



FISGARD™

Residential Construction Guide.

for Builders and Mortgage Brokers

FEBRUARY 2022



We're Here to Help You

Construction financing is one of Fisgard's many strengths. Our underwriting team has years of experience in managing construction loans. 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 the necessary information of the construction financing process.

Mortgage Investment Specialists, who are experienced in construction financing are available by phone and e-mail, Monday to Friday 8:30am – 5:00pm (Pacific Time).

CONTACT US

Phone:
1-866-382-9255

Email:
newdeal@fisgard.com

Getting Started

The guide has been designed to walk you through the construction loan application process step by step. As you read through the guide, please make notes of any questions you may have, and contact your Construction Specialist to go over your questions before submitting your application package.

Continue reading for what should be include in the budget, how we calculate the final LTC / LTV ratios, and what is needed to get started.

How The Construction Program Works

Fisgard's Construction lending program determines the loan amount by reviewing both the Loan to Cost (LTC) and the final Loan to Value (LTV) ratios. Initially we will review the budget to determine the LTC, to ensure that it falls into acceptable parameters based on the total budget. This calculation will also determine what we expect the client to put in from their own resources. Secondly, we will review the finished LTV based on current market conditions to ensure the project falls within our guidelines. Should there be room within the LTV position, Fisgard may consider increasing the loan amount over the maximum LTC calculation, to ensure the borrower has sufficient funds to complete the project.

The LTC and LTV maximums, for each file, are determined based on Fisgard's lending areas, and other factors of the deal.

- Section 1: The Checklist
- Section 2: Budget
- Section 3: Pricing
- Section 4: Calculation of Loan Amount
- Section 5: Land Advances
- Section 6: Construction Draws
- Section 7: Terms and Conditions



Section 1: The Checklist

- Electronic application via preferred platform provider. Please be sure the full application is completed with current information and recent credit bureaus are attached.
- Detailed budget. (See sample attached)
- Detailed description of your file in the notes section. It is helpful if you address the questions below in your notes when submitting your electronic file.
- How long will construction take? (This will be used to calculate the interest reserve)
- What is your broker fee? (As this will be added to the budget)
- If the title is to be held in a company name, please provide the full legal company name and address.
- What is the estimated finished value?
- What is the intent for the property once completed? (Owner Occupied, Spec Home, Rental etc)
- Who is the Builder? (New Home Warranty is mandatory on all construction files)
- What stage in the process are they at currently?
- Supporting documentation can be emailed to newdeal@fisgard.com referencing the client's name in the subject line.

The information in Section 1 will help get us started. More information may be required after the initial review has been completed.

Section 2: Budget

With a construction loan, an accurate budget is one of the most important details to ensure a smooth process. Please refer to the attached sample budget that can be used as a guide for creating and confirming budgets for your borrowers.

The budget should include the land value, soft costs and all hard costs. The land value is the lower of purchase price or appraised value of land. Fisgard will complete the financing costs section of the budget.

Fisgard reviews the total cost of the build to assist with determining the approved loan amount. An accurate detailed budget is an important step to our process. If the builder provides a single price for the build, we still require the line-by-line breakdown of the budget.

Budget Terminology

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 Costs: Soft Costs are the project expenses that are not incurred during the hands-on construction process. (the intangible costs, ie, permits, insurance, fees)

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

LTV: The ratio calculated by using the Approved Loan amount divided by the value of the completed project.

LTC: The ratio determined by using the Approved Loan amount divided by the total construction budget.



Section 3: Pricing

Pricing is based on various aspects of the deal. These aspects include variables like, value, location, complexity and overall risk of the deal. The Pricing quoted will be a combination of rate and lender fee. Please contact us for a quote.

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

Section 4: Calculation of Loan Amount

Generally, Fisgard's maximum LTV/LTC is up to 75% in urban areas. However, this percentage may vary based on the location, type of property, value of property etc.

