



Home Construction

Finance Guide

Every moment of your new home building experience should be hassle and stress free ...and that includes your finance.



This simple guide will take you through the process of financing your new home.

How does finance work when building a new home?

Financing your new home is a little bit different to the way you would finance an established house.

When buying an established house you make one payment when your property settles, but when building a new home things are a little different.

You will be required to make a series of smaller payments as your builder completes each stage of the work on your new home.

These payments meet the materials and labour costs incurred as you progress through each stage of your build and how often you pay your builder will depend on your building agreement. This series of payments are referred to as progress payments.

To protect yourself, it is important to pay your builder only after each stage of work has been completed.

How do progress payments work?

It is normal practice for you to pay a small amount initially to get things started. This allows the builder to prepare your building agreement, finalise your plans and obtain council approval.

Before the builder can start this process, they will need to confirm you have the money available to make your progress payments when they are due.

Progress payment schedules vary but are typically as follows:

1. Deposit payment – a small deposit is paid to meet the builder's initial costs;
2. Slab payment – is paid after site preparation, drainage and when the concrete slab has been completed;

3. Frame payment – is paid once the frame has been completed;
4. Lock Up payment – is paid once the bricks, windows and doors (excluding external doors and garage doors) have been completed;
5. Fit Out payment – is paid once tiling, kitchens and wall linings have been fitted;
6. Completion – is paid once the painting and finishing touches have been completed.

Your builder will issue you with an invoice and a progress claim request that you will need to pay after they complete each stage of your build. These need to be processed on time to make sure work on your home is not delayed.

How can I finance my build?

The two main options our customers choose to finance the build of their dream home are:

1. Paying cash

If you aren't borrowing money to build, you will still need to provide evidence that you have sufficient funds to pay your progress payments as they become due. Some builders may ask for a joint bank account to be opened and the money deposited into that account. Other builders may accept a copy of your bank account statement and have you sign a Statutory Declaration confirming you will use these funds to meet the progress payments.

2. Borrowing to build

Most people borrow money to build a new home. This type of mortgage loan is different to a standard home loan and it's not as straight forward, because it involves two separate lending transactions (a land loan and a building loan) and multiple progress payments (sometimes referred to as loan drawdowns).

If you are financing your land, be sure to work with your lender to check you will also qualify for the extra money you'll need to construct your home. Owning a block of land and not being able to build will leave you with a mortgage to repay on a non-income producing vacant block of land.



How do I know if I am approved to finance my build?

Pre-approvals

Most banks will provide you with what is called an 'in-principle approval'. This is an indication that on face value you should qualify for a loan approval in the future. It's important not to confuse this with a formal loan approval. An approval in principle does not bind the lender to advance you the money, so don't commit to building until your finance is formally approved in writing.

Formal loan approvals

With very few exceptions, a lender can only provide you with a formal approval once they have valued the home you are building.

To value your new home they will need:

- a copy of your plans;
- a list of your building inclusions and finishes; and
- the quote or tender document from your builder.

Lenders value your home on an "on completion basis". This means they ask the valuer to work out what your home will be worth after the building work has been completed. This is not always a simple addition of the land cost plus the building cost.

Once your loan has been formally approved and you have signed your mortgage documents, your construction loan will settle. The lender will hold back enough money to pay the progress payments and will issue an Authority to Commence Construction (ACC), which authorises the builder to start work.

Which lender should I use for my construction loan?

Most lenders offer some type of construction loan, but be careful to check that the lending product you have been researching has the construction loan option you will need. Most lenders don't permit construction loans on their basic products and most will not be able to offer you a fixed rate during construction.

If you already have a loan that you took out to buy land, now is the right time to consider your alternatives. The amount of effort required to get a formal approval from your existing lender is going to be no different to taking out a loan with another lender, so if there is a better loan out there, take advantage of it and save some money.

Important points worth considering about construction loans are:

- What is my interest rate?
- Can I have a fixed interest rate while building?
- What are the loan establishment fees?
- Is an offset account available?
- How quickly can my Authority to Commence Construction (ACC) be issued?
- Will I pay progress payment fees?
- How long is my formal approval valid for?
- How much paperwork will I be required to manage?
- The cost charged by your builder resulting from delayed progress payments can be far greater than the interest rate on your home loan.
- Does my lender offer bridging finance on construction loans?
- What are the hidden costs?

You don't need to change banks to change your mortgage

You don't need to use the same institution to manage both your mortgage and bank accounts. Banks prefer to lock customers into multiple services and products they provide, however modern banking practices and technology makes it easier than ever to have your home loan with a different lender if you choose.



What factors will affect the interest rate I pay?

Banks sometimes offer home loan discounts to borrowers; often these discounts are not advertised and are negotiated through mortgage brokers or with banks directly.

The typical factors that could affect the discount you may be offered include:

- Your lenders appetite to seek new customers at this time;
- Your loan to value ratio;
- Your loan size;
- Your loan purpose (owner occupied vs investment);
- Your loan type (principal and interest vs interest only);
- Your credit history;
- Your employment status;
- What type of lender you prefer to borrow from (Bank vs Non-Bank);
- Who you speak to within an organisation; and
- The policy settings or regulators.

Different situations call for different lending strategies.

Everybody's circumstances are different. Some people have the time to compare different mortgage options, others seek the support of a professional to help them with their mortgage options and some people do not compare at all.

Lenders are different too! Some lenders will make you jump through hoops while others are easier to deal with. You will never really know how difficult things might get until after you have started your home loan application. Often it is the person inside an organisation you're dealing with that can make all the difference.

You will have unique requirements when it comes to your home loan, so don't be afraid to take the steps necessary to make sure the loan decision you make today provides you with the flexibility to keep your options open in the future.

If you need a hand, we're here to help.

Our MyChoice Home Loans service helps to make financing your dream home easy. Rather than leaving you with the responsibility of finding the best deal on your home loan, our experienced representatives will use our network of Australia's most respected financial lenders to find the right fit for you. We will guide you through every step of the building process and provide ongoing support throughout the entire life of your loan.

If you would like assistance in arranging finance for your construction loan, contact us.

We make it easy.

www.mychoicehomeloans.com.au

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