



The Intermediary Guide to **Self Build Mortgages**

Helping you to better support Self Builders



CONTENTS

| | |
|--|--------------|
| Why self build? | 1 |
| Funding a self-build project | 1 |
| Why a traditional mortgage won't work | 1 - 2 |
| Typical example | 2 |
| How does Saffron Building Society assess a mortgage application for a self-build project? | 3 |
| Before applying for a mortgage | 3 |
| How does the mortgage drawdown process work? | 3 - 4 |
| Top tips for prospective Self Builders | 4 |
| Useful additional sources of information | 5 |



Building a home of your own has obvious emotional appeal and interest in self-build continues to grow, as popular TV programmes highlight the trials and tribulations of designing and building a truly unique home.

There is every possibility, therefore, that you will be approached by a client who is contemplating joining the growing band of self-builders. Saffron Building Society has been providing mortgage finance for self-builders for many years and it's a market sector we understand in detail.

We know from experience that many self-builders start out with little knowledge of the financial aspects of self-build. We have therefore produced two guides to help bridge this knowledge gap. This guide is aimed at you, their financial adviser, to give you an insight into what's involved in financing a self-build project. Hopefully, it will enable you to provide your clients with informed and helpful information and advice.

The second guide is aimed at self-builders themselves and can be downloaded free of charge from our website <https://www.saffronbs.co.uk/sites/default/files/2020-08/self-build-guide-0519.pdf>

It explains how self-build mortgages work, what differentiates them from 'normal' mortgages and explains how a typical self-build project can be financed. The guide also contains useful links to further information, to help your clients on their way.

We hope you find both guides helpful. If you want further information about our self build mortgages, please visit: www.saffronbs.co.uk/mortgages/self-build-mortgages/.

Why self build?

Approximately 12,000 people in the UK build their own homes every year. Self-build projects can not only involve the construction of a new property, they also include barn conversions and even renovation projects.

For some self-builders, investing their own time and effort (sometimes referred to as 'sweat equity') is a way to acquire a home at a fraction of the cost of buying an equivalent property on the open market.

For others, self-build is a way to have a bespoke property designed specifically to meet their needs. Some will become involved in the construction process, whereas others will appoint a project manager or architect to manage the build on their behalf.



Either way, self-build is an excellent way to acquire a no-compromise home, purpose built to the owner's specification. Self-builders don't need to understand the construction industry or have prior experience provided they have support from professionals who can give guidance or even manage the build on their behalf.

Funding a self-build project

The process of constructing a 'self-build' home is no different to building any other type of property; exactly the same planning permissions and building approvals have to be obtained and the very latest construction techniques can also be used, including the use of energy efficient materials and 'kit' homes.

However, financing a self-build project does differ quite markedly from purchasing a 'normal' house and it's the financial aspects of a self-build project that can cause confusion and, potentially, problems.

It's therefore worth spending a few minutes to understand how a typical self-build project works from a financial perspective. A good starting point is to consider how funding a self-build project differs from purchasing any other type of home.

Why a traditional mortgage won't work

When an existing house is purchased using a traditional mortgage, the money being borrowed is released at completion, which is usually the day on which the borrower moves into their new home.

Self-build projects, however, require funds to be made available in stages as a house is being built and money is therefore required before the house is finally habitable. A traditional mortgage cannot, therefore, be used to finance a self-build project.

At Saffron, we take a flexible approach as to when funds can be drawn down and although the stages specified below provide a useful guide that works for most new build projects, we are happy to discuss variations, depending on the nature of individual projects.

Most build projects can be broken down into 6 key stages:

1. **Purchasing the land**
2. **Initial project costs and laying foundations**
3. **Construction to wall plate level (and timber frame erected, if appropriate)**
4. **Building made wind and watertight**
5. **First fix and plastering**
6. **Second fix through to completion**

Self-build mortgages allow funds to be drawn-down by the borrower throughout each of these key stages. It's important for self-builders to have a detailed cash flow budget prepared at the outset, so that they know precisely how much funding is required at each stage of their build.

For example, a borrower may already own a plot of land, in which case they won't require funding until later in the build project. Or, if the project is a barn conversion or renovation, the borrower may require finance to be made available at different stages. We're willing to look at an applicants project and agree a funding schedule that meets the requirements of both the borrower and ourselves.

It's also worth bearing in mind that although the typical profile of a self-builder is usually a more mature borrower generally in the 50+ age range, we are happy to consider lending to all types of borrowers aged 21+ including first-time buyers.

