SELF-BUILD LOAN FUND: SCOTLAND

Information Brochure

August 2023

The Scottish Government has provided a Self-Build Loan Fund (SBLF) to assist individuals experiencing difficulty in obtaining self-build mortgage finance, and who can repay the loan upon completion of their new home. The fund is administered by Communities Housing Trust ['The Agent'].

This brochure provides information about the SBLF.

The SBLF will be available for up to 5 years but with an initial period of 3 years to 31 August 2025, all loans following this initial period must be repaid by 31 August 2026. Information in relation to the SBLF can be found on the following website: www.chtrust.co.uk/scotland-self-build-loan-fund.html. The fund is open to applicants across Scotland in both **rural and urban** areas. Please note the SBLF is a discretionary scheme, with no guarantee of assistance.

Please note: By submitting an application to the SBLF your information will be processed and used in accordance with the Scottish Governments data processing requirements. A copy of the Scottish Governments privacy notice in relation to the SBLF can be found at www.chtrust.co.uk/scotland-self-build-loan-fund.html

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1. What is the Self Build Loan Fund (SBLF or The Fund)?

The Scottish Government acts as lender of last resort and has provided the SBLF for applicants who have been unable to source mainstream self-build mortgage finance, and who will be able to repay the loan upon completion of their build. The Fund supports the self-build process, subject to meeting the following criteria:

Question	Y/N
Have you been unable to obtain self-build mortgage finance for a new home (not a conversion or extension) and can you demonstrate the reasons for being declined?	
Do you intend to occupy the residence as your main and only residence upon completion?	
Do you own the house plot?	
Do you have FULL Planning Permission in place?	
Can you provide evidence that you will be able to repay the loan upon completion?	

If you have been able to answer **YES** to all of the above questions, you may be eligible for support from the SBLF. You are advised to seek independent financial advice to ensure that the SBLF is a suitable avenue for you to pursue, as any loan granted by the Scottish Government will be secured against your house plot/future house and only discharged upon completion, subject to you repaying the loan plus interest. If you have an existing Standard Security registered against the house plot, a ranking agreement will also be required. This is common practice in terms of de-crofted house sites.

If you answered **NO** to any of the questions, please still get in touch with us to discuss your requirements, especially if you have any concerns in relation to crofting tenure. You can find our contact details in section 11.

The Scottish Government has made the Fund available to provide support to people who wish to undertake a self build project, but are unable to access a mainstream self build mortgage, and who intend to build a mortgageable property. The Fund is not a self-build mortgage, providing short term bridging finance covering the build period only.

The Fund is there to create additional, genuine new individual domestic homes and cannot be used to finance:

- Second Homes/Holiday Homes
- Bed and Breakfast Accommodation
- Managers/Staff Houses
- Multi house developments

In addition, if you hold buy to let property or rent out a home that you already own, you will not be able to access the Fund.

It is essential that you factor in post completion finance into to your programme especially if you intend using your existing home equity to repay the loan. Should you exceed the agreed repayment date, we will apply a default rate of interest.

In terms of mortgage finance it is worth highlighting that some mortgage providers will not provide post completion mortgage finance until 6 months after completion of a self or custom built property. Please also note that some mainstream lenders will not lend on self-built properties at all. Obtaining a mortgage based on the construction type of your property will vary by lender, but the norm is for a block/brick or timber frame/block construction. Anything outwith this may be considered non-traditional construction and may restrict the range of mortgages available.

The maximum loan per application is £175,000, however to make the most of the assistance the fund can offer to self and custom builders it is likely that we will offer lower value loans. We will, however consider and prioritise loans based on each individuals circumstances.

You can also use the Fund in conjunction with other sources of finance, subject to the Scottish Government retaining the first ranking Standard Security. For example an existing Standard Security (subject to it taking second place via a ranking agreement) and funding from the Croft House Grant scheme amongst others.

