



FROM DIRT TO TAKEOUT

Underwrite the Unbuilt From Budget to Draw to Takeout

A construction loan has no in-place cash flow: nothing is earning yet, and repayment depends on a future event, stabilization and takeout, or the sale of the finished units. So the analytical center of gravity shifts from the operating statement to the budget, the draw, and completion. For 26 years, Shockproof has trained more than 125,000 credit professionals across hundreds of banks and credit unions, from new hires to chief credit officers, specializing in team training backed by credit coaching and a broad curriculum. This paper draws on that experience to show what an expert-built, test-reinforced commercial construction lending path does for decision quality, consistency, and risk.

\$484_B

Construction and land development loans on US bank balance sheets.

100%

Of capital: the construction-loan concentration level that draws heightened supervisory scrutiny.

40%+

Of banks tightened construction-loan standards through the recent cycle.

15%

Contributed equity that exempts a construction loan from the punitive HVCRE capital charge.

Why Construction Is Its Own Discipline

A construction loan inverts everything the stabilized-property playbook assumes. There is no operating statement to underwrite, no in-place net operating income, no debt-service coverage to test, because the asset does not exist yet. Repayment depends on a **future event**: the finished building stabilizing and refinancing into a permanent loan, or the completed units selling. Until then, the bank is funding a promise.

That inversion moves the analysis to three things the stabilized playbook barely touches: the **budget**, which must stay in balance dollar for dollar; the **draw**, which funds only legally cleared, physically completed work; and the **takeout**, because a construction loan larger than its exit has no reason to exist.

The stakes concentrate where the expertise is thinnest. Construction and land development loans sit disproportionately on community and regional balance sheets, they are the first category regulators flag through the HVCRE rule and the concentration guidance, and they historically produce the **sharpest losses** when a cycle turns.

The discipline that lends through it is sequential: validate before sizing, size before structuring, structure before advancing, and never advance a dollar ahead of its legal clearance. The question for a lending team is whether every construction credit is administered the **same disciplined way**.

"A construction loan larger than its takeout has no exit. You don't finance the building; you finance its refinancing."

Shockproof Founder Rex Beach's Core Philosophy

+0.5–0.6 σ

The testing effect is one of the most replicated findings in learning science. Across dozens of studies, learners who retrieve material through quizzing outperform those who restudy by a half standard deviation or more, and the advantage **grows** over time. Built-in knowledge checks aren't overhead; they're what makes the training last.



Designed By Experts, Built For Decisions

Great curriculum isn't a stack of slides; it's a sequence engineered by people who've underwritten real deals, then pressure-tested on real learners. Four design choices separate training that transfers to the credit file from training that's merely completed.

1

The loan's own lifecycle

Five courses mirror the credit's life: validate, size, structure, administer, and manage distress, because nothing can be sized before the project is validated.

2

One spine case, end to end

Learners see one project, Willamette Commerce Center, screened, sized, structured, drawn, and completed, alongside a workout and a screening decline.

3

Knowledge checks

Every module ends with retrieval questions, every course with a comprehensive test. Active recall is what makes learning last.

4

The draw, done for real

The administration course ends in a messy monthly draw package, arithmetic error and missing waiver and all, worked to the correct net advance.

The Five-Course Path

VALIDATE & SIZE

The Project & The Money

2 courses · ~1.8 hours · from go/no-go to the loan amount

PREREQUISITE: **INCOME-PROPERTY VALUATION & THE DSCR, LTV, DEBT-YIELD FRAMEWORK**

- 1 **The Construction Ecosystem & Feasibility**
Loan types, the sponsor and GC, feasibility & the go/no-go screen
- 2 **Project Budgets & Appraisal Valuation**
Sources and uses, the interest reserve, the three-value appraisal & sizing

STRUCTURE, ADMINISTER & MANAGE

The Loan & Its Life

3 courses · ~3.1 hours · from term sheet to troubled project

PREREQUISITE: **COURSES 1-2 (VALIDATE & SIZE)**

- 3 **Structuring the Loan & Mitigating Risk**
Equity-first & HVCRE, guarantees, the GC contract & the term sheet
- 4 **Loan Administration, Advances & Retainage**
The G702/G703, inspections, lien waivers, retainage & draw fraud
- 5 **Stress Testing & Problem Construction Loans**
Loan-in-balance, the margin call, the stalled project & the book

Three Constraints, One Loan Amount

A construction loan is sized to the tightest of three limits, because the binding constraint, not the biggest number, is the safe one.

LOAN-TO-COST

The Budget

What it costs to build

The loan as a share of total sources and uses, with the sponsor's equity funding the gap first, before any debt advances.

LOAN-TO-VALUE

The Appraisal

What it is worth complete

The loan against the as-complete and as-stabilized values, from a three-value appraisal of a building that does not exist yet.

THE TAKEOUT TEST

The Exit

What the perm loan supports

The stabilized NOI capped at the perm lender's DSCR, LTV, and debt-yield standards; a loan larger than its takeout has no exit.



Two Kinds of Real-Estate Credit

The stabilized-property path underwrites income that exists. Construction underwrites a promise. The path teaches where the analysis inverts, so a construction credit is never run on a stabilized playbook.

INCOME THAT ALREADY EXISTS

Stabilized Property

The stabilized-CRE toolkit

- **In-place net operating income** anchors the analysis
- **Repayment is the property's own operating cash flow**
- **Sized and tested on DSCR, LTV, and debt yield** as they stand today
- **The appraisal values what stands**, at one point in time

A PROMISE, NOT YET EARNING

Construction

This path's discipline

- **No in-place cash flow**; repayment depends on a future event
- **The budget, the draw, and completion** replace the operating statement
- **Sized to the binding constraint**, LTC, LTV, or takeout, whichever is tightest
- **A three-value appraisal**, and equity that funds first and burns first

31 Job-Ready Skills, Ten Disciplines

Completion builds a mapped, job-ready skill set spanning the whole construction credit, from the go/no-go screen to the final draw and the troubled-project action plan.

