



CONSTRUCTION INSPECTOR REVIEW

VOLUME 7, 4TH QUARTER 2007

WORD FROM THE HOME OFFICE

As we close the year, we view 2007 as our breakthrough year. GCI has achieved many of its goals and we are left with a strong sense of accomplishment and a focused eye on 2008.

The changing mortgage industry has open doors of opportunity for GCI and its parent company Granite Loan Management. We have tailored some of our products/services to address current and future client issues that will also support their evolving risk mitigation practices. As a result, GCI has been identified as the industry leader in managing risk as it pertains to property evaluations.

GCI's responsibility remains the same; provide a timely, professional and accurate reporting of a properties progress and/or condition. We will continue to pursue excellence through innovations in technology and "Total Quality Service".

We wish to thank all our valued inspectors for their contribution to our success. GCI can not achieve excellence without your support. Please feel free to communicate your experiences and thoughts while working with GCI. Your feedback provides GCI with an "outside looking in" prospective.

GCI wishes you and yours a joyful holiday season!

The GCI Inspection Team

Mitigating Pre-Closing Construction Lending Risk—Review of the Contractor, Part Two

by John Morrissey¹

Construction lending, while highly profitable, also includes a vast number of risks. Many of those risks exist prior to the loan ever closing, and it has been estimated that a substantial portion of a lender's risk can be mitigated through proper review of the project and contractor. Part I of this article, as noted in last quarter's newsletter, addressed the proper techniques for reviewing a project and Part II, included herewith, will evaluate the proper techniques for reviewing a contractor's qualifications.

On the whole, no one person affects a construction project more than the general contractor. He/she is often the first person to enter into a construction contract with the homeowner and will often obtain all of the construction materials and labor to build the homeowner's project.

The general contractor also will schedule and supervise all of the work being performed on the project from start to finish. Oftentimes, all of the money to pay the subcontractor's and material suppliers will flow directly through the contractor's account.

This places a tremendous amount of

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¹John Morrissey is Vice President for Project Review and Contractor Acceptance at Granite. He can be reached at 888.456.4888 ext#1074, or via email to john.morrissey@graniteloan.com.

New! GCI DEVELOPMENTS

GCI is Rapidly Expanding into the Commercial Inspection Market!

GCI is currently seeking commercial qualified inspectors in all 50 states. Please submit your resume and/or Bio to Angie Kelley, Recruiting Department at angie.kelley@gcinspects.com.

Original Message to Inspector Contains Important Information

The Original Message to Inspector box displayed on the website contains information that is specific to that project. The information is often referred to as the "Special Instructions". These instructions communicate value and critical information regarding any special requirements associated with that order (i.e. contact numbers for directions or access, scheduling for access, wait to inspect next Monday, etc.). These instructions are located in three areas on the website/report;

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Mitigating Pre-Closing Construction Lending Risk *(cont'd)*

responsibility on the general contractor, and therefore, it is prudent for the construction lender to be aware of the contractor's qualifications. A review of the general contractor's credentials is typically referred to as Contractor Acceptance or Builder Review. For lender liability reasons, the term "approval" should be omitted from any and all conversations or written materials provided to the borrower and/or contractor. In order to ensure that a general contractor has the qualifications and experience to build the project and deliver the home free of mechanics' liens, the following steps should be taken:

OBTAIN AN AUTHORIZATION TO RELEASE INFORMATION:

Prior to beginning any type of review on a contractor, a lender should obtain a signed authorization to release information from the contractor. This authorization gives permission to the lender to check into the qualifications, credit, and background of the contractor. The National Association of Residential Construction Lenders has created a contractor questionnaire that is quite thorough and is available through their website at www.narcl.com.

REVIEW THE CONTRACTOR'S INSURANCE:

The general contractor should carry Commercial General Liability Insurance. This insurance covers third party liabil-

ity claims that can occur on a job site and also covers any construction defects on the property. The liability insurance policy should provide a general aggregate amount of at least \$1,000,000, although larger projects may require higher coverage limits. Lack of this insurance could cause claims to be levied against the borrower or the lender. After all, the claimant will look to the person or company with the deepest pockets, which is typically the lender.

The general contractor should also carry Worker's Compensation Insurance if the contractor direct employees. This insurance covers any claims against the contractor for job site related injuries to the contractor's employees. The contractor should carry this insurance even if he only employs office staff, as they may visit the job site. Many states require that a contractor carry this coverage and will not issue a license to the contractor without proof that the insurance is in force. Lack of this insurance could also lead to claims being levied against the borrower and/or lender.

REVIEW THE CONTRACTOR'S LICENSE:

Licensing requirements vary from state to state. Some states require contractor licensing on a state level, others leave licensing to the cities and counties. If the state requires a valid general contractor's license, the lender should obtain a copy from the general contractor. The license should be reviewed to ensure that it is in force and active. Lenders should also

contact the state or municipality issuing the license to ensure that it is active and in good standing. Many states also provide web-based information concerning the status of a contractor's license. States that require a license do not allow a contractor to enter into a construction contract without an active license.

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**Granite is a member of:
THE NATIONAL ASSOCIATION OF
CERTIFIED HOME INSPECTORS (NACHI)**



For more information about NACHI, visit them at www.nachi.org or explore their resources at www.inspectormall.com.

JOIN OUR NETWORK!

