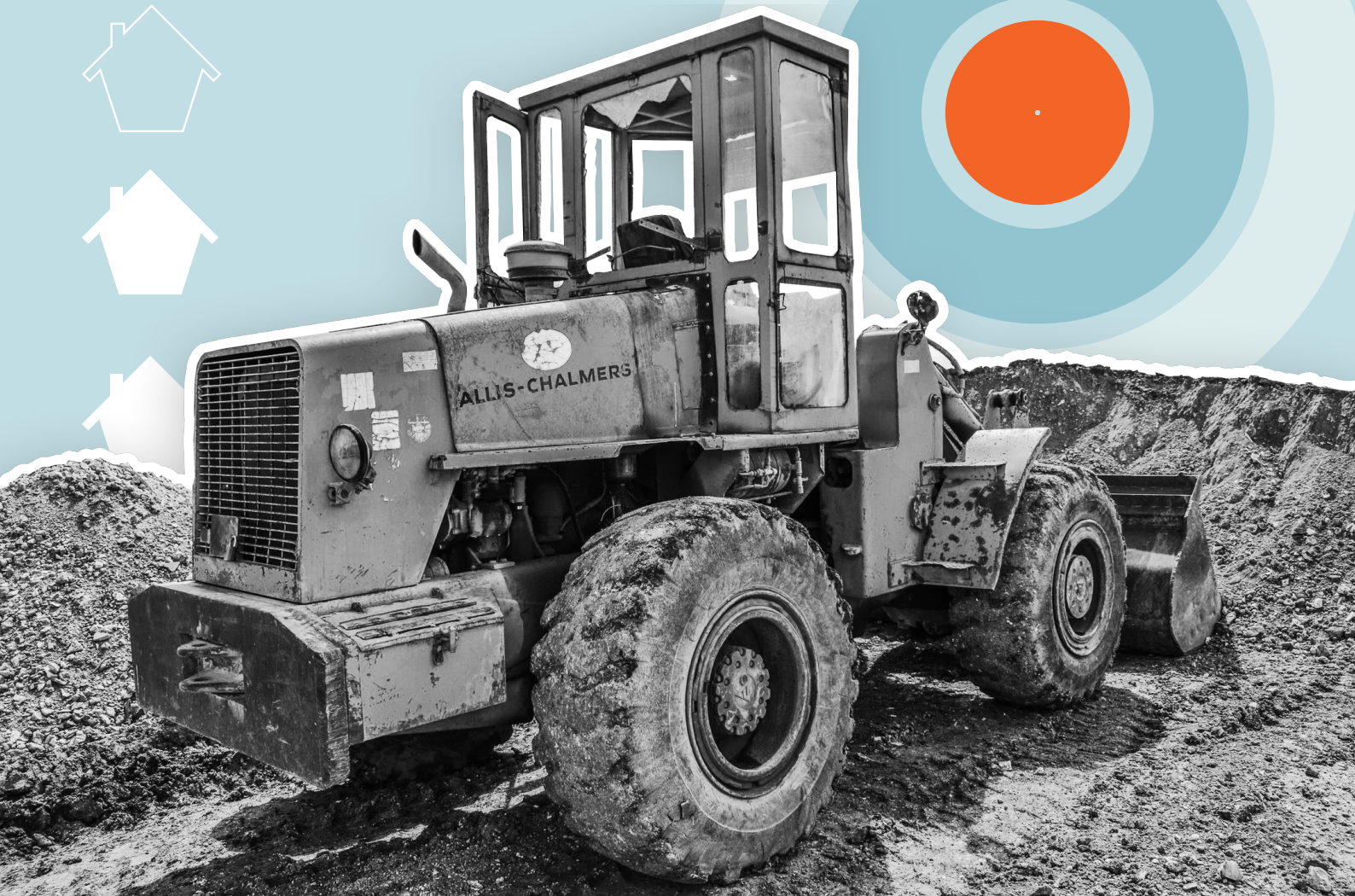
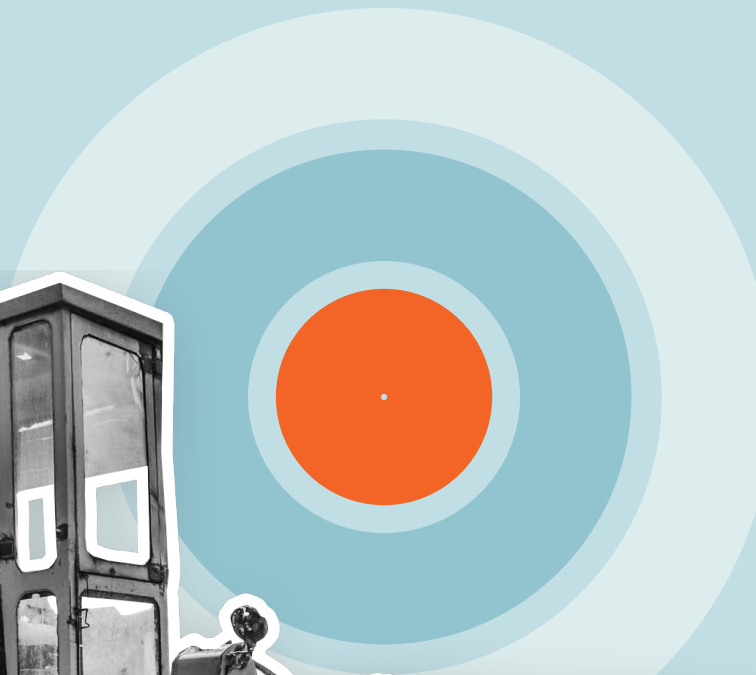