Feasibility & the screen

4

Project feasibility, absorption analysis, request screening and go/no-go, the loan-type taxonomy

Sponsor & permits

2

Sponsor and general-contractor evaluation, entitlement and permit-risk underwriting

Budget & reserve

3

Sources and uses, contingency setting, interest-reserve sizing from the S-curve

Valuation & sizing

4

As-is/as-complete/as-stabilized appraisal, LTC and LTV sizing, the takeout test, debt yield

Equity & HVCRE

2

Equity-first funding structure, HVCRE classification and the contributed-capital exemption

Guarantees & contracts

3

Completion and payment guaranties, GC contract review, builder's risk and bonds

Capital stack & terms

2

Capital stack and intercreditor analysis, term-sheet drafting

The monthly draw

4

AIA G702/G703 review, inspection reconciliation, lien waivers and title date-downs, draw-fraud detection

Completion controls

3

Retainage administration, change-order control, substantial completion and punch-list

Distress & the book

4

Loan-in-balance testing, cost/rate/lease-up stress, workout management, portfolio monitoring



The Construction Lifecycle

The loan moves through four phases, and the dominant risk changes at each. The path teaches the control that answers the risk of the phase it is in.

1

Pre-development

Entitlements, feasibility, and the go/no-go screen. The risk is the legal right to build at all.

2

Vertical construction

Draws, inspections, and the loan in balance. The risk is cost and completion.

3

Lease-up & stabilization

Filling the finished building. The risk is the market, now realized rather than projected.

4

Permanent takeout

Refinance or sale retires the loan. The risk is the exit the loan was sized to reach.

Signature Techniques

Construction credit turns on a handful of moves no stabilized-property playbook teaches. The path builds each one on the spine case.

The interest reserve & S-curve

The bank lends the borrower the money to pay the bank's own interest, sized honestly from the S-curve of projected outstandings; reserve depletion ahead of completion is an early warning.

The three-value appraisal

One appraisal delivers three numbers, as-is, as-complete, and as-stabilized, and each underwriting test uses a different one at a different moment in the loan's life.

Equity first & HVCRE

Sponsor equity is consumed before the first debt advance, so the sponsor runs the budget like their own money; contributed capital of 15% of as-complete value earns the HVCRE exemption.

The loan-in-balance test

At every draw, remaining funds plus contingency must exceed the cost to complete. When they don't, advances stop and fresh equity is called; repeated re-balancing is the project's true trajectory.

The G702/G703 draw

The Application for Payment is recomputed line by line and the continuation sheet reconciled to the schedule of values, so front-loaded values are caught before the GC harvests cash ahead of the work.

Retainage & lien-waiver control

Ten percent is withheld from every draw and no dollar funds ahead of its title date-down and lien waivers, so a GC cannot walk at 90% or leave a mechanic's lien behind.

Two Structured Reports, Every Case

Each case carries schema-checked reports with tie-out values, so learners build and reconcile the same documents a construction administrator produces on the job.

Sources & Uses / Budget-to-Actual

The master budget map, hard and soft costs against total sources, tracked to actuals through every draw. Suggested tie-out: total uses \$18.0M.

Draw Request Summary

G702-derived: work in place, retainage, and prior payments to the correct net advance on each monthly draw. Suggested tie-out: Draw 7 net advance \$1.26M.



Three Projects, Three Outcomes

One spine case runs the full lifecycle, screened, sized, structured, drawn, and completed, so learners see a construction loan go right end to end. A workout and a screening decline frame it.

INDUSTRIAL · SPINE CASE

Willamette Commerce Center

APPROVED · CONDITIONS

\$18.0M cost, a \$12.6M loan at 70% LTC and 63% LTV, HVCRE-exempt, and a takeout at 12.4% debt yield; it completes and converts to the mini-perm.

MULTIFAMILY · MONTH 14

Wexford Ridge Apartments

WORKOUT

A GC walkout, a \$310K mechanic's lien, and the project \$1.15M out of balance after change-order velocity ate the contingency; re-balanced under the completion guaranty.

SUBURBAN OFFICE · PITCH

Avondale Crest Offices

DECLINED

Declined at the go/no-go screen: a first-time sponsor at this scale, thin liquidity, pro-forma rents 15% over comps, entitlements two discretionary approvals away.

What The Path Delivers

5 courses

One lifecycle sequence, roughly 4.9 hours end to end

31 skills

A mapped, job-ready competency set across the credit

3 cases

A completed approval, a workout, and a screening decline

2 reports

The budget-to-actual and the draw request summary

Let Shockproof's experts design a custom credit training program for your team

Reach out to learn more

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Sources & references: About \$484 billion in construction and land development loans on US bank balance sheets (Q4 2024): FDIC Quarterly Banking Profile, as reported by NAHB Eye on Housing. The 100-percent-of-capital construction-loan concentration threshold: interagency Concentrations in Commercial Real Estate Lending guidance (2006; FDIC, OCC, Federal Reserve). Roughly 40 percent of banks tightening construction and land development standards through the recent cycle: Federal Reserve Senior Loan Officer Opinion Survey, as summarized by the GAO. The 15-percent contributed-capital HVCRE exemption: the HVCRE ADC rule under the regulatory capital framework. Testing-effect research: Roediger & Karpicke (2006), Rowland (2014), and Adesope, Trevisan & Sundararajan (2017). Course structure, skills, cases, and reports: Shockproof Commercial Construction Lending learning path; case parameters are illustrative. Figures are directional and provided for general education, not as financial or investment advice.