

# The Risk Illuminator

A Quarterly publication for our clients by **Lender's Quality Assurance**, a *Critical Edge Group* company

VOLUME 2, ISSUE 1

1ST QUARTER 1998



Dear JP:

*Q: Why is it important for LQA to review the G.C.'s contract in its PCA? Isn't that the owner's issue? RC, NV*  
*A: It is not LQA's intent to "negotiate" the G.C. Contract, but to protect the Lender's interest. For Instance, AIA docs include general conditions & standard protections to address performance problems; Non AIA docs often don't. AIA docs can take multiple forms (i.e. Stipulated Sum, G-Max, Cost-Plus, etc.). For Example, a G-Max contract may NOT (continued on page 2)*

## Spilled Milk: Know your Project ! (Why a PCA ?)

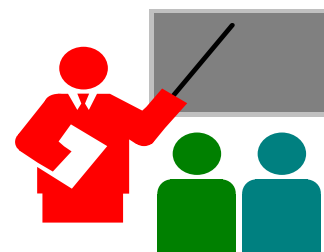
It is extremely important to visit and properly analyze your construction projects, prior to loan closing, in order to understand the potential problems & risks that will be encountered. LQA recently became involved in a project for which it was NOT engaged to perform a Pre-Commitment Construction Analysis (PCA). At the 1st site visit we encountered (2) contiguous land parcels with: (2) related hospitality projects, the same Architect (the Owner), the same G.C. and Subs, the same construction trailer, the same materials storage yard, and (2) **different lenders**. The "other" project had started a few months prior and

### Product Alert: "Remanufactured" Lumber

LQA encountered "Remanufactured" Lumber (RML) on a recent commercial project consisting of 5-7 "pieces" of 2x6 lumber glued together end-to-end to form a 10' 2x6. LQA subsequently researched its use & discov-

"our" project had an extended construction schedule (12 mos vs. 8-9 actually needed). Although there were some obvious **potential** savings for the owner, the **problem** potential for the **Lenders** became **magnified**. These include issues related to on-site development "sharing" such as ingress/egress concerns, commingling of labor & materials, preliminary lien notices to the wrong project, liens filed on the wrong project, near impossible separation of stored materials & related documentation, usurpitous use  
 see page 2 - Project

ered that several large suppliers are trimming, planing, & gluing finger joints for use on new projects. Reports indicate that for certain uses, they are stronger, often cost less, are more readily available,  
 see page 2 - Lumber



Hard-hat

### Pre-Construction Conference (PCC)

*Definition: A meeting attended by LQA, Lender, Owner, & Contractor, ideally prior to loan closing, that establishes procedures for disbursements & problem resolution.*

Every construction project has its share of problems. The key to completing them as scheduled is to ensure that all parties know what is expected of them, and when, and to establish procedures for resolving issues that will inevitably arise. Our "PCC & Funding Package's" are popular  
 see page 2 - PCC

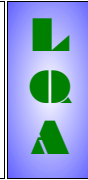
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# The Risk Illuminator

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See LQA's Moeller & Klod @  
*Commercial Real Estate Institute's*  
Due Diligence & Disclosure Seminar  
as Guest Panelists  
April 9, 1998

Mailing  
Address  
Goes  
Here

## THE RISK ILLUMINATOR

*address pertinent project issues definitively. Major items may be overlooked, resulting in under bidding, budget increases, and change orders. A contract is only as good as the plans & specs supporting it. The G.C.'s qualifications, license status, credit, bonding capacity, and insurance should also be reviewed.*

Call our **LQA**  
Construction HOTLINE:  
(602) 604-8573  
For a free consultation  
or to discuss your  
construction concerns

### *Project - from page 1*

of the percentage of completion methodology, installation of materials on the wrong project, one project's Lender or Sub-contractor problems causing problems on the other, double dipping of general conditions and overhead items, etc. These problems could have been identified, addressed, and resolved in **LQA's PCA** and by both Lenders utilizing the same inspector - **LQA**; this would allow comparison of loan requests & line items of the (2) projects and help prevent some of the above described problems.

*Lumber - from page 1*

and resist warping. Stress tests also show joints to be stronger than the original. HOWEVER, they are NOT for horizontal use - only vertical loads. Other questions remain including 1) can they be used in high probability earthquake zones? 2) what happens if the moisture "resistant" glue is exposed to excessive rain? Although LQA is **NOT RECOMMENDING AGAINST** its use, its utilization should require specific written approval by the Architect for materials substitution.

*PCC - from page 1*

with **all** parties because it clearly outlines all major procedures (including Pre-construction, Disbursement, & Close-out issues) & provides a forum for airing major project specific issues. It also allows for differences in practices from project to project because all parties walk out of the meeting with all major issues addressed. Clear, consistent, & frequent communication will head off most problems. Contact **LQA** to schedule and/or host your next Pre-construction Conference (**PCC**).