



# Guide to residential construction loans

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# The quick summary

Don't have time to read this whole guide right now? Here's the short version.

## How a construction loan works

When you borrow to buy a home that's already built, we're really only involved at the start. The purchase price is agreed and we lend you the whole loan amount at the one time. You buy the house, then you pay off the loan. Simple.

When you're building a home, we're involved from the beginning to the end of the construction process. Here's how a construction loan is different:

<b>It's really a series of loans</b>	Instead of lending you the whole amount upfront, we provide a series of progress payments to your builder as the home reaches key stages in its construction.
<b>We need plans and approvals</b>	Before we agree to the loan we need copies of your plans, council approvals, development applications and any other documents showing you have permission to build.
<b>We pay the builder</b>	While you're responsible for repaying the loan to us, the amounts we lend go directly to pay your builder, not to you.
<b>We do valuations</b>	At various points we inspect the building to confirm if it's meeting our expectations of its value. This means you have to keep a close eye on your project at all times.
<b>You only pay interest while building</b>	While you're building, you only pay the interest on the loan, not the principal. When you finish, your loan changes to the repayments shown in your loan offer documents (typically principal and interest).

## How to use a construction loan

There are four main steps:

### Step 1 – Before you speak to us

- 1. Do your research** Make sure building is the right choice for you. Do your research on what's available, what's involved and what can go wrong. If you can, talk to other people who've built a home and learn what to do and what not to do.
- 2. Choose a builder** Get a builder and/or architect you can trust, and who can provide detailed plans and a contract you understand.
- 3. Get plans approved** Sort out all the council approvals, development applications and construction certificates you need. You can always come and talk to us before you have these, but we'll need them before we can approve the loan.

## Step 2 – Apply for the loan

If you already have plans, council approvals and a builder ready to go, you can take one loan to cover both the land and the construction. If you've found your land but haven't organised a builder yet, you might want two loans: one to buy the land now, and one to pay for the construction later.

Either way:

<b>1. Provide all your details</b>	We'll need to see the usual evidence of your income, expenses, assets and liabilities, plus your council-approved plans and the builder's contract.
<b>2. We assess your loan application</b>	We'll review all your documents and get a professional valuation of your proposed building. If we agree to lend to you, we'll need to see your builder's insurance certificate.
<b>3. We approve your application</b>	Once we've agreed on the loan terms and you've signed the loan contract, we'll approve your construction loan.

## Step 3 – Build

<b>1. Start building</b>	You must make your first drawdown and construction must start within six months from the date of offer as set out in your Home Loan Schedule. The build must be completed within 12 months from the date of your first drawdown or in any other period we've agreed to.
<b>2. Monitor the work</b>	Keep a close eye on the builder's progress. You need to be confident that everything in each stage is properly completed before requesting a progress payment.
<b>3. Inspections and progress payments</b>	<p>We generally make a progress payment at each of these stages:</p> <ul style="list-style-type: none"> <li>• the slab is laid (Slab stage)</li> <li>• the internal frame goes up (Frame stage)</li> <li>• walls, doors and windows go in (Lock-up stage)</li> <li>• internal fittings such as electricity go in (Fit-out stage)</li> <li>• the building is completed (Completed/Final stage).</li> </ul> <p>We can inspect the building at any time during construction, and when it's finished.</p>
<b>4. Pay the interest</b>	During the build you only pay interest, not the principal, and only on the total of the amounts you've drawn down from the loan, not the whole loan amount.
<b>5. Tell us of any changes</b>	If you change your plans, change your builder or things just don't go to plan, you need to tell us.

## Step 4 – Completion

<b>1. Pay out the builder</b>	Once the building's done and you've given us all the certificates we need, we do a last valuation. If we're satisfied that the building has been completed, we make the last payment to the builder.
<b>2. Move in</b>	You (or your tenants) move in.
<b>3. Start normal repayments</b>	Your construction loan changes to the agreed repayments shown in your loan offer documents. Unless you've made other arrangements with us, at this point you start paying principal and interest repayments.

## What next?

Now you've got the big picture, the rest of this guide takes you through the whole process in detail. Remember, if you've got any questions this guide doesn't answer, contact your lender or your broker.

## Why read this guide?

Building your own house, or doing a major renovation, is a great way to get exactly what you want in a home.

