

Construction Loans: A Good Foundation On Which To Build

Construction loans are often a good option for those who choose to build their home rather than purchase something established. There is a very good reason for this as well: interest is generally only charged on the amount you draw down while you're building your home, rather than the entire loan amount. Some loans may also allow for interval payments to be made during the construction period, making them even more cost effective.

Requirements

Before a construction loan is approved, the borrower must satisfy certain requirements and have firm building plans in place. Requirements may include:

- ✓ Council approved plans
- ✓ Construction costs estimates
- ✓ Contract with a builder. Some lenders require a fixed cost contract, but avoiding a "plus cost" arrangement is advisable in any case.
- ✓ Evidence of builders' insurance (Builders All Risk and Public Liability)

The process

There are generally five progress payments made to the builder during the construction phase. At the completion of each stage the lender will require confirmation that the required work for that particular stage has been completed – they will usually arrange an inspection from a valuer or have the borrower confirm that the stage is complete. While the process can vary between lenders, where the borrower confirms progress, the lender usually arranges for an inspection by a valuer at least once during the construction phase and again on final payment.

Loan features

Construction loans are offered by most mainstream lenders at similar interest rates as standard home loans; however some lenders may have set 'construction only' products that may attract at a higher interest rate.

Remember – the construction loan is only in place while the construction is being completed. Repayments on construction loans during the construction phase are often calculated on an interest only basis calculated on the outstanding

balance. Some lenders may allow additional repayments during the construction phase, offset accounts and other features; however speak with your mortgage broker who will be able to help you find a construction facility best suited to your needs.

On Completion

Once the house is built, interest is usually charged on the full loan amount and borrowers may be free to switch to other loan products on offer from the lenders product range. Before committing to a product though, it may be worth checking into what (if any) costs are associated with switching to another product on completion of construction.

For further information, please don't hesitate to call AlphaLoan today so we can match your needs against 100's of home loans from our panel of lenders, including all the major banks and many more!

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