer loan
- Regulatory Compliance - details of all requirements of regulatory agencies
- Market Area - areas in which lender will make loans
- Market Concentration - limits on loan amounts in specific areas
- Loan Type Concentration - limits on specific types of loans
- Loan Production Objectives - part of lender's financial plan stating loan objectives
- Form of Request for Loan Approval - format that must be used for all loan requests
- Management Reports - list of all required reports
- Loan Review - procedures for examining loans during their term
- Project Inspectors - list of approved inspectors

(Since the content of these items will differ for each lender, it is not necessary to discuss each in detail. However, selecting a few for

- 12

discussion will be helpful.)

Operating Manual

In addition to the credit policies, the lender should establish an operating manual setting forth the procedures in detail necessary to originate, process and administer loans. The credit policy should be a part of the manual. All forms currently used by the lender in managing the functions should be included in the manual with detailed instructions for their use. The credit policy and procedure manuals should be an integral part of the lender's training program.

Session 2
Managing the Business

Time: 1.5 hours ***Format: Lecture and discussion***

Managing the Portfolio

As important as underwriting and administering a loan is the management of the loan portfolio. The lender must decide the following:

- **Desired size of the portfolio.** As to amount of loans in the terms of money and numbers of loans. This determination will, of course, be crucial in organizing and staffing and it will, of course, be determined by the source of funds.

- **Loan types.** Will it offer a full array of products (i.e. single-family, multi-family, retail, commercial and industrial)? Each requires specific knowledge and expertise in underwriting and administering. Therefore, the staff would have to be trained to meet the requirements of each loan type.

- **Market area.** The lender must be knowledgeable about the market in which it offers loans because indiscriminate lending without proper market knowledge can lead to problems. Market demand and product requirements, along with the lender's ability to administer loans in the area and of like property types, must be taken into consideration when establishing the market area.

- **Over-concentration.** Should not invest too heavily in any one area or in any one project type. Adverse impact on the economy or adverse changes in market conditions caused by conditions, such as major employers reducing staff, could expose the lender to possible loan losses as a result of properties not being sold or selling for less than expected. It is usually good to avoid financing more than one project having the same characteristics located in the same general area for the same borrower or a competing borrower, since the lender could suffer from the competition if the market cannot absorb both projects.

14

- **Loans to one borrower** should, of course, not exceed regulatory restrictions or internal policy guidelines.

Internal Support

The importance of synergy with various areas of the institution should be stressed since the success of this activity will require a commitment and participation of areas such as the following:

[Have the class indicate and list on the board those areas they believe must support this lending activity. A discussion as to the way in which such functions can assist will be helpful.]

[Show OH-6]

Cash Management

- **Interest income and loan principal repayment.** Projections and actual receipts should be continuously monitored and factored into the lender's cash analysis to ensure cash adequacy to meet the lender's commitments.

- **Matching of funds to loan maturities.** As part of the funds management, the lender must make sure that it does not expose itself to difficulties caused by making commitments for terms longer than its source of funds permits. This condition should be considered when setting loan maturities, including possible extension provisions.

- **Production goals.** To assist in controlling the asset liability management, loan production goals should be established for lending personnel and unit managers should continuously monitor the performance of lenders to ensure they are achieving their objectives.

- **Reports.** In addition to cash outflow and inflow reports, the lender must pay attention to delinquent loans and other real property acquired as a result of failed loans. These types of information must be reported to lender management on a regular basis, as they will affect the cash management function.

Marketing

There will be a continuing need to market the lender's construction lending products. Initially, there may be a need to acquaint developers with the benefits of using construction loans. There will then be a need to identify those developers with whom the lender would like to have as customers, not only as borrowers, but also as depositors and users of other products and services.

To accomplish these two objectives, it will be incumbent upon the lender's staff to determine those developers active in the lender's targeted market area. This knowledge can be obtained by continually surveying the market area to observe construction in process and investigating to find out who is doing the construction. Although the lender may not have the opportunity to finance the project in progress, it will be able to monitor the quality of work and the success of the project and decide if it wants to pursue the builder for future projects.

Subscribing to and routinely reading local newspapers and trade publications will often provide information about projects to be built and the activities of local developers. The lender's marketing unit or a marketing consultant can be helpful in organizing and implementing this important activity.

A well-organized calling program should be established by each lending officer. The officer should devote a substantial amount of time to visiting prospective and existing customers. All visits should be documented and follow up visits should be scheduled based on the future plans of the prospect or customer. For example, if the officer learns during a visit that prospect or customer is in the early stages of planning a project, the officer should maintain regular contact and offer assistance in the way of keeping the developer aware of interest rates, availability of money and current loan requirements.

Developing relationships with local authorities which grant approvals for development can also be helpful in identifying developers active in the area.

[The class can suggest possible ways to market the lender's products. These can be listed on board for discussion - then show OH-7]

16

Session 3
Developer and Loan Origination

Time: 1.25 hours ***Format: Lecture and discussion***

Developer's Benefits and Risk When Using Construction Loans

Why Developers are in the Building Business

Real estate development, like construction lending, can be highly profitable, but it also is very risky, and developers must be knowledgeable about economic and market conditions which affect their business.

Developers must be careful not to over-extend themselves financially. In particular, they should avoid having a large inventory of land since it is not liquid and because the cost to carry it, such as taxes and interest for borrowed funds, can contribute to financial problems. Some of the reasons developers are in the business are:

[Ask class to give reasons - list on board - then show OH-8]

Financial Requirements

The financial requirements are substantial, and lenders should pay particular attention to the resources available to a developer.

[Ask class to suggest some requirements and list on board - then show OH-9]

17

Developer Incentives to have a Construction Loan

Construction loans provide benefits to developers, and these should be pointed out when meeting with prospective borrowers. Some of these benefits are:

[Ask class to give reasons why developers would want a construction loan - then show OH-10]

Developer Risks When Using a Construction Loan

There are risks all borrowers face, and because development is very risky, developers are confronted with some serious considerations when deciding whether to use a construction loan. These risks include:

[Ask class to same some risks - then show OH-11]

Meeting with Prospective Borrowers

Before taking an application, it is advisable to meet with a prospective borrower to discuss the project and the financing requirements. This meeting also provides an opportunity to inspect the site to be developed and the surrounding area to make an initial assessment of the suitability for the proposed product. At this time, if applicable, an inspection of other projects completed is suggested. The lender can advise the prospect of the general terms and conditions for the proposed loan and can receive some preliminary information, such as the borrower's current financial information, estimated construction costs and the loan amount requested.

This initial meeting with a prospect allows for the identification and hopeful resolution of matters which could impede the loan negotiation, if left to the application phase of the loan processing.

If the lender is satisfied with the results of the meeting, an application can be provided to the prospect with specific instructions about how it should be completed, and emphasizing the information which must be delivered to the lender with the application, to permit the processing to proceed quickly.

Negotiating the Loan

The loan is a result of negotiation between the lender and the borrower. While the lender has policies which stipulate conditions which cannot be changed (for example: loan to value; maximum loan term), there are other matters which can be negotiated to the best interest of both parties. These matters include the following:

[Have class name some items and list them on the board for discussion - then show OH-12, 13, 14]

Retainage

The lender may find it advisable to withhold a portion of each payment for direct cost during construction until the respective trade has completed its work or until the entire project is complete. The retainage would be used to pay for the work to be completed by another contractor if the original contractor does not complete the work satisfactorily. The retained amount is customarily 5% to 10% of the amount of the payment being made. Retainage is often negotiated between the developer/owner and the contractor and is indicated in the contracts. The lender must be sure its requirement for retainage is consistent with that stipulated in the contracts of the various trades or be sure the borrower is able to pay any difference between the contract retainage and the amount to be retained by the lender if that amount exceeds the contract amount.

Regulating the Number of Units Under Construction

If the lender is financing single-family homes it is advisable that the number of units under construction be controlled. Customarily, in the United States, developers are permitted to have two to three samples or show homes which prospective purchasers may inspect and then sign an agreement to purchase a house to be built. When the developer can provide the lender with documentation confirming the sale and evidence of satisfactory mortgage financing for the borrower, then the developer can start construction on that unit.

When the lender is financing the construction of multi-family housing, it is recommended that the developer provide evidence of pre-sales with appropriate mortgage commitments for the purchasers before the lender permits the developer to commence construction and draw funds from the loan. The pre-sales should probably be not less than 40% of the total units to be built.

Repayment

When financing housing it is customary in the United States that the lender be completely repaid when 75% to 80% of the units are sold and delivered to the purchasers. Using this system, lenders limit the amount of profit taken by borrowers during the early phase of development. Borrowers receive all profit on the last 20% - 25% of the development, which is a good incentive to fully develop a project. Also, experience has shown that the last houses in a development sometimes take longer than expected to sell. This objective is accomplished by requiring the developer to pay from the proceeds of sales 110% to 125% of the loan amount for each unit or 90% of gross or net sales for each unit.

