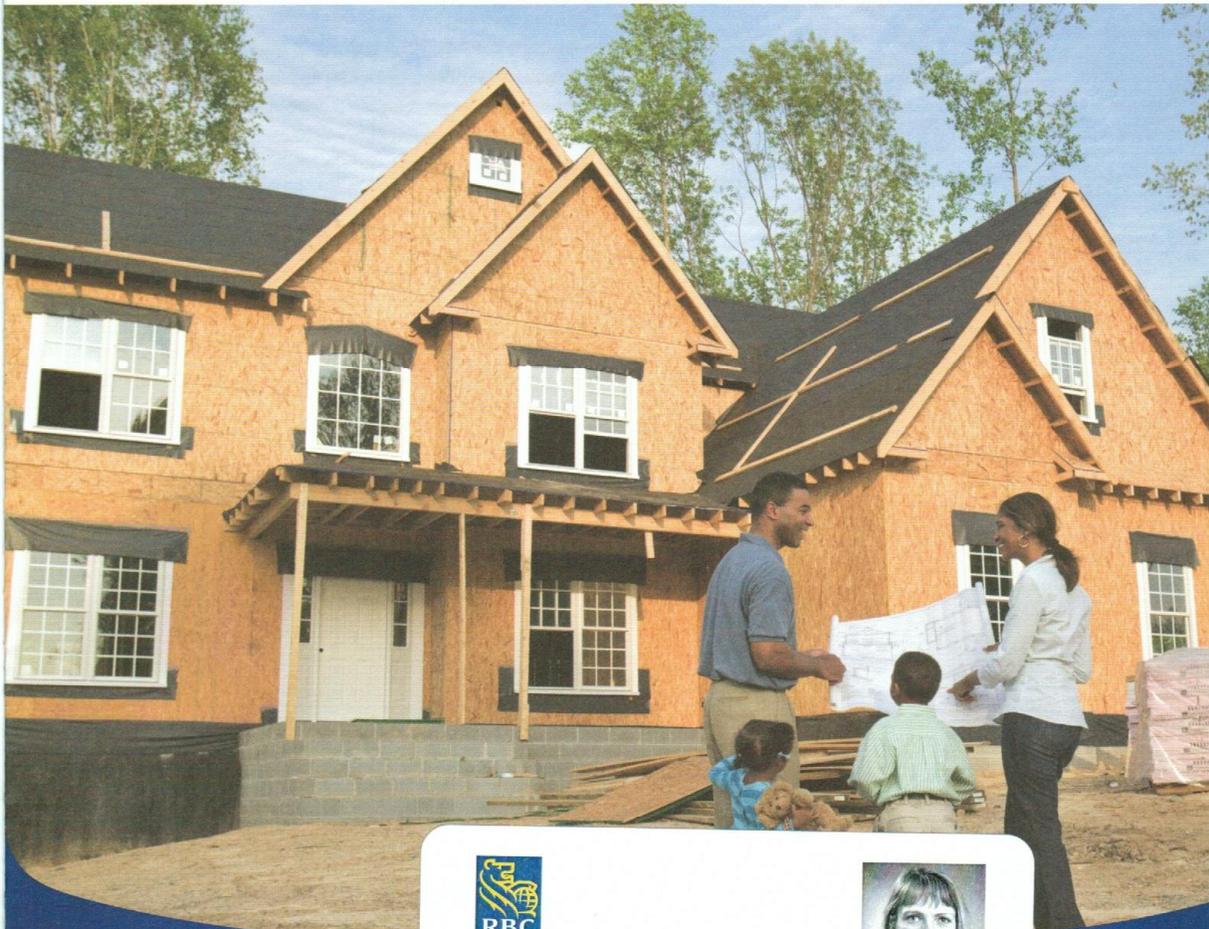


Lending

# Planning to build your dream home?

Start with an RBC Royal Bank® construction mortgage



RBC Royal Bank®



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## An RBC Royal Bank® construction mortgage can provide the financing you need to create the custom home you want

Many Canadians are choosing to build custom homes with special features to suit their lifestyles and personal tastes. While building your own home can be a creative and exciting experience, it can also present some complicated financial challenges. Here's where your RBC Royal Bank mobile mortgage specialist comes in. With an in-depth knowledge of construction mortgages, we can give you the support you need from start... to finish.

