

From a Financial Standpoint, What is and What is Not “Construction”?

Construction is a very delicate word with a host of various meanings. People who may “think” that they’re construction companies, in their mind, may not be in ours. If we say that we don’t finance construction companies, and they think that’s what they do and who they are, then they may pass you and I by.

If you can help determine what is a true multi-tiered construction situation and what is merely a service where the prospect is constructing something then we can make a more accurate decision as to whether they can obtain financing or not.

Perhaps we can look at it this way:

Paragon understands the construction process better than any other company. We understand their need for timely payroll and the purchase of materials while waiting for payment from their customer or contractor. Paragon believes that there are several types of construction, some of which are more complex in contractual obligations than others. It is important for us to understand the flow payment and where it originates.

Let’s take a look at an example from two situations:

Example 1)

If a company, that might believe they are construction because they have a fleet of pick-up trucks, get dirty and sweaty during the day and have Igloo® water coolers on the beds of their trucks, were hired by another company (let’s use Home Depot® for example) to provide work or services for them (such as installing new steel shelving in all of their East Coast stores) and they will be paying them directly for their work/services, then this is a form of construction that Paragon would be very interested in discussing further and, most likely, can easily be financed/factored.

A single company billing another company directly for their services is not considered construction in the financial industry. Even if Home Depot® hires a GC (General Contractor), for the purpose of hiring the company that’s installing the shelving, then that creates a strong financial base as well.

Example 2)

If a company was hired by a contractor (GC), or another sub-contractor, that was hired by another GC or developer (that may work in association with an architect) who was hired by an investment firm, or group of individuals, that created a shell corporation to keep their personal identities hidden, then this is most likely the type of multi tiered, pay-when-paid, construction that Paragon, or any other company, will not finance. Even the companies that advertise that they specialize in “Financing Construction Companies” will not finance a situation like this.

The term “construction” has a different meaning from a financial perspective than from a company owner’s point of view. That term is more associated with where the flow of payment begins and how many companies it must move through before it becomes available to our potential client. Whereas the term “construction” to them means “constructing something” or “hard physical labor associated with building something while getting dirty”.

If you are unsure about which type of company they are based on the two examples above then please do not turn them away. Call us and let us make the decision as to which category they fall under.

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