Guide to Westpac Residential Construction Loans

This guide will outline what you need to know about building/renovating your home with a Westpac Construction Loan.

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Thank you for choosing Westpac for your new Construction Loan!

Building a new home is an exciting time and this brochure outlines what you need to consider:

- when organising your budget,
- when choosing a builder,
- to avoid budget overruns and disappointment by understanding your obligations in managing drawdowns and Builder deliverables.

Westpac is here to help at all times throughout your consideration and building phase.

Please contact your Mortgage Broker anytime to discuss any questions or concerns.


a. Choosing a builder

It is wise to take your time in selecting both the design and builder of your new home. If you are using your own plans, it is advisable to select several licensed builders to quote on the work. The Housing Industry of Australia (HIA) or the Master Builders of Australia (MBA) can provide member lists as a starting point.

If you are not buying a standard design from a building firm, your builder will need to take away a copy of your plans and specifications. Write down exactly what the builder is to quote on and have each builder quote on the same document. Otherwise, one quote may vary greatly from another, due to extra work that one builder has included, which another has not.

Ensure you receive an itemised quote for construction from every builder you engage.

When you have selected a builder, you should seek independent legal and professional advice to assist in finalising the building contract. For example, speak with a Lawyer with building contract experience. If required, please refer to the HIA or MBA websites where you will find standard, proforma construction contracts which are accepted throughout the industry.

Does your builder have a current Builder’s Licence?

Prior to entering into a building contract, you must confirm that your chosen builder is a licensed builder. You can check this by contacting the relevant Fair Trading or Consumer Affairs departments in your State or Territory.

b. The Construction Loan application process

Once you have discussed your requirements with your Mortgage Broker and have established that a Westpac Construction Loan is suitable for your requirements, you may lodge your formal application.

i. Documents required for your Construction Loan application:

As with any home loan application, your income, expense and personal identification documents will be requested by your Lender.

You will also be required to provide the following documents relating to your building contract:

- Council approved plans and specifications (or, if the plans are not yet approved, a copy of those which have been, or are to be submitted to Council for approval),
- Signed & dated building contract, including the building stages and schedule of payments,
- Variations /quotes if applicable,
- Quantity Surveyor Report for building contracts > $1m (See Specialist Construction Requirements on page 5).

ii. Loan assessment and approval

Westpac will assess your application to determine if it meets our lending criteria.

We will also need a satisfactory valuation of your proposed new construction. This valuation will be conducted by a registered valuer nominated by, and on behalf of, Westpac.
If your loan is approved, Westpac will issue you with a:

- Loan Offer,
- ‘You & Your Loan’ Terms and Conditions booklet,
- Any other documents required as part of your loan agreement.

c. Documents required before settlement (drawdown) of your Construction Loan:

Prior to the first drawdown of your Construction Loan, the following final documents are required:

- Council approved plans and specifications (if not already provided),
- Builders Risk Insurance - you must provide a current copy of your builders “Public Liability Insurance” prior to funds being released.

d. Commencing construction and progress payments

We will inform you and your builder when construction can commence by issuing a “Builders Pack”, which contains information and documents required during the building phase of your new home/renovation.

A progress payment may be requested as soon as:

- You have met all the conditions of your Loan Offer,
- Westpac has received all required documents,
- The customer (your) contribution requirement has been met.

There are various ways progress payments can be requested and these are advised within the “Builders Pack”.

Please note:

- The payment amounts should align with the original schedule of payments supplied.
- There could be delays with processing a progress payment request if the amount of payment differs from original schedule (see “Changes to original Scope of Work” in section 3a).

e. Progress inspections and Valuations

If your Builders Pack indicates that a progress inspection (valuation) is required, we will arrange it for you.

In this case, the valuer inspects the site and certifies that the building works have been satisfactorily completed as per the approved Building stage and in accordance with the approved plans and specifications provided. Westpac will not make any progress payments (including the first and the final) unless the valuer certifies.

When a progress inspection is required, please allow an additional three working days to the time it normally takes to assess your request for invoice payment.

Note: there is a cost for each progress inspection as outlined in your Loan Offer.

f. Final progress payment

Congratulations, your new home is complete!

Please send through your authorised final progress drawdown request and contact your Mortgage Broker to arrange the following:

- A satisfactory final inspection from our valuer confirming that construction has been completed as per the original plans and specifications,
- A new building insurance policy quote,
- How to distribute surplus funds, if any.
g. How the progress payment system works (licensed builder)

The Westpac Construction Loan progress payment system is simple and efficient. It aims to ensure that the borrower retains control of their finances and that the builder receives prompt payment.

The building process is split into standard construction stages. Each construction stage and payment amount is represented as a percentage of the total construction cost you give us when you apply for your loan. The Progress Payment Schedule will outline these stages and percentages and the payments to be made to the builder.

