



Ground Up Construction

Private Lender Fun Facts

2025

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Ground Up Construction - Private Lending Fun FAQs

Disclaimer the policies discussed in this guide are for general reference and aid in explanation only, and may not reflect the policies, requirements, or conditions under your loan. Please consult your loan documents for details about the policies, requirements, or conditions that apply to your specific loan.

What you will learn from Ground Up Construction - Private Lending Fun FAQs

The first part of this Ground Up Construction fun faq's will take you through important considerations, requirements, and needed planning to receive a loan approval, but help you have a successful project!

We'll discuss:

- Importance of Cash
- Construction Experience
- Entitlements, Plans and Permits
- Market Restrictions
- Draw Process

Cash

Ground up construction projects are cash intense! Understanding your cash reserves early is crucial toward predicting the success of a deal scenario.

Since the draw process relies on the reimbursement of completed or installed construction, borrowers will be required to use out-of-pocket cash to begin their project. This can mean a substantial expense up front and a large draw request when the borrower is finally ready to begin a new construction stage.

Each additional stage of construction in between draws is paid for by the you (typically using the previous draw request funds), and once that stage of construction is complete, you may request a new draw based on the completed work. Any construction items that are not covered by our rehab budget are to be paid out of pocket or with contingency funds if the borrower set some aside at the beginning of the project.

Cash Requirement Examples

As an example, in a cosmetic property renovation, a borrower could have draw requests between \$5,000 and \$10,000. While construction projects, with their heavier work loads, can have draw requests that range from \$25,000 to \$50,000 if not higher.





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Let's look at another example: in the event a borrower already has the land purchased, they will need to have an additional amount held in escrow called the Prepaid Construction Escrow. Also known as a "negative cash advance", this amount does NOT accrue interest and is reimbursed back to the borrower on the next construction draw they request. The reserved money is used to prove that the borrower has enough "skin in the game" to offset the potential risk of a low down payment requirement.

Experience

It is important to validate exactly how much real estate experience a client has before getting them a price quote on a Ground Up Construction loan. Since we count experience via a tier system, then more experienced borrowers will qualify for improved leverage. Remember to validate guarantor experience! Only completed projects will count towards experience.

As an example: Entry level tier, Tier 4, requires the borrower to have at least 1 rehab project fully completed before they can be considered for a Ground Up Construction loan.

Q&A

How is cash viewed differently in a construction project vs a smaller rehab?

CORRECT Ground up construction projects are more cash intense compared to some renovation deals so will require the borrower to front higher amounts during the start of a project or hold cash reserves in escrow if they're coming to a deal with already purchased land to show they have enough "skin in the game" (this cash is released on their next draw request without incurring any interest).

Q&A

Validating Guarantor experience is important because only completed projects in their name will count toward their experience level. True or false?

CORRECT

A client's experience level will influence the terms they receive so it's vital to confirm any fully completed projects they have done under their own name. Any incomplete projects or deals they've done under someone else's name or company will not count.

Entitlements, plans, permits, & zoning

Entitlements, permits, and approved plans should be in place before loan closing. Projects without full plans and approved permits will include a 5% reduction to leverage, which may be escrowed at closing and released once full approved plans are submitted to the lender.



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Keep in mind that the below documents appearance and title may vary by town or municipality. Always feel free to reach out to your loan officer team if you're ever unsure if a document is acceptable as proof of approval.

Entitlements

Your client will need to show a legal letter of approval for the building of their project and the desired use. Typically provided by the local municipality, a Zoning Compliance Report, or entitlement letters issued by the municipality reviewed by the inspection company.

Obtaining entitlements is a critical step in the development process that ensures your project complies with local land-use regulations and receives the necessary permissions to proceed. Here is a step-by-step overview of the entitlement process:

1. Understand Zoning Regulations

- Begin by reviewing the local zoning ordinances to determine if the proposed project is allowed in the desired location.
- Zoning ordinances specify land uses (e.g., residential, commercial, industrial) and regulate aspects such as building height, density, setbacks, and parking requirements.

