

## USER GUIDE TO BUILDSTORE'S ADVANCE STAGE PAYMENT MORTGAGES



SELF BUILD • RENOVATION • HOME IMPROVEMENT

[www.buildstore.co.uk](http://www.buildstore.co.uk)

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## WHAT ARE ADVANCE STAGE PAYMENT MORTGAGES?

Traditionally lenders have been reluctant to lend much money to self builders and renovators during their projects. The reason is that they want to ensure that if the borrower defaults during the build and the lender has to repossess the partially completed building, it can be sold for enough to recover the money that has been lent.

Typically a lender will lend 50% - 75% of the cost of land or the building being renovated plus up to 75% of the cost of the build. During the build, money will be released after each stage has been completed and a valuer has visited the site to provide the lender with a current valuation.

BuildStore's advance stage payment self build, renovation and home improvement mortgages were developed to overcome the cashflow difficulties experienced by many self builders, renovators or home improvers who found that the traditional way that a lender operated as described above did not suit them. With BuildStore's advance stage payment mortgages, money will be released to you at the start of each stage of the build unlike a traditional self build mortgage which releases money at the end of each stage.

In addition, depending on the lender selected, you may be able to borrow more to buy the land or building being renovated and more during the build than they would normally lend.

## HOW DOES BUILDSTORE GET THE LENDER TO RELEASE MORE THAN THEY NORMALLY WOULD DURING THE BUILD?

BuildStore has developed a scheme to provide you with additional cashflow which is accepted by lenders and which gives the lender additional protection over and above the security they have from your land and build project. The scheme is called the Additional Cashflow Benefit Scheme – sometimes referred to as "ACB".

It is this additional security that enables the lender to release money to you earlier in your project and give you positive cashflow during your build.

## HOW MUCH MORE WILL A LENDER LEND DURING A PROJECT?

Each BuildStore lender partner has their own standard terms for self build mortgage customers. Typically they will lend 75% on the land or building being renovated and 75% on the cost of the build with stage payments released during the build at the end of each stage.

However, the additional security provided by the Additional Cashflow Benefit scheme means that all of the lenders will release stage payments at the start of each stage of the build and most will also lend more during the project than they will under their standard terms.

## HOW IS THE VALUATION CARRIED OUT?

The lender is looking at two things when an evaluation is done for self build or renovation:

- What is the value of the land or building as it stands just now?
- What will the value be when the project is finished?

The valuer will therefore visit the site, with or without you, to assess the current value. To enable the valuer to provide a projected final value you will have to supply a set of drawings for the project. These do not have to be full architect plans but they do need to be scale drawings showing elevations and floor plans.

Normally you would send these plans to BuildStore and we will forward them to the valuer but if time is short you could meet the valuer on site with the plans (if you do this you should still send a copy of the plans to BuildStore as they are needed by the lender). **Note: Before a valuation is instructed payment will be required. You will be told the cost by Buildstore.**

If you are purchasing a house to improve and not changing its layout, a schedule of work being done rather than plans will be sufficient.

## HOW DO YOU WORK OUT THE ADDITIONAL CASHFLOW AND HOW MUCH CAN I HAVE?

Every project is different and therefore everyone's additional cashflow is different. BuildStore will provide you with a "Costings Form".

On this form you should put down a detailed breakdown of the work and costs of your project split into the various stages. From this BuildStore will be able to construct the cashflow you require for your project. When this

cashflow is compared with what the lender would normally release at each stage we can see where you need the extra cash and how much you will need.

**Note: It is extremely important that you provide as accurate an estimate of your build costs and cash requirements as possible on this form as this is what your offer of loan from the lender will be based on and will be what is released to you during the build.**

The example below shows that at the end of the project the total amount borrowed was £114,000. However, the

advance stage payment mortgage gives additional cashflow at each stage.

The amounts of additional cashflow vary at each stage, depending on the costs of the stage. In this example the maximum additional cashflow required during the build is £30,625.

