

Construction Loan Package

CHECK LISTS

Fisgard Capital **requires** the following documents to be submitted with a construction application:

- Completed mortgage application - from Filogix/Expert
- Appraisal as at completion (current or old) if available
 - *if the appraiser is not on our approved list or the appraisal is older than 6 months, a new appraisal is required*
 - *Plans in appraisal must match plans submitted to Fisgard*
- Detailed Summary of the deal (including exit strategy e.g. refinance or sale)
- Current credit bureau for all Borrowers/Guarantors
- Detailed construction budget
(please see "Budget" below)
- Title Search
(if property is currently owned by borrower)
- Copy of offer to purchase, all addendums and amendments

If your application package contains the above documents, you are ready to submit your deal.

Other items that may be required after the Commitment Letter is issued:

- NOA for current year to show no CRA debt.
- Builder information and resumé.
- Full set of legible construction drawings scaled to 11" X 14" or smaller.
- Copy of the offer to purchase, all addendums and amendments (for the land).
- HPO registration (BC Only).
- Proof of new home warranty insurance (BC and AB).
- Copy of all construction contracts.
- Copy of any MLS listing information (feature sheets).
- Pre-sold build: require copy of the offer to purchase, all addendums and amendments and confirmation of deposit and who is holding it.
- Owner-build: require re-finance commitment or sufficient information to ensure that the borrower will qualify for take-out financing upon completion.
- Details of any vendor take-back or second mortgage financing.
- Corporate financial statements (if applicable).
- Incorporation documents for the company (if applicable).
- Completed, signed and dated Fisgard forms (consent, personal financial statement, contact information form, disclosure(s), etc).

Budget

With a construction loan an accurate budget is the most important piece of information we need. Please see the attached sample budget that can be used as guide for creating/confirming budgets for your Borrowers.

The budget should include land, hard and soft costs. Land value is the lower of purchase price or appraised value of land. The majority of construction budgets received do not have ALL soft costs including a realistic cost of financing and over runs, which creates a problem when the Borrower becomes short on cash and unable to complete construction without seeking additional funds. Estimate the lender fee and interest reserve costs if needed.

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CONSTRUCTION LOAN PACKAGE - HOW TO CALCULATE LOAN AMOUNT

Calculation of Loan Amount

Fisgard will consider lending to a maximum of 75% of the total cost (including land) in most urban centers. This percentage may vary based on location, type of property, value of property etc.

You can access our Lending Areas and LTV map at www.fisgardmortgage.com.

Please call to confirm what percentage we will consider.

A Lender fee of 2% of the loan amount will be charged plus the broker fee. The broker fee will be added to the Lender fee and collected on the Brokers behalf and paid at closing. A deposit may be requested to cover legal fees in the event that our lawyers are instructed but the deal does not close.

Interest on the loan is payable by way of an interest reserve that will be deducted from the first advance. The amount to be held in the interest reserve is calculated based on the estimated construction schedule. If the interest reserve runs out, the Borrower shall be responsible for either replenishing the interest reserve or making monthly interest payments.

****As you will see in the examples outlined below, it is VERY important to ensure that the budget amount includes ALL costs. If the budget is not detailed and accurate then your Borrower may find they do not have the necessary cash or resources beyond what is being provided by Fisgard to complete construction. The Borrower would be required to inject their own cash or equity prior to any further advances being made****

The following is a sample that will help you calculate how much Fisgard may lend on a construction deal. Please follow calculations below.

If purchasing a property and funding construction costs:

Land purchase price	\$200,000
Total soft & hard costs	\$400,000
<u>Total cost</u>	\$600,000 X 75% = \$450,000 (loan amount)

In this example the Borrower will be required to put in the difference of \$150,000 (\$600,000 - \$450,000). This will be required to be put in at closing to close on the purchase of the land. It will be a requirement in the commitment letter to confirm that the Borrower has the cash to contribute and not a VTB or some other form of equity.

The appraised value would have to be a minimum of \$600,000 (not including taxes) in this example so the completed LTV is still in line at completion.

For the initial advance Fisgard would fund:

Land purchase	\$50,000 (as Borrower would be required to put in \$150,000)
Interest Reserve	\$30,000 (approx. 9 months interest)
Lender and Broker fee	\$15,750 (\$450,000 X 3.5% as an estimate)
<u>Legal fees</u>	\$ 3,000
Total first advance	\$98,750 (this would leave \$351,250 for the construction draws)

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CONSTRUCTION LOAN PACKAGE - HOW TO CALCULATE LOAN AMOUNT

If Borrower owns the property already and needs to payout existing debt (\$60,000 in this example):

Land value	\$200,000 (\$60,000 is outstanding on the land)
Total soft & hard costs	\$400,000
Total cost	\$600,000 X 75% LTC = \$450,000 (max we could lend)

Loan amount = \$450,000

For the initial advance, Fisgard would fund:

Payout first charge	\$ 60,000
Interest Reserve	\$ 27,000 (approx. 9 months interest)
Lender and Broker fee	\$ 14,000 (\$400,000 X 3.5% as an estimate)
Legal fees	\$ 3,000
Total first advance	\$104,000 (this would leave \$346,000 for the construction draws)

This Borrower may need to put in a small amount but the equity would cover most of that would be required. The cost is now lower because we have paid some of the soft costs.