**Note:** Borrowers must contribute any money they have agreed to contribute towards the construction **BEFORE** Westpac makes any progress payments to the builder.

The following example, based on a builder’s tender/contract price of $324,300 and a loan of $320,000 may be useful.

**Example**

<table>
<thead>
<tr>
<th>Loan approved:</th>
<th>$320,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Fees to be deducted from the loan (e.g. $300)</td>
<td>(300)</td>
</tr>
<tr>
<td>Net Westpac payments to builder*</td>
<td>$319,700</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contract (tender) Price:</th>
<th>$324,300</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: *Net Westpac payments to builder (total loan amount):</td>
<td>($319,700)</td>
</tr>
<tr>
<td><strong>Borrower’s contribution required:</strong></td>
<td><strong>$4,600</strong></td>
</tr>
</tbody>
</table>

**Note:** If there are any leftover/surplus funds between the approved loan amount and the construction costs, these will be available only after the final drawdown.

h. Stages of Construction

As each stage of construction is completed, all borrowers must ensure that the building work has been carried out to their satisfaction before authorising invoice payments to the builder.

Methods of requesting invoice payments are explained within the Builders pack.

The following tables set out Westpac’s guidelines regarding payment percentages for each stage and provides examples of schedules.

**Guidelines regarding payment percentages per stage in all States, except Northern Territory (NT):**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Building stage</th>
<th>% of funds required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit/Base – stage 1</td>
<td>Maximum of 20%</td>
<td></td>
</tr>
<tr>
<td>Middle construction stages 2-6</td>
<td>No single stage exceeding 35%</td>
<td></td>
</tr>
<tr>
<td>Practical completion/final stage</td>
<td>Minimum of 10%</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Any deviation from the proposed payments, outside the above percentages, is to be referred to Westpac for consideration.

**Example of a five-stage schedule:**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Building stage</th>
<th>% of funds required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1</td>
<td>Foundations/Slab (including deposit)</td>
<td>20%</td>
</tr>
<tr>
<td>Stage 2</td>
<td>Frame</td>
<td>20%</td>
</tr>
<tr>
<td>Stage 3</td>
<td>External lining</td>
<td>30%</td>
</tr>
<tr>
<td>Stage 4</td>
<td>Lock-up/Internal lining</td>
<td>20%</td>
</tr>
<tr>
<td>Stage 5</td>
<td>Practical completion/final stage</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Example of a six-stage schedule:

<table>
<thead>
<tr>
<th>Stage</th>
<th>Building stage</th>
<th>% of funds required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1</td>
<td>Foundations/Slab (including deposit)</td>
<td>20%</td>
</tr>
<tr>
<td>Stage 2</td>
<td>Frame</td>
<td>20%</td>
</tr>
<tr>
<td>Stage 3</td>
<td>External lining</td>
<td>25%</td>
</tr>
<tr>
<td>Stage 4</td>
<td>Plaster set</td>
<td>5%</td>
</tr>
<tr>
<td>Stage 5</td>
<td>Second fixing carpentry</td>
<td>20%</td>
</tr>
<tr>
<td>Stage 6</td>
<td>Practical completion/final stage</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

Northern Territory only:

<table>
<thead>
<tr>
<th>Stage</th>
<th>Building stage</th>
<th>% of funds required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1</td>
<td>Deposit</td>
<td>No more than 5%</td>
</tr>
<tr>
<td>Stage 2</td>
<td>Base stage</td>
<td>Up to 10%</td>
</tr>
<tr>
<td>Stage 3</td>
<td>Frame stage</td>
<td>Up to 20%</td>
</tr>
<tr>
<td>Stage 4</td>
<td>Enclosed stage</td>
<td>Up to 25%</td>
</tr>
<tr>
<td>Stage 5</td>
<td>Fixing stage</td>
<td>Up to 30%</td>
</tr>
<tr>
<td>Stage 6</td>
<td>Practical completion</td>
<td>Up to 7%</td>
</tr>
<tr>
<td>Stage 6</td>
<td>Final completion</td>
<td>At least 3%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

There will be situations where the percentages set out above may not suit a specific type of dwelling or construction situation. For example, an unusual or large architect-designed home, pole house construction or major extensions/renovations.

When these standard construction (or percentage) stages are not suitable, the builder or architect must provide the stage works and percentages prior to Westpac arranging the initial valuation. These should be provided to us when you lodge your loan application. The independent valuation will determine whether or not they are acceptable.

i. Specialist construction requirements: Building Contracts greater than $1m

Westpac will require a report from a Quantity Surveyor (QS) regarding total cost of construction prior to the first drawdown of your Construction Loan.

Quantity Surveyor requirements:

- Must be a member of the Australian Institute of Quantity Surveyors.
- Westpac will arrange a progress inspection by Westpac’s nominated valuer each time a payment is made to your builder. You will need to provide an updated QS report at each request for progress payments indicating the cost to complete the construction.

