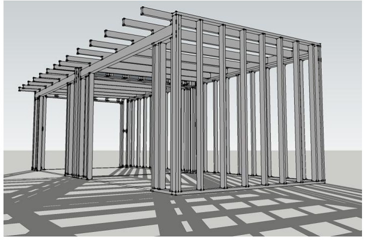
FACT SHEET

CONSTRUCTION LOANS



Loans Types

- **Variable Interest Rate** **4.95%** comparison rate **5.00%**
  Redraw (free on Internet Banking)
  Offset account

Normal approval criteria apply. Conditions, fees and charges apply. Comparison Rate calculated on a secured loan of $150,000 over 25 years. A comparison rate schedule is available at all branches. WARNING: This comparison rate applies only to the example given; different terms, fees or other amounts will result in different comparison rate. Costs such as redraw fees or early repayment fees, and costs savings such as fee waivers, are not included in the comparison rate but may influence the cost of the loan. Central Murray Credit Union Limited ABN 69 087 651 812 Australian Credit Licence Number 239446. Rates effective 7/6/19

What you need to know

In order to have a construction loan formally approved, the property needs to be valued on an "On Completion" basis. This is where a registered valuer assesses the total of the house and land, and compares this against recent sales in the area. This is completed to ensure that the cost of your new home is in keeping with the sale prices of established houses in the area.

In order to prepare the valuation, generally the lender will require full plans and specifications provided by the builder along with a fixed price building contract. To get to this stage with your builder you will often need to pay for the initial deposit upfront to cover costs of the Architects and other initial costs to get the information required to get to the next stage.

The builder will also need to complete a soil test to determine the overall cost of the project, as the soil type on your land can make drastic changes to your overall build price.

Things to consider:

1. The bank will expect you to put your equity (either cash or property equity) in at the start of the construction project. This protects the bank and you by ensuring that based on the fixed price building contract, there is always enough money left in the loan to complete the future construction progress claims in full.

2. The builder will often require the deposit before they can provide council approved plans, which are often required by the lender before a formal approval can be obtained. This is because there are costs that the builder must pay prior to council approved plans being issued. *It is wise to have this money available to cover this cost directly rather than from the construction loan.*

3. During the construction period, your loan will be on an interest only basis until fully drawn. You will need to be aware that while you only pay interest on the loan amount you have drawn to date, you will no doubt still be paying rent during this period as well, which can be a real drain on your cash flow. *It is wise to keep additional funds aside to assist you during this period if your cash flow is tight.*

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4. The lender will want to ensure that the expected valuation is in line with the total amount you are spending for the house and land, as some home owners can fall into the trap of over capitalising on their land by building a house that is valued significantly higher than houses in the immediate area. This may cause problems with the lender as the Loan to Value Ratio could become too high in some cases, especially where your equity is low.

5. For each stage being claimed by the builder, the lender will usually inspect the work completed (often via a valuer) to ensure that it is at the stage being claimed. Keep in mind that many valuers will also charge a fee for every inspection on the property.

6. In some cases it may be tempting to remove certain items from the building contract and have them completed yourself, assuming you have contacts in the applicable trade, to save money on the construction. In many cases, however, the lender will only include the actual building contract for the valuation and draw downs, so you may have to finance these trades directly from your own cash reserves. This is predominantly due to the lender only wanting to deal with the one principal contractor, being the builder.

Progress Claims

The lender will drawdown your new construction loan in a number of stages as per the building contract, in line with the progress on the construction of the house, called progress draws. Typically there are five to seven progress claims required which are in your building contract with the following being relatively standard:

- **Deposit -** This covers some of the builders out of pocket expenses for the Architect and council approval fees etc plus some of the initial site works and connection of electricity and water to the site.
- **Base / Slab Stage -** Concrete Slab or stumps for a wooden floor are included in this stage, which often include underfloor plumbing.
- **Frame Stage -** The floor, wall and roof frames and windows are usually completed, and you can finally see your house beginning to take shape.
- **Lock up / Enclosed stage -** This is where it starts to get exciting! The house is starting to look like the Architect drawings with the roof on and the external walls and doors on.
- **Fix-out / Practical Completion -** While this stage seems to take forever for a new homeowner, it is where all of the necessary personal items such as baths and kitchens and door furniture are completed.
- **Final / Completion Stage -** Carpets, tiles, paint and the other final niceties are completed ready to final hand over and occupation.

Once the house is complete and prior to taking possession the builder will ask you through the property, and it is at this point that you will have the opportunity to note any defects that you notice that will require attention. You should provide the builder a list in writing to avoid any confusion and generally most reputable builders will ensure all matters are attended to promptly.

When considering building your new home, it is critical that you deal with a reputable builder and that you do everything you can to ensure that they are in a good financial position. If the builder fails to complete the house due to their own financial situation, you may also find yourself in a very difficult position finding another builder to complete your home in a suitable timeframe, which may result in paying ongoing interest on a loan for a property that you cannot live in.

If you are considering **owner building** your new home, even if you are a registered builder, please be aware that most lenders will **seriously reduce** how much you can borrow for this due to the risks associated with this, while some lenders will not consider this at all.