

Prefabricated construction

Access to progress payments during the offsite build stage

What are prefabricated homes?

Prefabricated (prefab) homes are built partially offsite in factories and then transported to be permanently affixed to your land. Common examples are modular and kit homes. Due to productivity improvements unique to offsite construction methods, prefab homes are generally much quicker to build compared to conventional construction.

How does it work?

To support customers looking to enter into a prefab build contract up to \$1.5 million, CommBank can support by providing construction loan funding while the prefab home is being built:

- Before the prefab home is affixed to the land, the total amount disbursed cannot exceed 120% of land value (less land debt) or 60% of build contract price, whichever is lower.
- Once the prefab home is permanently affixed to the land and connected to services, the remaining construction finance can be released to the builder (subject to all other relevant construction terms and conditions being satisfied).

Requirements

- Access to funds during offsite construction is only available for fixed price build contracts up to \$1.5 million.
- Builds which exceed \$1.5 million are only eligible to receive funding upon permanent affixture to land and connection to services.
- You must own, refinance or be purchasing the land on which the prefab home will be permanently located.
- The valuation assessment completed by us as part of finance approval, which must confirm that the prefab home will be permanently affixed to land upon completion.
- Upon completion, an inspection must confirm that the prefab home is permanently fixed to land and connected to all services such as water, power and sewerage.
- All standard construction documentation and policies apply – see here for details commbank.com.au/home-loans/construction-loan

Benefits

- Prefab construction timeframes are typically much quicker than conventionally built homes, given the advantage of building the home in a controlled factory setting.
- Receiving access to finance during the offsite construction period can mean that customers will no longer need to fund the initial stages themselves while waiting for land affixture.

Things to consider

- By requesting progress payments prior to the prefab home being affixed to the land, the land will be used as the sole security up until the prefab home is transported to site. In the event of builder non-completion or liquidation prior to the prefab home being affixed to site, this may result in negative equity and you will still be required to repay the construction home loan.
- Customer protections vary state to state in the event of builder liquidation, disappearance, or death prior to completion.
- Before making a decision in relation to whether this type of construction arrangement and loan type is right for you, we recommend that you seek independent legal and financial advice, including advice about building warranty insurance or other insurances that may cover potential risks and impacts to your financial situation.

Example scenario

A customer, Tim, is wanting to purchase vacant land to build a prefab home on. The land is valued at \$300,000 and he will contribute \$140,000 in cash and obtain a land loan for the remaining \$160,000.

The new prefab home costs \$350,000 to build and Tim needs to borrow the full \$350,000 amount.

The progress payment stages in the build contract cannot exceed the maximum dollar value which can be released prior to the stage where the home will be affixed to land and connected to all services.

Once advised of final completion, an inspection is conducted by the bank to confirm that the dwelling is completed, permanently affixed to site, and connected to all services. Once this has occurred and all other relevant construction terms have been satisfied, the remainder of the construction finance can be released.

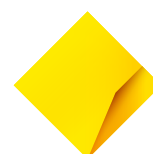
In this example, upfront stages can be claimed up to \$200,000 prior to final completion inspection.

Funding calculations:

120% land value threshold	\$200,000 (land value x 1.2, less land loan)
60% of contract price threshold	\$210,000 (build contract price x 0.6)
TOTAL funding available prior to the home being affixed to land	\$200,000 (lower of the two)



Stage:	Cost:	Funds released:
Deposit	\$17,500 (5%)	\$200,000
Site Prep and Base	\$35,000 (10%)	
Frame	\$52,500 (15%)	
Lock up	\$95,000 (27%)	
Final completion (fixing, delivery, permanent land affixture and connection to services, practical completion)	\$150,000 (43%)	\$150,000
TOTAL:	\$350,000	\$350,000



Things you should know

This guide doesn't consider your individual objectives, financial situation or needs. Before basing any decisions on this information please:

- Consider its appropriateness to your circumstances.
- Consider obtaining professional advice specific to your needs, including financial, taxation and legal advice.

Loan applications are subject to credit approval and any loan offer includes full terms and conditions. Fees and charges apply – see our fees and charges brochure. All examples and scenarios are illustrative only. This guide is subject to change without notice.

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