



Credit Policy

Building/Construction Loan

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Conditions For all Building/Construction Loans

- ▶ Construction loans (purposes 121/123/320) cannot have a non-construction purpose on the same loan. This means, loans with a non-construction purpose must be submitted as a separate loan to the construction loan. For example, Land and construction loans should be separated out into one land loan and one construction loan, rather than being combined. Interest-Only can be selected for the non-construction loan if the customer doesn't wish to be on Principal and Interest repayments during their construction.
 - ▶ Note: The two loans can be submitted under the same application where appropriate
 - ▶ Loan purpose 'additions and alterations of a dwelling' (143) is categorised as a non-construction purpose
 - ▶ Loan purpose 'construction of a dwelling, Other' (123) should be selected for applications with structural renovations
 - ▶ The progress draw feature needs to be added for all construction loan purposes. (320), (121) and (123) – Construction of a dwelling.
- ▶ Construction must be completed under a fixed price building contract unless the value of the building contract is equal to or greater than \$1 million, in which case Cost Plus contract may be considered.
- ▶ Dwellings are to be retained for personal investment or residential purposes and NOT built for the purpose of immediate sale.
- ▶ Construction loans must not be on an owner builder basis where:
 - ▶ borrowers are the directors of the company (or a party to the firm or partnership) issuing the building contract, or;
 - ▶ company/trust borrowers issuing the building contract on their own behalf
- ▶ Construction is restricted to a maximum of 4 dwellings on the same title.
- ▶ Where your customer is building three or four dwellings, the following policy will apply;
 - ▶ The customer's intention of the properties are to build and retain, and
 - ▶ The construction must be completed at arm's length by a registered construction company with a fixed price building contract, and
 - ▶ The construction of more than two dwellings to have a maximum LVR of 70%, and
 - ▶ A minimum contingency of 5% being held on top of the fixed-price building contract to mitigate any potential construction overruns. Where a costing report is required and the contingency stipulated is higher than 5%, the higher contingency percentage will apply; and
 - ▶ No LMI/LDP will be available.
- ▶ For progressively drawn loans, a draft building contract or builders tender, proposed finishes and specifications, draft building plans plus quotes for any 'Out of Contract' items must be provided by the broker on submission of the application
- ▶ An 'as if complete' valuation is required for all construction loans.
- ▶ For building contracts between \$350,000 and \$1,000,000 a progress payment inspection will be completed by a Bank valuer prior to making the first loan drawing when the building has commenced construction.
- ▶ For constructions costing > \$1,000,000 a progress payment inspection will be completed by a Bank valuer for every progress payment request.
- ▶ Construction loans will be progressively drawn according to the progress payment schedule.
- ▶ Customers should be made aware that they must use all of their own equity (e.g. personal savings or First Home Owners Grant, if applicable) before any progressive payments are made from their loan towards the construction.
- ▶ Construction must commence within 12 months from the disclosure date on the Consumer Credit Contract Schedule and be completed within 24 months from the first draw down. If not, approval of the loan or any undrawn portion of the loan may be withdrawn at the Bank's discretion

Additional requirements for building contracts > \$1 million

- ▶ A Costing Report will be ordered to obtain an independent confirmation of the cost of the construction. Costing reports may take up to 12 business days to be returned, please advise customers of this.
- ▶ A costing report usually includes a 5% contingency allowance. You must include this amount in the overall construction costs to support any unexpected increases in building costs. These funds are to be treated as additional customer contribution and the borrower/s will need to demonstrate they hold sufficient funds to complete and if used, receipts are required to confirm payment to builder. Any contingency allowance which goes unused during the construction will be released back to the customer/s once the final progress inspection has been returned 100% complete.
- ▶ Some contracts may include a retention clause where a percentage of the invoice is reserved in a separate account as per an agreement by customer and builder. Retention is not held nor controlled by the bank. Unless a second account is provided to the bank, invoices will be paid in whole to the BSB and account number on the invoice, the bank must pay the whole stage as per the progress payment schedule (if fixed price contract). Retention amount must be detailed on the invoice.
- ▶ Customer and/or builder must hold the retention funds themselves.

