

# Construction Mortgages

## Mortgage Options

There are a variety of new kinds of construction financing available. Building a home can be a complicated endeavor; therefore, your mortgage should be simple.

Basically, there are 3 categories of construction financing.

These three categories include:

- a) You may purchase a newly constructed home
- b) You may construct your new home yourself
- c) You may hire a contractor to build your home

## The 3 types of New Construction Financing

### 1) Contractor/Builder home built home with your money

This kind of financing is in place when a customer enters into an agreement to have a registered builder construct their home. The builder then requires "Financing Draws"

**Mortgage Options:** Progress Draw or Completion Mortgage.

### 2) Self-Built Home

This particular financing is available when the customer wishes to act as her or his own contractor. They typically hire sub trades to compete various kinds of specialty work.

**Mortgage Options:** Progress Draw or Completion Mortgage

### 3) Builder built home with their money

In this situation, the customer requires funds when the home is totally complete. Mortgages on condominiums, newly constructed homes and town homes.

**Mortgage Options:** Completion Mortgage

## Completion Mortgage

The Completion Mortgage comes into play when you have built or purchased your home through a Residential Home Builder and only need funds when the house is 100% complete. There are some situations that require a small deposit to start. This kind of mortgage is simply a regular mortgage.

For instance: A customer submits an offer to purchase their builder. Let's say the complete cost of the home is \$400,000 and it will be completely built in a year. Down payments are due as follows: An Offer to Purchase with \$1000. Once the financing condition is met, \$19,000 is due and 12 months from now \$380,000 will be due on the closing date. In this situation, the customer will provide the \$20,000 from their resources and will then only require a mortgage upon closing. This is a single advance mortgage and is the same as a regular residential mortgage.

## Progress Draw Mortgage

A Progress Draw is a kind of funding, which is advanced in intervals while the house is being built. Typically, there are 3 draws at 35%, 65% and 100% completion. A Land Draw, only conventional, may be needed if the customer is also purchasing the land.

## Relevant Terms and what they mean for a Construction Mortgage

**Solicitor:** It is important to remember that a Progress Draw requires a Solicitor.

**Progress Inspection Report:** Every draw requires a Progress Inspection Report. This report details the percentage complete prior to the advancement of funds. The broker will be responsible to contract the appraiser to order the inspection report. Afterwards, this information will be forwarded to the lender who will manage the draws after receipt of the Inspection Report.

If the mortgage is insured, the same process applies. The lender will forward the inspection report on to CMHC; Genworth Financial Canada will perform its own inspection.

**Interest on Draws/Advances:** Generally, interest is charged on all amounts advanced and subsequently invoiced. The interest is then debited from the customer's account on a monthly basis. Debiting occurs on the first of every month. A statement is then forwarded to the client within the first half or during the first two weeks of the month.

**Final Advance:** The final advance will not be released until completion is confirmed by the final inspection. As well, the final mortgage documents need to have been signed by the customer and returned to the lender by the Solicitor.

**Mortgage Insurance:** Under CMHC guidelines, land draws are not an option.

## Completion Stages

There are usually 3 stages to building a house with Progress Draws and these are outlined below:

- a) **Roof Tight / Roof Stage** - This is defined by an approximate 35% completion and by first draw, a survey is required.
- b) **Lock Up / Intermediate** - Approximately 65% complete prior to the drywall installation. If this is an acreage property, at this stage the septic and the well are required.
- c) **Completion / Final Occupancy** - The majority of lenders will not issue final advance unless the home is totally complete, 100%. For seasonal holdbacks there is a 3% allowance. Seasonal holdbacks are typically weather related, exterior to property and minor. It is important to note that draws are issued solely on the Appraiser's Percentage Complete Inspection Report.

**Required Documentation for a Builders Mortgage:**

- a) Income confirmation and written employment are required as well as proof of equity or down payment. If the home is a self-build, copies of all quotes will need to be provided.
- b) If applicable, a signed contract with builder and all addendums is needed. If already owned, a copy of the title is needed and an offer to purchase for land. If land is owned, details of any charge registered against it need to be noted. A full Insurance Certificate, House and Plans Specifications and a full Appraisal are additionally required.
- c) If applicable, third party warranty information is needed as well as a Fire Insurance Certificate.