

# A Builder's Best Friend

Why your construction lender is your most important business partner

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What kind of cash does it take to build just one home? How about multiple homes? You get the point! It takes hundreds of thousands or millions of dollars of cash to run a homebuilding business? Cash that most of us don't have sitting in our bank accounts.

Therefore, your banker, not your dog, should be your most important business partner. Why? Because they can provide you all of the capital that you need to successfully run and grow your business.

While there may be different sources of cash available (hard money/investors), construction lenders are generally the most affordable source of cash for most builders.

Build these relationships. Understand what numbers they are looking for and why and you will unlock the source of cash to fund the growth and development of your business.

## Establishing a Bank Line of Credit

- ✓ **Identify multiple construction lenders**  
Focus on reputable banks with construction lending experience
- ✓ **Begin networking immediately**  
Work the relationships. Lunches, visits, events. Get in front of these lenders
- ✓ **Prepare financials**  
Learn what is needed from the bank and work with your accounting team to prepare a clean, accurate and detailed set of reports for the bank.
- ✓ **Be Persistent and Professional**  
Don't take no for an answer. Work the relationships with patience. It may take time, but don't give up. It is worth the wait.



## THE BUILDER'S SIDE

Look for and negotiate the best terms possible in the following areas:

- **Total Line Limit** - Total maximum dollars available
- **Divided Limits** - Limits available for lots vs. specs vs. presolds
- **Lending Terms** - Understand the fees and terms of funds
  - Loan origination fees
  - Interest rates
  - Cash equity requirements
- **Draw Process** - What is their process and timeline for draws

## THE BANK'S SIDE

Understand what numbers matter most to the bank:

- **Equity Position** - What is your total net worth/equity
- **Leverage Ratio** - Ratio of outstanding debt to total equity
  - Target - 3/1 ratio or lower
- **Net Profit** - Do you have a history of profitability
  - Target - 10% net profit
- **Cash/Liquidity** - Are you cash strong or cash strung out



# Banking Relationships

A few questions to consider:

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Do you currently have a construction line of credit with one or more banks? Is it sufficient or do you need more? If you don't have a line of credit, identify at least 3 reputable construction lenders in your market here.

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Determine the desired line of credit needed to fuel your business. Where are you currently? Where are you trying to get? How much of a line of credit will you need to get there? What divided limits do you need for lots/specs/presolds?

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With your accounting team, determine the following: What is your equity? What is your leverage ratio? What is your net profitability? What is your cash position?

Note those items here and identify any areas that may need improvement. What is your plan to get there?

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- NOTES -