Fees

[Show OH-15]

Lenders in the United States usually charge fees for loans in addition to the interest on the loan. The fee can be a form of yield enhancement, the payment for expenses incurred by the lender to originate a loan, a control item to be sure applicant is dealing in good faith. With regard to the latter point, the having to pay a fee with an application will usually discourage applicants from applying to more than one bank. Processing loan applications is expensive and lenders do not like to waste time and money for an application which may or may not develop into a loan.

Session 4
Application and Underwriting Project

Time: 1.5 hours ***Format: Lecture and discussion***

Application

As previously noted, it is important to be specific with respect to the lender's needs for adequate information with the application.

[Examine each section of the application included in attendee's package and discuss its relevance to conditions in Russia. If the attendees express concern that the requirements of the application are onerous or inappropriate, there can be discussion about how to design a more appropriate form.]

While application for home mortgages are now very uniform in the United States, applications for construction loans are still the product of each lender. There is certain information about the project and borrower which all lenders require. In addition, there are requirements, such as aerial photographs of a site, which some lenders believe to be important, but others don't.

21

Underwriting

When the lender has received a satisfactory application and all other information about the borrower and the project, it can then begin the process of investigation, verification and analysis, which comprise underwriting.

Project

Project information should be analyzed and verified, including the following:

[Show OH-16, 17, 18, 19]

[Class can be asked to indicate other information and list on board.]

The construction plans and costs should be given to a construction specialist, who should determine their adequacy and give an opinion as to whether the project can be built for the costs represented by the developer. The plans and costs should also be given to an appraiser to confirm the value of the land before construction and the expected value upon completion of the construction, together with an estimate of the amount to be received from the total sales of the units.

The developer should provide projections of cash flows, which should be verified by the lender. It will often be necessary for adjustments to be made as to cash outflows and inflows. The lender must be satisfied with these estimates. In particular, the lender must be sure the developer is not being too optimistic in expectation of inflows from sales. The lender might want to allow for extension options to protect against the loan maturing prior to sales of all units necessary to pay off the loan, if it feels the borrower is too optimistic about sales projections.

[An illustration of the cash flow analysis will be given in connection with the case problem.]

22

Appraisal

The United States has a highly-developed appraisal system with licensed, specifically trained appraisers and there are universally-established appraisal methods. Appraisal standards for Federally-insured savings institutions have been established by the Office of Thrift Supervision, which is a United States government agency responsible for establishing operating standards and for the supervision of institutions to ensure compliance with such standards and regulations.

[Show OH-20]

Factors Considered When Estimating Value

In general, there are three appraisal methods required for every appraisal. These are:

[Show OH-21, 22, 23, 24]

The Market method compares the subject property to other properties with the same characteristics, such as:

- Type of property
- Location
- Type of construction
- Most recent sales prices in the area for similar homes
- Age of construction

By analyzing these characteristics, the appraiser forms an opinion of what the subject property can probably sell for on the open market. If the appraisal is for new construction, the appraiser will analyze building plans and give an opinion of value based on the completed product. In all cases, the appraisal will be expressed as to the value of the land and the value of the improvements.

The second approach to value is the Cost approach. This method takes into consideration the cost to construct or re-construct a structure, based on analysis of building cost for similar structures in the same area. Again,

23

the value will indicate both the land and improvements.

The last approach is the valuing of the net operating income of a property. The previous two approaches are most applicable for single-family homes, since they are not usually rented and therefore do not produce income. Nevertheless, the appraiser will use all three methods and, using available leasing information, will assign an income value to a home for comparative purposes.

When valuing the net operating income, the appraiser will analyze existing or proposed leases to determine the condition under which the rent and expenses will be paid. For example, some rents include all expenses for the space leased; other leases will require a base rent, plus expenses. There are many lease variations and they must be understood by the appraiser before the value can be estimated. After a thorough investigation of rental conditions and expenses in the market area of the subject property, the appraiser will use the following method referred to as Income Capitalization.

[Show OH-25]

- Gross income minus vacancy allowance and expenses results in net operating income. The net operating income is then capitalized by an interest rate selected by an appraiser, based on analysis of what interest rates other types of investments are currently obtaining in the market. The other investment types are considered, making allowances for the risk associated with the investment. For example, United States Treasury obligations would have a relatively low rate because they are considered to have minimum risk. High risk would be associated with new business ventures or real estate projects, such as entertainment complexes, which would be very speculative. These rates would be used along with what the appraiser believes current long-term mortgage rates could be obtained. The resulting two rates would be the basis for the eventual capitalization rate.

In the case of new multi-family construction, the cost and income methods are the most significant determinants of value.

Appraising is not an exact science, and it is the opinion of the appraiser based on market analysis and experience. There is no guarantee that the value indicated by the appraiser can be obtained, but in general the value should be considered as an approximation of what the property is or will be worth.

It is the lender's responsibility to be sufficiently familiar with the appraisal methods and market conditions to be able to review the appraisal for adherence to the approved procedures and the acceptability of the value assigned by the appraisers. If the lender does not have the requisite knowledge, an independent review appraiser should be engaged to provide an opinion of the appraisal.

25

Session 5
Underwriting the Borrower

Time: 1.25 hours ***Format: Lecture and discussion***

Borrower

The lender should now turn its attention to the borrower to determine the character, capital and capacity. The business and personal references provided by the borrower should be contacted and, together with other information, a profile of the borrower should be developed. All possible credit information should be obtained and verified.

[Show OH-26]

The lender might want to have the borrower provide financial information on balance sheets and profit and loss statements provided by the lender. In whatever form the financial information is presented, it should be easy to read and sufficiently adequate that the lender can get an accurate picture of the borrower's financial condition. It is, of course, understood that in all likelihood the lender will have to review certain items with the borrower to get an understanding of these items. To accomplish this task, it is advisable to meet with borrower and review supporting information.

[Show OH-27, 28, 29]

In the United States, lenders customarily require at least three years financial history, and if possible audited by a certified public accountant.

Also in the U.S., it is fairly easy to confirm information provided by a borrower using credit agencies and with written approval from the borrower contact, contractors, creditors and former customers. Financial information can be verified by examining such documents as bank statements, accounts receivable and account payable records and mortgage statements. The lender should confirm where possible incomes from business and real estate owned, accounts receivable, bank balances, accounts payable and ownership of assets. Employment history should also be verified to determine income and competence. The

26

lender should pay particular attention to existing or possible liquidity which would be available to cover any additional funds which may be required to complete the construction.

A great amount of time is devoted by the lender to investigating and getting a good understanding of the borrower's financial condition.

In general, the lender should question every bit of information about the project and the borrower and the lender's understanding should be reflected on the loan approval proposal.

[Class can discuss ways by which they may gain an understanding of a borrower's financial condition.]

If there are third-party guarantors, a credit analysis should be carried out to the same extent as done on the borrower. If there is a general contractor, a complete credit analysis should also be carried out for it.

- 27

Session 6
Worksheets

Time: 1.5 hours ***Format: Lecture and discussion***

Worksheets

It is recommended that lenders use worksheets similar to the ones included in the attendees packages. These forms are not only a good organizing tool, but provide a basis for the loan approval proposal, which must be written by the account officer.

When worksheets are used, it enables a manager to determine at any time the status of loans in process assigned to credit officers.

[Each section of the worksheets should be discussed and class can be requested to suggest amendments or additions appropriate to conditions in Russia.]

One section of the worksheets deals with the calculation of interest reserves.

Since interest is a project cost, it is necessary to estimate the interest to be paid on the construction loan. In the United States, the interest is usually paid monthly and is included in the loan. Each month, the bank pays itself interest for the proceeding month on the principal amount outstanding and increases the loan balance accordingly.

Even if interest is not a part of the loan, the bank should make estimates of interest to be received as a part of its cash management.

In the United States, experience has shown that loans of a particular type perform during the loan term in the same manner. For example, the average outstanding balance for a single-family housing development ranges from approximately 30% to 50%, depending on how quickly houses sell.

Therefore, the bank uses this knowledge to estimate the interest reserve to be included in the loan.

The interest rate used is based on the lender's estimate of average interest rates during the loan term.

[Show OH-30]

Loan Approval

[Show OH-31, 32, 33]

Using the information collected during underwriting, the lender should prepare a comprehensive discourse providing all information known about the prospective borrower and the project to be financed. The proposal provided in the attendee's package is in two parts. This is a representative example of presentations used by financial institutions in the United States. The first part is a summary of the loan request containing pertinent information, which is given to the loan committee. The action of the committee is often affixed to the document and it becomes a part of the loan request records of the lender and indicates the disposition of requests. The second lengthy document is also provided to those responsible for the loan decision and a copy is retained in the account officer's file.

