

# Building Loans: What are they and do you qualify?



Wanting to build your dream house or revamp your home? A building loan can provide you with the finances you need to make it happen, as well as improve the overall value of your property,

## Building loans explained

A building loan is used to finance the construction of a house on vacant land or to finance additions and renovations to an existing home. With building loans, it's important to bear in mind that a portion of the approved loan amount is retained by the bank and the funds are advanced to the borrower in stages as progress payments during the construction period.

"The bank will only make a progress payment against construction work already completed," emphasizes Etrechia van Dyk, Provincial Sales Manager at ooba home loans, South Africa's largest home loan comparison service. "It's vital that you choose a contractor who is financially stable as he has to fund the purchase of building materials and carry out the construction work until the work has reached a stage where a progress payment can be made by the bank."

## Do I qualify for a building loan?

- You must be at least 18 years old.
- You must have a clear credit record. You can use ooba home loans' free, online tool, the Bond Originator, to check your credit record. Don't panic if you have a low credit record, there are measures you take to improve your credit record.
- The finance must be used to build or alter a residential property.
- Of course, it's important that you're able to afford the monthly instalment of the bond.
- The contractor must be registered with the NHRBC (National Home Builders Registration Council) for all new dwellings.

- Homeowners will need to have cash for an upfront deposit, usually 10% of the cost of the project, to cover the difference between the cost of the project and the amount granted by the bank, unless you receive a 100% bond.

## What documents do I need?

- Provisional drawings for your house, including plans, sections, elevations, and a site plan. These will usually be drafted by an architect, and are required by the bank when you apply for a building loan.
- A building contract, signed by you and your chosen builder or contractor. This document will include details of the building materials being used, the budget assigned to each portion of the project, and plans approved by the municipality.
- Proof of the builder's registration with the National Home Builders Registration Council (NHBC).
- A lien waiver provided by the builder. This basically means the builder is waiving all rights to the property and any materials and labour used in its construction.
- An architect, to help you draw up the plans for the building.
- An attorney, to advise you on the legal implications, so you don't make any mistakes when securing your agreement with the building contractor.

## Taking precautions against property damage

An important step in the process is ensuring that the builder is covered by Contractors All Risk Insurance Cover, which protects the builder, the bank and the borrower against any loss or damage that may occur during the construction period. These may include fire, lightning, explosion, earthquake and storm damage, as well as the theft of building materials.

If the builder has his own policy, the bank requires a copy of the full policy wording as well as proof of South African Special Risk Insurance Association (SASRIA) cover.

Once the building is complete, it is recommended that you obtain home insurance, as the builder's insurance will only cover damage that occurs during construction.

## What is a turnkey property?

"A turnkey property is a newly-built dwelling where the homebuyer takes transfer of the property only once it is fully complete," explains Van Dyk.

With turnkey properties, the property transfer and bond registration take place on completion of the property and the full proceeds of the loan are disbursed as there is no retention. "When the home is finished, the bank conducts an inspection of the property to ensure that it is fully complete before providing their bond attorneys with consent to register the bond," says Van Dyk.

## A home in your own image

Whether you're building a home or renovating an existing one; for all the costs and legal processes involved, in the end you get a home that has truly been forged in your own image. It's also an opportunity to create a home that is up to modern standards, and able to incorporate the gadgets and gizmos that are becoming more prevalent in modern homes. Most of all, it can save you on any repairs or maintenance you may have had to conduct down the line.

Many home buyers like the challenge of purchasing an existing home and upgrading its value through smart renovations. If you have your eye on a property that you believe you could do some interesting work on, bear in mind that ooba home loans offer a range of tools that can make the home buying process easier. Start with their home loan calculators; then use their free, online prequalification tool, the ooba Bond Indicator, to determine what you can afford. Finally, when you're ready, you can apply for a home loan.

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