



## Construction loan

### Introduction

Building or buying your own home is a major undertaking that requires careful financial planning. Construction financing is used for mortgage-backed funding of new buildings, conversions, expansions and renovations. With a construction loan, building projects can be implemented quickly and easily with the form of financing that suits your needs.

### A construction loan is different from a mortgage

Construction financing is used for mortgage-backed funding of new buildings, conversions, expansions and renovations. Unlike a traditional mortgage, where a fixed sum is paid out, a construction loan enables ongoing costs to be covered via a special account, up to an agreed credit limit. No repayments need to be made during the construction phase and interest and commissions are added to the capital on an ongoing basis (capitalized).

### Important features of a building loan

While a mortgage typically finances a completed property, a construction loan is used to settle payments for construction or renovation work. This has the following advantages:

- **Flexibility in payment:** The credit limit can be flexibly used to pay bills.
- **Variable interest rate:** The interest rate adapts to market conditions and is only calculated on the amount drawn down.
- **Commission fees:** A fee may apply for the provision of credit. The specific conditions vary depending on the credit institution.

## Capital requirements

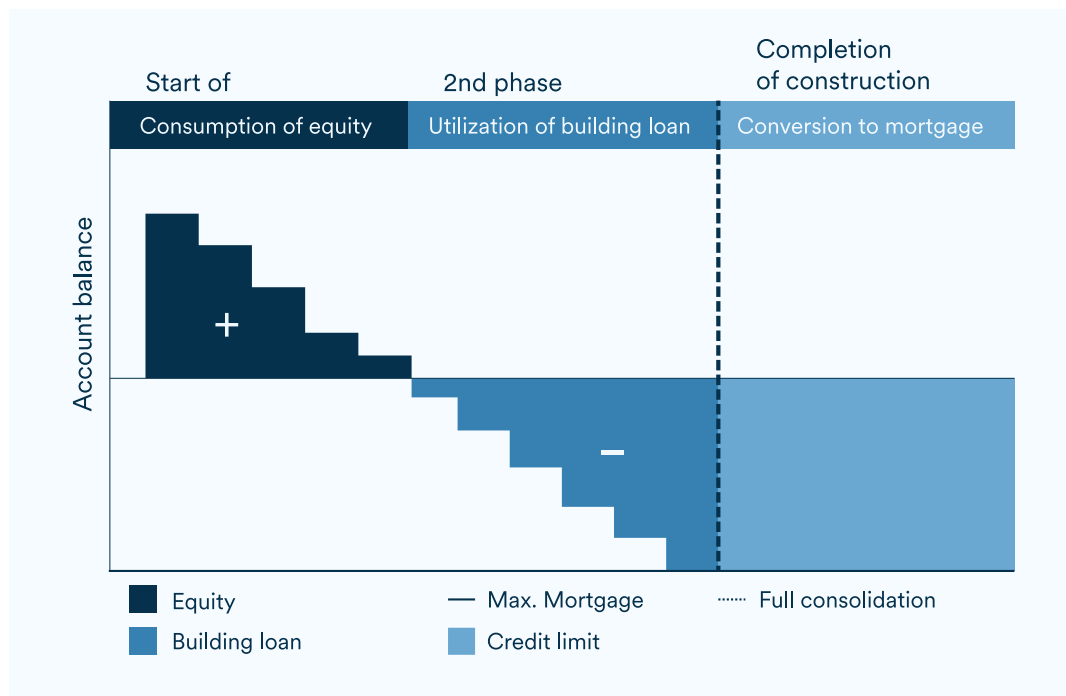
Equity of at least 20% of the investment costs (land price plus construction costs) is required for a construction loan. This can be in the form of cash, property values or other assets. The contribute equity is used at the beginning of the project to settle all invoices. Once the entire equity has been exhausted, the actual construction loan comes into play. The construction loan is typically drawn down in installments (tranches) as construction progresses.

## Construction loan is consolidated after completion of construction

Once the project has been completed, the construction loan is usually converted into a mortgage. A partial consolidation can offer financial advantages if the conditions are more favorable.

## The optimal construction financing

Every construction project is unique. A comparison of financing options and financing providers in terms of loan amount, interest rates, terms, amortization and conditions is essential for the successful realization of the project.



## Conclusion

The construction loan is a key element in the realization of a construction project. Thanks to its flexibility, it allows financing to be tailored to the various stages of construction. Careful planning and the selection of the right financing solution are crucial for successful execution and cost management. It is important to thoroughly review the terms and seek professional advice to find the right financing for your individual needs and possibilities. This way, the dream of owning your own home can be achieved securely or the real estate project can be realized without financial surprises.



## smzh tip



**Rafael Szucs**  
Head of Key  
Clients & Corporates

“ It is advisable to obtain multiple offers and compare them carefully. This process ensures that you can select the offer with the best price performance ratio. The additional time spent on this comparison proves to be a worthwhile investment in the quality of your decision-making. ”

## smzh for you

- **Individual financing planning:** We analyze your construction project or your investment costs to determine your exact financing requirements.
- **Real estate valuation:** We value your property or real estate project to ensure that your construction loan is on a solid foundation. We handle the entire financing process for you, from application to disbursement, as well as the regular monitoring of construction costs and progress
- **Future-oriented planning:** Through strategic planning, we ensure that you maintain financial flexibility and advise you on all important insurance matters so that your financing is also covered in the event of unexpected events.
- **Offer comparison:** We compare various financing offers and interest rates for you in order to find the best conditions.



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