The preparation and accuracy of these documents is reviewed critically by the lender's manager and loan committee, as it is a key element in maintaining good loan quality and as an indication of adherence by the lender to credit policy and established lending procedures.

[It is suggested that the class discuss the content of the enclosed format and loan approval process and be encouraged to make recommendations appropriate to circumstances in Russia.]

Governmental Requirements

[Show OH-34]

During the underwriting process, the lender and its legal representatives must be certain they are aware of all requirements of governmental agencies and must then be sure that all required approvals are obtained prior to closing the loan.

[It is suggested that the class indicate other approvals which are required in their respective geographic areas.]

Environmental Issues

[Show OH-35]

The lender should determine if there are requirements relating to the environment which must be considered. It is likely that this issue will develop as the govemment confronts the resolution of environmental problems.

[This matter can be a good discussion subject with attendees giving their perspectives on issues in their respective geographic areas.]

Session 7
Commitment and Closing

Time: 1.25 hours ***Format: Lecture and discussion***

Loan Commitment

[Show OH- 36, 37, 38]

In the United States, it is customary that lenders issue a letter of commitment to the borrower after the loan has been approved. Commitment letters vary in length, but they all contain certain essential information relating to the amount and terms and conditions of the loan. The borrower is advised of matters which must be resolved before the lender can close the loan and disburse the funds. These matters include such items as the production of evidence that all governmental approvals have been received, that the title or right to the property is satisfactory, that insurance acceptable to the lender has been obtained and indicate the documents which must be produced and/or signed at the closing.

[It is suggested that class indicate additional items and conditions they believe should be included in a commitment letter.]

It should be understood that a commitment is a contract document between the lender and the borrower, and the lender usually requires the borrower to sign a copy and return it to the lender within two weeks from the date of issue. If the commitment letter is not issued in accordance with the application submitted by the borrower, then the borrower is not required to accept the loan or negotiation can begin between the two parties which can result in a commitment agreeable to both.

Title or Right To Use

The lender must be certain that borrower's ownership or right to use is not encumbered by liens or other restrictions. This determination can often be the responsibility of the lender's legal representative.

Insurance

In the United States, the following insurance is usually required during the construction period:

- **Hazard insurance:** covers loss from damage from fire, explosion and some other incidents.
- **Builder's Risk insurance:** a form of hazard insurance which may be issued in place of hazard insurance.
- **Public Liability coverage:** covers accidents to persons which occur as a result of the construction or on the subject property.
- **Workmens Compensation insurance:** required of all contractors to pay claims from workers injured on the job.

The amounts of each policy and the company issuing the insurance must be approved by the lender. With respect to hazard or builder's risk insurance, the lender's interest should be covered by acknowledgement of the issuer in the form of an assignment of the policy or endorsement on the policy indicating the lender's interest is covered.

Loan Documents

[Show OH-39]

The basic documents required for a construction loan customarily are the following:

- **Note.** A contractual agreement containing an express and absolute promise of the borrower to pay to lender a definite sum of money by a specific date or on demand. Usually , provides for interest and, is secured by a mortgage.
- **Mortgage.** The document by which real estate is pledged on security for the repayment of a loan. The mortgage is recorded in the govemmental region where the property is located. The recording creates a lien on the property which is removed when the loan is repaid in full.

33

- **Construction Loan Agreement**. The document between the lender and borrower which contains all of the terms and conditions relating to the operation of the loan during construction. In particular, it contains the disbursement procedure for loan funds. Also, this document contains the events of default and what remedies are available to the lender to correct such defaults.

- **Assignment of Contracts and Building Plans.** The lender should receive assignments of general and/or major work contracts and architectural plans and specifications which allows the lender to rely on these contracts to complete construction in the event of default by the borrower.

Loan Closing

In the United States the lender, the borrower and their legal representatives usually meet in the office of a lawyer or title insurance company to sign and exchange documents. At this time the lender obtains all items it indicated the need for in the commitment letter. If everything is satisfactory, the lender will make the first payment, which might be for items paid for by the borrower, such as fees, land or materials.

Session 8
Loan Administration

Time: 1.5 hours ***Format: Lecture and discussion***

Loan Administration

The administration of construction loans is a key element in a successful construction lending program. No other type of loans made by a bank requires such day-to-day administration. Nor does any other loan require such active participation by the administrator in the many phases of the construction project. During the course of the loan, amendments to the documentation, changes in the loan budget due to increases or decreases in cost, changes in completion schedules and the constant monitoring of the construction must all be diligently carried out. There are many computer software packages available in the United States to assist in the administration of construction loans.

Project Inspectors

Qualified inspectors should be retained by the lender to approve the plans and specifications when the loan is being underwritten and to perform inspections during construction.

When to Pay

Payments should be made upon presentation by the borrower on a request form, either supplied by or approved by the lender, indicating both the work completed since the previous payment and the total completed to date of request. The request for payment should be given to the inspector employed by the lender to be sure work has been completed in a satisfactory manner in accordance with plans and specifications approved by the lender.

Lender should process requests for payment in a timely manner so borrower can meet the requirements of contracts for payment to material suppliers and workers.

How Much to Pay

Lender should pay only for labor completed and materials installed. Payment should be in accordance with the terms and conditions of the construction loan agreement. If retainage is a condition of the loan, then lender should withhold the appropriate amount. If the lender agrees to pre-pay for materials, then it should have its inspector follow up to make sure the materials are delivered by a specific date. If materials are to be stored in quantity, the inspector should make sure they are stored in a secured manner to avoid loss or theft.

Who to Pay

The construction loan agreement should give the lender the option to pay the borrower or contractor and materials suppliers, if the lender determines it is in its best interest to do so.

Releasing Units

As construction is completed, buyers will take possession of the units and the lender must release the units from the lien of the mortgage. This will be done when the lender has received the appropriate repayment for the unit to be released. The loan administrator must be certain that the appropriate amount is requested and the payment is received.

The Loan Budget

[Show OH-40]

As part of the application the developer will submit an estimate of construction cost. The lender and the borrower will then agree on a project budget, which will contain in general the following:

The contingency reserve is included to cover hard costs, overruns or increases in soft cost items. The established amount is based on the experience of the lender and may range from 5% to 12% of the loan amount. Requests for draws from this reserve must be carefully reviewed by the lender to avoid early depletion which could indicate a pending loan problem as a result of incorrect cost estimates. The administrator of the loan must continually monitor the budget to make sure the borrower does not request more than allocated for a particular item.

Session 9
Problem Loans and Files Management

Time: 1.25 hours ***Format: Lecture and discussion***

Problem Loans

[Show OH- 41]

Recognizing

The loan administrator must continually be alert for indications that a loan may be developing trouble. Any indication should be thoroughly investigated. In many cases, there will be reasonable explanation for such occurrences, but immediate response to situations will often prevent problems from occurring.

[The class can be asked to list other items which in their opinion could be early warning signals of problems.]

What To Do When a Loan is in Trouble

If the lender confirms a loan is in trouble, it is important to take action to remedy the matter with the borrower, if the borrower is cooperative. In any case, the status of the loan should be determined and fully documented. The lender's management should be made fully aware of the situation and an estimate of consequences facing the lender should be made. With the concurrence of lender's management and its legal counsel, a strategy should be devised and implemented to correct the situation. Immediately, certain actions should be taken.

[Show OH-42]

In most cases, it is beneficial to the lender to get the project completed and delivered to buyers.

Records, Files and Document Management

It is important that files be properly established and maintained and that documents are safeguarded.

Many lenders in the United States establish two files: one which contains the original loan documents and the other original items, such as note, mortgage, construction loan agreement, insurance policies, title insurance, appraisals and contracts. The second file is referred to as the working file and contains a copy of the construction loan agreement, payment requests, inspection reports, correspondence and memoranda.

The document file is kept in a fire-proof, secure file and access is strictly controlled so that only authorized persons are allowed to remove the contents.

The lender should also have a system to follow for critical dates. For example, the expiration date of an insurance policy, and the dates by which houses are to be finished and delivered to buyers. In the United States, the failure of a developer to deliver a house on time can be cause for a buyer to cancel their agreement to purchase. The loan maturity is also a critical matter for the lender to follow.

Session 10
Cash Flow Analysis

Time: 1.5 hours

Format: Lecture and discussion

Cash Flow Analysis

As noted in the section on Underwriting, the analysis of the cash flow projection submitted by a developer is a significant part of the underwriting process. The case problem presented in connection with this course has several projections and in order to understand and analyze these there is certain preparatory work which must be accomplished.

