



Construction Lending by

Oceania Outsourcing



Oceania Outsourcing

MAKING IT SIMPLE

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What is a Construction Loan?

- A construction loan is short-term financing that can be used to cover the costs associated with building a house/s, from start to finish.
- Construction loans may cover the costs of buying the land and building house/s and generally majority of the time cost of plans and permit are covered by the owner.
- A construction loan can be used to finance the building or structural renovation of residential or commercial real estate.

Construction Loan Features

- Loan repayments in construction loans can be set up as interest-only. Some lenders will allow interest only up to 3 years. Always check the bank policy.
- Once the entire renovation is completed, the construction loan will revert to principal & interest repayments, if required.
- It is good for the broker to also recommend the clients to seek accounting advice.

Benefits of a Construction Loan

- Financing big renovations or construction with a construction loan, rather than a personal loan or a home equity line of credit, is that you'll generally pay a lower interest rate and have a longer repayment period.
- An advantage of a construction loan can be that the construction period is interest-only (if the applicant choose), which minimizes repayments and ease any cashflow pressure during the construction period. Any savings can be held for contingencies.
- At the end of the construction process, the loan can be reverted to a principal and interest loan or can keep it as interest-only depending on the bank policy.

Document required for a construction loan

- Everything generally required for any residential loan with addition to the following document:
- **FPBC** is Fixed Price Building Contract
- A FPBC in construction is a pricing method that sets a total established price upfront for all construction-related activities undertaken during the project's lifetime.
- Stamped plans and building permits
- Relevant insurances such as builders' insurance, public liability etc.

Stages of Construction

There are generally 5 stages of construction plus the initial deposit requirement under FPBC. **An example of a construction schedule is as follows:**

- **Deposit** – Generally at signing of the FPBC at 5%
- **Base / Foundations / slab** – This is when the foundation/slab is laid down after the deposit has been paid to the builder. 10%
- **Frame Stage** – This is when the framework for the house goes up and the windows have been fixed in position. 15%
- **Lock-up/external lining** – This includes finishing of external walls such as brick work or cladding, the final roof covering and fixing of house doors. 20%
- **Fixing/internal lining** – This is when most internal works, such as installation of walls, ceilings, bathrooms and kitchen cabinets are completed. 25%
- **Practical completion** – This is the last stage of construction. Your home is completed, and a Certificate of Occupancy is issued to move into the new home. 10%

Question

1. What is a “front loaded” or “top-heavy” Fixed Price Building contracts
2. Why this is seen as risk
3. Can Oceania Outsourcing Team help with the loan application
4. Can Oceania Outsourcing Team help with Progress Payments

Preliminary assessment by the broker

1. Preliminary discussions with the client to understand needs and objectives.
2. Gather required info including FPBC, Plans and Permits etc.
3. As always, complete the Credit Report, serviceability
4. Engage your outsourcing business partner to complete the background work on CRM
5. Once a lender is chosen, arrange an 'as is' and 'on-completion' valuation

Construction Loan Scenario

- Mary Jane owns a vacant land, and she wishes to seek for a construction loan for duplex, both would be for investment purpose.
- The valuation of the vacant land is expected at \$800,000. She has a current land loan of \$300,000 on Interest Only basis.
- Mary has already signed a Fixed Price Building Contract of \$1.2 Million. The construction will cost \$600,000 for each unit in the duplex.
- She has already arranged the plans and permits to proceed with the construction and now looking for funding. Client has savings of \$300,000 that she would like to contribute to reduce the ongoing interest cost.

Construction Loan Scenario cont...

- Mary Jane wishes to borrow \$300,000 to refinance the current loan as well as funding for the construction.
- She wishes to retain both properties as investment. Rental appraisal has been provided with rental estimate of \$4,000 per month
- She is expecting both properties to be valued c\$2.0M upon completion
- She is a PAYG employee on an annual income of \$220,000 plus last two years bonuses were \$60,000 and \$80,000 respectively.

