

Lending information for self build in the UK

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Section 1: Government involvement in self build

1.1 The Government's ambition

The Government is doing more than ever to support individuals and communities taking the initiative to build their own homes. Although 1 in 10 of all new homes in England is self built, the Government recognises that the size of the UK self build sector compares poorly internationally and it is looking to double its size over the next decade, with the aim of enabling self build housing to become a mainstream source of housing provision.

"I want to create a self build revolution where building your own home is not just the preserve of the privileged few."

Grant Shapps MP, Minister for Housing, June 2011

"Self builders deliver affordable, greener and more innovatively-designed homes, and make a big contribution to the number of new homes built in this country. But there is still significant opportunity for growth in the sector which can only be opened up if Government and industry work together..."

... I pledge to continue pushing for further action to make self build an easier option for everyone."

Grant Shapps MP, Minister for Housing, July 2011}

In the *Laying the Foundations: A Housing Strategy for England* (HM Government, 2011) the Government announced the introduction of a "Custom Build" (the Government's term for self build) programme which involves a series of key actions to kick start its growth ambitious for the sector.

1.2 The Self Build Homes programme – Government action

- Councils will be required to gauge demand for self build in their local area and take positive steps to facilitate it in their plans and programmes
- Opportunities for self builders to access land which central government is releasing as part of its accelerated public land disposals programme will be maximised
- Larger scale locally-planned self build home developments will be promoted
- Government will continue to work with industry to establish a one-stop-shop for advice and support to would-be self builders
- A Champion will be appointed to raise greater public awareness of the benefits of self build and ensure government support and industry guidance for those who want to build their own home.
- £30m will be made available to support provision of short-term project finance to this sector on a repayable basis. It is envisaged that the fund, which is in direct response to the recommendations set out in the Self Build Action Plan published by the industry in July 2011, will run until 2015 and provide short term repayable project finance for larger scale self build developments and be accessible by developers and communities who want to bring forward such schemes before selling the substantially complete units to self-builders to finish.

1.3 Why is Government focussing on self build?

- It is important to the national economy (value is estimated over £3bn annually¹)
- It makes an important contribution to housing supply (the sector collectively builds as many homes annually as any of the major house builders)
- There is now reliable evidence of growing public demand for this type of housing which, if met, will enable the sector to grow significantly and in turn make a greater contribution to the number of new homes built across the country
- The sector protects and creates local jobs, strengthens local construction supply chains and is a vital part of local economies
- Self build housing offers more local choice and is demonstrated to often offer better value for money, bringing with it the option to make housing more affordable for a new generation of home owners
- This type of housing reflects the Government's localism ambitions.

¹ Self Build Housing Market UK 2009–2013 (AMA Research, 2009)

Section 2: Self build defined

Self build is a term encompassing a variety of different ways in which consumers procure their own home. The level of involvement by the consumer varies from project to project, but it can range from commissioning professionals to undertake the work to hands-on involvement with the design and build.

There are seven main ways of undertaking a self build project²:

2.1 Contractor built one-off home

Here the self builder manages the design process, selects a contractor and then the contractor takes care of the construction work. The vast majority of 'self build' homes are constructed this way – perhaps two thirds. This approach usually involves the owner finding a suitable plot of land, hiring an architect, getting planning and building regulation approval and then finding a suitable main contractor to do most of the building work. The owner may do some of the simpler physical building tasks (perhaps the decorating and landscaping) to help reduce costs; but the lion's share will be organised and provided by the main contractor.

2.2 Self built one-off home

The self builder manages the design and construction process and undertakes a significant proportion of the actual building work too. This is the classic DIY route, but only a modest proportion of people actually procure a home this way – perhaps 10-15 per cent. This approach tends to appeal to people who are on a tight budget. The self builder finds the site and secures planning and building regulations approval. They also take responsibility for the detailed project management of all the construction work, and they frequently work full time on the site helping wherever he or she can. The savings are considerable – often 20-30 per cent less than using a main contractor.

