



# A Guide To Construction Loans In Australia



# What Are The Key Differences Between Construction Loans And Traditional Home Loans In Australia?

This table outlines the distinctions between construction loans and traditional home loans in Australia, focusing on their purpose, fund disbursement, interest payments, rates, loan terms, and deposit requirements.

Key Differences	Construction Loans	Traditional Home Loans
<b>Purpose</b>	Construction of new homes or major renovations	Purchasing existing properties
<b>Disbursement of Funds</b>	Released in stages as construction progresses	Lump sum disbursed at settlement
<b>Interest Payments</b>	Interest-only payment in construction until completion	Regular Principal and Interest
<b>Deposit Requirements</b>	A larger deposit or amount of equity may be required upfront	Deposit requirements vary, Lender Mortgage Insurance may apply for deposits of less than 20%

If you are planning on building a new home, you will need to acquire a construction loan. Traditional and construction loans have perks and points to consider, crafted to fit the unique experience of building or buying your home.



# What Are The Key Eligibility Criteria For Obtaining A Construction Loan In Australia?

Obtaining a construction loan involves satisfying layers of criteria. Lenders go beyond the standard mortgage playbook, looking at various factors to determine if you and your project qualify for a construction loan.

So, what exactly do lenders assess?



## Your Credit Story:

Lenders prefer a credit score above 680, indicating responsible handling of obligations. They check for bankruptcies or late payments in your credit history. If there are hiccups, some lenders consider the bigger picture, assessing your overall financial health, assets, and the income your project could generate.



## Your Investment In The Project:

Construction loans require a higher upfront commitment. Unlike traditional mortgages with a 10-20% deposit, you'll need 20-30% or more. This larger initial investment shows the lender that you're deeply committed to the project's success, considering the added uncertainties and complexities of construction.



## Your Plan And Budget:

Your construction plan must be clear and detailed, including designs, a timeline, and a cost breakdown. Lenders scrutinise these to ensure your project is feasible. For instance, if you're building a multi-unit complex, they'll assess market demand and potential rental income to gauge the project's financial viability.



## Who's Building Your Dream:

Your builder's experience and qualifications matter to lenders. They want assurance that your project is in capable hands. You may need to provide details about your builder's track record, licensing, and insurance to show it can deliver quality work on schedule.



### The Property's Potential:

An appraisal to determine the property's current and future value post-construction is necessary. This assessment helps lenders decide if the loan amount aligns with the property's worth. They'll also consider the property's location, market trends, and the demand for similar properties. A realistic grasp of your property's potential value is key to securing the loan.

Understand these criteria. They are your compass in the world of construction loans. With a robust credit history, a well-defined plan, and financial readiness for the required deposit, you're set for success.



# How Can Applicants Avoid Common Mistakes During the Preparation Phase?

## **Mistake 1: Insufficient Planning**

Applying for a loan without a solid plan can lead to unexpected expenses, budget issues, and project complications. Some jump into construction without detailed planning, underestimating costs and neglecting financial aspects.

*Expert tip: Make sure you fully grasp every loan detail, including interest rates, repayment schedules, and associated fees. If anything is unclear, don't hesitate to ask questions. This proactive approach ensures a crystal-clear understanding, preventing potential disputes.*

## **Mistake 2: Choosing The Wrong Lender**

Picking the wrong lender can result in higher costs, unfavourable terms and added stress. Applicants may hastily select a lender without researching or understanding the terms of construction loans.

*Expert tip: Take the time to select the right lender by working with an experienced Home Loan Experts mortgage broker. Be aware of one-off construction fees, all valuation inspections, and progress payments across different lenders to secure the most advantageous deal for your unique needs.*

## **Mistake 3: Lack Of Pre-Approval**

Applicants may overlook the importance of pre-approval, viewing it as unnecessary or expecting rapid approval without the necessary clearance. This oversight can affect various aspects of the construction phase.

*Expert tip: You should aim to secure pre-approval at the beginning of your construction project planning process. Ideally, this step should be taken before finalising your plans with an architect or builder.*

#### **Mistake 4: Lack Of Insurance**

Inadequate insurance exposes your project to financial risks from damage, accidents, or unforeseen circumstances. Don't underestimate the importance of comprehensive coverage. Some may opt for minimal insurance, thinking it's enough, but this leaves your project vulnerable.

