

Our Intermediary Guide to Self Build Mortgages

Important information to support your Self Build clients

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Why Self Build?



Approximately 12,000 people in the UK build their own homes every year.

For some self builders, investing their own time and effort 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.

Self build projects can not only involve the construction of a new property, they also include custom builds, barn conversions and even renovation projects.

At Saffron, we've tailored our self build mortgages to better meet customers' needs. We have created this guide to help you inform and advise your clients as to what's involved in financing this type of project. This guide will also provide useful information to help you complete the Supplementary Information Sheet for your client.

Funding a self build project



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

The difference between a traditional mortgage and a self build mortgage:

Financing a self build project differs quite significantly from purchasing a 'normal' house. Self builders are likely to be selecting and managing contractors and possibly quantity surveyors. A quantity surveyor can be useful, for example, if the costs are high. A lender may request it too, for larger loan exposures, or unusual self builds. It's worth them investing time in research and due diligence to ensure they have selected the right people for the project. Contractors' costs usually make up the majority of the budget and, as such, it's a critical part.

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 released at different stages so that work can be paid for as the project progresses. This difference is really important to understand before progressing with a self build project.

How does the mortgage drawdown work?

It's crucial that your clients understand how the drawdown process works as well as the implications for their finances. Our self build mortgages allow funds to be drawn down by the borrower at each of the key stages detailed on the opposite page.

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

What the mortgage drawdown process means for budgeting:

In order to know how much money is needed at each stage of their build, self builders need to have a detailed cash flow budget at the outset (you will also need this information in order to complete our Supplementary Information Sheet). 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 applicant's project and agree a funding schedule that meets the requirements of the borrower.

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). If they have 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.

This detailed, stage-by-stage budget, is critical to the success of any self build project. On the next page we'll show you an example, so that you can see how it can help in practice.

** Joint Contracts Tribunal, is 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 preferable, but each case is assessed on own merits. We would require that a copy of the JCT contract is provided to our Solicitors prior to completion.

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 doesn't imply that the costs shown are typical of every self build project. It's important for your client to have a detailed cashflow budget prepared from the outset as costs will vary quite dramatically from project to project. After reading this example below, your client should be able to calculate their own budget, which can be used to help you complete our Supplementary Information Sheet.

Purchase of land	£150,000
Initial costs and laying foundations	£35,000
Construction to wall plate level (& timber frame)	£40,000
Building made wind and 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 to be included in the build costs	£33,000
Sub-total of build costs	£225,000
Total budget requirement	£375,000

Self builders must have their own savings to put into 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. This is called the gross development value.

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

Total budget requirement	£375,000
Self builders own savings	£75,000
Mortgage required	£300,000

How a Saffron Self Build mortgage can help your clients

Saffron Building Society offers two types of self build mortgages:

Type one – maximum final loan to gross development value of 75%

- 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 (£150,000 x 65%)*	£97,500
*We'd expect the self builder to put £52,500 of their own funds into the purchase	
100% of build costs **	£225,000
** We'd expect the self builder to put in the remaining £22,500 of these costs before we'll release further funds	
Total	£322,500
Gross development value	£500,000
75% gross development value	£375,000

Saffron could lend up to £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. **Remember, the self build client must put in all their own money first, before the borrowed funds are drawdown.**

Type two – maximum final loan to gross development value of 80%

- 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 (£150,000 x 80%)*	£120,000
*We'd expect the self builder to put £30,000 of their own funds into the purchase	
80% of build costs **	£180,000
** We'd expect the self builder to put in the remaining £45,000 of these costs before we'll release further funds	
Total	£300,000
Gross development value	£500,000
80% gross development value	£400,000

Saffron could lend up to £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.



Helping keep costs down:

Borrowers can choose to have their self build mortgages on an interest-only basis for a period of up to 24 months, which will help them keep their mortgage outgoings as low as possible during the build phase, a period when their total financial outgoings will inevitably be high (we'll move them onto the repayment basis at the end of this period).

After the first payment to the borrower or their solicitor, they'll have up to 24 months to complete their self build project. If the mortgage is taken out on a repayment basis, interest only is also available for the build period up to a maximum of 24 months. We will ask you to detail your client's requirements in our Supplementary Information Sheet.

