

# CONTRACTOR VETTING

What lenders need to look for when evaluating a contractor's financial, client, and trade references

## FINANCIAL



What to look for when checking a contractor's financial history

### CREDIT HISTORY

Strong credit and long history with suppliers and banks

Short credit history with financial institution

### PAYMENT HISTORY

A history of on-time and complete payments

Habitually late payments or incomplete payments

### CREDIT CONSISTENCY

Credit histories from financial institutions and project timelines match one another

Credit history, including amounts and timelines that do not match up

### BUSINESS CREDIT

Strong credit under any known names or business names

Weak or low credit under any known names or businesses

#### TIP:

Be extremely thorough while collecting financial references as some results may indicate poor resource management skills, an unproven credit history, or incomplete information all pointing to potential financial risk.

## CLIENT

What to look for when checking a contractor's project track record



### RECENT PROJECTS

Project completed in the last 12 months

1+ years since their last completed project

### PROJECT BUDGETS

Ability to stay within a reasonable budget

Projects well over budget

### PROJECT SCALE

Scale of proposed project is in line with the contractor's project history

Proposed projects that are beyond the scope of previously completed projects

### CLIENT FEEDBACK

Consistent, positive client feedback

References that don't call back, don't know the contractor, or only have negative things to say

#### TIP:

If the contractor doesn't have a recent project completion, it's important to determine the possible cause for the gap in their project history. Maybe they had a leave of absence or worked for a different company. If projects went over budget ascertain the reason, and if that is a consistent factor in all the contractor's builds.

## TRADE

Make sure contractor's references match their given information



### SUBCONTRACTORS

Positive reviews that indicate they would work with the contractor again

Non-responsive, negative reviews, or will not work with the contractor again

### LIQUIDITY

Contractor is able to pay subcontractors and suppliers on time, in full

Confusing P&L statements and lack of liquidity on balance sheets

### SUPPLIERS

Positive reviews from suppliers and willingness to work with the contractor again

Reports of late payments, non-payment, or delayed pick up

### PROJECT SCALE

Consistent project scale and successful completion

Project scales and completion rates vary

#### TIP:

Any negative reviews from subcontractors or suppliers could show problems across the entire project, as it may indicate liquidity problems or poor project management. Additionally, make sure all submissions from the contractor match the financial references given previously.

## SUMMARY

Every contractor reference presents an opportunity to learn about the contractor and if they are a safe and reliable option for a construction loan. If you believe an answer from a reference or the contractor themselves is suspicious, it may be worth your while to take a second look and discover the full story. While good judgment and solid processes should always win the day, vetting and double checking anomalies may save you from potential disaster.

To learn more about contractor acceptance, watch this on-demand webinar:

[The Fundamentals of Contractor Acceptance](#)

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