*Expert tip: Safeguard your project with robust insurance covering materials, labour, and unexpected events. This safety net ensures your project moves forward smoothly, even in the face of unforeseen challenges.*

#### **Mistake 5: Not Monitoring Construction Progress**

Skipping regular checks on your construction project can lead to minor issues, left unnoticed, escalate into significant delays, derailing your schedule and add unforeseen costs.

*Expert tip: Regular communication with your builder and lender ensures early identification and resolution of issues or delays, keeping your construction process smooth and on schedule.*

#### **Mistake 6: Building Beyond Means**

Overbuilding can strain finances, risking budget overruns and loan complications. Some applicants, tempted by grandiose plans, may exceed their budgetary constraints, leading to financial stress and compromising project success.

*Expert tip: Anything beyond the build contract means clients must handle the funds independently. Failure to make payments at any stage will result in the bank withholding the next progress payment or halting the completion of the build, especially in the final stage. Therefore, clients must be mindful of overspending.*

### **Mistake 7: Failure To Prepare For Risks**

Construction comes with uncertainties, like delays and unexpected issues. Ignoring these risks can mess up your project and strain your finances. Some folks think everything will go perfectly, but you might be in trouble if you don't plan for the unexpected.

*Expert tip: Our Home Loan Experts brokers can help you refinance your construction loan if there are issues with the builder or if they go bankrupt. Just keep in mind, that any exceptions need approval from the lenders.*

To sum it up, knowing these common mistakes and doing things to avoid them increases your chances of getting a construction loan and finishing your project. Good planning, smart choices, and being realistic make your path to a dream home smoother.





## Understanding Interest Payments

Here's what you need to know:

You'll only pay interest based on the balance of your loan account at any given time, not on the entire loan amount.

Your loan will remain on interest-only repayments during the maximum allowable construction period, typically two years. However, you can switch to principal and interest (P&I) repayments after construction by contacting your lender. If your construction is completed before the interest-only period ends, then you should contact your lender to transition into P & I.

Once the interest-only period ends, your loan will convert to principal and interest repayments.

You can make extra repayments during the construction period, which will remain in your redraw balance.

To request a progress payment, simply provide us or directly to your lender with a builder's tax invoice signed and authorised by you.

# What Specific Documents And Plans Are Required When Applying For A Construction Loan?

When you're ready to apply for a construction loan, whether taking on the project as an owner-builder or contracting a professional, you'll need to prepare a specific set of documents and plans. These documents are crucial for helping your lender to assess the feasibility of your project and determine your loan eligibility. Here's what you'll need:

## For Construction with A Fixed-Price Contract:



### **Fixed-Price Building Contract:**

A signed agreement with your builder outlining the total construction cost. This contract provides a clear price, helping to secure the loan by mitigating the lender's risk.



### **Council-Approved Plans Or Builder's Permit:**

Official documentation that your project complies with local regulations and has been approved for construction.



### **Tentative On Completion (TOC) Valuation:**

An estimate of the property's value upon completion of the construction, which helps lenders assess the loan-to-value ratio.



### **Copy Of Builder's Insurance:**

Ensures the construction project is insured, protecting against unforeseen events like accidents or damage during construction.

## For Construction with A Fixed-Price Contract:



### **Council-Approved Plans Or Builder's Permit:**

Essential for confirming that your project meets local building standards and regulations.



### **Builders Insurance/Construction Insurance:**

Provides coverage for construction-related risks, safeguarding your investment throughout the building process.



### **Detailed Breakdown Of Construction Costs:**

Documentation confirming that a registered builder oversees the project or, if you're managing it yourself, proof of your status as a registered builder.



### **Proof Of Savings:**

Current bank statement showing you have savings to cover at least 10% of the total construction cost, demonstrating financial readiness and resilience.



### **Tentative-On-Completion (TOC) Valuation:**

An assessment of the project's value once completed, aiding the lender in determining the appropriate loan amount.

