

FACT SHEET

Construction Loans

Let's take a look at the loan process for building a new home – one of the most satisfying projects you'll ever undertake.



From finding the perfect block of land and designing the house, to choosing a builder and selecting those final finishing touches. It can be an incredibly exciting process... but also a little daunting. That's why it's important to have a solid understanding of the building process and how all the pieces of the construction puzzle fit into place.

If you're considering building your first home, you've probably already got a list of questions as long as your arm. Your Moneywise home loan fixer can help you understand the construction loan process from start to finish and make your building journey as smooth as possible.

Where should I start?

Plan to succeed and do your research

Building a home is a big commitment and it can take well over a year from making your first deposit on your block

of land to actually moving in to your new home. Doing your research up front is critical to making sure you're fully aware of the process, the financial commitment involved and the potential challenges you could face along the way.

So before you commit to building your home here are some questions you should be asking yourself.

- **How does the cost of building compare to buying a near new or existing property in the area?** Even if you are receiving the First Home Owners Grant by building you may still find that existing homes offer greater value (dependent on the market).
- **What type of home do you want to build and what size block of land will you need?**
- **How long do you plan to live in the house?** If you think you'll only be there for a couple of years before turning it into an investment property,

you may want to design it differently to a home that you plan to live in long term.

- **What homes are selling well in the area you're considering building in?** Talk to real estate agents to get a good understanding of the area and current demand.
- **How will you choose a reputable builder?** Ask around real estate agents, tradesmen and locals to get a feel of who are the best builders in the area.

Next, it is important to think about how you purchase your land and construct your home – and of course obtain necessary finance!

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How does your building strategy stack up?

1

Purchase the land first and take time to find a Builder.

POSITIVES

- Not pressured into finding a builder straight away.
- Flexibility of choosing your own builder.
- Allows extra time to save more deposit for your construction.
- You could see capital gain in your land over the period you hold it.
- Can be stamp duty benefits (check your state regulations).

NEGATIVES

- The cost of building may increase the longer you wait.
- First Home Owner Grants may change by the time you build.
- You'll be paying rent in your existing home whilst paying the mortgage on your land as well as rates.
- If the market softens you could see the capital in your land reduce.

2

Purchase a House and Land Package through a Builder.

POSITIVES

- Builders have allocations of land with developers so this can make it easier to find land to purchase.
- Can be stamp duty benefits (check your state regulations) as you will often be purchasing the land off the developer not as a package price.
- Your builder will likely be constructing many houses in the area and will be knowledgeable on local regulations and logistics.

NEGATIVES

- You're restricted to using the builder that holds that land allocation that you want.
- You'll be paying rent in your existing home whilst paying the mortgage on your land and progress building payments.

3

Purchase a completed House and Land Package from a Builder.

POSITIVES

- No mortgage repayments during a construction period as you finance the home at completion.
- Less worry – buying a finished product rather than going through the building process.

NEGATIVES

- No say in the design of the home as you are buying it already built.
- Higher stamp duty may be applicable (check your states regulations).

Build on the foundation of a sound deposit

You'll need to make sure that you've saved more than just the minimum deposit. Building by its very nature can leave you exposed to unexpected costs. Plus with the additional set up costs of utilities and furnishings in a brand new home, you'll need to have additional funds available than what you've committed to the build.

Also given the duration of the process, so many other things can change. Not the least

could include bank policy – which could affect how much deposit you need, along with market conditions that could impact the final valuation on your property.

As an absolute minimum you will need 5% deposit, plus legal and statutory costs and surplus funds. Although we recommend that you save at least 10% of the purchase price, plus budget for additional funds that you'll want to have on hand once you move in.

Here's how construction loans work

Pre-Approval

The first thing you should do is talk to us about locking down your construction loan pre-approval. This will give you the peace of mind that you can actually afford the project that you're about to embark on.

A construction loan can be added to an existing home loan account or set up as a completely new loan. It's important to remember that it's difficult to increase the overall loan amount once construction has commenced, so include an allowance for unexpected cost increases such as site preparation costs or variations to the plans.

Finalise Plans

With your loan pre-approval in place the next step is to finalise the plans for your new home. This will involve working with a registered builder, an architect or draftsman and maybe the council. Once you've settled on your home's design your builder will provide you with a fixed-price building contract (Owner builders

require other considerations not covered here).