But building can be a complex process, and it's easy to get overwhelmed by everything you need to do to get from a bare patch of land to a finished home.

### We've got the tools ...

This guide tells you everything you need to know about the process. It gives you:

- an overview of the stages of construction
- information on the roles of the builder, the bank, the council and you
- a series of simple steps to follow to get your home built
- checklists to help you get everything ready for each stage of your project.

### ... so lean on us

We're here to help you build the home you want, and there's a lot more to it than just lending you the money.

## Thinking of building?

If you're thinking of building or doing a big renovation, be aware that you're embarking on a project that will normally take around six to 12 months to complete.

Before you take the first step you should ask yourself a few questions to make sure you're making the right decision.

## To buy, build or renovate? That is the question

When making this decision, here are some things to consider:

<b>Your location</b>	Do you like where you live or do you want to move somewhere new?
<b>Your home</b>	Do you want to re-model or expand your existing home, or start from scratch with your own special design?
<b>Your budget</b>	How much money do you already have, and how much would you need to borrow?
<b>Your land</b>	Is your block big enough for what you want and in the right location?
<b>Your time</b>	How much time do you have to dedicate to building or renovating?
<b>Your timing</b>	Looking at the housing market, is this a good time to build or renovate?

### Answering these questions will help you decide whether to:

- buy another established home
- renovate your existing home
- knock it down and build a new one
- buy a block of land elsewhere and build a new home.

## Why buy?

Here are some potential pros and cons of buying an established home:

Pros	Cons
<ul style="list-style-type: none"> <li>• <b>no waiting</b> – once you've settled the purchase you can move in immediately</li> </ul>	<ul style="list-style-type: none"> <li>• <b>searching</b> – you can spend many long and exhausting days trying to find the right property</li> </ul>
<ul style="list-style-type: none"> <li>• <b>certainty</b> – you know what you're getting for your money, it's standing right in front of you</li> </ul>	<ul style="list-style-type: none"> <li>• <b>stamp duty</b> – you have to pay stamp duty on the value of the land and the building</li> </ul>
<ul style="list-style-type: none"> <li>• <b>simplicity</b> – no builders to manage, tiles to buy, or decisions to make about paint colours</li> </ul>	<ul style="list-style-type: none"> <li>• <b>location</b> – you may not be able to afford the house you want in the suburb you want to live in</li> </ul>
<ul style="list-style-type: none"> <li>• <b>capital growth</b> – an established home in a good location with established infrastructure and amenities will generally grow more in value over time</li> </ul>	<ul style="list-style-type: none"> <li>• <b>compromise</b> – you might get five of the 10 things you want in a home and have to compromise on the rest</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>future costs</b> – unless you find your dream home, you may want to renovate it within the next five years</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>hidden flaws</b> – after you've bought you may find things you didn't notice, such as noisy neighbours, a leaky roof or a fence needing repair</li> </ul>

## Why renovate?

Renovate means to 'make young again', and it's a great way to improve the liveability and value of your home without knocking everything down.

Here are some potential pros and cons of renovating:

Pros	Cons
<ul style="list-style-type: none"> <li>• <b>more room</b> – you may be able to extend your home sideways or upwards, adding bedrooms or living spaces, and bringing kitchens and bathrooms up to modern standards</li> </ul>	<ul style="list-style-type: none"> <li>• <b>limitations</b> – depending on your existing home's size and layout, you may not be able to achieve the result you want</li> </ul>
<ul style="list-style-type: none"> <li>• <b>your style</b> – you can choose exactly what you want to change and how</li> </ul>	<ul style="list-style-type: none"> <li>• <b>disruption</b> – renovating can be a loud and messy process that can go on a long time while you're living in the midst of it</li> </ul>
<ul style="list-style-type: none"> <li>• <b>no rent</b> – you generally don't have to move out during the renovation</li> </ul>	<ul style="list-style-type: none"> <li>• <b>location</b> – if you're not that keen on the suburb or town you live in, renovating won't change that</li> </ul>
<ul style="list-style-type: none"> <li>• <b>no stamp duty</b> – as no property is changing hands, you don't have to pay stamp duty</li> </ul>	<ul style="list-style-type: none"> <li>• <b>approvals</b> – you may still need plans or approvals for renovations</li> </ul>
<ul style="list-style-type: none"> <li>• <b>increased value</b> – done well, renovating almost always increases the value of a home, bringing it closer into line with the market</li> </ul>	<ul style="list-style-type: none"> <li>• <b>delays and costs</b> – you may encounter unexpected delays and unforeseen extra costs during the building process</li> </ul>

## Why build?

Building an entirely new home gives you a blank canvas and a world of possibilities. If you have a vision of the home you want to live in, but haven't found that house anywhere on the market, building can make sense. Building gives you more opportunities than renovating, but takes a lot more effort.

