

Construction Mortgage Options

Options on Construction Mortgages

Currently, there are a few kinds of construction financing available. Though building a home can be quite a complicated endeavor, your mortgage should be quite simple. There are 3 categories within construction financing. These include:

- purchasing a home that is newly constructed
- building a new home yourself
- hiring a contractor to build your home

3 New Types of Construction Financing

1. Contractor or Builder builds you a home with your money

Financing for this type of construction will be put in place once the customer and the registered builder reach an agreement to construct the home. The builder will require "Financing Draws".

Mortgage Options: Completion Mortgage or Progress Draw

2. The Self Built Home

When the customer chooses to act as his or her own contractor; this type of financing will be available. The customer will be responsible for hiring the sub-contractors to complete various aspects of the home build.

Mortgage Options: Completion Mortgage or Progress Draw

3. Builder Builds the Home with Client's Money

In this particular scenario, the client will require the funds upon completion of the home. These mortgages may apply to newly constructed homes, town homes, and condominiums.

Mortgage Options: Completion Mortgage

What is a Completion Mortgage?

When you have built or purchased your home through a Residential Home Builder, the completion mortgage may come into play. Funds are only needed when the home is completed 100%. In some situations a small deposit might be required; however, this kind of mortgage would fall under the category of a regular mortgage.

An example of a completion mortgage might look like this: The client will submit an offer to purchase from their builder. Let's put the completion cost at \$375,000 and it will take 6 months until completion. The down payment dues will be as follows: Offer to Purchase at \$1000. When financing has been decided, another \$19,000 is due and the remaining \$355,000 will be due upon the closing date. The customer in this example will provide the \$20,000 from their resources and will only require their mortgage upon closing. This is a single advance mortgage and is similar to the regular residential mortgage.

Progress Draw Mortgage

The progress draw is designed to deliver funding upon advanced intervals while the home is being built. The most common progress draw will see 3 separate draws at 35% completion, 65% completion, and full completion. Land draws may also be required if the customer is purchasing the land as well.

Construction Mortgage Relevant Terms

Final Advance: The final advance will only be released after the final inspection has been performed. In addition, the mortgage documents need to have been signed by the customer and returned to the lender.

Interest on Draws (Advances): Interest is generally charged on all amounts that are advanced and invoiced. Interest is then debited on a monthly basis from the customer. On the first of every month, debiting will occur. Interest statements will then be forwarded to the client within the month's first two weeks.

Mortgage Insurance: Land draws are not an option under current CMHC guidelines.

Progress Inspection Report: A progress inspection report is required before every draw. This report will need to detail the project completion percentage prior to the funds being released. It is the responsibility of the broker to get in contact and order the inspection report from the appraiser. This information is to be forwarded to the lender afterwards, as they are responsible for managing the draws after receiving the progress report.

The same process applies when the mortgage is insured. Lenders are required to send the progress report onto CMHC. Genworth Financial Canada will then perform its own inspection.

Solicitor: A solicitor is required in a progress draw mortgage.

Completion Stages

With progress draws, there are usually 3 stages to building a home. These stages are outlined below:

- **Roof Stage** – This is the first draw and the home is considered to be 35% complete; a progress report is required at the end of this stage.

- **Lock Up Stage** – This is the second stage or second draw and the home is considered to be 65% complete. If the property is an acreage, this stage might require the septic and the water well to be completed as well.

- **Completion Stage** – Most lenders will only issue the final advance or draw once the home is totally complete, 100%. There may be a 3% holdback for seasonal allowances. Weather is often the reason for a seasonal holdback, on issues that pertain to the exterior of the home, the property or are of minor importance. The draws are issued solely upon the appraiser's final completion inspection report.

A Builders Mortgage Required Documentation

- For proof of equity or down payment, income confirmation and written employment notifications are required. On self-built homes, copies of all the quotes will need to be provided.
- In some cases, signed contracts with the builder and all addendums are needed. A copy of the title and the purchase to offer are needed if the land is already owned. Also, if the land is owned, any details of any charges against it will have to be noted. House and plans, a full insurance certificate, and a full appraisal are also required.
- Fire insurance certificates and certain third party warranty informations are needed as well.