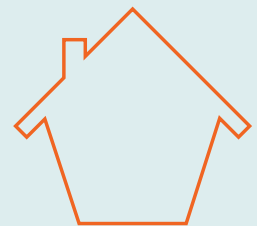
Your guide to buying a new build

Deconstructing construction lending



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The different types of construction lending

When you're buying a house that is a new build, we call this type of lending 'construction lending'. There are a variety of construction contracts available and it's important you pick the right one for you. Here are the three most common options:

Turnkey contract

This one benefits you, but it can make things a little harder for the builders. It's essentially a fixed-price contract between you and the builder that specifies a fully completed property, including landscaping, driveways, painting and flooring.

Things to note:

A turnkey contract is fixed, so all costs are decided up front.

In most cases as little as a 10% deposit is required (and some banks may even stretch to 5%) making this an attractive option if you've got good income but less savings.

Another advantage of a turnkey contract is that there are no loan repayments or interest payments until the property has been completed and settlement has taken place – so you've got more time to save.

'Land and build' contract

Builders love this type of contract.

The main difference with a 'land and build' contract is that the builder invoices you for progress payments at certain stages of the project. So, you settle on the land first, then once consent has been issued you'll start receiving the invoices from the builder. Mortgage repayments start as soon as you draw down the loan to settle the land.

Essentially, this means you're the one financing the build to completion, not your builder – and that's why you'll often get a lower price on a 'land and build' contract than a turnkey contract.

"Labour-only" or partial contract

We wouldn't recommend you sign one of these bad boys unless you're relatively experienced in construction contracting and know how it all works.

Common with kitset or relocatable homes, this type of contract comes in many forms, usually consisting of a range of sub-contracts managed by either the client or a project manager. There might also be a "labour-only" arrangement with the contractor.

Lending for a "labour-only" or partial contract is limited just to the land value, unless the buildings are already permanently fixed. This means you'll need to front up with a higher deposit of somewhere between 20%-50%, depending on the bank and the type of contract.

Other conditions for "labour-only" or partial contracts:

- Quotes for materials and subcontractors required up-front
- Progressive drawdowns are made against invoices
- Valuations for each drawdown stage are required to ensure any cost blowouts are identified early
- In some cases you may also need a Quantity Surveyor, but this will depend on the total cost of the build

Progress payments

Every construction contract includes a schedule, detailing the different build stages and when your payments will fall due. The specifics will vary depending on the type and nature of the build.

First up, a deposit will be required to secure the contract, normally paid by cash or equity. The amount can vary between build companies, so make sure you thoroughly check your build contract.

With progress payments, you'll typically receive an invoice from your builder, which should match up to the payment schedule of your contract. If you're happy that the works have been completed to a satisfactory standard, you'd then pass the invoice onto your mortgage adviser to manage processing with the bank.