	Cost	Traditional Self Build Mortgage	Accumulated Standard Mortgage	Advance Stage Payment Mortgage	Accumulated Advance Stage Payment Mortgage	Additional Cashflow requirement at each stage
LAND	£55,000	£41,250	£41,250	£52,250	£52,250	£11,000
PRELIMINARY COSTS & FOUNDATIONS	£15,000	£0	£41,250	£14,250	£66,500	£25,250
WALL PLATE LEVEL	£17,500	£11,250	£52,500	£16,625	£83,125	£30,625
WIND & WATERTIGHT	£13,000	£13,125	£65,625	£12,350	£95,475	£29,850
1ST FIX & PLASTERING	£11,000	£9,750	£75,375	£10,450	£105,925	£30,550
TO COMPLETION	£8,500	£8,250	£83,625	£8,075	£114,000	£30,375
RETENTION		£30,375				
<b>TOTAL</b>	<b>£120,000</b>	<b>£114,000</b>		<b>£114,000</b>		

In the example, the traditional self build mortgage lends 75% on land and 75% in arrears during the build.

## HOW MUCH ADDITIONAL CASHFLOW CAN I HAVE?

There is a limit on the additional cashflow you can have. It is usually £85,000 but it is possible to have a higher amount. This would depend on your individual circumstances and on such factors as how much of your own money you are putting into the project, how much equity you have in your current house and what your other commitments are. Each case for higher cashflow is therefore considered on its own merits.

## WHEN DO I GET THE ADDITIONAL CASHFLOW?

The answer is that you get it when you need it and that will be different for every self builder or home improver. When you need it depends on how much of your own money you are putting into the project and when. For example, if you already own the land you are building on, it is likely that the additional cashflow will be required towards the end of your project rather than at the start. Likewise, people building timber frame houses tend to have need for additional cashflow early in their project when the kit has to be paid for.

## WHAT ARE THE BENEFITS OF ADDITIONAL CASHFLOW?

The advance stage payments during your project can:

- Enable you to stay in your current house during the build.
- Give you positive cashflow which can reduce delays on site because you have money to pay for bills for materials and labour when they fall due.
- Reduce your costs of labour and materials as you become a cash purchaser.
- Stop delays caused by waiting for a valuer to visit the site at the end of each stage to carry out an interim valuation and then report back to the lender who will then release money based on that valuation and not on what your actual costs are. (No interim valuations are required on a BuildStore advance stage payment mortgage although depending on the lender selected an interim inspection may be required to independently verify the progress of the build.)

## HOW LONG DOES THE ADDITIONAL CASHFLOW BENEFIT SCHEME LAST?

Most people take less than 2 years to build their houses – typically 6 months to get detailed planning permission following purchase of the land and organise the project then 12 - 18 months for construction. The Additional Cashflow Benefit scheme runs for 3 years from the date on which your self build or renovation mortgage starts – usually when you purchase the land or building being renovated or improved. This 3 year period means that almost everyone will have completed their project by the time cover stops.

## WHAT IF MY PROJECT TAKES LONGER THAN 3 YEARS?

If your project is going to take longer than 3 years it is important that you contact BuildStore. This should be done no later than 3 months before the end of the 3 year period. BuildStore can then apply to the insurer to extend the Additional Cashflow Benefit Scheme by a further 12 month period.

## WHO DOES THE ADDITIONAL CASHFLOW BENEFIT SCHEME PROTECT?

The Additional Cashflow Benefit scheme protects the lender in the event that you stop paying your mortgage and your partially completed property has to be sold by the lender to repay what you owe them. The protection that the lender receives is for the difference between what the lender would have lent you under their standard terms and the higher amount that they have actually lent you as a result of the Additional Cashflow Benefit scheme.

## WHO PAYS FOR THE ADDITIONAL CASHFLOW BENEFIT?

While the Additional Cashflow Benefit is to protect the lender, by having it in place, you, the borrower, are getting a benefit by way of additional cashflow during your project. The Additional Cashflow Benefit is paid for by the borrower.

## WHAT DOES THE ADDITIONAL CASHFLOW BENEFIT COST?

The costs are determined by three factors:

- The maximum amount of additional cashflow you require during your project.
- The amount you are borrowing compared to the cost of the project.
- If you are borrowing on a full status or self certified basis.

To put it simply, the higher the additional cashflow and the higher the percentage of the costs of your project, the higher will be the amount you pay. The amount you are borrowing compared to the cost of the project is an important aspect of the cost of the Additional Cashflow benefit. This is because the less of your own money that you put into the project the more likely it is that there will be a

shortfall between the amount you have borrowed and what your partially completed project could be sold for in the event of default and repossession.

The cost is a single payment known as the Additional Cashflow Benefit fee, sometimes referred to as the 'ACB' fee.