2.3 Kit or package home

Here the self builder finds the plot of land, but then they tend to work alongside a specialist kit home provider to finalise the design and to plan the construction. There are numerous companies that provide "kit" houses for self builders. These range from traditional oak beam barn-like homes, to modern modular structures made to precision standards in a factory environment. Once the owner decides which kit home suits them the best, they and the manufacturer will usually work up the designs together and submit them for planning and building regulation approvals. Often the owner takes responsibility for clearing the site and preparing the foundations. The kit company then supplies the house and erects it. Sometimes they do all the internal fitting out work as part of their contract; sometimes the owner will do the finishing off work themselves to help reduce the cost. About a tenth of all self builds are believed to be constructed this way.

2.4 Developer built one-off home

The self builder finds a developer with a site and a design they like – the developer then takes care of almost everything. This approach is growing in popularity and there are now a fair number of locally based companies offering this option. It's very simple and risk free for the self builder, though it is generally more expensive. At the moment a very small percentage of self build projects are delivered this way – perhaps one or two percent.

2.5 Supported community self build group

This method involves a group of people coming together to pool their skills so they can build a number of self build houses collectively. Usually the group will include people with some construction skills, though often there is training undertaken to boost the participants' building knowledge. Each member of the group will work on everyone's house, until all are ready for occupation. By working around 25-30 hours a week in the evenings and weekends they can usually build all the homes in about 12-18 months. Some groups form themselves; others are co-ordinated by housing associations or an agency that helps people run projects like this. Almost 100 community self build projects have been set up over the last 20 years. The norm is for between 10 and 20 people to come together to build 10 to 20 new homes. This approach is a very effective way of reducing the cost of a house and means someone on a low or modest wage can afford to build their own property.

2.6 Independent community collaboration

Under this approach a group of self builders is formed to acquire a larger site to split up into individual plots. They then organise the design and construction of their own homes. By 'bulk buying' the land they can usually get their individual building plots significantly cheaper. And by working together and sharing some common costs (for example the cost of key tools or bulk buying materials) they can deliver these homes more cost effectively too. At present very few homes are built this way in the UK – perhaps 10-20 a year. But this approach is more common in Continental Europe and it is expected to grow in popularity in the UK.

2.7 Developer/contractor led group project

A developer/contractor organises a group and builds the homes; often, to save costs, the self builders finish them off. This is a new approach to self build in the UK and very few homes have – to date – been built this way. However, in many other countries this is a common approach to self build, and it is again expected to grow rapidly in popularity in the UK.

Section 3: Research into the self build market

3.1 Market Demand

Over the last few months the self build industry has been working closely with Government to better understand the demand for self build housing and the challenges self builders face in bringing forward their projects.

During Autumn 2011 the Department for Communities and Local Government (DCLG) worked with three organisations *Home Building and Renovating magazine*²; *BuildStore*³ and *Media10*⁴ to survey potential self builders to better understand this market⁵. In October 2011, the Building Societies Association (BSA) commissioned YouGov to undertake a piece of research to determine the potential levels of demand for self build. The sample size was fairly limited at 2,051, but the survey produced some interesting results.

Norwich and Peterborough Building Society (N&PBS) also undertook a survey to gauge the demand for self build housing.

3.2 Market share

Reliable statistics about the scale of the number of self build homes built annually remain unavailable. This is because there are no official house building statistics on the sector which are collected by either by the Department for Communities and Local Government or the Office for National Statistics.

The only official statistic available on the size of the UK self build market is the number of VAT refunds made each month by HMRC for completed projects under 'VAT431NB – VAT refunds for DIY house builders'. Under this scheme, private individuals can make a single application to recover VAT paid on eligible building materials to ensure they benefit equally from the zero rate of VAT applied to new dwellings. However even these statistics can be unreliable as not all self builders claim VAT, particularly given that many use a contractor for the building work.

Based on the DCLG's unpublished analysis of the sector's market share between 1987 and 2011 it is clear that whilst its share has marginally increased in the last few years the long term trend has remained relatively steady between, averaging between 7-10% of the overall number of new homes built each year (see graph below).

The marginal increase in recent years is in large part due to the widespread media exposure of programmes like *Grand Designs*, national media, specialist magazines and changing expectations of home owners.

