FACT SHEET

CONSTRUCTION LOANS

Building Your Dream Home with the Right Finance

A construction loan is a specialised form of home loan designed for those building a new property or undertaking major renovations. Unlike a standard mortgage where the full loan is advanced at settlement, a construction loan releases funds progressively as each stage of the build is completed.

This structure helps protect borrowers and lenders while easing cash flow during the build process.

How Do Construction Loans Work?

Construction loans are designed to match the building process. The loan is approved in full but released in stages — called progress payments.

Typical Stages of Construction and Payments

1. **Deposit / Slab Stage** – Foundation poured.
2. **Frame Stage** – House frame erected.
3. **Lock-Up Stage** – External walls, windows, and roof installed.
4. **Fit-Out Stage** – Interior elements added (plumbing, electrical, cabinetry, painting).
5. **Completion** – Final stage, house is ready for inspection and handover.

At each stage:

- **The builder submits an invoice.**
- **The lender may request an inspection to verify completion.**
- **Funds are drawn from your loan to pay the builder.**

Repayments During Construction

- **Interest-Only Payments**: During construction, you only pay interest on the funds drawn down (not the full loan amount).
- **Lower Initial Repayments:** This eases the burden while you're also paying rent or covering other living expenses.
- **Conversion:** Once construction is finished, the loan converts to a standard principal-and-interest mortgage.

Etairos
FINANCE

FACT SHEET

Benefits of a Construction Loan

✅ **Cash Flow Friendly:** Interest-only during the build keeps repayments lower.
✅ **Protects Borrowers:** Builder is only paid for completed work.
✅ **Tailored Structure:** Matches the step-by-step building process.
✅ **Flexibility:** Suitable for new builds, knockdowns, rebuilds, or major renovations.

Things to Consider

⚠️ **Delays Can Add Costs:** Weather, supply chain issues, or variations may extend the build. Longer builds mean longer interest-only payments.
⚠️ **Valuations at Each Stage:** Some lenders require inspections before releasing funds — this can add fees.
⚠️ **Fixed-Price Contracts Preferred:** Lenders usually want a fixed-price building contract to reduce risk.
⚠️ **Additional Savings Needed:** Lenders often require a buffer (around 5–10%) to cover unexpected costs.

Example Scenario

Loan Amount: $600,000
Build Duration: 12 months

Stage	Drawdown	Loan Balance	Monthly repayment (interest Only @ 6%)
Slab/Foundation	$120,000	$120,000	$600.00
Frame	$150,000	$270,000	$1,350.00
Lock up	$150,000	$420,000	$2,100.00
Fit Out	$120,000	$540,000	$2,700.00
Practical Completion	$60,000	$600,000	$3,000.00

👉 *Note:* Repayments increase gradually as more funds are drawn. Once complete, loan converts to principal + interest repayments on $600,000.

Etairos
FINANCE

FACT SHEET

Eligibility and Documentation

To apply for a construction loan, lenders generally require:

- **Income and Expense Assessment:** Proving you can service the loan.
- **Building Contract:** Fixed price, signed, and from a licensed builder.
- **Plans and Permits:** Council-approved plans, insurance, and permits.
- **Valuation:** Lender assesses the end value of the property (completed build).

Tips for Managing a Construction Loan

- **Budget for Variations:** Allow a 5–10% buffer for unexpected changes.
- **Stay in Contact:** Keep lender, builder, and broker updated at each stage.
- **Plan Living Arrangements:** You may need to cover rent or other housing during the build.
- **Avoid Overcapitalisation**: Ensure the total cost of land + build is in line with surrounding property values.

Advantages vs Standard Home Loan

Feature	Construction Loan	Standard Loan
Loan Release	Staged Drawdowns	Lump Sum upfront
Repayments During Build	Interest Only on drawn funds	Full payment from first day
Valuations required	Can be multiple according to lender	Usually only once
Protects against overpayment	Yes	No guarantee

Common Myths

❌ ***"You don't need a deposit."*** – A deposit is still required (generally 5–20%), plus funds for costs and contingencies.

❌ ***"It's too complicated."*** – While staged, a broker can guide you through the process and liaise with the lender.

❌ ***"All lenders offer construction loans."*** – Some don't, and policies vary widely. A broker can match you to the right lender.

Etairos
FINANCE

FACT SHEET

Quick Reference Summary

- **Best For:** New builds, knockdowns/rebuilds, major renovations.
- **Structure:** Loan funds released in 5–6 stages.
- **Repayments**: Interest-only during construction.
- **Requirements:** Fixed-price contract, plans, permits, and lender approval.
- **Tip:** Keep a contingency buffer for delays or cost overruns.

Professional advice before making decisions.

📞 **How We Can Help: Call - 0402 684 199**

At *Etairos Finance*, we help first home buyers navigate the First Home Guarantee Scheme, from checking eligibility through to securing approval with a participating lender. If you'd like to see if you qualify, contact us today.

Etairos
FINANCE