To assist in the analysis, the Hewlett-Packard HP-12C financial calculator is provided to attendees and its basic operation must be instructed. This instruction should begin with keystroke procedures. Instruction of the calculator will be limited to the procedures necessary to determine Net Present Value (NPV) and Internal Rate of Return (IRR).

The keys vary in their number of functions from 1 to 3. The various functions are indicated by color (orange, blue and white). To have the calculator perform a desired function, the coordinated colored keys on the bottom row of keys on the left hand side must be used. Looking at these keys, it will be noted there is an orange key which is marked with the letter "F" and a blue key with the letter "G". White functions do not require prefix action.

To turn the calculator ON, press the **ON** button; to turn it OFF, press the **ON** button again. To clear the calculator display, the following process must be used: press **F CLEAR REG**. Note the word **CLEAR** above the second row of keys from the bottom. Turning the calculator OFF will <u>not</u> clear the display. There are other clearing functions, but the method indicated above is all that is necessary for the purposes of these operations.

40

To illustrate the operation of the calculator and to also illustrate the discounted cash technique to determine present value (PV) and future value (FV), the following example should be placed on the board and the instructor should lead the attendees through the process.

The purpose of this exercise is to show the Time Value of Money.

[Show OH- 43]

Example

$50,000.00 invested at an annually compounded rate of 11% will be worth $84,252. future value at the end of five years; therefore, $84,252.: five years in the future is worth $50,000 now; so $50,000. is the present value of $84,252. The determination of VALUES is determined by using the calculator as follows:

Future Value

Press:
(1) **ON**

(2) **F CLEAR REG**

(3) **5 N** sets 5-year time

(4) **11 i** sets 11% interest

(5) **50,000 CHS PV** indicates outflow by placing minus in front of amount (-50,000)

(6) **FV** display shows $84,252.90, the future value of $50,000.

The future value is the amount which is the result of the investment of a known amount now at a compounded rate of interest.

41

Present Value

Press: (1) **ON**

(2) **F CLEAR REG**

(3) **5 N** sets 5-year time

(4) **11 i** sets 11% interest

(5) **84,252 FV** sets future value

(6) **PV** display shows $-49,999.50, the present value discounted back from $84,252.

The present value is the amount which must be invested now to produce the known future amount.

The next exercise is to illustrate the determination of the Net Present Value (NPV) and the Internal Rate of Return (IRR). These two factors will indicate the advisability of an investment.

Present Value, Net Present Value, Internal Rate of Return

[Show OH-44]

Net Present Value Determined

If:

Positive: The investor's assets are increased and the investment would probably be made.

Zero: Asset value would not change and investment may or may not be made.

Negative: Asset value would decrease and investment would probably not be made.

4V

Internal Rate of Return Determined

If: **Greater** than target rate, investment would be attractive

Equal to target rate, investor may be indifferent.

Less than target rate, investment would not be attractive.

Example

A company is considering whether to invest $60,000. in a three-year project. The $60,000. would have to be borrowed at a cost of 10%. During the three years, cash flows to be generated would be:

Outflow:			$60,000.
Inflows:	Year	1	$15,000.
		2	$25,000.
		3	$30,000.
			$70,000.

To determine the NPV and IRR by using the calculator, lead the attendees through the following process:

Press (1) **ON**

(2) **F CLEAR REG**

(3) **60,000 CHS G CFO** (now -60,000)

(4) **15,000 G CFJ**

(5) **25,000 G CFJ**

(6) **30,000 G CFJ**

(7) **10 i**

(8) **F PV** = -3,163.

(9) **F IRR** = 7.3

ЧЗ

Calculations show the NPV to be -3,163., a decrease in the asset value of the company, which indicates the investment is not advisable.

The IRR is 7.3, which is less than the cost of funds (target rate 10%) to be invested; therefore, it is not advisable for the investment to be made.

Summary

In this example, it has been seen that even though the inflows exceed the outflows, when the amount to be received is analyzed, considering the time value of money, the amount does not justify making the investment.

With respect to the IRR, when the rate of 7.3% is less than the cost of the money to fund the investment (10%), this result also does not justify making the investment.

Session 11
Case Problem

Time: 1.25 hours ***Format: Lecture, exercise and discussion***

Case Problem

Before the attendees begin work on the case, it is recommended that the instructor provide additional training about how to determine the NPV and the IRR by using the "Before Tax Cash Flow For Developer's Fund" on Variant "B" of the case.

Press (1) **ON**

(2) **F CLEAR REG**

(3) **250 CHS G CFO** (250 now - 250)

(4) **0 G CFJ**

(5) **10 G NJ** This entry avoids having to do the previous entry 9 more times, since there are 10 months without outflows or inflows.

(6) **17.1 G CFJ**

(7) **22.2 G CFJ**

(8) **.1 G CFJ**

(9) **14.8 G CFJ**

(10) **119.4 G CFJ**

(11) **83 G CFJ**

(12) **RCL N** = Display indicates 7 entries have been made.

45

(13)	**2.5 i**		(2.5 x 12 mos. = 30% annual rate)
(14)	**F NPV**	=	Display indicates -71.6
(15)	**F IRR**	=	Display indicates .18 monthly rate. Multiply by 12 to get 2.12 annual rate.

The result of the calculations indicate NPV of -71.6 and IRR of 2.12% annual rate. Based on a target rate of 30%, the IRR is not acceptable and the NPV resulting in a minus number indicates this would not be a profitable venture for the developer.

Case Work Assignments

The class can be separated into groups of 4-7 persons and each group playing the role of a bank can analyze the case and then make recommendations for financing under their terms and conditions. They should be encouraged to modify the existing facts, including re-working the cash flows, to achieve satisfactory NPV and IRR, to enable the project to obtain financing.

When their work is completed, each group should designate a spokesperson to make a presentation of their conclusions and recommendations.

Basics of Construction Lending Quiz

1. List three benefits of a construction loan for a developer.

2. List three items which are negotiated between the bank and the borrower.

3. List three risks to the bank when providing construction loans.

4. List three things a bank must have to start construction lending.

5. List four examples which could indicate a construction loan may be in trouble.

6. The cash flow projections should provide the borrower and the lender with indications of profitability as expressed by the

   ____________________ and the ________________________.

7. What is the definition of **net present value**?

49

Basics of Construction Lending Quiz - Answer Key

1. List three benefits of a construction loan for a developer.

   » Greater certainty and efficiency in development process.

   » Known source of funds to build project.

   » Does not have to rely on periodic contributions from purchasers.

   » Deals with fewer sources of funds (one bank, as opposed to many buyers).

2. List three items which are negotiated between the bank and the borrower.

   » Amount (within lender's permitted maximum)

   » Term and extension options (within permitted maximum)
   -- time to construct
   -- time to complete sales or leasing

   » Interest rate
   -- fixed
   -- floating against an indexed rate

   » Interest payments
   -- monthly, quarterly, semi-annually, annually
   -- capitalized

   » Fees to bank
   -- application
   -- commitment
   -- servicing
   -- other

» How fees are to be paid
-- up front
-- pro-rated on a scheduled basis
-- paid from loan proceeds

» Guarantees

» Retainage
-- amount to be retained (5%, 10%)
-- for direct and/or indirect cost
-- release to trade when its work is completed and approved by lender or held until entire project is complete.

» Regulating number of units under construction

» Contracts of sale

» Mortgage commitments

3. List three risks to the bank when providing construction loans.

» Builder unable to complete project

» Builder becomes bankrupt

» Units don't sell or buyers cannot obtain funds to close

» Sale proceeds not sufficient to repay loan

4. List three things a bank must have to start construction lending.

» Trained personnel

» Organization

» Sources of funds

» Credit policies and lending procedures

» Internal support

5. List four examples which could indicate a construction loan may be in trouble.

   » Payment request for incomplete work

   » Construction delays

   » Non-payment for labor and materials

   » Slow sales

   » Cancellation of sales contracts or leases

   » Unapproved changes in construction plans and/or materials

6. The cash flow projections should provide the borrower and the lender with indications of profitability as expressed by the

   __Net Present Value__ and the __Internal Rate of Return__.

7. What is the definition of **net present value**?

   » Amount determined by discounting back the inflows over the life of an investment to determine whether they equal or exceed the required investment. Inflows that arrive in later years must provide a return that at least equals the cost of financing those returns.