2. How does the SBLF operate?

The Scottish Government has appointed Communities Housing Trust to act as their Agent for the duration of the SBLF. The duties of the Agent are to administer the Fund and process applications, however any contract will be between the applicant/borrower and the Scottish Government.

We apply a two stage application process. The first stage considers your financial circumstances and ability to proceed, the second stage reviewing your construction approach and the viability of the project. Only if both stages are satisfactory, will we consider offering you a loan. You should not start your build on the assumption that you have presented a satisfactory stage 1 application. The supporting information we ask you to provide to us is similar to the information required when applying for a self-build mortgage, so you will have a lot of the supporting information to hand to take forward your application.

To apply to the Fund you must be:

- **unable** to obtain self build mortgage finance; and
- **able** to repay the loan upon completion.

Should you meet the requirements of both stages, we will issue an Agreement in Principle letter, a Key Facts Illustration together with the offer of loan. The Scottish Government charges an arrangement fee which currently stands at £895, together with the cost of £22 for registering the loan agreement (£917 in total). The loan is secured via a Standard Security which is taken over your new house plot in favour of the Scottish Government.

Once the legal work is satisfactorily completed you are then able to draw down the stage payments detailed within the loan agreement. You will have to provide a Professional Advisors Certificate with all drawdown requests. It is essential that you seek professional advice in preparing your cash flow to ensure that you do not run out of money during the course of your build.

When you complete your build, you will provide a copy of the completion certificate to the Agent (CHT) and confirm that you wish to redeem the loan. The Agent will advise the Scottish Governments solicitor and they will make contact with your solicitor to confirm the process for redeeming the loan and discharging the Standard Security.

The interest rate accrued over the course of the loan currently stands at 5.5% per annum (calculated daily), but is subject to review. Should you fail to repay the loan by the agreed repayment date, we will apply a default interest rate of 9% per annum (calculated daily). You are, however, able to repay before this date should you choose to do so. At present, the cost for discharging the standard security stands at £375 + VAT. In addition, you will also need to meet your own Solicitor’s costs including any fees.

3. How will my application be assessed?

At stage 1 we will review your financial situation in order to identify:

- the reasons behind you being declined self build mortgage finance;
- the affordability of your loan request;
- the equity in your completed build;
- the likelihood of you being able to repay the loan, plus interest.

If you satisfy the above requirements, we may then proceed to stage 2, where we will review your build proposals to identify:

- an achievable build programme;
- an acceptable end valuation and equity balance versus the loan;
- a comprehensive understanding of your build cost;
- acceptable insurance cover;
- acceptable monitoring arrangements.

If all of the above are satisfactory, the next step will be to consider offering a loan.

Please note the SBLF is a discretionary scheme, with no guarantee of assistance.

4. What Professional services will be needed in order to apply to the SBLF?

You will need to appoint a Solicitor, Architect (Surveyor or Engineer) and Surveyor to assist you with your project. Your Solicitor will be responsible for completing the legal work associated with the Standard Security over your house plot and confirming that you have valid title to the property. Your Architect (Surveyor or Engineer) will monitor your build at key stages and provide a Professional Advisors Certificate that you will need to retain for mortgage purposes. Your Surveyor will provide a valuation of your property as both a house plot and for the completed build based on the plans.

If you intend using the existing equity within your current home to repay the loan, you will need to provide an up to date valuation report for your current home, addressed to The Scottish Ministers (as client) together with a copy of your most recent mortgage statement and a copy of the Land Certificate for your current home. The valuation report for your existing house (if applicable), will need to provide two valuations; the first providing the open market valuation with the second providing a valuation based on a maximum 90 day marketing period (from putting the property on the market to completing the sale).

We also recommend that you seek independent financial/mortgage advice, as any loan offered will be secured against your new house plot/future home for the duration of loan agreement. We cannot offer you any recommendation on post completion finance options.