2. Pre-Application Meeting

- Schedule a meeting with the local planning or zoning department to discuss the proposed project and clarify requirements.
- This meeting can help identify potential obstacles, such as the need for variances or rezoning.

3. Submit an Application for Entitlements

- Prepare and submit the required application forms to the local municipality, along with any necessary supporting documents, such as:
 - Project plans (site plans, elevations, etc.).
 - Environmental impact assessments (if applicable).
 - Proposed use statements and development details.

4. Zoning Compliance Report

- A Zoning Compliance Report may be requested as part of the entitlement process. This report confirms that the project complies with zoning regulations and identifies any deviations that may require additional approvals.

5. Public Notice and Hearings

- Depending on the scope of the project, public hearings may be required to gather community input.
- Notices are typically sent to nearby property owners and may also involve signage at the project site.

ENTITLEMENTS



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6. Review by Local Authorities

- Municipal staff and committees (e.g., planning commission) review the application and accompanying documents.
- They may issue feedback or request modifications to the project.

7. Special Approvals (if needed)

- For projects requiring variances, conditional use permits, or rezoning, additional approvals may be necessary. These often involve separate hearings or reviews.

8. Approval and Issuance of Entitlement Letters

- Once the project meets all requirements, the local municipality will issue an “entitlement letter” or legal approval.
- This letter confirms the project’s compliance and grants permission to proceed with construction or development.

9. Inspection and Compliance

- Depending on the jurisdiction, the project may need to be reviewed by an inspection company to ensure compliance with zoning and building codes.
- The inspection company reviews the entitlement letters and other documentation as part of this process.

10. Final Approvals and Permits

- After entitlements are secured, the next step is to apply for building permits and other necessary construction-related approvals.

Summary

Entitlements are formal permissions granted by the local municipality that allow a project to proceed. These permissions typically come in the form of zoning compliance reports or legal letters of approval that confirm the project aligns with municipal zoning and land-use regulations. Collaboration with the local planning department, community stakeholders, and inspection companies is essential to navigate the process smoothly.

Plans

Proposed construction plans will need to be stamped by the local township or city prior to funding construction draws. The lender will review the plans to verify that the property will meet our guidelines.

The process of obtaining construction plans for a ground-up project involves several detailed steps. These plans are essential for ensuring that the proposed construction complies with local codes, meets lender requirements, and serves as a blueprint for the building process. Here’s how it works:

PLANS



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1. Conceptual Design

- Hire an Architect/Engineer: Engage a licensed architect or engineer to develop the initial conceptual designs based on the project's scope and vision.
- Create Preliminary Drawings: These include site plans, floor plans, and elevations that outline the general layout and design of the project.
- Client and Stakeholder Input: Review and revise the preliminary drawings to align with the project's goals and budget.

2. Detailed Construction Plans

- Develop Full Construction Plans: The architect or engineer prepares detailed plans that include:
 - Site Plans: Showing property boundaries, placement of the structure, setbacks, utilities, and landscaping.
 - Architectural Plans: Detailed layouts of each floor, building elevations, sections, and roof plans.
 - Structural Plans: Details on the foundation, framing, and structural supports.
 - Mechanical, Electrical, and Plumbing (MEP) Plans: Designs for HVAC, electrical systems, and plumbing.
 - Civil and Grading Plans: Site grading, drainage, and infrastructure details.
- Code Compliance: Ensure the plans adhere to local building codes, zoning laws, and accessibility standards (e.g., ADA compliance if required).

3. Municipal Review and Stamping

- Submit Plans to Local Township or City: Submit the finalized construction plans to the local building department for review.
- Plan Review: The municipal authorities review the plans to ensure they meet building codes, zoning regulations, and any specific local requirements.
- Address Comments and Revisions: The municipality may request revisions or additional information before approval.
- Stamped Approval: Once approved, the plans are stamped or sealed by the local building department, signifying that they are ready for construction.

