

Getting Home Loans For Builders In This Pandemic

In today's economic condition, many people are apprehensive in taking out home loans for builders or any other type of mortgage. While the apprehension is totally justified, the recent events should not stop anyone from getting that project underway.

After the world went on a strict lockdown following the Covid-19 pandemic, many industries were badly hit in an exponential level that's never been seen before. While the property market remained relatively resilient, thanks to various fiscal stimulus programs by the government, many people remain adamant whether to buy a property or not.

However, regardless of the economic condition, getting a builder-owner loan or any other type of loan, can be very challenging.

What are builder-owner loans?

Builder-owner loans are for actual licensed builders who are trying to get a mortgage/construction loan for the building of their own home. Although in most cases, lenders consider them as being similar to owner-builders, they are practically different.

To put it simply, builder-owners are builders with registered building/construction companies that will undertake the project themselves. With this, some lenders see this as a risk because of lack of accountability.

Why is it difficult to get builder-owner loans?

As mentioned above, lenders consider these loan applications as risky ones because of lack of accountability, which lenders require before approving such a loan application.

It is a requirement for lenders that in cases where a builder does a terrible job in a project or doesn't complete the project at all, there should be a recourse that the client can take. Lenders also need to ensure that some safety precautions are in place should the builder themselves go bankrupt and won't be able to finish the build.

Security guarantee

To ensure that clients' interest is protected, builder-owners are required to have insurance and a contract, which stipulates they will finish the build.

The guarantee agreement also requires a safety net such as a presence of industry associations insurers or their own insurer, which will take over and complete the build if the builder-owner, for whatever reasons, doesn't fulfill under the terms of the contract.

Since the above and other points can be very restricting to most builder-owners, it becomes somewhat harder for builders to build their own properties unless they have a lot of cash or equity in another property elsewhere.

Working with experienced brokers

One of the key steps in getting your builder-owner loans approved is to work with a broker with proven track-record in this highly specialised area. With the stringent requirements from lenders for these types of loans, it's best to only work with your trusted broker that truly understands the ins and outs of this loan.

Intellichoice has specialized in helping these types of borrowers for the past 18 years as we had a long term association with the construction industry going back nearly 30 odd years, so are able to relate.