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Looking for a Vital Sign in Contractor Accounts: The Receivables/ Payables Ratio

By Dev Strischek[1]

In his Devil's Dictionary, Ambrose Bierce defined a road as a strip of land along which one may pass from where it is too tiresome to be to where it is too futile to go. As the economy rolls down its cyclical path, the construction industry often finds this unhappy trail both tiresome and futile in its twists and turns. As fellow travelers on the contractor road trip, their lenders and creditors naturally look ahead for any warning signs of potential financial hazards. This article evaluates one possible traffic signal for the performance pike—the receivables/payables ratio.

A contractor's receivables and payables represent two significant elements of contractor cash flow and working capital. Receivables constitute the major source of cash inflow, and payables absorb a big share of cash outflow. A construction company's ability to extend credit to its customers depends on its own trade creditors' willingness to wait for their payments from the contractor's collection of its progress billing receivables. The delicate balance of receivables and payables is key to the financial success of the contractor. As will be explained later, contractor receivables take longer to collect, and the trade creditors expect prompt payment.

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Dev Strischek

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Remodeling Activity Reaches Record High

By Carla Hill[2]

Many of today's homeowners find themselves unable or unwilling to enter the housing market. Some may have unsteady jobs or are upside down in their home loans.

These conditions, however, don't mean that these homeowners don't have needs that need met. Some have outgrown their current home, have repairs that need made, or simply would love to have an updated kitchen or bath.

This explains the recent report from BuildFax that shows remodeling activity reached a record level high for the month of September.

Partly to thank for this rise in projects are the historically low interest rates, now under 4.0 percent for 30-year fixed rate mortgages. Many homeowners have sought out refinancing, meaning they now have lower monthly payments. This extra money can then be funneled into remodeling projects.

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Real Estate Outlook: Will 2012 See Improvement?[3]

By Carla Hill

We've seen the effects of tight mortgage conditions over the last year. Existing and new homes sales have struggled and we are now left with sizable pent-up demand. Will this trend continue into 2012?

For starters, consumer prices fell in October, meaning low wage workers and others struggling to make ends meet will find more affordability. Additionally, according to experts, this decline gives the Federal Reserve more wiggle room when it comes to policy making should the economy worsen.

Why the decline, which was not wholly expected? The recent developments in the European debt crisishave had their affects on American markets.

Yet, affordabilty is the name of the game for 2012. The National Association of Realtors reports that next year will be one of the best years on record for housing affordability.

"Housing affordability conditions, based on the relationship between median home prices, mortgage interest rates, and median family income, have been at a record high this year," said Lawrence Yun. "Very favorable affordability conditions will dominate next year as well, which will probably be the second best year on record dating back to 1970. Our hope is that

"Once home prices turn positive on a sustained basis, consumer confidence will rise and help the broader economy to improve."

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[3] Reprinted with permission from the Realty Times Nov. 21, 2011

Remodeling Activity Reaches Record High *(continued)*

So, while it may not make sense for a homeowner to move, they can still make modifications to their current home which will make it more livable and comfortable. These projects even raise the home's value. "Mortgage rates continue to be near record lows, and as homeowners from coast to coast refinance, they are continuing to update their current home and invest in their properties," said Joe Emison, Vice President of Research and Development at BuildFax. "The data from BuildFax show that homeowners are not only doing important 'maintenance' projects, such as fixing their roof, but also taking on projects that add to the 'livability' of their homes by adding decks, remodeling their bathrooms and updating their kitchens. These are immediate fixes they will enjoy and that potential buyers look for."

The most popular projects come as no surprise. They are as follows.

1. Roof (21.4%)
2. Deck (7.9%)
3. Bathroom (6.9%)
4. Garage (6.1%)
5. Kitchen (4.8%)
6. Basement (2.9%)
7. Office (1.7%)
8. Sunroom (0.7%)

How much did the remodeling market improve in September? The latest Residential BuildFax Remodeling Index shows rates rose 34 percent year-over-year. September was up 2 percent over August of this year.