4. Lender Review

- Submit Plans to the Lender: Provide the lender with the municipality-approved (stamped) construction plans.
- Lender Verification: The lender reviews the plans to verify that:
 - The proposed construction meets their underwriting guidelines.
 - The property's projected value will align with the loan terms upon completion.
 - The plans are consistent with the project's scope as outlined in the loan agreement.
- Approval by Lender: Once the lender is satisfied, they provide conditional approval for funding construction draws.



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5. Permit Acquisition

- Apply for Building Permits: With the stamped plans, apply for the necessary building permits from the local municipality.
- Permit Issuance: Once permits are issued, construction can begin.

6. Funding Construction Draws

- Initial Draw: The lender releases the first construction draw based on the approved plans and project milestones.
- Ongoing Inspections: As construction progresses, the lender may require periodic inspections to ensure the work aligns with the approved plans before releasing subsequent draws.

Key Points to Remember

- Accuracy and Detail: The construction plans must be thorough and precise to avoid delays in approval or funding.
- Compliance: Ensuring plans comply with local codes and lender guidelines is crucial to securing approval.
- Coordination: Communication between the architect, municipality, and lender is vital to streamline the process.
- Timeline Management: Submit plans early to account for municipal and lender review times.

By following these steps, you can secure the necessary approvals and funding to move forward with ground-up construction confidently.

Permits

All required permits should be approved by the local municipality prior to closing. RCN will verify that all building permits are in order so that no unexpected project stops occur.

Obtaining permits for a ground-up construction project is a crucial step that ensures compliance with local building codes and regulations, allowing the project to proceed without unexpected delays. Here's a breakdown of the process:

1. Pre-Application Preparation

- Complete Construction Plans: Ensure the finalized construction plans are ready and approved by the local municipality (stamped).
- Identify Required Permits: Consult with the local municipality or building department to determine the permits needed. Common permits include:
 - Building Permit
 - Electrical Permit
 - Plumbing Permit
 - Mechanical Permit

OBTAINING PERMITS



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- Grading and Sitework Permit
- Environmental Permits (if applicable, e.g., stormwater or wetlands)
- Hire Licensed Professionals: Ensure that all contractors (e.g., general contractors, electricians, plumbers) are licensed and have the necessary credentials.

2. Submit Permit Applications

- Application Submission: Submit the permit applications to the local building department along with:
 - Stamped construction plans
 - Site surveys
 - Soil reports (if required)
 - Any additional documentation requested by the municipality
- Pay Fees: Pay the application and review fees associated with each permit.

3. Municipal Review

- Plan Check and Review: The building department reviews the submitted plans and documents to verify compliance with:
 - Local building codes
 - Zoning regulations
 - Environmental and safety standards
- Address Comments and Corrections: If the municipality identifies issues or requires revisions, work with your design team to update the plans and resubmit.

4. Permit Issuance

- Approval of Permits: Once all reviews are complete and any required revisions are addressed, the municipality will issue the necessary permits.
- Verify Permit Scope: Confirm that all issued permits cover the full scope of the project. Each aspect of the construction (e.g., electrical, plumbing, mechanical) may require separate permits.
- Obtain Permit Documentation: Receive physical or digital copies of all approved permits. These should be displayed or kept on-site as required by law.

5. Lender Verification

- Provide Copies to the Lender: Submit all issued permits to the lender for review.
- Lender Review: The lender verifies that:
 - All required permits are in place.
 - The permits align with the construction plans and scope of the project.
- Conditional Approval for Closing: The lender may require confirmation of permits before finalizing the loan and releasing funds.

6. Pre-Construction Inspection (if applicable)

- Some municipalities require a pre-construction inspection or meeting to ensure all permits and site conditions are in order before work begins.



