

BORROWERS GUIDE TO CONSTRUCTION LOANS

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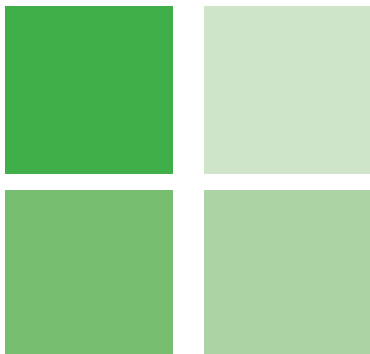
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INTRODUCTION



The Borrowers Guide to Construction Loans has been designed to assist consumers gain a better understanding of how the construction lending process works. The process can be confusing and overwhelming at times, but when you understand the basic process, you'll be much more prepared. The purpose of this guide is to assist you through each step. We believe the collection of the enclosed information will make your journey into the construction world an enjoyable one!

So, let's get started...



PREPARATION

Before you start looking for land and a property to build there are several key details to consider such as:

- How much can I borrow?
- Understanding the costs involved
- How much deposit do I require?
- Can I afford it?

HOW MUCH CAN I BORROW?

How much you can borrow depends on several factors including:

- Your income
- What deposit is required
- Eligibility for First Home Owner Grant
- Other loan repayments and commitments

An important factor to consider is how comfortable you are financially to repay the proposed loan. It is imperative that you do not over stretch yourself, it is best if you sit down and work out a budget and understand how much you have left over to repay a loan comfortably. You should also factor in interest rate movements as this will affect your repayment amount.





PREPARATION

UNDERSTANDING THE COSTS

Some of the other costs would include the following:

STAMP DUTY

This is a government cost that is usually the biggest expense outside the purchase price of the property. Stamp duty varies between the states and territories. For guidance on the approximate stamp duty cost in your relevant state go to www.stampdutycalculator.com.au.

LOAN SET UP COSTS

This includes establishment fees and will vary depending on the lender and the loan product chosen. It is important to note that you may also require Lender's Mortgage Insurance (LMI) depending on your deposit size.

CONVEYANCING COSTS

Conveyancing is the process by which a property's ownership is transferred from the current owner (the vendor) to the buyer. A conveyancer is a legal representative that specialises in this field. Either a conveyancer or solicitor will review your Contract of Sale and ensure appropriate checks are conducted on the property with local government agencies.

GETTING A DEPOSIT TOGETHER

There are many options available in relation to how much you will need to come up with as a deposit. Depending on your situation it could vary from 5% to 20%. Sitting down with your trusted mortgage professional will ensure you know which options are available to you.

THE MORTGAGE STEPS



There are 10 steps to the mortgage process. These are:

Step 1: Interview

Step 2: Completion of a Loan Application

Step 3: Lender Assessing Application

Step 4: Obtaining a decision – Conditional Approval

Step 5: Valuation of Security being provided

Step 6: Lenders Mortgage Insurance

Step 7: Formal Approval

Step 8: Mortgage Documentation

Step 9: Insurance Requirements

Step 10: Settlement



THE MORTGAGE STEPS

STEP 1 – INTERVIEW

Your mortgage professional will meet with you at a place which is the most convenient to you. Your mortgage professional will discuss the home loans (with the necessary features and benefits that you require) that suit your situation. They will go through numerous options that are available to see which is the most appropriate for your needs and wants. Once you are happy with your selection of the loan product, the loan process will commence.

STEP 2 – COMPLETION OF LOAN APPLICATION

Your mortgage professional will now complete the lenders application that you have chosen and will discuss what is required in relation to all the necessary documentation which is to be included so they can lodge your home loan application. They will also go through your income situation to see if you will be able to service the loan you are applying for. Upon receiving all the relevant documentation the mortgage professional will submit it to the chosen lender.

STEP 3 – LENDER ASSESSING APPLICATION

The lender will assess your application to determine whether you meet their serviceability and credit requirements. This process includes confirmation of your income, employment, assessment of your supporting documentation and a credit check.

