SBA 7(a) Construction Loan Checklist

SOP 50 10 7.1 – Section B, Chapter 5, A, 4 (Pages 267-270)

SBA Loan #:
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Please note that the checklist provided below represents the minimum additional requirements needed for SBA 7(a) Construction Loans under SOP 50 10 7.1. If your institution has more Prudent Servicing standards (13 CFR 120.535), you must also continue to utilize them to secure your SBA guaranty.

PRIOR TO CONSTRUCTION:

Found Where?

- **Completed SBA Form 601 | Agreement of Compliance** *(if construction costs over $10,000)* — *c,viii | d*
  - ☐ Executed Borrower Form
  - ☐ Executed Contractor / Subcontractor Form(s) *(each contractor must sign)*
- **Construction of a New Building or Addition to Existing Building?** (13 CRF 120.174) — *a*
  - ☐ **Yes – Evidence of NEHRP Compliance or Equivalent Building Code** *(at least one)*
    - ✓ Certificate issued by licensed building architect, construction engineer, or similar professional
    - ✓ Letter from state or local government agency stating that an occupancy permit is required and that local building codes upon which the permit is based include the Seismic standards
  - ☐ **No**

Construction Component $500,000 or Less:

- **Construction Risk Mitigation** *(pick one)* — *b*
  - ☐ 100% P&P Bond, Builder's Risk, and Worker's Comp Insurance (13 CRF 120.200)
  - ☐ Utilizing Internal Lender Risk Mitigation Policies | "Blanket Waiver"

Construction Component Over $500,000:

- **Construction Risk Mitigation** *(pick one)*
  - ☐ **100% Performance & Payment Bond** (13 CRF 120.200) — *c,i*
    - ✓ Corporate surety approved by Treasury Dept. using AIA form or comparable coverage — *c,i,a)*
    - ✓ Only Borrower named as Obligee on bonds — *c,i,b)*

    - OR -
  - ☐ **Monitoring with Funds Control | "Blanket Waiver"** *(pick one)* — *c,i,c)*

    (Lender must apply same policies, procedures, & processes for offsetting construction risk as it does for its similarly-sized construction loans)
    - ☐ Third Party Construction Management Firm *- OR -* — *c,i,c),i)-*
    - ☐ Internal Construction Management Department *(if routinely manages similarly-sized construction loans)* — *c,i,c),ii)*

- ☐ **Builder's Risk Insurance** *(not required if utilizing Monitoring w/ Funds Control, but is industry standard to require on all projects)* — *c,i | c,i,c)*
- ☐ **Worker's Compensation Insurance** *(not required if utilizing Monitoring w/ Funds Control, but is industry standard to require on all projects)* — *c,i | c,i,c)*
- ☐ **Borrower Injection of Required Funds Prior to Disbursement** *(if Borrower is injecting funds)* — *c,ii*
- ☐ **Copy of the Final Plans and Specifications** — *c,iii*
- ☐ **Copy of a Construction Contract, including:** — *c,iv*
  - ✓ Acceptable licensed contractor at specified price
  - ✓ Agreement that Borrower will not order/allow Cost without consent of Lender and Surety *(if applicable)* providing bonds
- ☐ **Evidence of Borrower's Ability to Pay Cost Overruns or Additional Construction Financing Expenses** *(prior to approving contract modifications)* — *c,v*
- ☐ **Evidence Building will Comply with All State/Local Building and Zoning Codes and Applicable Licensing and Permit Requirements** — *c,vii*
- ☐ **Obtain Lien Waivers or Releases from All Material Men, Contractors, & Subs** *(if applicable)* — *c,ix*

DURING CONSTRUCTION:

If using a Third-Party Construction Risk Mitigation firm for Monitoring and Funds Control, they should be performing the following items. If not, Lenders will need to perform them internally.

- ☐ **Interim On-Site Inspections** *(construction conforms with plans/specs)* — *c,vi*
- ☐ **Final On-Site Inspection(s)** *(construction conforms with plans/specs)* — *c,vi*
- ☐ **Obtain Lien Waivers or Releases from All Material Men, Contractors, and Subs** — *c,i,c),iii)*
  - o If any mechanics' or other liens are filed or take priority over the Lender's lien on the collateral, the Lender may be subject to a repair or denial of the guaranty
- ☐ **Documentation of Construction Completed in Conformance with Plans & Specs** — *c,i,c),iii)*

DO-IT-YOURSELF CONSTRUCTION JUSTIFICATION REQUIREMENTS:

- ☐ **Documentation that Borrower/Contractor is Experienced in this Construction Type** — *e,i*
- ☐ **Documentation that Borrower/Contractor has All Appropriate Licenses** — *e,i*
- ☐ **2 Other Bids on Work** *(Showing that cost is the same as, or less than, an unaffiliated contractor)* — *e,ii*
- ☐ **Documentation Showing Borrower/Contractor Will Not Earn a Profit On Project** — *e,iii*

The checklist provided is not exhaustive of prudent lending considerations. Additional factors, such as Document and Cost Reviews, Contractor Evaluations, Flood Insurance (if applicable), and more may be necessary. Benefits from understanding your exact needs with respect to lending requirements in this space may be derived from consultation with third-party due diligence firms.