For personal borrowers only:

- ▶ It is acceptable to receive electronically executed building contracts including progressive payment schedules, contract variations and council stamped plans.
- ▶ Customers applying for any of the **First Home Owners Grant Schemes (FHOGS)**. Refer below for states accepting electronically executed Contract of Sale or Building Contract along with FHOG application.

States	Executed documents (Contract of Sale or Building Contract) for the First Home Owners Grant Schemes (FHOGS)
Australian Capital Territory (ACT) New South Wales (NSW) South Australia (SA) Victoria (VIC) Western Australia (WA)	Acceptable to receive electronically executed Contract of Sale or Building Contract OR Must physically sign the original document (Wet Signature)
Queensland (QLD) Tasmania (TAS) Northern Territories (NT)	Must physically sign the original document (Wet Signature)

- ▶ It is acceptable to receive digitally signed progressive payment invoices where the signature still resembles the customer's wet signature (e.g. using an iPad or stylus or previously scanning and saving a copy of the signature). Signatures created by typing are **not** acceptable. [See here for reference examples.](#)

For companies and trusts, it is not acceptable to receive electronically executed building contracts including progressive payment schedules and council stamped plans.

Out of Contract Items

- ▶ The Bank will accept up to 10 "Out of Contract" items per application so long as their total does not exceed of 20% of the Primary Building Contract amount.
- ▶ "Out of Contract" construction items are additional improvements or renovations being completed in conjunction with the construction of a dwelling that do not form part of the scope of fixed price building contracts with a primary builder. They are restricted to non-structural works, such as kitchen and bathroom prime cost items, and floor coverings etc. They may also incorporate ancillary improvements, such as swimming pools, pergolas and landscaping etc.
Note: Some out of Contract items such as Swimming Pools, Sheds etc. may require additional council approval and evidence will be required prior to funding the item.
- ▶ All additional work must be formally quoted for both supply and installation. These quotes must be provided to the Bank's Valuer completing the valuation at origination, to ensure they are included in the "as if complete" value of the property.
- ▶ CBA Mortgage Services will reconcile the total costs of the Construction project, (inclusive of "out of contract" items), to ensure all costs can be met by both loan funds and client's equity, prior to unconditional approval.

Prior to releasing loan funds for "out of contract" items, CBA Mortgage Services will ensure the following requirements are met:

- ▶ A formal Invoice from the Contractor confirming work is completed, has been received together with a letter signed by the client(s) confirming completion of work.
- ▶ Where any individual "out of contract" item is \$30,000 or more, a progress inspection from the Bank's Valuer will be obtained to confirm completion of work.
- ▶ Where the customer has paid the invoice and is requesting a refund, NetBank receipts are accepted for out of contract items where suitable payment account details are displayed. E.g. Name/Company, BSB and Account number. The invoice is to be provided along with the receipt.

Where there are variations or where "out of contract" items are not completed / required, resulting in undrawn loan funds, these undrawn funds will be withdrawn by the Bank. Where incomplete "out of contract" items do not pertain to the "fit out" (e.g. pergolas, driveways, pools etc.), an "occupation certificate" (or State equivalent), must be obtained prior to the completion of the construction loan.

Progress Payment Schedule

The customer must provide a progress payment schedule as part of the building contract. It must be confirmed that no more than 50% of the funds are used for deposit, slab and frame stages (stage 1 and stage 2).

Below are two examples of what a Progress Payment Schedule may look like:

Example 1:

Payment is required in five stages and these five progress payments total 100%:

1. Slab including deposit – 15%
2. Frame – 15%
3. Lock up – 35%
4. Fix – 25%
5. Completion – 10%

Example 2:

Payment is required in five stages and these five progress payments total 100%:

1. Slab including deposit - 15%
2. Frame - 15%
3. Enclosed - 35%
4. Fixing - 20%
5. Practical completion 15%

Construction of multiple dwellings

- ▶ Servicing cannot be reliant on the sale of one or more of the constructed dwellings

Note: Where the proposal is to construct more than one dwelling on the same title, potential subdivision cannot take place until the construction is complete. Therefore, the proposal should be considered on an "in one line basis", with the subdivision ignored for the purposes of the construction and the valuation. (i.e. we cannot consider the dwellings to be on separate titles and we cannot consider the potential security value once and if the dwellings are subdivided)

Care must be made to ascertain whether or not the proposed construction is part of a split contract for multi property developments. Where the security is identified as being part of a split contract for multi property development, the loan must be treated on an 'Off the plan' basis, with no loan funds to be released until the development is completed.