Depending on your lender, your progress payments will be either be processed and paid directly to your builder, or the funds will be released to you to make the payment.

The below table gives you an idea of how payments might pan out over the course of a contract:

5% - 20%	Site works and foundations, permits and fees, architect fees (includes 10% deposit)
20% - 30%	Wall and roof framing - roof installed
15% - 30%	Internal and external lining, doors and windows, plumbing and electrical
10% - 25%	Room fit-out and finish, kitchen and bathrooms, floor and wall coverings
10%	Retention final payment made on the issue of Code Compliance Certificate (CCC)

Land value and banks



If you're not planning to build within the next 12 months, the bank will usually let you borrow between 50 - 80% on bare land (depending on your lender). If you are intending to build within 12 months, you can borrow up to 80% on the land and possibly even 90% if you already have a build contract in place.

If you're thinking about subdividing, this can get a bit complicated so it's worth talking to a specialist in this area.

Master Builders Guarantee



A Master Build Guarantee covers residential building work, full-contract and labour-only work carried out by a Registered Master Builder. Work by subcontractors, as well as materials and rot and fungal decay is covered, but conditions apply.

It's important to note that a Guarantee is not automatic upon hiring a Registered Master Builder. You'll need to complete the documentation with your own builder and ensure that it's sent through to Master Build Services.

Builders risk insurance



There's always a risk that something could go wrong over the course of construction, and so banks will ask for your builder to provide builders risk insurance – to cover you against the risk of fire, high wind damage, or other force majeure.

Useful information for first home buyers

How your parents can help

We know that coming up with the full deposit is no easy task. But did you know there are ways around this? One common solution is to tap into the “bank of mum and dad”, where your parents contribute to the deposit or become a limited guarantor.

The easiest option is for your parents to top up your deposit to the required amount.

The banks will want you to prove that you’ve managed to save at least 5% of the deposit on your own (which can include your KiwiSaver), but once you’ve got to that 5%, they don’t really mind where the rest comes from!

If your parents are acting as guarantors, bear in mind that you’ll still need to prove that you can afford the entire loan – including the portion that they’re guaranteeing. Independent legal advice will also be required for you, and for your parents as guarantors.

What are the risks?

The banks give mortgagees quite a bit of leeway. After three months of being behind on mortgage payments, lenders will issue formal notice. It takes roughly six months of non-payment to get to the point where a mortgagee sale is on the cards. As long as you’ve got the lines of communication open, there’s plenty of time to get things sorted before it comes to that.

Although the loan documents won’t say it specifically, if it comes down to it, the lender will sell your property first. Your property makes up most, if not all, of the loan value, so it makes more sense. Lenders also don’t want to risk their reputations, and selling out guarantors is a bad look.

But that said, if there’s still money owed after your property is sold (including any unpaid interest) the bank will start chasing your parents.

Minimising the risks for everyone is a matter of good insurance – income (or mortgage) protection and life insurance.

What if my parents want to sell their house?

As a guarantor their property will have a mortgage secured over it. In the event they want to sell, the security can be transferred to their new property, or some of the proceeds from the sale of their old property can be used as security (in the form of a term deposit.)

Gifting vs. a “loan”

Your parents can choose to make their contribution as either a gift or an interest-free loan. Most parents prefer the latter so that in the event their kid’s relationship ends, their deposit won’t be viewed as “relationship property” (not the most romantic, but it is a very smart move).

If your parents want to go down the loan route, we can sort them out with a Deed of Debt template – which they can fill in themselves and use with the banks.

In summary

The benefits of having a guarantor are that:

the loan is more likely to be approved

no low equity fees

no registered valuation requirement

better deal for the kids (market rates)

No registered valuation requirement on the loan pre-approval

The risks for a guarantor are:

your parents’ property is used as security by way of mortgage

How we can help

We’ll work with you and your parents to make sure the mortgage is manageable, that the risks are all under control, and to get a plan in place to remove your parents as a guarantor within 3-5 years.

Can I use my KiwiSaver?

If you are a first home buyer you can withdraw KiwiSaver contributions made by you and your employer to use as a deposit towards your new home. You can only do this if you've been on KiwiSaver for more than three years.

