

WHOSE LOAN IS THIS?

Underwrite the Build and the Borrower From Purpose to Perm

Residential construction lending joins two disciplines: construction controls, budgets, draws, inspections, and lien protection, applied at residential scale, and the analysis of the consumer or investor behind the project. It also asks a question commercial construction never does: whose loan is this under consumer-protection law? Purpose determination decides the compliance regime, the underwriting basis, and, for credit unions, the loan classification. 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 residential construction and STR lending path does for decision quality, consistency, and risk.

\$89.5_B

One-to-four family residential construction loans on US bank balance sheets.

~\$64_B

Annual US short-term-rental revenue, the market STR takeout underwriting must value.

2.4M

Short-term rentals across the US, roughly 1.5 million available at any one time.

15–25%

Vacancy and seasonality haircut applied to projected STR revenue before it counts.

Why Residential Construction Is Its Own Discipline

Residential construction lending sits between two worlds. It borrows the machinery of commercial construction, the budget, the draw schedule, the inspections, the lien waivers, and applies it at residential scale. But the borrower is a **consumer or a small investor**, not a developer, and one question decides everything downstream: is this loan consumer or business purpose? The answer sets the compliance regime, the underwriting basis, and, for a credit union, the classification.

Get it wrong and the file is mis-underwritten and out of compliance at once. The “second home” that is materially a short-term rental, the owner-builder, the spec called a custom home, each routes differently, and the determination has to **survive examination**.

Short-term-rental construction adds a risk commercial credit rarely faces. The revenue is projected, not in place; it is seasonal; and it can be erased overnight by a **licensing moratorium or a zoning cap**. Underwriting it means haircutting occupancy and rate, loading the full expense stack, testing a long-term-rental fallback, and reading the ordinance as a screening fact.

The discipline settles purpose at the door, qualifies at the permanent payment, values a home that isn't built, and administers residential draws at scale. The question for a team is whether every file is routed and underwritten the **same disciplined way**.

“A lawful ordinance can end the business model overnight. In STR lending, you underwrite the license before the cash flow.”

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

Purpose at the front door

Course 1 settles consumer versus business purpose first, because it routes the compliance regime, the underwriting basis, and the classification.

2

Five cases, five theories

Trinh, Sundara, Nakamura, Brunner, and Genesee Run span a consumer approval, an STR conditional, a decline, a workout, and a builder line.

3

Knowledge checks

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

4

Commercial machinery, residential scale

The draw, inspection, and lien-waiver discipline of commercial construction, at the scale of a single home or a two-cabin STR.

The Seven-Course Path

THE CORE · 1-4 FAMILY & STR

Route, Underwrite & Administer

6 courses · ~5.4 hours · from purpose to conversion

PREREQUISITE: **CONSUMER AND COMMERCIAL CREDIT FUNDAMENTALS**

- 1 The Landscape & Purpose Determination**
Product taxonomy, consumer vs. business purpose & MBL classification
- 2 Underwriting the Borrower & the Builder**
Qualify at the perm payment, global investor underwriting & builder approval
- 3 Project Review, Cost & Valuation**
Plans and specs, the cost breakdown, the as-completed appraisal & sizing
- 4 STR Takeout Underwriting**
STR revenue and haircuts, the STR DSCR, the LTR fallback & ordinance risk
- 5 Compliance, Closing & Draw Administration**
The consumer overlay, one-close vs. two-close & residential draws
- 6 Problem Projects, Portfolio & Classification**
The unfinished home, the consumer complication & the STR that isn't renting

SUPPLEMENTAL

Homebuilder & AD&C

1 course · ~0.8 hours · when repayment is the sale

PREREQUISITE: **THE CORE SEQUENCE (COURSES 1-6)**

- 7 Homebuilder & Land Development (AD&C)**
The AD&C spectrum, the revolving builder line, release prices & the sales-pace DCF
- Institutions without builder-line exposure certify on the six-course core; the supplemental adds subdivision and production-builder lending.

Three Ways the Loan Gets Repaid

Residential construction has no single takeout: the product sets the repayment event, and that sets every downstream test.

CONSUMER

Conversion to Perm

The owner keeps the home

Converts to a permanent mortgage; qualify at the perm payment, not the construction interest-only.

BUILDER / SPEC

Sale of the Home

The builder sells and repays

The spec or presold home is repaid from the sale; the builder is a small operating company.

INVESTOR / STR

Rental Income

The property earns its keep

Repaid from rent: STR revenue is haircut, expensed, and tested against a long-term-rental fallback.



Consumer vs. Business Purpose

One question at the front door routes the entire file. The path teaches the determination, and how to document it so it survives examination.

THE OWNER-OCCUPANT'S HOME

Consumer Purpose

Personal, family, or household use

- **The borrower will live there:** personal, family, or household use
- **Qualified at the permanent-phase payment,** with reserves and current-housing carry
- **Carries the consumer-compliance overlay:** disclosures, ability-to-repay, flood
- **Distress centers on completing the home** and consumer loss-mitigation duties

SPEC, RENTAL, OR STR

Business Purpose

Investment, not occupancy

- **Investment use:** spec, long-term rental, or short-term rental
- **Underwritten globally,** the project's income weighted at its haircut value
- **Kept clean of the consumer regime,** and documented defensibly as business purpose
- **For credit unions,** classified under the member-business-loan framework

29 Job-Ready Skills, Nine Disciplines

Completion builds a mapped, job-ready skill set spanning the whole residential and STR construction credit, from the purpose determination to the STR fallback and the builder-line base certificate.

