

Bespoke / Custom Build mortgages (BCB)

Process Chart

Initial Steps and preparation:

- Local Authority makes a decision to implement BCB and ‘signs up’ to the national scheme
- Local Authority will be able to focus on local needs and support the local economy
- Arlingclose provides step by step actions, all standard documentation / templates and support to enable the Local Authority to proceed. (Report template, Accounting Paper, Legal Paper, Tax Paper, Risk Assessment, Freehold Contract Template)
- Arlingclose support the Local Authority with the implementation plans
- Local Authority seeks member approval to proceed and we support the required governance arrangements

Implementing BCB:

- Local Authority markets the site / plots
- Local Authority selects suitable partners from a panel or interested parties, including architects, brokers, estate agents, lenders etc
- Plots are secured by an Applicant off-plan, but not sold at this stage
- The successful Applicant is referred by the Local Authority to the selected broker
- Applicant secures 95% LTV LAMS mortgage, via the broker, from a Lender on the panel. The mortgage offer is a firm offer, not an “in principle” offer. A 95% LAMS mortgage is supported by an up to 20% indemnity from the Local Authority, so lender pricing and risk is similar to a 75% LTV mortgage
- A 5% non-refundable deposit is paid by the Applicant to the Local Authority. If the plot is not owned by the Local Authority, a separate reservation fee may be required
- For regulatory reasons, the mortgage offer remains valid for a 6 months period only, which will be extended for up to a further 6 months to allow for potential delays. Regular reviews are undertaken during this process
- Once the deposit is paid and the mortgage approval is in place, the build process can commence
- The Local Authority can enter into a building contract on Council owned land, or provide financial assistance on land owned by a third party. A slightly different process is in place for land owned by a third party
- The Applicant makes no stage payments, the Local Authority provides bridging finance and pays the builder / developers at each inspection stage
- Building work takes place with the Local Authority’s Building Control inspections at each stage (quality assurance)
- The Local Authority funds the cost of build right to the point of completion
- Building Control issues the Completion Certificate once the build process has been completed
- Lender values the property

- On build completion, the pre-approved 95% LTV mortgage will be completed, and the Local Authority will recover all costs, including an appropriate level of interest relating to the bridging finance
- Ownership of the land and property transfers to the Applicant, who is now the new owner
- The Local Authority receives the appropriate Capital Receipt
- The LAMS arrangements will be the same as for the standard LAMS scheme. The 95% LTV mortgage is supported by an up to 20% indemnity from the Local Authority (the difference between 75% lending and up to 95%LTV)
- The indemnity will be on a non-cash basis (no matching deposit with the lender)
- The LAMS mortgage will remain in place for 5 years with the (up to) 20% indemnity, and this may be extended for a further 2 years if the mortgage is in arrears in the last 6 months of the initial 5 year period
- The overall relationship is the same as for LAMS

Key Benefits for Local Authorities:

- The Local Authority retains control from start to finish
- The Local Authority has a confirmed customer with a firm mortgage approval in place from the outset
- The Local Authority owns the land and the property until build completion. If an Applicant is unable to complete at any point during the process, the property will be built to completion and sold in the open market
- The Local Authority will earn interest on the bridging finance, and the development profit is retained by the Local Authority
- BCB opens the custom and self-build market to a much wider audience and will therefore enhance the existing market

Key Benefits for Lenders:

- From a lender perspective, there are no stage payments and no advances are made until build completion, so the traditional self-build risks have been removed. A BCB mortgage is a high LTV mortgage, supported by the participating Local Authority, and as easy to process as an ordinary new build mortgage

Key Benefits for the Applicant / Customer / Self-Builder

- High LTV mortgages means only a small (5%) deposit is required
- There is no need for stage payments, so it is affordable to build at the same time as paying an existing mortgage or rent
- Custom and self-build support in general is provided by the Local Authority as well as specialist support via brokers, architects, estate agents etc.