WILSON FINANCE SOLUTIONS

Construction Loans

A construction loan is used to finance the construction of dwellings. Under this type of loan, the funds are drawn down as the building is erected rather than in one lump sum. Typically, the lender sets a time limit on the draw down period, as a rule this is usually 12 months.

The maximum Loan to Value Ratio varies between lenders, but some will allow up to 95%. The lender will require the customer to contribute their own funds prior to releasing any of the approved loan funds.

Required Documentation

The following documentation must be obtained and verified before a construction loan can be assessed.

- Tender or copy of a fixed price building contract detailing all specifications, variations, allowances & costs.
- Copy of the plans for the new property that have been approved by the Local Council. The plans will generally not need to be approved when the application is lodged, but they must be approved before drawdown of funds.
- Evidence that construction is being undertaken or supervised by a registered and insured builder. They must be able to provide appropriate guarantees as required by the various state legislation.
- Details of insurance for builders risk.

Progress Payments

The loan is ordinarily drawn down in stages as the builder completes various agreed milestones in the building contract. These drawdowns are sometimes referred to as progress payments. They are generally made at the following stages

1. Preparation
2. Slab
3. Frame
4. Lockup
5. Fit out
6. Final

At each stage, borrowers must provide the lender with a completed Payment Request Form & builder's invoice. The lender may carry out and inspection of the work prior to making any payment.

Fees

Lenders often charge two fees at the point of each drawdown.

- **Inspection Fee**. Many lenders will inspect prior to each progress payment to ensure the build is of an acceptable standard. You can expect an approximate fee of $150, however this varies between lenders.
- **Drawdown Fee**. Some lenders charge a drawdown fee to cover the costs of making the money available to the borrower. This could be charged for each drawdown or as a one-off fee when the loan commences.

Repayments

The loan repayments during the construction period are generally set to Interest Only and is calculated on the amount drawn down, not the total approved loan amount.

Principal & Interest repayments typically commence when the loan is fully drawn down.

Insurance

Most insurance companies will not comprehensively insure a property that is under construction. Licensed and registered builders are required to hold insurance to protect against events such as non-completion, structural defects and public liability. The borrower will need to take out insurance when the property is completed and handover takes place.

Final Documentation

Before the final payment is made, the lender will require a final valuation. In addition, the following documents must be obtained and verified.

- A certificate of Occupancy or Survey Certificate, depending on the State.
- A builder's final invoice
- A comprehensive building insurance with the lender noted as the Interested Party

PO Box 49, Maitland, NSW 2320
1300 438 547 | admin@wilsonfs.com.au | www.wilsonfs.com.au
Wilson Finance Solutions ABN 21 611 779 554
Credit Representative 489286 authorised under Australian Credit Licence 389328