The cost is based on the maximum amount of additional cashflow required during the project. In the example earlier where the self builder was borrowing 95% of the cost of the build on a full status basis and the maximum additional cashflow was £30,625, the cost of the Additional Cashflow Benefit would be £1,117.82 (£365 x 3.0625).

Note: There is a minimum cost of the Additional Cashflow Benefit of £262.50. The figures shown include Insurance Premium Tax (currently 5%).

## HOW WILL I FIND OUT THE COST OF THE ADDITIONAL CASHFLOW BENEFIT?

When you initially enquire about a self build, renovation or home improvement mortgage, a Key Facts Illustration will be produced and sent to you. This gives you the details of the mortgage product being recommended along with the charges you will have to pay. Because we will not have your detailed project cost at this point, we cannot provide an accurate figure for the Additional Cashflow Benefit Fee within the Key Facts Illustration. What we do is include an estimated fee based on the average cost paid by borrowers who use that lender.

Once you have provided the detailed costings for your project, we will work out your cashflow requirements and send you an accurate quotation for the Additional Cashflow Benefit Fee along with a copy of the cashflow which will be available to you during your project.

## CAN I REDUCE THE ADDITIONAL CASHFLOW BENEFIT FEE?

The cost of the Additional Cashflow Benefit fee is determined by the amount of additional cash you require during the project and the amount you are borrowing compared to the overall cost of the project. If you have a larger amount than the minimum deposit to put into the project it can influence the amount of additional cashflow you require. This therefore affects the amount of fee which has to be paid. You should speak with BuildStore when your project costings are ready to discuss the amount of money you will be injecting into the project and find out how the timing of the injection of that money will affect the Additional Cashflow Benefit fee.

## HOW DO I PAY FOR THE ADDITIONAL CASHFLOW BENEFIT?

The cost of the Additional Cashflow Benefit is paid directly to BuildStore and not to the lender. Payment can be by cheque, switch or credit card (credit cards carry a 3% surcharge). Payments by switch and credit card can be made over the phone.

The following table shows costs:

Total loan amount as a percentage of the cost of the project	Cost of each £10,000 of additional cashflow	
	Full status	Self Certification
Up to 75%	£175	£180
75% - 79.99%	£215	£225
80% - 84.99%	£250	£260
85% - 89.99%	£290	£305
90% - 95%	£365	£380

## WHEN DO I PAY FOR THE ADDITIONAL CASHFLOW BENEFIT?

You must have paid for your Additional Cashflow Benefit before you complete on your mortgage. This will usually be just before you draw down money to purchase your land or the building you will be renovating. If you have not paid your Additional Cashflow Benefit, the lender will not release funds so it is important to ensure you pay it a reasonable time before you are looking for your first funds.

## HOW WILL MY MONEY BE RELEASED?

The first release of money will usually be to purchase your land or the building you are going to renovate. However, if you already own the land, the first release may be to remortgage the land or to get your build started. The first release will come via your solicitor and all subsequent ones will come from the lender direct to your bank account.

## FIRST RELEASE OF FUNDS:

Once your offer for the land or property has been accepted, your solicitor will have to carry out a number of tasks:

- A contract will have to be prepared for the purchase of your land or property.
- A search will have to be instructed – this can take up to 6 weeks to be completed so be aware of this timescale in your planning.
- If the search reveals any issues like restrictive covenants or agricultural ties you should get your solicitor to contact BuildStore as soon as possible as we may be able to help you with any problems.
- When a clear search has been returned you can then exchange contracts.
- Your solicitor will prepare a Certificate of Title to confirm that the search is clear and the date of Exchange of Contracts and will send this to your lender to request the first release of funds.
- Funds will usually be released to you within 5 days of your solicitor submitting the Certificate of Title.

## DO I NEED DETAILED PLANNING PERMISSION BEFORE I PURCHASE MY LAND OR PROPERTY?

No. You can buy land with only outline planning and apply for detailed planning once you have purchased it. If you are buying a building to renovate you do not have to have the planning permissions required for the work you are going to carry out before purchase.

If however you are purchasing your land subject to detailed planning, the detailed planning will have to be in place before money is released to you to purchase it.

## WHEN DO I HAVE TO GET DETAILED PLANNING PERMISSION?

If you are building a new property or renovating or converting an existing property, you will have to provide BuildStore with a copy of your Detailed Planning Permission and Building Regulations/Warrant prior to drawing down your first stage payment for the construction work.

