

The Risk Illuminator

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

VOLUME 2, ISSUE 3

3RD QUARTER 1998



Dear JP:

Q: Why do you review Flood Plain data while performing your PCA? DF, AZ

A: It is important to know if a project is in a flood plain to determine if there are any structural impacts and if the project's professionals have engineered for such an occurrence. Most "good" soils reports, environmental reports, and ALTA surveys will address flood plain status and/or pad & flood plain elevations. It's a civil engineer's responsibility to design site drainage, grading, pad, side-
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Contributory Risk Factors to Contractor Failure

Evaluating the qualifications & risks associated with a project's general contractor is often overlooked or not given adequate consideration by the Lender. Based on LQA's experience, the following risk factors, in rank order, are viewed as the primary contributors to contractor failure and the resultant Lender risk:

- * Faulty project estimating resulting in inadequate or negative project margins. Smaller thinly capitalized contractors are especially vulnerable.

- * Taking on projects of a size and scope that are substantially larger and/or more complex than the jobs the contractor has historically undertaken successfully.

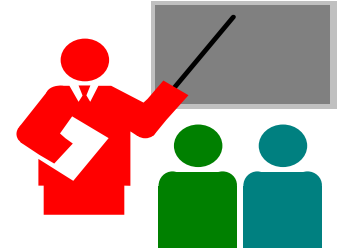
- * Taking on projects that represent a substantial change in type & kind of construction (i.e. heavy industrial vs. hospitals). Firms typically underestimate the learning curve and entrance costs associated with new product types.

- * Entering new geo-

graphic markets can result in overlooking availability and cost of labor (union vs. non-union) & materials. Local regulatory and municipal procedural differences can also result in unforeseen increased costs & time delays.

- * Failure to adequately staff (1) job estimating and sales, (2) construction operations, and (3) administration & accounting. Smaller, growing firms dominated by one person often fail to hire key personnel for these functions.

- * Inadequate administrative functions including (1) failure to implement necessary accounting systems & procedures, (2) failure to understand the impact of equipment costs on the company's operations, (maintenance, operation, replacement, own vs. lease, etc.), and (3) poor billing and collection practices.



Hard-hat University

Costs X Billings & Billings X Costs

Definition: "Costs in excess of billings & estimated earnings" are **underbillings** which are reflected on a contractor's balance sheet as a current asset. "Billings in excess of costs & estimated earnings" are **overbillings** which are reflected on a contractor's balance sheet as a current liability.

When analyzing a contractor's cash-flow, these items should not be netted against each other, but compared to a contractor's "Contract Status Report".

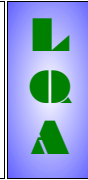
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The Risk Illuminator

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THE RISK ILLUMINATOR

walk, and roadway elevations, and utilities so that water runs away from the building and to avoid "ponding" of water which could cause unnecessary foundation damage/failure or premature maintenance problems. Civil engineers may elevate a pad with engineered fill to raise the building out of the flood plain and to increase load-bearing capacity.

Call our **LQA**
Construction HOTLINE:
(602) 604-8573

Contractors @ Year-End

As we approach another Year-end, it is always interesting to note the "Contractor's Year-End Phenomena" and how it may affect your construction project. Between Thanksgiving & New Years very little will happen in the way of new construction projects. Parties, completing current projects, losing some seasonal labor, and cold weather all direct a contractor's attention away from taking on new contractual relationships. Two weeks before and after Christmas are especially effected. With re-

tail projects the phenomena is even more acute because most retailers generate the majority of their revenues between Thanksgiving & Christmas.

Although large jobs (relative to the contractor), regardless of the time of year, are generally exempt, medium & smaller projects may be able to capitalize during this time on two scenarios: (1) contractors who are still trying to make their current year projections, and (2) contractors who are trying to fill their backlog early for the following year so they can get to their break-even point earlier. Although each project and contrac-

tor have their own idiosyncrasies, knowledge of each contractor's situation, in these regards, may be helpful during contract negotiations and ultimately in the cost structure of your project.

HOUSING FORECAST (000)

	97	98	99
Housing Starts			
SF	1,140	1,248	1,156
MF	338	348	311
New Home Sales			
	807	871	828

Source: NAHB Economics