² Homebuilding & Renovating Magazine is one of the UK's best-selling magazines for self-builders and renovators with a monthly readership of over 26,000

³ BuildStore is the leading intermediary for self build mortgages and a one-stop-shop for self builders, providing information on products and services in self build finance, construction, renovation and conversion

⁴ Media 10 Limited is a privately owned publishing and events company based in Essex, responsible for the biannual *Grand Designs Live* exhibition and *The Ideal Home Show*

⁵ Survey size was 2,777 (DCLG, unpublished)

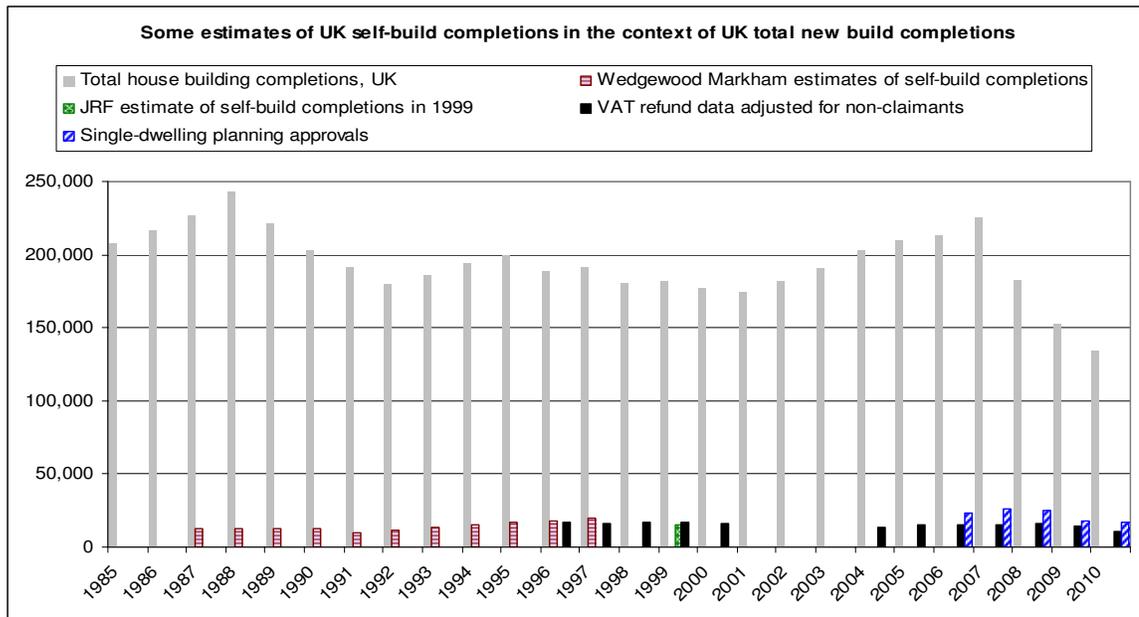


Figure 1: Estimates of UK Self Build / UK Total New Build completions

The DCLG estimates that in 2010/11 there were about 13,800 self build homes completed⁶. According to the DCLG, these self build homes made up 2 out of 3 of all single dwellings built.

The expectation from Government is that this is about to change. This is because it wants to help unlock the growth potential of this market and double its size over the next decade, to create up to 100,000 additional self build homes over the next decade and enable the industry to support up to 50,000 jobs directly and indirectly per year.

The BSA survey found that over half of all respondents (53%) said they would be interested in building their own home.

The DCLG found that around 1 in 2 (59%) self builders surveyed are anticipating to start their projects within the next 2 years and a further 22% anticipate to start their build in the foreseeable future (between 2 and 5 years). Almost half (46%) of self builders have already purchased land. This demonstrates the immediate market demand which exists in the sector.

This demand is also underlined by further information from NaSBA:

- 400,000 people searched Rightmove in September 2011 alone to try to find a plot
- More than 100,000 people already subscribe to one of the main plot-finding websites

⁶ *Laying the Foundations: A Housing Strategy for England* (HM Government, 2011)

3.3 The 'average' self builder

The majority of self builders are well capitalised married couples, many with no children, who are home owners aged between 35 and 54.

