



Profit-Draining Myths Home Builders Believe about Construction Loans



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Introduction

As a home builder, your work is about more than constructing houses—it is about crafting dreams and creating opportunities for families to grow and build wealth. But when financing your projects, long-held beliefs and conventional wisdom can hinder your success.

Think about it: what happens if your trusses don't show up on time? Everything grinds to a halt—timelines are wrecked, subcontractors are left waiting, and your reputation takes a hit.

Financing works much the same way.

It's not just a cost to account for; it's a critical supplier, like those delivering your materials, and unreliable financing can jeopardize your entire build.

Many builders still operate under myths about financing—like the idea that bank construction loans are always better because they're "cheaper money."

These myths drain your profits and prevent you from scaling your business and seizing new opportunities.

In this report, we'll bust the ten myths that limit growth-minded builders and show you smarter, more efficient ways to secure financing that supports your vision. By breaking free from outdated ideas, you can position yourself for success—protecting your cash flow, scaling your projects, and building a thriving business.

MYTH

01

All Draw Processes Are the Same

The Problem

Builders gloss over the draw process when picking a lender. They focus on rates or loan terms but forget to ask the most important question: “Can I get my money when I need it?” The answer matters—a lot. If the process is slow, clunky, or overloaded with unnecessary steps, it can throw your entire project off track.

The Consequence

Delays in accessing funds don’t just slow progress—they create havoc. Subcontractors don’t get paid on time. Timelines stretch. Tempers flare. In the worst case, you’re left with stalled projects and relationships that are harder to mend than a broken foundation. And when you’re juggling multiple builds, these delays can snowball into a mess of missed deadlines, lost trust, and financial leaks.

The Solution

A smooth draw process is non-negotiable. Before you sign on with a lender, dig into the details.

- How do they handle draw requests?
- Are approvals quick and straightforward, or do they drown you in paperwork?
- Do they use an online platform, or are you stuck chasing down emails and voicemails?

The right lender will make accessing your money simple. Look for transparency, speed, and a team ready to help if issues arise. When your funds flow smoothly, so does your project. You stay on schedule, keep your subs happy, and you protect your reputation as a builder who gets things done.



CASE STUDY: No-Headache Draw Process *California, 2021*

The Myth

Our builder was carving out a name for himself in southern California as a builder of stunning yet affordable homes. In 2021, following a well-worn habit, he secured a very low-rate construction loan. It looked promising on paper.

Unfortunately, the bank's draw process was slow and convoluted. It required endless paperwork and left him waiting weeks for approvals. Subcontractors weren't paid on time, and the project stalled.

"It was like trying to pour concrete without water—it just didn't work," he said.

The Agitation

As delays mounted, he started losing sleep. One subcontractor refused to take on additional work until they were paid in full, and another left the project entirely, citing "unpredictable payments."

Forced to invest his savings to keep things moving, he wondered if he could sustain his growing business.

The Solution

A fellow builder recommended Sound Capital for his next project. Hesitant but eager to avoid the previous chaos, he made the call. Sound Capital offered a financing plan tailored to his needs, with a streamlined draw process. Approvals were fast, funds arrived within 48 hours, and he completed his build on time.



MYTH

02

The One-and-Done Trap

The Problem

Too many builders take out one-off loans for every project, thinking, "Why fix what isn't broken?" Unfortunately, this piecemeal approach costs more, requires effort, and eats into your time (something you'll never get back).

How so? Every time you secure a new loan, you're back at square one—applying, negotiating terms, and juggling multiple repayment schedules. It's an inefficient system that wastes time and chips away at your bottom line.

The Consequence

One-off loans might seem straightforward, but they come at a cost. Instead of focusing on growing your business, you're chasing paperwork and managing siloed finances. This inefficiency can be the difference between taking on your next project with confidence—or holding back because your funds are tied up in red tape.

When you scale up, the problem only gets worse. The more projects you take on, the harder it becomes to manage multiple financing structures. Instead of running a well-oiled machine, you're spinning plates and hoping one doesn't crash.

The Solution

Think beyond single-project loans. Look for financing solutions that consolidate multiple projects under one umbrella.

Bundling projects streamlines financing, reduces duplication, and cuts overall costs. Plus, you improve cash flow, which means you've got more flexibility to take on new opportunities—or handle obstacles when they pop up.



MYTH

03 Your Lender Is Your Friend

The Problem

Bad terms don't just slow you down—they put your business at risk.

Here's the hard truth: lenders write terms to protect their interests first, not yours. If you're not careful, you could agree to terms that lock up your capital, limit your flexibility, and penalize you for trying to get ahead.

Whether it's hefty prepayment penalties or cash-on-deposit obligations that tie up your capital, these terms often favor the lender and make your job as a builder more complicated than it needs to be.

