

Borrowers Guide Vacant Land and Construction Loan

1.1 Vacant land/construction loading

- A vacant land/construction loading will apply from the initial loan drawdown until completion of a dwelling.
- When a dwelling has been satisfactorily completed, all final progress payment conditions complied with and all funds have been drawn, the vacant land/construction loading will be removed.
- Refer to section 4. of this document for the vacant land/construction loading amount that will apply to your loan.

1.2 Funds for Vacant Land settlement

- The total amount of land loan funds will be made available for land settlement.
- In the instance where your loan incorporates a vacant land and a construction component, the amount of funds retained by the Lender will equate to 100% of the fixed price construction cost. The balance of funds will be available for land settlement. In all instances your contribution must be used first.

2. Construction loans

- The calculation of the maximum loan amount available is based upon the lower of the total cost of the project (i.e. land value plus contract price) and the Acceptable Valuation of the completed project.
- The maximum loan advance available to You may also depend on other criteria as determined by the Lender.
- An Acceptable Valuation must be provided.
This same valuer must undertake progress inspections of the property throughout the construction period and prior to any progress payment claim being processed.
- The construction of the residential dwelling must be completed within 12 months from initial progress payment drawdown.

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2.1 Vacant land/construction loading

- A vacant land/construction loading will apply to all funds being advanced by progress payments for the construction or renovation of a residential dwelling.
- When the dwelling has been satisfactorily completed, all final progress payment conditions complied with and all funds have been drawn, the vacant land/construction loading will be removed.
- Refer to section 4. of this document for the vacant land/construction loading amount that will apply to your loan.

2.2 Construction conditions

- Following initial loan drawdown and before any further advance is made You must provide the Lender with the following documents. These documents must be acceptable to the Lender and include all of the required information:
 - (i) a copy of the Fixed Price Building Contract clearly stating the contract price, signed by all parties;
 - (i) a copy of the stamped council-approved plans and specifications;
 - (ii) a copy of the Builders All Risk Insurance Policy, for an amount not less than the contract price;

The policy must include the interest of Perpetual Trustees Victoria Limited as the mortgagee (master policies excluded), the name of the borrower and address of the property being constructed;
 - (iii) a copy of the builder's licence or registration certificate (BSA in Qld); and
 - (iv) a copy of the Home Owners Warranty Certificate for an amount not less than the contract price. (BSA Insurance in Qld).

The certificate must include the name of the borrower and the address of the property being constructed.

2.3 Construction loan funds retained by the Lender

- The Lender will retain from the loan amount, funds equal to 100% of the Fixed Price Building Contract, to ensure adequate funds are available to satisfactorily complete the construction of the dwelling.
- Funds will be retained on a cost-to-complete basis, based upon the written recommendation of the Lender's panel valuer.
- Where You are not borrowing the total amount of the construction cost, You are required to use your funds first.
- The Lender **may**, at its sole discretion, allow a maximum amount of 5.0% of the building contract price to be advanced prior to first progress payment, based upon the criteria noted below. These funds can **only** be used to pay the deposit to the builder.

Where the deposit has not been paid:

The Lender will pay the builder directly, upon acknowledgement from the builder that the payment forms part of the previously advised contracted price. The payment will be made after settlement of the land but prior to the first construction progress payment. These funds will not be released for land settlement.

Where the borrower has already paid the deposit to the builder:

The funds will be made available at land settlement. The Lender will require the builder's acknowledgement of the payment of the deposit.

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- If You have paid a deposit to the builder and have used your own funds for land settlement, the Lender WILL NOT release any funds as reimbursement to You.
- Where the deposit is greater than 5.0% You are required to fund any deposit shortfall. Alternatively, You may be able to negotiate with the builder to defer the payment of the balance of the deposit, until the construction commences.

2.4 Progress payments

- The construction loan will be advanced by progress payments.
- A valuer's inspection must be conducted for each progress payment claim and include in the report comments on the stage of works completed and the cost to complete the construction in accordance with the Building Contract.
- Interest will be calculated daily on the outstanding balance of the loan account and debited to the loan account at the end of each month.
- During construction You are required to make regular monthly interest-only repayments. Your Mortgage Manager will regularly advise you of the amount of these repayments.
- The Lender will NOT allow interest to be capitalised until completion of the dwelling.
- During the construction period your interest rate is increased by the vacant land/construction loading.
- After the final progress payment is made the dwelling has been satisfactorily completed and all final progress payment conditions satisfied, the interest rate will reduce by the amount of the vacant land/construction loading. At this time your loan will also revert to the loan product type and repayment frequency originally selected.
- The Lender has the right to refuse to make a construction progress payment if at the time that a request is made You are in default under the loan or the security.

