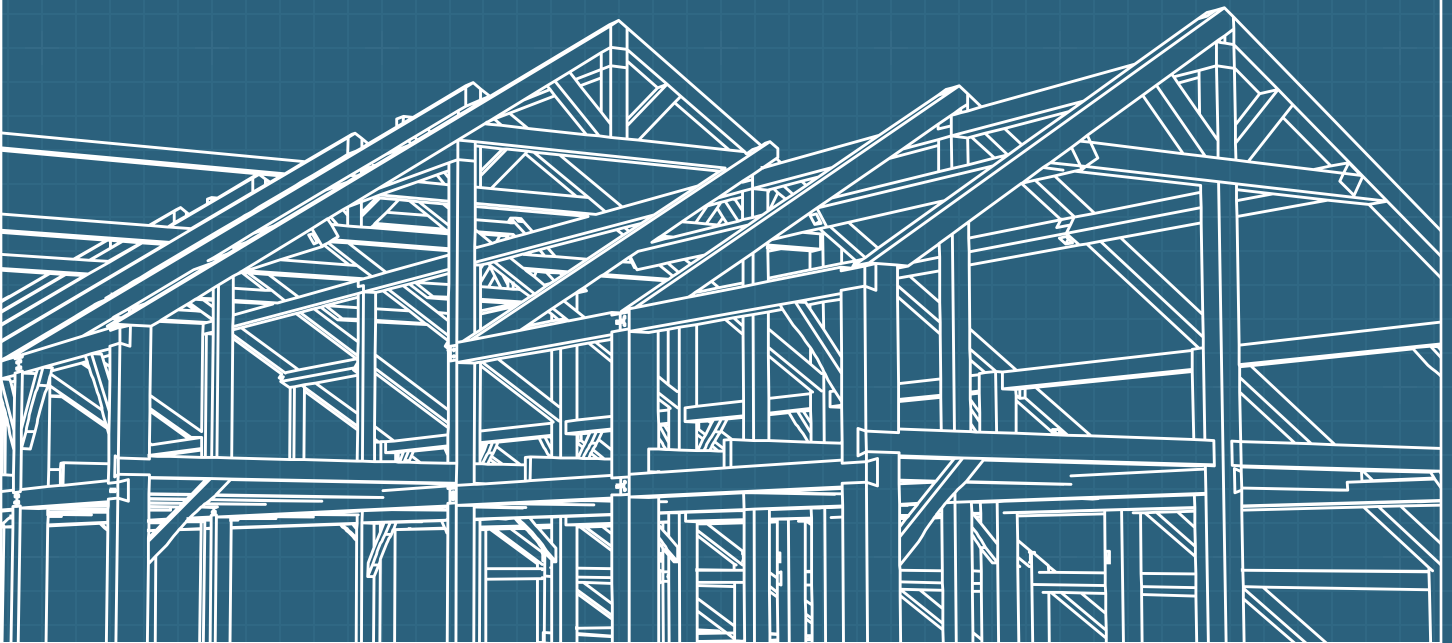




The Home Builder's Guide to Smarter Financing

Sound Advice on How to Build More,
Scale Faster, and Keep All the Profits

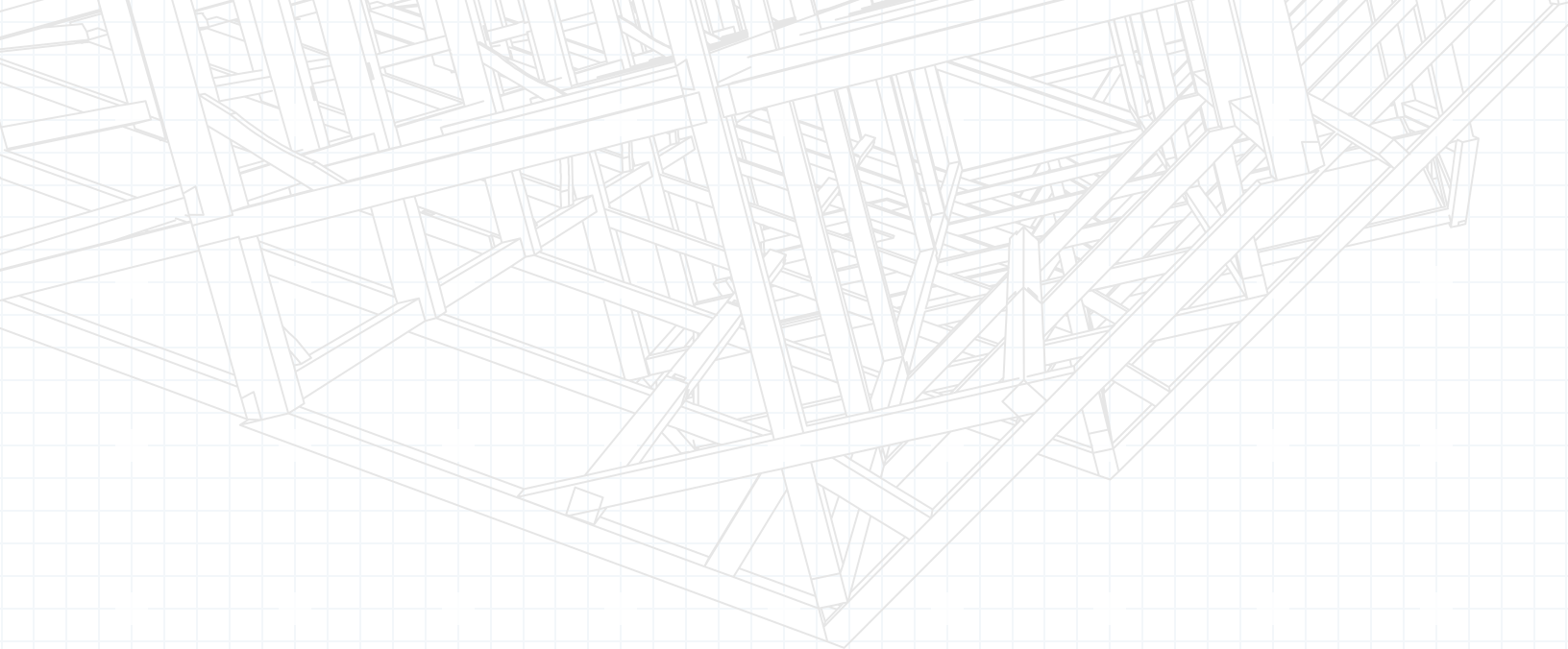
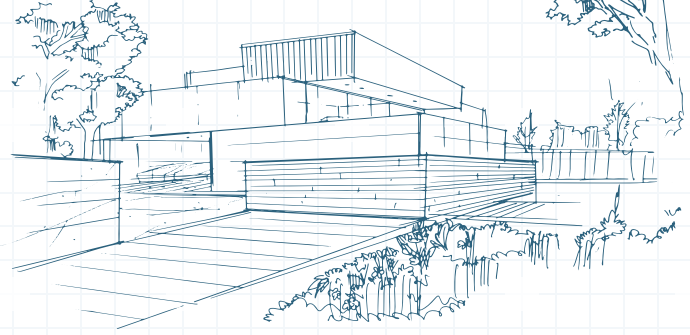


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INTRODUCTION

WHY UNDERSTANDING THIS GUIDE MATTERS



Banks are failing US home builders.

Recent data underscores the increasing challenges builders face with traditional lenders:

+ **Tightened Lending Standards**

In the fourth quarter of 2024, approximately 14.8% of domestic banks reported tightening standards for commercial real estate loans, including construction and land development purposes.¹

+ **Banks Slash \$31B in Construction Loans**

The volume of 1-4 family residential construction and land development loans dropped 8.4% in the third quarter of 2024, marking the fifth consecutive quarter of year-over-year declines.² That translates to over \$31B has been stripped out of home builders' hands in the last year.

+ **Increased Credit Restrictions**

A recent Federal Reserve survey indicated that about one-third of banks tightened standards for construction loans, with none reporting an increase in such credit.³

Even in the best of times, bank construction loans have been a headache. Banks aren't built to serve builders—they're middlemen bound by regulations. When policies shift, they tighten lending, leaving you scrambling for capital when needed.

