

CUSTOM BUILD HOMES FUND PROSPECTUS

July 2012



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Cover image: Ashley Vale group self-build development in Bristol, courtesy of the National Self Build Association

Ministerial forward

We all know that an Englishman's home is his castle. And for many people in Britain, if there's one thing better than owning your dream home, it's building it.

That aspiration is not just reflected in the fact millions regularly tune in to watch intrepid individuals on the telly realising their grand designs. But by the fact that more than 100,000 people are looking for land to build a custom built home.

So it comes as no surprise when the Building Societies Association discovered that most people in the UK would build their own home if they had the chance.

But, despite the widespread enthusiasm for self-build, we have to face another reality. Only about 14,000 homes in the UK are custom built every year – one of the lowest numbers in Europe.

So while the will to build is there something continues to hold people back. And, if we're to tap into the enormous latent potential of the self-build market, we have to do everything in our power to get rid of the barriers that stop people getting on with it.

We're starting by dispensing with the notion that self-build is just for those with the right specialist knowledge. Not for those who struggle to assemble flat pack furniture.

In fact, the options for building your own home are as numerous and varied as the custom built home itself. You could choose to hire a contractor to work up your design, order a kit home, think about buying a building plot with a design and build contract from a developer on a larger site or even work with a community to build a group of homes together.

It's the last two options that are the focus of this prospectus. The beauty of these approaches is that they can make the home building process simpler for individual self builders whilst helping build a community at the same time.

Now I've spoken to plenty of people with the determination, the get-up and go – whether self organised or developer-led alike – to get these schemes off the ground. But I also know they've often found it a struggle to get cash out of lenders or investors who regard their venture as a bit too risky.

So I announced in our Housing Strategy, at the end of last year, that we would be making up to £30 million of funding available to provide short-term finance for such projects. This prospectus sets out how people can get hold of the money. If you're a developer or a community group with a plan on the drawing board to build a group of self build homes, this is your chance to get your scheme off the ground. I'd urge you to have a read of the rules, then don't delay, apply today.

Coupled with our decision to release more public land for self build development, this fund will help many more people realise their dream of building their own home. It will help us take the housing market out of cold storage and, in a sector already estimated at over £3bn annually, will make a vital contribution to the growth of our economy.

But my hope is that this initiative will help us do even more. By bringing people together to build in a place they are proud to call home, it will remind us that an Englishman's home is not simply his castle but his community.

A handwritten signature in black ink, reading "Grant Shapps". The signature is written in a cursive style with a period at the end.

The Rt Hon Grant Shapps MP
Minister for Housing and Local Government

Foreword from Kevin McCloud

Across the UK there are scores of communities keen to work alongside each other to build their homes collectively. By pooling their talents on group self build projects, they can construct great custom-designed homes at a fraction of the normal cost.

There are other benefits too – neighbours can learn new skills, local construction economies can thrive, innovation is encouraged, and the homes are likely to be much more energy efficient and sustainable than many of the off-the-shelf alternatives.

By empowering people in this way, those involved don't just build homes for themselves; they build really strong and resilient communities.

But, until now, it has been difficult for groups of people to secure funding from conventional lenders to buy larger chunks of land to split up into individual plots. Similarly, it's difficult for collectives to obtain finance to cover the initial infrastructure costs on group self build sites.

So this fund will be widely welcomed, and should lead to many pioneering group self build projects taking off. It should also be applauded by small builders and specialist self build 'enablers' as they too can apply for finance to help kickstart multi-plot self build projects.

In continental Europe, group self build developments are very common, and they account for a significant proportion of all of the self build projects completed there. This fund should help drive the self build market forward in the UK so that, in time, many more people are able to build homes for themselves.

A handwritten signature in black ink, appearing to read 'Kevin McCloud', with a stylized, wavy underline.