51

Basics of Construction Lending Alternative Quiz

1. List three reasons banks make construction loans.

2. List three functions in the bank which must provide support for the construction loan activity.

3. List the three appraisal methods.

4. List four prepaid expenses which could be considered borrower's equity.

5. List two direct costs and two indirect costs in the loan budget.

- SV

Basics of Construction Lending Alternative Quiz - continued

6. What is the definition of present value?

7. What does an IRR greater than the target rate indicate?

13

Basics of Mortgage Lending Quiz — Answer Key

1. List three reasons banks make construction loans.

- Income
- Use of funds
- Response to market needs
- Develop customer as depositors and users of other products and services

2. List three functions in the bank which must provide support for the construction loan activity.

- Accounting
- Operations/Computer
- Marketing
- Legal
- Liability Management (funds availability)

3. List the three appraisal methods.

- Market
- Cost
- Economic

54

4. List four prepaid expenses which could be considered borrower's equity.

- o Zoning fees
- o Building permits
- o Architect's fees
- o Site improvements

Basics of Construction Lending Alternative Quiz - continued

- o Building materials
- o Labor

5. List two direct costs and two indirect costs in the loan budget.

- o Direct Costs
  -- Land
  -- Site improvements
  -- Materials
  -- Labor

- o Indirect Costs
  -- Fees (legal, application, bank)
  -- Insurance
  -- Marketing
  -- Construction Interest
  -- Contingency Reserve

6. What is the definition of present value?

- o Amount which must be invested now to produce the known future amount.

55

7. **What does an IRR greater than the target indicate?**

- Investment would be attractive.

56

B. Case Studies

(Loan Committee Submission Form)

[BORROWER NAME]

[ADDRESS]

PROPOSED COMMITMENT:

PURPOSE:

TERMS OF REPAYMENT:

RATE:

FEES:

BORROWER:

GUARANTOR:

SECURITY:

PRESENT INDEBTEDNESS:

RELATED LOANS:

OTHER RELATIONSHIPS WITH THIS BANK:

AVERAGE DEPOSIT BALANCES:

FINANCIAL STATEMENTS:

	Borrower Date	Guarantors Date
Cash		
Receivable		
Interest in Real Estate		
Total Assets		
Total Liabilities		
Net Worth		

(Note: it should be indicated whether the statements are audited, accountant-prepared, personal, etc.)

CREDIT POLICY EXCEPTION: NO / YES

(If YES, explain and indicate authority, who approved exception.)

RECOMMENDATION BY: Date:____________________

CREDIT OFFICER:____

MANAGER:____

SPECIAL TERMS OR CONDITIONS:

COMMENTS:

(Comprehensive Memorandum to accompany Loan Recommendation)

[BORROWER NAME]

[PROJECT NAME]

I. THE REQUEST
- Amount
- Loan term

II. PROJECT DESCRIPTION
- Location
- Unit types and mix
- Type of construction

III. BORROWER
- Current business
- Previous business experience
- Who are principals?
- Summary of financial condition
  (attach complete financial statements as exhibit)

IV. GUARANTORS
- Same information as for borrower

V. SOURCE AND USE OF FUNDS
- Hard cost
- Soft cost

- Equity
- Credit

VI. PROJECT PERFORMANCE
- Assumption of sales activity
- Cash flow

VII. INTEREST AND OPERATING RESERVE ANALYSIS
- Calculation of interest reserve
- Calculation of operating reserve

VIII. REPAYMENT ANALYSIS
- Release prices
- Projection of when credit will be repaid

IX. MARKET ANALYSIS

- Comparable homes and average value
- New construction in the area

X. VALUE OF COLLATERAL

- Appraisal information
- Who performed appraisal?

XI. CONTRACTOR

A. Background

- Business history and experience

B. Financial Statements

- Summary of financial condition
  (Attach financial statement as exhibit to this memo)
  Name
  Date
  Cash
  Receivables
  Interest in real estate
  Total assets
  Total liabilities
  Net worth

[Note: indicate type of statement—audited, accountant-prepared, personal, etc.]

XII. CREDIT RISKS

- List all known possible risks

XIII. CREDIT STRENGTHS

- List all known strengths

XIV. SUMMARY

- Comments
- Recommendations

XV. EXHIBITS

[List] Financial Statements
Maps
Photos
Etc.

IMPORTANT: READ THESE DIRECTIONS BEFORE COMPLETING THIS STATEMENT.

- [ ] If you are applying for individual credit in your own name and are relying on your own income or assets and not the income or assets of another person as the basis for repayment of the credit requested, complete only Sections 1 and 3 and the schedules which are applicable.
- [ ] If you are applying for joint credit with another person, complete all Sections providing information in Section 2 about the joint applicant. If practical, a joint statement of financial condition may be supplied by applicant and joint applicant in such case, information requested following Section 3 and the schedules which are applicable would be completed with respect to both applicant and joint applicant. Both would also sign at the bottom of the reverse side of this form. If not practical, applicant and joint applicant may complete separate forms.
- [ ] If you are applying for individual credit, but are relying on income from alimony, child support, or separate maintenance or on the income or assets of another person as a basis for repayment of the credit requested, complete all Sections, providing information in Section 2 about the person whose alimony, support or maintenance payments or income or assets you are relying upon. Only you would sign this form.
- [ ] If this statement relates to your guaranty of the indebtedness of other person(s), firm(s), or corporation(s), complete Sections 1 and 3.

TO

SECTION 1 - INDIVIDUAL INFORMATION	
Name	
Residence Address	
City, State & Zip	
Position or Occupation	
Business Name	
Business Address	
City, State & Zip	
Res. Phone	Bus. Phone

SECTION 2 - OTHER PARTY INFORMATION	
Name	
Residence Address	
City, State & Zip	
Position or Occupation	
Business Name	
Business Address	
City, State & Zip	
Res. Phone	Bus. Phone

SECTION 3 - STATEMENT OF FINANCIAL CONDITION OF:

- [ ] Individual
- [ ] Individual and other party (if Joint Statement)

As of: ______________________

(Do Not Include Assets of Doubtful Value. Where No Amount is to be Entered, use the Word "NONE".)

ASSETS	Dollars	LIABILITIES	Dollars
1 Cash on Hand		16. Notes Payable this Bank (Sch F)	
2 Cash in Banks (List in Schedule A)		17. Notes Payable Other Banks (Sch F)	
3 Cash Value Life Insurance (List in Sch B)		18. Unpaid Taxes	
4 Autos and Trucks		19. Notes Payable to Others (Sch F)	
5 Marketable Securities (List in Sch C)		20. Other Debts (Sch F)	
6 Non-Marketable Securities (List in Sch D)		21. Accounts and Bills Due (Sch F)	
7 Accounts Receivable (List in Sch E)		22. Loans Against Cash Value Life Insurance	
8 Notes Or Other Loans Receivable		23. Real Estate Mortgages (Provide Complete	
9 Real Estate:		Details in Schedules G, H, & I)	
10 Income Producing (Sch G)		24. Estimated Income Tax	
11 Under Construction (Sch H)		on Appreciated Assets	
12 Vacant Land (Sch I)		25. Total Liabilities	
13		26. Net Worth (Total Assets Minus	
14		Total Liabilities)	
15 TOTAL ASSETS		27. TOTAL Liabilities and Net Worth	

IF SEPARATE STATEMENT IS ATTACHED: It must be signed by you. Its Date: ____________ Its Preparer: ____________

SOURCES OF INCOME FOR YEAR ENDED ____________, 19 ______		PERSONAL INFORMATION
Salary, bonuses & commissions	$	
Dividends	$	
Interest	$	Are you a partner or officer in any other venture? If so, describe.
Real Estate Income (Details in Sch G)	$	
Other income (Alimony, child support, or separate maintenance income need not be revealed if you do not wish to have it considered a basis for repaying this obligation)		Are you obligated to pay alimony, child support or separate maintenance payments? If so, describe.
TOTAL	$	Are any assets pledged other than as described on schedules? If so, describe.

CONTINGENT LIABILITIES		
Do you have any contingent liabilities? If so, describe.		Income tax settled through (date) ____________
		Are you a defendant in any suits or legal actions? If so, describe.
As endorser, co-maker or guarantor?	$	
On leases or contracts?	$	Are all taxes on your real estate paid?
Legal claims	$	Is your mortgage interest paid to date?
Other special debt	$	Have you ever been declared bankrupt? If so, describe.
Amount of contested income for liens	$	

62

WS-61 3/90

(Complete Schedules and sign on reverse side.)

NOTE: If space is insufficient, separate schedules with additional detail may be attached. Such schedules should be dated and signed in the same manner as this statement.

