



Highland Self Build Loan Fund (HSBLF) Information Brochure



The Scottish Government has provided a fund of £4,000,000 to help self-builders in the Highland Council area. This fund is being administered by The Highlands Small Communities Housing Trust ('The Agent'), a registered Scottish Charity (SCO 27544). This information leaflet provides information about the Highland Self Build Loan Fund (HSBLF).

The fund is available from 1/4/2016 to 31/3/2018. Applicants may submit applications at any point between these dates. All loans are to be repaid by 31/3/19. Up to date information will be found on our website at www.hscht.co.uk/highland-self-build-loan-fund.

Please note

By applying to the Highland Self Build Loan Fund you agree to allow the agent to use your information for monitoring purposes when reporting to the Scottish Government. Your identity will remain anonymous.

You will be asked upon completion of your project, to fill in a brief online survey.

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1. What is the Highland Self Build Loan Fund (HSBLF or 'The Fund') and how does it operate?

Pre Application Questions

If you can answer yes to all of the questions below, you may be eligible for the Highland Self Build Loan Fund.

Question	Y/N
Have you had difficulty trying to get a self build mortgage?	
Is your build project based in the Highland Council area?	
Do you own the plot you intend to build on? Can you provide evidence of ownership?	
If you have not already received full planning permission, have you at least made a Pre-planning application?	
Do you intend to use the home as your main residence?	
Are your build costs (not including fees etc.) £175,000 or less?	
Can you provide a mortgage promise, or an assessment by a financial advisor to demonstrate that a mortgage is available to you on completion of your build? PLEASE NOTE: When speaking to your mortgage advisor, ensure that the mortgage lender is able to: 1) Provide a mortgage to your property upon completion, even though it was a 'self-built' project. 1) Provide a mortgage right after completion. Some lenders are unable to provide a mortgage until 6 months after a project is registered completed, if the completion is registered against an individual as opposed to a developer.	
Will you be able to grant first ranking security of your project in favour of Scottish Government? PLEASE NOTE: this may not be possible if you already have an outstanding mortgage on your land.	

The Highland Self Build Loan Fund (HSBLF) or “The Fund” aims to help people in the Highlands who wish to become home owners by building their own home. HSBLF aims to help people who are on modest incomes to become home owners by providing a short term loan to help them to complete their build, in order to access mortgage finance.

The term “self-build” is widely used, although we include this to mean people who employ a builder to build their home from beginning to end; people who have some DIY skills and can use them to decorate their new home; people who have joinery, electrical or plumbing skills and can do some of the build themselves and finally, people who have all of the skills required to build a new home.

If you wish to build a home, but have not been able to access self-build finance, this fund may be able to assist you. The fund could provide a short term loan to cover your build costs up to a maximum of £175,000. On completion of your build you would then repay the loan from your conventional mortgage. An annual interest rate of 5.5% applies to the loan which can be paid monthly (recommended), or can be accrued to the full loan repayment once the project is complete. The 5.5% rate applies to the build period agreed between the applicant and the agent. Should the build programme exceed the agreed time scale, an annual interest rate of 9% will apply to each month out with the original agreement. An admin fee applies to all loans. (For full details, see section 4). You will have to appoint a solicitor to act on your behalf to complete the work involved in arranging the loan. The agent's solicitor will deal with its interest in the loan.