2.5 Building contract progress payment schedules

- It is important to consider that the Lender and its valuation panel use the housing industry recommended percentages to determine the percentage of the total contract price required to complete each stage of the construction.
- Where your building contract does not meet with these recommendations the Lender is NOT obliged to amend its policy and pay any claim to your builder that exceeds these amounts or the amount advised by its panel valuer.

You must make up any shortfall or You may negotiate with your builder to accept a lesser amount for that particular stage of construction. This should only be a temporary situation, as the Lender has retained 100% of the contract price. Any shortfalls will generally be caught up as the project progresses. Where you have made up any shortfall to the builder the Lender will reimburse you from subsequent drawdowns.

- The housing industry uses the following percentages as a guide for each stage of construction. These percentages are of a general nature and cannot be applied to all situations e.g. multi-story or unique properties.

Stage	Percentage of contract price
Slab/Base	10%
Frame	15%
Lock up	35%
Fit out	25%
Practical completion	15% less deposit

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2.6 Progress payment conditions

- When a progress payment is required, You must comply with the following requirements.
You must:
 - (i) provide a written request for the progress payment to your Mortgage Manager (i.e. letter, fax header or builders invoice). Your Mortgage Manager will liaise with the Lender;
 - (ii) provide a valuer's certificate from an approved panel valuer, confirming the stage of works completed and a "cost-to-complete" figure. Your Mortgage Manager will arrange this; and
 - (iii) provide a copy of the builder's progress claim or invoice, and such other information about the builder's payment request for works done to the dwelling as the Lender may require.

Note: the Lender will **only** advance funds for works that have been completed. It will not advance funds for materials purchased or delivered on-site but not incorporated into the structure.
- The amount of the advance requested must not exceed the amount of the builder's progress claim, and not result in insufficient funds remaining available to complete the dwelling. The Lender will be guided by the valuer's cost to complete figure, which may vary from the builder's claim or estimate of works done. If there is a shortfall in the claim paid this will generally be covered by subsequent claims as the Lender retains 100% of the fixed price contract price.
- All valuer's progress inspection fees are deducted from the funds available and will affect the amount of the progress payment paid to the builder. You will have to make up this shortfall.

2.7 Final progress payment

- When You require the final progress payment claim You must provide to the Lender:
 - (i) an Acceptable Valuation stating that the property has been **completed** in accordance with the relevant plans and specifications i.e. no outstanding works. Your Mortgage Manager will arrange this;
 - (i) an Occupancy Permit, acceptable to the Lender in respect of the building works, and any other permission that is required by any relevant authority in relation to the occupation of the land (not applicable in S.A. or W.A.);
 - (ii) a Building Insurance policy or Certificate of Currency for an amount not less than that recommended by the Lender's panel valuer.

The Lenders settlement agent will advise you of this minimum amount when providing your loan documentation. The policy must note the interest of Perpetual Trustees Victoria Limited as mortgagee.
- Notwithstanding the requirements above, the Lender may, in its absolute discretion, advance all but \$2,000 of the final builders claim if no occupancy permit has yet issued (not applicable in S.A. or W.A.) and all other final progress payment conditions have been met.
This means that You have to pay the remaining \$2,000 to the builder. The Lender will reimburse You once the council Occupancy Permit is received.
- When all final progress payment conditions have been met and/or if advice is received from You that the balance of the construction funds are not required the vacant land/construction loading will be removed.

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2.8 Progress payment processing

- Upon receipt of all of the required information the Lender will:
 - (i) Credit the progress payment claim amount to the bank account nominated by the builder.
The Lender does not take any responsibility for the accuracy of account information it receives;
- The Lender usually pays the claim within two business days of receipt of all of the required information.

2.9 Differences between progress payments claims and progress payments paid

The Lender will not release any additional funds over and above those recommended in writing by its panel valuer. (see section 2.6).

2.10 Variations to the Fixed Price Building Contract

- Where You have agreed to contract variations with your builder You must notify your Mortgage Manager immediately, who will promptly advise the Lender.
- Any variations may have an effect on the value of the security property. The Lender is the only party who can assess this. The Lender may require an updated valuation resulting in an amendment to the loan amount or funds provided to You.

3. Read loan and other documents carefully

The loan documents will contain more detailed provisions regarding, amongst other things, construction funding. You should read the loan and other documents carefully so that You understand your rights and obligations.

4. Vacant land/construction loading rate schedule

Vacant land/construction loading rate schedule	
Loading type	Loading amount applied
Vacant land/construction loading	0.25%