



† Homes † Investments †
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Constructing Your Dream

Most of us have dreamed of building our own home. Some of us go one step further and turn the dream into reality.

So, how easy is it to get suitable finance, and how does it work?

Construction loans help you purchase land, construct a residential property on land already held and/or complete the land purchase and construction. Financing a major renovation or building a new home is very different from buying a property.

A construction loan allows you to make minimum repayments until construction or renovation is complete. They do this by limiting the borrowing at each stage of construction, plus they are often interest only during the construction phase.

There are typically five loan stages.

1. Pre approval

The first step is to arrange suitable finance, which is where we come in.

We will need a clear understanding of your current financial position and future plans.

We can then assess the numerous lenders and loan products to help you select a suitable home loan.

We will then help you to complete the application forms and collect the supporting documents, and submit it on your behalf to your chosen lender. The lender will assess the application and hopefully give a conditional approval. When this approval is received, you are ready to purchase the land and start construction.

2. Land purchase

Selecting and purchasing suitable land is a critical step. A mistake here will cause major problems during the construction stage, so proper site investigations by properly-qualified professionals is a must.

Normally, lenders will allow up to two years from the initial purchase of the land to complete construction, and sometimes only 12 months.

3. Builder Selection

Allowed construction periods generally are not longer than two years. In order to grant a construction home loan a lender normally requires a fixed price contract from a licensed builder; council approved plans and specifications; written details of any work to be carried out by you, or your family, friend or sub-contractors; and proof of current builders' insurance.

4. Construction Starts

Funds are drawn down as the builder completes various stages of your home. Your building contract should nominate the number of progress payments for the construction, but there are typically four:

- When concrete or timber flooring is laid
- When the framework or walls are up
- When the house reaches lockup stage
- On completion

Lenders normally get involved in the management of the project. For example they will set up a schedule of progress payments for paying the builders.

They will also organise the progress payments to be made after each stage of building, once it has been independently inspected and verified by an independent expert (eg professional valuer) that the builder has reached certain objectives and met satisfactory standards. This protects the borrower by ensuring the builder isn't getting paid for work that has not yet been completed.

Note that each “Stage Inspection” will normally incur an additional valuation fee. Also each drawdown of the stage payment can also incur a drawdown fee from the lender.

5. Construction Complete

Once the property is built, the loan will normally revert to a standard principal and interest variable loan, although they can be set as a fixed interest loan as well. In fact lenders prefer to work this way, as it allows them to set up the entire approval process for you from the outset, and ensures that they “keep your business”.

Benefits of a Construction loan

Whilst the process can seem complex, it is worth remembering the benefits of a construction loan:

- It usually operates as an interest only loan until construction is completed, and only gets drawn down (ie borrowed) in stages.
- You provide invoices to the lender who controls payments to the builder.
- The lender provides an expert to monitor construction and approve progress claims.

Conclusion

If you are thinking of building your own home or an investment property, there are many products and lenders ready to help you. Get in touch with us and we’ll help you find the best construction loan for your circumstances.

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