Note: The QS report is required with the initial loan application and other construction documents. You will need to pay all costs direct to your chosen QS.
2. Borrower’s Guide to Westpac Construction Loans – Owner Builder

If you are building your own home rather than using a contract builder, Westpac can lend to you, however, there are a few additional requirements you will need to know.

- The project must be completed within 12 months from the date that loan funds are first made available on the loan.
- You will need to engage the services of an Independent Adviser to complete required costings and ongoing inspections.
- Progress inspections will be required at each stage. The cost for this is outlined in your Loan Offer.

a. Documents required for your Owner Builder application:

- A fully completed Independent Advice Form (MPC019) by qualified person i.e. local building advisory service/architect/quantity surveyor/independent licensed building inspector detailing costings of project and projected site stages. This form is available from your Mortgage Broker.
- Council/private certifier approved plans and specifications along with any conditions of approval specified by the local council.
- Owner/Builder Construction Risk Insurance.

b. Purchasing materials while you are building

Some Owner Builder construction projects exceed the planned timeframe and budget.

One of the main reasons owner builders suffer lengthy delays is due to unplanned purchases of building materials. Impulse purchases are best avoided by drawing up a schedule of purchases, co-ordinated with your schedule of progress payments, and sticking to it. This will ensure that you know what materials you need, when you need them and how much money you have to pay for them.

Please note:

- Progress payments cannot be made for materials on site that are not affixed to the building.
- We cannot use receipts for materials to establish customer contribution/cost to complete. Funds are released strictly against the cost to complete provide by the Westpac nominated valuer.

c. Requesting progress payments

A progress payment may be requested as soon as:

- You have met all the conditions of your Loan Offer,
- Westpac has received all required documents,
- The customer contribution requirement has been met.

There are various methods of requesting progress payments and these are advised within the “Builders Pack.” The payment amounts should align with the original schedule of payments supplied.

There may be delays with processing a claim if it differs from the original schedule (see “Changes to original Scope of Works” in section 3a).

In addition, your Independent Adviser will need to complete an Owner/Builder Progress Inspection report (MPC020), available from your local lender or banking representative, for each stage detailing:

- works completed to date,
- estimated cost to complete project.

Note: These two figures should total the full cost of the project. Westpac will order a progress Inspection via our nominated valuer. Funds will be released against the cost to complete as advised by the valuer i.e. Westpac will retain a sufficient amount to cover the balance of construction as advised by the valuer.
Example 1

<table>
<thead>
<tr>
<th>Progress Payment request</th>
<th>$50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds remaining in loan</td>
<td>$100,000</td>
</tr>
<tr>
<td>Valuer report – cost to complete advised</td>
<td>$50,000</td>
</tr>
</tbody>
</table>

Funds will be released (after releasing $50,000 claim, there will still be $50,000 left in loan account to cover the cost to complete as advised by the valuer).

Example 2

<table>
<thead>
<tr>
<th>Progress Payment request</th>
<th>$50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds remaining in loan</td>
<td>$100,000</td>
</tr>
<tr>
<td>Valuer report – cost to complete advised</td>
<td>$75,000</td>
</tr>
</tbody>
</table>

We can only release $25,000 (in order to retain the required $75,000 in loan to cover the cost to complete as advised by the valuer.)

**Note:** Payment will be paid directly to your account and not to sub-contractors. It is the owner/builders (your) responsibility to disburse funds for their trades as required.

d. The final progress payment

To request the payment for a final progress draw for an owner builder, please complete the following:

- Your authorised final progress drawdown request,
- A completed Independent Advisor Progress Inspection report,
- Contact your Mortgage Broker to arrange:
  - A satisfactory final inspection from our valuer confirming that construction has been completed as per the original plans and specifications.
  - A new building insurance policy quote
  - How to distribute surplus funds, if any.

3. Additional Information

a. Changes to original scope of work

We need to know immediately if the price of the original building contract/variations/quotes changes before or during construction. Documentation will need to be supplied and, if changes are significant, a new valuation may be required.

b. Change of Builder

We need to know immediately if for any reason you sign a contract with a different builder.

We will require a fully signed & dated building contract for the new builder, confirmation that there are no changes to the original plans and specifications, a copy of the new builders Public Liability insurance and any legal documentation relating to the original builder i.e. Termination of Contract.

A new valuation may be required along with credit approval to proceed with new builder.
4. Bank contacts

If any further information or assistance is required regarding Construction Loans, please contact:

**New loan applications:**
- Your Mortgage Broker

**Existing applications:**
Once your loan is in progress and you have any further questions please call our Mortgage Contact Centre for assistance:
- Progress Drawdowns/payments: 1300 367 483
- Loan changes/restructuring: 132 558