Your monthly home & mortgage newsletter

MORTGAGEARCHITECTS | June 2021 e-Newsletter

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Summer is almost here and you know what that means - construction season! We have all the tips for you on building your own home. Plus, understanding mortgage penalties and throwing the perfect BBQ.

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MORTGAGE ARCHITECTS

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Building Your Own Home?

5 Things to Consider

Building a house is an exciting adventure and the ultimate way to customize your home. To ensure you have the best experience, I have put together 5 important things to know before getting started.

1. It's All in the Numbers

Whether you are shopping for a pre-built home, or are looking to create your own from the ground up, it is vital to know what you can afford and stay within it. This is the key to building a home that you will be able to enjoy for the next 20 or 30 years, while still maintaining your financial stability.

When calculating the cost of building your home, there are many components from construction materials and contracts to tax benefits, funds for the down payment and slush account and other related expenses. In Vancouver B.C., the typical cost to build a house is between $200 and $350+ per square foot. In some cases, it could cost as much as $500 or more per square foot. Overall, the average cost to build a house can range $300,000 to $350,000 for 1,000 square feet to double or triple that amount. On average, a 2,500 square foot home could cost between $500,000 and $875,000 to build depending on materials, design, etc.

2. Choose a Reputable Builder

When you start looking it can quickly become overwhelming when you realize how many options there are for builders. When it comes to determining the head contractor for your project, careful research is needed.

Note that in British Columbia, Alberta, Ontario and Quebec, builders must provide home buyers with a third-party warranty. In the rest of Canada, the decision is left up to the individual builder. **The Canadian Home Builder's Association** has a list of reputable professionals you can start with or, if you reside in the province of Ontario, you can use the **HCRA's Ontario Builder Directory**. This will allow you to confirm:

- If a builder or vendor is licensed with the HCRA
- If any conditions have been placed on their licence
- If Tarion has had to resolve warranty claims for a builder in the past 10 years
- How many homes they have built and where these homes are

It can also help to consult friends and family members who have gone through the process. I can also assist in providing references!

3. Build a Home for Tomorrow

As tempting as it can be to personalize your home to the tenth degree and include every cool little feature you can think of, it is important to always keep resale value and practicality in the back of your mind. Life can often throw a few curve balls that, for one reason or another, may result in your having to sell your home in the future. If that time should ever come, you will want to be able to appeal to all buyers easily and not have to hold the house longer than necessary. Ask yourself if the features you are putting into your home will appeal to others, and also if the design suits the neighborhood you are building in as well.

4. Go Green!

Now, more than ever before, energy efficient upgrades are easy to add to your home. To make your home as efficient as possible, it is important to incorporate these options into your design BEFORE you start building. Options such as energy efficient appliances, windows, HVAC systems, and more can save you money in the long run and may also make you eligible for certain grants and discounts. The Canadian Mortgage and Housing Corporation (CMHC) green building program rewards those who select energy efficient and environment friendly options.

5. Understand the Loan

Aside from the costs of building a new home, what does a mortgage look like for an unbuilt home? In many cases, this is where a "construction mortgage" might come into play. In order to properly qualify for financing on an unbuilt home, you need to give me a budget that includes both hard and soft costs, as well as the reserve of money you plan to have set aside in case you run into unexpected events.

For example, based on the lender loaning up to 75% of the total cost (with 25%

down):

- Land purchase price: $200,000
- Total soft and hard costs (as complete): $400,000
- $600,000 x 75% = $450,000 available to finance

It is also important to understand that the lender will also consider the appraised value of the finished product. This value is determined before the project begins. In addition, depending on the lender, you may have a time frame within which you need to complete construction (typically between 6 and 12 months).

Below are a few key points to remember with regards to repayment on construction loans:

- Construction loans are usually fully opened and can be repaid at any time.
- Interest is charged only on amounts drawn; there are no “unused funds”
- Once construction is complete and project completion has been verified by the lender, the construction mortgage is “moved over” to a normal mortgage

Lastly, the lender will always consider the marketability of a property. This includes not only demographic aspects, but also the geography. A lot that in a secluded area with minimal market demand may not be a property that they are willing to lend on, so it is important to review the entire property and plan before breaking ground. Please don’t hesitate to contact me to get started on the process so that you can build with confidence!

