

Mortgage Advice for Self Builders

August 2015

Why timber frame is a good option for self builders

Most self build lenders will lend on timber frame houses so this option should definitely be at the front of your mind. In fact, 75% of all self builders using this flexible, modern and environmentally responsible method of building.

When to discuss your finance options

You should discuss your finance options before the final design stage to ensure your selected design does not reduce the finance options available to you. Be sure to speak to your financial adviser at the same time, if not before, engaging your Architect and certainly before you apply for planning.

When it comes to finances, there are two key stages to be considered when embarking on a self build project.

1) SELF BUILD PHASE

Finance is one of the biggest challenges self builders will face with nearly two out of three self builders needing a mortgage to see their project through.

When funding a self build project and, in particular, a timber frame build, you will need a stage payment mortgage. This will release funds as the build progresses.

Timber Frame Stage Payments:

- **Stage 1:** Purchase of Land
- **Stage 2:** Frame deposit and foundation
- **Stage 3:** Timber Frame Erection
- **Stage 4:** Wind and Watertight
- **Stage 5:** First Fix and plastering
- **Stage 6:** Second fix to completion

There are two stage release mortgage styles which are defined by when you get the money during the build: **traditional** and **advance stage payment mortgages**.

A traditional mortgage works on a typical arrears stage payment basis.

With an advance stage payment mortgage the money is released at the beginning of each build stage, rather than the end of each build stage. This also provides funds to secure the purchase of the site. This is a great way to fund a timber frame project giving you a flow of cash to ensure you can provide the funds for your frame supplier as and when they require it.

Most self build lenders will offer finance for a timber frame property. However careful consideration is required when selecting the correct lenders as the stages and amount of funds released at each stage will differ from lender to lender.

It is essential that you have the funds available to pay for each stage of the project. You must also ensure you can pay the deposit for your timber frame to be manufactured, as well as paying the balance on either delivery or completion. This will be agreed by your chosen timber frame supplier.

Other considerations that will have a major effect on the amount of lenders that will support the project will be the materials used for the outer cladding of the property.

If a brick or block skin is used, most self build lenders will continue to be supportive. However, if a timber cladding is selected, this can reduce the number of lenders that will lend on the property through the self build phase. As a result, it is vital that you take advice on financing your project at an early stage, even before meeting with your Architect to finalise design brief, as the choice of external cladding made could reduce your funding options. This can also be said where a SIPPS panel system is selected.

It is important to highlight that there are lending options available for the above methods of construction. Your choice of construction method will simply change the number of lenders available to you. Therefore, ensure you engage with your finance expert before your final design stage. Ideally, this should happen before you allow your Architect to submit planning, as a simple design change may provide you with more lending options.

2. Selling or re-mortgaging your timber frame property.

A common question raised by self builders is whether or not they will be able to get a standard residential mortgage on a timber frame property.

A timber frame built property is a recommended building system recognised by the Council of Mortgage Lenders and most major high street lenders will offer funding.

It is essential that a self-build project is properly insured both through the build phase via an appropriate site insurance plan, as well as a suitable 10 year warranty.

Protecting your investment

Any lender providing you with finance will insist that you have adequate insurance before releasing funds to you.

Flood, fire or theft could seriously impact on your build budget and timescales. Site insurance is designed to provide you with financial recompense if the worst does happen, and peace of mind that your project will proceed as planned.

Remember, normal house insurance doesn't cover either the building works or an unoccupied property.

When purchasing a property from a national house builder you will be provided with a national house builder certificate as a 10 year guarantee. As a self builder you will need to arrange a suitable 10 year warranty for your project.

Many clients make the mistake of assuming the Architects certificate will provide cover for any defect in the structure or materials of their home. However, an architect certificate only states that your house has been built to the required minimum standard and it is up to you to take legal action if a problem does occur. A 10 year structural warranty insurance will protect your project against a defect in the design, workmanship or materials of your self-build project.

There are a number of providers in the market providing suitable site insurance and 10 year structural warranty plans.