If you've ever:

- Lost a deal because financing didn't come through fast enough...
- Missed a profitable project because the bank demanded too much cash upfront...
- Felt stuck dealing with slow approvals, red tape, and rigid loan terms that squeezed your margins...

Then this guide is for you.

¹ Federal Reserve Bank of St. Louis. (February 2, 2025). Net Percentage of Domestic Banks Tightening Standards for Commercial Real Estate Loans with Construction and Land Development Purposes. Retrieved from FRED (Federal Reserve Economic Data), Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/SUBLPDRSC>

² National Association of Home Builders. (2025, January 2025). Residential construction loan volumes decline over the third quarter. Eye on Housing. <https://eyeonhousing.org/2025/01/residential-construction-loan-volumes-decline-over-the-third-quarter/>

³ Financial Times. (2025, February 2). US homebuilders face credit crunch as banks cut lending. Financial Times. <https://www.ft.com/content/1ec410dc-82ee-4bf8-b23d-8cbcb1c0b7d>

FINANCING ISN'T JUST A DETAIL—IT'S A STRATEGY

Most builders think of financing as an item to check off a list to complete a project. However, wise builders treat financing as a strategy to grow profits, scale their businesses, and take on more projects yearly.

The difference? It's not about getting the cheapest money.

+ **The big misconception**

Most builders focus on securing the lowest interest rate. It seems logical—cheaper money should mean more significant profits, right?

+ **The Aha Moment**

What if that belief costs you money and holds your business back?

The reality is that when cheap-rate financing restricts the number of homes you can build at a time, it limits your earning potential far more than a slightly higher interest rate ever could.

WHAT YOU'LL LEARN IN THIS GUIDE

- + How traditional banks hold builders back with outdated lending models.
- + Why smarter financing helps you build more homes, scale faster, and keep more profits at the end of the year.
- + How to break free from restrictive lending ratios, slow approvals, and unnecessary cash demands.
- + How to avoid getting out over your skis by employing the project-CFO concept.
- + A step-by-step action plan to take control of your financing and maximize your growth.
- + How Sound Capital is different—we've built a system that's stable, reliable, and ready to support builders no matter what the market does.

By the time you finish reading this guide, you'll see financing in a whole new way—and know precisely how to use it to grow your business faster than ever.

Let's dive in.



THE BANK BOTTLENECK

WHY TRADITIONAL LENDING NO LONGER WORKS

If you're a home builder who's dealt with the ups and downs of construction loans, you know it's no walk in the park. But what's happening behind the scenes when you approach a traditional bank for funding?

❗ **Spoiler alert: banks aren't exactly designed with builders in mind.**

Let's examine how banks approach construction loans and why it often feels like you're fighting an uphill battle.

THE BANK'S FIRST PRIORITY: RISK AVOIDANCE

Banks love stability. They thrive on low-risk ventures, so they're more comfortable issuing loans for existing properties rather than new construction projects.

When a bank looks at a construction loan, they see risk, not opportunity. Here's why:

+ **Unpredictable Timelines**

Construction doesn't follow a perfect schedule. Weather, labor shortages, and permitting delays can push timelines back weeks—or months. Banks don't like uncertainty. If a project takes longer than expected, they see it as an added risk.

+ **Fluctuating Material Costs**

Lumber prices, concrete shortages, and supply chain disruptions can suddenly increase project costs. Banks fear that if costs spike, your budget won't cover it—and they might not get paid back on time.

+ **Market Risks**

If home prices drop, banks fear they'll be left holding the bag if builders can't sell their finished homes. Economic downturns or rising interest rates make banks even more reluctant to fund new construction projects.

A bank's primary concern is minimizing its exposure. That means tighter credit requirements, lower loan-to-value (LTV) ratios, and extensive due diligence. They want guarantees, and absolute guarantees are hard to come by in construction.

LENGTHY APPROVAL PROCESSES

If you've ever felt like a bank's loan approval process takes forever, you're not alone. Traditional banks operate within a web of internal processes and regulatory requirements that bog everything down.