The Consequence

Locked-up capital means you have less cash to seize new opportunities or cover unexpected costs. Penalties for early repayment punish you for doing well, making it harder to manage your finances effectively.

For builders in growth mode, this lack of flexibility is a dealbreaker. You must adapt to changing circumstances, pivot when opportunities arise, and keep your cash flow strong.

The Solution

The correct loan terms should work with you, not against you. Ask these critical questions during negotiations:

- Are there penalties for paying off the loan early?
- Can repayment schedules adjust if circumstances change?
- How much of my capital will be tied up as collateral, and for how long?

Don't be afraid to push back or walk away from a deal that doesn't serve your long-term goals. Remember, it's not just about getting financing—it's about getting the *proper* funding to keep your business moving forward.

MYTH

04

The Perfect Plan Pitfall

The Problem

Building is rarely smooth sailing. From unexpected weather delays to rising material costs, there's always something waiting to derail your carefully crafted budget. Yet, too many builders only secure enough financing to cover the ideal scenario—assuming everything will go as planned. It rarely does.

The Consequence

Failing to plan for contingencies can create a domino effect of problems. Budget overruns mean you're forced to dig into other resources—or worse, take on high-cost emergency loans. This doesn't just hurt your current project; it can ripple into your next one.

Delays in addressing unforeseen costs lead to timeline extensions, frustrated clients, and damaged reputations. In extreme cases, this can push projects into failure territory, leaving you with stalled builds and financial losses that take months—or years—to recover from.

The Solution

It's okay to plan for the best-case scenario—but prepare for the curveballs, too.

The key is building a financial buffer for every project without overleveraging (see Myth 6). Start by securing financing that includes a contingency reserve—enough to cover unforeseen expenses without putting the project at risk.

A good rule of thumb is setting aside 10-15% of your project budget for unexpected costs. But even better, consider partnering with a lender who understands the realities of your business and acts more like a CFO than a passive provider of funds.

Ask yourself:

- Is my lender helping me plan for potential risks, or just offering a cookie-cutter solution?
- Does this financing include a contingency buffer?
- Do I have access to additional funds quickly if the unexpected happens?

When you work with a lender who understands your goals and helps you anticipate challenges, you don't just avoid disasters—you set yourself up to succeed, no matter what the project throws at you.



MYTH



05

The One Lender Gamble

The Problem

On the surface, it seems easier—one point of contact, one set of terms—but putting all your eggs in one basket comes with a considerable risk. When you depend entirely on one lender, you're at their mercy.

The Consequence

Relying solely on one financing source leaves you vulnerable. If your lender decides to pull back on construction loans or makes sudden changes to their terms, you could find yourself scrambling for alternatives.

In addition, overexposure to a single lender limits your flexibility. You're stuck playing by their rules (see Myth 3). This lack of adaptability can put a hard cap on your growth and your ability to seize new opportunities.

The Solution

Diversification isn't just for investments but also for your financing strategy. Working with a mix of funding sources reduces your risk and increases your flexibility. Private lenders, insurance-backed financing, and traditional banks all bring something different to the table. The trick is to combine them strategically.

Private lenders can offer speed and flexibility when you need it most. Insurance-backed financing gives you stability and added security. And traditional banks, while slower, often have the lowest-cost options for long-term needs. Together, these options give you a more resilient, adaptable financing structure.

Here's how to start diversifying:

- Review your current financing mix: Are you too reliant on one source?
- Identify gaps: Do you have the right options in place for emergencies, growth, or long-term stability?
- Build relationships: Work with lenders who understand your goals and can assist when needed.



The goal is to create a financing plan that supports your business in any situation. When one lender tightens credit, you have alternatives. When a new opportunity arises, you're ready to act. Diversifying your financing isn't just a safeguard—it's the key to staying competitive and growing your business, no matter what the market throws your way.

"Banks are as reliable as refrigerators. The thing worked last night, but it's dead as a doornail this morning—without warning."



CASE STUDY: The Hardest House to Build *Texas, 2023*

Our mid-sized builder worked with the same bank lender for years to finance dozens of homes in central Texas—89, in fact. The partnership seemed solid—every project was funded without issue, and loans were repaid on time.

Then came the 90th project.

When the builder submitted their financing application, the lender unexpectedly declined. New regulations, they said, meant they couldn't extend more credit. With no backup plan in place, everything came to a halt. Contractors were put on hold, and prime land sat idle.

That's when the builder turned to Sound Capital. Unlike the bank, Sound Capital saw the builder's proven track record and understood the urgency. Financing was secured in just a few weeks, and the project was back on track.

This experience was a turning point. Our builder realized the importance of diversifying financing sources to avoid being caught off guard again. With Sound Capital as a partner, they completed the 90th home and gained a smarter strategy for future growth.

