

Initial Scope of Work

Residential Fix & Flip Loan

INTRODUCTION

The success of your Residential Fix & Flip industry is predicated on good cash flow. The best way to maximize cash flow is to provide a high-quality Scope of Work (SoW). Please take a few minutes to become familiar with these Residential Fix & Flip Loan Scope of Work Guidelines as they will help you provide the information needed to make your loan approval and reimbursement processes faster and more accurate. We look forward to working with you.

There are many reasons lenders require Scope of Work Documents. Did you know that, as the lender, we must ensure that the property becomes marketable and achieves the After Repair Value? Did you know that we can't fund the project 100% until the property is ready to be marketed, regardless of the scopes you provide to us? So, a good SoW that includes all the work the property needs to become marketable helps us provide the appropriate cash flow quickly and accurately.

WHAT MAKES A GOOD SCOPE OF WORK?



COMPREHENSIVENESS

Ensure that you have included all the scopes required to make this property complete and marketable. Each project is unique. Indicate all the scopes clearly to make it easy for us to understand that you have considered all the work necessary to create a marketable, move in ready, property.



CLARITY

Provide all the associated items required for a scope. For example, a horizontal enlargement requires excavation, footings, foundation etc. A Gut- Rehabilitation requires finishes such as floors, tiles, cabinetry, appliances, etc. We will look for all the items required to make a complete and marketable property.



DETAILED

List the work by components, not Room-By Room. Indicate the components of the work you intend to do by material, trade, or building system. For example, instead of just 'Kitchen', provide the complete set of scopes for the kitchen; Cabinetry, Countertops, Backsplash, Plumbing fixtures, Appliances, etc. This enables us to reimburse you much closer to your expectations.



BALANCED

Is the Scope of Work balanced through the project, beginning, middle, and end? Is there too much valuation for early processes like Soft Costs and Demolition? The valuations of the project should be balanced through the beginning, middle and end of the project as this ensures there will be enough funding to finish the project.



CONTINGENCY

Include a 'Contingency' line item, up to 10%. This enables you to request extra reimbursement for scopes you have already indicated as well as for unforeseen scopes without having to request a scope revision. This streamlines the process and maximizes cash flow.

Below are a few general guidelines and further clarification that will help you provide a complete, clear Scope of Work.

Valuation Limits

- Keep 'Soft Costs' to no more than 10% total budget.
- Keep 'Demolition' (Initial dismantling of the structure or building materials/equipment, dumpster, site clean out/debris removal/hauling) to no more than 10% total budget.
- Keep 'Contingency' to no more than 10% total budget.
- If all three above items are provided in a SoW, they may total 25% only.

Scope Comprehensiveness

Provide a SoW that includes all the work that needs to be done at the full valuation for each scope, even if you are borrowing only a portion of the total budget or if you have already completed some of the work. Remember that we cannot fully reimburse you until the property is complete and marketable, so your scope should include all the items for the entire project so that we can fund you accurately. Here is an example: If you need \$100k for the renovation work but want to borrow only \$50k, provide your entire scope at the \$100k valuation. We can set up the reimbursements at a 50% scale throughout the project. This way, your money and our money work together to get to the end. Otherwise, you might have to wait to get reimbursed from us until you have completed the entire project.

Scope Completeness

Provide a SoW that results in a completed residence. If you are proposing a Gut Rehabilitation, indicate the electrical, plumbing, mechanical, finished surfaces and painting too. We need to understand that you have considered everything required to make this property marketable at the ARV.

Scope Designation

Provide scopes by trade, material, or building system, not Room-by-Room. So, instead of "Kitchen: \$5,000", provide the breakdown of the kitchen's components and their valuations; Cabinets: \$1,250, Countertops: \$1,000, Appliances: \$2,000, Fixtures: \$750, etc.

Scope Completeness

Break down trades into their components: electrical, plumbing, mechanical all have rough and finish work. If you break these (and others) down into their components, we can reimburse you when the rough work is complete instead of waiting for the finish work to be completed.

TERMS AND THEIR MEANINGS

DEMOLITION

Initial dismantling of the structure or building materials/equipment, dumpster, site cleanout/debris removal/hauling. If, after the initial demolition scope is complete, you will have a dumpster, additional debris removal and hauling, provide additional line items. Otherwise, we will withhold some of your demolition scope while a dumpster remains on site.

HVAC

Heating, Ventilation, Air Conditioning. If you are using HVAC to describe your work but are doing only heating or Air Conditioning, make sure to clarify what you are doing so that we can reimburse you when it is complete. Otherwise, we will look for the other part to be completed before you receive 100% reimbursement. If you provide a 'Rough HVAC' line item and a 'Finish HVAC' line item, we can reimburse for the 'Rough HVAC' when it is complete and come closer to matching your expectations.

ELECTRIC

Both rough and finish electric. If you provide both a 'Rough Electric' line item and a 'Finish Electric' line item, we can reimburse for the 'Rough Electric' when it is complete and not have to wait for you to complete the 'finish' portion of the scope.

PLUMBING

Both rough and finish plumbing. If you provide a 'Rough plumbing' line item and a 'Finish Plumbing' line item, we can reimburse for the 'Rough Plumbing' when it is complete and come closer to matching your expectations.

ROOF

Replace the entire roof. If you are repairing the roof instead of replacing it, please tell us in the SoW. Otherwise, we'll look for the entire roof to be replaced. If you are spot patching the roof, let us know. We'll be able to reimburse you when the roof has been patched instead of waiting for it to be replaced in its entirety.

PAINT

Paint throughout. If you are not painting the entire home, let us know. Otherwise, we will look for the entire home to be painted. You can also break the scope into Interior and Exterior so we can reimburse when either scope is complete.