Loan Structure

Loan 1

Borrowers: Mary Jame
Purpose: Refinance land loan
Loan amount: \$300,000
Repayment: Interest only for two years and then P&I
Variable rates with offset feature only

Loan 2

Borrowers: Mary Jane
Purpose: Construction loan
Loan amount: \$840,000
Repayment: Interest Only for two years and then P&I
Variable rates with offset feature only

Cost to Complete

Mary Jane		Cost to complete	
Fixed Price Building Contract (FPBC)	\$1,200,000.00	Including GST	
Total Construction Cost for duplex	\$1,200,000.00		
		Paid by the client	Bank Finance
Deposit (5%)	\$60,000.00	\$60,000.00	\$0.00
Site prep (10%)	\$120,000.00	\$120,000.00	\$0.00
Base Stage (15%)	\$180,000.00	\$180,000.00	\$0.00
Frame Stage (20%)	\$240,000.00	\$0.00	\$240,000.00
Lock up Lower (20%)	\$240,000.00	\$0.00	\$240,000.00
Lock up Upper (10%)	\$120,000.00	\$0.00	\$120,000.00
Fixing Stage (10%)	\$120,000.00	\$0.00	\$120,000.00
Final Payment (10%)	\$120,000.00	\$0.00	\$120,000.00
Total Building Contract	\$1,200,000.00		
Total Construction Cost for duplex	\$1,200,000.00		
Other ancillary cost	\$0.00	\$0.00	
Total cost	\$1,200,000.00		
Customer payments		\$360,000.00	
Bank to pay			\$840,000.00

Security

- **Property Valuation:** Current land value: \$800,000
- **Expected post-construction value:** \$2.0 million for both units (duplex) Construction cost: \$1.2 million (\$600,000 per unit).
- **Current land loan:** \$300,000 (Interest Only).
- Mary Jane has \$300,000 in savings to contribute while reducing loan requirements and overall interest cost.
- Mary Jane seeks to borrow \$300,000 to refinance the current loan and fund construction.

Security Cont....

- **Current equity in land:**

\$500,000 (after deducting the \$300,000 land loan from \$800,000 value)

Future equity: Upon completion, based on the \$2.0M valuation, significant equity will be created, providing robust security for the loan.

- **Proposed rental Income:** \$4,000 per month for both units, providing income to cover loan repayments.
- **LVR post-construction:** Post construction LVR will depend on the total loan and final property valuation, with significant equity likely retained.

Valuation estimate

Valuation	
\$800,000	Vacant Land
\$1,200,000	Total Construction Cost for duplex
\$2,000,000	Valuation on completion basis
80%	Loan to Value ratio
\$1,600,000	Maximum Loan at 80%
\$840,000	Construction Loan at 80%
\$840,000	Total Loan

1. On a construction of this nature, most banks will be able to assist with a loan of 80% of on-completion valuation.
2. Best practice is to arrange the valuation upfront
3. Loan structure will depends on Needs and Objectives

Valuation Types

- 1. Contract of Sale
- 2. AVM -Automated Valuation Model
- 3. Desktop Valuation
- 4. Kerbside valuation
- 5. Short form valuation
- 6. Long form valuation
- 7. On completion valuation