Regionally, the West rose 4.6 percent. The Midwest rose 4.9 percent month over month, the Northeast 2.9 percent, and the South rose 9 percent.

Interest rates are expected to remain low until 2013, according to the Federal Reserve, meaning this trend for fixing up and staying put could continue for the foreseeable future.

The Receivables/Payables Ratio

(continued)

As a contractor bills his customer for the percentage of work completed for the month, he multiplies the percentage of completion by the value of the contract. The resulting dollar value of the billing covers both costs and gross profit. A typical contractor's gross profit averages around 20% of revenues, and the remaining 80% represents construction costs, of which labor and materials are the two primary components. Labor is usually the larger of the two, often 50%, leaving 30% for materials. Consequently, materials usually amount to only about a third of a typical progress billing.

For example, suppose High Road Construction Company has a $1-million contract to build a 728-yard access road up Bald Mountain to Lucifer Hot Springs Resort. HRC's owner, Pete Mussogorsky, estimates his total costs will be $800,000; materials are projected at $300,000 and labor at $500,000. His gross profit is pegged at 20%, or $200,000 for the 666 meters of roadwork. Pete starts work in May, and completes one-tenth of a mile that month. HRC has completed 10% of the road, so Pete's May billing charges the Resort $100,000 for the work to date. That $100,000 represents $30,000 of materials, $50,000 of labor, and $20,000 of gross profit.

If HRC keeps its trade debt current, it should have accounts payable of $30,000 attributable to the Bald Mountain job. Then, its receivables/payables ratio for this project is $100,000/$30,000, or about 3.3X. The ratio is high because of the relatively low cost of materials to total costs.

One further issue is the role that retention plays in the cash flows of contractors. HRC may send out a gross billing for $100,000 to the customer, but assuming that retention is 10%, the net billing will be only $90,000. HRC can expect to receive a check now for $90,000, but the $10,000 in retention on this billing as well as the retention to be held back on subsequent billings will be received in a lump sum after the job has been completed to the satisfaction of the customer. The total $100,000 in retention on the $1-million job will keep HRC committed to the job, if only because retention typically represents half the 20% gross profit in a job.

Retention, sometimes also called retainage, is a portion of the billing held back, or retained, by the owner to act as a kind of buffer to absorb costs or expenses that might result from the contractor's deficiencies on the job. It is usually due at some prescribed time after the project has been certified as complete, and any costs that the owner has had to pay on behalf of the contractor are deducted from the retention. If they are substantial, these socalled back charges may be indicative of inattention to detail, substandard performance, and notoriety for poor quality. Such a record could be bad for business and worse for loan repayment.

Since retention is usually paid after the end of the total job and not at the end of the contractor's or the subcontractor's particular phase of the project, the job's completion date and the retention's payment date are two very important days for both the contractor and the lender. As noted earlier, retention often amounts to cash payment of half the job's gross profit. Analytically, the longer the contractor has to wait for the final retention check, the longer the lender will have to wait for repayment.

Concept: The Ins and Outs

The holdback of retention until the end of the job explains why contractor receivables historically have averaged over 50 days to collect their receivables (see Figure 1).

RMA's *Annual Statement Studies* data on contractors over the 1980-1999 period show that, on average, the days receivable ratio has consistently measured 50 days or more. In general, contractors or subcontractors performing in the early phases of a project tend to have longer collection periods because retention is not paid to any of the participants until the total project is certified as complete. The certification is usually in the form of a notice of completion, certificate of occupancy, or similarly named legal document. Depending on the locale, retention is due 45 to 90 days from the certified completion date. Consequently, both the foundation contractor and the landscaper will be paid retention the same day, even though the foundation work was finished months before the landscaping effort. Partial releases of retention for the early work has been one technique used to mitigate the financial inequity.

In contrast, RMA Statement Studies data indicate that trade suppliers have just as consistently maintained a 30-day collection time on the accounts payables due them from their contractor customers (see Figure 2).