STEP 4 – CONDITIONAL APPROVAL

The mortgage professional will receive a communication from the lender in the form of a conditional approval on your behalf. The lender will also outline any matters that need to be addressed before they can issue an unconditional approval.

STEP 5 – VALUATION OF SECURITY BEING PROVIDED

The most common condition of an approval is valuation of the security being provided. The lender will order the valuation and the valuer would require the land contract, plans, specifications and building contract of the house you are going to build. This could take up to 3 -5 days to complete.



THE MORTGAGE STEPS

STEP 6 – LENDERS MORTGAGE INSURANCE

This step will only be necessary if you have less than a 20% deposit or insufficient equity in an existing property.

STEP 7 – FORMAL APPROVAL

When a home loan application is formally approved (unconditionally approved) it means that all conditions and criteria required to assess a loan application have been supplied, assessed and approved. It is only when a home loan application is formally approved that the borrower can feel comfortable that they can obtain a home loan. A formal Letter of Offer will then be issued by the lender. Mortgage documents will be prepared and will be sent directly to the applicant/s.

STEP 8 – MORTGAGE DOCUMENTATION

Now that the formal offer has been provided, mortgage documentation is prepared by the lender. This includes the letter of offer; mortgage documents; terms and conditions of the loan you have chosen and any other documentation that is pertinent to the lenders own guidelines.

STEP 9 – INSURANCE REQUIREMENTS

With the new liabilities that come with owning property, it is important to consider or review your insurance requirements to ensure you are appropriately covered. There are four main types of insurance you should consider:

- Home Insurance • Contents Insurance
- Life Insurance • Income Protection

You may need to start your insurance cover prior to settlement.

STEP 10 – SETTLEMENT

After the mortgage documents are signed, witnessed and sent back to the lender, settlement is arranged via your solicitor/conveyancer or if there is not a necessity for a solicitor/conveyancer then the mortgage professional will be involved to ensure settlement is completed.

WHAT IS LENDERS MORTGAGE INSURANCE ?

LMI is one of the most popular ways to achieve the dream of home ownership sooner for borrowers that do not have a large deposit. Many lending institutions require borrowers to contribute a 20% deposit before they will agree to provide a loan. This is largely to protect against the risk associated with providing the borrower with the loan in the event that they default. By using LMI, lenders are able to pass on this risk to a mortgage insurer, which in turn enables them to offer the same loan amount but with less of a deposit. LMI should not be mistaken for Mortgage Protection Insurance which covers your mortgage in the event of death, sickness, unemployment or disability.

LMI protects lenders against a loss should a borrower default on their home loan. If the security property is required to be sold as a result of the default, the net proceeds of the sale may not always cover the full balance outstanding on the loan. Should this be the case, the lender is entitled to make an insurance claim to the mortgage insurer for the reimbursement of any shortfall, calculated in accordance with the terms of the insurance policy. It is a one-off premium and in a lot of cases can be capitalised within the loan.

CONSTRUCTION LOANS

WHAT ARE DRAWDOWNS?

In a construction loan your builder is usually paid in drawdowns (sometimes also known as progress payments) which occur as various stages of work are completed.

Many construction loans have approximately five drawdowns. These drawdowns are often at the following stages but may vary depending on your building contract:

- Slab complete
- Frame completed
- Outer brick work completed
- Lock up stage
- Workable completion

Builders usually will send you a progress invoice each time a progress payment is due. Your lender may also require you to sign a progress payment form that they will provide and you would need to send this form to the lender along with the progress invoice. Once the progress payment is approved by the lender, the builder will be paid from your loan account.

In a construction loan your builder is usually paid in drawdowns (sometimes also known as progress payments) which occur when each part of the work is completed.

This means that your monthly mortgage repayments slowly increase as the construction moves forward until finally at completion of construction the loan repayment reaches its full monthly repayment amount.

Many lenders also offer interest only repayments during the construction process which revert to principle and interest repayments once the construction is complete.