Kevin McCloud
Self Build Industry Champion

Introduction

1. In *Laying the Foundations: A Housing Strategy for England*¹ Government set out its plan to get the housing market moving again. A key measure to provide long-term stability and increased housing supply set out in the Strategy is the introduction of Custom Build Homes programme to support more custom home building and double the size of the sector over the next decade. One of the elements of the Custom Build Homes programme is the introduction of a £30m fund to support provision of short-term project finance targeted at group custom build housing projects² on a repayable basis.
2. The introduction of a fund responds to one of the key actions set out in the Self Build Action Plan³ and the Government's aspiration to double the size of the sector over the next decade from a comparatively low base internationally of about 14,000 homes per annum - to stimulate increased house building and support local jobs.
3. Group self build housing, particularly enabled, private sector-led, 'serviced' plot developments were identified in the Action Plan as a key procurement model to promote the growth potential of the sector. However, this model is being held back by finance constraints.
4. Group projects, whether self organised or developer-led, often experience difficulties in accessing conventional development finance. This is because commercial lenders or investors are reluctant to provide capital finance in small quantities to community-led organisations or provide capital finance for developers or enablers who want to bring forward a custom build home scheme, given the perceived risks associated with such development.
5. The Action Plan identified a short and medium term need for the public and private sector to work together to identify a range of repayment facilities for group self build projects to fund land acquisition and/or early development costs.
6. The £30m Custom Build Homes fund is designed to respond to this need and will be applied to projects constructed in England. The Homes and Communities Agency (HCA) will administer the fund in England, except for London.
7. The Greater London Authority (GLA) will administer the fund in London. It is expected that approximately 15% of the total fund will be administered by the GLA who will publish a separate prospectus for London shortly. In the meantime the GLA are keen to pro-actively engage with any organisations interested in this funding in London. Interested organisations are encouraged to e-mail CBH@London.gov.uk with any questions or queries they may have.

¹ DCLG, 2011. Available from <http://www.communities.gov.uk/publications/housing/housingstrategy2011>

² Custom Build Homes are homes built or commissioned by individuals or groups of individuals for their own use, either by building the home on their own or working with builders. Group custom build projects are where developers build group schemes for clients on multi-unit sites or where registered housing providers work with self organised community groups and a developer or contractor to bring forward a multi-unit custom build home project.

³ *An Action Plan to promote the growth of self build housing – the report of the Self Build Government-Industry Working Group* (NaSBA, July 2011)

Objectives

8. The objective of the Custom Build Homes fund is to stimulate the growth of the Custom Build Homes market by enabling more multi-unit custom build home projects and attract more commercial lenders and investors to this market, thereby increasing the number of custom built homes developed annually over the next decade.
9. The fund is intended to focus exclusively on multi-unit 'group' projects with the objective of bringing forward sufficient numbers of successful schemes to demonstrate to commercial funders that the lending model is a viable and sustainable business which can be taken forward by industry, without public funding support, when the fund closes in March 2015.

Applications

10. The fund will commence on the date this prospectus is published and run until 31st March 2015. Applications can be made at any time for the duration of the fund and should be made direct to the HCA if the project to which the application relates is outside London. The fund may close to new applications earlier than March 2015 if the entire budget has been allocated or looks likely to be allocated before that date.
11. The following criteria apply to any application for funding of a project outside London.

Eligible applicants

12. The funding will only be granted to organisations able to satisfy the HCA as fund administrator that they are an appropriately constituted body, of good standing and with the capability to deliver their project.
13. Such bodies include: bodies registered with the Charity Commission as a charity, or registered as an incorporated body with Companies House or with the Financial Services Authority as an industrial and provident society. They also include Community Land Trusts and Community Organisations recognised under the 2011 Localism Act.
14. Financial propriety restrictions dictate that groups outside the above definition will not be able to access the fund unless they partner with a third party (such as a housing association) who can comply with the requirement. The HCA's due diligence process (see further below) will carry out checks to ensure the proposed entity is suitable to receive Custom Build funding.
15. Local authorities will not be eligible to apply for funding. Where local authorities wish to provide financial support to custom build groups they are expected to use their own resources to do so. However, local authorities will not be precluded from working closely with an eligible applicant to support them in other ways to bring forward a project.