# Ready To Apply For A Construction Loan?



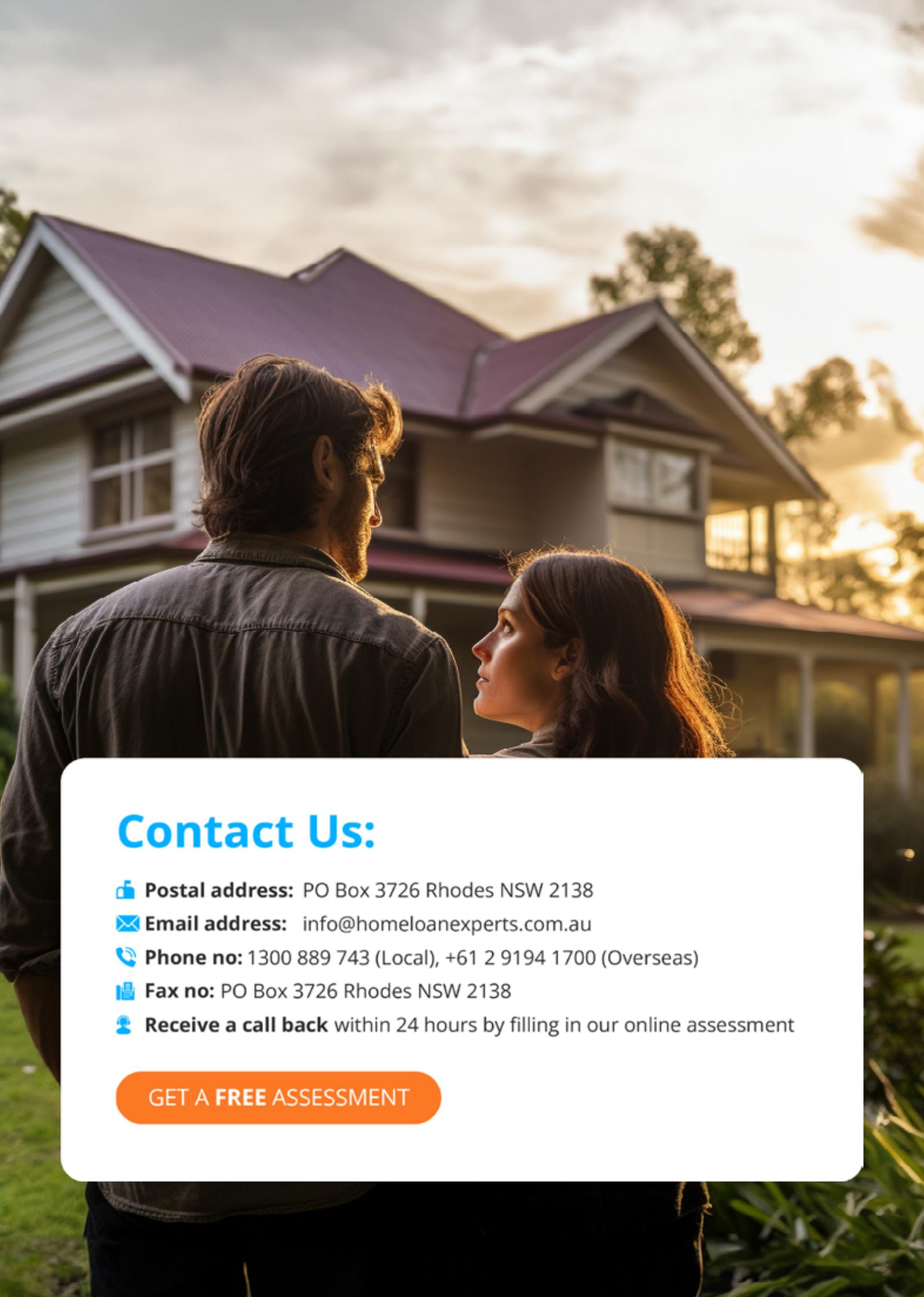
Reach out to Home Loan Experts brokers at

or,

With decades of industry experience, our team is dedicated to guiding you on the right path to building your home from the ground up.

**Disclaimer:** The information provided within this guide is intended for informational purposes only and should not be construed as personal or financial advice. We strongly recommend seeking the counsel of a financial adviser or credit expert for personalised guidance tailored to your unique financial needs.



A man and a woman are standing in a grassy area, looking towards a two-story house with a purple roof. The scene is set during sunset, with warm, golden light illuminating the sky and the house. The man is in the foreground, seen from the back, and the woman is next to him, looking towards the house.

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 **Receive a call back** within 24 hours by filling in our online assessment

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