You are probably very familiar with this process, but to press home the point, here is a list of typical steps a bank takes:

- + **Prequalification:** The builder submits basic financials, project details, and experience to determine initial eligibility.
- + **Loan Application Submission:** The builder provides a formal application that includes business financials, tax returns, complete business—and sometimes even personal—credit history, and many, many details about the construction project.
- + **Project Review:** The bank evaluates the construction plans, budget, timeline, permits, and builder's experience to assess feasibility.
- + **Appraisal & Market Analysis:** The bank orders an appraisal to determine the projected value of the completed project and ensures it aligns with market conditions.
- + **Underwriting & Risk Assessment:** The bank's underwriters analyze financial ratios, loan-to-value (LTV), debt service coverage ratio (DSCR), and overall risk factors.
- + **Credit Committee Approval:** If underwriting is satisfied, the loan request goes to a credit committee or senior loan officer for final approval.
- + **Loan Terms & Agreement:** Once approved, the builder receives the loan terms, including interest rates, repayment schedule, and draw process requirements.
- + **Loan Closing:** The builder signs all loan documents, finalizes the agreement, and disburses any initial funds for land purchase or early-stage construction.
- + **Draw Process & Inspections:** Funds are released in phases as construction progresses, with required inspections and approvals before each disbursement.
- + **Completion & Final Payment:** Once the project is finished, a final inspection confirms completion, and the loan either transitions to permanent financing or is repaid in full.

Depending on the bank, the complexity of the project, and your financial standing, this could take weeks to several months.

For builders, time is money. Unfortunately, every step is methodical—and slow. That's if everything goes according to plan. And we all know how that turns out.

As the old saying goes, *"Man plans, but God laughs."*



LIMITED FLEXIBILITY

You don't need to be told that construction projects rarely go according to plan. Maybe the weather doesn't cooperate, material prices skyrocket overnight, or you have subs who don't show up. Whatever the issue, it often means pivoting quickly.

But banks aren't exactly known for their flexibility.

- + **Slow Decision-Making** – Do you need urgent approval for a draw request? Banks operate on rigid timelines and bureaucratic processes, leaving you waiting. Meanwhile, your project stalls and your crews sit idle—or worse, leave to begin work on another job.
- + **Strict Draw Schedules** – Banks lock builders into pre-determined draw schedules, regardless of project progress. If you're ahead of schedule, you won't see the funds until their timeline says you should. If you're behind, they might withhold funds, further delaying completion.
- + **One-Size-Fits-All Loan Structures** – Banks offer standardized loan products with little room for customization. You're out of luck if your project doesn't fit the cookie-cutter mold set by internal rules and external regulations. If you need a higher loan-to-cost ratio or a phased funding approach, forget it.
- + **Unforgiving Loan Covenants** – Miss a covenant—maybe your debt-to-equity ratio shifts slightly, or your pre-sale numbers don't quite hit their mark—the bank can freeze your funding or even call the loan due. Instead of adapting to market realities, they penalize builders for circumstances beyond their control.
- + **Limited Refinance or Restructure Options** – Banks rarely allow you to renegotiate terms if market conditions change or unexpected costs arise. Even if extending the loan or modifying terms makes sense for both parties, banks are locked into regulations, and you're often forced to find alternative funding or absorb the costs.

Traditional lenders make it difficult to adapt, but smarter financing options exist—ones designed for builders who need flexibility to keep projects moving forward.

DRAW PROCESS HEADACHES

Ah, the dreaded draw process.

For builders, accessing funds from a construction loan can feel like pulling teeth. Banks require exhaustive documentation, inspections, and approvals before they release funds—and even then, it's not uncommon to encounter delays.

This piecemeal approach to funding is a colossal pain for builders who need cash flow to keep projects moving. It's one reason many builders say working with banks feels like the opposite of “partnership.”

LACK OF INDUSTRY EXPERTISE

While bank loan officers are well-versed in general lending practices, many lack specialized construction industry knowledge.

They don't fully understand builders' challenges or how to evaluate projects beyond the standard financial metrics. This knowledge gap can lead to miscommunication, misaligned expectations, and frustration.

That's not what you need.

You need someone who understands your construction project and the financing that gets it built. Someone who can help you see risks and opportunities clearly and uncover potential challenges before they become problems.