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Real Talk: Mortgage Penalties

When it comes to mortgages, it is easy to focus on the rates and your current situation, but the reality is that life happens and when it does, rates won't be the only thing that matter.

At the end of the day, a mortgage is a contract between you (the homeowner) and the bank. As such, there are often penalties involved if the contract is ever broken. This is something that every homeowner agrees to when you sign mortgage paperwork, but it can be easy to forget - until you're paying the price. These things do happen as approximately 6 out of 10 mortgages in Canada are broken within 3 years. Should your circumstances change, knowing the next steps can help you navigate the process.

Calculating Penalties

Typically, the penalty for breaking a mortgage is calculated in two different ways. Lenders generally use an Interest Rate Differential calculation or the sum of three months interest to determine the penalty. You will typically be assessed the greater of the two penalties, unless your contract states otherwise.

1. Interest Rate Differential (IRD): In Canada there is no one-size-fits-all rule for how the IRD is calculated and it can vary greatly from lender to lender. This is due to the various comparison rates that are used. However, typically the IRD is based on the amount remaining on the loan and the difference between the original mortgage interest rate you signed at and the current interest rate a lender can charge today.

In this case, these penalties vary greatly as they are based on the borrower's specific mortgage and the specific rates on the agreement, and in the market today. However, let's assume you have a balance of $200,000 on your mortgage, an annual interest rate of 6%, 36 months remaining in your 5-year term and the current rate is 4%. This would mean an IRD penalty of $12,000 if you break the contract.

Ideally, you will want to be aware of what your IRD penalty would be before you decide to break your mortgage as it is not always the most viable option.

2. Three Months Difference: In some cases, the penalty for breaking your mortgage is simply equivalent to three months of interest. Using the same example as above - balance of $200,000 on your mortgage, an annual interest rate of 6% - then three months interest would be a $3,000 penalty. A variable-rate mortgage is typically accompanied by only the three-month interest penalty.

Paying The Penalty

When it comes to making the payment, some lenders may allow you to add this penalty to your new mortgage balance (meaning you would pay interest on it). You can also pay your penalty up front. Whenever possible, if you can wait out your current mortgage term before making a change to your mortgage, it is the best way to avoid being stuck in the penalty box. If you cannot avoid a penalty, do note that, while only calculators can be great tools for estimates, it is best to contact me directly to discuss your mortgage terms and potential penalty calculations.

Throwing the Perfect Summer BBQ

It’s the season of outdoor parties and a summer BBQ is the perfect way to enjoy time with friends and family! For some tips on how to make this year’s BBQ your best one yet, check out my list below:

- **Set the Mood:** String up fairy lights, plug in a radio with some of your favourite tunes in the background, put out a lawn rug and throw a fresh table cloth over your outdoor dining area. A few quick items can really spruce up the yard and make it feel ready for guests!

- **Put Out Snacks:** This may seem like a no brainer, but having a table filled with fun 'grazing' snacks can help stave off any stress about perfectly grilling your meals! Try a veggie and dip tray, fruit shish kabobs or cured meats and cheeses.
- **Have Drinks on Hand:** Set up a table with pitchers of fun summer drink concoctions (alcohol optional!) or consider filling a kiddie pool or wheelbarrow with ice to keep those beers chilled all afternoon
- **Choose Your Mains:** It can be easy to get carried away grilling steaks, fish, chicken, hot dogs, burgers - you name it! For a more successful party, choose two options. Maybe you go with hot dogs and veggie burgers, or perhaps fish and chicken. Choose items that cook well on the BBQ together and suit the tone of your get-together.
- **Don't Forget to Play!:** If you're hosting an adult-only BBQ, setting up a table for a card game can be a great way to pass the time and get in some laughs. If you have children in attendance, consider setting up a lemonade stand or fill up some water balloons for an extra splash!.

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