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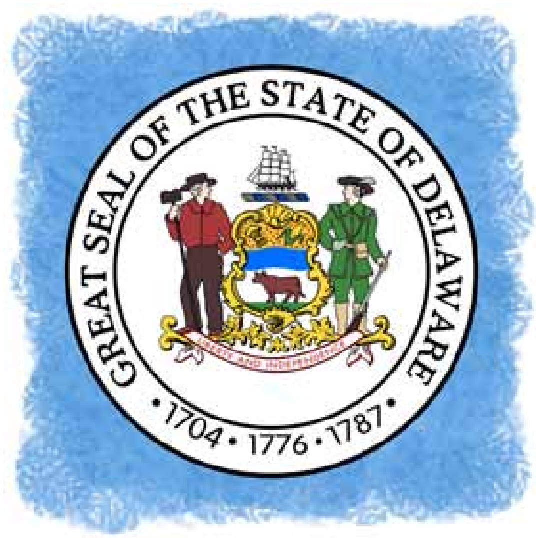
Delaware Mechanics' Lien Law

By Christopher M. Coggins, J.D., L.L.M.[4]



Introduction

Delaware's mechanics' lien law, *25 Del. C.* § 2701 *et seq.*, provides a remedy in the form of a lien for contractors, subcontractors, and materialmen who performed or furnished labor or material in or for the erection, alteration or repair of any structure.[5] The purpose behind Delaware's mechanics' lien law is to allow those who performed labor and/or provided labor to obtain a lien against the subject property before the adjudication of the obligation.[6]

Contract Required to Obtain Lien for Improvements to Land

Without a written contract with the owners of the land, a contractor, subcontractor, or materialman will not be granted a lien where the improvements are solely to land and does involve a structure.[7] Delaware's mechanics' lien statute defines "structure" as including a building or house[8] and requires that these structures be permanently situated or erected upon land.[9] Further, the contract with the owner must set forth the names of all parties, a metes and bounds description of the land, a statement of the general character of the work to be done and total amount to be paid under the contract, as well as when and how such payments are to be paid.[10]

Contractor's Responsibility to Provide List

An owner may require any contractor or subcontractor who builds, repairs, or alters a structure to provide him with a complete and accurate written list of all persons who have provided labor and/or materials related to the work performed on the structure and who may seek a lien.[11] If the contractor or subcontractor fails to provide such list within ten (10) days of owner's demand, the owner may withhold any further payments until the list is furnished.[12] Further, the contractor may not seek a lien against the structure until the list is provided to the owner.[13]

Waiver

Contractors or subcontractors are not considered to have waived their right to seek a lien under Delaware's mechanics' lien law by simply granting a credit or receiving notes or other securities unless such is received as payment for labor or materials or the lien

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Christopher Coggins

[5] 25 *Del. C.* § 2702.

[6] *First Florida Bldg. Corp. v. Robino-Ladd Co.*, 424 A.2d 32 (Del. Super. 1980).

[7] 25 *Del. C.* § 2703.

[8] 25 *Del. C.* § 2701 (2).

[9] *Pioneer Nat. Title Ins. Co. v. Exten Associates, Inc.*, 403 A.2d 283 (Del. Super. 1979).

[10] 25 *Del. C.* § 2703.

[11] 25 *Del. C.* § 2705.

[12] *Id.*

[13] *Id.*

is expressly waived.[14] On public policy grounds, any contract or agreement where a contractor waives the rights provided for under Delaware's mechanics' lien statute is void and wholly unenforceable except in specific situations, including at the time that payment is made for the labor or materials provided.[15] Any doubt as to the scope of a waiver or ambiguity is resolved against the enforcement of the waiver.[16]

