

## **Purchase + Improvements Plan (CMHC)**

This is a special program under the auspices of CMHC and is designed for those people who wish to purchase a home that may require some immediate upgrades - for example, a new electrical service, a new roof, a new kitchen, etc. - or any other renovations that have the effect of increasing the value of the property.

Here is how it works: Let us assume that you are a first-time buyer with 5% down payment. Before the mortgage financing is arranged, written quotes are obtained from licensed contractors for the repairs or improvements contemplated for the home. When the application for mortgage financing is made, the request is made for 95% of the purchase price of the home PLUS 95% of the cost to complete the repairs or improvements. It is important to note that the lender will "hold back" the "improvement" portion of the mortgage advance on the closing until the work has been completed. Once this work is completed, the lender will advance the balance of the funds and the contractors can be paid.

Let us take a look at how this might work:

The Purchase Price is  $\$150,000 \times 95\% = \$142,500$

The quote for the Improvements is  $\$11,000 \times 95\% = \$10,450$

The total Mortgage Advance is  $\$161,000 \times 95\% = \$152,950$

Therefore, an application is made for a mortgage loan in the amount of \$152,950, which is 95% of the purchase price of the home plus 95% of the cost of the improvements.

On closing, the lender will advance \$142,500 (plus your 5% down payment of \$7,500) to complete the purchase of \$150,000.

After closing, the contractor completes the improvements (normally within 30-60 days) and the lender advances the hold-back of \$10,450. You will pay the additional 5% of the improvements (\$550) and the \$11,000 owed to the contractor can be paid as per the original quote for the work completed.

Remember, though, that the costs of these improvements will be repaid by you over the full amortization period of the mortgage loan. You could be paying for these improvements for as long as 25 years, with interest. On the other hand, seldom does someone live in the same home for this length of time. Once the home is sold, the cost of these improvements (or at least some portion) is usually recaptured.

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