Here are some potential pros and cons of building:

Pros	Cons
<ul style="list-style-type: none"> <li>• <b>freedom</b> – you can potentially design your dream home, or choose from and customise one of thousands of home designs</li> </ul>	<ul style="list-style-type: none"> <li>• <b>finding land</b> – affordable land is often in outer suburbs or regional centres, with less access to local amenities such as schools, shops and transport</li> </ul>
<ul style="list-style-type: none"> <li>• <b>location</b> – choose the ideal spot for your dream home</li> </ul>	<ul style="list-style-type: none"> <li>• <b>time</b> – building can take six to 12 months, can you wait that long?</li> </ul>
<ul style="list-style-type: none"> <li>• <b>lifestyle</b> – if you're looking for a sea change or a tree change, building can be the most satisfying way to achieve it</li> </ul>	<ul style="list-style-type: none"> <li>• <b>delays and costs</b> – you may encounter unexpected delays and unforeseen extra costs during the building process</li> </ul>
<ul style="list-style-type: none"> <li>• <b>choice</b> – you get to decide on the shape, size, materials and technologies in your home</li> </ul>	<ul style="list-style-type: none"> <li>• <b>rent</b> – if you knock your house down you'll have to move out and pay rent for six to 12 months</li> </ul>
<ul style="list-style-type: none"> <li>• <b>less stamp duty</b> – if you build on a new block you'll only have to pay stamp duty on the value of the land</li> </ul>	<ul style="list-style-type: none"> <li>• <b>limitations</b> – if you buy a package home there can be limitations on materials and finishes</li> </ul>
<ul style="list-style-type: none"> <li>• <b>budget</b> – buying off the plan can give you more time to save a deposit, and if it's your first home you may be eligible for a government grant</li> </ul>	<ul style="list-style-type: none"> <li>• <b>project management</b> – you have to monitor the whole project closely to keep it on track</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>capital growth</b> – scarcity and location drive capital growth, so homes in good locations with established infrastructure and amenities will generally grow more in value – will your new home do as well?</li> </ul>

## Making a decision

You may have already made up your mind about which direction you're going – you're reading this guide after all.

If you're still keen to renovate or build after considering the pros and cons above, then let's move on to the next stage: *Planning your build*.

## Have you read the quick summary?

If you haven't read the quick summary at the start of this guide yet, we recommend you do that before you go any further – it gives you an overview of how a construction loan works.



# Planning your build

## Planning has five stages:

1. Do your research.
2. Choose a builder and get quotes.
3. Arrange your plans and contracts.
4. Check your builder's insurance.
5. Get your plans approved.

## 1. Do your research

Building and renovating can be complex. The more you know in advance, the fewer surprises you're going to encounter along the way, and the better the outcomes will be from the decisions you make.

### Find your block

Research potential locations and compare land prices. For instance, are you looking to build in a new housing estate or a vacant block, or can you demolish an existing property to get a better location?

Factors about your block to consider include its size, shape, the slope of the land, whether you need to clear it, and its orientation to the sun. If you're planning on building a house powered entirely by solar panels for example, then an unshaded north-facing block is essential.

If your block has an easement, such as sewerage or drainage pipes, this could restrict where you can place your home, so ask your solicitor or conveyancer for advice about this.

### Check local infrastructure

When you find what seems to be the ideal block of land, find out more about the local infrastructure. Critical aspects include access to:

- electricity and gas
- water
- sewerage and drainage
- telephone and internet.

If these aren't readily available in your area, the cost to bring them all to your block can really stack up.

### Check local regulations

Every council has its own rules and regulations defining what you can build and how. New buildings are expected to fit into the existing environment, and covenants registered on the title may restrict the exterior materials or colour range you can use. Even something as simple as putting a deck out the back can be an issue.

If you're in an area that's prone to bushfires or floods, there may be even tighter regulations, so visit your council's website and find out what the rules are. The cost to insure a home in these areas is also likely to be higher.

