



CHRIS ALLARD

Mortgage Team

Obtaining A Mortgage When Building From Scratch

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A Guide to Financing Your Construction Project

For a family building their custom dream home or an investor looking to build a multi-unit property or an infill project, starting construction on a new property is an exciting time.

However, when starting from scratch, the process of obtaining a mortgage is quite different than with an older, existing home or building. With that being said, to help ensure you have all the proper tools for financing your next construction project, we'll break down everything you need to know about construction mortgages so you can go into this exciting process fully prepared for what's to come.

What A Progress Draw Mortgage Schedule Usually Looks Like

Here is an example of a draw schedule lenders may use when approving a construction mortgage:

Mortgage Draw 1

- Excavation, footings, and foundation – 12%
- Damp proofing, weeping tile, and backfill – 2%
- Framing, sheathing, and roofing completed – 17%

Mortgage Draw 2

- Exterior doors and windows installed – 3%
- Roughed-in electrical – 3%
- Roughed-in plumbing and floor drains – 2%
- Roughed-in heating – 2%
- Insulation and vapour barrier – 2%

Mortgage Draw 3

- Exterior finish (siding/stucco, trim) – 12%
- Interior walls and ceiling finish – 8%
- Finish carpentry (trim, cabinets placed) – 11%
- Heating equipment complete – 5%
- Electrical complete – 1%

Mortgage Draw 4

- Plumbing complete – 4%
- Basement floor placed – 3%
- Painting complete (interior and exterior) – 5%
- Interior doors – 2%
- Floors finished – 3%
- Walks and driveways – 1%
- Grading, site improvement – 2%

Takeout

- Occupancy permit acquired – 100% completed

What is a Construction Mortgage?

A construction mortgage, also known as a Progress Draw Mortgage, is a loan where the borrowed funds are used to help finance the construction of a brand-new home or building. The funds will be released to you in installments, also known as 'Draws' as construction progresses. The draw schedule is based on the percentage of construction that has been completed. The status of construction will be determined by a progress inspection completed by the original appraiser.

Things to Keep In Mind

During the construction process, you will only pay interest on the total mortgage amount you have received. This interest cost is usually deducted from the progress draw. Once the final draw has taken place, you will begin to make mortgage payments on both the principal and interest.

It's also important to note that each draw will have a hold-back equal to 10% of the draw, which will be held by your lawyer's office. These sums of money will be released to you 60 days after you have obtained your occupancy permit, so long as the property is at least 98% complete and has been inspected and reported by the original appraiser.

You must also obtain All-Risk Builders Risk Insurance and maintain the coverage throughout the entire construction period.

Also remember that you must ensure all municipal building inspections have been completed and receive approval by your local municipality.

How Many Draws to Expect

In terms of the number of draws, construction mortgages tend to be quite flexible.

With many lenders, there can be unlimited amounts of construction draws. However, the standard is often 4 to 5 draw phases throughout the construction process, including financing the land.

The draw schedule is also pretty flexible, but in most cases, draws are completed around 45 days apart.



Other Important Considerations

Saving Up For a Down Payment

When planning on constructing a brand-new home, it's important to consider that the minimum down payment is 20% of the lot value and most often 35% of the lot value. In the end, most lenders will finance 80% of the future value, but this is based on equity that you have built during your construction.

Obtaining Construction Mortgage Approval

As with any loan, you will need to provide lenders with accurate, up-to-date information regarding your income, debts, and assets, and be able to prove that you have the financial means to make payments and are low risk of defaulting.

Working With a Qualified Builder

To obtain approval for a construction loan, it is recommended that you work with a “qualified builder” who has experience constructing new homes.

This can be yourself or a:

- Residential Home Builder
- Licensed General Contractor

If working with a general contractor, signing a construction or purchase contract with your builder or developer that you can provide to your lender is also required. This contract will detail certain aspects regarding the construction project that can impact your loan. This includes:

- How much money the contract is for, including construction and cost of land
- The start and completion dates for construction



If you are not using a general contractor, you will need to provide quotes for the work you plan to complete. For example, you may have many different quotes for every aspect of the build, including:

- Plumbing
- Heating
- Flooring
- Foundation

The Importance of Working With a Mortgage Broker

When it comes time to start shopping around for a construction mortgage, be sure to work with an experienced mortgage broker with the knowledge and expertise to help you navigate the process and find you the best financing option for your needs.

Ready to get started?

Our team would be more than happy to help guide you through this next exciting step.



Contact the Chris Allard
Mortgage Team Today!
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