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7. Permit Maintenance During Construction

- Regular Inspections: The permits will require regular municipal inspections during construction to ensure compliance.
- Avoid Expiry: Permits typically have expiration dates. If delays occur, ensure permits are renewed to avoid project halts.

Key Points to Ensure Smooth Permit Approval

1. Complete Documentation: Ensure all plans, forms, and reports are accurate and thorough.
2. Timely Submission: Start the permit application process early to account for municipal review times.
3. Compliance: Work closely with licensed professionals to ensure the project complies with local codes and ordinances.
4. Proactive Communication: Stay in touch with municipal staff and lenders throughout the process to address any questions or concerns promptly.

By following these steps and securing all required permits prior to closing, you reduce the risk of project delays or funding interruptions, allowing for a smooth start to construction.

Zoning

Remember to verify that your client's project is zoned correctly. A zoning verification letter should be issued by the local municipality to show that they are building a residential property in a residential.

The process of obtaining “Zoning Verification” for a ground-up construction project is critical to ensure that the proposed project complies with local zoning laws and regulations. Here’s a step-by-step guide:

1. Research Local Zoning Regulations

- Understand Zoning Requirements: Determine the zoning designation of the project site (e.g., residential, commercial, industrial) and the allowable uses under that zoning.
- Review Municipal Zoning Ordinances: Check the municipality's zoning code to verify:
 - Permitted uses for the site.
 - Setback, height, and density requirements.
 - Specific restrictions (e.g., historic districts, overlays, or environmental constraints).

2. Application for Zoning Verification

- Prepare an Application: Most municipalities require a formal application for a Zoning Verification Letter (ZVL) or Zoning Compliance Letter. The application typically includes:
 - Property address and parcel number.
 - A description of the proposed project (e.g., "construction of a single-family residential home").
 - Relevant site plans or sketches (if required).
 - Any required fees for the application.

ZONING VERIFICATION



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- Submit to Local Municipality: File the application with the zoning or planning department of the local government.

3. Municipal Review Process

- Verification of Zoning Compliance: The municipal planning or zoning department will review:
 - The property's zoning classification.
 - The compatibility of the proposed project with the zoning designation.
 - Any potential zoning variances or exceptions needed.
- Request for Additional Information (if needed): If the municipality requires more details (e.g., surveys, environmental studies), provide them promptly to avoid delays.

4. Issuance of Zoning Verification Letter

- Approval: If the project complies with zoning regulations, the municipality will issue a "Zoning Verification Letter", confirming that the property is zoned correctly and the proposed use is permissible.
- Denial or Conditions: If the project does not comply, the municipality will either:
 - Deny the application and specify why the project is not compliant.
 - Identify steps needed to achieve compliance, such as applying for a variance or rezoning.

5. Address Non-Compliance (if applicable)

- Variance Application: If minor deviations from zoning regulations are needed, apply for a zoning variance. This process often involves a public hearing and approval from a zoning board.
- Rezoning: For larger discrepancies, consider applying to rezone the property, though this is a more complex and lengthy process.
- Alternative Site or Design: If rezoning or variances are not feasible, work with the client to modify the project or choose a different site.

6. Provide Documentation to the Lender

- Submit Zoning Verification Letter: Once obtained, provide the ZVL to the lender to demonstrate that the project is zoned correctly for its intended use.
- Lender Review: The lender will verify that:
 - The project aligns with local zoning laws.
 - There are no zoning conflicts that could result in project delays or denials.

7. Maintain Compliance During Development

- Ongoing Monitoring: Ensure the project continues to comply with zoning laws throughout development. Any changes to the project scope (e.g., structure size or use) may require re-verification.

ZONING VERIFICATION



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Key Considerations

1. Timeliness: Begin the zoning verification process early, as municipal reviews can take time.
2. Accuracy: Submit complete and accurate information to avoid delays.
3. Engage Professionals: Work with architects, engineers, or zoning consultants if the project has complexities or potential compliance issues.
4. Proactive Problem-Solving: Address non-compliance issues promptly to prevent project denials.

