

The Risk Illuminator

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IT TAKES ALL 3 LEGS FOR A 3-LEGGED STOOL TO STAND



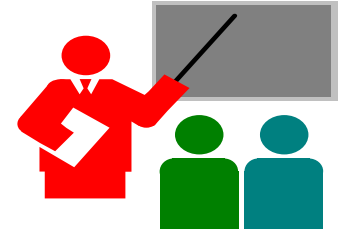
When performing a Pre-Construction Commitment Analysis (PCA), LQA frequently refers to the comparison of the Soils Report, the Plans & Specifications, and the

Construction Contract as a “3-legged stool”; All (3) documents must be in concert or the “stool” does not stand.

The soils/geotechnical report typically includes an analysis of subsurface site conditions. More specifically, the geotechnical engineer reviews and analyzes the results of a field inspection & subsurface borings and provides recommendations for site preparation, building foundation system(s), the building pad(s), retaining walls, and paving. With these recommendations as the base, the plans & specifications are reviewed to determine if they have been incorporated. Any material deviation from these recommendations are discussed with both the geotechnical engineer and the structural engineer to determine the basis for the deviation. Generally, either the plans must match the recommendations or a.) the geotechnical engineer reviews the plans and concurs, in writing, that the changes are acceptable, or b.) the plans are changed/updated to reflect the geotechnical recommendations.

Once the soils report & plans are consistent, the construction contract must be compared to the plans to ensure that the contractor will build what has been recommended and what has been incorporated into the plans.

The plan sheets (typically included in an attached exhibit) are compared to the actual plans provided for review, the scope of work described in the contract is compared to the plans, and the exceptions, clarifications, and/or exclusions are reviewed in detail to ensure that no material deviations to the plans & specifications are planned. Occasionally, the contractor and/or the owner make material changes in an effort to reduce costs. These changes may be of concern to a lender because they may materially alter the useful life of the building or system, and/or the annual maintenance cost of same, resulting in a reduction of Net Operating Income available for debt service. For example, the owner and contractor decide that they don't need a soils report because the contractor has significant experience in the area. Both the contractor and/or the structural engineer might include a qual-



Hard-Hat University

“POP QUIZ #7”

Match the terms with the definitions:

1. Haft
2. Haunch
3. Hawk
4. Helical
5. Hydronic
6. Hip

- A. Spiral shape or form.
- B. The external angle formed where two adjacent roof slopes rise & meet.
- C. A handle such as for a knife or chisel.
- D. A flat square with a handle on the bottom used to hold & carry mortar.

See Quiz page 2

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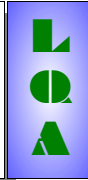
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Utilities Letters

Utilities Service Letters (aka "Will-Serve" Letters) for water, sewer, gas, electric, and telephone from applicable necessary service providers indicate that a particular utility service is available to the property or will be brought to the property at no cost to the owner. If service is not readily available, it may address the timeframe for service, the location of the nearest service, and/or the cost to bring the service to the subject property. If a particular utility cannot or will not provide a letter, as necessary, secondary evidence could include either apparent contiguous property service usage or service as shown on a stamped survey; these, however, do not guarantee that service lines passing in close proximity to

property are currently available for access or that the line has the necessary capacity to service the subject property.

Care must be taken in reviewing the letters. For example, some of the arid states provide "conditional" water service letters, subject to a hearing or some other event occurring. Conditions must be incorporated into the project's timeline and budget.

Stool (from page 1)

ification clause in their warranty and/or design language indicating that the warranty is good for 1 year, except for conditions arising as a result of soils conditions which may have been discovered in

a thorough soils investigation; or the soil report recommends an 12" aggregate base under 3" of AC for paving in the truck lanes; the contractor indicates to the owner that it is typical in the area to only put 8" of aggregate for a base which could save significant dollars. The useful life of the paving may have been reduced from 15 yrs. to 10 yrs. They should effect the appraised value by increasing the amount of the replacement reserve and by increasing the annual maintenance costs of the project.

All (3) legs to the stool must be consistent and strong for the stool to stand. Be careful to check all of the legs before you put all of your weight on the stool.

Quiz (from page 1)

- E. A thickened section of a structural member.
- F. A forced hot water system.

Answers: 1-C, 2-E, 3-D, 4-A, 5-F, 6-B