TYPICAL EXAMPLE

Here's a typical example of a cashflow budget for a self-build project: Please bear in mind this is for illustrative purposes only and is based on a typical 'new build' project with funds being released at the key stages specified above. It does not imply that the costs shown are typical of every self-build project. Costs will vary quite dramatically from project to project, which is why it's important to have a detailed cashflow budget prepared from the outset.

| | |
|---|----------|
| Purchase of land | £150,000 |
| Initial costs and laying foundations | £35,000 |
| Construction to wall plate level (& timber frame) | £40,000 |
| Building made wind & watertight | £20,000 |
| First fix and plastering | £17,000 |
| Second fix to completion | £48,000 |

In addition, there are also the following costs to take into consideration

| | |
|--|-----------------|
| Architects & project management fees | £25,000 |
| Other survey, planning and associated fees | £5,000 |
| Buildings warranty insurance | £2,000 |
| Contingency fund | £33,000 |
| Sub-total of build costs | £225,000 |
| Total budget requirement | £375,000 |

Many self-builders also use their own savings to finance their build project, so let's assume in this example that the self-builder is also using £75,000 of their own money.

Let's also assume that the estimated value of the final property, once completed, is £500,000.

So, in summary, the funding requirement for this project will be:

| | |
|---------------------------|-----------------|
| Total budget requirements | £375,000 |
| Builders own savings | £75,000 |
| Mortgage required | £300,000 |

How does Saffron Building Society assess a mortgage application for a self-build project?

Saffron Building Society offers two types of self-build mortgages:

Type one

- Funding up to 65% of the purchase price of the land
- Up to 100% of the build cost (subject to the loan to value ratio not exceeding 75% at any stage)
- 75% of the gross development value (the final value of the property)

Based on the example:

- 65% of land costs: $\pounds 150,000 \times 65\% = \pounds 97,500$
- 100% of build costs: $\pounds 225,000$
- $\pounds 97,500 + \pounds 225,000 = \pounds 322,500$
- Gross development value = $\pounds 500,000$
- 75% of gross development value = $\pounds 375,000$

Saffron could lend up to $\pounds 322,500$ for this project, based on the percentage calculations above, and because it represents less than 75% of the final value of the property.

Type two

- Funding up to 80% of the purchase price of the land
- Up to 80% of the build cost (subject to the loan to value ratio not exceeding 80% at any stage)
- 80% of the gross development value (the final value of the property)

Based on the example:

- 80% of land costs: $\pounds 150,000 \times 80\% = \pounds 120,000$
- 80% of build costs: $\pounds 180,000$
- $\pounds 120,000 + \pounds 180,000 = \pounds 300,000$
- Gross development value = $\pounds 500,000$
- 80% of gross development value = $\pounds 400,000$

Saffron could lend up to $\pounds 300,000$ for this project, based on the percentage calculations above, and because it represents less than 80% of the final value of the property.

Our self-build mortgages are provided on an interest-only basis for a period of 24 months, which helps self-builders keep monthly mortgage payments low during a period when their financial outgoings will inevitably be high.

At the end of the 24 months or sooner, when the build project has been completed, the borrower's mortgage will revert to a repayment basis for the remainder of the term. They will also be sent the details of the retention mortgages that they are eligible for, or they may decide to remortgage to another lender.

Saffron charges an arrangement fee of 1% for Self Build Mortgages which, on the above example, is $\pounds 3,000$

(and can be added to the loan) and mortgages are available up to a maximum of $\pounds 1$ million (loans over $\pounds 1$ million can be considered by exception).

Before applying for a mortgage

It's understandable that self-builders want to know as soon as possible if their project is suitable for a self-build mortgage and their mortgage broker will be able to provide them with detailed advice.

When submitting a mortgage application to Saffron Building Society, borrowers will be required to provide:

- An outline of planning permission and plans for the project
- Copies of architectural drawings
- A full breakdown of the work to be undertaken and details of who will be doing the work (will it be the applicant themselves, or a builder?)
- Details of the project costings and cashflow projections
- An NHBC certificate or equivalent approved warranty* is required and this should be applied for before building work commences, as the warranty provider will need to undertake their own inspections at key stages throughout the build process.

Saffron will also ask for the same documentation to support the mortgage application as we would for any 'normal' mortgage e.g. copies of pay slips, bank statements, local authority searches etc. A list of supporting documentation will be specified at the time of making a mortgage application.

*** We accept any of the following warranties: NHBC, LABC, Premier Guarantee, ICW Limited, Buildzone, Castle10/Checkmate, Buildassurance.**

How does the mortgage drawdown process work?