To qualify for a construction loan you will need to have council approved plans and a fixed price tender from a registered builder. You should also note that you will need to use your saved funds or equity before drawing down on your construction loan.

For many building contracts a progress inspection at every mortgage loan drawdown is arranged by the lender. Always check with your mortgage professional if you would like to make any variations to your building contract, prior to proceeding.

Upon completion of the dwelling, the construction loan will revert to the loan product originally chosen by you.

CONSTRUCTION LOANS

WHAT IS THE MAXIMUM PERCENTAGE YOU CAN BORROW?

There are some construction loans that may allow you to borrow up to 95% of the value of the property plus some funds to cover the cost of Lenders Mortgage Insurance.

After your loan is approved what other items do you need to provide prior to commencing construction?

- Signed Contract (fully signed by builder and purchaser)
- Signed Specifications (fully signed by builder and purchaser)
- Building Services Authority (BSA) Insurance (QLD only)
- Builders Public Liability Insurance
- Arrange insurance covering the full replacement value and ensure that your lender is listed as mortgagee



TIPS

KNOW YOUR BUILDING CONTRACT

Finding a reputable builder is the first thing to do after you've made the decision to build. Next, you will need to enter into a building contract with a licensed builder. The contract is a legally binding document. Ensure you read the fine print!

It is your responsibility to go through the terms and conditions with your legal representative. Never sign anything unless you are 100% certain you understand what it means.

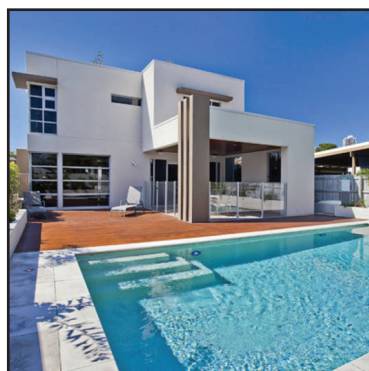
Ask the question of your builder – do you have all the necessary insurance policies in place? Whilst the lenders do not need to sight the following documents, it is strongly recommended that you obtain the following documents from your chosen builder:

1. Builders License
2. Home Warranty Insurance (NSW/QLD) – also known as Builders Warranty Insurance (VIC), Building Indemnity Insurance (SA), Home Indemnity Insurance (WA), Housing Indemnity Insurance (TAS), Building Warranty Insurance (NT)
3. Employers Liability and Workers Compensation

REMEMBER: At the completion of your construction you will need to obtain an Occupation Certificate, also known as an Occupation Permit, from your local council.

FIRST HOME OWNERS

Thankfully there are several government incentives and benefits available to provide a little helping hand. For more information visit www.firsthome.gov.au.



USEFUL WEBSITES



Building Commission
www.buildingcommission.com.au

Master Builders Association
www.masterbuilders.com.au

Home Design Directory
www.homedesigndirectory.com.au

Builder Services Authority
www.bsa.qld.gov.au



Office of Fair Trading Home Building Service
www.fairtrading.nsw.gov.au

First Home Owner Grants
www.firsthome.gov.au

NEED HELP?

WHAT A MORTGAGE PROFESSIONAL CAN DO FOR YOU.

Nearly half of Australian home buyers now use a mortgage professional to find them the home loan that best suits them.

Mortgage professionals have the expertise, the contacts and experience to ensure you get the right loan for you. Furthermore they take on the leg work so you don't have to.

YOUR MORTGAGE PROFESSIONAL WILL:

- Discuss your existing situation, your lending needs, requirements, and obtain all necessary information pertaining to your lending application.
- Explain the types of loans available to you from a range of banks and specialist lending institutions.
- Based on information provided by you and utilising specialist lending software, match your lending requirements to a selection of loan products offered by a diverse range of lenders.
- Act as an intermediary between you and the lenders by completing and packaging your loan application.
- Liaise with your solicitor, real estate agent, accountant and any other related party to ensure a smooth and timely settlement.
- Assist with any future lending requirements, whether you wish to check, change or top-up your loan



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