5. What costs are involved in applying to the SBLF?

The direct costs associated with the scheme have been touched upon earlier in the brochure and are summarised below:

- Arrangement fee £895
- Registration of loan agreement £22
- Legal fee for discharging the loan agreement £375 + VAT

The above are non-refundable and indicative. If your case is more complicated, then your costs will increase accordingly, for example if a ranking agreement is required.

You will have additional costs in taking forward your application and these are summarised below:

- Statutory Credit Report from one of the following confirming either Good or Excellent (Equifax, Experian, Transunion)
- Valuation report (varies)
- Your Solicitors costs including the registration costs for submitting the Discharge to the Land Register
- Your Architects (Surveyor or Engineers) fees for preparing the Planning Application, Building Warrant submissions and ongoing monitoring of the build
- Post completion mortgage finance arrangement fees or house sale costs

6. What is a Mortgageable property?

A mortgageable property is a property that will obtain mortgage finance upon completion. Whilst the SBLF **does not** require the loan to be repaid by mortgage finance, the scheme seeks to fund housing that will be mortgageable for a future third party purchaser. To be classed as mortgageable the type of construction will play a part (as touched upon earlier in section 1) as will the monitoring arrangements during the course of the build. Mortgage lenders will generally only lend on a newly built property if the property is covered by a new home warranty scheme or where a Professional Consultants Certificate (referred to within the SBLF as Professional Advisors Certificate) has been issued. The purpose of the Professional Advisors Certificate is to confirm to the SBLF and a future lender that the Architect, Surveyor or Engineer has;

- has visited the property to check its progress of construction, its conformity with drawings approved under building regulations and its conformity with drawings/instructions issued under the building contract;
- will remain liable to the first purchasers and their lender and subsequent purchasers and lenders for the period of 6 years from the date of the certificate;
- has appropriate experience in the design and/or monitoring of the construction and conversion of residential buildings; and

- will keep a certain level of professional indemnity insurance in force to cover his liabilities under the certificate."

The professional advisor should also confirm to you that he has appropriate experience in the design or monitoring of the construction or conversion of residential buildings and has one or more of the following qualifications:-

- fellow or member of the Royal Institution of Chartered Surveyors (FRICS or MRICS);
- fellow or member of the Institution of Structural Engineers (F.I.Struct.E or M.I.Struct.E);
- fellow or member of the Chartered Institute of Building (FCIOB or MCIOB);
- fellow or member of the Architecture and Surveying Institute (FASI or MASI) (only if in conjunction with a FCIOB or MCIOB qualification);
- fellow or member of the Chartered Association of Building Engineers (C. Build E MCABE or C. Build E FCABE);
- member of the Chartered Institute of Architectural Technologists (formerly British Institute of Architectural Technologists) (MCIAT); or
- architect registered with the Architects Registration Board (ARB). An architect must be registered with the Architects Registration Board, even if also a member of another institution, for example the Royal Institute of British Architects (RIBA) or the Royal Incorporation of Architects in Scotland (RIAS);
- fellow or member of the Institution of Civil Engineers (FICE or MICE).

7. How does it work in practice?

In terms of how the loan operates, each self build will be different and the amount of interest charged is based on your drawdown schedule and the duration of the loan. The build approach will vary across Scotland and dependant on the location. The common theme will be that the applicant will have been unable to secure a self build mortgage.

Having obtained detailed costs for each element of the build, and setting aside their own cash contribution, based on the example over page, the applicant has spoken to their contractor and using SBLF funds created a drawdown schedule in which they will seek five drawdowns up to the value of the loan agreed of £120,000. The costs that can be included within in the loan sum are:

- Cost of materials
- Labour in undertaking the construction
- Professional fees (excluding legal fees) incurred during the design and construction phase