Routing & classification

4

Product taxonomy, consumer/business purpose, MBL classification, request screening

Borrower & builder

4

Qualify-at-perm, global investor underwriting, combined debt service, builder approval

Project, cost & valuation

3

Residential cost review, as-completed appraisal, construction loan sizing

STR revenue & DSCR

3

STR revenue projection, seasonality and vacancy haircuts, the STR DSCR

STR risk & fallback

2

The long-term-rental fallback test, licensing and ordinance risk

Compliance & closing

2

TRID construction compliance, one-close and two-close structuring

Draws & conversion

3

Lien waivers and title control, residential draw administration, completion and conversion

Problem loans & the book

3

Residential workouts, consumer default and loss mitigation, portfolio monitoring

Homebuilder & AD&C

5

AD&C underwriting, revolving builder lines, unit release prices, sales-pace DCF, builder monitoring



Signature Techniques

Residential and STR construction credit turns on a handful of moves neither a consumer-mortgage desk nor a commercial-construction desk teaches alone. The path builds each one on a worked case.

Purpose determination

One question, consumer or business, routes the entire file: the compliance regime, the underwriting basis, and the classification. The “second home” that is really an STR is named at the door.

Qualify at the perm

The consumer is qualified at the permanent-phase payment, taxes and insurance included, not the interest-only construction rate, with reserves that carry through construction plus a delay.

STR revenue, haircut & expensed

Projected occupancy and ADR come from market comparables, not the sponsor’s pro forma; a 15-to-25% haircut and the full STR expense stack turn gross into a sustainable NOI.

The long-term-rental fallback

The property is re-run as a conventional rental. A failing fallback says the credit depends on the STR model surviving, so the structure, reserves, guaranty, and leverage, must answer for it.

Ordinance risk as a screen

A licensing moratorium or a pending cap can lawfully end the revenue model, so the local STR regime is underwritten as a screening fact and the license is a condition precedent.

The builder line that deleverages

On an AD&C line, each unit’s release price is set above its allocated debt, so every closing retires more than its share and the line deleverages as the community sells.

Four Structured Reports, Every Case

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

Residential Cost Breakdown / Budget-to-Actual

The builder’s cost breakdown, sanity-checked per square foot and tracked to actuals through completion.

STR Revenue Underwriting Worksheet

Occupancy, ADR, and seasonality to a haircut gross, the full expense load to sustainable NOI, the STR DSCR, and the LTR fallback.

Draw & Inspection Schedule

Stage or percentage-of-completion draws, third-party inspections, and lien-waiver control through conversion.

Builder-Line Borrowing Base Certificate

Unit-by-unit status, advances against cap, sold/spec/model flags, and deposits governing availability on the AD&C line.



Five Deals, Four Outcomes

Learners work five recurring borrowers end to end. Two clear with conditions on deliberately different theories, a revenue-model dependency and an asset-conversion line, one is declined at the screen, and one is worked out, so the same label never means the same move twice.

CONSUMER · CTP

Trinh Family Residence

APPROVED

The clean consumer file: a one-time-close custom home qualified at the perm payment, with land equity credited and construction-period carry reserved.

STR · TWO CABINS

Sundara Cabins

APPROVED · CONDITIONS

The STR DSCR passes at 1.30x but the LTR fallback fails at 0.44x, so licensing, a 12-month reserve, and global guaranty carry the model risk.

STR · PITCH

Nakamura Cove Bungalow

DECLINED

Declined at the screen: a licensing moratorium and pending cap make the revenue model unpermissible at stabilization.

SPEC · 80% COMPLETE

Brunner Spec

WORKOUT

Builder insolvent mid-build with liens filed; the workout turns on the completion decision and the local-sub lien landscape.

AD&C · 42 LOTS

Genesee Run

APPROVED · CONDITIONS

A revolving builder line where release prices deleverage every closing, sized on a 1.25 sales-per-month pace against a ~0.75 breakeven.

What The Path Delivers

7 courses

Six core plus one supplemental, roughly 6.2 hours end to end

29 skills

A mapped, job-ready competency set across the credit

5 cases

Approved, conditioned, declined, and worked out

4 reports

Cost, STR revenue, draws, and the builder base

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

Reach out to learn more

Sales@shockproof.com
1.866.237.7228

Sources & references: About \$89.5 billion in 1-4 family residential construction and land development loans on US bank balance sheets (Q4 2024): FDIC, as reported by NAHB Eye on Housing. US short-term-rental annual revenue of roughly \$64 billion and about 2.4 million short-term rentals (roughly 1.5 million available at a time): AirDNA, as reported by the Congressional Research Service (2023). The 15-to-25 percent vacancy and seasonality haircut reflects standard STR underwriting practice. Testing-effect research: Roediger & Karpicke (2006), Rowland (2014), and Adesope, Trevisan & Sundararajan (2017). Course structure, skills, cases, and reports: Shockproof Residential Construction & STR Lending learning path; case parameters are illustrative, and construction-lending consumer-compliance mechanics should be validated with a compliance specialist. Figures are directional and provided for general education, not as financial or investment advice.