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Looking for a construction loan?

Knowing which one you need could save you time and money.

If you've chosen to build your dream home rather than buy an existing one, you may be surprised to find that you won't be applying for a traditional mortgage loan. Instead, you'll most likely be advised to take out a construction loan. There are six different types of construction loans, and taking the time to find which one is best suited to you could save thousands of dollars, not to mention countless hours in the long run.

Finding the loan that is right for you can be a daunting experience with other lenders, but not with us. Here at Tiger Loans, we've put together a guide to help you decide which loan is best for you.

What are construction loans?

Construction loans are used to cover the costs of building or renovating your home. Unlike a home loan, which is usually based on the market value of the home in comparison to other recent sales in the area, construction loans are based on what the projected value of the home will be once work is completed.

How does a construction loan work?

A construction loan allows you to access your funds at the completion of each stage of your build, meaning that you'll only be paying interest on funds as you need them instead of on the full amount upfront. Generally, your repayments are interest-only during the construction period, and are then repaid monthly.

Once your loan has been approved, you'll need to start construction within 12 months. Generally, you will also need to have it completed within 12 months of drawing down your first progress payment.

Why are construction loans so complicated?

Constructing a home is often a complex process that can involve multiple parties, such as builders, contractors, lenders, solicitors, surveyors and the council. Having so many individuals involved in the process, can increase the possibility of a communication breakdown, and having things go wrong.

Your brokers' job is to fix these issues as they arise and, where possible, prevent them from occurring in the first place.

Each lender processes a loan in a different way. In the case of a regular loan, it's easier to have the loan submitted and approved quickly, as opposed to a construction loan, which may take more time.

How to get approved for a construction loan

In addition to the usual forms of identification needed to apply for a loan, you will need a few extra documents before you begin the application process with your lender.

- A building contract is potentially the most important document of all. It should outline every construction stage in great detail and the payment schedule for the stages of construction. It should also include a detailed timeline of the construction work and the costs of the overall build.
- A building plan is the blueprint of your future home. It should include both the layout and dimensions of your house when it's finished.
- Quotes from your builder will also be necessary for your application. Your lender will need the estimated costs of the build, plus any additional costs such as swimming pools and landscaping. Lenders will usually look at these items and decide if they add extra value to your home.
- Your lender will also need documents relating to your income and expenses, and any assets and investments that are in your name. These are fairly standard when applying for any loan. Your lender will need to make sure that you have stable employment history and income stability in order to ensure that you have the ability to repay your loan without any problems.

The advantages of construction loans

Before you consider a construction loan, it's important that you take the time to find the right loan. This means researching interest rates, fees, and construction terms. By doing this before you contact a broker, you will give yourself the best possible outcome in finding the right loan for your project.

Advantages

- **Financial protection:**
By making progress payments instead of paying an upfront lump-sum, you are covering yourself against financial loss. You are also able to make sure that the construction itself is being completed properly before you provide your builder with any more money to move forward.
- **Reduced interest:**
If you're only making partial payments then you'll only incur interest on the amount that you've drawn-down. You won't pay interest on the money left in the bank.
- **Pay as you go:**
A construction loan is different to a regular loan in that it is not paid out in one transaction. Instead, you are given funds from your lender as the invoices from your builder come in.
- **Flexible terms:**
A construction loans from lender can be tailored quickly and effectively to your constructions needs. It is possible that your lender may be able to work with you to make sure that draw schedules and interest payments are set in a way that benefits both parties.
- **The freedom to choose:**
Perhaps the biggest advantage of a construction loan is being able to build your dream house. Most homes on the market are pre-built, and therefore, you just choose one that might be close to what you want. With a construction loan, you get to choose your contractor and architect and customise your plans to what you want and need.

How big of a deposit is needed?

