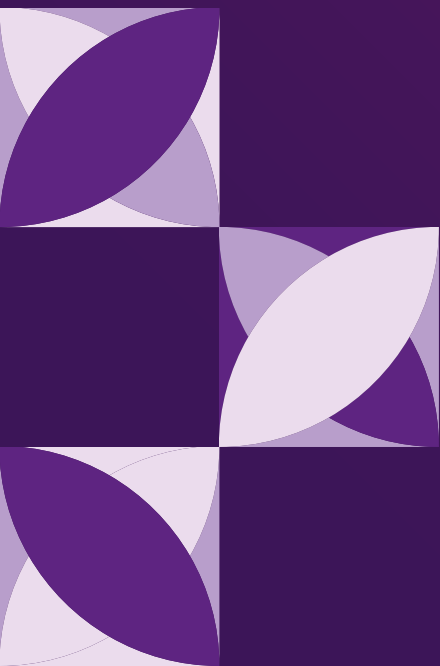




# Our intermediary guide to self build mortgages

Important information to support  
your self build clients



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# Why self build?

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.





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

# 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.



## 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. Unlike when a home is purchased with a traditional mortgage, self build projects require funds to be released at different stages so that work can be paid for as the project progresses.

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.

For retentions, where a mortgage lender holds back some of the funds until the new home is complete, Saffron releases funds 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, 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 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.

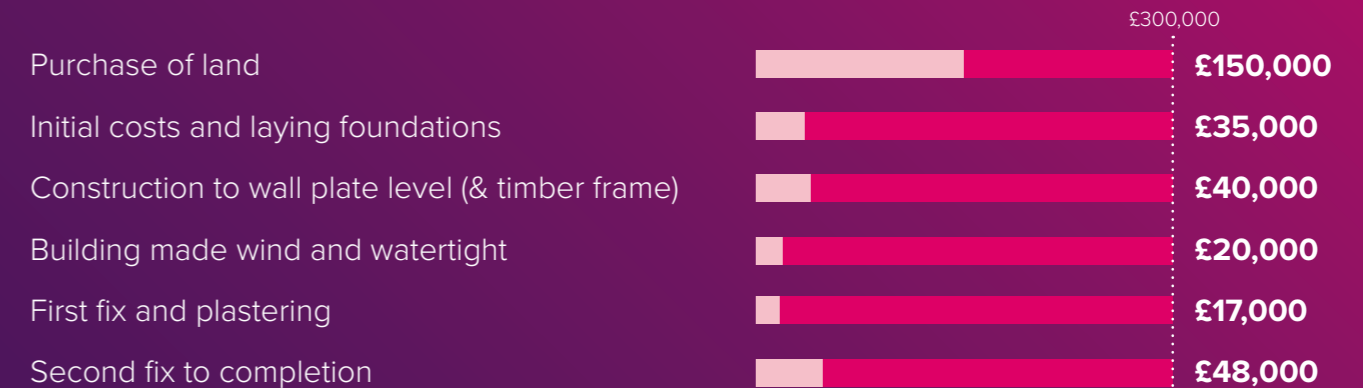
**This detailed, stage-by-stage budget, is critical to the success of any self build project. On the next page we'll show you an example, so that you can see how it can help in practice.**

\*\* 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 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 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.

### Supplementary Information Sheet.



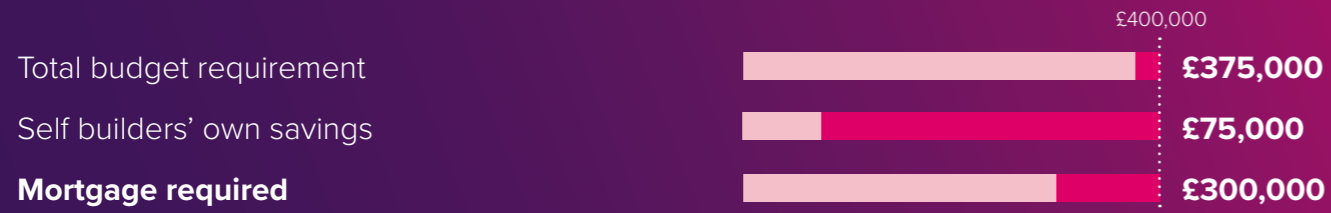
**In addition, there are also the following costs to take into consideration. Essential services such as gas, water, electricity and internet connections must be taken into consideration from the outset too.**