Drawdown schedule
EXAMPLE

Loan amt	£120,000	Annual Interest rate			5.500%
		Monthly interest rate charged			0.447%
Month	**Opening Bal**	**Interest**	**Draw Down**	**Paid**	**Closing Bal**
April	£20,000.00	£ 90.61			£ 20,090.61
May		£ 94.06			£ 20,184.67
June		£ 266.61	£40,000.00		£ 60,451.28
July		£ 283.02			£ 60,734.30
August		£ 420.26	£30,000.00		£ 91,154.56
September		£ 412.97			£ 91,567.53
October		£ 519.31	£20,000.00		£112,086.84
November		£ 551.59	£10,000.00		£122,638.43
December		£ 574.17			£123,212.60

At the end of the loan agreement the sum of £123,212.60 is repaid. The principal of £120,000 together with the interest accrued of £3,212.60.

<u>Please note that the interest on the loan is calculated on a daily basis.</u>

8. Who will apply?

Applicant A lives in an urban area has a 9 month build programme and will be seeking a mortgage post completion to repay the loan. They presently live in private rented accommodation. In terms of their construction approach they will be using a contractor to undertake the work on their behalf. They have sought a loan of £120,000 from the SBLF and they have provided £60,000, of their own money to fund a project with a total build cost of £180,000. When complete the house is valued at £260,000, with an original plot value of £50,000. They have spoken to their professional advisor and using the SBLF funds created a drawdown schedule in which they will seek five drawdowns up to the value of the loan agreed of £120,000 over nine months.

Applicant B works their croft and has de-crofted a portion of the croft to provide a site for their new home. They presently live in a static caravan. In terms of their construction approach they intend undertaking a portion of the construction work themselves with others providing labour at key stages during the build. Because of this they have a 12 month build contract. They too will be seeking a mortgage upon completion to repay the loan. They have sought a loan of £90,000 from the SBLF and have provided £25,000 of their own money and have received the maximum Croft House Grant of £38,000 to fund a project with a total build cost of £153,000. When complete the house is valued at £225,000, with an original plot value of £35,000. They have spoken to their professional advisor and using both their own and SBLF funds created a drawdown schedule in which they will seek three drawdowns up to the value of the loan agreed of £90,000.

Applicant C has retired and their income is derived from their pension. They own a house plot. They have repaid their mortgage and have 100% equity in their existing home. Their existing house is worth £275,000. They will be using a contractor to carry out all of the work on their behalf. They have sought a loan of £125,000 from the SBLF and have provided £35,000 of their own money to fund a project with a total build cost of £160,000. When complete the new house is valued at £225,000 with an original house plot value of £30,000. Given they require to sell their existing home to repay the loan, they have sought an 18 month repayment period. They have spoken to their contractor and using both their own and SBLF funds created a drawdown schedule in which they will seek five drawdowns up to the value of the loan agreed of £125,000.

Applicant D owns their own home with a small mortgage, the house they are in does not meet their needs as adaptions are required to assist their needs. They own a house plot. They have 75% equity in their existing home. Their existing house is worth £225,000. They will be using a contractor to carry out all of the work on their behalf. They have sought a loan of £112,500 from the SBLF and have provided £22,500 of their own money to fund a project with a total build cost of £135,000. When complete the new house is valued at £170,000 with an original house plot value of £15,000. Given they require to sell their existing home to repay the loan they have sought an 18 month repayment period. They have spoken to their contractor and using both their own and SBLF funds created a cash flow in which they will seek six drawdowns up to the value of the loan agreed of £112,500.

Applicant E owns their own home with a medium size mortgage. They have been gifted a house plot from a relative. They have savings of £22,500 and will be seeking a mortgage upon completion of their new home. They have 15% equity in their existing home. Their existing house is worth £150,000 and they will be seeking a mortgage to repay the loan. They have requested a loan of £127,500 from the SBLF to build the new house. When complete the new house is valued at £250,000 with an original house plot value of £50,000. Given they require to sell their existing home to repay the loan they have sought an 18 month repayment period. They have spoken to their contractor and using both their own and SBLF funds created a cash flow in which they will seek five drawdowns up to the value of the loan agreed of £127,500.

