



Our intermediary guide to custom build mortgages

Important information to support
your custom build clients



Contents

- 3** Why custom build?
- 5** Funding a custom build project
- 7** Typical example
- 9** How a Saffron Building Society custom build mortgage can help your clients
- 12** Eligibility and application (documentation required)
- 14** Top tips for clients considering custom build
- 15** Useful additional sources of information

Why custom build?

Since the Right to Build legislation came into force in 2016, there has been growing interest from the public in self and custom build housing. In fact, more than 12,000 people now build their own home in the UK every year.

Many of these cases will be self build projects, where the customer takes on all the responsibility and risk of building, extending or converting their own home – managing planning and budgets, finding a builder and employing contractors. However, a growing number of people are choosing to take a custom build approach. As this part of the housing market grows, it is important that both intermediaries and their customers really understand the differences between these two types of projects.

Custom build is a type of self build option which gives prospective homeowners the opportunity to build their dream home without having to manage the project themselves or directly hire a project manager or architect.

With this type of project, customers can create a bespoke property designed specifically to meet their needs. However, compared with a self build property, buyers do not need to be involved in the planning or construction process, but will have full control over the design and layout of the property or more simply pick from a selection of options that a developer provides.

Just like self build, with a custom build project the customer buys a plot of land which already has an outline or full planning permission. However, a key difference is that a custom build purchase will almost always involve a property being built on a multi-plot site. In some instances, building may already be underway. Typically, a custom build developer will provide contracting services or offer to help the customer with a choice of contractors if desired. The developer will deliver as much of the build as a customer wishes, up to a watertight shell, or provide a full turnkey completion. The developer may also manage the project, working within the customer's set budget and taking responsibility for building works.

There is little difference between applying for a mortgage for a self build or a custom build and the lender products are often very similar, if not the same. However, proving to a lender that expected costs are realistic might be easier with custom build, as more of the expenditure is likely to be agreed up front with the site developer, especially if the customer is only personalising the interior of the home.

At Saffron, we've tailored our custom build mortgages to better meet customers' needs. We have created this guide to help you inform and advise your clients as to what is 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.





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

Funding a custom 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 custom build mortgage:

Financing a build project differs quite significantly from purchasing a 'normal' house. Custom build projects operate on a scale with different levels of input from the buyer. Whichever route the buyer chooses, the mortgage will be released in stages rather than as a lump sum, so that work can be paid for as the project progresses. It's crucial that your clients understand how this drawdown process works, as well as the implications for their finances.

Our custom 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 these specified stages provide a useful guide that works for most new build projects, we're happy to discuss alternatives.

For retentions, after the initial funds are drawn down, the remaining stage payments are released in arrears.



What the mortgage drawdown process means for budgeting:

In order to know how much money is needed at each stage of their build, clients opting for a custom build project 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.

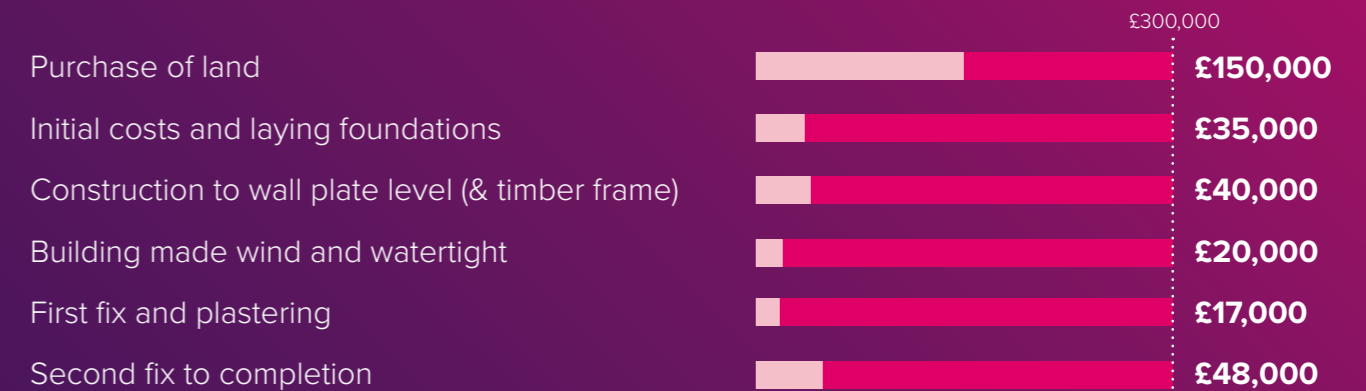
Your client will need to bear in mind that funds are released at the end of each stage when work has been completed. This has important implications for the borrower's cashflow projections. If money is required to buy goods and materials during a specific stage of the build project, the borrower may 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 customer 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 custom 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 its 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 more flexible custom 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 custom 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.