Please reach out to one of our mortgage investment construction specialists to confirm the maximum we will consider for your specific location.

Included in the financing costs is Fisgard's **Lender Fee**, the **Broker's Fee** (as advised by the broker), **Draw Fees**, and the **Interest Reserve**.

Lender Fee – Fisgard's typical fee for construction is 2%, however this can vary depending on the circumstances of each deal. This fee is paid at the time of registration of the mortgage by Fisgard's lawyer and deducted from the 1st advance.

Broker Fee – The broker will communicate their fee to be collected during the underwriting process. This fee will be deducted from the 1st advance and disbursed to the broker by Fisgard's lawyer.

Interest Reserve – Throughout the construction period, payments will be paid from funds set aside in the Interest Reserve. This amount will also be deducted from the first advance. The interest reserve is calculated based on the estimation of how long the build will take, plus a one month cushion. 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 of funds that have been advanced.

Fisgard will not charge standby fees for the un-advanced mortgage amount.



Examples

As you will see in the examples outlined, 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 samples will help you calculate how much Fisgard may lend on a construction deal. For our examples we are using a rate of 8.5%, a 2% Lender Fee, an interest reserve of 7 months, and a broker fee of 1.5%.

1. Purchasing a property and funding construction costs:

Land purchase price	\$200,000
Total soft & hard costs	\$400,000
Legal Fees	\$ 3,000
Interest Reserve	\$ 23,943
Broker Fee	\$ 7,243
Lender Fee	\$ 9,657
<hr/> Total cost	<hr/> \$643,843
75% LTC	\$482,882 (Loan Amount)

In this example the Borrower will be required to put in the difference of **\$161,000**, which will be required at the time of closing the purchase of the land. This is calculated by the total cost, less the loan amount (\$643,843-\$482,882).

For the initial advance Fisgard would fund:

Land purchase	\$39,000 (Borrower would put in \$161,000)
Interest Reserve	\$23,943
Lender and Broker fee	\$16,900
Legal fees	\$ 3,000
<hr/> Total first advance	<hr/> \$82,843 (this would leave \$400,039 left for the construction draws)



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

Equity in Land	\$140,000
Current Mortgage Debt	\$ 60,000
Total soft & hard costs	\$400,000
Legal Fees	\$ 3,000
Interest Reserve	\$ 23,943
Broker Fee	\$ 7,243
Lender Fee	\$ 9,657
<hr/> Total cost	\$643,843
75% LTC	\$482,882 (Loan Amount)

In this example the Borrower will be required to put in the difference of **\$21,000** at closing. This is calculated by the total costs, less the equity in land, less the loan amount (\$643,843-\$140,000-\$482,882).

For the initial advance, Fisgard would fund:

Payout first charge	\$39,000 (Borrower would put in \$21,000)
Interest Reserve	\$23,943
Lender and Broker fee	\$16,900
Legal fees	\$ 3,000
<hr/> Total first advance	\$82,843 (this would leave \$400,039 for the construction draws)

3. If Borrower owns the property clear title:

Land Value	\$200,000
Total soft & hard costs	\$400,000
Legal Fees	\$ 3,000
Interest Reserve	\$ 23,943
Broker Fee	\$ 7,243
Lender Fee	\$ 9,657
<hr/> Total cost	\$643,843
75% LTC	\$482,882 (Loan Amount)

In this example, the Borrower has additional equity in the project, which equates to \$39,000. This is calculated by the total cost, less the land value, less the loan amount (\$643,843 - \$200,000 - \$482,882).

For the initial advance, Fisgard would fund:

Interest Reserve	\$23,943
Lender and Broker fee	\$16,900
Legal fees	\$ 3,000
Funds to Borrower	\$39,000
<hr/> Total first advance	\$82,843 (this would leave \$400,039 for the construction draws)

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



4. Where we may consider using LTV:

In any of the above scenarios, where the appraisal confirms a higher value than the total cost, Fisgard may consider increasing the loan amount to help with cash flow during construction, due to some room within the LTV.