You need a trusted guide—a per-project Chief Financial Officer (CFO).

James Minarisch, SVP of New Construction Lending at Sound Capital, tells a story about a project he reviewed in 2019. The developers were overly optimistic about their numbers. Like a good project CFO, he highlighted their unrealistic projections and advised against proceeding with the project.

They ignored his advice.

Fast-forward three years. The project failed disastrously. Multiple lenders were involved, and there was zero cohesive strategy. Despite James' warnings, the developers suffered significant financial losses.

This underscores the importance of having an impartial, external voice to evaluate assumptions critically. Even top performers need external perspectives to identify and address blind spots, reinforcing the importance of having trusted advisors or mentors.

James went on to say:

“Builders are often blind to the risks in their projects because they’re so focused on getting the job done. They listen to agents, teams, and appraisers who all benefit financially from pushing projects forward.

“Our job is to step back, show them where the risks are, and help them make better decisions. It’s about being a trusted guide, not just a lender.”

Construction is more than walls and foundations. It’s a financial balancing act. A single misstep, like underestimating job costs, can lead to tens of thousands of dollars. Managing financial complexity isn’t a luxury—it’s a necessity.

ASK YOURSELF

- + Who benefits from your bank’s loan terms—you or the bank?
- + When was the last time your lender helped you spot a financial risk before it became a problem?
- + If you could restructure how you fund your projects, would you still choose the same path?
- + If nothing changes, will your business be where you want it to be in five years?

The bottom line: If your financing isn’t working for you, it’s working against you. Maybe it’s time to explore a better way.

THE COST OF SLOW MONEY

HOW DELAYS HURT YOUR BUSINESS

In construction, time is money—and when financing slows you down, the costs add up fast. Every delay caused by a slow bank draw, a financing hiccup, or an unexpected funding freeze eats into your profits, straining cash flow and limiting your ability to grow.

Here's how:

Subcontractors Left Waiting ➡ Higher Labor Costs

Good subs—the ones who do what they say, arrive on time, and complete the job the right way the first time—don't have time to sit around. If they're waiting on a payment because your bank is dragging its feet, they'll either walk off the job or charge you more to stay.

Materials Delayed ➡ Rising Costs & Supply Chain Chaos

If you can't pay for materials on time, you risk delays in delivery—or worse, losing your order altogether. And in today's market, prices rarely stay the same. Lumber, concrete, and steel can see sharp price increases in a short time due to market disruptions, supply chain issues, or global demand shifts—and every delay makes it more expensive to get back on track.

Projects Stalled ➡ Lost Revenue & Reputational Damage

When funding issues slow a project down, you're not just losing money—you're losing trust. Word spreads if your project grinds to a halt because the bank won't release funds. Your reputation takes a hit, making it harder to win future deals.

Bidding on New Projects? Forget It.

Speed matters in construction. The best opportunities don't wait. Builders who rely on banks often find themselves unable to jump on new deals because their capital is tied up in slow-moving financing.

NUMBERS THAT PROVE IT

Every week of delay costs an average builder thousands in carrying costs—racking up interest payments, insurance, utilities, and lost momentum on the next project.

- + Delays in construction projects can significantly impact a builder's financial health. Research indicates that for a project valued at \$50 million over three years, each day¹¹ of delay can cost approximately \$45,662. With average project delays ranging from 20% to 30%, this can lead to additional costs nearing \$15 million.⁴

- + A survey by the Associated General Contractors of America found that 68% of contractors experienced project cancellations due to financial constraints, with 48% witnessing halts in already commenced projects. These disruptions often stem from financing challenges, leading to missed opportunities and potential revenue losses.⁵
- + Delays can increase project costs by 20-30%. For instance, a construction project with a \$1 million budget could see an extra \$200,000 to \$300,000 in costs due to delays.⁶

While specific research quantifying the exact number of missed projects due to traditional bank financing delays is limited in residential new construction, industry insights highlight the significant impact of financial inefficiencies on timelines and opportunities.