Rights of Owner In Relation to Residence

An owner of lands, a structure or both which are solely used as a residence is protected from liens by contractors, subcontractors, or materialmen when full or final payment has been made to them in good faith.[17] A contractor is required to provide the owner upon full payment with a notarized verified written certification stating that the contractor has paid in full for all labor performed and materials furnished in connection with the job.[18] Alternatively, a contractor may provide the owner with a written release signed by all persons who may be able to avail themselves to the provisions of Delaware's mechanics' lien statutes.[19] A contractor's failure to provide owner with a certification or release after payment made will provide sufficient cause for the contractor's business or occupational licenses to be suspended or cancelled immediately.[20] Failure of the owner to make full payment in good faith will allow the contractor to obtain a lien pursuant to Delaware's mechanics' lien laws.[21] Such lien, however, will only be in the amount of the outstanding balance due to that contractor.[22] This is another protection provided owners who use the property or structure at issue solely as their residence. Any payments made after service of process are not in good faith and accordingly, will not reduce the amount that the lien may attach.[23]

Timing for Filing Statement of Claim

A contractor who made a contract directly with an owner of the structure and has provided labor and materials toat this structure is required to file his statement of claim within one-hundred eighty (180) days after completion of the structure.[24] A statement of claim is considered timely if it is filed within one-hundred eighty (180) days of any of the following dates: (i) the date of the purported completion of all work called for by the contract as provided by the contract if such date has been agreed to in the contract itself; (ii) the date when the statute of limitations commences to run in relation to the particular phase or segment of work performed pursuant to the contract, to which phase or segment of work the statement of claim relates, where such date for such phase or segment has been specifically

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[14] 25 *Del. C.* § 2706 (a).

[15] 25 *Del. C.* § 2706 (b).

[16] *Steel Suppliers, Inc. v. Ehret,* 486 A.2d 32 (Del. Super. 1984); *G.R. Sponaugle & Sons, Inc. v. McKnight Const. Co.*, 304 A.2d 339 (Del. Super 1973).

[17] 25 *Del. C.* § 2707.

[18] *Id.*

[19] *Id.*

[20] *Id.*

[21] *Id.*

[22] *Id.*

[23] 25 *Del. C.* § 2707; *Masten Lumber and Supply Co. v. Brown,* 405 A.2d 101 (Del. Super. 1979).

[24] 25 *Del. C.* § 2711 (a) (1).

Delaware Mechanics' Lien Law *(continued)*

provided for in the contract itself; (iii) the date when the statute of limitations commences to run in relation to the contract itself where such date has been specifically provided for in the contract itself; (iv) the date when payment of 90% of the contract price, including the value of any work done pursuant to contract modifications or change orders, has been received by the contractor; (v) the date when the contractor submits his final invoice to the owner of such structure; (vi) with respect to a structure for which a certificate of occupancy must be issued, the date when such certificate is issued; (vii) the date when the structure has been accepted, as provided in the contract, by the owner; (viii) the date when the engineer or architect retained by the owner, or such other representative designated by the owner for this purpose, issues a certificate of completion; or (ix) the date when permanent financing for the structure is completed.[25]

Subcontractors, materialmen, or other persons who may obtain a lien pursuant to Delaware's mechanic lien law are to file a statement of claim within one hundred twenty (120) days from the date of completion of labor or from the date of last delivery of materials furnished.[26] Such statement of claim will be timely if filed within one hundred twenty (120) days of either: (i) the date final payment, including all retainage, is due to such person; or (ii) the date final payment is made to the contractor who has contracted directly with the owner of any structure for the erection, alteration or repair of same and with whom such person has a contract, impress express or implied, for furnishing of labor or materials, or both, in connection with such erection, alteration, or repair.[27]

Contents of Statement of Claim

In order to obtain a lien under Delaware's mechanics' lien laws, a person must file a statement of claim in the time specified with the Prothonotary of the Superior Court in the county where structure at issue is located.[28] The statement of claim may also serve as a complaint.[29] The statement of claim must include: (i) claimant's name; (ii) the name of the owner or reputed owner of the structure; (iii) the name of contractor and whether the contract was made with the owner, his agent or with a contractor; (iv) the amount claimed to be due along with documentation supporting this claimed amount, such as the contract; (v) the time when the doing of labor or furnishing of materials began; (vi) the time when labor or furnishing of materials was completed; (vii) the location of the structure; (viii) that the labor or materials were provided on the credit of the structure; (ix) the amount of claim and a statement that this amount nor any part of it has been paid to plaintiff; (x) the amount claimed to be due on each structure (if lien is to apply to more than one); and (xi) the time of the first mortgage or similar encumbrance on the structure.26 The statement of claim is required to be supported by an affidavit of the claimant stating that all facts are true and correct.[31]

