Getting finance

Better Built Homes

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A mortgage will account for a large part of your household expenses for the next 25 or 30 years, so it's important to first run a calculation to give you an idea of how much you can afford – now and in the future. You'll need to include the total costs of the land purchase and build, the size of the deposit you can afford, and how much you can comfortably repay each month after your other commitments.

Affordability

As well as taking into account your regular expenses and debts, lenders will also factor in the impact of interest rate increases on your repayments – and you should also factor in future plans, like starting a family. It's also sensible to include mortgage repayment insurance and the other insurances that will protect your home and your family if the main breadwinner is made redundant or becomes sick.

If you can, make sure you have a 20% deposit. Otherwise the bank is likely to charge Lenders Mortgage Insurance which, contrary to common belief, protects them – not you.

Loan type

When you're building a home, it's best to take out a 'construction loan'. Like other home loans, it can be pre-approved and you should be able to find a lender that will offer features like fixed-term rates or an offset account. A construction loan pays out in stages, so you only pay interest on what you use, as you use it.

Payments

You will need to make the first payments, such as the $3–5k deposit the builder will need to draw up the tender and the 5% payable when you sign the contract, from your deposit. The bank will begin to make progress payments once you've paid your contribution, and once they have seen the fixed price contract, council approval and the builder's insurance policy.

Before they make the final payment, the bank will arrange a final valuation of the finished house, and will also need to see the occupation certificate and your home insurance policy.

Getting the right loan is important, so BBH recommends engaging a reputable, independent mortgage broker to help you.

BetterBuilt Tips

- Have at least a 20% deposit to avoid Lenders Mortgage Insurance.
- Make sure you take into consideration all possible expenses, including insurances, government, bank and legal fees, as well as all your usual financial commitments month-to-month, including spikes for annual expenses like car rego.
- Beware of 'honeymoon' rates offered by banks. 'Cheap' loans often have higher fees or are inflexible and difficult to change or exit.
- Look for a loan with an offset account to help lower the interest you pay.
- Consider fixed rate loans when rates are low, but assume they will be high when the fixed period ends.
- Tell your lender or mortgage broker about all your financial commitments and future plans. It's tempting not to in the hope they'll loan you more, but you could end up saddled with repayments you can't afford.
- Make sure you read and understand everything your broker or lender gets you to sign – and ask questions until you do. There are bad brokers and bad lenders out there, and you don't want to get caught out with a loan that isn't right for you.

Useful Links

choice — www.choice.com.au/reviews-and-tests/money/borrowing/your-mortgage.aspx

YOUR MORTGAGE — www.yourmortgage.com.au/article/types-of-home-loans-82986.aspx

Loan Market — www.loanmarket.com.au/construction-loans/

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