

# What is the difference between a Construction Loan and a Regular Home Loan?

Custom building your own home and tailoring it to you and your family is one of the most exciting ways to own your own home. You get to decide on the number of bedrooms, bathrooms, living spaces, tiles, colours and more. And just like finding the right builder to help you make your dream come true, you need to find the right construction loan to give you peace of mind.

So, what exactly is a construction loan?

A construction or owner builder loan is a type of home loan available specifically to people who are constructing a new home or making major renovations, rather than buying an existing property. There are a few differences between a construction loan and a regular home loan – the major one being the structure of the construction loan – which can be very valuable if you are building a new home. Not all lenders will offer construction loans, and sometimes if they do, it can be a limited range. That's why speaking to Scott from Mortgage Choice in the Hills, who has access to a wide range of loans and lenders, is recommended when trying to find the right construction loan.

Construction home loans vs regular home loans

Luckily, for all of you thinking of building a new home, construction loans are set up specifically to benefit you. A regular home loan would mean that the total funds will be available in a single lump sum, so you can make a property purchase. With a construction loan, borrowers are able to receive the loan amount in 'progress payments', or stages, as your new build is completed.

This is a fantastic structure for new home builders, because you will only be asked to make interest repayments on money that has actually been paid. This means you will only be paying interest on money that has been used to finance the build to date, and will increase gradually as your home nears completion.

Your lender will have some requirements

There are a few things to keep in mind with a construction loan. While progress payments are fantastic for new home builders, a lender usually sets a maximum timeframe for the complete draw down of your loan – which usually sits at about 6 months. To avoid paying interest on the whole amount before you've even decided on what you want, make sure you have everything lined up and ready to go before applying.

Interest rates for construction are generally variable, and often have a maximum Loan to Value Ratio (LVR) of 95%. That rate does vary depending on the lender, and another great reason to speak to Scott about your construction loan.

How do the progress payments work?

Once your construction loan has been approved and the build is underway, your chosen lender will make payments throughout each stage of construction. The scheduled stages of the build are usually:

**Slab stage:** This is the amount you need for the builder to prepare the foundations and lay the slab for your property. This progress payment might be a big chunk of the total loan amount depending on if you need the ground levelled or waterproofed, etc. **Frame stage:** This is the stage at which your home really starts to take shape, and includes enough for the builder to complete the frame of your new home, and also includes some brickwork and windows. **Lock up stage:** Once your new home is at lock up stage, it means that all external walls, windows and doors have been complete – meaning your property is now 'lockable'. **Fit out stage:** This progress payment covers the fit out of your new house, including the cupboards, benches, plumbing and electricity. It also means that your house is nearly completed! **Completion stage:** This is the amount for the conclusion of all the contracted services for your new home including final plumbing, electricity and overall cleaning. The construction loan process

The process for a construction loan is not too different from a regular home loan, but knowing more about the process can help you know exactly what to expect, and what the next steps are.

**Application:** Just like with a traditional home loan, your lender needs to have a look at your income and savings, what you spend and your capacity to repay the loan. However, with a construction loan you also need a few additional documents such as a fixed price building contract, building plans approved by council and a copy of your builder's licence. Having to provide these additional documents is a great way to double check that you're ready to go and you have got your bases covered.

**Progress payments:** Once the loan is approved, the progress payments will begin as the build commences and progresses to completion. Your home is complete: Before making the final progress payment to your builder, your chosen lender will inspect the property and require a few last documents for the final valuation. Once the final progress payment is complete and your builder has been paid, your loan will switch to the standard home loan that you agreed on with your lender. You can move in: Pop the champagne and organise the house warming. You are free to move in and get settled in your new home. Congrats! Construction loans is the right tool for the job

Construction loans offer people building a new home a lot of benefits. The structure of a construction loan will help you hold off on making interest repayments on a loan that you don't necessarily need yet – saving you money in the long run.

Mortgage Choice in the Hills have a range of great construction loans available, from our panel of over 20 quality lenders. Talk to us today on 02 9653 9333, email: [scottpartridge@mortgagechoice.com.au](mailto:scottpartridge@mortgagechoice.com.au) or or click [HERE](#) to book a time to discuss financing your dream home.

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