DCLG's survey indicates that the typical self builder applying for self build finance has the following profile:

- Over half (51%) are between the ages of 35-54. More specifically, 20% are between the age of 35-44; 31% are aged 45-54 and another 28.5% are aged 55-64
- 1 in 4 (25%) have household incomes between £35,000-£50,000 and a further 23% have an income between £50,000-£75,000
- 2 out of 3 (67%) are existing home owners
- 1 in 5 (22%) own more than one property
- Almost half (43%) of aspiring self builders who answered the Home Building and Renovating survey want to build in southern England.

These findings are broadly echoed by Buildstore's data⁷:

- 25% of people are between the age of 31-40; 36% are aged 41-50 and another 25% are aged 51-60
- More than 1 in 4 (27%) have a household income between £40,000-£60,000;
- Almost 1 in 5 (19%) have an income between £60,000-£80,000
- More than 1 in 10 (13%) have a household income between £30,000-£40,000
- Almost 75% are married couples and 60% have no children

3.4 The typical self build project

Most self builds are not DIY projects. DCLG's survey indicates that most self builders don't actually build their homes themselves. Indeed the majority (over 80%) use a combination of builders, sub-contractors and project manage their build, with only a small number (8%) actually doing the build themselves. Interestingly, almost 1 in 5 (16%) use a contractor to build their home for them.

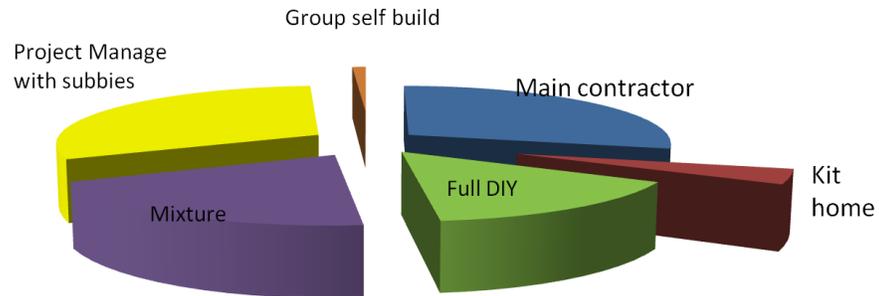
DCLG's survey indicates that the majority of potential self builders prefer either timber frame or traditional brick or block construction for their homes (64%). DCLG also found that some 8% were interested in 'kit homes', and about 1 in 10 (11%) were planning a renovation/conversion, home improvement or extension project.

Buildstore's data⁸ shows similar results:

- Around two thirds of self build homes are built using conventional brick and block
- Around 1 in 3 people build timber frame kit systems
- Less than 5% use other build methods

⁷ Self Build Moving Centre Stage: Expanding the market for self procured housing (Buildstore, 2009)

⁸ Self Build Moving Centre Stage: Expanding the market for self procured housing (Buildstore, 2009)



Buildstore data also highlights that 2 out of 3 self builders typically build more than one property. Indeed:

- Over 1 in 3 complete two or more builds
- 1 in 10 people complete as many as three builds

Build-Zone examined their database to look at projects for which they provided insurance over the last 12 months and found that most builds involve collaboration between self builders and professionals:

- Custom homebuilding (either where a consumer commissions the build but has little involvement on the build, or when the consumer hires a builder to undertake the process) amounted to 12% of projects.
- Watertight shell with self-managed finishes (where a builder is contracted to erect the house to watertight shell stage, at which point the project is handed over to the self-builder who manages the finish trades directly with subcontractors) amounted to 33% of all projects
- Kit home with self-managed trades (the kit home supplier is usually responsible for managing the design issues, supplying and erecting the superstructure, but the self-builder is responsible for organising the ground works and finishing trades) amounted to 14% of projects.
- Self-managed with subcontractors (where the self-builder has to arrange all the trades throughout the job) amounted to 33% of projects.
- Self-managed with own labour and subcontractors (where the self-builder is undertaking aspects of the work in a DIY fashion, interspersing this with hiring and managing subcontractors) amounted to 39% of projects.
- Entirely DIY amounted to 3% of projects.