SCHEDULE A - BANK ACCOUNTS

Name of Bank	Type of Account	In Name Of	Current Balance

TOTAL (as shown on statement) $________

SCHEDULE B - LIFE INSURANCE

Name Of Insurance Company	Owner of Policy	Beneficiary	Face Amount	Policy Loans	Cash Surrender Value

TOTAL (as shown on statement) $________

SCHEDULE C - MARKETABLE SECURITIES

Number of Shares or Face Value (Bonds)	Description	In Name Of	Are These Pledged?	Market Value

SCHEDULE D - NON-MARKETABLE SECURITIES

Number of Shares	Description	In Name Of	Are These Pledged?	Valuation Basis	Value

SCHEDULE E - LOANS, NOTES AND ACCOUNTS RECEIVABLE

Debtor	Description	Slow or Current	Maturity	Amount

TOTAL $________

SCHEDULE F - NOTES, ACCOUNTS AND LOANS PAYABLE, AND OTHER LIABILITIES

To Whom Indebted	Secured or Unsecured	Original Amount	Present Balance	Term of Payment	Amount Past Due
		$	$	$	$

The information contained in this statement is provided for the purpose of obtaining, or maintaining credit with you on my/our behalf of persons, firms, or corporations in whose behalf I/we may, either severally or jointly with others, execute a guaranty in your favor. I/we understand that you are relying on this information (including the designation made as to ownership or property) in deciding to grant or continue credit. I/we represent and warrant that the information provided is true and complete and that you may consider this statement as continuing to be true and correct until a written notice of a change is given to you by me/us. I/we agree to notify you promptly of any such change. You are authorized to check my/our credit and employment listing and to make all other inquiries you deem necessary to verify the accuracy of the statements made on this form and to determine my/our creditworthiness. You are authorized to answer questions about your credit experience with me/us.

*For Schedules G, H & I, Refer To Separate Sheet Attached.

Signature (Individual) ________

S.S. No. ________ Date of Birth ________

Signature (Joint Applicant) ________

S.S. No. ________ Date of Birth ________

63

SCHEDULE TO FINANCIAL STATEMENT OF ______________________ DATED AS OF ______________

SCHEDULE G - INCOME PROPERTY

Address & Type of Property	Size of Property (Acres, Units or S.F.)	Acquisition or Construction Cost	Occupancy (%)	Rental Per Unit or Square Foot	Gross Revenue	Operating Expenses	Net Operating Income	Annual Debt Service	Net Cash Flow	Borrower's Share of Cash Flow ($)	O S Mortgage	Mortgages	Pers. Liability (Y N)	Other Loans (If Any)	Estimated Total Property Value	Ownership (%)	Present Fin. Stmt. Carrying Value	

(*Total must agree with amount on line 10) TOTAL ________

BORROWER'S NAME ______________________ DATED AS OF ______________________

SCHEDULE H - SCHEDULE OF REAL ESTATE UNDER CONSTRUCTION

Address of Property	Type of Property	Acreage	Total # of Units or S.F.	Current # of Units Sold or S.F. Leased	Estimated Total Constr. Cost	Construction Loan Commitment	Construction Loan Outstanding	Remaining Commitment Available	Construction Lender	Personal Liability (Y/N)	Other Loans (If Any)	Estimated Total Property Value (and basis)	Ownership %	Present Fin Stmt. Carrying Value	Date Construction Started

SCHEDULE I - VACANT LAND

Location of Property	Number of Acres	Present Zoning	Type & Max. # of Units or Sq. Ft. Allowed	Approval Status	Purchase Date	Purchase Price	Outstanding Financing	Lender	Personal Liability (Y/N)	Estimated Total Property Value	Ownership (%)	Present Fin. Stmt. Carrying Value	

(*Total must agree with amount on line 12) TOTAL ______

D. Overhead Slides

Definition Of A Construction Loan

A commitment by a financial institution in a confirmed amount to enable a developer to pay for labor, material and other project-related development costs.

Bank's Motivation to Lend

- Interest Income
- Use of Funds
- Response to Market Needs
- Develop Customers as depositors and users of other products and services

Bank Risks

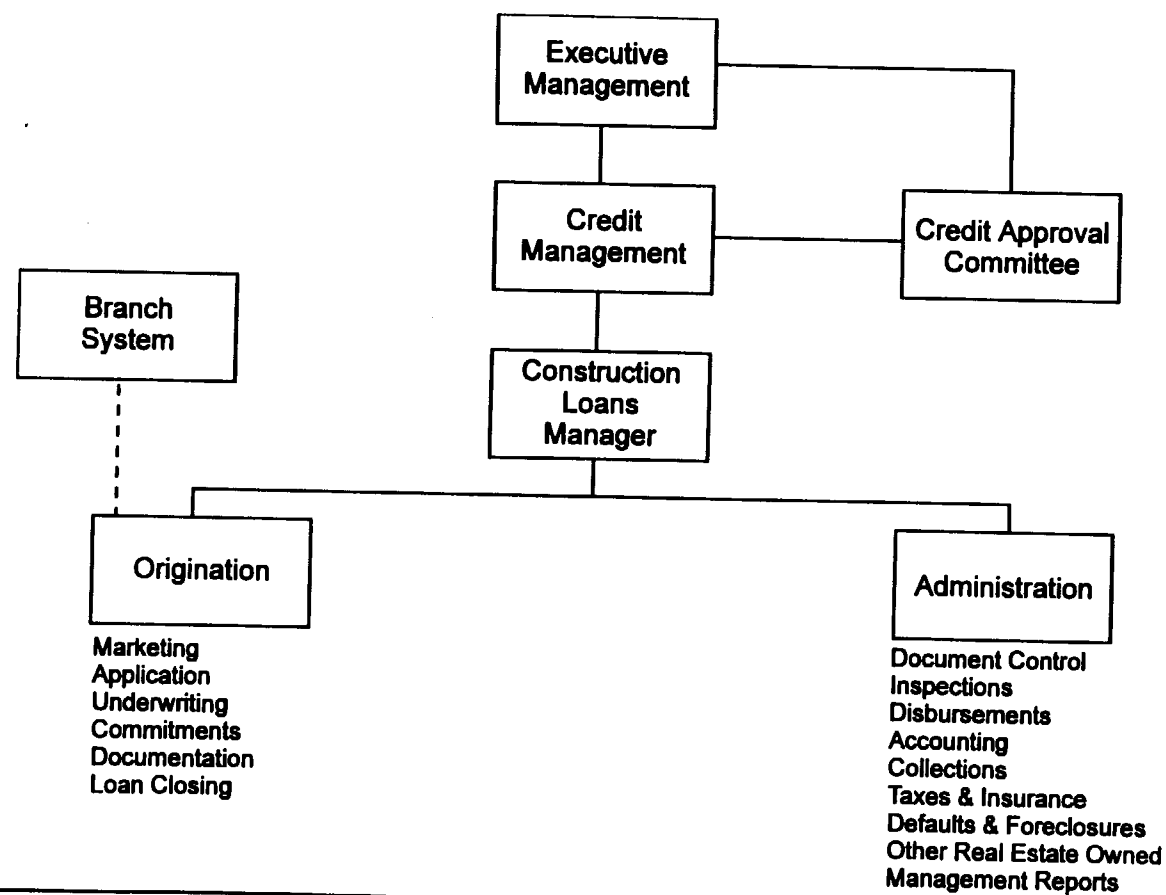
- Builder unable to complete project
- Builder's cost estimates incorrect
- Builder becomes bankrupt
- Units don't sell or buyers cannot obtain funds to close
- Sale proceeds not sufficient to repay loan

What A Bank Needs To Make Construction Loans

- Trained Personnel
- Organization
- Sources of Funds
- Credit Policies and Lending Procedures
- Internal Support

5

Construction Lending Organization



72

6

Internal Support

- Accounting
- Operations/Computer
- Marketing
- Legal
- Liability Management (funds availability)

2

7

Marketing

- Advertising
  - Local papers
  - Trade publications
  - Radio and TV
  - Seminars on economic conditions for developers
- Business development call on developers

Motivation to Build

- Profit
- Investment
- Personal satisfaction resulting from creating a product

Developer's Financial Requirements

- Equity
  - The developer's contribution to the project in the form of money, land, materials and/or labor
- Capital
  - Sufficient financial resources available to be used to maintain the business by paying for overhead expenses and provide any money necessary to complete the project, in addition to the equity and construction loan.
- Debt/Bank Loan
  - Money borrowed for the purchase of land or for the use of land and money borrowed to finance construction.

Benefits For Developer

- Greater certainty and efficiency in development process
- Known source of funds to build project
- Builder does not have to rely on periodic contributions from purchasers of homes to continue construction
- Builder deals with fewer sources of funds (one bank, as opposed to many buyers)

11

Risks for Developer

- Loan amount insufficient to complete construction
- Bank does not approve work and refuses to advance funds
- Interest rate increases
- Sale proceeds not sufficient to repay loan
- Exposure for interest and principal
- Failure of lender (U.S.A.)

