

# Purchase Plus Improvements

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Is this you "*what a beautiful home with a great piece of property, too bad the kitchen is outdated*"? Well you are in luck, not only does this program open the door for you to get into the home, with the dream kitchen, or spa like ensuite, but it also saves you any inconvenience, or hassles of arranging a second loan after the closing. This is possible with a GE/CMHC "**Purchase Plus Improvements**" mortgage. Now you can purchase a home, renovate it the way you like and pay for it all in one mortgage payment at first mortgage rates.

All of this can be done by putting down as little as 5% of the "as improved" value. For example, if you purchased a home for \$120,000 and wanted to do \$30,000 worth of renovations, GE/CMHC will insure a mortgage based on 95% of the "as improved" value. In other words, with a down payment of \$7,500 (5%) GE/CMHC will insure a mortgage of \$142,500. The key for this working is that the cost of the renovations has to be reflected in the "as improved" value of the house. In this example, GE/CMHC would have to agree that the house would have a value of at least \$150,000 after the \$30,000 worth of proposed renovations was done. The insured loan will be based on the lower of the purchase price plus the actual cost of improvements or the "as improved" market value.

## **How Does It Work?**

When you have decided to make an offer on a house, **make the offer conditional for a longer than normal conditional period** because you will have to arrange a qualified contractor to put together a description and a cost estimate for the proposed repairs or renovations. Forward the "Contractor's Estimate" along with the "Agreement of Purchase and Sale" for submission to the lender for GE/CMHC's approval.

The following information needs to be prepared by the contractor to be submitted along with your application to the lender.

## **Renovations** (i.e. Kitchen renovation/ Bathroom renovation)

1. Description of the work
2. Types of materials being installed with applicable quantities (i.e. 250 sq. ft. ceramic flooring)
3. TOTAL COST of all work (include applicable taxes)

## **Additions** (i.e. Rear family room addition, second storey addition)

1. Description of work
2. Copy of drawings
3. Cost breakdown of all proposed work in a similar format to the following as applicable:
  - Excavation and foundations - Exterior finish
  - Framing - Interior wall and ceiling finish
  - Windows and exterior doors - Finish carpentry (i.e. Trim, doors, and kitchen cabinets)
  - Electrical
  - Interior painting
  - Plumbing
  - Finish flooring
  - Heating
  - Site work (i.e. Landscaping)

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## **Sample Situations at Completion**

### **Situation A**

Cost of improvements is the **same** as the increase in the house value.

Purchase Price \$100,000.00

Cost of Improvements \$20,000.00

Total house cost \$120,000.00

As improved appraised value \$120,000.00

Minimum down payment \$6,000.00

(5% of 120,000.00)

Mortgage Loan amount \$114,000.00

First advance on purchase \$94,000.00

(\$114,000.00 minus \$20,000.00)

Second advance after improvements \$20,000.00

(\$114,000.00 minus \$94,000.00)

### **Situation B**

Cost of improvements is **more than** the increase in the house value.

Purchase Price \$100,000.00

Cost of Improvements \$20,000.00

Total house cost \$120,000.00

As improved appraised value \$115,000.00

Minimum down payment \$5750.00

(5% of 115,000.00)

From borrower's own resources \$5,000.00

Difference between "total house cost" and "as improved appraised value" Additional funds to be provided by the borrower may be borrowed outside of the insurance loan amount.

Mortgage Loan amount \$109250.00

First advance on purchase \$89,250.00

(\$109,250.00 minus \$20,000.00)

Second advance after improvements \$20,000.00

(\$109,250.00 minus \$89,250.00)

In these examples, the Mortgage Loan Insurance premium is not added to the mortgage loan amount. In fact the premium may be included in the insured amount- choice of the borrower.

Most Purchase Plus mortgages are administered through the retail lenders or a through lawyer with a financial corporation. These mortgages are usually subject to a 10% hold back for 45 days after completion of work. This holdback is incase there is a construction lien registered after for non payment.

### **Important Reminders**

- 1. Make the offer conditional for a longer than normal conditional period, 10 business days**
- 2. Get estimates immediately after accepted offer**
- 3. Full application cannot be submitted until estimates are in**
- 4. All work has to be completed and receipts submitted together to release funds**
- 5. A walk-through appraisal maybe required at the borrower's expense**

### **Final Comments**

This is an excellent opportunity to acquire and appreciate the home you want at the best rate available. Especially when you consider the slight higher downpayment against the potential growth of your investment.