On completion Valuation

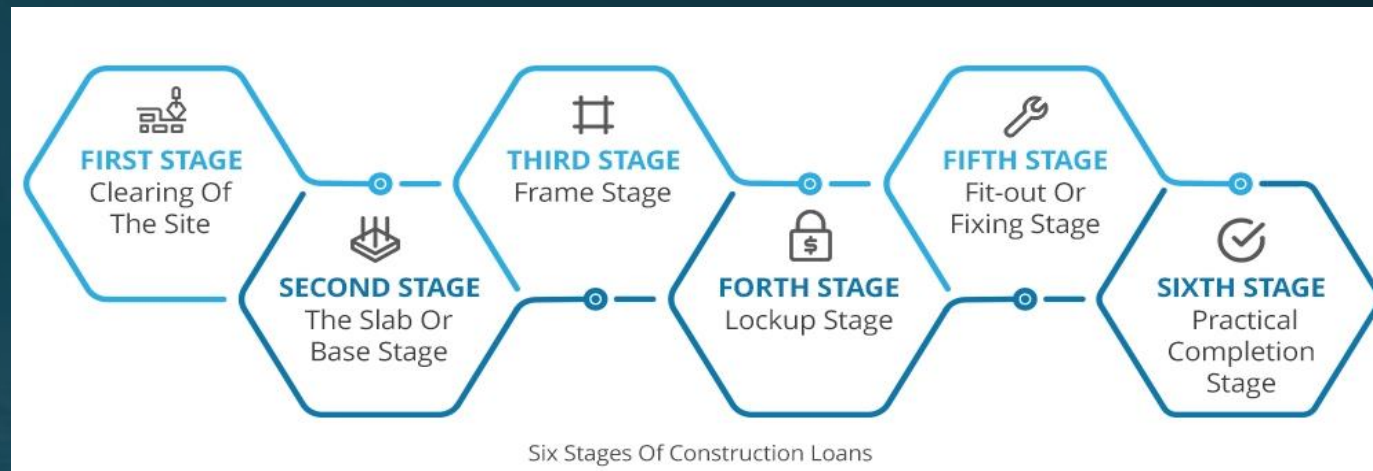
- A valuation is an opinion about the market value of a property asset at a specific date, by a person authorized to undertake valuations for security purposes.
- The Valuer will supply BOTH a “as is (land only)” and “on completion” Valuation Report to the Lender. The security value for construction loans is based on the value of the land, plus the construction cost, as if it is completed.
- If you are buying a house and land package, the valuer will value the finished property as if it is completed.
- This is generally termed as “On Completion valuation”, although some valuers may call it a “Tentative On Completion” or “As If Complete valuation”.

What is a type of insurance is required for a construction loan by most banks?

- Builder's Construction /Contract Works Insurance
- Public Liability Insurance of the Builder
- Domestic Builder's Warranty Insurance
- Upon completion, bank may seek building insurance

What is progressive drawdown?

- Progress payments are individual payments, drawn on your loan at each completed stage and paid to your builder.
- Any customer contributions generally paid upfront before bank funding is available on Cost to Complete basis.



Progress Payment Process

- Before construction begins, the builder will prepare a contract outlining each construction stage and associated costs.
- The broker then assists with progressively drawdown the loan to pay the builders' costs at each stage.
- Send through a builder's tax invoice that has been signed and authorized by the client with all supporting documents.
- The lender will process this, and generally the client receives an email from the bank or broker confirming the payment has been made.
- If progress inspection is required, the Bank will inform the broker and/or the customer via email when it's arranged.
- The number of drawdowns or progress payments will depend on the loan structure, generally in line with FPBC on Cost to Complete basis.

Progress Payment request from Oceania Outsourcing Team

Signed_Fixout-217961.pdf
243 KB

Hi Macq Construction Team,

Submitting progress request on behalf of the broker [Broker name & ID] for [Client Name & Property Address]

Please find the request for claim of Fixing Stage along with the invoice.

Kindly arrange the payment of the Fixing Stage invoice of \$76,258 from the loan account ending: **XXXX**

Client Name

Fixed Price Building Contract (FPBC)	\$305,031.00	Including GST	
		Paid by the client	Bank Finance
Deposit (5%)	\$15,252	\$15,252	\$0
Base Stage (10%)	\$30,503	\$0	\$30,503
Frame Stage (15%)	\$45,755	\$0	\$45,755
Lock up Stage (35%)	\$106,761		\$106,761
Fixing Stage (25%)	\$76,258		\$76,258
Final Payment (10%)	\$30,503		\$30,503
Total Building Contract	\$305,031		
Total cost	\$305,031		
Bank to pay			\$289,779

Please contact us if you need or have any further clarification. Appreciate your usual support.

Thank you.

Example of Progress Payment Invoice

Builder's invoices need to match the Building Contact/Schedule (FPBC).

These are used to confirm customer's authority for the lender to release the money to the builder.