Construction Loans in a Company/Trust (or Firm or Partnership)

- ▶ Servicing must be demonstrated using independent and ongoing income (i.e. Where the applicant derives their income from regular salary/employment or business
- ▶ Proposed rental income can be considered for servicing purposes but should be supplementary to main income source

Note: Where the applicant derives their income from property development, the purchase and sale of property and/or they need to sell a completed dwelling to make the application viable, the proposal is not acceptable as a Home Loan or Investment Home Loan.

	Acceptable	Excluded
Applicant	AJ Smith Family Trust	TJ Development Trust
Director Occupation	Doctor	Engineer/Builder
Income Source	Medical Specialist- income derived from medical activities	Construction/Capital Gains- income derived from construction
Purpose/Driver	Increase Property Portfolio- Looking to retain properties and obtain rental income	Make a profit- Looking to build with a view to generate short term profits from the sale of dwellings
Servicing	Servicing can be demonstrated based on income from medical practice. Income position will be enhanced by the constructed dwellings.	Servicing is reliant on business activities and potentially the income potential may be impacted by the construction with sale price fluctuations

Costing Reports

A costing report to confirm the validity of a contract price with progress payment inspections at each stage will be required for residential buildings being constructed under a signed contract when any of the following circumstances arises:

- ▶ The contract price is out of line with the work being done.
- ▶ The contract price is not fixed (e.g. rise and fall) and is more than \$1 million
- ▶ The fixed price contract price is more than \$1 million.
- ▶ The construction type is uncommon either because the building site or the architectural design has features likely to give rise to unusual costs.

Note: We will not accept a non-fixed or cost plus contract where the contract is \$1 million or less. Customers with non-fixed or cost plus contracts should be advised that they must ensure they have equity available to cover the price fluctuations.

Acceptable Building Contracts

Contract amount	Acceptable contract
Up to and including \$1 million	Fixed Price building contracts
Greater than \$1 million	Fixed Price or Cost-Plus building contracts

Fixed Priced contracts

A fixed price contract is a contract in which the builder has agreed to complete the work for an agreed fixed amount.

Generally the contract provides for payment of an agreed amount with a provision for adjustments. Adjustments may be made for:

- ▶ Variations to the work
- ▶ Extra costs incurred as a result of certain delays
- ▶ Variations in the cost of the work for certain unexpected difficulties in performing the contract, or
- ▶ Latent ground conditions.

Note: This type of contract is still known as a fixed price contract.

Rise and Fall clauses may be included within a fixed price building contract, this enables the builder to pass on fluctuating input costs to the customer based on an agreed formula within the building contract. Rise and Fall clauses may appear as a separate section within the building contract or embedded within the Progress Payment Schedule. The rise and fall clause is an agreement between the customer and the builder and the customer will have to fund any increased costs unless there is a surplus in the construction loan to cover the increase. If the client cannot source funds themselves, they would have to submit a new application and still meet servicing requirements.

Note: In Victoria and Western Australia, Rise and Fall clauses are illegal for contract sums under \$500,000.

Variations to a Fixed Price building contract.

- ▶ Brokers must confirm and provide the bank with any variation to the building contract.
- ▶ Brokers must provide a physically signed (wet signature) variation document by all parties (builders signature not required) on the original building contract to the Bank which includes a specific breakdown of all changes for review
- ▶ Prior to the first/upcoming progress payment, the customer is required to fund any debit variation to the contracted amount (increasing price of the contract), prior to the bank releasing funds.
- ▶ If there is a credit variation to the building contract (reducing the price of the contract), the bank will remove undrawn funds from the loan by the amount of the variation, unless the item removed is replaced by an Out of Contract (OOC) item deemed 'like-for-like' by the bank. Otherwise, it is an item which has not been assessed as part of the valuation and dollar value may not correspond to 'on complete' value to the property.

E.G. Customer removes \$20,000 fully ducted air-con system from contract and replaces it with an OOC split-system worth \$8,000. Customer spends the \$12,000 credit on bathroom upgrades. The bank will remove \$12,000 from the undrawn funds and the customer must pay for the \$12,000 OOC bathroom upgrades prior to the bank releasing any more funds, as only \$8,000 could be verified as 'like-for-like'.