It's also a good idea to find out what upcoming developments are planned for the area. For example, if the government has plans to build a motorway past your front door five years from now, it's useful to know about this. Ask your solicitor or conveyancer for advice.

### Do your design

If you've had an architect design your home, they'll provide detailed schematic diagrams for the builder to follow. If you're using a project-home design as a starting point you'll need to arrange final designs with the company providing the plans.

## 2. Choose a builder and get quotes

Some builders are better than others, so choosing the right one is critical. Lots of unexpected things can happen in the six to 12 months it might take to build your home.

To reduce these risks, take your time choosing both the design and the builder of your new home. If you're using your own plans, get quotes from at least three licensed builders.

### Ask the experts

When talking to a builder, ask them about their most recent jobs. The builder may have a few customers who are willing to share their building experience with you. You can then contact the owners of the houses they built and ask them about the builder's workmanship and professionalism.

### Get quotes

Always ask for an itemised quote that breaks the cost down into identifiable stages with their own price. This makes it easier to compare quotes, and gives you an idea of how much money you'll need and when (see *The five stages of building* on page 18).

### Check their licence

Choose a builder who is licenced and qualified to do the work. To check their licence status and qualifications, contact the Fair Trading or Consumer Affairs department in your state or territory.

Don't assume that a builder has these licences, find out for yourself.

## 3. Arrange your plans and contract

Once you've found a reliable builder, you need to arrange two things with them:

- the project plan
- a contract.

### The project plan

The builder will review your design and provide a project plan showing the building stages, timeline and costs. Check this carefully, because once you agree to it the builder won't deviate from it. If you want to make changes later this will probably create more costs.

### The contract

While the plan explains what the builder will do and how, the contract defines the terms under which they'll do it. It covers important aspects such as the timeline for completion, the cost, allowances for delays due to weather and so on.

The Housing Industry Association (HIA) and the Master Builders Association (MBA) have standard, pro forma construction contracts that are accepted throughout the industry, but you should still ask your solicitor to review the details in the building contract and advise you on its terms.

### What's in and what's out?

Make sure the contract clearly defines which items are included. Don't assume that things like laying driveways, installing flooring or appliances are included. If they're not in the contract you'll need to budget for them separately.

Don't sign the building contract until:

- you have all the necessary council approvals
- you're confident that you understand the contract and accept its terms.

## 4. Check your builder's insurance

Depending on your state or territory, your builder must have a builder's insurance policy for all building works greater than a certain value, which includes public liability insurance.

Discuss this with your builder, and before you sign the building contract make sure they have an insurance policy that covers the whole construction period until the building is finished.

The policy must show:

- an insurance amount equal to more than the building contract price
- building company's name
- property owner's name
- the address where the construction is happening
- the policy expiry date.

To find out more about this, contact the Fair Trading or Consumer Affairs department in your state or territory.

## 5. Get your plans approved

Before you sign your contract or start any work on your construction, you need to have all the required approvals in place.

A new home generally requires three types of approvals:

- council approval
- a Development Application (DA)
- a Construction Certificate.

If you're renovating you may not need all of these. Your council can tell you which ones apply.

### Council approval

Ask your local council about the requirements and planning controls that apply in the area. Different laws apply in each state, and councils often have their own regulations, so check your state government and council websites for details.

### Development Application (DA)

Before you start building you have to submit a Development Application (DA) to your council.

Your council can tell you the types of plans, reports and specifications you need to include in this.

You'll have to pay a fee, and then wait six-to-eight weeks for the council to approve it. It can take longer depending on any backlog the council may have, so factor this into your project plan.

Before they approve your DA, the council will usually tell your neighbours what you're proposing to do, and advertise your application in a local paper. If your neighbours have any concerns about your project, this can cause delays while you resolve these, which may require you to change your building plans.

### Construction Certificate

Once you've paid the fees and the council approves your DA, they will usually issue a Development Consent.

The council will then inspect the site before issuing a Construction Certificate. This is what gives you permission to start building.

This process varies between states and regions, so find out exactly what documents you need to show to your builder before you say 'Go!'.



# Arranging your finances

Building or renovating your home is one of the biggest financial decisions you'll make, so you need to know that your loan will meet your building needs, and how to get the most out of it.