Once the building contract, plans and specifications are finalised we'll work with you and your lender to convert your finance pre-approval into a formal loan approval. The first step is having a valuation completed on behalf of the lender that takes into account the existing land value of your property plus the likely additional value of your proposed home.

Once the valuation is complete, your requested loan amount will be compared with the valuation of the completed property to finalise the funds (deposit + costs etc) you will need to contribute.

Construction Begins

Once your construction loan is approved your builder will be able to start work. Typically your builder will issue you with progressive invoices as they complete major milestones on the project, such as slab stage, frame stage, lock up etc. If you aren't borrowing the entire cost of construction,

then you'll need to be prepared to contribute to these early invoices from the builder.

Once you've made any required personal contributions to the builder, the lender will then draw down funds from your approved loan to pay the builder's ongoing invoices.

While your home is under construction your lender manages all funds in the loan in accordance with the building contract – right up to when you occupy your new home. You will not be able to draw money from the loan to pay for variations to the building plans or unexpected costs.

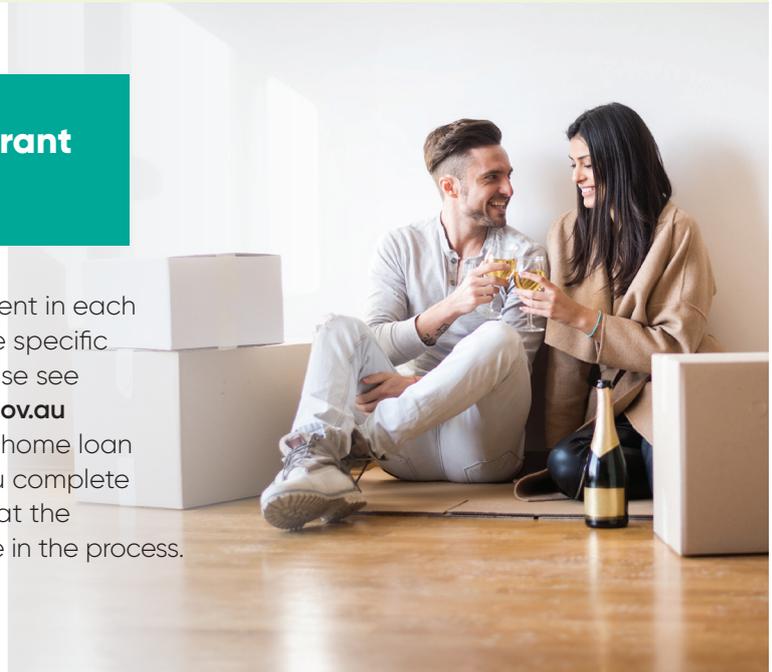
Interest-Only Payments

Repayments on construction loans are interest-only during the construction period and the total repayment amount only increases after each invoice is actually paid by the lender. This is obviously a big help if you're continuing to pay rent or a mortgage on another property during the construction phase.

When does the First Home Owner Grant get paid?

In most States the First Home Owner Grant is based on building a new home by first time owners and the Grant is generally funded once the foundations of your home are laid. As such the grant will generally go towards the progress payment at this stage.

Grants are different in each state so for more specific information please see www.firsthome.gov.au Your Moneywise home loan fixer will help you complete the application at the appropriate time in the process.



Some final thoughts

There's no substitute for chatting with people who've been there and done that. We're sure there are plenty of fellow home builders out there who would have done things differently in hindsight – so ask family and friends what their mistakes were and if they can share any tips with you.

Also make sure you're clear about what's included in your building contract so you understand how your home should present when it's completed. For example if blinds or curtains aren't included then you're going to need to spend another few thousand when you move in.

It is also possible to save money by organising items like landscaping or fencing with separate tradesmen.

We recommend that you weigh up the difference between the builder doing it versus your time and energy organising quotes and invoices with tradesmen.

You should note that your lender will require the home to be fully completed when you move in and may even stipulate that landscaping be fully finished before settlement.

Above all, it's important that you plan your budget. During construction you're likely to have ongoing rental or mortgage costs whilst you are making repayments on the construction loan – with these repayments increasing with each progress payment stage. Make sure you know where your money is going, remain disciplined and always keep an emergency fund for unexpected costs.

Don't go it alone on your construction loan.

Make your appointment with a Moneywise home loan fixer today and build with peace of mind.