Miscellaneous Provisions

Any judgment obtained pursuant to Delaware's mechanics' lien laws will become a lien on the structure and the ground on which it sits.[32] This lien will relate back to the date on which labor was begun, when the materials were first delivered or the time immediately following the recording of the first mortgage.[33]

Any proceeds received from a sale under Delaware's mechanics' lien statutes, if insufficient to

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[21] 25 *Del. C.* § 2711 (a) (2).

[22] 25 *Del. C.* § 2711 (b).

[23] *Id.*

[24] 25 *Del. C.* § 2712 (a).

[25] *Id.*

[26] 25 *Del. C.* § 2712 (b).

[27] 25 *Del. C.* § 2712 (c).

[28] 25 *Del. C.* § 2718 (a).

[29] *Id.*

The Receivables/Payables Ratio *(continued)*

Figure 1

Days Receivable Ratio: 1980-1999

SIC	Contractor Line of Business	1980	1985	1990	1995	1996	1997	1998	1999
1521	residential cntrctrs-—single family	21	15	9	3	2	2	1	1
1522	res cntrctrs—nonsingle family							5	6
1541	commercial construction	54	54	51	51	51	53	53	50
1542	gen cntrctrs—nonres buildings							52	50
1611	highway & street	55	51	51	49	46	46	47	46
1622	bridge, tunnel, elevated highway	55	56	51	44	50	51	55	50
1623	water, sewer, pipe & cable	54	57	58	57	56	60	58	58
1629	heavy construction, nec					56	56	67	52
1711	plumbing, heating & AC	57	57	56	56	56	57	56	55
1721	painting & paper hanging	57	70	61	55	64	63	54	63
1731	electrical work	57	60	56	61	58	59	61	61
1741	masonry & stone	62	60	60	64	61	55	61	58
1742	drywall, plaster & acoustical	61	61	57	65	61	60	67	64
1743	tile & marble	62	59	57					
1751	carpentry			33	45	41	54	45	43
1752	floor laying	49	63	55	51	53	61	56	56
1761	roofing & sheetmetal	54	54	53	51	54	56	56	57
1771	concrete work	59	54	59	54	54	51	56	50
1791	structural steel erection	64	68	61	63	65	65	56	63
1793	glass & glazing work			64	58	60	54	63	64
1794	excavating & foundation	58	60	62	54	54	54	53	54
1799	specialty trades, nec				54	54	53	48	47
	Average	**57**	**59**	**56**	**52**	**52**	**53**	**51**	**50**

In most communities, there are few competitive suppliers of lumber, steel, concrete, asphalt, crushed stone, and other materials. The construction materials firms maintain close contact with one another, contribute payment information to trade credit-reporting agencies, and are quick to cut off slow-paying customers. The delinquent contractor usually has few alternatives, so the contractor will work hard to meet the 30-day terms.

Therefore, receivables that turn over in say, 50 days, and payables that turn in 30 days infers a ratio of around 1.67, 50 days divided by 30 days. The difference between this 1.67 ratio and the 3.33 ratio deduced from the typical billing may be partly due to the manner in which days receivable and days payable are calculated. Days receivable is derived from the sales/receivable ratio, and days payable from the cost of sales/ payable ratio. Dividing 365 days by the turnover ratio yields the days figures, and matching sales with receivables and cost of sales with payables is intuitively appropriate. However, cost of sales also includes all the costs of construction labor as well as materials, so the ratio may not be as good an estimate of payables turnover as the receivables turnover ratio. Further, much or all of the materials are often purchased at the beginning of the job, so trade debt tends to be large at the start of the job and then relatively low through the remainder of the project.

