



Progress Advance Draw Mortgage



REFERENCE GUIDE - 2016

Please see also:

- *CFC Land & New Construction Presentation*
- *CFC New Construction - Paperwork List for Clients*
- *CFC Progress Advance Mortgage Template (Excel)*



PROGRESS ADVANCE SCHEDULE

Progress Advances/Draw Mortgages are loans, which provide homeowners a pro-rated advance during the construction of their house. This mortgage product may also be used to complete a substantial renovation requiring progress advances.

The following guidelines are generally acceptable to the Mortgage Insurer's guidelines (subject to minor variations between the programs).

Note if an insured file... the Mortgage Insurer does manage the progress advances – not the Mortgage Lender or the Mortgage Broker.

PROGRESS ADVANCES

Progress advances/draw mortgages are designed to advance funds to a Borrower through a selective schedule of construction phases.

The Borrower must first inject their money (cash or net equity) into the construction project.

**** A progress advance/draw mortgage is a pay upfront (by Borrower) and/or build upfront (by Builder) / get reimbursed (from Lender) situation ****
You will NOT receive funds prior to work complete!

The Borrower may request a progress advance at the following stages, up to a maximum of 4* for Insured Mortgages:

- Draw ½** **15 to 25% Foundation/Backfill.** The foundation is in place and backfill is complete. Generally, work has begun on the framing.
- Draw #1** **40% Lock-up.** The home is completely framed; the roof is on; and the doors and windows are installed. The home is locked-up.
- Draw #2** **65% Drywall/Services.** Drywall is installed and taped; furnace and water heater and installed and functioning; remaining services (electrical) must be a minimum of 90% completed.
- Draw ¾** **85% Kitchen/Bathrooms.** This draw may be available for extensive kitchen/bathroom/cupboard costs.
- Draw #3** **100% Complete.** Home is complete, inspected and the occupancy certificate has been issued. Subject to minor seasonal holdbacks. = **Take Out.**

For minor deficiencies, lender may allow final draw with hold-back for relative cost.

** Note... for conventional builds (no Mortgage Insurer), the draw schedule may be more relaxed; however costs and fees may increase.*

At each progress advance stage, a specific percentage of the building funds are advanced to the Borrower, based on a cost to complete estimate and always supported by an inspection report from an approved appraiser. Funds are advanced to the Borrower's lawyer who insures that the appropriate construction lien holdbacks (which are 10% in Alberta) are maintained, prior to releasing funds to the Borrower or builder.

*Note... advances are based on the **lesser of market value of the work completed or the cost to complete.***



PROGRAMS

Self Build

- For Borrowers who either own or purchase land and act as their own general contractor. As the only GC, they are responsible for hiring qualified and licensed sub-trades to build the home. If the applicant is a qualified tradesperson, the applicant may complete the work for which he or she is qualified to conduct. This is considered 'sweat equity' and may not exceed the cash down payment towards the build.
- A self-builder must also demonstrate expertise via resume or otherwise he or she's credentials and knowledge to function as a general contractor and complete the work required.
- Contracts with sub-trades may not exceed 50% of the total construction costs to qualify as a self-build.
- Must purchase an independent New Home Warranty insurance policy (approx cost is \$3,000) as they are not eligible for New Home Warranty Program (NHWP). Must plan to reside in property in 10 years.

Contractor

- For Borrowers who either own or purchase land from a general contractor or builder who then proceed to build the property on their behalf. More than 50% of the cost to build is done by a single contractor or sub-contractors.
- Must be a member of an approved New Home Warranty Program (NHWP).

Residential Home Builder

- The home is purchased from a Residential Home Builder.
- Must be a member of an approved New Home Warranty Program (NHWP).

PROPERTY CRITERIA

- **New** – Construction is not started.
- **Construction** – Property is under construction; or property is complete but has never been occupied.
- **Existing Housing** – Property that is currently occupied or has previously been occupied.

