

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