## How a construction loan works

A construction loan is basically a home loan with the flexibility to make progress payments as the builder completes each building stage.

Instead of lending you the whole amount upfront, we pay the money directly to your builder as they complete each stage of the construction process.

Because we're in charge of paying the builder, we can do inspections and ensure that they've done the work.

### One loan or two?

If you already have plans and a builder ready to go you can take one loan to cover both the land and the construction. If you've found your land but haven't organised a builder yet, you might want two loans: one to buy the land now, and one to pay for the construction later.

## 1. Applying for the loan

The first step is to arrange a time to speak with your lender or broker.

### What to bring with you

As with any loan, you'll need to bring proof of identity (and citizenship or visas if required) and some information about your:

- income (payslips or bank statements, and any investment or rental income)
- expenses (household costs, education fees, etc.)
- assets (other property or investments)
- liabilities (credit cards, other loans, unpaid taxes).

For a construction loan we also need:

- council-approved plans
- builder's contract
- details of any work you plan to do yourself.

### Plans

We can't release any money until we have copies of the:

- council-approved plans and specifications
- any conditions of approval the local council has required.

If you haven't had the plans approved yet, bring a copy of what you've submitted to the council for approval.

### Contract

We need a copy of the signed and dated building contract, showing the building stages and the schedule of payments before we can formally approve your loan.

The schedule of payments must show:

- the work to be completed at each stage
- how much money you'll need to complete each stage.

The schedule of payments must be in accordance with relevant state or territory laws, and under the standard contract terms issued by the Housing Industry Association (HIA) or Master Builders Association (MBA).



The contract must:

- include all special conditions and all attachments
- be dated and signed by all parties
- have a completion date within 12 months of the date of the first drawdown or in any other period we've agreed to.

If your project doesn't have a fixed-price building contract, we need a copy of the building costs and detailed quotes from contractors and suppliers instead.

## Variations

If you've made any changes to the contract since it was signed, or the builder has revised any of their quotes, please provide copies of these variations or quotes.

These variations usually affect the construction costs, so we need to work out the impact they will have on the payment schedule and on the value of the property when it's finished.

Before you make any changes, check that you'll have enough money to finish the construction.

Variations are quite common, so we recommend you allow for these in your costings when you apply for the loan.

## Stamp duty

If you're buying vacant land, you only have to pay stamp duty on the land value. If you're looking at a house-and-land package, you may have to pay higher stamp duty.

You need to factor this into the amount you plan to borrow, as it can be a significant amount of money.

Depending on where you live and your current circumstances, if you're building a new home you may be able to get a concession on your stamp duty. Visit the website of the Revenue Office in your state or territory to work out how much stamp duty you can expect to pay.

## 2. Approving your loan

### Valuation

Once we have everything we need, we'll ask a registered valuer to do a valuation of your proposed new construction for us.

We'll need to give the valuer a copy of your:

- council-approved or privately-certified plans and specifications
- fully-itemised contract.

If you haven't had the plans approved yet, the valuer will need a copy of what you've submitted to the council for approval.

### Approval

When we receive the valuation we'll assess your application. If you meet all the conditions, we'll give you:

- a loan offer
- the Loan Terms and Conditions
- any other documents required as part of your loan agreement.

Discuss the loan offer with your solicitor before you sign it. They can help you get any other legal paperwork you need. We recommend that you get all your legal work done as soon as possible to avoid delays.

### How much you can borrow

The amount you can borrow depends on various factors, such as whether you're just buying land now and planning to build on it later, or whether you want to use the loan to buy land, build and live on it, or rent it out.

Talk to us about your needs and we'll let you know how much you can borrow.

Depending on how much of your own money you're contributing you may need to take out lender's mortgage insurance (LMI). We can help you arrange this.

If you're a first-home buyer you may also be eligible for government assistance (see *Applying for First Home Owner Grant?* below.)

## 3. Applying for First Home Owner Grant?

The First Home Owner Grant (FHOG) is a one-off Federal Government payment designed to help first home buyers to buy a property. You can either apply for the grant yourself, or ask us to do it on your behalf.

Either way, the grant money doesn't become available until you give us a progress payment request for the Slab stage.

The amount of the grant and the eligibility criteria are different in each state and territory, but in most places it's available to first-time property owners who are either buying an existing home or building an entirely new home.