ELIGIBLE PROPERTIES

- Maximum 4 units where at least 1 unit must be occupied as the principal residence. Single family detached and semi detached homes only – no condominiums or common walled properties.
- New construction must conform to the National Building Code and the latest edition of Residential Standards Canada and the applicable municipal and provincial building codes.
- Furthermore, all properties constructed in Alberta must be covered by an approved New Home Warranty Program (NHWP) unless an approved self-builder where the owner intends to reside for a minimum of 10 years. Single-policy Insurance still required.

LOAN TO VALUE RATIOS

- Conventional = 80%
- Insured = up to 95%

Note...even if an applicant is considered conventional, sometimes it is better to proceed under the Insured guidelines due to cost savings vs. a conventional build.



BORROWER QUALIFICATION

- On approved credit.
- Standard requirements relative to income, down payment, and credit apply.
- Standard qualifying ratios apply.
- Applicant must also qualify with a 15% cost overrun:
 - 15% cost overrun must be factored-in the Borrowers qualifying ratios; or,
 - The Borrower must have 15% in liquid assets or a line of credit approved to cover the cost overrun. Applicable charges for the LOC must be debt-serviced.

BORROWER DOCUMENTATION REQUIREMENTS

Self Build – 1. Land purchase agreement & addenda; 2. Copy of building permit, development permits, etc; 3. Complete set of plans, approved by the municipality; 4. Construction costs breakdown is required showing the cost of materials and labor for the project, as well as the nature and value of sweat equity; 5. Building specifications (specs) detailing cabinet types, hardware, finishing's, etc; 6. Copies of all contracts, quotes, estimates, etc; 7. Applicants resume substantiating construction knowledge and industry contacts; 8. Schedule for each stage of construction, timelines, and completion date.

Contractor – All plans and specifications approved by the municipality and copy of major contracts with sub-contractors.

Residential Home Builder – Offer to purchase, drawings, and schedules and plans.

HOLDBACKS

There are several types of holdbacks, which may be applicable to newly constructed properties whether funds are advanced on completion or progress advances made. The holdback requirements vary from province to province. The solicitor acting on the lenders behalf will insure that the appropriate construction lien holdbacks are maintained, prior to releasing funds and must comply with the lenders policy and provincial legislation as referred to.

The following holdbacks may apply:

- Lien holdbacks
- Cost to complete holdbacks
- Seasonal deficiencies holdbacks
- Satisfactory purchaser holdbacks (if any) as indicated on the Offer to Purchase agreement.

Lien Holdback – Liens result if an owner or contractor does not pay its suppliers and subcontractors for materials supplied to build the property or for work done. In accordance with provincial regulations, solicitors manage lien holdbacks to protect their clients by withholding a portion of a draw (usually 10 to 15% - 10% in Alberta) for a period of time (usually 30 to 45 days - 45 days in Alberta) after the total project (not just the draw) is completed. The holdback is usually released upon expiry of the statutory period and upon satisfactory verification of title and searches.

Cost to Complete Holdbacks – On progress advance mortgages, the cost to complete the construction of the property is always held back to ensure there is adequate work in place to secure the advanced funds and the funds remaining to be advanced are sufficient to cover the remaining construction costs. The cost to complete holdback is required in addition to the Lien holdback. The calculation used from the information as provided from the appraiser/inspector.



HOLDBACKS CONTINUED ...

Seasonal Deficiency Holdback – Deficiency holdbacks are required when fall and winter weather prevents completion of exterior work (stucco, paint, concrete, etc.). Funds are released upon completion of the outstanding work, generally the following spring or summer season. Deficiency holdbacks may be waived if: the property is at least 95% complete, the cost to complete does not exceed 5%, there are no liens or the lien filing period has expired, the unit is occupied, or the occupancy permit has been issued.

Self Build – Borrowers who consider themselves qualified to build their own home should have industry knowledge and be prepared to submit documentation to prove it (resume, industry references, etc.). Also, borrowers should have sufficient resources, cash or an independent line of credit available, to ensure the applicant has the financial wherewithal to carry the construction to the first draw; and he or she must also have the ability to absorb cost overruns up to 15% of budgeted cost.