3.5 Motivations for self build

DCLG's survey found that self builders have a range of motivations for building their own home:

- Most (85%) self builders do so because they want more choice over the design and layout of their homes
- Many (62%) do it because of personal ambition

- 1 in 2 (53%) see it as a route to home ownership which could save them money
- 4 out of 10 (40%) do so because they are not satisfied with homes that were currently available on the open market
- 1 in 4 (25%) see financial gain as an important factor.

BSA's survey found:

- Most (53%) of people self build because they want to control the design and layout of the home
- 43% of self builders are attracted to the fact it would be cheaper to build than buy on the open market.

These conclusions are not inconsistent with Norwich and Peterborough Building Society's survey which found that:

- 42% of self builders are attracted to the idea of self building as a way to build a home which is suited to their individual needs
- 26% of self builders are attracted by the likelihood that self build would work out significantly cheaper than buying an equivalent existing property
- 21% of self builders are attracted to self build because they could build a more efficient and environmentally-friendly home.

The results broadly mirror Buildstore's information on the why people choose to self build⁹:

- 82% identify choice and control over design and layout as one of the top three reasons for self building, with 35% of self builders seeing design to their own specifications as the most important reason
- 59% identify location choice as one of the top three reasons for self building with 30% identifying location as the most important factor
- 52% see financial gain as one of the top three reasons for self building
- Other reasons include dissatisfaction with the existing supply of houses; personal ambition and reward.

Expected build cost aspirations (excluding land costs) identified in the DCLG survey were:

- About 1 in 4 people (23%) aim to spend no more than £150,000 on their build
- About 43% anticipated a total spend between £150,000 and £300,000 for their project
- Almost 1 in 4 (22%) expect to spend between £300,000 and £500,000 on their builds

Average build costs:

The average build cost from Build-Zone data for 2011 across the UK, including land, was £235,543.

3.6 Funding the self build project

With the self build market expected to increase as more people look to build their own homes, demand for affordable self build finance is likely to increase. However,

⁹ Self Build Moving Centre Stage: Expanding the market for self procured housing (Buildstore, 2009)

many self builders continue to struggle to find an affordable finance package for their development or encounter difficulties when engaging with lenders.

The BSA's survey highlighted that whilst many more lenders are offering dedicated self build mortgages when compared to ten years ago, about 1 in 3 people experience difficulty in getting a dedicated self build mortgage.

DCLG's survey found that the two most challenging aspects of securing self build finance raised by self builders who responded to its survey were:

- Finding a self build mortgage provider (25%)
- Finding an affordable self build mortgage (23%)

DCLG's survey also found that 1 in 4 (25%) of self builders were either unable or found it difficult to secure a self build mortgage. The following main reasons were given:

- inability to raise capital against an existing property
- lenders appearing to lack knowledge and expertise in terms of valuations relating to part builds and plots with a planning permission
- difficulties in acquiring bridging finance.

Key areas for improvement in the finance packages highlighted by self builders were the need to:

- Introduce more transparency about what finance products are available to self builders, and
- Increase the number of finance products on the market.

Average loan sizes and LTVs – some facts according to Buildstore's self build mortgage borrowing:

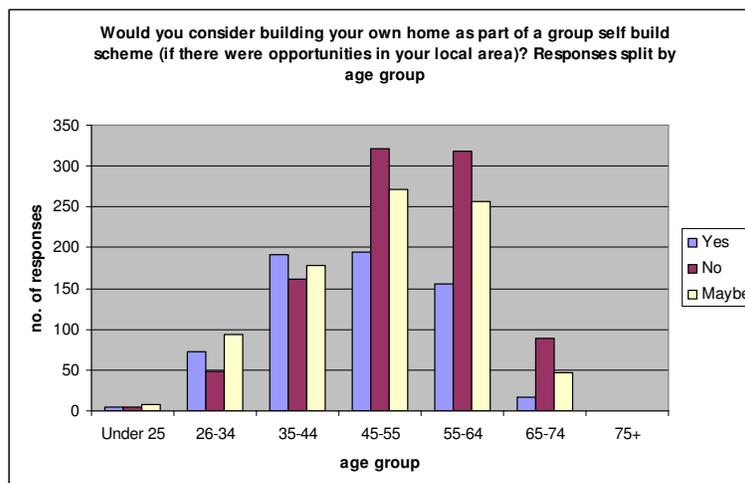
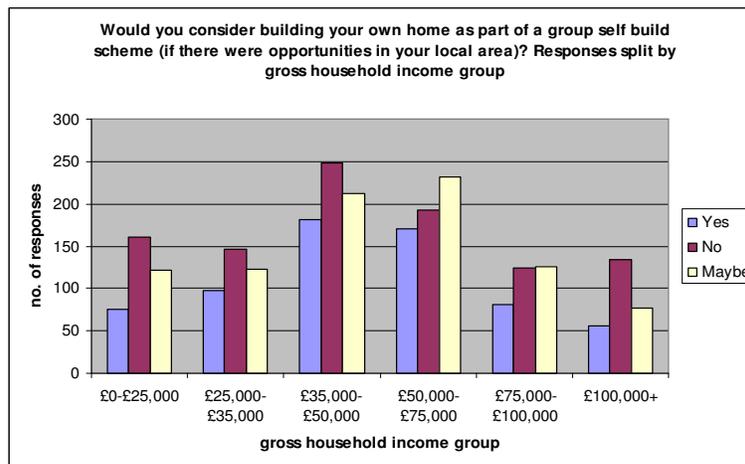
- 2007/8 – lending £435m
- Average loan – £208,592
- Average final LTV – 62%

3.7 Group build schemes

Self build housing has to date largely been about single units built on single plots. This is changing. The DCLG survey identified that demand for 'group', or multi-unit, self build schemes where communities work with builders or registered housing providers or where builders build multiple homes for their clients as part of a larger development, is increasing. It is likely that demand for this form of development will further increase as the DCLG capital funding facility for group schemes is introduced.

The DCLG's survey found that that more than 1 in 4 (26%) self builders would be interested in building their home as part of such group schemes and a further third (35%) are undecided on whether they would be interested. It is notable that the demographic profile of the type of self builder who is interested in such schemes appears to be skewed towards younger age groups.

Household income profiles of those who aspire to group self build also appears to be clustered around 'middle income groups'.



These facts suggest that there is demand from a younger, capitalised, self-builder who is willing to take advantage of opportunities in the market, where they exist.

This evidence of market interest in larger schemes is supported by evidence provided from the Confederation of Cooperative Housing and NaSBA who indicate there are already a range of such group projects in the pipeline.

NaSBA have identified about 50 self build groups who are working up projects across the UK, of which approximately half are 'ready to go'. Three broad groups can be identified:

- Enabling developers: such as Urban Self Build, Wellstride, Igloo Regeneration, Derwood Homes, Ecomotive, O&H, Zero Energy Projects, Swallow Hill Homes and Glenrate.
- Community housing providers: such as the Community Self Build Agency, Gentoo and the UK Cohousing Network. Local Authorities and Housing Associations also fall into this category.
- Informal local groups: such as the Eco-Villages network, the Community Land Trust network, and local groups bringing forward successful projects like Ashley Vale, Bristol.

NaSBA indicate that on average, group schemes need about £1m finance per project, based on typically 20 homes and a contribution of £50,000 per household to help with land acquisition and initial infrastructure costs. Development costs for buildings vary considerably and depend on scheme type.

More developers are also entering this market, which is seen by many builders as a growth area, particularly given the strong push being given by Government and the support which will be provided through a revolving fund facility. These 'enablers' are typically private developers (some house builders) which sell plots with design and build contracts or sell pre-prepared serviced plots to self builders- a development model which is dominant in countries such as Australia and the USA. Other enabling developers act as intermediaries between self builders and local authorities, agreeing planning and design conditions for the site before bringing sites to the market. Sites for such development can range from small sites of just 5-10 plots to large sites of 50-100 or more plots.