Facts: Double Your Money

In fact, contractors have kept this ratio above 2.0X, on average, over the past 20 years, according to RMA statistics for the receivables/ payables ratio (see Figure 3).

The ratio varies from line to line, but the variation tends to reflect the differences among contractors in proportions of labor and materials. For example, painting contractors have much higher labor costs proportionately than bridge contractors, whose material costs are relatively higher than those of painters.

Interpretation: Two is Good; Under One, Not So Good

Generally speaking, the receivables/payables ratio has averaged over 2.0X although it does vary from this overall average depending on the labor/materials proportion in the individual contractor line of business as noted in the table above. It has already been established conceptually that whether calculating the ratio by comparing the total billing to the material cost component or just comparing the receivables turnover to payables turnover, the ratio tends to lie somewhere between 3.3X and 1.67X. Remember that the apparent slowness in receivables is actually the weighted average impact of retention on collection of a project's net progress billings during construction and then the wait for the 10% retention after the entire job is certified as complete.

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The Receivables/Payables Ratio

(continued)

Figure 2

Days Payable Ratio: 1980-1999

SIC	Contractor Line of Business	1980	1985	1990	1995	1996	1997	1998	1999
1521	residential cntrctrs—single family	—	26	23	18	16	15	12	16
1522	res cntrctrs—nonsingle family	—						21	21
1541	commercial construction	—	42	39	39	41	40	42	41
1542	gen cntrctrs--non-res buildings	—						43	44
1611	highway & street	—	30	30	29	28	26	30	26
1622	bridge, tunnel, elevated highway	—	36	28	33	31	34	32	31
1623	water,sewer, pipe & cable	—	34	30	31	27	30	26	26
1629	heavy construction, nec	—				27	34	33	32
1711	plumbing, heating & AC	—	34	32	31	32	30	32	33
1721	painting & paper hanging	—	24	19	19	18	20	20	19
1731	electrical work	—	29	27	27	27	27	27	26
1741	masonry & stone	—	25	20	20	24	17	22	18
1742	drywall, plaster & acoustical	—	29	23	20	19	21	20	19
1743	tile & marble	—	27	33					
1751	carpentry	—		24	30	24	24	19	19
1752	floor laying	—	36	24	30	25	24	25	28
1761	roofing & sheetmetal	—	33	28	28	29	27	29	30
1771	concrete work	—	35	31	26	26	25	29	27
1791	structural steel erection	—	35	26	30	28	24	29	26
1793	glass & glazing work	—	37	35	33	41	38	36	43
1794	excavating & foundation	—	32	30	24	30	26	27	29
1799	specialty trades, nec	—			26	28	28	27	27
Average		**—**	**32**	**28**	**27**	**27**	**27**	**28**	**28**

So what is an unacceptable level? Ratios below 1.0X clearly tax the patience of trade creditors.As noted earlier in this article, a ratio of 1.0X or lower infers substantial slowness, perhaps in the 60- to 90-day range. That degree of slowness usually warrants COD treatment from suppliers. In fact, anecdotal evidence over the years confirms that contractors with such a low receivables/ payables ratio do show past-due payables, COD terms, judgments, liens, and collection activity in their trade credit reports. If suppliers will not ship materials, the contractor cannot continue to build. Once the contractor ceases work, so ceases payment. The cessation of cash ultimately means a problem asset for the lender.

Advantages: Easy to Use and Track

This ratio is easy to calculate. A current balance sheet or even just a current set of agings for receivables and payables may suffice. Unlike the turnover ratios, the receivables/ payables ratio does not require an income statement. The agings offer the additional advantage of insight into the quality of customer receivables and the immediacy of trade debt pressure. A receivables aging that distinguishes the amount of retention from the net progress billing gives the reader a better sense of the timing and relative sizes of the cash flows from billings and retention. A payables aging reveals the proportion of current and not-so-current trade debt, and the aging's currency or delinquency can be compared with trade credit reports to double-check the accuracy of the aging.