### Stage 1: Getting started

Before you apply for a construction mortgage, it's important to first establish a realistic budget and finalize your building plans with your contractor or builder. The key to a successful construction project is for you and your contractor to agree up-front on a detailed plan, budget and timeline. The more thorough your planning, the fewer unexpected surprises and costs there will be down the road.

Here are a few things to keep in mind:

1. Make sure the zoning for your lot allows for residential construction.
2. Find out if the builder/contractor is a member of a recognized third-party new-home warranty program.
3. Have a good understanding of all the potential construction costs involved, including:
  - › Engineer's or architect's fees for drafting your house plans
  - › Site-clearing
  - › Servicing costs, including building permits and permits for wells, septic systems and hydro
  - › Base home costs (foundation, framing, windows, doors, roofing)
  - › External upgrades like stone, stucco and sprinkler systems
  - › Internal upgrades like flooring, lighting and cabinetry for kitchens and bathrooms
  - › Sodding or seeding your lot
  - › Paving the driveway

4. Factor in a contingency budget of at least 10% for cost overruns. (This is not required if you are having a home constructed from a builder's list of approved house plans and upgrades.)

Understanding the bank's funding requirements, along with your contractor's preferred payment schedule during each phase of construction, is key. You will need to work out a payment schedule with your builder/contractor that supports these funding requirements. Most contractors require payments in stages, typically after the foundation is in, once the framing is up, after the interior is finished and at completion of the entire project.

Use the worksheet provided in this guide to help you structure your payment schedule and match the payments with the number of "draws" the bank allows. The worksheet also shows you how construction-lien holdbacks will potentially affect your cash flow. At each draw you may need to come up with funds to satisfy the total payment that is required. It is important to determine whether this will be the case with your builder/contractor. Knowing this up-front will save a lot of stress and confusion down the line. Understanding the whole picture from the beginning will help you decide if a construction mortgage is right for you.



## Stage 2: Applying for your construction mortgage

You can apply for your mortgage and lock in your interest rate before construction begins. Your mobile mortgage specialist will review with you the wide range of terms and amortization periods that we offer to help you choose the option that best suits your needs.

From there, your mobile mortgage specialist will arrange for an RBC Royal Bank approved appraiser to appraise your lot and your building plans. For larger projects, a project monitor may be required to help assess your building plans, timelines, costs and budget. This will ensure that an appropriate project plan is established, and that all parties (contractor, bank and you) understand when funding is required, at what stage, and where the money will be coming from. The project monitor will also ensure that construction progresses according to schedule.

## Stage 3: Watching your home take shape

Once your construction mortgage is approved, your rate guarantee begins. The starting date of your rate guarantee is called the Commitment Start Date (CSD), and your rate

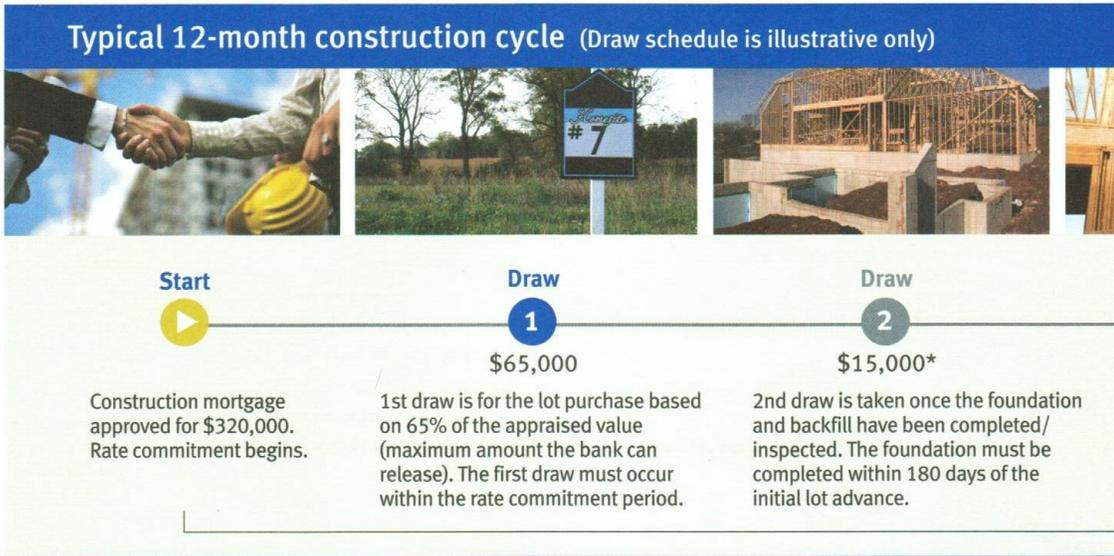
is guaranteed for 90<sup>1</sup> days from the CSD. This means you must take your first draw within 90<sup>1</sup> days, or a new rate commitment will be established based on current rates.

