



### Due Diligence for Construction and Real Estate Loans

Construction inspections and recommendations for funding disbursements is a large part of the services GMC-CMI LLC provides for their clients, however, the fastest growing segment of their business is *Budget Reviews* and *Constructability Analyses*.

*Budget Reviews* are developed for both residential and commercial projects as well as plat developments.

The primary purpose of a *Budget Review* is to determine if the budget that the Borrower has developed for their project is adequate to complete all the work included in the project description. This type of work falls outside the comfort zone of most Lenders, and requires access to current construction cost database information, extensive experience in the building arena, an understanding of the means and methods of construction, and considerable estimating skills.

Some of the project-related problems that are often discovered in a typical *Budget Review* include:

- Missing line items that should provide funding for components that are required in the project, but overlooked or not included in the Borrowers budget.
- Line items that, when compared to the GMC-CMI Database©, indicate that the funding provided is not sufficient to complete the project work.

- Line items that are too broad to allow them to be properly inspected; such as “construction”, where the line item is not easily defined as a building component, which ultimately creates the possibility of an error in fund distribution.

- Atypical allotment of funding where the Borrower is inflating those costs that occur in the early stages of construction (often called front-end loading) causing a potential lack of available funding in the later stages of the project.

Missing major soft cost line items, such as “contingency” or “sales tax”.

Like *Budget Reviews*, a *Constructability Analysis* is provided for residential, commercial and plat developments, however, it is most often used in commercial and plat projects.

The primary purpose of a *Constructability Analysis* is to review all aspects of the proposed project, and make a recommendation to the Lender as to whether the project is fully and properly structured in a way that allows the work to be successfully completed. A *Constructability Analysis* includes all the information found in a *Budget Review*, but is extended to include a review of contracts, insurance, site conditions, plans and other construction documents, and the means and methods of construction to be used.

In addition to the aforementioned problems that are often identified in a typical *Budget Review*, some of the project-related problems that are often discovered in a typical *Constructability Analysis* include:

- Un-licensed Contractor, or existing claims and unresolved issues from other projects that may inhibit the Contractor’s ability to complete the proposed project and place the Lender at risk.

- Contract conditions between the Borrower and Contractor that may not be consistent with the loan documents, and may cause contract default issues between the separate agreements.

- Projects that are uninsured or underinsured. A clear indication as to whether the insurance is to be provided by the Borrower or Contractor with an agreement to extend both “General Liability” and “Course-of-Construction” insurance to the Lender.

- Wetlands, environmental, shorelines, and sensitive area issues, and other special conditions relating to the site including the mitigation of potential issues.

Construction documents that are improperly prepared, incomplete, or inconsistent with industry standards and may cause risk to the Lender due to the additional costs required to correct unresolved issues of this type.

Through use of the above methods of analysis, specific to construction or real estate lending, Lenders can actively manage the risks that are inherent in this discipline. Of greatest importance however, is the opportunity for the Lender to look carefully at the proposed project, prior to entering into the loan agreement, and to offer the Borrower an opportunity to correct any deficiencies discovered in the *Budget Review* or *Constructability Analysis*. This is a value-added service that the Lender can offer their Borrowers, which greatly improves the success potential of the project, while substantially improving the quality of the loan review.

The construction and real estate lending opportunities available in today’s lending world have proven to be very profitable and an excellent method of growing a Lender’s assets, but this does not happen without risk! The risks of lending in this area are considerable, but with the use of *Budget Reviews* and *Constructability Analyses*, some of the risks can be mitigated. GMC-CMI LLC offers their extensive experience in the construction industry to Lenders, through these products, which include both *Budget Reviews* and *Constructability Analyses*, and presents their findings in a clear, easy to read, but technically thorough and comprehensive document.

George Casady, Principal and  
CCI

GMC-CMI LLC

## FINANCIAL RISK MANAGEMENT

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Since 1986, GMC-CMI LLC has provided Lenders throughout Western Washington with a range of Lender *due diligence* products and *construction inspection* services. As we have grown, our client base has expanded and our coverage area has stretched throughout the Pacific Northwest.



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WE'RE ON THE WEB AT [WWW.GMC-CMI.COM](http://WWW.GMC-CMI.COM)

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### RMA Sponsored Young Professionals Group

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I recently had a chance to talk with Carol Duris of Viking Bank, who is one of eight members of a steering committee for the Young Professionals Group. As some of you may know, the Young Professionals Group was started by the Risk Management Association (RMA) with the goal of attracting young professionals in the financial business field for opportunities to network, learn, and make connections with others who will be the future leaders in the finance industry. Meetings of the Young Professionals Group will be similar to those of the RMA, but will focus more on the social and networking possibilities inherent in the settings. I attended one recently at Jillian's Bar and Grill and was pleased to find an affable, gregari-

ous group ranging in age from their early twenties to mid forties. Carol made it clear however, that no age restrictions have been put on the group, and all who are interested, are invited. The meetings will happen on the third Wednesday of every month, and will be comprised of socializing for the first 30-45 minutes, business items, and then an educational speaker specializing in one of the many growing financial fields. Unlike the RMA, membership will not be required, as funding for the meetings will mostly be driven by sponsorships, both piecemeal and per annum. The fees for the events will range from \$10-\$12 dollars for the socials and \$15 for the speaker events which will include appetizers and the program. The next event will

be held on October 18<sup>th</sup> at the Rock Bottom Brewery 1333 Fifth Avenue, Seattle, from 5:30 to 7 PM and the speakers will be three asset recovery managers from Columbia Bank, Viking Bank, and CityBank respectively with an open call for questions at the end of the night. For more information on the events, sponsorship, or if you would like to sign up to attend, please email Carol Duris at

[carold@vikingbank.com](mailto:carold@vikingbank.com).

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