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:**



# How a Saffron Self Build mortgage can help your clients

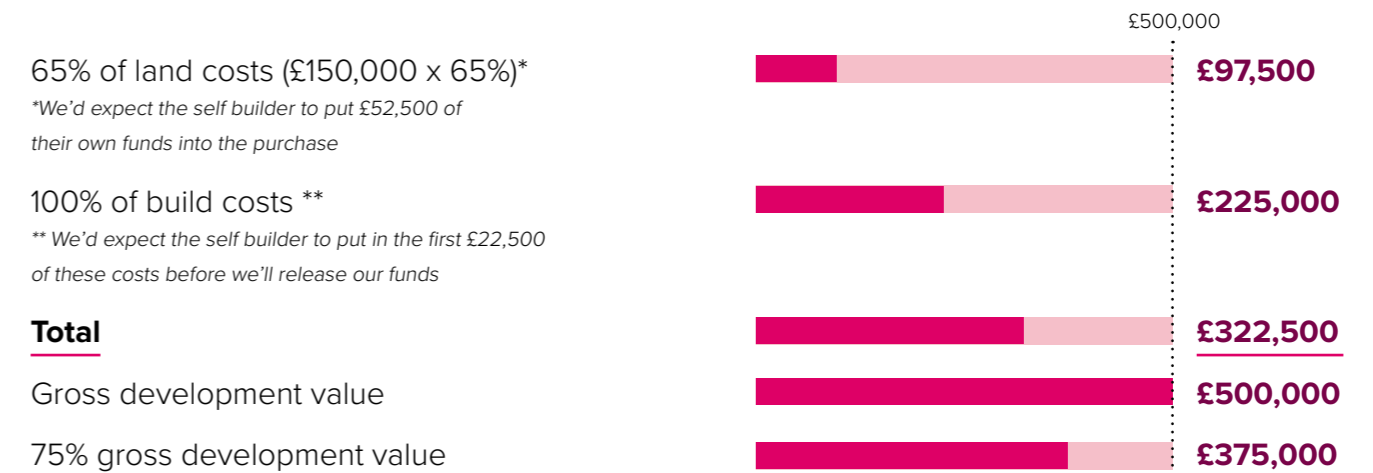
Saffron Building Society offers two types of self build mortgages:

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

- Funding up to 65% of the purchase price of the land – 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:**

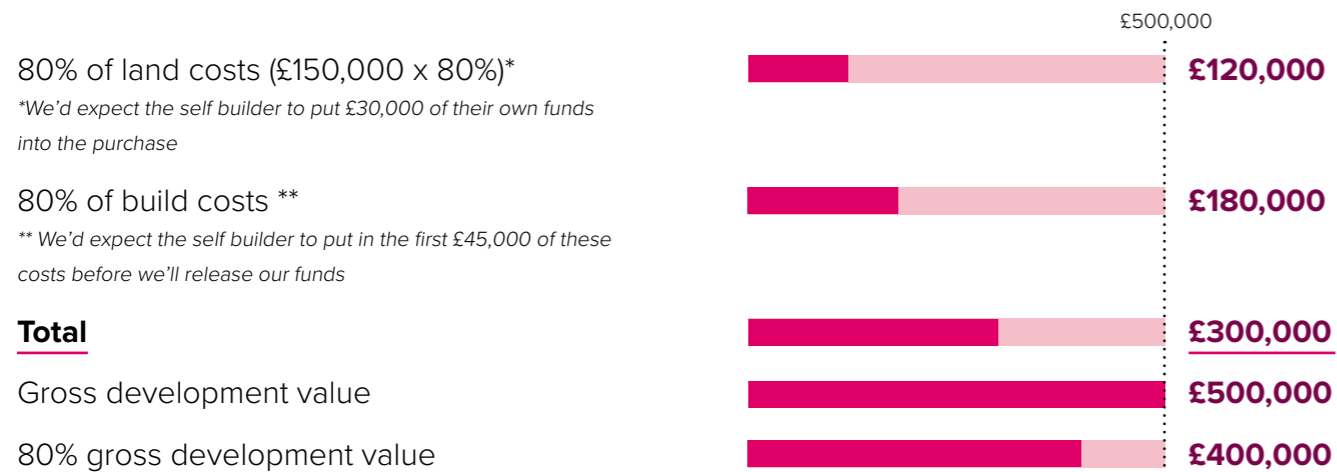


Saffron could lend up to £322,500 for this project, based on the percentage calculations above, and because it represents less than 75% of the final value of the property. Remember, It is expected that the customer provides part of the deposit for the plot, to which Saffron will provide its required share as well. It is then normally expected that the self 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 self 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 self build project. After the 24 month period the mortgage will revert to a capital & interest (C&I) repayment mortgage unless it fits the lender'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 self 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 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 their application has been approved (during the build\*), borrowers will be required to provide:

- An NHBC certificate of 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 projects where the standard 10 year New Build Warranty is not available (ie renovations or conversions) we will accept a Professional Consultants Certificate (PCC) provided it offers cover for a minimum of 6 years. The PCC must hold one of the following recognised qualifications: FRICS, MRICS, F.I.Struct E, M.I. Struct. E, FCIQB, MCIQB, FASI, C Build, E MCABE, C Build E, FCABE, MCIAT, ARB, RIBA, FICE, MICE.
- A PCC is not acceptable for a “ground up” self build project a new build warranty will be required.
- 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 HCl, 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 and furniture.



### 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.



### 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 self 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

### 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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