In addition, there are also the following costs to take into consideration. Essential services such as gas, water, and electricity will be put in place by the developer and will need to be established prior to the first drawdown.



Clients choosing custom build must have their own savings to put into their build project, so let's assume in this example that the buyer 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:



How a Saffron custom build mortgage can help your client

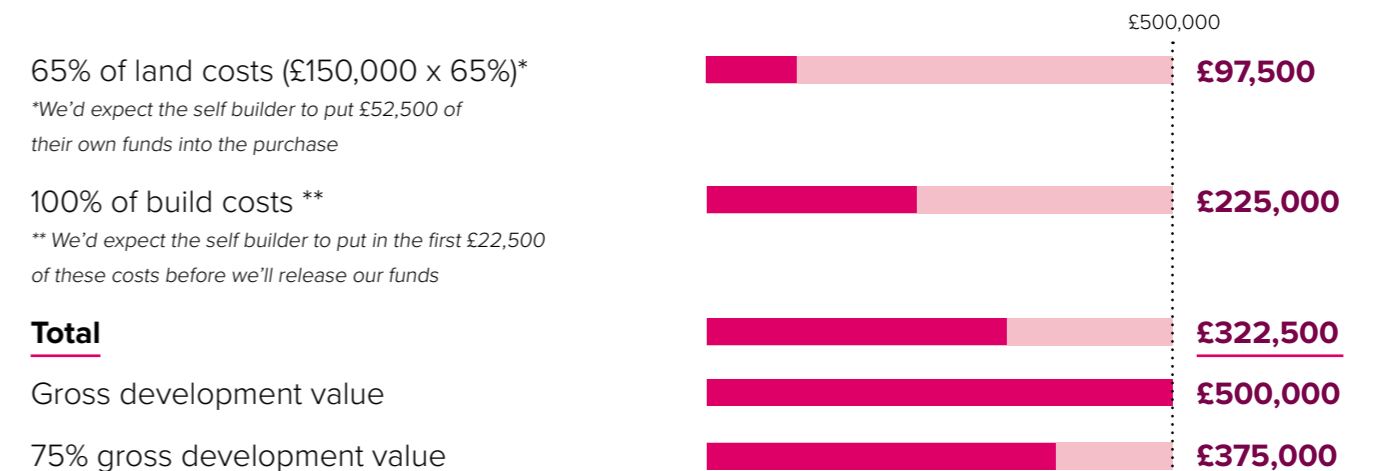
Saffron Building Society offers two types of custom build mortgages:

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

- Funding up to 65% of the purchase price of the land – based on a residual valuation
- 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:

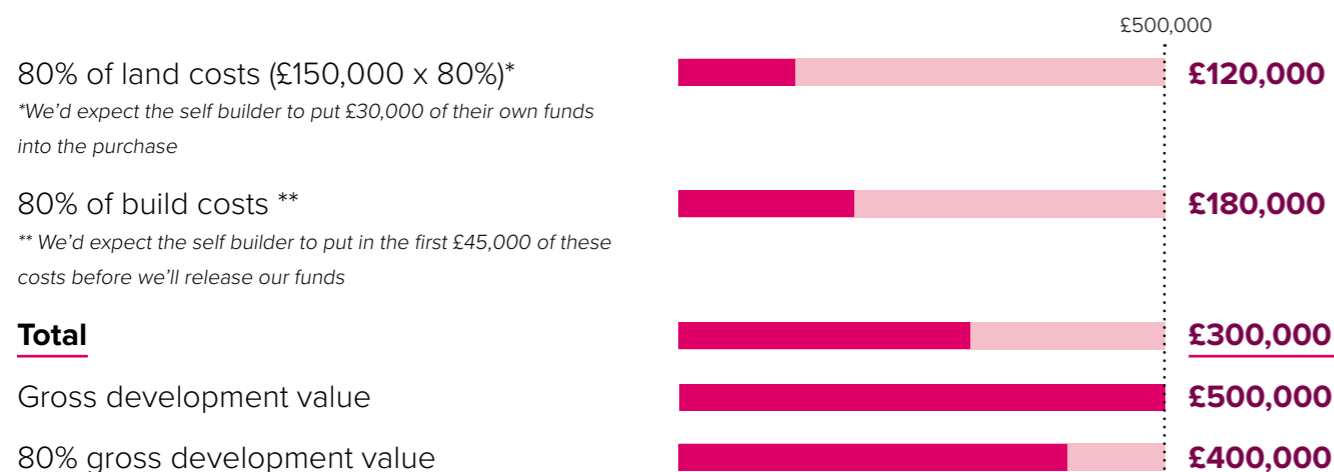


Saffron could lend up to £322,500 for this project, based on the percentage calculations above, and because it represents less than 75% of the final value of the property. Remember, it is expected that the customer provides part of the deposit for the plot, to which Saffron will provide its required share as well. It is then normally expected that the custom build client must then inject all of their personal contribution for the build costs before the further borrowed funds are drawn down, unless prior approval is given by the Society.

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

- Funding up to 80% of the purchase price of the land – based on a residual valuation
- 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:



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.



Terms of the interest only phase:

It is generally standard across the industry on custom build mortgages that lenders offer concessionary interest only during the build for a period of up to 24 months, this can be provided for Saffron for Intermediaries customers too. This will help the borrower 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). However, if a borrower's application fits Saffron's standard interest only criteria, they could secure an interest only mortgage for the duration of the term.

The 24 months starts once the first payment to the borrower or their solicitor has been made, from this point they'll have up to 24 months to complete their custom build project. After the 24-month period, the mortgage will revert to a capital & interest (C&I) repayment mortgage unless it fits Saffron's standard interest only criteria.

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:

- Changes to house prices within the wider property market.
- The borrower changing the planning consent or specification for the property. This should only ever be considered if this is absolutely necessary and critical to the build.
- The borrower changing the building materials for their build. Again, the loan is approved based on the original plans, so making changes at this stage should only be considered if absolutely necessary.

Any reduction in the gross development value of the custom build project might mean we will not release the money as expected. Your client must inform us before they make any changes to their planning or building materials.



We'll speak to our valuer to understand the impact this will have, which will mean additional fees. We will obtain an up to date gross development value at each drawdown request or as required by the Society – at which point we will review if we can follow the funding schedule as planned.

Eligibility and application (documentation required)

It's understandable that custom build clients want to know as soon as possible if their project is suitable for a custom 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 any architectural drawings
- Full breakdown of the work to be undertaken and details of who will carry it out (for example, a project manager, contracted builder or developer)
- 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 their application has been approved (during the build*), borrowers 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
- 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 100% of the professional reinstatement cost
 - Public liability cover of at least £5M
 - Employers liability cover of at least £5M

* During the build is generally accepted as the period from when an initial advance is made by the lender either towards the purchase of the plot or against the plot value (if they already own it) and until the final stage payment is drawn down and the property is signed off as completed with appropriate documentation.

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

Top tips for clients considering custom build

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. If you are working with a project manager, they should help to keep your budget in check, but it is still crucial to budget accurately, and continuously check expenditure against any funds.



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 and furniture.



Talk to other individuals involved in a custom build project

It's worth having a chat with 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.



Communication is key

Of course, things don't always go to plan so it's important to keep in regular contact, especially with issues such as when the construction period is likely to be longer than originally expected or there are any material changes to costings or plans. As a custom build specialist, Saffron will always look to support customers as and when issues are flagged. Under the offer conditions, applicants are required to update the Society on their project at least once every 3 months.

Useful additional sources of information

Planning permission, regulations, warranty planning

Planning Portal

NHBC

Building plots

Plotbrowser

Plotsearch

Plotfinder

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

Self Build Forum

Self Build Directory

Build Store

Build Base

Insurance help

Self Build Zone

Publications


Build It

Homebuilding & Renovating

Grand Designs Magazine

Contact us

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

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