By securing a “Zoning Verification Letter” early in the process, you confirm that the proposed project aligns with local zoning regulations, reducing the risk of delays or legal complications. This documentation reassures the lender and other stakeholders that the project is on solid regulatory ground.

Market Restrictions

Ground Up Construction loans can only be used on projects where roads and utilities are already in place, as well as zoned residential. The new build project also needs to conform to the area: no building large McMansions in a street occupied by smaller, 2-3 bedroom houses! The new build should fit comfortably into the area in terms of size and value.

Also, consider any building that will be torn down will not part of the land value. As-is value will only be counted toward the land and anything that will stay in place.

Lenders will deny projects where unused land needs infrastructure built alongside the property build. We will also deny track developments where multiple units are being built at the same time as a single development.

Which of the terms below best matches the following definition?

all required permits should be approved by the local municipality prior to closing. Lenders will verify that all building permits are in order so that no unexpected project stops occur.

Q&A

Ground Up Construction loan can only be used on projects where roads and utilities are ____

CORRECT

The lender will only consider infill construction projects, meaning all roads and utilities must already be in place before a loan is approved.

MARKET RESTRICTIONS



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Draw Process

As mentioned previously, the draw process works on a reimbursement system, meaning the borrower starts their build with out-of-pocket cash and submits a draw request for installed and completed construction.

Let's dive into a few other important guideline requirements that are relevant during the draw process.

Title Updates

Lenders need the latest title check date and invoices from the General Contractor, Subcontractors, and Suppliers who are owed more than \$1,000 for their work within the current payment. For the next payment, lenders will collect unconditional lien waivers (either progress or final) from these payees, but one payment behind.

Lien Waivers

Remember to include signed lien waivers from any contractors working on the property to protect against any title issues. Otherwise, a contractor has the right to put a mechanics lien on a property until they receive payment.

Completion Milestones

A client may provide a schedule of completion milestones that are used to track the progress of the project and plan out future draw requests although these are not strictly required by lenders. We will stay up to date on the project and will require any necessary inspections or municipality approvals to be completed before a draw request is finalized.

Interest Reserves

An Interest Reserve is not required for Ground Up Construction Loans. The Interest Reserve may be Borrower-funded or funded through loan proceeds, not to exceed the loan-to-cost (LTC) or after repair value (ARV) caps in place within loan guidelines.

Qualifying Return on Investment

Investment real estate at its core must provide investment value for the borrower. To make sure both our borrowers and partners are happy at the end of each deal, lenders will carefully consider each submitted deal scenario and verify that it will provide a profit regardless if the client chooses to sell or keep it as a long-term investment.

Profit margins to remember:

Minimum return on investment (ROI) of 15%

Which 2 steps below are a REQUIRED part of the draw process each time a borrower submits a draw request?

DRAW PROCESS



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What are the requirements for a ground up construction loan?

The eligibility for a ground up construction loan is determined by the borrower's experience, credit score, as well as plans and permits.

Will the loan disbursements be made in stages based on construction progress? How are these disbursements processed?

The eligibility for a ground up construction loan is determined by the borrower's experience and credit score, as well as plans and permits.

What are the inspection and appraisal processes during construction to determine the loan disbursements?

The inspection process involves verifying that the work is 100% complete as per the agreed-upon draw schedule. An inspection showing satisfactory completion is required for approval.

What is the repayment schedule during the construction phase?

The repayment terms entail making interest-only payments every month.

Are there any requirements for contingency funds or reserves during the construction process?

To receive draws, one must have approved plans and permits, as these documents are necessary and required contingencies.

How long does it typically take to process and fund the construction loan?

Processing funds typically takes 7-10 business days, subject to approval of the appraisal, title work, and other necessary documentation.

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CLOSING REQUIREMENTS



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