The ratio can be used at the front end of the credit decision process as a screen and after the credit is extended as a monitoring tool. If used in conjunction with periodic trade credit reports, the receivables/payables ratio may be a cost-effective way of screening and monitoring contractors. Set the screen at a minimum of 1.0X for the receivables/payables ratio, and track the ratio's trend for deterioration below the industry average or below the 1.0X minimum.

Closing and Summary: Take the High Road

The receivables/payables ratio is a quick-and-easy test of contractor viability. History indicates that this ratio has averaged over 2.0X, varying among the contractor lines depending on the proportion of labor and materials. The more labor costs relative to material costs, the higher the ratio.

Regardless of the labormaterial costs, the ratio runs well above 1.0X. When the ratio falls below 1.0X, the contractor is likely to be seriously past due on trade debt, a condition that is perilous to lenders.

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The Receivables/Payables Ratio

(continued)

Thus, the value of this ratio in the credit process is, in the front end, as a screen and, during the life of the commitment, as a monitor.

Take advantage of the analytical and monitoring power of this ratio to keep your contractors moving on down the road to success. Otherwise, to paraphrase Will Rogers, even if you're on the right road, you'll still get run over if you just sit there.

Figure 3

Receivables/Payables Ratio: 1980-1999

SIC	Contractor Line of Business	1980	1985	1990	1995	1996	1997	1998	1999
1521	residential cntrctrs—single family	1.3	1.1	0.9	0.6	0.4	0.5	0.4	0.4
1522	res cntrctrs—nonsingle family							1	0.9
1541	commercial construction	1.5	1.4	1.4	1.4	1.3	1.4	1.3	1.3
1542	gen cntrctrs—nonres buildings							1.3	1.2
1611	highway & street	1.8	1.9	1.9	1.9	1.8	2	1.9	1.9
1622	bridge, tunnel, elevated highway			1.8	1.6	1.6	1.8	1.9	2.1
1623	water, sewer, pipe & cable	2	2.1	2.4	2.3	2.4	2.2	2.5	2.6
1629	heavy construction, nec					2.5	1.9	2.2	1.9
1711	plumbing, heating & AC	1.9	2	2.1	2.2	2.1	2.3	2.1	2.2
1721	painting & paper hanging	2.8	4	3.4	3.9	4.1	3.9	3.4	3.8
1731	electrical work	2.4	2.7	2.6	2.7	2.5	2.7	2.8	3
1741	masonry & stone	3.2	3	3.7	3.8	2.9	3.9	3.7	3.9
1742	drywall, plaster & acoustical	2.7	2.8	3.1	4.1	3.9	3.7	3.8	4
1743	tile & marble	2.9	3.2	2.5					
1751	carpentry			1.8	2.4	2.4	2.9	3	2.5
1752	floor laying	1.7	1.9	3.2	2.2	2.7	2.6	2.9	2.4
1761	roofing & sheetmetal	1.9	2.2	2.1	2.3	2.4	2.8	2.6	2.3
1771	concrete work	2.1	1.9	2.2	2.7	2.3	2.4	2.4	2.3
1791	structural steel erection	2.3	2.3	2.5	2.6	2.7	3.4	2.6	2.4
1793	glass & glazing work		1.9	2.4	2.4	2	1.9	2.1	2.1
1794	excavating & foundation	2	2.5	2.4	2.6	2.3	2.5	2.3	2.1
1799	specialty trades, nec			2.1	2.5	2.5	2.4	2.1	2.4
	Average	**2.2**	**2.3**	**2.3**	**2.4**	**2.4**	**2.5**	**2.3**	**2.3**

REFERENCES

Contractor statistics taken from 1981 through 2000-2001 editions of Annual Statement Studies, Philadelphia: RMA—The Risk Management Association.

Dev Strischek, Analyzing Construction Contractors, Second Edition, Philadelphia: Robert Morris Associates, 1996.