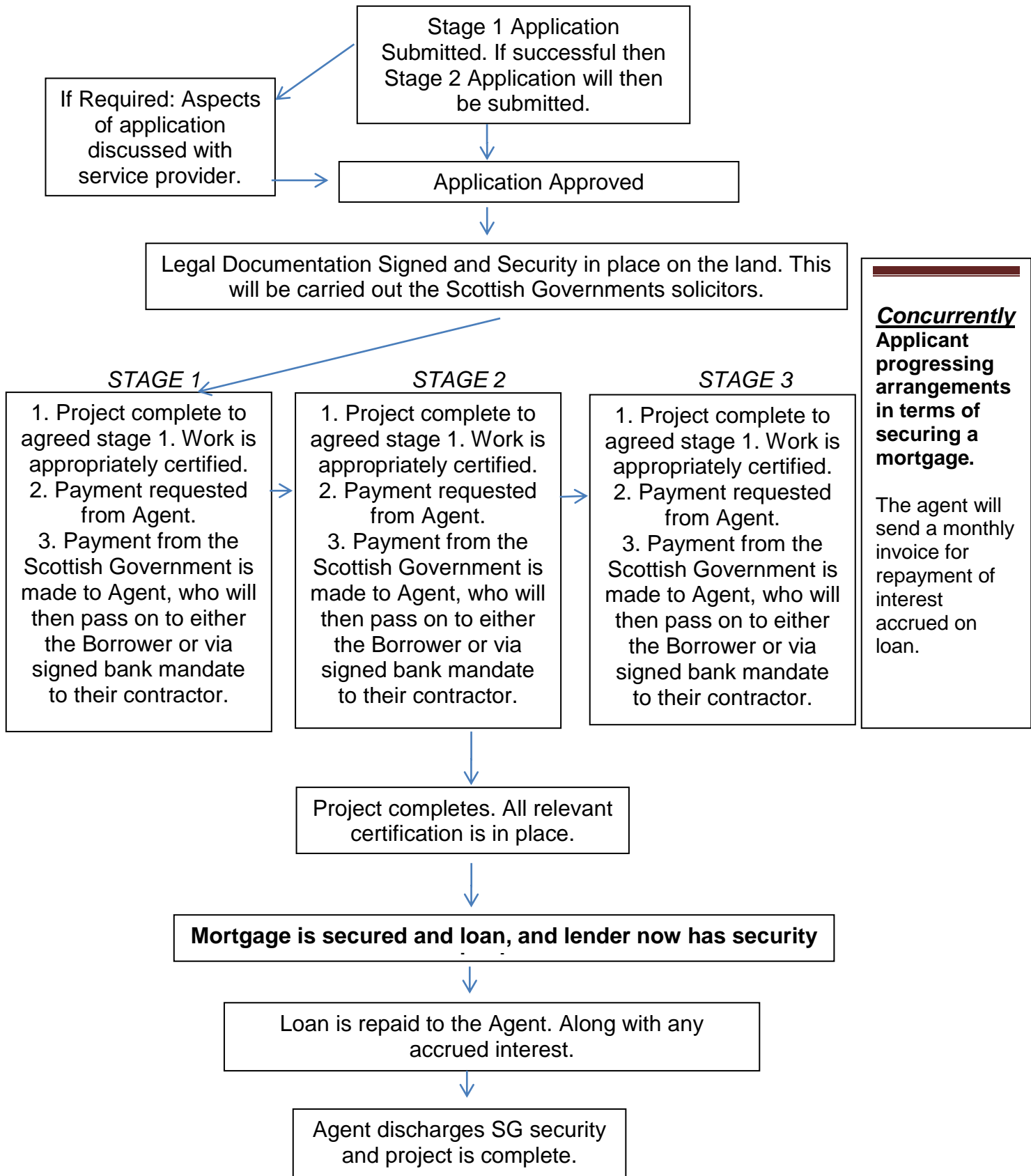
You will have to pay for all of your legal fees.

At each loan drawdown the applicant will be required to submit either an approved certified valuation of the works or certified receipted invoices to the agent. The certified valuation may be provided by an architect, surveyor or any other competent individual who is qualified to do so. The competent person of your choice must be authorised by the agent prior to the valuation taking place. Any fees associated with these valuations should be incorporated into your project cash flow breakdown.

Each loan drawdown can either be paid directly to the applicant (‘the Borrower’), or directly to their contractor if the borrower provides the agent with a signed mandate authorising them to do so.

FLOW DIAGRAM FOR A SUCCESSFUL PROJECT

(Note: Reference to three staged payments is provided for illustrative purposes only)



2. Who is it for?

The Highland Self Build Loan Fund aims to help households in the Highland Council area who wish to build their own permanent residence and have had difficulty in sourcing suitable finance.

The fund is able to provide a loan for an agreed time period to help people reach a stage where they can access a mortgage.