GCI is constantly recruiting qualified individuals for our nationwide Inspector Network.

If you are qualified to perform either residential or commercial construction inspections and are interested in applying, please email us at:

inspectorinfo@gcinspects.com

to learn more about what GCI can offer you!



INSPECTOR CENTRAL

New! **GCI DEVELOPMENTS** (cont'd)

First, they are viewable on the project web screen under the heading "Original Message to Inspector." They are also displayed on both the inspection field report in the upper right section and on the email notification.

Status or Audit Inspections are a Growing Business

GCI has been reviewing transition portfolios for current and newly acquired clients. These are portfolio's that have been taken back by the warehouse line of credit provider or acquired by a lender from a lender who has gone under. It is critical we complete these inspections as described in the "Special Instructions," for example:

This is a STATUS/AUDIT inspection with no pending draw. Please complete a thorough inspection of all items listed on the budget and include a minimum of 8-10 photos of the interior and exterior (Note: If interior was accessible). Report any "stop work" notices and/or "code violation" notices posted on site. Indicate general condition of site/structure (i.e. overgrown weeds and/or structure exposed to weather) in the comment section of the report. Please comment and photograph any on-site materials or posted notices. Contact GCI's Customer Service Group with any questions at 800.919.8903. ■

"OUTSTANDING... IN THE FIELD"



Bill Lundy

Lundy Home Inspections, Inc.

Bill Lundy became a full-time home inspector and licensed contractor in Oregon in 1996 after going through Inspection Training Associates' inspection school in Oceanside, California. Since then he has been doing inspections for prospective home buyers. He became a Oregon Certified Home Inspector #046 when the state started the certification requirement in 1998.

Mr. Lundy is on the Fee Panel for FHA inspectors and is also a VA compliance inspector. He performs draw inspections for several banks. Prior to becoming an inspector, he was a licensed remodeling and repair contractor in the California Bay area. His background also includes mortgage lending as a manager and as an underwriter. He likes to do wood working and fly fishing in his spare time.

Bill is consistent in his work. He takes great wide-angle photos and always gives Granite more than we ask for. He is constantly exceeding our expectations.

Keep up the great work, Bill!

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Bend, OR 97701
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GCI'S TOP 5

Top 5 Reminders When Completing Inspections

- 1. Review Entire Project**
Inspector must review the entire project and update all applicable line items on the budget with every inspection.
- 2. Comply With "Special Instructions"**
Inspector must acknowledge and comply with all "Special Instructions" listed on the request.
- 3. Take Adequate Photos**
Include photographs of key elements, i.e. onsite materials, specialty items (like water features) and required "Photo Focus" items.
- 4. Check Property Location**
Verify property location to ensure an inspection of the correct property.
- 5. Complete Walk-Through**
Every room should be viewed and documented, with a photo when necessary.





Mitigating Pre-Closing Construction Lending Risk (cont'd)

OBTAIN POSITIVE IDENTIFICATION OF THE CONTRACTOR:

In order to ensure that a third party isn't trying to obtain acceptance as a contractor by using someone else's credentials, it is prudent to obtain positive photo identification from the contractor. A driver's license, passport, or any other positive form of identification can be matched to the contractor's license and other information listed on the contractor acceptance submission.

REVIEW CONTRACTOR'S GROSS SALES OVER A THREE YEAR PERIOD:

Most small contractors do not produce audited financial statements. The construction lender, by reviewing the contractor's gross sales over the last three years, can gain a better understanding of the size and trends of the builder's business.

CONTACT CONTRACTOR'S REFERENCES:

Lenders should require that a contractor submit a list of previous client and subcontractor/supplier references. Lenders can then contact these references to ensure that the contractor

is in good standing with his subcontractors/suppliers and that he/she has satisfied previous clients. It is also important to determine whether or not the contractor has built a similar size home.

OBTAIN CONTRACTOR'S PERSONAL OR BUSINESS CREDIT:

One of the biggest risks of construction lending is a lien placed on the property. Since the general contractor is normally responsible for paying all of the subcontractors and suppliers on a project, it is important to understand the credit rating of the contractor. A business credit report from a reputable agency can provide lenders with information about how the contractor pays his/her business bills. Sole proprietors and closely held corporations often will not have a business credit rating. In these cases, obtaining a personal credit report on the main principal of the company can be beneficial. If the contractor is paying his/her personal bills on time then more than likely he/she will pay the subcontractors and suppliers on time.

In conclusion, while the aforementioned steps may seem simple, they are all an important part of mitigating a lender's construction risk. A qualified general contractor is an integral part of realizing a completed asset. Reviewing the general contractor's qualifications will ensure that the builder is capable of constructing the asset in addition to paying the bills associated with the project. Thus, this review combined with a comprehensive project review will help to ensure a complete, lien free property for the borrower while leaving the lender with a successful and profitable construction lending program. ■

LOOKING FOR CONTRIBUTORS!

We are looking for contributors to the CIR newsletter. If you have an idea for an article or something you want us to review – let us know.

In addition, if you have authored industry-related articles and would like to submit something to the publication, contact our Marketing & Sales Department at 866.380.9504 or email us at sales@gcinspects.com.

Comments & Compliments

We are always looking for feedback from the field. If you have a suggestion to make your job more efficient or have something nice to say, let us know.

We appreciate your input and look forward to hearing your thoughts and ideas.

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