

# Are Private Lenders Managing their Risk?

- Steve Clark



With signs of the economy rebounding and construction on the rise, it's a good time to be involved in the private lending industry.

Between new developments, remodels, and flipping properties, profits are to be found nationally.

Still, even in the best of times, there are risks; hence, the need for risk management. Even the most sound projects and the most stable business partners, developers, and contractors must be monitored and inspected in order to ensure an investment's safety. Too often, projects go upside down when comprehensive oversight would have saved the day.

Over the years, Construction Inspection Specialists have personally worked with many knowledgeable, successful lenders. But even industry leaders are vulnerable to influences outside of their control—unless they choose to control them. The smart ones search for help in curtailing unforeseen risks before they wreak havoc upon investments: seeking the help of services like those offered by CIS.

Lenders simply cannot blindly expect everyone on a project's team to perform their tasks without fail. Their lending relationship with the developer must be clear and strong. And the developer's contracts with contractors must be ironclad, safe, and protective of the lender as well. It sounds like common sense, but sometimes even the savviest lender can overlook the perils that lurk in the shadows of construction. This is where risk management plays a pivotal role.

For instance, my firm has worked through a broad range of challenges that have happened to our clientele prior to our engagement, such as:

- Contractor's scope of work not defining the extent of work necessary to complete the project
- Lack of contract language requiring a schedule indicating the intent to complete the project by a certain date...resulting in borrower and lender delays
- Funds not set aside for contingencies that arise during construction
- Lien waivers not being tracked and cleared can necessitate double payment by the owner, as well as delay or impede sales
- Borrowers advancing project funds prior to work being completed
- Loaned funds not going into a project at the level of appraised value, or not at all
- Subcontractors being severely under insured—a significant financial threat

- No qualified parties on site during construction, a safety risk
- Unpermitted work completed and discovered after the sale of a property, causing a red tag by city to the new owner

Investing always has its risks, but applying comprehensive risk management oversight can protect a lender and help ensure a successful, profitable investment. Our firm has witnessed too many failures that should have been successes. That's why we extol the virtues of risk management to the members of the American Association of Private Lenders and everyone in the construction and lending industries.

By, Steve Clark

**BIO:**

*H. Steve Clark, CEO, and his firm, Construction Inspection Specialists, have been involved in providing risk management services to both the commercial and private lending industry for the past fifteen years. CIS's ability to provide their services to projects in any location across the country ensures that a lender's investment in a project is being professionally monitored throughout the project's lifecycle. CIS can be contacted at [www.cisinspects.com](http://www.cisinspects.com).*

### Calendar of Upcoming AAPL Events:

January 29, 2013; 11:00 AM Central; Webinar; Marketing to Increase Deal Flow; David Owen & James Rincon; Pride of Austin Capital Partners.

February 19, 2013; 1:00 PM Central; Webinar; Raising Private Capital – Building Your Investor Base – Base Practices & Strategies; Josh Fischer; Sterling Pacific.

May 5-7, 2013; AAPL Spring Conference; Crystal Gateway Marriott; Arlington, VA

November 10-12, 2013; Annual AAPL Fall Conference; Caesars Palace; Las Vegas, NV

