GUIDE

Construction Loans Guide

Building or knocking down and rebuilding is a different process to buying an existing home. Here's how construction lending actually works.

How construction loans work

A construction loan is drawn down in stages as building progresses, not as a single lump sum. You pay interest only on the portion drawn so far, which keeps holding costs manageable while the build is underway. Once construction is complete, the loan converts to a standard principal and interest home loan.

Progress payments

Most residential builds are drawn down across five standard stages:

- Deposit / slab
- Frame
- Lock-up (windows, doors, roof)
- Fixing (internal fit-out)
- Practical completion

Building contracts

Lenders prefer a fixed-price HIA or Master Builders contract with an accredited licensed builder. Cost-plus contracts, owner-builder scenarios and staged renovations can still be financed but the lender panel shrinks.

Valuations

The property is valued 'on completion' based on the plans, specifications and fixed-price contract. Any variations you add later can affect valuation, borrowing and the release of the next progress payment.

Common questions

- Can I use my land as the deposit? Often yes — the equity in the land counts.
- Do I need to make repayments during construction? Interest-only on each progress draw.
- What if the build runs late? Extensions are common — we'll manage the lender.
- Can I do the work myself? Owner-builder finance is possible but lender-restricted.

Ready to talk it through? Book a free, no-obligation consultation with Gemma at www.topsoulfinance.com.au or call 0438 285 413.