You have one year from the CSD to complete the construction of your home. At key stages in the construction process, you access funds from your approved mortgage through draws, in order to pay your contractor. A standard Royal Bank construction mortgage provides five<sup>2</sup> draws over the one-year period.

**Financing land through the first draw:** This is only available for conventional transactions where you have a minimum 20% down payment. If you are financing the purchase of a lot, the first draw will be used to help pay for it, to a maximum of 65% of the appraised value. After the first draw for the lot, you will have up to 180 days to ensure the foundation and backfill structure is completed.

While your home is being built, you pay interest only on the total amount drawn to date.

<sup>1</sup> For Builder by Contract, manufactured, modular and mobile homes, where there is preferred pricing package in place, the rate is guaranteed for a maximum of nine months.  
<sup>2</sup> Seven draws are provided for mortgages exceeding \$1 million.



Assumptions: \$100,000 lot value; \$300,000 construction cost; 20% down payment (\$80,000)  
 Interest-only payments on the outstanding mortgage balance are required monthly during the construction phase. \*Each draw



## Getting the funds you need

Throughout the various phases of construction, your contractor will request funds from you to complete a specific job, such as laying the foundation. At this point you simply advise us that a draw of funds is requested and we'll send out an appraiser to inspect your home site and determine the amount of work that has been completed. The draw amount will be calculated based on this inspection to ensure enough funds are held back by the bank for the completion of your home. We will send the draw amount to your lawyer, who will then release the funds to you.

If your contractor requires a payment higher than the appraised amount, you will need to fund the difference from your own resources. Alternatively, if the contractor requires less than the appraised amount, you may consider a lower draw to reduce your interest costs.

It is important to note that your lawyer will hold back a percentage of each draw (from 7.5% to 20%, depending on provincial requirements) under your provincial Construction Lien Act. This government requirement helps ensure that tradespeople and suppliers get paid for work completed and that there are no liens filed against the property. Your lawyer will release the holdback amount to you 30 to 60 days after construction is complete, depending upon the requirement in your province.

You must take the final draw within 12 months of the commitment start date (CSD). The appraiser's final inspection report must say that your house is 100% complete and ready for occupancy. At this point you will begin to make mortgage payments of both principal and interest.



\*Draw amounts are reduced and held back for a period of time based on provincial requirements for construction-lien holdbacks.

## A closer look at draws

Suppose you need financing for both your lot and your home. With a 20% down payment, a lot worth \$100,000 and a home costing \$300,000, you will need a mortgage of \$320,000. Royal Bank of Canada will issue this mortgage to your lawyer through draws at the various stages of construction.

Draw 1 will be for the lot. The maximum amount that the bank can release is 65% of the value of the land. Therefore, in this scenario, this amount would be \$65,000.

Then, to pay for construction costs, the bank will release funds based on the appraiser's inspection of the work completed. For example, the second draw would be requested after the foundation and backfill have been completed. In this case, let's say your contractor is requesting \$60,000 for the work done to date and the total cost to build is \$300,000 — that leaves \$240,000 of construction left to complete.

What we do then is take the \$320,000 mortgage amount and subtract the initial lot draw of \$65,000 for a total of \$255,000 to pay for the costs of the house. Since we still need \$240,000 to cover the remaining construction costs, we can release \$15,000 for Draw 2 (\$255,000 less \$240,000). At this point, we also need to factor in the provincially required construction-lien holdback. In this example, we will assume that the holdback is 10%, meaning your lawyer/solicitor will release a net draw of \$13,500 (\$15,000 less \$1,500). Since your contractor is requesting \$60,000 and the net draw is \$13,500, you will need to come up with the remaining \$46,500 from your own resources.

Moving on to Draw 3, let's suppose your contractor requests \$90,000. This would leave an estimated cost to complete of \$150,000. The gross draw amount would be \$90,000, which is the mortgage amount of \$320,000 less \$65,000 for the lot less the 2nd draw amount of \$15,000, and finally less the \$150,000 we still need to complete the house. We would then calculate the construction-lien holdback, the net draw amount and the client funds required in the same way as we did in Draw 2. At this stage, you would be required to come up with only \$9,000 — the amount of the construction-lien holdback.