Delaware Mechanics' Lien Law *(continued)*

pay all liens, will be divided among all persons who obtained liens under this law ratably without any preference.[34]

The Delaware Code protects subcontractors in their relationships with general contractors through a "pay when paid" statute, *6 Del C.* § 3501 et seq. This statute requires that general contractors pay their subcontractors upon receiving payment from the owner. Failure to timely pay a subcontractor creates a cause of actions against the general contractor. This statute holds that the general contractor is acting as a trustee of these funds and thus, the general contractor, as trustee, is subject to certain fiduciary duties.

[34] 25 *Del. C.* § 2720.

Granite Loan Management Announces New Hires

We are pleased to announce that 2 additional regional account executives have joined Granite Loan Management. Please help us to welcome Peter Blass and Thomas McAndrew to the team!


Peter Blass

Peter Blass is the Northeast regional account manager, based in New York. Blass spent the past year and a half at Lexden Capital in New York as an executive vice president focusing on originations. Before that he spent eight years at Arbor Commercial Mortgage of Uniondale, N.Y. Peter may be contacted at 917.658.8264 or at peter.blass@granitecm.com.


Tom McAndrew

Thomas McAndrew has joined Granite Loan Management as Midwest Regional Sales Executive. Tom has been involved with commercial and residential real estate lending since beginning his career in 1992 after graduation from the University of Iowa. Prior to joining GCM, Tom worked with a large national bank and a smaller, regional community bank in the areas of credit default management, residential and commercial real estate loan production, and construction loan production and administration. Tom may be contacted at 303.967.1700 or at tom.mcandrew@granitecm.com.

Construction-at-a-Glance

	Oct. 10	Oct. 11
Total Monthly Housing Starts*	539	628
One Unit	434	430
Multifamily	105	198
YTD Permits-Single Family*	387	354
YTD Permits-Multifamily*	124	157
Monthly New Home Sales*	282	307
Unemployment Rate	9.7%	9.0%

**Thousands of Units*

Source: U.S. Bureau of the Census, Construction Reports, Series C-20, Housing Starts. U.S. Bureau of Labor Statistics.

Will 2012 See Improvement?

(continued)

credit restrictions will ease and allow more home buyers to take advantage of current opportunities."

NAR President Phipps says that "mortgage availability remains a real concern since the private market has yet to return. While the housing market is still in recovery, we firmly believe that lower loan limits will only further restrict liquidity in mortgage markets."

Home sales could start to see some improvement in the new year, though. Existing-home sales are expected to rise 4 to 5 percent.

"While mortgage rates may rise slightly, they will still be near historic lows."

"Once home prices turn positive on a sustained basis, consumer confidence will rise and help the broader economy to improve," Yun added. "If we could maintain sound and reasonable mortgage underwriting standards, the market would be able to avoid a future big boom and bust cycle, but mortgage standards remain overly stringent."

While mortgage rates may rise slightly, they will still be near historic lows. In fact, the Federal Reserve is committed to keeping rates low through mid-2013.

The latest reports on the remodeling market show that today's low rates may be allowing stay put homeowners the opportunity to refinance and funnel extra funds into home improvements. According to BuildFax the remodeling market is up 34 percent over September 2010. They report the top projects are roof remodels/replacements followed by deck and bathroom remodels.

Nearly two and a half years after the recession the economy and housing market continue to struggle, but recent stats and surveys are revealing that a change could be on the horizon for 2012. For now, affordability and interest rates are making for tempting deals for today's buyers.

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Georgia Lender's Quality Circle: Southeastern Small Business Lenders Conference 2012 (SESBLC)
February 5-7, 2012, Greensboro, GA

MBA Commercial Real Estate Finance/ Multifamily Housing Convention & Expo 2012
February 5-8, 2012, Atlanta, GA

International Franchise Association (IFA) 52nd Annual IFA Convention
February 11-14, 2012, Orlando, FL

California Bankers Association (CBA) 25th Annual Lenders Conference
March 18-21, 2012
Rancho Mirage, CA