To be eligible to withdraw some or all of your KiwiSaver you must:

- › have been a KiwiSaver scheme member for at least three years;
- › be planning to live in the house for at least six months, and
- › be buying your first home.

What financial support is on offer for first home buyers?

As of 22 May 2024, the First Home Grant scheme has been discontinued, with Kāinga Ora no longer accepting new applications. That said, there are still other options out there for first home buyers who need additional support.

First Home Loan

With a Kāinga Ora First Home Loan you only need a 5% deposit, which makes getting into your first home just that little bit easier.

First Home Loans are issued by selected banks, building societies, and credit unions, and underwritten by Kāinga Ora - Homes and Communities. This allows the lender to provide loans that would otherwise sit outside their normal lending standards.

Some lenders may be open to doing a First Home Loan on a new build property – so it's worth having a chat with your lender to see whether this is possible, and what additional criteria may apply.

With a First Home Loan, there is a 1% fee charged by Kāinga Ora to the lender to insure these mortgages. This cost is passed on to the borrower and can be added to the loan.

To be eligible for a First Home Loan you need to meet certain minimum criteria:

- › Income cap: You can have a maximum yearly income of up to \$95,000 (before tax) for 1 person, or a combined maximum yearly income of \$150,000 (before tax) for 2 or more people.
- › Minimum deposit: You will need a minimum 5% deposit
- › NZ Citizen: You need to be a NZ Citizen or NZ Permanent Resident.
- › Be a first home buyer, or a previous home owner that is in a similar financial position to a typical first home buyer.

For more information and full eligibility criteria check out the Kāinga Ora site. (kaingaora.govt.nz/home-ownership/first-home-loan)

Currently saving for your deposit?

In addition to watching your KiwiSaver grow, try investing a chunk of your savings in peer-to-peer lending. Rather than it sitting in the bank earning next to nothing, with our P2P platform you can invest in home loans and construction loans and earn returns of up to 5.75% p.a. paid out monthly. And the great news is there's the option to sell it on in our secondary market, when it comes to getting it out to put down the deposit. Find out more at www.squirrel.co.nz/invest

First Home Partner

Applications for Kāinga Ora's First Home Partner scheme are currently on hold due to high demand - but if you're working towards buying in the medium-term, it's still worth knowing about.

First Home Partner is basically designed to fill the gap if the size of your deposit, plus what the bank is willing to lend you, isn't enough to get you into a home that ticks all your boxes.

As long as you've got at least a 5% deposit saved, Kāinga Ora will contribute up to \$200,000 or 25% of the property's purchase price, whichever is lower.

First Home Partner programme is a shared ownership scheme, so Kāinga Ora will co-own the property with you - at least at first. Part of the deal is that you'll be required to meet with Kāinga Ora regularly to work out a plan for you to buy back its share of the property.

To be eligible for the First Home Partner scheme you need to meet certain criteria:

- › You'll need to be a first home buyer
- › Income cap: maximum yearly household income of up to \$150,000 (before tax). This cap is the same for between 1 and 6 borrowers.
- › Minimum deposit: You will need a minimum 5% deposit.
- › You'll need to be a NZ citizen, NZ permanent resident or resident visa holder; or married to someone who meets citizenship or residency criteria.

For more information and full eligibility criteria check out the Kāinga Ora site. (kaingaora.govt.nz/home-ownership/first-home-partner)

Launchpad

If your income or house purchase price is above the caps mentioned earlier, then you might qualify for Squirrel's very own first home loan: **Launchpad**.

Launchpad is here to help buyers get onto the property ladder with as little as **5%** deposit, as long as you've got the income to service the mortgage.

To be eligible for Launchpad, you'll need to be able to tick these boxes:

- › First home buyer
- › 5% genuine saved deposit (includes KiwiSaver)
- › On PAYE or a self-employed contractor for at least a year
- › Intending to live in the property
- › Buying in a metro location

Find out more about Launchpad and apply online at squirrel.co.nz/launchpad



Squirrel.co.nz

0800 21 22 30

Squirrel helps Kiwis

with around \$3 billion of home loans every year. We have access to more lenders, and our advisers get paid the same no matter which lender you end up with – meaning the only motivation they have is to make you better off.

Got questions? Our advisers are happy to chat and our service is free to you.

Give us a call!

