

# Construction Loans

## Introduction: Why Construction Loans Are Unique

- If you're contemplating building your dream home, understanding construction loans is crucial. Unlike standard home loans, construction loans have their own set of rules, documentation requirements, and disbursement methods.

## Essential Documentation: What You'll Need

1. **Basic Requirements:** Alongside standard financial, income, and identity documents, you'll need to provide additional paperwork.
2. **Construction-Specific Documents:** These include construction contracts, tenders, and architectural plans for valuation purposes.
3. **Pre-Disbursement Requirements:** Before the first payment is made to the builder, you'll need to submit a payment schedule (known as drawdowns), builders' insurance details, and council-approved final plans.

## Loan Structure: Splitting for Convenience

1. **Land Loan & Construction Loan:** To manage your finances better, consider dividing your mortgage into a land loan and a construction loan.
2. **Initial Payments:** After purchasing the land, you'll start making repayments and incurring ljarah/interest on the land loan. Lenders Mortgage Insurance (LMI) may also apply based on your deposit size.
3. **Construction Payments:** ljarah/Interest and repayments for the construction portion begin as each drawdown is processed.

## Funding: The Drawdown Schedule

1. **Importance of Scheduling:** The drawdown schedule dictates when you start paying ljarah/interest on different portions of the loan.
2. **Drawdown Request Form:** To initiate each payment to the builder, you'll need to complete this form and submit it to your builder, who will then forward it to the lender along with an invoice.
3. **Lender's Approval:** Payments are made to the builder only after the lender verifies that the work meets the valuation standards.

## Potential Pitfalls: What to Watch Out For

1. **Contract Changes:** Any alterations to the initial contract or plans may necessitate a loan reassessment. Try to finalise plans before submitting them to the lender.
2. **Subcontractor Payments:** Some builders include subcontractor costs in the main contract, while others don't. You may need to pay subcontractors out of pocket.
3. **Site-Related Expenses:** If there are additional costs for work not covered by the builder, some lenders may only release the remaining loan funds after construction is complete.

## Final Thoughts: Be Prepared for Flexibility

- Construction loans require a higher level of vigilance and preparation. Make sure you understand the terms, keep all documentation in order, and communicate effectively with your lender and builder.