



FINANCE AND INSURANCE

If you're planning to build your own home, you won't be able to borrow funds using a traditional mortgage from a high street lender, as there's not a habitable property to lend against, you'll need a more specialist approach.

Scandia-Hus work with BuildStore Mortgage Services, the UK's leading self-build mortgage experts and here they help to explain how to work out your budget, understand your borrowing options and be best prepared when applying for funding.



BUDGETING FOR YOUR BUILD

It is very important to get expert mortgage advice early on to ensure you have a clear understanding of your budget and borrowing options. Before you start looking for a plot or think about the design, build and materials, you will need to know that your plans are affordable and mortgageable.

To work out your budget, you must calculate how much money you already have and how much you can borrow. Your contribution to the build must be accessible cash, so if the money you wish to use is tied up in property, this must be released.

How much you can borrow depends on your financial circumstances and how much you can afford. Just like with any mortgage, lenders will look at your income and outgoings to calculate how much they are willing to lend you.

A standard self-build mortgage will typically enable you to borrow up to 75% of your project costs, while other mortgages available through BuildStore offer increased borrowing of up to 85%, and in some cases 95% of your costs. If you already own your plot, it may be possible to borrow enough to fund your build costs in full.

Your build costs will depend on a number of different factors, for example, the size of your new home, location, design, construction type, specification and whether you use a main contractor or project manage the build yourself. However, we would suggest that you refer to our 'rule of thumb' guide to calculate the complete cost of building a Scandia-Hus home, see our *Fact Sheet No. 8 - Introductory Price List* for more details.

MORTGAGES

As your self-build home will be paid for in stages, rather than borrowing funds using a traditional mortgage, a specialist borrowing option is more suitable.

A stage payment mortgage is designed to fund a range of homebuilding plans. It differs from a traditional mortgage in that the funds are released in stages, rather than as a single amount.

There are two types of stage payment mortgage. They are defined by how funds are released during the build, where your stage payments are either subject to an increase in the value of works completed or guaranteed based on your costs.

- A valuation-based stage payment mortgage releases funds after each stage of works are complete, where a valuation has taken place showing an uplift in value. The stage releases from your mortgage are reliant on an increase in value of your build as each stage is complete, which can be problematic for timber frame builds.
- The BuildStore cost based stage payment mortgage provides guaranteed stage payments based on your build costs before each stage – even when there has been no uplift in the value of works completed. This gives you certainty in your budget and peace of mind knowing you can plan for and pay your bills on time.

As 90% payment for your Scandia-Hus home is required before the structure is delivered on-site, a cost-based mortgage ensures you will have the cash to meet these payment terms. What is more, as a cash buyer you can take advantage of the best deals and time-restricted offers on materials.

BuildStore's panel of lenders will offer interest-only during the build which means you only pay interest on the funds drawn down, helping to keep your monthly payments affordable. What is more, when your new home is complete, you can switch onto one of your lender's traditional mortgage deals, which will have a lower interest rate, saving you money.

When it comes down to applying for your mortgage, you will need to provide the information and documentation requested by your chosen lender. It is important that your credit report is in good condition, and the income and outgoings shown on your bank statements are healthy, with no signs of overspending.

The personal and financial information required is typical of that of a traditional mortgage, for example, a form of ID, proof of address, bank statements and income documents. In addition to this, the lender will need a copy of the plans for your new home, planning permission and build cost breakdown. All lenders require some form of warranty – please see *Fact Sheet No.8*.

For more information and expert advice on how to fund yourself build visit www.buildstore.co.uk or call 0345 223 4888.

CASH FLOW

Positive cashflow is key to any successful self-build and the availability of your borrowed funds during the build must be a factor when choosing your finance.

When buying a property using a traditional mortgage, your priorities will be a low-interest rate, minimal fees and the total loan amount. With a self-build, your priority should be your cash flow, and ensuring sufficient cash is available to complete each stage of your build.

Your mortgage must be tailored to suit your financial circumstances, build and payment schedule. It's not just about how much you can borrow, but when that money is available to you throughout the build.

The stages of a self-build are generally:

1. Purchase of the plot
2. Foundations
3. Frame erected
4. Wind & watertight
5. First fix
6. Second fix & completion

Payments to Scandia-Hus are made in four stages:

1. A Reservation Order payment on commencement of planning application drawings
2. 45% with order confirmation
3. 45% five weeks before despatch of the Building Set to the site
4. 10% on day of delivery of the Building Set to the site

VALUE ADDED TAX

Under current Government legislation, there is no VAT on new houses. Therefore, any VAT paid on construction materials during the build period will be reclaimable at the end of the project. Provided Scandia-Hus provides a 'supply and fix' service, i.e. also undertakes the erection of the structural frame of your new home, VAT will be levied only on materials NOT installed as part of the shell erection service, e.g. plasterboard, second fix joinery, ventilation and heating systems, etc. These items usually account for approximately 30% of the total value of the Building Set. VAT, at the standard rate, will be payable on these items only and can be reclaimed on completion of the project / building control sign off.

