



FISGARD™

Residential Construction Guide.

for Builders and Mortgage Brokers

MARCH 2018



We're Here to Help You

Construction financing is one of Fisgard's many strengths. Our underwriting team have years of experience in managing construction loans, and our program is designed to make the process as straight forward as possible for your client. This guide has been created to assist you and your client with our requirements and provide information and explanation of the construction draw process.

Mortgage Investment Specialists are available via telephone and e-mail Monday to Friday, 8:30 AM - 5:00 PM (Pacific).

How It Works

Fisgard's construction lending program works on a Loan to Cost basis. What does this mean? It means that your loan amount will be determined as a percentage of your project budget. Your budget includes the land value plus the soft and hard costs of construction. Fisgard will consider lending to 75% of this amount, depending on the location of your project. Fisgard does not provide financing for taxes paid on materials or labour.

Getting Started

This guide has been designed to walk you through the construction loan application process step-by-step. Read this guide thoroughly and make notes of any questions you may have so that you can ask your Mortgage Investment Specialist prior to submitting an application package.

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Section 1: The Checklist

Please provide the following with all construction applications:

- Expert Application (the old Filogix) for each individual involved
- If title is to be held in a company name, the full legal company name and address for that company
- Credit bureau's for all individuals involved
- Detailed summary of your file. It is very important you provide the full story up front.
- Detailed budget. See template attached.
- How long will construction take (this will be used to calculate the interest reserve)?
- Your broker fee (as that will be added to the budget)
- What is the estimated finished value?
- What is the intent for the property once completed?
- Who will the builder be (subject property must have NHW)?

Section 2: The 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 we receive 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. Fisgard will complete the financing costs section of the budget.

We use the builder's budget instead of finished value to base our loan amount from, so an accurate budget is required regardless if your client has a contract with a builder for a specific final amount with no breakdown. Fisgard would still require the full breakdown of the cost.

Budget Terminology

Everyone comes from different backgrounds and uses different words to describe things. Review some of Fisgard's basic Construction Budget terminology below.

Land Value: Fisgard will use the lower of purchase price or appraised value in determination of the 'Land Value' figure.

Soft Cost: Soft Costs are the project expenses that are not incurred during the hands-on construction process.

Hard Costs: Hard Costs are the project expenses that are incurred during the hands-on construction process (the 'brick and mortar').



Section 3: Pricing

Base pricing for construction mortgages is 8.5% with a 2% lender fee (plus the broker fee) for a 1 year open term. This is subject to change and may vary depending on location, property value and deal specifics.

Section 4: Calculation of Loan Amount

Fisgard will *consider* lending to a maximum of up to 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. What does this mean? It means that your loan amount will be determined as a percentage of your project budget. Your budget includes the land value plus the soft and hard costs of construction. Fisgard will consider lending up to 75% of this amount. Fisgard does not provide financing for taxes on materials or labour.

Please call to confirm what percentage we will consider for a specific location.

An estimated 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 by Fisgard's lawyer. Please note, 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 how long the build will take. A 1 month cushion is added on the full loan amount. If the interest reserve runs out, the Borrower shall be responsible for either replenishing the interest reserve or making monthly interest payments. Your client only pays interest on the amount advance. There are **NO stand-by fee's** for the un-advanced mortgage amount.

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.

Examples

The following sample will help you calculate how much Fisgard may lend on a construction deal.

Example 1. If purchasing a property and funding construction costs:

Land purchase price:	\$200,000
Total soft & hard costs:	\$400,000
Total Cost:	\$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)
Legal fees	\$3,000
Total first advance	\$98,750 (this would leave \$351,250 for the construction draws)

Example 2. If Borrower owns the property already and need 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.



Example 3. 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.

Section 5: Land Advances

Fisgard does not generally fund equity takeout's 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.

Example 4. If Borrower has second property to put up as additional security

Land purchase price	\$200,000	Value of 2nd property	\$400,000 X 75% = \$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)

Equity from 2nd property	\$100,000
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 ($\$450,000 \times 3.5\%$ as an estimate)
Legal fees	\$3,000
Total first advance	\$237,125 (this would leave \$337,875 for the construction draws)

Section 6: 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.



Section 7: 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.

Appraisal – An “as completed” appraisal will be required from one of our approved appraisers that we have vetted specifically for construction. Fisgard will determine this for you and will specify in the commitment letter once terms are issued. Inspections will be obtained during construction from this same appraiser.

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.



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HALI NOBLE
SVP Residential Mortgage
Investments & Broker
Relations / Broker



REAZA ALI
Broker Relations
(Ontario)

Sample Construction Budget Template

Amount		Hard Costs	
	Amount		Amount
Land Cost	\$	Demolition	\$
		Excavation	
Soft Costs		Damproofing / Backfilling	
Building Permit		Concrete Slab / Basement	
Course of Const. Insurance		Lumber / Framing	
Design / Blueprinting		Exterior & Garage Doors	
Engineering Reports		Roofing	
Legal		Windows & Skylights	
New Home Warranty		Electrical	
Electrical / Gas / Other Permits		Plumbing	
Hookup's (Water / Sewer)		Heating Equipment	
Other Soft Costs		Insulation	
		Drywall	
		Interior Doors / Frames	
Financing Costs (part of Soft Costs)		Floor Finishing	
Interest Reserve		Cabinetry / Countertops	
Lender Fee		Finishing	
Draw Fees (approx 4-6)		Fireplaces	
Total Soft Costs:	\$	Painting	
		Masonry	
Cost Summary		Exterior Siding / Soffits	
Land Value:	\$	Deck	
Soft Cost Total:	\$	Appliances	
Hard Cost Total:	\$	Glass / Lighting	
Total Budget:	\$	Driveway / Sidewalks	
		Final Grading & Landscaping	
		Cleaning & Site Maintenance	
		Contingency (5%)	
We do not fund tax			
		Total Hard Costs:	\$

