Looking for a construction loan?

A quick guide on what to consider when it comes to **construction loans**.

Mortgage Advice Bureau

Construction loans at a glance

A construction loan is a specific type of mortgage that provides money for the construction of a home.

This type of loan is drawn down in stages as the building is erected, rather than in a single lump sum, with lenders often setting a draw down time limit for the building to be completed.

With a construction loan, the building must be built under a fixed price building contract by a licensed builder.

How do progress payments to your builder work?

Progress payments, also referred to as loan draw downs, are made when your builder completes the following milestones which are outlined in the building contract. To move through each stage of the construction loan, borrowers need to provide the lender with a completed Payment Request Form and an invoice from the builder.

01. **Deposit**	5.00%
02. **Base**	10.00%
03. **Frame**	15.00%
04. **Lock-Up/ Enclosed**	35.00%
05. **Fixing**	25.00%
05. **Practical Completion**	10.00%
Total	**100.00%**

Loan repayments while you're building

While your loan is progressively drawn with each progress payment to your builder, you'll be required to make interest payments to cover the interest that's accruing on your loan.

Naturally, the accrued interest will increase during your construction period because your outstanding loan balance increases as the lender continues to release money to pay your builder's invoices.

Typical repayments during construction

While your loan is drawing down:

You pay the interest amount that has accrued on the loan. The interest accrued is calculated on your loan's interest rate and the owing balance on your loan.

While your last progress payment is paid:

A final interest payment will need to be made on the same day your last progress payment is made. Your contract loan term officially starts from this day.

Your loan repayments after your last progress payment is made:

The loan switches to principle and interest payment at this time if that is what you chose when applying for the loan. If you chose interest only repayments, interest payments on the loan balance will now apply for the nominated period.

Documentation requirements

In addition to the documents you would need to provide to a lender for a standard mortgage such as evidence of income, expenses, assets and liabilities, there are other specific documents you'll need to supply as part of the application process, most of which will given to you by your builder.

Generally speaking the following documents will also be required as part of the loan application process:

A copy of a fixed price building contract from the builder detailing all specifications, variations, allowances & costs.

Copy of the plans for the new property, which while generally not requiring local council approval at the time the loan application is lodged, will require council approval before funds can be drawn down.

The builder on the project will need to provide you with a certificate of insurance and details of their builder's registration. They must also be able to offer appropriate guarantees as required by relevant state legislation.

Speak to an expert

For assistance with your construction loan, speak to one of our construction finance experts today.

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You can also book a phone consultation directly using the following QR code:

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