If Borrower owns the property clear title:

Value of land (clear title)	\$200,000
Total soft & hard costs	\$400,000
Total cost	\$600,000 X 75% = \$450,000 (max we could lend)

Loan amount = \$400,000 (as that is all that is needed) divided by \$600,000 = 67% LTC

If the total completed value is \$690,000, the LTV is also in line at 57.97% LTV.

For the initial advance Fisgard would fund:

Interest Reserve	\$27,000 (approx. 9 months interest)
Lender and Broker fee	\$14,000 (\$400,000 X 3.5% as an estimate)
Legal fees	\$ 3,000
Total first advance	\$44,000 (this would leave \$356,000 for the construction draws)

This Borrower would not need to inject their own equity as there is enough equity in the land.

Land Advances - Fisgard does not generally fund equity takeouts on construction loans (i.e. land advances on a clear title lot with funds not going towards construction). All construction funding must go towards the construction of the property, purchase of the land, or payout of existing financing to allow for further construction financing. In the case where the Borrower owns the lot clear title and they meet the Loan to Cost requirements and the Borrower is requesting a land advance, an exception "may" be made to advance funds to get the project started. In this case, the Borrower should include the request in their budget when the application is submitted.

If the Borrower meets the Loan to Cost requirement and other guidelines, Fisgard may allow the funding of soft costs (plans, architects, building permits, New Home Warranty, etc.) that have already been paid by the borrower in the initial loan advance.

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If Borrower has a second property to put up as additional security

Land purchase price	\$200,000	Value of 2nd property	\$300,000
Total soft & hard costs	\$400,000	1st mortgage on property	\$200,000
Total cost	\$600,000	Equity available	\$100,000

Total cost of \$600,000 x 75% =	\$475,000 (available from the construction property)
<u>Equity from 2nd property</u>	<u>\$100,000</u>
Total Loan	\$575,000

This Borrower would be required to put in \$25,000 (\$600,000 - \$575,000 = \$25,000) of their own cash equity up front at closing. If they had more equity in the 2nd property, they may not need to put in any of their own funds. We will only go up to a max LTV of 75% on the 2nd property.

For the initial advance Fisgard would fund:

Land purchase	\$175,000 (as Borrower would be required to put in \$25,000)
Interest Reserve	\$ 39,000 (approx. 9 months interest)
Lender and Broker fee	\$ 20,125 (\$450,000 X 3.5% as an estimate)
<u>Legal fees</u>	<u>\$ 3,000</u>
Total first advance	\$237,125 (this would leave \$337,875 for the construction draws)

CONSTRUCTION LOAN PACKAGE - DRAWS AND OTHER INFORMATION

Construction Draws

The Borrower will be in control of when they order their draws. We prefer not to process draws more frequently than once per month. Prior to the Borrower needing funds they must call the appraiser to order an inspection. When Fisgard receives the inspection report it may take up to 4 business days to process the draw but we usually issue it sooner than that. Fisgard will request that the appraiser provide a cost to complete figure and we always hold back the cost to complete amount. Fisgard will calculate the draw as follows:

Example

Total loan	\$600,000
Advanced to date	-\$100,000
Cost to complete	-\$400,000
Advance available	\$100,000
Draw Fee	-\$ 250
Title Search Fee	-\$ 25
Cheque to Borrower	\$ 99,725

The subsequent draws will proceed the same way until the loan is fully drawn.

Prior to the final draw we will require the occupancy permit.

Misc.

Construction loans are fully open and can be repaid at any time.

Interest is charged only on amounts drawn. There is no stand by fee for unused funds.

Cost to Complete – This means that there always has to be enough funds available in the loan to complete the construction project. If the cost to complete for example is \$100,000, there must be \$100,000 available to draw from the loan.

In most cases we will register a demand collateral mortgage for construction loans. The mortgage will be registered at an amount and interest rate higher than the rate outlined in the Promissory Note. This structure allows for future increases in the mortgage amount should the Borrower require additional funds to complete construction and the increase is agreed to by Fisgard. This is not uncommon in construction financing. With a demand collateral mortgage the Borrower does not incur the additional legal costs to modify the existing mortgage. We can simply have the Borrower sign a new promissory note. This does not mean that the Borrower has been approved for or is entitled to additional funds but does easily accommodate an increase.

The second reason we register this type of mortgage is to discourage other lenders from putting a charge behind us without Fisgard's approval.