Once a mortgage application has been submitted and approved and a valuation report has been received, Saffron will agree a schedule of payment drawdowns with the borrower. Using the above example, the initial advance would go towards the cost of purchasing the land.

Money is then released on the pre-agreed basis, as the build project 'comes out of the ground'. When funds are required, Saffron instructs a local valuer to inspect the building work and confirm that everything is OK for the next drawdown to take place and this process continues until the building is complete (in

complex cases the Society may need to instruct a quantity surveyor which could involve additional cost).

Self-builders need to bear in mind that funds are released at the end of each pre-agreed stage, when work has been completed. This has important implications for the borrower's cashflow projections. If money is required to buy goods and materials during a specific stage of the build project, the self-builder may need to make overdraft arrangements with their bank to ensure they don't run out of funds at a critical stage (alternatively, they can use savings to provide a financial buffer).

It's important, therefore, to consider how the build project is to be undertaken. If the owner is undertaking work themselves, they will need access to cash in advance to pay for materials throughout the build. If, on the other hand, the owner has appointed a builder to undertake the work on their behalf, they may commit to a JCT contract** in which the builder invoices the self-builder either on a monthly basis or at key stages, for work that has been completed. The builder will therefore be paid in arrears, which takes the pressure off cashflow.

It's easy to understand why a detailed cashflow budget is so important when undertaking a self-build project. It isn't just a case of understanding how much money is needed in total to finance the build, but also when the funds are required at each stage of the build process.

**** Joint Contracts Tribunal, a body that provides standard forms of construction contract, guidance notes and other standard documentation for use by the construction industry. Please note that a JCT contract is mandatory if the value of the work being undertaken costs £200,000 or more.**

Finally our top tips for your prospective Self Build Customers

Prospective self-builders should also take the following points into consideration:

Contingency fund

Ensure you have a sensible contingency fund available, ideally 10-15% of the total project costs. It doesn't matter how well you plan your project in advance, it is almost inevitable that you will incur unexpected costs at some point and you therefore need a contingency fund to ensure these unplanned costs don't de-rail the whole project.

Beware budget 'creep'

Self-builders are usually building their dream home and therefore want the very best materials, fixtures and fittings. It's very easy to upgrade specifications as you go and, in isolation, the cost of each individual upgrade may seem inconsequential. However, when added together they can become a significant sum. Accurate budgeting and continuously checking expenses against the budget is critical.

A self-build mortgage is not development finance

Self-build mortgages are designed for people building or renovating homes they intend to live in themselves. They are not suitable for property developers or builders who intend to sell the property as soon as it is completed.

Don't forget to factor mortgage repayments into your budget

It's easy to overlook the fact that as mortgage funds are progressively drawn-down, so your monthly mortgage payments will increase. The cost of repaying the mortgage each month also needs to be built into the cashflow projection. Also remember to include any existing mortgage or rental payments that you are making during your build programme (we will take these into consideration when assessing affordability).

Allow a sum for furniture, fixtures and fitting

Completing the build doesn't put an end to expenditure, unfortunately! An allowance also needs to be made for carpets, curtains, furniture and essential services such as gas, water, electricity and telephone connections.

Negotiate prices

Don't accept quoted prices at face value. Many suppliers are willing to negotiate if they believe you're close to placing an order. Small savings across the whole build project can add-up to a substantial sum.

Talk to other self-builders

It's worth having a chat to someone who has recently built their own home. They will be able to give invaluable advice based on their own experiences and may also be able to help with lists of local suppliers, builders and architects.

Useful additional sources of information to support your customers

Planning permission, regulations, warranty

Planning Portal www.planningportal.gov.uk

NHBC www.nhbc.co.uk

Building plots

Plotbrowser www.plotbrowser.com

Associations

National Custom & Self Build Association www.nacsba.org.uk

National Self Build & Renovation Centre www.nsbrc.co.uk

Community Self Build Agency www.communityselfbuildagency.org.uk

Build a Dream Self Build Association www.badsba.co.uk

Joint Contracts Tribunal www.jctltd.co.uk

Resources and forums

The Self Build Portal www.selfbuildportal.org.uk

Build It www.self-build.co.uk

Self Build Forum www.ebuild.co.uk

The Self Builder www.theselfbuilder.com

Self Build Directory www.theselfbulddirectory.co.uk

Build Store www.buildstore.co.uk

Build Base www.selfbuildatbuildbase.co.uk

Insurance help

Self Build Zone www.selfbuildzone.com

Publications

Self Build & Design Magazine www.selfbuildanddesign.com





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Contact us

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