Some Australian states and territories also offer eligible first-time home owners exemptions from stamp duty, or reduced stamp duty rates (sometimes called transfer duty).

For most construction loans, the government only pays the First Home Owner Grant after you've laid the slab, when your first loan repayment is due. For this reason it's best not to include FHOG grants in your deposit for land or construction calculations. If you want more information, go to your state government's FHOG website.



# Start building!

## When you can start building

When we have all the documents we need and we've approved your loan, we'll write to you to let you know you're good to go.

### Plan to start within six months

You must make the first drawdown and construction must start within six months of the date of offer as set out in your Home Loan Schedule, otherwise we may need to re-assess your loan application because your circumstances may have changed. The build must be completed within 12 months from the date of your first drawdown, or in any other period we've agreed to.

### Using your own savings first

If you're contributing your own savings to the construction, your money will be used first to pay the builder, before using the loan.

We'll agree how much you're going to contribute when you apply. You can either pay the builder yourself and send us copies of the invoices, or deposit the money with us and we'll use it to pay your first progress payment.

Remember: if you decide to pay the builder yourself, it's important to get a copy of an invoice and receipt for every payment you make.

### Upfront deposits

Your builder may ask for an upfront deposit to pay for the materials they need to start building. We can provide money from the loan for the builder's deposit if:

- you already have a land loan with us
- you've used all of your own savings
- the builder's deposit was included in the Progress Payment Schedule
- we have all the construction and loan documents we need, and
- you're ready to start.

## The five stages of building

The payment schedule in a building contract is usually broken down into five stages:

	Slab	Frame	Lock-up	Fit-out	Completed!
<b>What gets built in this stage</b>	Concrete slab or foundation piles	Interior frame, walls, interior wiring and plumbing	Roof, windows and doors, so you can lock the property	Internal fixtures like taps, lighting and tiles	Fences, painting and cleaning up the site

The builder receives a progress payment when they finish each stage.

## Managing changes

### Changes to the contract

If the price of the original building contract changes for any reason before you start or while you're building, you need to give us written evidence of the change.

If the change is significant we may need to do a new valuation at your expense.

### Changes to your approved plans

If you're planning to make any changes to council-approved plans, you need our consent before you change anything. This is because if the change is significant, we may need to do a new valuation (which will be at your expense).

If this means that we need to change the loan amount, we'll re-assess your loan application. If we agree to the change we'll send you a revised loan offer.

### Changing the builder

If you decide to change builders, you need to let us know and send us these details:

- a copy of the signed and dated building contract with the new builder
- confirmation that there are no changes to the original plans and specifications
- a copy of the new builder's insurance policy and any legal documentation about the original builder, such as a termination of their contract.

We may need to do a new valuation before we approve the new builder.

## If your builder goes bankrupt

Residential construction in Australia is usually covered by mandatory insurance that protects you if a builder goes into administration. The process for claiming this insurance varies with the state or territory.

You may need to make a claim through the insurer, who will appoint a building consultant to inspect your partially-completed home. They'll provide:

- a scope of works defining what still needs to be done and the likely cost
- a schedule of items of defective work they recommend needs to be fixed.

The insurer may then put out a tender for approved builders to quote to do this work. The builder awarded the tender will then complete your home.

If this means that we need to change the loan amount, we'll re-assess your loan application. If we agree to the change we'll send you a revised loan offer.

## Keep on top of your costs

Not every building project goes according to plan, but knowing exactly what you're committing to upfront can help avoid costly mistakes.

### Know your contract

Study the inclusions in your building contract carefully. Does it include things such as landscaping, retaining walls and driveways? If not, you may run the risk of cost and time overrun. If something isn't listed in your contract, don't just assume it will be built.

### Know your budget

Examine your budget carefully. You need enough money to cover all the known expenses and still have some left over for unexpected costs.

We only make progress payments as agreed in the payment schedule of your building contract. You're responsible for paying any other costs from your own money, and we won't make any further progress payments until you've paid them.

If you think you're going to go over your anticipated budget, speak to us as soon as you can.



# Progress payments and valuations

## How progress payments work

As we saw above in the table showing the building stages, each stage requires a payment to the builder.

