

What is a construction loan?

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Whether you already have a piece of land you want to develop or a you are looking to build a custom home, both of these options require a great deal of money.

If it's money you don't have saved up, banks and private mortgage companies can offer you a construction loan to lend you money to build the home of your dreams.

If it's something you're interested in, a bank's mortgage specialist is someone you'll want to talk to. They can walk you through what you need to qualify for the loan and other details, such as expected payments and when you will receive funding.

But before beginning any work, it's important to account for the [cost of gutting and knocking down the existing property](#) on the land.

What do you need to qualify?

Banks will be lending customers a lot of money if they sign up for a construction loan and it's important for them to do their due diligence before approving its release. Customers will be required to provide their basic debt, income and asset information, which gives banks an idea of whether you're able to pay back the loan.

Also, you will need to provide proof of the work, which includes a signed construction or purchase contract with a builder and developer. This will give banks an idea of how much the work is expected to cost you, which can include the cost of construction and land, if applicable and when construction is expected to start and finish.

How do you get a construction loan?

If you're looking to rebuild your home, banks offer a construction loan to help make that happen. For [TD's construction loan](#), you apply for the loan and if approved, the bank will make fixed payments to your builder for 12 months. You will be responsible for the interest payments during this timeframe. Once the 12-month construction phase is over, the loan will be converted to a fixed-rate mortgage.

One note is that if you have borrowed money from the bank to buy the land you're building on, the first release of funding of your construction loan will pay off that amount before paying the builder.

Also, banks will release the funds in stages: when the home is 50 per cent complete (when the

home can be locked up with installed doors and windows), 75 per cent complete (when the drywall is up and ready to be painted) and when the home is ready to move in, [according to Ratehub](#). You also will need to fund the project out of your pocket until it reaches 50 per cent completion, which is when the bank will release the first round of funding, says Ratehub.

Private mortgage loans also offer differently structured construction loans and it's important to get all the details before signing any paperwork.

Meanwhile, if you're not planning to gut your home. [CIBC offers a renovation loan](#), which uses the equity of your home as collateral. While [BMO offers on-reserve housing loans](#) that lets you customize your loan towards construction or a major renovation with different fixed rate terms.

If you're doing an [extensive renovation that will change 90 per cent of your home's interior](#), you will be [eligible for an HST rebate](#), which can help you offset some of your renovation costs. Depending on the province you live in, the [HST rebate amount you receive from the CRA differs](#).

[Rebate4U](#) can ensure you file your HST housing rebate properly so the [CRA won't try to clawback the rebate](#) amount later. Our priority is to provide our clients with the most professional and quality service in obtaining rebates for their new and renovated homes. We are proud to offer our clients the most personal and attentive service, and we make sure that all of our clients are 100% satisfied.