Total cost	\$643,843
75% LTC	\$482,882 (Loan Amount)
Appraised finished value	\$800,000
Max LTV for location	75%
LTV using on Loan Amount	60%

In all of these examples, the new home to be constructed must have an “as complete” minimum value of \$644,000 including taxes. Fisgard will also consider cases where a client has significant equity in another property and wishes to access this equity as their cash injection into the build. Please contact us to discuss how this process works.

Section 5: Land Advances

Fisgard does not generally fund equity takeout financing on land if there is also a construction loan being applied for at the same time (i.e. a 75% LTV land advance on a clear title lot). All financing must go toward the purchase of the land, payout of existing financing and construction of the property. In the case where the borrower owns the lot clear title, (Example 3 Above) we may be able to advance funds to get the project started, providing the project has met the Loan to Cost requirements and guidelines. In the initial loan advance, this may also include the funding of soft costs (plans, architects, building permits, taxes, NHW etc.) that have already been paid by the borrower.

Section 6: Construction Draws

The Borrower maintains control of when they order their draws. Prior to the borrower needing funds, they are to call the appraiser to order a progress inspection report. Once Fisgard receives the inspection report, we process the draw based on the level of completion and fund the calculated draw within five business days. Fisgard will request that the appraiser provide a cost to complete figure or a percentage to complete. We use this figure, or percentage, to determine how much of the loan we can release. We will only advance on work that has been completed, therefore holding back sufficient funds to ensure there is enough to finish the project. The terminology used for this situation is “Cost to Complete”.

Example:

Total loan	\$482,882
Advanced to date	- \$123,346
Difference	\$359,536
Cost to complete	- \$265,000 (typically expressed as % complete)
Advance available	\$ 94,536
Draw Fee	-\$ 250
Title Search Fee	-\$ 50
Cheque to Borrower	\$ 94,236



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. Fisgard will not provide draws based on builders prearranged draw amounts.

Section 7: Terms and Conditions

Term: Fisgard offers a 1 year open term. Payments are interest only and the entire loan can be repaid at any time. Interest is charged only on the funds advanced and there are no standby fees for unused funds.

Appraisal: An “As Is” appraisal (if work has begun) and an “as complete” appraisal will be required from one of our approved appraisers. You will find our list of appraisers on our website www.fisgard.com. When the client is ready for a draw, the broker or client will order an inspection report from the same appraiser.

Registration: 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 (subject to approval by Fisgard). A demand collateral mortgage registration helps to accommodate loan increases, so the borrower does not incur any additional legal costs to modify the existing mortgage. We can simply have the borrower sign a new promissory note.

Delivery of Draws: In BC and Alberta, once registration has occurred and the initial advance has been disbursed, all subsequent draws will be done through Fisgard, and will not go through the lawyer. The client will provide Fisgard direction on where to deliver funds. This will save the client from paying additional legal costs. For each draw done by Fisgard, there will be a \$250 draw fee, and a \$50 title search fee deducted from the advance. The borrower is responsible for the 10% lien holdback.

In Ontario, draws are done by the client’s lawyer, as they are required to administer the 10% lien hold back. The client will be subject to their costs for processing draws.

Income Documentation: Fisgard does not necessarily income qualify our construction financing deals, however the income for the borrowers must be proven for loans over 65% LTV. Income must be sufficient to ensure that take out financing will be available upon completion of build.

Home Builders: Home builders must be registered with their local Provincial Home Builder Association or must be able to provide satisfactory confirmation of their building experience of at least one complete home build, start to finish. Fisgard will not entertain self builds by borrowers with no home building experience. All newly constructed homes must include a New Home Warranty provided by an approved Warranty Provider.

Timelines: The build must commence within 30 days of the initial funding and must be completed typically within 12 months.

