KRD Mortgage Advisers

Thinking About A Self-Build Mortgage?

What exactly is a self-build mortgage?

The main difference between a self build mortgage and a house purchase mortgage, is that funding is released in stages as the build progresses, rather than as a single amount.

Every self build project has several clearly identifiable stages, from the initial digging of the foundations to the 'final fix', and at each stage the value of the build increases. As such, the right level of funding need to be available at every stage of the build to pay for materials, tradesmen and other specialist services.

This type of mortgage is therefore known as a stage payment mortgage and there are two types of stage payment mortgages which are defined by when funds are released to your - in arrears or in advance.

Exactly when funds are released depends on lender policy, but you'll typically receive the first payment when you buy the land, then more monies will be released when the foundations are laid, and again when when the property is built up to the eaves level.

Subsequent payments are then usually made when the roof is watertight, and again when the interior walls are plastered, with the last instalment being paid on completion.

What types of self-build mortgages are available?

Arrears: This is the more common type of stage payment mortgage . Payments are handed out after each stage of the build is completed. This type of mortgage is more suitable for those who have cash on hand to help pay for the project

Advance: Here, payments are released at the beginning of each stage, making money available for when bills for labour and materials are due, removing the need for bridging loans or other short-term borrowing. This type of mortgage helps with cashflow and is better for those who have less money on hand to fund their project. That said, fewer lenders are prepared to offer this kind of mortgage, and it should be stressed that interest rates on self-build mortgages are normally higher than on standard mortgages.

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What are the advantages of self-build mortgages?

Also, those who self-builders often find that the value of the finished property is significantly higher than the cost of the land, the materials and the labour put together.

One of the advantages of a self-build mortgage is the potential to save thousands of pounds in stamp duty. Stamp duty isn't levied on the cost of building work, or the value of the property once the work has been completed. You only have to pay duty on the value of the land itself, and only then if the cost exceeds £125,000.

What Else Do I Need To Know?

There is be more paperwork involved when you take out a self-build mortgage, as you will have to produce detailed plans for the property. The additional supporting documentation your lender requests could include the following:

Planning permission
The construction drawings and specifications
Your Building Regulations approval
Proof of site insurance and structural warranty
Information on your architect's professional indemnity cover

You will also have to provide a detailed projection of the costs involved, and most lenders will also want to see evidence that planning permission has been granted.

Generally, you will be expected to put down a deposit of at least 25% of the total project value, though you may be asked to provide as much as 50%. On top of this deposit, you will need to pay for alternative accommodation etc., while your new property is being built.

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