Here's an example of how this works in practice with a contract price of \$300,000:

Stage	Amount	Your savings contribution	Our progress payments	FHOG
Slab	\$60,000	\$10,000	\$50,000	
Frame	\$60,000		\$50,000	\$10,000
Lock-up	\$60,000		\$60,000	
Fit-out	\$90,000		\$90,000	
Completed/Final	\$30,000		\$30,000	
<b>Totals</b>	<b>\$300,000</b>	<b>\$10,000</b>	<b>\$280,000</b>	<b>\$10,000</b>

## The first payment

You can ask for the first progress payment as soon as:

- you've met all the conditions of your loan offer
- we've received all the documents we need.

## Making progress payments

### How to request a payment of invoices

Send us the signed copy of the builder's invoice, plus a *Progress Payment Authority* form showing:

- your name and the loan account number
- the current build stage
- receipts for any payments you've made directly to the builder.

To help ensure the builder is paid on time and to avoid penalty costs from suppliers, we encourage you to provide these details to us as soon as possible.

### Paying the builder

When we receive these documents from you at each stage, we'll pay the builder. We typically pay them within five working days during the construction stages, and 10 working days for the Final stage. We'll let you know whenever we pay the builder.

## Paying third parties (other than the builder)

If part of the construction loan amount was to pay for items outside the building contract (e.g. the driveway or landscaping), we'll pay whoever does this work with progress payments in the same way as we pay the builder. All of these items need to be completed before our valuer does the final valuation.

## Valuations

At various points during the construction, we'll ask a licensed valuer to inspect the work completed. This is for our own purposes and helps us to confirm whether to continue to make payments.

We'll typically do two valuations: the first during your loan application, and the second when the building is completed. We can choose to do more valuations at any time during the construction.

**Important:** If we need to do a valuation, we won't make a progress payment for that stage unless the valuer confirms the work. In this situation, please allow an extra five working days for the time it normally takes to assess your request to pay an invoice.

## Making the last payment

When your home is complete, the builder will give you a Certificate of Completion and the final invoice to pass on to us. Once we receive these we'll do our final valuation.

### The last payment

Before we make the last payment we need:

- a Certificate of Completion from the builder
- a Certificate of Compliance or Occupancy from your council
- a Building Insurance Certificate of Currency.

### Certificate of Completion

The builder will give you this when they complete the work.

### Certificate of Compliance

At the Final stage you'll also need to give us the Certificate of Compliance or Occupancy (or a similar certificate, this can vary by state). Speak to your builder about obtaining this certificate.

### Distributing any surplus

At this point you need to tell us how to distribute any amount of the loan that wasn't used. Your lender or broker can help you arrange insurance and distribute any remaining money.

### Building Insurance Certificate of Currency

Please provide us with a copy of the Building Insurance Certificate of Currency for the full replacement and reinstatement value, with us noted as the interested party.

## Ensuring the quality of construction

You're responsible for checking on the quality of construction from the start and right through to the end of the building process. You should expect to make regular checks on quality and workmanship, especially at the Frame stage.

If you're not sure what to look for, ask someone who's qualified to judge to come with you or do the inspection for you. If you ask a qualified inspector to do the inspection for you, check their report carefully before requesting a progress payment, as once we've paid the builder it may be difficult to get them to fix something.

If you find anything that you believe is unsatisfactory you should tell us and the builder immediately. If it's a serious issue, consider telling your solicitor as well.

We won't become involved in any dispute, but we may stop making progress payments to your builder.





# Repaying the loan

## While you're building

While you're building and we're making progress payments, your loan is interest only, so your repayments only pay off the interest on the loan, not the principal (the amount you borrowed). These repayments won't reduce the amount you've borrowed.

We only charge interest on the loan balance, which is the total of the amounts we've paid to the builder. This means that as your builder completes each stage and we make a progress payment, we'll be charging interest on a progressively higher amount, so your repayments will increase with each stage.

Your monthly repayment amounts will also vary depending on the number of days in the month, and if we make a progress payment in that month.

While the amount may change, we'll always deduct your repayments on the same date each month (except the final payment, see below).

## When your building is completed

On the day we make the last progress payment we'll also deduct the last interest only payment from your account.

This may not be on the same date as the other deductions, so check with us and make sure you have enough money in your account to cover this last payment.

Once we make the last payment to the builder your loan changes to the agreed repayments shown in your loan offer. Unless you've made other arrangements with us, this typically means you start paying principal and interest repayments.