Applicants to the fund will be prioritised in the following order:

- a) Applicants with all necessary titles, permissions, warrants and other documentation requested during the application process.
- b) Applicants with shorter build programmes. This is to allow us to provide more funding for a greater number of projects – by allocating the funding to a larger number of applicants between April 2016 and April 2018.
- c) Applicants with greater housing need.

In the case that demand outweighs availability, a waiting list system will be operated. The agent will be in touch should funding become available for you.

3. How do I know if I'm eligible?

As the Highland Self Build Loan Fund (HSBLF) is designed as short term assistance to allow you to build your home, your project will be assessed at the outset to identify your loan requirements based on the project costs, as well as the amount you can contribute.

The amount that you contribute should be the maximum personal contribution that you are able to make towards the project. We also take into account money which you are able to save on your self build costs by you doing some or all of your build yourself, in order to make your project work within your budget.

The initial valuation of the project drawings must demonstrate that the value of your completed home is higher than the loan being provided. Your mortgage promise must also be higher than the agreed loan amount. This is to ensure that you will be able to repay the loan once your mortgage is secured.

Your overall contribution, along with the amount of loan requested must be enough for you to pay for your total project costs which usually consist of:

Prior to building:

- Architect fees for plans
- Planning Permission and Building Warrant Fees to the Highland Council
- Solicitor's fees (Legal fees)
- Desktop Valuation fees
- Insurance

During building:

Full costs of your total house build. (This should be £175,000 or under in order to qualify for a loan, if you are just over the £175,000, please get in touch so we can help define what aspects of the build this refers to).

Payments to the agent of loan interest generated.

Inspections by surveyor or other competent individual

Example

An example of how the Highland Self Build Loan Fund works

Joe and Sally would like to build a new home. They have £25,000 of their own money that they have set aside for the project. They have hired a local builder who has quoted a fixed price of £95,000 for their new home. The builder has said that it will take 31 weeks to reach completion. Fees prior to building are £10,000. Therefore their total project costs are £105,000.

The value of the completed house has been independently assessed as £140,000 and they have a mortgage promise for £126,000.

Of the £25,000 Joe and Sally have available to spend, £10,000 of this will go to paying various fees prior to the build start date, leaving £15,000. They still need another £80,000 to reach the total of £95,000 quoted by the builder to reach completion.

This means that the agent could offer them a £80,000 loan from the fund.

Joe and Sally will have agreed the loan drawdowns with the agent. They do not require to draw-down any of the money until 2 months into their build project. Once the first drawdown has been made, an annual interest rate of 5.5% begins to apply to all money loaned. The agent will invoice monthly unless other arrangements have been made.

The loan would be repaid to the agent, once the building is complete, and mortgage funds are released prior to moving into the property. The payment date is agreed at the outset (based on their build programme). Should the project timescale extend outwith the previously agreed loan period, an annual interest rate of 9% will come into place, which will apply to the full outstanding loan amount.

4. Fees and Interest

The Highland Self Build Loan Fund is restricted to a total of £4,000,000. It is available to provide eligible people with temporary financial assistance during their building process. The fund will revolve, i.e. once one applicant repays their loan to the agent, this money can then be used to support another project, and so on. It is therefore very important to adhere to the time scales calculated and agreed with the agent at the outset of your HSBLF agreement.

The sum allocated to an applicant will be a pre-agreed sum, specific to each project, of up to £175,000.

An arrangement fee of £595 will be paid by the applicant to The Scottish Government via the agent. A further £22 is also required for the registration in the Books of Council and Session.

To ensure that loans are repaid as early as possible the following interest rates on the loan apply.

Annual Interest Rates:

Within the agreed loan period = 5.5%.

Outwith the agreed loan period= 9%

For example, once an applicant has begun drawing down their loan, the amount drawn down is subject to an annual interest rate of 5.5% at the end of each month. The agent will invoice monthly for this interest unless it has been agreed that all interest accrued is to be incorporated into the final repayment. It is less expensive to pay the interest monthly, to avoid accruing interest on top of interest.