If you engage a builder they will reclaim the VAT paid on materials supplied by them and invoices to you will be zero-rated. However, there may still be some items that you decide to buy yourself, e.g. wallpaper, bathroom fittings, etc. and you will be able to reclaim the VAT on these as described below.

Self-builders who manage their own builds have to pay VAT on construction materials as they go along, but they are able to reclaim this in one 'hit' on completion of the whole project. There is no need to register for VAT, but your claim must be submitted to the local HM Revenue & Customs within three months of completion of the build. This is done on the forms supplied with the special Refund Scheme for Do-it-Yourself Builders obtainable from HM Revenue & Customs VAT Office via the gov.uk website. All invoices and receipts should be made out to you personally as the self-builder and, because a refund can be substantial, it is essential to keep all your financial paperwork in good order. Once your claim has been submitted it will usually be processed within a month.

Where you use builders or sub-contractors who both 'supply and fix', VAT should not be charged, so make sure that their invoices to you are zero-rated. For further information, please refer to our *Fact Sheet No. 11 - Value Added Tax*.

STAMP DUTY

Stamp duty is not payable on the final value of your new home. Stamp duty is due merely on your plot - not including the house to be built on it. You should check the current stamp duty thresholds and rates as these may have an influence on your overall build budget.

INSURANCE

Structural Warranties

Lenders will insist on a structural warranty on your new home and, even if you do not need to borrow money, we strongly recommend that you take out a warranty, as this will be required by the purchaser in the event that you decide to sell your new home within a ten-year period. There are several companies on the market offering structural warranties, the main ones being BuildZone and LABC.

The warranty providers operate special schemes for self-builders and all offer a 10-year guarantee, where, should there be any structural failings with your home at a later date, you make a claim against an insurance policy.

You will not need an architect when building with Scandia-Hus, as we undertake all the design work and provide the required design certification, structural calculations and SAP ratings, as well as prepare and submit planning and building regulations applications on your behalf, all as part of our 'package'. However, some people elect to engage an architect to supervise their build throughout the construction period and to issue an architect's certificate on completion. Although this is not necessary and will involve additional expense, we are always happy to work with customers' architects.

Site Insurance

Regardless of whether you engage a main contractor or project manage yourself, to construct your new home you will need to have adequate site insurance during the construction period, covering site labour, materials and building work in progress, as well as visitors to the site. If you engage a main contractor, this should automatically be covered within their price. However, if you are undertaking the build yourself there are several specific insurance schemes for self-builders (see below). Site insurance is expensive - often £850 plus – but it is essential to have adequate cover.

Site insurance consists of: -

- **Public Liability** - This covers damage to third party property or injury to any person (except employees) while on your site, whether they be visitors or trespassers. Third-party property claims may also arise from damage to underground services or to a neighbouring property.
- **Employer's Liability** - This provides cover against injury to 'employees', which includes labour-only subcontractors on your site.
- **Contract Works** - This protects your investment against damage to or theft of materials on your site and damage to your building in the course of construction. You should ensure that cover is provided on an 'all risks basis', covering fire, theft, storm, flood, vandalism, subsidence, accidental damage, etc.

If you are planning to undertake part of the work yourself, we would advise you to take out personal injury insurance for the duration of the building project. You may also like to investigate the merits of taking out a contractor's insurance, guarding against the possibility of one of your sub-contractors going out of business. There are a number of companies on the market who offer a complete range of cover. Most site insurance is taken out over a two-year period but terminates on completion of the build.

One company specialising in self-build insurance is BuildStore, who have produced a special site insurance package called 'BuildCare' which, at no extra charge, automatically converts to buildings cover from completion of the build until the end of the two-year period. This saves the average self-builder the cost of one year's building insurance.

BuildCare provides competitive site cover, and it also includes legal expenses protection as part of the package. This covers your costs should you need to go to court over a breach of contract and provides a legal helpline to offer you advice and guidance.

In addition, the BuildCare package covers the insurance of your mobile home or caravan on-site, if applicable. Personal Accident or Additional Expenses cover are also available for a small extra premium, covering a claim made in the first 2 months after completion, and providing cover against any additional travel or rent expenses incurred.

For more information and expert advice on structural warranty or site insurance from BuildStore visit www.buildstore.co.uk/mortgages-finance/insurances or call 0345 223 4888. Alternatively, any High Street insurance specialist will be able to advise you on site insurance.