9. What are the risks?

You should be aware that any loan granted is secured against your new house plot/new home. Should you not repay the loan on the repayment date, we will apply a default rate of interest (currently 9% per annum, calculated on a daily basis). In addition your new home may be at risk. You will also face construction risk. However if you have researched the subject and programmed and financed a contingency (both time and finance), these risks can be mitigated.

If you intend using the equity within your existing home to repay the loan, you run the risk of not selling your existing home before you complete your new home or reach the repayment date within your loan agreement. Given this we are unlikely to lend on 100% of the equity within your existing home, but up to a percentage determined after reviewing the valuation report over your existing house (given both the open market value and restricted, 90 marketing value and subject to a maximum loan value of £175,000).

10. Default

If you have programmed your build and identified the timescales for achieving your post completion finance, you shouldn't face a default situation, however having difficulty in obtaining post completion finance is the most likely scenario for default. Based on the earlier example given in section 7, the cost implications of going onto the default interest rate are shown below.

Repayment schedule
EXAMPLE

Loan amt	£120,000	Annual Interest rate	5.500%
		Monthly interest rate charged	0.447%
		Default Interest rate	9.0%
		Default Monthly Interest rate	0.721%

Month	Opening Bal	Interest	Draw Down	Paid	Closing Bal
April	£20,000.00	£ 90.61			£ 20,090.61
May		£ 94.06			£ 20,184.67
June		£ 266.61	£40,000.00		£ 60,451.28
July		£ 283.02			£ 60,734.30
August		£ 420.26	£30,000.00		£ 91,154.56
September		£ 412.97			£ 91,567.53
October		£ 519.31	£20,000.00		£112,086.84

November	£ 551.59	£10,000.00	£122,638.43
December	£ 574.17		£123,212.60
January	**£ 945.31**		**£124,157.91**
February	**£ 860.06**		**£125,017.97**
March	**£ 959.16**		**£125,977.13**
April	**£ 935.23**		**£126,912.36**
May	**£ 973.69**		**£127,886.05**
June	**£ 949.40**		**£128,835.45**

Please note that the interest on the loan is calculated on a daily basis.

Instead of paying £3,212.60 in accrued interest, the interest has accrued to £8,835.45. Whilst we do not anticipate loans operating in default for six months, we should highlight that your new home is at risk should you not repay the loan together with interest. Whilst we, as the Agent will make every effort to work with you to find a solution, any loan agreement is between you and the Scottish Government and they will require to consider recovery should an alternative solution not be viable.

11. How do I apply?

If you are happy to proceed and submit a Stage 1 application, please contact Communities Housing Trust at:

- Suite 4, Moray House, 16 –18 Bank Street, Inverness, IV1 1QY
- selfbuild@chtrust.co.uk
- 01463 572 030

12. How the does the application process work?

Have you answered **YES** to all of the pre-application questions?

If so, we can issue a stage 1 application form. We will check this to ensure that you have enclosed all of the supporting information.

We will then undertake a stage 1 review to assess the viability of your application, and issue you with a letter to either proceed or decline your application.

If we decide to proceed, we will issue you with a stage 2 application form. We will check this to ensure that you have enclosed all of the supporting information.

We will then undertake a stage 2 review to assess the viability of the application, and issue you with a letter to either proceed or decline your application.

If your stage 2 application is successful, we will issue you with an Agreement in Principle letter together with the Key Facts Illustration document associated with your loan offer, an offer of loan agreement and the Standing Instructions to Solicitors.

Once we have received the arrangement fee and registration charge, we will instruct the Scottish Government’s solicitor to contact your solicitor to take forward the legal work to complete the agreement.

Once the legal work is complete, we can then issue you with the first and subsequent drawdown payments, when supported by Professional Advisors Certificate.

Please note that given this is a cash constrained, time limited fund, we are not obliged to progress any successful application. Where the fund is oversubscribed, we will seek to prioritise applications.