Negotiable Elements of Construction Loan

- Amount (within lender's permitted maximum)
- Term and Extension Options (within permitted maximum)
  - Time to construct
  - Time to complete sales or leasing
- Interest Rate
  - Fixed
  - Floating against an indexed rate
- Interest Payments
  - Monthly, quarterly, semi-annually, annually
  - Capitalized

Negotiable Elements of Construction Loan

- Fees to Bank
  - Application
  - Commitment
  - Servicing
  - Other
- How Fees Are To Be Paid
  - Up front
  - Pro-rated on a scheduled basis
  - Paid from loan proceeds
  - Other
- Guarantees

Negotiable Elements of Construction Loan

- Retainage Withheld by Bank from Each Loan Advance
  - amount to be retained
    - 5%, 10%, combinations
  - for direct and/or indirect cost
  - release to trade when its work is complete and approved by bank or held until entire project is complete
- Regulating Number of Units under Construction (Phasing)
- Contracts of Sale
- Mortgage Commitments

15

Fee Collection

TYPE	AMOUNT	WHEN DUE	HOW PAID	COMMENTS
Application	Usually 1% of loan	Upon application	Cash from borrower	If application rejected, fee is refunded, less lender expenses for appraisal, etc. If application approved, fee can be used as commitment fee.
Commitment	Usually 1% of loan	Upon issue of commitment	Cash from borrower or use of application fee	
Loan	Usually 1% of loan	When loan is closed	Cash from borrower or use of commitment fee or from loan	This fee not always collected if a commitment fee has been received.
Costs & Expenses ▸ Legal ▸ Appraisal ▸ Engineer ▸ Recording ▸ Other	Charged at cost of services	As they are incurred	Cash from borrower or from loan	

NOTE: If fees are a part of borrower's equity, they can be included in loan and paid from the loan or refunded to borrower from the loan.

Loan Underwriting
The Project
Obtain, Analyze and Verify All Information:

- Plans
- Cost
- Appraisal
- Feasibility
- Inspect Property

Project

- Type
- Configuration
- Size
- Construction (brick, stone, wood, etc.)

18

Project (Cont'd)

- Acceptable to intended market
- Good access by roads
- Good access by public transportation
- Accessible to:
  - schools
  - shopping
  - medical facilities
  - employment centers
  - recreational and cultural centers

Project (Cont'd)

- Utilities
  - Water
  - Sewer
  - Electric
  - Gas
  - Telephone

98

20

Definition of Appraisal

Estimate by a qualified appraiser of the present or future value of real estate (land and buildings).

УЧЕБНЫЙ КУРС ДЛЯ РОССИЙСКИХ БАНКИРОВ ПО КРЕДИТОВАНИЮ СТРОИТЕЛЬСТВА

ПРАКТИЧЕСКИЕ ЗАНЯТИЯ

Дорогие участники,

Приводимый ниже анализ практической ситуации демонстрирует некоторые стандартные этапы и подходы, используемые при финансовом анализе поступающих заявлений на кредиты. В анализе учитываются некоторые существенные особенности нынешней экономической и правовой ситуации в России, однако мы предлагаем Вам внести свой вклад в процесс дальнейшего приведения рассматриваемой ситуации в соответствие с реальностью, в которой Вам приходится сегодня работать.

Часть 1.

Частная строительная компания "Агентство АБЦ" обратилась в Ваш банк за ссудой на выполнение проекта застройки. Компания представила следующую информацию.

Адрес : Улица X, дом У, находящийся в престижном квартале восточной части центра Санкт-Петербурга.

Тип проекта : высококачественное жилье на продажу.

Характеристики :

Размер земельного участка 44 м х 22 м ; площадь под застройку - 572 кв.м. (468 кв. м. под здание и 272 кв.м. под индивидуальные гаражи).

Здание : общая площадь всех этажей в строении - 2517 кв.м. : общая площадь квартир - 2134 кв.м. ; внутренняя стоянка - 208 кв.м. ; мансарда - 175 кв.м.; общая жилая площадь - 1188 кв.м. : число этажей - 5, плюс мансарда.

Квартиры :

Число комнат	Число квартир	Средняя полная площадь
1	1	53,4 кв. м.
2	2	87,4 кв. м.
3	9	151,3 кв. м.
4	3	181,0 кв. м.
Итого :	15	

Оценка расходов :

	в тыс. долл. США
Начальные расходы	50
Выплата муниципалитету за выделение земли	200
Разработка проекта (архитектурная и инженерная)	120
Строительство	1900
Дополнительные работы на площадке и вне ее	100
"Налог на инфраструктуру" муниципалитету (20 % от стоимости строительства)	400
Итого :	2770

Оценка доходов (в тыс. долл. США):

Продажа квартир 1,4 за кв. м. х 2134 кв. м.	=	2988
Продажа гаражей 11 х 10	=	110
Итого :		3098

Продолжительность реализации проекта : 16 месяцев (4 месяца на разработку проекта и 12 месяцев на строительство).

Права собственности застройщика : согласно специальной резолюции мэра, застройщик обладает правом использования земельного участка в период проведения строительства, причём по завершении строительства городская администрация обязалась издать документ, определяющий долговременные имущественные права застройщика на данный земельный участок.

Финансовый план :

Компания-застройщик готова оплатить первоначальные расходы и стоимость выделения земли ; для выполнения последующих этапов строительства она запрашивает кредит в твердой валюте на сумму 1 200 000 долл. США (с последовательными платежами в течение 10 месяцев с возвратом в течение 5 месяцев) , а окончательная часть стоимости строительства будет оплачена за счет получения дохода от предварительной продажи.

Часть 2.

После предварительного рассмотрения Вы вернули заявителю-застройщику проектную документацию с рядом дополнительных требований :

I. Предоставить расчёт технико-экономического обоснования, включающего анализ следующих вопросов :

1. Юридические аспекты :
- Каковы предполагаемые права на землю для будущих покупателей квартир ?
- Могут ли права застройщика на землю быть переданы в процессе строительства ?
- Позволяют ли права застройщика на землю использовать её в качестве залога при обращении за кредитом ?
- Каковы существующие ограничения в области градостроительного планирования и какие типы использования земли разрешены на данном участке ?

2. Физические характеристики :
- Согласно каким признакам данный участок земли считается пригодным для предполагаемого использования под жилищное строительство ?
- Являются ли топографические особенности данного участка подходящими для такого его использования и обеспечивают ли они доступ на стоянку ?
- Существуют ли какие-либо специфические особенности данного участка, которые влекут за собой увеличение стоимости строительства ?
- Каковы условия и возможности подключения к коммуникациям ?
- В какой степени данный участок является доступным для общественного и личного транспорта ?

3. Проектные особенности здания :
- Почему предлагаемый проект здания считается подходящим для данного расположения и для использования под такое жилье ?
- Каково обоснование правильности запроектированного числа гаражей ?
- Почему не предусмотрено строительство подземных гаражей ?

98

Appraisal Methods

- Market
  - Compares subject property to other properties having similar characteristics
- Cost
  - Determines cost of materials and labor to construct
- Economic
  - Places a value on the net operating income derived from the property; capitalizes the net operating income using a capitalization rate which reflects the risk in relation to alternative uses of the money invested in the subject property

8

Factors Considered When Estimating Value

- Need
- Use
- Location
- Topography
- Percolation
- Governmental Approvals
  - Zoning
  - Site Plans

Factors Considered When Estimating Value

- Type of Building
  - Construction
  - Condition
  - Age
  - Cost to Build or Replace
  - Size
- Competition

Factors Considered When Estimating Value

- Improvements
  - Utilities
    - Gas
    - Electricity
  - Water
  - Sewer

Income Capitalization Appraisal

Gross Income $500. per mo. x 12 mos. x 50 units	$ 300,000.
Minus Vacancy Factor (5%)	- 15,000.
Effective Gross Income	285,000.
Expenses (40% of Effective Gross Income)	154,000.
Net Operating Income	$ 131,000.

Capitalized Rate Calculation:

Based on equity funds being contributed of 25% of project cost	.10% x .25% =	.025
Assumed mortgage rate based on 75% financing	.08% x .75% =	.060
Capitalization Rate		.085

Therefore: Net Operating Income		Cap Rate		Value
$131,000.	÷	.085	=	$1,541,176.

NOTE: This is a simplified illustration to show in general the capitalized technique and is not intended as a comprehensive treatment of this appraisal method.