If you are taking out a Home Improvement Mortgage the work you are doing may not require planning permission. In this case a copy of the appropriate local authority approval for the project if any is required.

## WHEN DO I NEED MY BUILDING REGULATIONS?

You are not able to draw down money for your build until your Building Regulations are in place. Therefore, you should apply for these as soon as you can, as the lack of them could cause a delay in getting your project started.

## CAN I USE AN APPROVED INSPECTOR TO DO MY BUILDING REGULATIONS?

Nowadays private companies can perform Building Control functions and provided certain stipulations are met it is possible to use one of these Approved Inspectors for your project. The Approved Inspector must have the appropriate Professional Indemnity Cover and before they can act for you, you must have registered your new home under a designated warranty scheme. Contact BuildStore for details about this if you plan to use an Approved Inspector.

## WHAT ARE THE BUILD STAGES?

The stages at which you receive money depend on what your project entails. The amount you will receive at each stage is agreed between you and BuildStore when your costings and cashflow are worked out (see earlier).

## HOW DO I GET STAGE PAYMENTS DURING CONSTRUCTION?

To receive your first stage payment you need to provide the appropriate planning and Building regulations approval for your project.

For subsequent stage payments you need to provide proof that your build has reached the appropriate stage in the construction process by means of "Interim Certification". There are only certain people who can provide acceptable certification so it is important that you establish how you will be getting your certification done before you start your build.

This certification has to be provided by one of the following:

- Certification from an NHBC Solo Inspector.
- Certification from another suitable structural warranty inspector.
- Certification by a suitably qualified building professional who carries appropriate Professional Indemnity Insurance cover. This could be:
  - Architect
  - Architectural Technologist
  - Structural Engineer
- Certification by a NHBC registered builder

To ensure that payments are not delayed, you should contact BuildStore before work starts on your project to establish if the person that you want to certify your build is acceptable.

This table illustrates the standard build stages.

	New Traditional construction	New Timber frame construction	Renovation/Conversion	Home Improvement
Stage 1	To complete foundations	To complete foundations	To complete structural overhaul	Stabilisation works
Stage 2	To get to wall plate level	To erect kit	To achieve wind & watertight	Services first fix
Stage 3	To achieve wind & watertight	To achieve wind & watertight	Plastering and services	Practical completion of all rooms
Stage 4	To complete first fix	To complete first fix	To complete property	Internal finishes
Stage 5	To complete property	To complete property		

## HOW QUICKLY WILL I RECEIVE THE STAGE RELEASE MONEY?

Funds should normally be received in your bank account 5 working days after BuildStore receives your request and the appropriate certificate/planning permissions. **Note that original stage certificates (not copies) should be sent to BuildStore to trigger release of funds for the next stage of your build.**

Your lender may require a separate interim inspection to be carried out to verify the stage your project has reached. Where this is the case, the report will have to be received by the lender in addition to the certification mentioned above before the next stage of your mortgage is released to your bank account.

## HOW MUCH WILL I RECEIVE?

You will receive the amount that you have previously agreed with BuildStore when your Costings Form was completed and your Cashflow was prepared. Therefore, to avoid running short of money during your build you need to spend time on your Costings Form to ensure that it is as accurate as possible. You should also ensure that you have built in a contingency at each stage in case of unforeseen costs.

## WHAT IF I RUN OUT OF MONEY DURING A STAGE?

BuildStore may be able to help so you should get in touch. You should not assume that it will be possible to either change the stage payments or borrow more money. It is therefore very important to get your costings prepared as accurately as possible at the planning stage of your project and also to include a contingency budget.

## WHAT DO I DO WHEN I HAVE FINISHED MY BUILD?

When your new house is complete you should arrange to have a Completion Certificate and Habitation Certificate produced. These, along with the original copies of your "Interim Certificates" (see section "How do I get stage payments during construction?") should be sent by your solicitor to your mortgage lender to be kept with your title deeds.

It is very important that you do this. If you do not, and any of your certificates are lost, there could be delays if you decide to sell your house while you arrange for revised certification to be produced. This could result in a lost sale.

You should also advise BuildStore that your house is complete as we are required to keep lenders advised of the progress of construction. You should also give us your new address and contact details so that we can update our records for you.



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