Claim for Progress Payment

Tax Invoice

15-Jul-2024
Invoice No:
Our Reference:

RE: CONSTRUCTION OF RESIDENCE AT

Claim No : 5
Stage being Claimed: Fixout
Amount of this Claim (incl GST): \$76,257.75
Outstanding Balance of Previous Claims: \$0.00
Total Claimed: \$76,257.75

Summary

14-Nov-2023	Deposit	\$15,251.55
28-Mar-2024	Base	\$30,503.10
22-Apr-2024	Frame	\$45,754.65
28-May-2024	Lockup	\$106,760.85
15-Jul-2024	Fixout	\$76,257.75

Total Claimed (incl GST)	\$274,527.90
Less Amount Received	\$198,270.15

TOTAL DUE AND PAYABLE \$76,257.75

Please Authorise and forward to your lender (If Applicable) for prompt payment.
Your co-operation in this matter will ensure construction is not delayed due to payment delays.

Terms: Period for Payment of progress claims is 7 days.

Payment Method is Direct Credit to our Bank Account

I authorise payment of this invoice



15/07/2024


Please ensure either Your Name or Our Reference or Invoice No is provided on your EFT.

Construction Loan Compliance

1. Signed Credit Guide and Privacy
2. Signed SOCA
3. Equifax (Credit Reports) - for all applicants for that deal
4. Identification Documents - 2 ID per applicant
5. FD for income verification - PAYG
 - 2 pay slips per applicant
 - income statement/ NOA/ Tax returns
 - Bank statements showing salary credits
6. Rental Income - if rental income was used for servicing.
7. Bank statements for expenses
8. **Fixed Price Building Contact**
9. Bank application form
10. Serviceability calculator
11. Proposal note

FAQ

1. Are Construction Loans complex?
2. Can a broker provide advice on Construction Loan set up?
3. Does NCCP Act apply to Construction loans?
4. How do I pay the builder?
5. How much deposit do I need?



How can Oceania Outsourcing Team assist with Construction Loans



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Review by Our Wonderful Brokers:

“Just wanted to thank you and your team for the great support thus far. My business is growing, and your teams support has really helped Very happy with the service thus far.

Cheers”

- Ryan Davis

“I just wanted to let you all know how much I appreciate your help and support :)

I have made so many changes and I am really enjoying working just as myself again and I couldn't do it without you all, so a huge Thank you! 🙌👍 😊”

- Kara Collins

“Thanks, another big thank you to all the Oceania team!

👏👏 Definitely a great team effort to get this result, really appreciate all your help”

“Thanks for all your help this year, it's been a great help to my business. Looking forward to working together in 2024”

- Merrick D'Souza

Mortgage Broker Outsourcing



You have established a regular deal flow and are enjoying an increased demand for your services.



Your business is constrained in the processing function that is preventing growth of your business.



You are looking for more loan processing support to free up time to grow your client base further.

Manage your accomplishments with Oceania Outsourcing



Save 6-10 hours per deal by delegating your processing to a dedicated resource in Fiji with leaders based in Melbourne.



Allow your local team to focus on higher Return On Investment and start scaling your business.



More individual capacity to improve work-life balance.

LOAN PROCESSING SERVICES – Process Flow – Oceania Outsourcing

- **GATHERING INITIAL INFORMATION > BROKER**
 - Broker interviews a borrower and structures a deal. (Best Practice – draft proposal notes to the OO Team)
- **SENDING LOAN APPLICATION FOR PROCESSING > BROKER**
 - Broker will send Oceania Outsourcing the Cover Letter, Fact Find and supporting documents by uploading files to Google Drive/ Dropbox or aggregator software. Broker to select the lender/s.
- **APPLICATION PROCESSING > Oceania Outsourcing**
 - We will check your supporting documents.
 - Enters new deals in CRM and checks if the documents are acceptable (according to lender checklist).
 - We recommend Brokers to order valuation and Pricing and prepares Serviceability Calculator.
- **GENERATING OUTPUTS and COMPLIANCE DOCUMENTS > Oceania Outsourcing**
 - We will Within 24 hours prepares the outputs and queries and sends them back to broker for review and signature collection.
 - Ask for the broker for missing info, further confirmation and clarification where required
 - Advises broker if loan structure needs to be adjusted according to lender policy and as per previous experience.
 - Processing outputs are:
 - NCCP documents,
 - Lender Serviceability Calculator (if required – Quickli ONLY),
 - Discharge Form (if applicable),
 - and other forms depending on lender requirements.