3.8 Financing group self build projects

Capital finance availability for multi-unit group self build projects remains an important challenge for the sector. This was an important conclusion of the Self Build Housing Action Plan. This is also consistent with the conclusions in the Federation of Master Builders¹⁰ (FMB) report which identified the restrictive capital finance conditions for small and medium sized builders, some of which build homes for self builders. FMB's survey found that the tightening of credit conditions were affecting builders, 38% of whom indicated that restrictions in the availability of land, and or credit, had prevented them investing in land that they would have bought for developing over the next 5 years.

¹⁰ *Tackling the housing crisis* (FMB, November 2011)

Section 4: Concerns about self build to lenders

The concerns about lending on self build properties can broadly be grouped into the following three categories:

4.1 Valuation information

Valuing self build properties ahead of stage release of funds as well as upon completion can be difficult. Properties are often unique or built using modern methods of construction and it is difficult to find comparables.

The RICS convened senior members involved with development of its guidance on the valuation of new build properties and its representatives on the Self Build Implementation Group to assess how it could provide guidance on the valuation of self build properties, but during the build phase and upon completion. The group concluded that the principles for the valuation of new build applied equally to self build. The RICS is currently consulting on guidance entitled 'The Valuation of Individual New Build Homes' which includes reference to self build and stage payments. The guidance states that the principles involved in valuing self build properties are no different to those employed in valuing any new build proposal and the danger in promoting a different methodology is the risk that such schemes could potentially become stigmatised and valuations be distorted as a result. The issue, defined in the guidance, is not with the value of the property itself, but with the appropriate assessment of the property during construction where stage payments are being made.

The RICS Guidance note; The Valuation of Individual New Build Homes will be published on www.rics.org when the consultation process has been completed.

4.2 Delays or set-backs to the build

This can include the borrower's plans changing during the build, time delays on the project or a builder going into liquidation. Project Management by an outside professional such as an Architect or Project Manager can help in alleviating this risk, along with careful attention to staged release of funds that are assessed against budget and relative stage of build.

4.3 Running over-budget

This can include the consumer running out of money and having insufficient savings to act as a contingency fund. It could be due to the borrower underestimating costs of the build to begin with. If the borrower is left with insufficient funds to finish the project, the lender is left with the decision of whether to advance more funds (leading to a higher loan-to-value ratio) or taking possession of an incomplete property. Ensuring that the borrower has a realistic budget with a suitable contingency fund is key to ensuring budget over-runs are minimal and dealt with suitably.

Methods of mitigating the risks of self build lending are discussed in the next section.

Section 5: mitigating risks

There are ways of mitigating risks of lending on self build properties which are described below. This is not a comprehensive list but does include some examples of ways to reduce risk.

5.1 Planning and Building Control

Check that the consumer has valid full planning permission and they have submitted working drawings for Building Regulation design approval with either the local authority or an Approved Inspector.

5.2 Title

Titles should be checked by the conveyancer as would be the case for a traditional purchase. Special attention should be paid to rights of way and any other restrictive covenants with adequate cover being in place. The Law Society does not currently issue specific guidance on conveyancing for self build properties but are looking into the possibility of producing some.

5.3 Planning and budgeting

Check whether the borrower has a comprehensive project development plan and schedule in place. The plan should include a timescale and budget for each stage of the build which has been quoted by the builder or relevant trade contractor. Reliance on the borrower's own time and skills should be considered in the context of any previous experience with similar projects. Their plan should also include details of additional savings or contingency fund in case any stage of the project goes over-budget. A 10%-15% contingency fund is considered standard for a self build project and 20% for a conversion project.

5.4 Legal Contracts

Contracts should be utilised by the borrower for the engagement of professionals along with main suppliers of materials and each builder, or trade contractor. Low cost purpose written contracts are available from Self-Build Zone and ContractStore or a legal firm. Each contract will detail a description of the project, labour costs, payment systems, a specification of the materials to be used, their costs and who will source them.

5.5 Structural Warranties

The borrowers should have arranged for the property to be built under a recognised warranty scheme which provides insurance for the housing unit for ten years post completion against defects in the design, materials and workmanship. The warranty provider will check the design and workmanship is acceptable throughout the construction process through a series of site inspections or technical audit checks (which can incorporate the Building Control functionality if this has been arranged via the warranty provider). There are a number of warranty providers in the market but four of the main providers are NHBC, Build-Zone, LABC, Premier Guarantee.

