

CONSTRUCTION LOAN PAYOUTS: INSPECTION & DRAWS



Building a home is an involved process, from foundation through framing and roofing, electric and plumbing, and finally the finishing work. Throughout the typically 12-month construction period, homeowners – and their lenders – need to make sure that progress is being made on schedule and the contractor is paid periodically so construction can continue uninterrupted.

Most construction loans are paid out at specific milestones during construction, with these “draws” tied to measurable, inspectable steps in the building process. Typically, the contractor will send bill to the bank detailing the work they’ve done and the amount they are owed for it.

“The loan officer will then visit the work site and assess progress, checking off completed work in a detailed progress log specific to the home. Based on the percentage of work completed, the bank will write the contractor a check to cover the expenses. Different progress logs support different types of homes with different building schedules and needs, for example a log home versus a stick home,” says Stacey Barker.

The typical stages at which a site inspection and draw on the loan occur are:

- Site preparation, including excavation, backfill, sewage and water supply
- Foundation, including the footing, walls and concrete floor
- Roughed in electric, plumbing, HVAC and framing
- Exterior, including roofing, doors, window and siding
- Interior: insulation, sheet rock, trim, cabinets and any fireplaces or wood stoves
- Final: plumbing, painting, flooring, final electric finishes, deck staining and yard seeding.

“Each item has an associated percentage of the overall cost, and the payment made is the same percentage of the loan amount. Once the work has been confirmed, either the bank will write a check to the contractor or will contact the borrower for final review and approval, based on the borrower’s preference,” says Stacey.

During the site visits, the loan officer will confirm that work is being completed, but it’s important to recognize that they will not be assessing whether the work is done correctly or to code. Those inspections are conducted by a county building inspector and are an important and necessary step in any building project; the county also requires that the contractor pull all appropriate permits for the work.

At the end of the home building project, the contractor will submit the final, detailed bill, the loan officer will conduct their final inspection and issue a check, and the proud and happy homeowner will start moving in.

Stacey Barker
Loan Officer, Carolina Farm Credit