LOAN PROCESSING SERVICES – Process Flow continued

- REVIEWING OUTPUTS AND COLLECTING SIGNATURES > BROKER
 - Broker will arrange required signatures for compliance documents.
 - Broker will then send Oceania Outsourcing Team the compliance documents for the application to be moved to Apply Online (AOL). Broker may submit to AOL and ask for further assistance .
- APPLICATION LODGEMENT VIA AOL > Oceania Outsourcing OR Broker
 - Oceania Outsourcing Team will assist with AOL in line with the signed compliance documents.
 - Oceania Outsourcing Team can generate required bank applications and documents for the customers to sign.
 - Once customers sign the required documents, Oceania Outsourcing Team upload supporting documents for brokers lodge the application to the bank/lender via AOL
 - Broker to submit the application from AOL to the Bank/Lender unless you wish support from Oceania Outsourcing Team.
- APPLICATION PROCESSING AND FOLLOW UP > Oceania Outsourcing
 - Oceania Outsourcing Team will follow up the application via AOL.
 - Oceania Outsourcing Team will update the broker for any further info required by the bank.
- UPLOADING COMPLIANCE DOCUMENTS > Oceania Outsourcing / Broker
 - Oceania Outsourcing Team will be able to assist with uploading required compliance documents upon approval of the loan if the broker required assistance.

DEAL TRACKING > Oceania Outsourcing

- Oceania Outsourcing Team can assist with following up loan application with lenders, valuers, solicitors and builders. We recommend the broker to advise the respective parties of Oceania Outsourcing support.
- Sends outstanding documents to lenders when provided by broker and escalate, if required.
- Keeps the broker updated all the way to settlement.
- Oceania Outsourcing Team will not contact your clients for any reason.

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Pre-Submission: Tasks to Outsource

BROKER

Create Client files (Cloud Based Systems)

- Application File
- Workflow File
- Correspondence File
- CRM Opportunity

Track and Record Follow Up

- Track and record data from email & systems
- Edit Docs file type, size & format and. Save/upload
- Enter Data to CRM
- Follow up outstanding docs

Order Valuations and/or Pricing Per Broker Instruction

Check File ready for assessment

- Supporting docs on file named, compliant & legible
- Advise Broker file ready to assess
- Compliance Documents

Lead In

Initial Contact

Contact & follow up with emails with supporting docs

Broker Assessment

- Verify Data
- Complete Calculations
- Sign off ready for AOL

Prepare Draft Explanatory Notes to application

Upload Data to AOL

Prepare Draft email with supporting documents

Verify Data

- Amend notes or application details as required
- Submit to lender
- Send supporting documents to the lender

File to Settlement - See next process

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Post-Submission: Tasks to Outsource

BROKER

Process Tasks, Pre & Post formal Approval & Post Settlement

Status Changes

Track status changes (email, lender portals, document prep)
Update CRM same day
Complete Assigned tasks due to status change

Correspondence

Per broker direction. For example:

Lodgments Advice
Conditional Approval
Formal Approval
Documents Issued
Settlement Booked
Settled

Check Approvals for Accuracy

Check loan approval is consistent with the requested loan.
Alert Broker to any discrepancies between submission and approval

Record Notes in CRM

As per broker direction - Can be from emails, What's App or workflow notes

Complete Forms

broker direction. For example:
Discharge Forms
Pricing
Valuation Requests

Prepare Files for Audit

approved files for all compliance requirements
Drafting outstanding documentation email (sent directly to the broker for them to follow up)

Post Settlement

Post settlement forms. At brokers request, review rates, requesting pricing approvals from lenders

Pre-Formal Approval

If the file stops prior to Formal Approval, our team can notify the broker who will assist with answering required questions or provide info to the lender.

After Formal Approval

Meet with the client to assist with signing loan contracts.
Referral requests &/or testimonials.
Update file referral source on progress

After Settlement

Catching up with clients and referral sources
Adding additional services (insurance, car loans etc)
Business growth & development activity



Thank you!

Feel free to reach out if you require further support.

Nirosh Weerasinghe

Oceania Outsourcing

nirosh@oceaniaoutsourcing.com.au

0401976188

info@oceaniaoutsourcing.com.au

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