



COURSE 08 / Intermediate / 15-20 min

How Construction Draws Work

Branded cheat sheet: the calculations and decisions to keep beside your next scenario.

Core decision checklist

1. Understand the approved budget and funding sequence.
2. Submit complete draw evidence.
3. Manage inspections, retainage and changes.
4. Forecast cash through the final release.

Worked examples at a glance

01 Understand the Draw Sequence

A \$60,000 rehab holdback covers three \$20,000 work packages. Under a hypothetical reimbursement structure, the borrower pays the first package before requesting its draw. Even though \$60,000 is committed, the project initially needs at least \$20,000 working capital plus fees and a delay buffer.

02 Submit a Complete Draw Package

Plumbing budget is \$12,000. Earlier draws funded \$4,000. The contractor now invoices another \$5,000 of eligible completed work, bringing funded/requested plumbing to \$9,000 and leaving \$3,000. Submitting the entire \$9,000 again would duplicate the earlier \$4,000 request and overstate the new disbursement.

03 Inspections, Retainage and Change Orders

Eligible completed work is \$20,000 and hypothetical retainage is 10%, so the draw releases \$18,000. A separate \$5,000 change order is not yet approved. If the contractor expects \$25,000, the investor faces a \$7,000 difference until approval and retainage release, not just a \$2,000 gap.

04 Forecast Cash and Finish the Last Draw

Remaining approved funding is \$30,000, investor cash \$8,000 and estimated cost to complete \$42,000. Available sources total \$38,000, so the gap is \$4,000 before delay costs. A \$6,000 final retainage release expected only after closeout cannot be assumed available for next week's contractor invoice.



Apply it to your deal

Use documented inputs. Keep lender qualification, investment economics and cash timing visible as separate calculations.

Practice before submitting

Understand the Draw Sequence

Put contractor payments and lender releases on the same timeline. Identify every deposit or expense due before reimbursement. Ask which advances, if any, are permitted and when borrower equity must be invested. Compare the largest interim cash need with truly available funds after closing.

Forecast Cash and Finish the Last Draw

Prepare a cost-to-complete forecast and a final-draw checklist. Delay one reimbursement and one occupancy approval. Mark any funding gap and its committed cash source. Reconcile retainage release timing with final contractor balances and permanent financing deadlines, then update the project budget to actual costs.

Quick glossary

Draw: Release of funding under construction loan conditions.

Holdback: Committed money reserved for future work.

Working capital: Available cash for near-term project obligations.

Invoice: Request for payment identifying provided work or materials.

Lien waiver: Document addressing payment-related lien rights.

Budget reconciliation: Matching requests and prior funding to approved line items.

Retainage: Withheld funding subject to release conditions.

Change order: Documented modification of scope, cost or schedule.

Primary-source reading

Lima One: construction draw process

These sources provide context, not universal program requirements. Formulas, eligible costs, qualifying income, seasoning and fees depend on the transaction. Examples are illustrative and are not actual loan offers.