

Guide to Construction Loans

Construction Loans can be quite different to a standard home loan so it is important to understand what you are entering into. The Construction Loan is a loan that is drawn down in stages as your property is being built. This means that your monthly mortgage repayments slowly increase as the construction moves forward until finally at completion of construction the loan repayment reaches its full monthly repayment amount. Many Lenders also offer interest only repayments during the construction process which revert to principle and interest repayments once the construction is complete.

To qualify for a Construction Loan you will need to have council approved plans and a fixed price tender from a registered builder. You should also note that you will need to use your saved funds or equity before drawing down on your Construction Loan.

For many building contracts a progress inspection at every mortgage loan drawdown is arranged by the Lender. Always check with your Lending Manager if you would like to make any variations to your building contract, prior to proceeding.

Upon completion of your property, the Construction Loan usually reverts to a standard variable rate.

Know your building contract

Finding a reputable builder is the first thing to do after you've made the decision to build. Next, you will need to enter into a building contract with a licensed builder. The contract is a legally binding document. Ensure you read the fine print! It is your responsibility to go through the terms and conditions with your legal representative. Never sign anything unless you are 100% certain you understand what it means. Ask the question of your builder – do you have all the necessary insurance policies in place?

Whilst the Lenders do not need to sight the following documents, it is strongly recommended that you obtain the following documents from your chosen builder:

1. Builders License
2. Home Warranty Insurance
3. Employers Liability and Workers Compensation

Progress Payments

In a construction loan your builder is usually paid in draw downs (sometimes also known as progress payments) which occur when each part of the work is completed. This means that your monthly mortgage slowly increases as the construction moves forward until finally at completion of construction the loan repayment reaches its full monthly repayment amount. Builders usually will send you a progress invoice when a progress payment is due. Some building contracts may require a progress inspection at every mortgage drawdown which is arranged by the Lender. Your Lender may also require you to sign a progress payment form that they will provide you which you would need to send back to them along with the progress invoice. Once the progress payment is approved by the Lender, the builder will be paid from your loan account.

Many construction loans have around five drawdowns. These drawdowns are often at the following stages but may vary depending on your building contract:

- Slab completion
- Frame completion
- Outer brick work completion
- Lock up stage
- Workable completion



First Home Owners

Thankfully there are several government incentives and benefits available to provide a little helping hand. For more information visit www.firsthome.gov.au.

FAQS

What is the maximum percentage you can borrow?

There are some construction loans that may allow you to borrow up to 95% of the value of the property plus some funds to cover the cost of Lenders Mortgage Insurance

After your loan is approved what other items do you need to provide prior to commencing construction?

- Signed Contract (fully signed by builder and purchaser)
- Signed Specifications (fully signed by builder and purchaser)
- Builders Public Liability Insurance
- Building Services Authority Insurance (QLD only)
- Arrange insurance covering full replacement value with your Lender is listed as mortgagee

What is required at the completion of construction?

You will need to obtain an Occupation Certificate, also known as an Occupation Permit, from your local council.

Always check with your Mortgage Professional if you would like to make any variations to your building contract, prior to proceeding. Upon completion of the dwelling, the construction loan will revert to the loan product originally chosen by you.

“Construction Loans are not your everyday loan which is why it is essential you speak with a construction lending specialist.”

Useful Websites:

- Building Commission - www.buildingcommission.com.au
- Master Builders Association - www.masterbuilders.com.au
- Home Design Directory - www.homedesigndirectory.com.au
- Builder Services Authority - www.bsa.qld.gov.au
- Office of Fair Trading - www.fairtrading.nsw.gov.au