NOTE: As per the Usual Terms and Conditions we reserve the right not to pay any construction loan drawing if the customer has made variations without bank approval to the building contract.

Cost Plus-Contracts

A cost-plus contract is a contract where a builder obtains material and services throughout the stages of the building process and costs are passed to the owners, with an agreed margin to cover overheads and profits

Building contracts where the price is not fixed represent an increased risk to both the customer and the Bank as the cost may increase significantly and this could result in the customer having no access to further equity or borrowings to complete the construction. The customer should have access to substantial additional equity, borrowings or surplus funds to cover increased costs, should they arise.

How to Identify a Cost-Plus Contract (Non-Fixed Price contract)

- ▶ Front page of the building contract to state cost plus-contract or simple works contract
- ▶ There will be no actual progress payment schedule
- ▶ The contract will note progress payments to be paid on a monthly basis
- ▶ Where architect details are included in the building contract this could mean they would be overseeing the project.

Simple Works Contract (Fixed Price Contract)

- ▶ Simple Works is a fixed price contract which is not on a staged basis, but progressively paid on a frequency basis for completed works (commonly fortnightly or monthly).
- ▶ As progress payments are not released on a staged basis, costing progress reports are required for every invoice. This is because Quantity Surveyors can verify the works completed where a progress payment schedule is not specified in the contract, while valuers cannot. When identifying a Simple Works contract the front page of the building contract will usually state 'Simple Works Contract'. If not and the contract is fixed price but has no progress payment schedule, it may be a Simple Works contract.

Termination of building contract

For builders who have been terminated or gone into liquidation we are required to collect additional documentation to enable the build to proceed.

Note: The bank will not accept the customer becoming an owner builder to complete the build. The below requirements must be adhered to.

- ▶ The following documents are to be obtained and forwarded to the bank CC LPCNSWFundings@cba.com.au:
 - ▶ Termination agreement/letter to advise the original contract is no longer in effect (a statutory declaration can be accepted from the client where a termination agreement cannot be provided)
 - ▶ New builders fully executed building contract
 - ▶ Confirmation from new builder that council approved plans and specifications have not changed
 - ▶ Public liability insurance and builders contract of work insurance

A new valuation will be ordered by Progress Payments to ensure lending obligations are met. Once confirmed new commencement letter will be issued.

Note: Any shortfall will be required to be paid by your customers own funds prior to the bank releasing Home Loan funds

Insurances

- ▶ Builders Contract of Works Insurance covers the loss or damage to materials and work during the construction period.
 - ▶ The builder/tradesperson must hold this insurance.
 - ▶ the policy must include:
 - ▶ Insurance amount equal to the Building Contract Price
 - ▶ Name of owner
 - ▶ Address of construction property or 'Anywhere in Australia'. Variants to this description may include but are not limited to:
 - ▶ 'Australia wide', or
 - ▶ 'anywhere in ', or
 - ▶ 'within the boundaries of Australia and its territories', or

▶ 'anywhere from to but including '

▶ Expiry date

- ▶ Public Liability insurance must include all of the above but the insurance amount must be for a minimum of \$5 million. It should also state the insured party as the building company carrying out the work at the security address.

Note: If any of the above are not on the policy the Broker must contact the customer and advise that they must provide an acceptable insurance policy.

Valuations and Inspections

Valuations are required at the following stages of the Construction loan process:

	At Credit Decision stage	\$0-\$350,000	\$350,001 - \$1,000,000	\$1,000,001+
Fixed Price Building Contract	As if complete valuation and Costing Report (for >\$1,000,001+ only)	Final stage only - inspection	First and Final stages - inspection	All stages - inspection Note: Where work completed cannot be verified or cost to complete is not in line with original contract a progress costing will be ordered. Inspections will be reverted to progress costing for the remainder of construction
Cost-Plus Building Contract	As if complete valuation and Costing Report	N/A		Final stage - inspection and All stages - progress costing
Simple Works Building Contract	As if complete valuation and Costing Report	Final stage - inspection and All stages - progress costing		

Note: Fixed price building contracts where the progress payment schedule is not structured into milestone stages will be treated as simple works contract for valuation purposes

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