Additionally, financial barriers can cause construction projects to pause as additional funding is sought or projects are modified to accommodate budget conflicts. Negative cash balances due to slow client payments can also force contractors to postpone operations.⁷

The bottom line? Slow money is expensive money. If your financing isn't moving at the speed of your business, it's holding you back.



⁴ Construction Employers Association. (n.d.). The true cost of project delay (White Paper). Retrieved from <https://www.ceacisp.org/sites/default/files/documents/The-True-Cost-of-Project-Delay-White-Paper.pdf>

⁵ Bolick, H. A. II. (2020, August 10). COVID's lasting impacts on construction and real estate. Brooks Pierce. Retrieved from <https://www.brookspierce.com/covid-19-response-resource-center/covids-lasting-impacts-on-construction-and-real>

⁶ Lean Manufacture. (n.d.). The cost of delay. Retrieved from <https://www.leanmanufacture.net/article/cost-of-delay>

⁷ Banerjee, R. (2023, November 27). Top reasons for construction delays. KPPB Law. Retrieved from <https://www.kppblaw.com/top-reasons-for-construction-delays/>

WHEN THE LOWEST RATE BECOMES THE HIGHEST COST

Here's a dramatization of our client's real experience before he came to Sound Capital.

"Our CEO took pride in grinding down the banks. He'd push, negotiate, and wear them out to get the absolute lowest rate. On paper, it looked like a win.

"But in practice, it was anything but.

"Every draw request meant more paperwork, more inspections, more waiting. Delays and inefficiencies erased the savings we squeezed out on interest. The actual cost wasn't reflected in the supposed "low rate" but in the bottlenecks that slowed us down.

"When we switched to Sound Capital, the difference was immediate. Funds moved when we needed them. The process was smooth. We stopped fighting for our own money and got back to building homes.

"In the end, the lowest rate doesn't mean much if you can't access your capital when it matters."

ASK YOURSELF

- + Have I ever calculated the hidden costs of slow money—extra labor, material price increases, and stalled projects?
- + Have I added the interest, insurance, utilities, and overhead for every week my project sits idle while I wait for my next draw?
- + What happens if my supplier cancels my order because my funding didn't come through on time?
- + How many deals have I watched go to competitors because they had faster access to cash?
- + Am I sacrificing speed and flexibility to get the lowest interest rate?

The bottom line: If your financing isn't keeping up, it's not just an inconvenience—it's a significant cost to your business.

Maybe it's time to rethink what's holding you back.

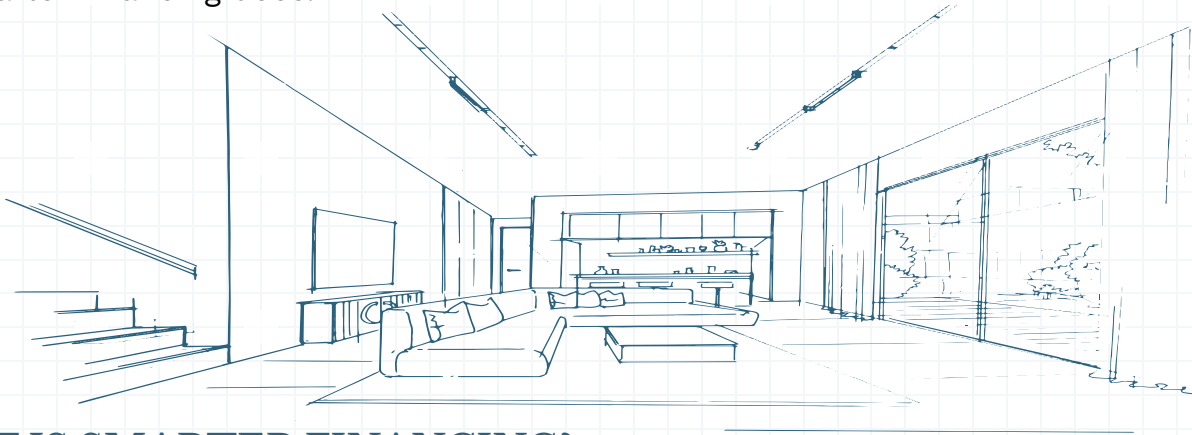
SMARTER FINANCING

WHAT IT MEANS AND HOW IT WORKS

Do you think cheaper money is always better? Think again.

