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investing in you

Canandaigua National Bank & Trust

CNBusiness® Broadcast

NEWSLETTER FOR BUSINESS CLIENTS OF CANANDAIGUA NATIONAL BANK & TRUST

Is a Commercial Construction Loan Right For Your Business?

Are you considering expanding, renovating, or constructing a new building for your business? Or are you an investor looking to build apartments, offices, or retail space for investment purposes? If so, a commercial construction loan may be the right banking loan for you.

Traditional construction loans are used to assist in financing the acquisition of land, site work, cost of construction as well as soft costs associated with the project. Lenders will typically lend up to 75-80% of the "upon completion" or "stabilized" value (as determined by an independent appraisal), however limiting advances to 80-85% of the actual cost of construction. An additional requirement for lenders to use in their decision-making process is the appraisal.

The appraisal assists in determining the following:

- Are the pro-forma lease rates in line with the market lease rates
- Are the pro-forma expenses in line with what similar properties are experiencing
- Is there demand in that area and what is the anticipated absorption to lease-up the project to generate cash flow to service the loan
- Determining the "As Is", "Upon Completion" and "Stabilization" value utilizing, multiple approaches

Construction loans are draw loans with monthly payments of interest only, based on the amount outstanding of the total loan. Typically, draws are completed on a monthly basis, based on an AIA G702/703 and an accompanying lien release, which are provided from the general contractor. Once a draw request is submitted to the lender for funding, an independent inspection will be completed to determine if the work that is being billed has been completed as indicated on the general contractors AIA form. Lenders retain up to 10% of the amount requested, which is used to assure that the contractors and subcontractors have finished construction of the project correctly per the plans and specs.

Construction loans tend to be riskier for lenders so providing the following documentation will assist with the assessment of the risks involved:

- Description of the building to include the overall size, number of buildings and number of units
- Itemized construction budget
- Plans and specifications of the building design
- Itemized Pro-forma of income and expenses (income producing property)
- Projected rent roll (income producing property)
- Estimated construction/draw schedule with a projected timeline to complete the project (typical is 18-24 months)

This material provided by Jason DeWitt.

Lenders will also require:

- Site plan approvals
- Permits
- Independent plans and specs and budget review
- Review of the contracts for the General Contractor, Architect and Engineer. The contracts will need to be assigned prior to closing
- Builders Risk insurance policy

Lenders will make a loan decision based upon the anticipated financial results of the project, strength of the borrower and the overall risk assessment of the project (feasibility). Additional considerations will be made based upon the experience of the owner/developer, history of past projects, and outside resources from the owner such as liquidity. The strength and experience of the general contractor, architect and engineer will also be taken into account.

If there is a lease up period, the lender will receive monthly reporting on the number of units leased along with the monthly rental rates. The information will be compared to the original appraisal to ensure the overall feasibility and confirm there is sufficient cash flow to cover the lender's loan payments.

Once the project is completed, the local municipality will issue a Certificate of Occupancy (C of O) indicating that the project is ready for tenants to occupy the building. The lender will require the C of O to convert the construction loan to a permanent mortgage. The permanent loan requires principal and interest payments monthly. Typically, these loans have a term of 10 years and an amortization of up to 25 years.

If this is the type of financing you need for your next project, call our Commercial Lending Team today at (585) 419-0670 to discuss your loan options.

Jason DeWitt is a Vice President, Relationship Manager with our Commercial Services team. He can be reached at (585) 419-0670 x41940 or JDeWitt@CNBank.com

A Commitment to a Healthy Cash Flow

For richer, for poorer, for better, for worse. If you own a small business, these familiar wedding vows might signify more than promises to a spouse. They might describe your relationship with your business as well. And with good reason if your personal financial well-being is closely tied to how well your business is doing. A strong cash flow is good for business and good for you. If your company's cash flow isn't as healthy as you'd like it to be, here are some things to consider.

Rely on Reports

What you don't know can hurt you, especially when it comes to cash flow. If you're not already checking them, start generating cash flow and cash balance reports on a monthly basis. If your figures are "off" for even a few months, find out why. A problem could be lurking.

Market, Market, Market

When things are slow, developing new business opportunities is critical to your cash flow — and perhaps, your company's survival. But it's also critical when things are good. You can't afford to be complacent about the future. If you stop devoting time to growing your business, your success may be short-lived.

Know What Your Personal Finances Can Handle

As a small business owner you have invested your own money into your business. Establishing a limit of how much of your personal assets you can comfortably invest in your business is vital for you to avoid additional risk to your personal finances. Your business may encounter periods when cash is needed, and many small business owners instinctively dip into their own personal accounts to help their business. This could become problematic. When you have your own business you are responsible for the debts of that business. It is important to keep this in mind as you evaluate any difficulties that may arise. If you just go for a quick fix to a problem and don't look for the cause, you are sure to encounter trouble. Evaluating issues and making adjustments will have better results than perpetuating things with a quick fix. Though it is not an easy fact to acknowledge, sometimes the adjustment is closing the business. Continuing to put your own personal assets into your business, when it is above what you can comfortably handle can lead to financial failure for your business and you personally.

Create a Credit Line

Even if you're doing everything right, you could still hit a rough patch. Or, an opportunity might come up that requires some quick financial maneuvering. Instead of using your own money, consider using a line of credit. For maximum flexibility, establish a line of credit for your business before you need it. If you wait to apply until you're in a bind or a hurry, timing to review your application may not work for your needs.

To learn more about CNB Business Financing, call (585) 419-0670 to speak with a Relationship Manager to discuss your current or future lending needs.

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For more information, visit CNBank.com/Commercial, one of our Community Bank Offices, or call us at (585) 419-0670.