MYTH

06

Cheaper Money Is Better



The Problem

Every builder wants the best financing deal. And on the surface, “cheaper money” sounds like the smartest choice. Lower interest rates mean lower costs, right?

Not always.

Many builders overlook the true cost of their financing. Low-rate loans often come with strings attached—delayed draws, strict lending conditions, cash-on-deposit requirements, or inflexible terms that lock you into a financial straitjacket.

The bottom line? A cheaper loan that limits your ability to build, scale, or move quickly is far more expensive in the long run.

The Consequence

Financing is the fuel that keeps your projects running. When it’s unreliable, your entire business suffers.

- **Draw Delays:** If your lender takes weeks to approve a request, your subs won’t get paid on time. Delays mean unhappy contractors, timeline chaos, and missed opportunities.
- **Cash Flow Strain:** Some “cheap” loans require hefty cash reserves or personal guarantees, locking up your capital when needed.
- **Inflexible Terms:** Hidden penalties for early repayment or limits on how funds can be used can turn a good deal into a bad one fast.

In short, a lower rate doesn’t always mean a better deal. If a loan puts you in a cash crunch or stalls your projects, it’s not saving you money—it’s costing you far more than you think.

The Solution

Savvy builders look beyond the interest rate and focus on total cost and flexibility. Before jumping at “cheaper money,” ask these questions:

- **How quickly can I access my funds?** Slow draw processes kill momentum. Find a lender who prioritizes speed and efficiency.
- **What are the hidden costs?** Are there penalties for early repayment? Are there cash-on-deposit requirements that tie up your working capital?
- **Does this loan help me scale?** A great lender isn't just a funding source—they're a strategic partner who makes financing easier, not harder.

The Smarter Play

Choose financing that works for you, not against you. The best loan isn't always the cheapest—it's the one that keeps your business moving forward without friction, delays, or surprises.

Your financing should be a tool for growth, speed, and profit, not an obstacle that keeps you stuck.

Because at the end of the day, the best money isn't the cheapest—it's the smartest.



MYTH

07

Financing Is Just About Funds

The Problem

Financing shouldn't be a one-and-done deal. You've jumped through the hoops, signed the papers, and now you have the funds to move forward. But what happens after that?

Because construction projects are dynamic, you want a lender who can provide guidance and resources when facing unexpected obstacles. You shouldn't have to navigate these challenges alone.

The Consequence

Lack of post-financing support can lead to severe bottlenecks. Maybe you hit a snag with a draw request or a delay on your end requires adjustments to your repayment schedule. If your lender is slow to respond—or worse, unresponsive altogether—those delays can cascade into more significant problems.

The Solution

Look for lenders who don't just hand over the money and disappear—they stay involved, offering guidance and problem-solving throughout the loan's life.

- Does the lender check in with you regularly to address potential issues before they become problems?
- How quickly do they respond to draw requests, questions, or concerns?
- Are they willing to adjust terms or provide alternative solutions if your project suddenly requires it?
- Can they offer insights or advice to help you navigate challenges?

The right lender acts as a partner, not just a provider. They understand that a successful project benefits everyone involved and are committed to helping you see it through. They specialize in construction loans—lenders who are built to finance and support your business. Choose a lender who's in it for the long haul—someone as invested in your success as you are.



MYTH

08

This Is the Most Important Project

The Problem

When you're focused on a single project, it's natural to pour all your energy and resources into it—materials, labor, and upfront costs feel urgent and non-negotiable. But this laser focus can blind you to the bigger picture and future projects.

If all your cash and credit are tied up in the present project, you're left with no wiggle room for what comes next. This short-term mindset can trap your business in a cycle of reacting to immediate demands, leaving no bandwidth to plan ahead or seize new opportunities.

The Consequence

Short-sighted financing can stunt your business in ways that creep up on you. Maybe you finish one project phase only to realize there's no funding left to start the next. Or a surprise opportunity to expand comes along, but your hands are tied because your cash flow is already stretched thin (see Myth 6).

This lack of flexibility slows you down and forces you to play defense. Instead of growing, you're patching financial gaps, missing opportunities, and watching competitors move forward while you're stuck in neutral. It can leave you feeling like you're operating a nail gun without nails.

The Solution

The right loan isn't just about covering today's needs—it's about paving the way for what's next. To avoid getting boxed in by short-term thinking, you need financing that grows with you.

Look for lenders who offer scalable options, like lines of credit that expand as your business grows or funding structures that adapt to new projects without requiring you to start over. A lender who acts more like your CFO can help you map a strategy that supports your immediate goals and long-term vision.



MYTH

09

The LTV Illusion



The Problem

It's easy to see how this happens. You've got a solid project lined up, the numbers look good, and you assume the lender will cover a hefty portion of the costs. But then the LTV (Loan-to-Value) ratio returns lower than you expected. Suddenly, you're staring at a gap you didn't plan for.