Most builders focus on what they consider to be the cost of money—what's the lowest interest rate they can get? But there's a hidden cost to cheap money that no one talks about: **it limits your ability to build, scale, and grow.**

- + **Low rates come with high restrictions.** Banks might offer a lower interest rate, but they require large cash deposits, slow approvals, and rigid loan structures that limit how many projects you can take on.
- + **If you're stuck only building one or two homes at a time, you're leaving serious money on the table.** The real question isn't how much you pay per dollar borrowed—it's how many dollars you can put to work.
- + **Cheaper money that restricts your ability to build more homes isn't cheap—it's expensive.** It forces you to miss out on deals, slows your growth, and cuts into your potential earnings.
- + **The 'aha' moment:** The goal isn't to get the lowest rate. It's to maximize your annual profits by building as many homes as possible, as efficiently as possible. That's what smarter financing does.



WHAT IS SMARTER FINANCING?

It's financing that works for you—not the bank.

- + **Professional loans for professional builders** – Designed to help you scale, not slow you down.
- + **No restrictive lending ratios** – Borrow based on your experience and business, not a bank's one-size-fits-all formula.
- + **No surprise credit pullbacks** – Just because the economy shifts doesn't mean your financing should disappear overnight.
- + **Flexible terms that match your goals** – Your projects, timeline, and your strategy.

WHY SMARTER FINANCING MEANS BIGGER PROFITS

Let’s compare:

TRADITIONAL BANK LOANS	SMARTER FINANCING
Requires large cash reserves	Lower cash-to-close keeps capital in your pocket
Slow approvals delay projects	Get funded in days, not weeks
Rigid draw schedules	Get paid when you need it, no unnecessary delays
Only funds one project at a time	Finance multiple projects at once
Credit pullbacks can freeze funding	No last-minute surprises-your funding stays intact

The takeaway? Smarter financing gives you access to more capital, allowing you to build more, scale faster, and keep more profits.

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HOW DOES IT WORK?

Smarter financing is designed for speed, efficiency, and flexibility.

- + **Faster Approvals** – Get a yes in days, not weeks, so you can quickly move on new deals.
- + **Lower Cash-to-Close** – Keep more of your capital working for you.
- + **Efficient Draw Process** – No unnecessary red tape. Get paid when you need it.
- + **Fund Multiple Projects at Once** – Banks can make you finish one before you start another—we don’t.

Imagine doubling your annual builds just by making a smarter financing decision.

WHY SOUND CAPITAL IS PERFECTING PREDICTABLE FUNDING FOR BUILDERS

At Sound Capital, we know that **uncertainty is the enemy of growth**—especially in new construction. When funding is unpredictable, projects stall, costs rise, and opportunities slip away. We've seen too many builders struggle, not because they lack vision or skill, but because their financing slows them down.

That's why we're on a mission to perfect a predictable funding model designed specifically for homebuilders. Our goal isn't just to lend money—it's to create a system where builders can trust that capital will be there exactly when they need it.

- + **No surprise funding freezes**—because banks tightening their belts shouldn't derail your business.
- + **No drawn-out approvals**—because speed matters when you're locking in land, materials, and labor.
- + **No rigid loan structures**—because every project is different, and your financing should adapt to that reality.

By eliminating **financing bottlenecks**, we help builders move at the speed of opportunity—scaling their business, increasing profitability, and focusing on what they do best: **building homes**.

We've set out to do that. Here's where we stand:



3,400 +

PROJECTS FUNDED



\$ 2.6 B

OVER \$2.6 BILLION FUNDED



95.3 %

REPEAT CLIENTS

BUILT FOR BUILDERS—BACKED BY PURPOSE

At Sound Capital, this isn't just business—it's personal.

+ We're not just lenders. We are business owners and former builders.

We've been in the trenches, dealing with the same financing headaches that slow down projects, squeeze profits, and limit growth. We saw firsthand how unpredictable funding forces builders to **operate uncertainly**, delaying projects and missing opportunities. So, we decided to fix it.

+ We're thinking about the next generation.