Changes to the gross development value:

The gross development value of the project can change whilst your client is in the build phase. This could go up or down and might be caused by:

- Borrower changing the planning consent or specification for the property. Your client should inform us before they do this. We'll speak to our valuer to understand the impact this will have, which will mean additional fees.
- Borrower changing the building materials for their build. Some building materials are not acceptable to lenders, so your clients should inform us before they do this. We'll speak to our valuer to understand the impact this will have, which will mean increased fees.
- Changes to house prices within the wider property market.

Any reduction in the gross development value of the self build project might mean we will not release the money as expected. So, if plans change, your clients must speak to us as soon as possible.

Eligibility and application (documentation required)



It's understandable that self builders want to know as soon as possible if their project is suitable for a self build mortgage. You'll find our full product criteria on our web page:

<https://www.saffronforintermediaries.co.uk/products/special-situations/self-build-and-custom-build>.

We keep our criteria under constant review to ensure it's as flexible as possible.

Having established your client's eligibility for the mortgage, you will need to provide us with some specific documentation to support your application. We've compiled a checklist below to help you.

When submitting a mortgage application to us, borrowers will be required to provide:

- Fully completed copy of our Self Build Supplementary Information Sheet, found on our website: <https://www.saffronforintermediaries.co.uk/supplementary-documentation>
- Full planning permission, and plans for the project
- Copies of architectural drawings
- Full breakdown of the work to be undertaken and details of who will carry it out (for example, the applicant themselves or a contracted builder)
- Detailed budget of incomings and outgoings, with project costs, including contingencies, and cashflow projections
- Details of borrower's exit strategy. For Interest Only mortgages, it must comply with our Lending Policy – please review the [criteria page](#) on our website for acceptable Repayment Vehicles.

When a borrower's application has been approved (during the build), they will be required to provide:

- An NHBC certificate or equivalent approved warranty*, and this must 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. For other projects where the standard 10 year New Build Warranty is not available (i.e. renovations or conversions) we will accept a Professional Consultants Certificate provided it offers cover for a minimum of 6 years. The Consultant must hold one of the following recognised qualifications: FRICS, MRICS, F.I. Struct.E, M.I. Struct.E, FCIOB, MCIQB, FASI, MASI, C.Build E MCABE, C.Build E FCABE, MCIAT, ARB, RIBA, FICE, MICE.
- Building Regulation approvals and consent, and depending on the project, these may need to have been applied for, or granted, before drawdown.
- Contractors All Risk Insurance policy, with our interest noted, providing:
 - At least 125% of the professional reinstatement cost
 - Public liability cover of at least £5M
 - Employers liability cover of at least £5M

* We accept any of the following warranties: NHBC, Premier Guarantee, LABC, Buildzone, Buildassure, Castle 10/Checkmate, ICW Limited, One Guarantee, Global Home Warranties, Q Asure, Protek, Advantage HCI, Ark Residential Insurance.

Top tips for prospective Self Builders



Helpful tips for your clients:

Beware of budget 'creep'

You are building your dream home, and naturally you want to pay attention to every detail. It's very easy to upgrade specifications as you go and the cost of each adjustment may seem small. However, when added together they can become a significant sum which doesn't necessarily increase the gross development value. It's crucial to budget accurately, and continuously check expenditure against that budget.

Don't forget to factor all mortgage or rental payments into your budget (including those for alternative living arrangements)

It's easy to overlook the fact that your monthly mortgage payments will increase as funds are released. Don't forget to build the cost of mortgage repayments into the outgoings section of your budget. 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 fittings

Unfortunately, there's usually further expenditure after a build is complete. Make sure you budget for landscaping, carpets, curtains, furniture and essential services such as gas, water, electricity and internet connections.

Research suppliers and negotiate prices

There are many different building contractors and quantity surveyors in the market. It's worth spending time researching which have the right reputation, skills and ability for your specific needs. When you get quotes from contractors, don't accept 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

Planning permission, regulations, warranty planning

[Planning Portal](#)

[NHBC](#)

Building plots

[Plotbrowser](#)

Associations

[National Custom & Self Build Association](#)

[National Self Build & Renovation Centre](#)

[Build a Dream Self Build Association](#)

[Joint Contracts Tribunal](#)

Resources and forums

[The Self Build Portal](#)

[Build It](#)

[Self Build Forum](#)

[The Self Builders](#)

[Self Build Directory](#)

[Build Store](#)

[Build Base](#)

Insurance help

[Self Build Zone](#)

Publications

[Self Build & Design Magazine](#)

Contact us

For all new business enquiries, please contact our dedicated Intermediary Support Team

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