INSURED PROGRESS ADVANCE MORTGAGE

- **Pricing:** A lender administration fee may apply, will be deducted from first advance and each subsequent advance. If applicable, a mortgage broker fee may apply, will be paid upon acceptance of mortgage or deducted from first advance; to be determined at time of application.
- **Term:** Generally 12-18 months or less under a 'draw partner' or 'open' mortgage; client may choose any term.
- **Loan Amount:** As per individual qualification criteria.
- **Interest Rate:** Monthly payments only on advanced funds until mortgage is fully drawn; Calculated at the daily prime rate + increment or fixed from the first draw; Due monthly and debited automatically from Borrower's bank account based on funds drawn.
- **LTV:** Up to 95% maximum.
- **Loan Amount:** \$1,000,000 maximum property cost; \$950,000 maximum insured mortgage amount.
- **Location:** In accordance with each lenders guideline, generally all across Canada excluding Quebec; subject to a prime & marketability factor of each area.
- **Legal:** Advances flow through the mortgage lenders lawyers; Borrower to pay all legal fees; less applicable lien holdbacks held in trust with lawyer.
- **Inspections:** An inspection at each progress advance stage; Borrower to pay all inspection costs.
- **Draw Stages:** Foundation/backfill 25%; Lock-up 40%; Drywall/Taped 65%; Complete 100%.
- **OAC.**

CONVENTIONAL PROGRESS ADVANCE MORTGAGE

- **Pricing:** A lender administration fee may apply, will be deducted from first advance and each subsequent advance. If applicable, a mortgage broker fee may apply, will be paid upon acceptance of mortgage or deducted from first advance; to be determined at time of application.
- **Term:** Generally 12-18 months or less under a 'draw partner' or 'open' mortgage; client may choose any term.
- **Loan Amount:** As per individual qualification criteria.
- **Interest Rate:** Monthly payments only on advanced funds until mortgage is fully drawn; Calculated at the daily prime rate + increment or fixed from the first draw; Due monthly and debited automatically from Borrower's bank account based on funds drawn.
- **LTV:** Up to 80% maximum.
- **Loan Amount:** No maximum property cost; no maximum conventional mortgage amount; however; sliding scale will apply for properties valued over \$1,000,000.
- **Location:** In accordance with each lenders guideline, generally all across Canada excluding Quebec; subject to a prime & marketability factor of each area.
- **Legal:** Advances flow through the mortgage lenders lawyers; Borrower to pay all legal fees; less applicable lien holdbacks held in trust with lawyer.
- **Inspections:** An inspection at each progress advance stage; Borrower to pay all inspection costs.
- **Draw Stages:** Foundation/backfill 25%; Lock-up 40%; Drywall/Taped 65%; Complete 100%.
- **OAC.**



Example CONSTRUCTION COSTS

A high level budget guideline for example purposes – actual budget may be more detailed

Name:				
Property Address:				
Item	Estimates (incl GST)	Supplier/ Contractor	Quote attached?	Value of Sweat Equity
Plans, survey, legal				
Excavation, backfill, grade				
Foundation, weeping tile, damp proofing				
Service hook-ups				
Framing materials				
Framing labor				
Windows & exterior doors				
Insulation, vapor barrier				
Roofing material & labor				
Plumbing				
Plumbing fixtures				
Heating				
Electrical				
Electrical fixtures				
Drywall				
Drywall labor				
Interior trim & doors				
Cabinets, vanities, counter tops				
Interior paint				
Flooring & ceramics				
Soffits & fascia				
Evestroughing				
Exterior finish				
Steps, walkway, and driveway				
Landscaping				
Well & Septic Tank Installation				
Misc. Features				
Fireplace				
Clean up				
Other -				
Other -				
Total Construction Costs	\$			
Sweat Equity	\$			
SUB TOTAL	\$			
Land Value	\$			
TOTAL COST	\$			
** ALL QUOTES MUST BE ATTACHED **				