We look at the housing market today and see a crisis unfolding—one that could leave our children and their families without affordable homes of their own. The current housing shortage isn't going to solve itself, so **we back the builders who are solving it**.

By creating a predictable, flexible, and builder-focused funding model, we're giving homebuilders the financial tools to scale faster, build more homes, and meet the demand shaping the future of housing. Because the work you do today isn't just about your next project—it's about ensuring the next generation has a place to call home.

HOW TO STRENGTHEN YOUR FINANCING STRATEGY

A SIMPLE ACTION PLAN

Traditional bank loans can work—until they don't.

A slow-moving lender, restrictive terms, or unexpected delays can stall your momentum and cost you real money. The smartest builders don't just rely on one source of capital; they make sure they have flexible funding options in place before they need them.

If you've ever faced:

- + Missed deals because your bank took too long to approve funding
- + Cash tied up in high deposit requirements
- + A frustratingly slow pace of growth due to financing limitations

Then it might be time to explore a funding model that puts you in control. Even if you're not ready to change how you finance every project, it's worth having a reliable backup plan—one that allows you to act fast when opportunities arise.

STEP 1: ASSESS YOUR CURRENT FINANCING

Before improving your financing, you must **understand where it's holding you back**. Ask yourself:

- + **How much extra cash am I putting into projects** to get them off the ground?
- + **How many deals have I lost** because my lender took too long to approve funding?
- + **What's my actual cost** of waiting on a bank? How much revenue could I generate if I could build more homes faster?

If these questions make you realize that your financing hinders your growth, it's time to explore a better solution.

STEP 2: COMPARE YOUR OPTIONS

Not all financing is created equal. The cheapest money isn't always the best if it keeps you **stuck, waiting, and restricted**.

Don't just look at **what a loan costs—look at what it enables**.

More funding, faster approvals, and fewer restrictions mean you can build more homes and scale your business **without being at the mercy of the many regulations a bank must follow—regulations that don't make sense for the home builder**.



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STEP 3: SECURE YOUR FIRST SMARTER LOAN

You've seen the difference. Now, it's time to **take control** of your finances and start building at the **speed of opportunity**.



READY TO SCALE SMARTER?

If you would like to discuss your project, please call us.
We're "old school"—we like to talk with our clients.

Call 1 (888) 490-4450

EPILOGUE

IS SOUND CAPITAL THE RIGHT FIT FOR YOU?

If you've made it this far, we appreciate you exploring a smarter way to finance your growth. We'd love for you to join the Sound Capital family.

We have funded over 3,400 construction projects, amounting to \$2.6 billion in loans, with 95.3% of our clients being repeat customers.

Our average client has completed 237 builds, with some building over 5,000 homes. These builders can get funds anywhere, yet they choose us repeatedly.

Unfortunately—we're not the right fit for every builder.

For example, if your bank gives you the flexibility, speed, and support you need, stick with them. Or if you have substantial cash reserves, never run into financing delays, and don't need to scale, you may not need different financing.

But if you've ever felt frustrated by slow approvals, rigid terms, or missed opportunities, know this: You don't have to settle. It might be the time for change.

YOU MIGHT BE THE RIGHT FIT IF ...

We are looking for residential home builders who fall into these categories:

- + **You're Ready to Scale** – Growing from 10-30 builds a year and aiming for 100+.
- + **You Have a Proven Track Record** – At least 10 successful builds with your own capital on the line.
- + **You Focus 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

And here are the cases where we won't be the right fit—yet.

+ **You're just getting started in homebuilding.**

We focus on financing experienced builders with a proven track record of completing projects. Traditional financing may be a better first step until you've built the necessary experience and capital.

+ **You work outside residential housing.**

Our expertise and funding structures are explicitly tailored for residential housing—single-family homes, multi-family developments, and fix-and-flips. Retail, industrial, and raw land projects operate under different financial models, risk assessments, and market factors, making them outside our core focus.

Not sure where you land? **Give us a call.**



888-490-4450

Let's discuss how you can scale smarter, faster, and bigger because the right financing can mean the difference between staying stuck and unlocking your full potential.



**SOUND
CAPITAL**
LET'S BUILD SOMETHING GREAT!