26

Loan Underwriting
The Borrower

Obtain, Analyze and Verify All Information:

- Borrower
  - Personal Reputation
  - Business Expertise
  - Credit
    - Financial Statements
    - Banking Relationships
    - Payment History
  - References

Credit Information

- Financial Condition
  - Balance Sheet
    - Assets
      - cash
      - real estate
      - motor vehicles
      - accounts receivable
      - personal property
        - furniture
        - jewelry
      - other

Credit Information

- Financial Condition
  - Balance Sheet (cont'd.)
    - Liabilities
      - mortgages
      - loans payable
      - accounts payable
      - taxes
      - other
    - Net Worth (total assets less total liabilities)

Credit Information

- Income Statement
  - — Cash Flow from Real Estate Owned
  - — Other Business Income
- Equity in Project
  - — Land
  - — Pre-Paid Expenses
    - » zoning fees
    - » building permits
    - » architect's fees
    - » site improvements
    - » building materials
    - » labor

Interest Reserve Calculation

Loan Amount: $500,000

Average Balance		Interest Rate		Reserved
$200,000 (40% of loan)	x	15%	=	$30,000

Loan Approval

Formal Written Presentation Detailing the Underwriter's Analysis of the Proposed Loan

- Project
- Borrower
- Guarantors
- Contractors

Loan Approval

- Terms and Conditions of Loan
  - Amount
  - Interest Rate
  - Fees
  - Frequency of Disbursement
  - Retainage
  - Documentation

12

33

Loan Approval

- Terms and Conditions of Loan (cont'd.)
  - Repayment
    - » Release of Completed Units
    - » Cash from Buyers
    - » Confirmed Mortgages for Buyers

Required Approvals

- Compliance with zoning ordinances
- Title clearance
- Use permits or licenses
- Site plan approval
- Building permit

Environmental Issues

- Soil
  - On-site
  - Surrounding area
- Air
- Water
- Building

Commitment

- Purpose and security
- Loan amount
- Interest rate
- Maturity
- Extension options
- Repayment conditions
- Requirement for loan closing

Commitment

- Documents required:
  - Note/obligation
  - Mortgage
  - Construction loan agreement
  - Assignment of contracts
- Fees and expenses
- Disbursement terms and conditions
- Date by which commitment must be accepted
- Date by which loan must be closed
- Insurance requirements
- Title requirements

Commitment

- Environmental matters
- Survey
- Governmental approvals and permits
- Utilities

Basic Loan Documents

- Note
- Mortgage
- Construction loan agreement
- Assignment of contracts and building plans

Loan Budget

- Direct Costs
  - -- Land
  - -- Site improvements
  - -- Materials
  - -- Labor

- Indirect Costs
  - -- Fees (legal, architect, bank)
  - -- Insurance
  - -- Marketing
  - -- Construction interest
  - -- Contingency reserve*

Potential Loan Problems

- Payment Request for Incomplete Work
- Construction Delays
- Non-Payment for Labor and Materials
- Slow Sales
- Cancellations of Sales Contractors or Leases
- Unapproved Changes in Construction Plans and/or Materials

Action To Be Taken For Problem Loan

- Secure the property and move loose material into a secured area.
- Make sure all insurance is current
- Consult with contractor and, if possible, arrange for contractor to resume or continue to work.
- Meet with the borrower and attempt to develop a workout plan to complete the project.

Time Value of Money

A sum to be received in the future has a lesser present value.

The present value is determined by discounting back from the future known amount. The selection of a discount rate is determined by the person estimating the value. The rate used is selected on the basis of rates which are available for investments having the approximate maturity as the subject.

211

44

Present Value

Amount which must be invested now to produce the known future amount.

Net Present Value

Amount determined by discounting back the inflows over the life of an investment to determine whether they equal or exceed the required investment. Inflows that arrive in later years must provide a return that at least equals the cost of financing those returns.

Internal Rate of Return

Yield on an investment calculating the interest rate that equates the cash outflows with the cash inflows.

E. Glossary

GLOSSARY

Amortization

Payment of debt in regular, periodic installments applied first to the payment of current interest due and the balance applied to reduce the current principal balance. While the payment amount remains the same, the allocation changes as the principal balance reduces requiring less interest to be paid.

Appraisal

An opinion of the value of a property at a given time, based on the appraiser's opinion of the location, condition and highest and best use of the property.

Backfill

To replace ground removed by excavation for construction.

Blueprint (Plans)

A plan of a building in such detail as to enable workmen to construct it from the information contained therein.

Boiler Plate

The form language (generally printed) which is contained in documents such as mortgages.

Boring Test

Study of soil conducted by boring holes and removing samples. Used to determine, among other things, the existence of rock.

Building Permit

A document given by a local government indicating its approval for the construction of or improvements to a building.

Building Restrictions

Prohibition by a governmental body or deed conditions against construction of or changes to buildings.

Cesspool

A pit or pool which holds raw sewage.

Closing

The final procedure during which documents are signed concluding the sale of a property or creation of a loan.

Commitment

A written promise by a lender to provide a loan subject to certain terms and conditions contained therein.

Condominium

A structure of two or more units, the interior space of which are individually owned, the balance of the property (both land and building) is owned in common by the owners of the individual units.

Construction Cost

The total cost of building, including overhead and profits, as well as land, labor and materials.

Construction Loan

Short-term financing of real estate construction. Generally followed when construction is completed by long-term financing.

Construction Loan Agreement

A document which is prepared by the lender stating all of the terms and conditions of a construction loan which is signed by the borrower at the closing.

Contractor

One who is employed by a developer to construct a building.

Contractor's Overhead

Expenses over and above labor and materials, such as office expense, insurance, certain salaries.

Convey

To transfer title to a property.

Cooperative Apartment

A structure of two or more units in which the right to occupy a unit obtained by the purchase of stock in corporation which owns the building.

Cost Approach

An appraisal method, estimating the replacement cost of a building, less depreciation, plus land value.

Credit Report

A report on the history of a person or business enterprise as to how they repaid debts.

Developer

A builder.

Development

A planned construction project, rather than simply the building of unrelated buildings.

Development Loan

A loan for the purchase of land and site improvements, rather than building costs.

Direct Costs (Hard Cost)

The cost for materials and labor.

Down Payment

The initial payment made by a buyer when purchasing real estate. Usually buyers own money and not borrowed.

Encroachment

Generally, construction onto the property of another, such as a wall, fencing or building.

Equity

The market value of a property, less the amount of existing liens.

Fixed Rate Mortgage

A mortgage having a rate of interest which remains the same for its life.

Footing

A foot-like projection at the base of a foundation wall, column, pier, etc. used to secure, support and help eliminate settling or shifting of a structure.

Foreclosure

A proceeding to extinguish all rights, title and interest, of the owner of the property in order to sell the property to satisfy a lien against it.

Hazard Insurance

Insurance to pay owners and lien holders for losses caused by fire or other causes which are insurable.

Improved Land

Land which has been approved by a local government for building purposes and land improved with streets and utilities.

Indirect Construction Costs (Soft Costs)

Costs other than for materials and labor, such as interest, fees, insurance, taxes, etc.

Interest Rate Cap

The maximum interest rate a lender agrees to charge on a floating or adjustable rate loan.

Lien

An encumbrance against a property for money, either voluntary or involuntary.

Loan Package

The file of all information necessary to be considered by a lender to decide to lend or not to lend.

Market Value Approach

An appraisal procedure in which the property is compared to other similar properties recently sold. The degree of similarity of the properties and circumstances of the sales contribute to establishing a value for the subject property.

Mechanics Lien

A lien created for the purpose of securing payment for work performed or materials furnished in construction.

Mortgage

1. The pledge of property for a debt.
2. The document which is evidence of the pledge of property.

Mortgagee

The party lending the money and receiving the pledge of property.

Mortgagor

The party who borrows the money and pledges the property.

Mortgage Servicing

The duties of collecting payments, making sure taxes are paid, insurance is in force, etc.

Percolation

The absorption of liquid into soil by seepage.

Plans (Blueprints)

All drawings detailing construction.

Plot Plans

A plan of the location of improvements on a parcel of land.

Recording

Filing documents affecting real property as a matter of public record.

Specifications

Written detail which indicate to a contractor how to proceed with construction. Indicates the specific materials to be used and the way in which they are to be installed.

Subdivision

A division of a single parcel of land into smaller parcels by filing a map describing the division and obtaining approval by a governmental authority.

Title

The evidence one has of right to possession of land.

Title Search

A review of all recorded documents affecting a piece of property.

Topography

The contour of land surface, such as flat, rolling, mountainous, etc.

Tract

A parcel of land.

Tract House

A house built using the plan of the builder as one of many similar homes in a subdivision, as opposed to a custom house, which is built to the specifications of the owner.

Utilities

Telephone, gas, electric and water.

Zoning

The division of a city or region by governmental regulations into areas (zones), specifying the uses allowable for the real property in those areas.