If the applicant fails to repay the whole loan including accrued interest within 30 days of the previously agreed repayment date, an annual interest rate of 9% will apply for each additional month that the project continues outwith the agreed loan period. Therefore it is important that your build schedule provides an accurate timescale, and takes into account all eventualities.

Please see the next page for examples of how the interest on your loan may be generated. This example is based on a loan of £175,000 for a 9 month project, which the applicant has drawn down in 4 stages. Repayment Schedule 1 shows how the applicant may pay the loan interest monthly, before repaying the loan once the building has been completed and they have access to their mortgage.

Repayment Schedule 2 shows how the interest would accrue if they decided to not pay anything until final completion.

Repayments Schedule 1		Interest Paid Monthly			
Loan amt	150,000	Annual Interest rate	5.500%		
		Monthly interest rate charged	0.447%		
Date	Opening Bal	Interest	Draw Down	Repayments	Closing Bal
Apr-16	0	0	30,000		30,000
May-16	30,000	134		134	30,000
Jun-16	30,000	134		134	30,000
Jul-16	30,000	134	30,000	134	60,000
Aug-16	60,000	268		268	60,000
Sep-16	60,000	268	40,000	268	100,000
Oct-16	100,000	447		447	100,000
Nov-16	100,000	447		447	100,000
Dec-16	100,000	447	50,000	447	150,000
Jan-17	150,000	671		150,671	0
Totals		2,951	150,000	152,952	

Summary: If the applicant paid back their interest monthly, they would generate £2,951 in interest.

Repayments Schedule 2		Interest Accrued			
Loan amt	150,000	Annual Interest rate	5.500%		
		Monthly interest rate charged	0.447%		
Date	Opening Bal	Interest	Draw Down	Repayments	Closing Bal
Apr-16	0	0	30,000		30,000
May-16	30,000	134		0	30,134
Jun-16	30,134	135		0	30,269
Jul-16	30,269	135	30,000	0	60,404
Aug-16	60,404	270		0	60,674
Sep-16	60,674	271	40,000	0	100,946
Oct-16	100,946	451		0	101,397
Nov-16	101,397	453		0	101,850
Dec-16	101,850	455	50,000	0	152,306
Jan-17	152,306	681		152,987	0
Totals		2,987	150,000	152,987	

Summary: If the applicant accrued their interest until project completion, they would generate £2,987 in interest (an extra expense of £36).

Prior to agreeing the duration of your loan agreement, an illustration of the total predicted interest payable will be provided to you. Any changes will be adjusted and invoiced accordingly.

5. What else do I need to know?

In order to agree to a loan your solicitor should advise you on all aspects of the loan. You will need to pay your own legal fees.

What we will need is:

1. a letter of undertaking signed by your solicitor to guarantee the Title of your land presents no barriers to lending upon.
2. a signed standard security by you in favour of the Scottish Government
3. a copy of the Keeper's acknowledgement letter confirming that the standard security has been accepted for registration by the Keeper of the Registers of Scotland.

For a more detailed explanation, a document titled 'Standing Instructions To Solicitors' can be downloaded from our website www.hscht.co.uk/highland-self-build-loan-fund. Alternatively get in touch and we can send a copy over to you.

Please note that the loan cannot be paid out until the above has been satisfactorily completed, and we have received a copy of the signed loan agreement.

On repayment of the loan, a discharge of the security will be provided to allow registration of a new security in favour of a commercial lender (mortgage provider). The applicant will be responsible for all legal costs.

The agent will report statistics to the Scottish Government as requested by them. This will include details of the number of loans issued, the amount, the duration and statistics on applicant's income etc. All information provided will be anonymised.

The agent has taken care to ensure the accuracy of this brochure, and they cannot be held responsible for any errors or omissions. All fees and interest rates quoted may be subject to change.

6. How do I apply?

To apply for the Highland Self Build loan Fund contact The Highlands Small Communities Housing Trust.

E: selfbuild@hscht.co.uk

T: 01463 233 548.