We get it—this isn't about being careless. It's about a system that sometimes feels stacked against you. Banks and other lenders are tightening their requirements in today's lending environment, and even a significant project can get hit with a conservative LTV.

The Consequence

When your LTV approval is lower than anticipated, the shortfall must come from somewhere—usually your pocket. That means you're tying up more cash in the project, leaving less liquidity to handle other jobs or seize new opportunities.

With less capital, you're forced to make tough choices: delay a project, pass on a new opportunity, or stretch yourself thin to cover it all. Over time, these shortfalls can slow your momentum or get you way out over your skis.

The Solution

The first step is understanding LTV ratio requirements before you apply for financing. Lenders typically base their approvals on the project's appraised value or cost, whichever is lower. It can catch you off guard if you're not accounting for a possible gap between what you need and what the lender is willing to finance.

Build a financial plan that anticipates these gaps. Here's what to consider:

- Do you know the lender's LTV ratio requirements before applying?
- Have you prepared for potential shortfalls by building in a financial buffer without overleveraging?
- Are there alternative financing options to make up the difference if needed?

At the end of the day, understanding the LTV ratio is about control—knowing what to expect and having a plan so you're not caught off guard. With the right approach, you can protect your cash flow, keep your projects moving, and position your business to grow, even when the lending landscape gets tough.



MYTH

10

Financing Is Just a Transaction

The Problem

Too many builders treat financing as a one-time task: find a lender, secure the loan, and move on to the project. But this transactional approach misses the bigger picture. A lender who acts like a CFO isn't just a source of funds—they're a strategic partner who works to optimize your finances, anticipate risks, and set you up for sustainable growth.

When financing is treated as a checkbox, you're left alone to navigate challenges, manage cash flow, and make tough calls. That's not what builders in growth mode need.

The Consequence

You're stuck in a reactive cycle without a strong relationship with your lender. Challenges like unexpected cash flow issues or strict repayment terms can derail your progress. And when it's time to secure financing for future projects, you're starting over from scratch—no history, trust, or partner who truly understands your goals.

This lack of strategic partnership slows you down and prevents you from scaling your business efficiently and confidently.

The Solution

Financing isn't just about getting money—it's about getting expertise. The right lender acts as your CFO, helping you think ahead, solve problems, and maximize every opportunity. Here's what to look for:

- **Proactive guidance:** Does your lender help you anticipate risks and optimize your cash flow?
- **Customized solutions:** Do they tailor financing to your goals, not just offer cookie-cutter loans?
- **Collaborative support:** Do they check in regularly and provide creative solutions for challenges?

A lender who acts like your CFO will bring the same care and strategy to your finances as you bring to your builds. They'll not only fund your success—they'll actively work to secure it.

CASE STUDY:

When Cash Flow Stopped

California, 2020

When COVID-19 hit, one of our long-time clients—a builder who had successfully completed over 260 projects with us—found himself in an unprecedented bind. With supply chain disruptions, labor shortages, and stalled projects, his cash flow dried up, leaving him unable to make loan payments.

Instead of penalizing him during a tough time, we stepped in to help. We restructured his loans, creating a plan that gave him the flexibility to weather the crisis. By adjusting terms and focusing on long-term solutions, we allowed him to keep his projects alive, protect his reputation, and maintain his relationships with clients and subcontractors.

He caught up on his payments once the moratorium lifted and his cash flow recovered. Today, he continues to work with us, knowing we have his back when it matters most.

NEXT STEPS

Build More. Scale Faster. Keep All the Profits.

With the right financing partner, you gain more than funding. You gain a strategic ally who understands your challenges and helps you seize opportunities.

Schedule a call with Sound Capital to see if your project is the right fit for smarter, more efficient financing.

Sound Capital specializes in financing for growth-minded builders like you. Let's talk about how we can:

- Streamline your funding process.
- Protect your cash flow.
- Scale your business with confidence.
- Fuel your vision.

CALL US TODAY AT 888-490-4450.

Don't wait—your next big opportunity is closer than you think!

Are We the Right Fit?

At Sound Capital, we're here to fuel builders' growth—but we're not for everyone.

- ✓ **Are You Ready to Scale?** You're growing from 10-30 builds a year and aiming for 100+.
- ✓ **Do You Have a Proven Track Record?** You've completed at least ten successful builds with your own capital on the line.
- ✓ **Are You Focused on These Project Types?**
 - Single-family residential homes
 - Multi-family developments
 - Fix-and-flips
 - Ground-up construction
 - Shovel-ready projects

✗ **We Might Not Be the Right Fit If:**

- You're just getting started in homebuilding.
- You work outside residential housing (e.g., retail, industrial, or raw land projects).

If you have any doubts, call us. Let's discuss how we can help you scale smarter, faster, and bigger.