For construction loans, your lender will generally require you to need to have at least a 5% deposit of the property's projected value, if you have Lender's Mortgage Insurance. In the case of owner-builders, up to a 50% deposit may be required by your lender. Without insurance, up to a 20% deposit may be required before construction can start.



Do you need a separate loan for your land?

- **If the land is registered:**

If the land is registered you will need only one loan.

As construction starts on your property, the bank will make progress payments to your builder. Your mortgage repayments will then go up each time a progress repayment is made. Once your property has been completed, you will be making loan repayments on the total amount of your construction costs and land.

- **If the land is unregistered:**

If the land is unregistered you will need two separate loans.

Firstly, you will need to organise the loan for the land. Once the land has been settled, mortgage repayments against the land loan amount will need to be made. The actual construction loan should be applied for once you are ready to commence construction on you land. Once your loan has been approved, your lender will issue an 'Authority to Commence Construction'. This will allow your builder to start the construction. During this time, you will also be making repayments for your land loan. Once your construction has been completed, your lender will be able to refinance both of your loans into one single loan.

Types of construction loans

- **Construction to permanent loan**

In a construction to permanent loan, the money is typically drawn out in stages as the build progresses. Instead of receiving one large sum at the beginning of your build or renovation, you'll receive what is needed to lay the foundation, and then put up a frame, and so on. These loans are ideal if you have a definitive timeline and construction plan to follow.

- **Renovation loan**

A renovation loan is for you, if you have purchased a property that needs major work completed on it. This type of loan is generally smaller in value, as the cost of renovations are significantly less than those of building from scratch.

- **Owner builder construction loan**

Owner builder loans are when the borrower also acts in the capacity of the home builder. Most lenders do not allow this type of loan, due to the complexity of construction and the understanding of building codes. Lenders that do allow this loan generally need the borrower to be a licenced builder.

- **Construction only loan**

This loan is to provide the funds necessary to complete the building of the property, and must be paid off in full once building has been completed. The funds from these loans are dispersed based on the percentage of the project that has been completed, and the borrower is responsible for covering the interest payments on the amount drawn.

- **End loan**

An end loan is another name for a mortgage, and is needed after construction has been completed.

- **Off the plan loan**

An off the plan loan is where a developer has a pre-approved plan to construct an apartment complex. To ensure a quick sale on completion, the developer will offer the apartments for sale before construction has begun. This means that the balance of the purchase price is paid when construction has been completed.





How to avoid hassles with your construction loan

- **Provide all construction loan documents upfront:**
Give the bank everything in one go to avoid potential delays.
- **Make sure you provide the final version of your contract:**
This is important because any time the cost of construction changes, your lender will send someone out to the property again to inspect and reassess the valuation, no matter how little the change.
- **Plan in advance:**
It might seem easy enough to make some small changes as you build, but if it impacts the contract price, you might need to take out a top up loan to pay for the difference.
- **Include additional work with formal written quotes:**
If you choose to hire contractors separate from your builder, talk to your lender and provide them with quotes at the loan application stage. The loan may be able to be extended to cover the additional costs.

- **Try to borrow more than you think you might need:**
It's possible that your construction will go over budget. If this happens, you don't want to be left without funds before your build is complete.
- **Pay for the unexpected small things out of your own pocket:**
This eliminates the hassle of having to change the building contract. It may be easier to just pay for the small changes upfront yourself.

How to get a construction loan the easy way

Our loan specialists can help you find the right construction loan for your project. We understand that construction finance is a complicated topic, and that's where Tiger Finance can help. We will find a loan that makes your dream project that much easier.

If you are one of the many Australians finding getting a construction loan difficult, Tiger Finance can make the process simple and pain free.

4 SIMPLE STEPS TO GET FUNDED



1

**FREE LOAN
CONSULTATION**



2

**WE TAILOR
MAKE A LOAN
THAT FITS YOU**



3

**WE NEGOTIATE
WITH CREDIBLE
LENDERS**



4

**APPROVED &
SETTLED**