The process is outlined below:

1. Complete Stage 1 Application Form.
This will identify if there is an indicative shortfall in funding to reach completion.
2. Provide a mortgage promise and proof of savings/ family contribution to prove that you can fully fund your project based on estimated costs at this stage.
3. If successful in Stage 1, complete Stage 2 Application Form. This includes a number of additional pieces of information, including planning permission, building warrants and various other documents.
4. Provide a time line of your build project which shows when your home will reach completion.
5. Provide a cash flow to show how you will fully fund the project. This cash flow should incorporate all stage payments, as well as drawing attention to which stages you will require to draw down parts of your loan.
6. The agent will check availability of HSBLF depending on your expected project start date and the strength of your application.
7. If you are unsuccessful in obtaining a loan, the agent will send you a letter explaining the reasons
8. If you are successful, you will need to pay the arrangement fee and sign an initial letter agreeing to accept the loan and its terms.
9. The agent will engage the Scottish Governments solicitor to draw up the legal agreements for your solicitor.
10. The agents preferred option is to make payment to you or via a bank mandate to your contractor/supplier on receipt of certified invoice/s.

7. Defaults

As with any scheme, there are penalties if you default on the terms of the agreement. In this case, in the first instance a higher interest rate of 9% is charged if you are late in re-paying the loan. Please see below for more details:

In the event of you defaulting on your loan agreement, the agent will follow the following procedure:

- If repayment of the loan in full has not been received 30 days after the agreed repayment date, then an annual 9% interest will be due on the outstanding balance from the default date onwards. For example, if you are due to repay your loan on June 13th, you will not be charged the extra months interest at 9% unless payment is not received by July 13th. Thereafter, if repayment is still not made by August 12th, another month's interest at 9% will be applied.
- The agent will make every effort to work with you to find a solution. However, in the event of continued non-payment the Scottish Government will require to consider all legal options for recovery.
- In the event of default, all legal costs incurred by all parties arising out of default on payment will also become a liability for which you will be responsible.

Example

Joe and Sally had a £120,000 HSBLF for 9 months
Their contractor had to undergo unexpected hospital treatment and as a result was unable to complete the build when agreed. As the project was well underway and a fixed price agreement was in place with the contractor, Joe and Sally had to wait a bit longer to draw down their mortgage.

As a result, they were 2 months late with their HSBLF repayment to the agent. They were now required to repay their loan, plus the additional interest of £1744 (See Repayment Schedule 3 for details – red indicates default period).

Repayments Schedule 3		Interest Paid Monthly			
Loan amt	120,000	Annual Interest rate	5.500%		
		Monthly interest rate charged	0.447%		
		Penalty Annual Interest rate	9.000%		
		Penalty Monthly Interest rate	0.721%		
After repayment due					
Date	Opening Bal	Interest	Draw Down	Repayments	Closing Bal
Apr-16	0	0	20,000		20,000
May-16	20,000	89		89	20,000
Jun-16	20,000	89		89	20,000
Jul-16	20,000	89	25,000	89	45,000
Aug-16	45,000	201		201	45,000
Sep-16	45,000	201	25,000	201	70,000
Oct-16	70,000	313		313	70,000
Nov-16	70,000	313		313	70,000
Dec-16	70,000	313	50,000	313	120,000
Jan-17	120,000	537		0	120,537
Feb-17	120,537	869		0	121,405
Mar-17	121,405	875		122,280	0
Totals		3,890	120,000	123,890	

Example

Andy had a £140,000 HSBLF for 10 months.

Being a self employed joiner, he was building his new home himself. After signing the HSBLF agreement, he got some work on another build for 3 months which he was reluctant to turn down. This meant that he did not need his HSBLF as soon as he thought.

As a result, he notified the agent of the delay at the project outset and the agent was able to offer the HSBLF to another family for 3 months until Andy needed the funds. Andy had to pay the legal fees for changing the re-payment date on the HSBLF agreement.

The agent will make every effort to work with you before and during your project to address any concerns or difficulties which you may have. At the outset of the process we assess the risks and we would be unlikely to offer a loan if the project was not viable based on the information you provided to us. Please contact us if you have any questions or would like more information, we'll be pleased to help.