5.6 Insurance

Self builders will require a variety of insurance policies, depending on the method of procuring their build.

They should have Site Insurance, which normally covers loss or damage to the building works, temporary works and materials for incorporation therein (and existing

structures in respect of conversion projects); public liability; employer's liability, together with personal accident; JCT Clause 21.2.1 insurance to cover possible damage to the surrounding area. There are a number of site insurance providers including Self-Build Zone, Build Care and Self-Builder.

5.7 Self Build Indemnity/Build Out Scheme

Build-Out insurance cover is a bespoke Mortgage Indemnity Guarantee policy designed to enable the lender to provide greater levels of funding (up to 90%) than would normally be provided but importantly to provide necessary financial funding to complete a project (Build-Out expenses), if it has to be repossessed during the course of construction, therefore enabling a more favourable disposal upon completion. It is underwritten by Lloyd's and available exclusively via Buildstore Financial Services limited who are experienced managers of the scheme.

Build Out expenses – The expenses made up of

- (a) the cost, not exceeding £2,500, of the reports identifying
 - (i) the sale price of the Property at the time of Possession,
 - (ii) the cost of work required to complete the build or refurbishment
 - (iii) the eventual likely sale price after completion of the build or refurbishment
- (b) the cost, not exceeding, £1,500, of
 - (i) novating any existing contracts to enable the completion of the build or refurbishment of the Property
 - (ii) the cost of identifying any Remedial Work
- (c) the cost of project management in respect of the remaining building or refurbishment works to complete the Property
- (d) the sum that would have been contributed by the Mortgagor for the remaining stages of build or refurbishment after the stage reached at Possession of the Property.

The total of (a) to (d) inclusive shall not exceed £85,000.

Section 6: Capital requirements

It is important for Standardised lenders to be aware of the value of the property at each stage in order to fulfil the requirements in the FSA Handbook for the preferential risk weighting of 35%. At time of writing, the key provision under the revised standardised approach is BIPRU 3.4.56, which says:

“Without prejudice to BIPRU 3.4.85 R, an exposure or any part of an exposure fully and completely secured, to the satisfaction of the firm, by mortgages on residential property which is or shall be occupied or let by the owner or the beneficial owner in the case of personal investment companies must be assigned a risk weight of 35%.”

The important bit in that context is " is or shall be occupied " which covers properties under construction. "Fully and completely secured" is further limited by BIPRU 3.4.81 to exposures below 80% LTV. The treatment of exposures above 80% LTV is explained at BIPRU 3.4.82. These BIPRU rules will be superseded by the new EU Capital Requirements Regulation, expected to come into force at the beginning of 2013, but this is not expected to materially change the above treatment.

The risk weighting has to be based on current LTV, so at each stage, as funds are advanced to buy the plot and then maybe stage payments while construction is proceeding, lenders should be clear as to the value of the property in its the current state.

One issue is that after buying the plot, the money spent on the construction doesn't necessarily produce a corresponding uplift in valuation; it's not a straight line from cost of land to value of finished house. So, depending on how much equity the borrower is putting in, lenders should take care that the loan doesn't venture over the 80% LTV threshold at some stage unless they are prepared to follow the treatment in BIPRU 3.4.82.

IRB lenders would determine their own capital requirements.

Section 7: Further information

Building Societies Association

The BSA publishes information for lenders on self build on the website below:

www.bsa.org.uk

Buildstore

Details of Buildstore Financial Services Limited insurance are available from:

Buildstore Financial Services Ltd 2012,

Kingsthorpe Park,

Nettlehill Road, Houstoun Ind Est,

Livingston

EH54 5DB

Rachel.pyne@buildstore.co.uk

Consumer self build information

A new portal aimed at consumers who are considering building their own home will soon be available from the link below:

www.selfbuildportal.org.uk

National Self Build Association

The National Self Build Association (NaSBA) website contains information aimed at the self build trade:

www.nasba.org.uk

RICS

The RICS Guidance note The Valuation of Individual New Build Homes will be published the website below when the consultation process has been completed:

www.rics.org