All the remaining draws would be calculated this same way, with the construction-lien holdbacks released back to you following the expiry of the holdback period, which is normal 30 to 45 days after the completion of the home.

### How draws work



### Section 4: Detailed Project Costs

DESCRIPTION	LOAN TO VALUE OF LAND	COSTS (As per Contract)	TOTAL PAYMENT REQUIRED	DRAW #	ESTIMATED COSTS TO COMPLETE (Cost to build less total payments required)	GROSS DRAW AMOUNT (Gross draw amount = Mortgage Amount less lot draw less previous draws less costs to complete)	CONSTRUCTION-LIEN HOLDBACK (Based on provincial requirements)	NET DRAW FUNDING TO CLIENT (Gross draw minus Construction-Lien holdback)	CLIENT FUNDS REQUIRED (Total required minus Net draw funding)
Lot Purchase*	_____ %	\$	\$				%		
Site Clearing		\$							
Excavating		\$							
Footings/Foundation		\$							
Backfill		\$	\$		\$	\$	\$	\$	\$
Well/Septic		\$							
Other 1		\$							
Other 2		\$							
Framing and Trusses		\$							
Windows and Exterior Doors		\$							
Roofing		\$							
Electrical		\$	\$		\$	\$	\$	\$	\$
Plumbing		\$							
Other 1		\$							
Other 2		\$							
Insulation		\$							
Drywall		\$							
Flooring		\$							
Exterior Brick/Siding		\$	\$		\$	\$	\$	\$	\$
Other 1		\$							
Other 2		\$							
Cabinets		\$							
Painting		\$							
Exterior Finishing (fascia, eaves)		\$	\$		\$	\$	\$	\$	\$
Gravel Driveway		\$							
Other 1		\$							
Other 2		\$							
<b>TOTALS</b>		\$	\$		\$	\$	\$	\$	\$
<b>Total Cost to Build</b>		\$							
<b>Have all costs been entered?</b>		Y/N							

\*Minimum Lot Draw amount is 40% of the 1 and 1/2 Value (Conventional Transactions only). Construction must commence within 6 months of the first advance used to purchase the lot.

# Construction Mortgage Worksheet

## Keep track of your costs and draws

Complete this comprehensive worksheet with the help of your contractor and your RBC Royal Bank mobile mortgage specialist. It will help you decide if a construction mortgage is right for you.

Building Value:	\$	
Land Value:	\$	
Total Value:	\$	
Percentage of land financing required (Maximum 65% of land value):	\$	
Loan to Value:	\$	
Mortgage Amount:	\$	
Down Payment:	\$	
Maximum # of Draws:		

### Section 1: Construction Funding Requirements

Cost to Build:	\$	
Cost of Lot:	\$	
Contingency (Minimum 10% of Cost to Build):	\$	
Construction-Lien Holdbacks ( _____ %):	\$	
Total Construction Funding Requirements:	\$	
Less: Mortgage Amount:	\$	
Total Client Funds Required:	\$	(A)

### Section 2: Client Funding Sources

Cash/Investible Assets:	\$	
Deposit to Contractor/Builder:	\$	
Available Credit:	\$	
Bridge Financing*:	\$	
Equity from Other Property*:	\$	
Total Client Funding Sources:	\$	(B)

### Section 3: Funding Surplus/Shortfall:

Section 2 (B) minus section 1(A)	\$	
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\*Subject to Credit Approval

### Simple, efficient and effective

An RBC Royal Bank construction mortgage can help you finance the cost to purchase that perfect building lot, as well as the construction costs to build your dream home. Whether you already own your lot or are still on the look-out for that ideal location, an RBC Royal Bank mobile mortgage specialist can help. We will walk you through the process and explain all the important facts you need to know.



## Ready to get started?

To begin planning your custom dream house, speak to a mobile mortgage specialist today and ask about our RBC Royal Bank construction mortgages.

To find an RBC Royal Bank mobile mortgage specialist:

- › Go to [www.rbcroyalbank.com/mortgages](http://www.rbcroyalbank.com/mortgages) and follow the link marked "talk to a mortgage specialist" to use our mortgage specialist locator.
- › Visit any RBC branch. To locate your nearest branch, go to <http://maps.rbc.com/index.en.asp>.
- › Call 1-877-769-2570, and we'll arrange an appointment with a mobile mortgage specialist who can meet you when and where it's most convenient for you.



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