## FAQs

### What's the difference between a fixed-price and cost-plus contract?

A *fixed price contract* is where the builder has agreed to complete the building works for an agreed fixed amount.

A *cost-plus contract* is where the builder agrees to complete specific work for an amount, but the contract contains rise and fall clauses, which allow them to charge for increased labour or material costs. Generally these are provided for contracts over \$1 million. Speak to us to find out if your cost-plus contract is acceptable.

### Will I need a construction loan every time I want to renovate my property?

No, you don't always need a construction loan with progressive drawings. For example, if you want to upgrade your kitchen or bathroom, or make cosmetic changes like new flooring or painting your home, you may be able to apply for a Top Up to your existing home loan, and we'll lend you the whole amount in one lump sum.

Ask your lender or broker about whether you need a construction loan and how we can help you with your renovation project.

### Can I change the number of progress payments?

Yes, but we need to review and agree to this change, so if you want to do this, let us know as soon as possible.

### What if I'm not happy with the work and don't want to release any progress payments?

The first thing to do is speak to your builder and see if they can complete the work to your satisfaction. If you're still not satisfied, you should follow the dispute resolution process for your state and tell us as soon as you do this.

Don't send us a request for a progress payment until you're happy with the work that's been done.

### Does the bank have to approve my choice of builder?

No, but the builder must be licensed, and you should ensure that they're a reputable builder.

### Can I use a construction loan to renovate my unit or apartment?

Yes you can, subject to normal approvals.

### Do you offer owner builder construction loans (where I am doing the work myself)?

No, we do not offer owner builder construction loans, there must always be a contract with an independent licensed builder.

### What happens if my builder can't start within six months of my loan being approved?

In this situation speak to us, because we may need to re-assess your application in case your circumstances have changed.

### Is it okay to change the plans or make upgrades once the building has started?

Yes, but you need to let us know as soon as possible. If the change is significant we may need to do a new valuation at your expense. If the cost is increasing you'll need to tell us whether you're covering the cost of the changes or you need to borrow more money. If you need to borrow more we'll have to re-assess your loan and we'll need written evidence of the change.

## Checklists

### What to bring when you apply for the loan

#### Personal details

- proof of identity (and citizenship or visas if required)
- income (payslips or bank statements, and any investment or rental income)
- expenses (household costs, education fees, etc.)
- liabilities (credit cards, other loans, unpaid taxes).

#### Plans

- council-approved plans and specifications (or what you've submitted if they're not approved yet)
- any conditions of approval the local council has required
- details and quotes of any work that are not part of the contract (such as fences, driveways, pools, etc.)
- receipts for items or work you've already paid for
- the Development Application (DA)
- the Quantity Surveyor's Report
- the Construction Certificate.

#### Contract

- a copy of the signed and dated building contract, showing:
  - the building stages and work to be completed at each stage
  - the schedule of payments showing how much money you will need to complete each stage
  - builder's insurance
- any variations to the contract

The contract must:

- include all special conditions and all attachments
- be dated and signed by all parties
- have a completion date within 12 months of the date of the first drawdown or in any other period we've agreed to.

## Planning your move

### A month before

- Go through your house and either throw out or donate to charity the things you don't plan to take with you. What you don't have, you don't have to move.
- Move as many things yourself as you can to lessen the load on moving day, especially fragile objects that need careful handling.
- As you pack each room, label the boxes with the room name to make it easier to unpack.
- If you're renting, give your landlord the minimum required amount of notice that you're moving out.
- Hire a removalist well in advance.

### The week before

- Change your address on your driver's licence, and with your banks and other companies or government departments you interact with.
- Call all your providers of electricity, gas, water, telephone and internet and arrange to have them disconnected and re-connected at your new address.
- Check your insurance options and set up a home and contents policy for your new address.
- Identify where the fuse box and water mains tap are at your new address.

### The night before

- Put any important documents you might need on the day together in one folder.
- Pack a first night box with things you'll need such as cutlery and plates, tea and coffee, toothbrushes, toiletries and bed linen, so your first night will be comfortable.
- Check you have the keys to both properties.

## Let us help you

We're here to help you build the home you want. We've done this many times, so we can make the whole process a lot easier than it might otherwise be.

## Contact us

Call us, your Owner-Manager or broker.

Find out more at [www.boq.com.au/construction-loan](http://www.boq.com.au/construction-loan)



