

## Construction Loans

### What you need to know

At Finch Financial, we love helping people arrange finance so they can build a brand-new home.

It's a little different however to purchasing an existing property, so let us give you some tips you can follow to help make the process a little easier.

There are typically three different circumstances where you might apply for a construction loan

1. If you are buying/own a vacant block of land and want to build a new house
2. If you own your own home and are knocking it down to build a new house
3. If you are making significant structural changes to your existing property

The purpose of a construction loan is to protect you, the applicant, from paying for work that is not yet complete during building your home.

There are many examples of builders/developers going broke mid construction, whereby the full cost of the build has been paid and only part of the work is complete.

There is also a level of protection for the lender whereby if you are altering the security they hold for your loan, they want to ensure that the work you have suggested will happen does happen.

How Does a Construction Loan work?

- Loan funds are paid progressively in line with the stages of the building schedule
- These progress payments are paid directly to your builder
- The repayments of the loan during construction are Interest Only
- Any contribution being made by you to the building must be paid in line with the contract schedule – and before the bank will release any of their approved funds.

What you need to supply for lender approval

- Copy of a HIA/MBA Fixed Price Building contract, which must include all components of construction (tender is ok for pre-approval)
- Copy of council approved plans and specifications
- Copy of the builder's licence
- Copy of the builder's insurance policy

Once your loan is approved, Finch Financial will assist you with managing the next steps of your loan. These steps include managing the progress payments all the way from your initial deposit until the final payment is made.