Eligible costs for funding

16. To ensure the intended effect of the fund is maximised, loans will be available for residential (use Class C3) projects, including 'live-work' units.
17. Both market and affordable custom build housing proposals will be eligible for funding. Qualifying expenditure includes:
 - Land acquisition costs;
 - Site preparation costs;
 - Construction of supporting infrastructure/utilities directly related to the construction of the homes;
 - S106 planning obligations, Community Infrastructure Levy charges and S278 agreements;
 - Construction costs for the homes; and
 - Associated professional fees related to the project after planning permission has been granted.
18. Proposed non-residential development, including associated community facilities such as community halls, communal accommodation or recreation areas will not be funded unless they are required as a result of planning obligations. Where the custom build homes are part of a larger development, any costs associated with s106 requirements, supporting infrastructure etc, must be apportioned to the custom build homes to be developed on an acceptable pro-rata basis.

Planning consent

19. Projects will be prioritised for loan funding that have secured at least outline planning permission. Proposals for schemes without planning consent may be considered where land is controlled by the applicant. However, no loan funding will be payable until a planning permission is in place. If the fund is over-subscribed, schemes which have planning permission will be given preference over those without.

Numbers and value of homes

20. To ensure the intended effect of the fund is maximised, eligible projects must comprise a minimum of five homes. There is no upper limit on the numbers of homes that can benefit from funding. However, to maximise the number of projects that can be assisted, the HCA will apply a cap of £3 million for any single project. The GLA may apply different limits to projects in London.
21. To ensure that a range of housing needs can be met by projects and maximise the numbers of custom build homes produced by the fund, the maximum eligible cost of each home (including land, construction and associated fees) that will be supported with a Custom Build loan is £250,000. This limit will be applied to the average (mean) cost of homes in a project.

Loan funding

22. Funding will always be made as a loan to be repaid, with interest charged at commercial rates ranging from 2.3 to 11.7% per annum (see Annex for the full range of interest rates that will apply).
23. This will ensure the fund design complies with EU State Aid rules and is a mechanism that could be taken forward by private sector lenders after the fund closes in 2015.
24. The interest rate to be applied for individual applications and projects will be determined from the due diligence process (see below and in Annex) and included in the resulting loan agreement.
25. Loan funding for approved projects will be capped at 75% of their eligible costs, as agreed at the application stage. This means applicants must have access to a minimum of 25% of the project's funding. As stated above, the mean average eligible costs per unit must not exceed £250,000 per home. Therefore the maximum possible loan per home (averaged across a project) should not exceed £187,500.
26. Funding will be paid in stages, agreed at the outset of the project, taking account of the agreed project budget and cash flow and subject to the progress of work across the scheme.
27. Successful applicants will submit a loan draw-down claim confirming the progress made to that point and that the scheme cash flow and budgets are consistent with those agreed at the initial approval.
28. Where the provisions of the loan agreement are met, the HCA will then make loan advances. It is envisaged that projects will submit claims and draw down loan tranches in four or five stages subject to the nature of the proposals agreed. Draw down could, for example, occur at the following development stages:
 - Land acquisition;
 - Commencement of site infrastructure;
 - Completion of serviced plots;
 - Commencement of construction of dwellings (foundations to superstructure);
 - Commencement of fit out.
29. Given Custom Build loans are limited to 75% of the eligible project costs, custom home builders will need to have in place the remaining funding required to complete the homes. Furthermore, custom home builders will need to have used this funding and incurred expenditure from their own resources before the HCA will make its loan advances (i.e. the remaining amount agreed, up to 75%).
30. It is likely that some projects will be financed by prospective purchasers committing deposit monies, with a Custom Build loan making up the difference to the full (agreed) project cost.

31. The HCA will not approve a Custom Build loan for a project if the applicant cannot demonstrate access to sufficient funds to fund the balance of costs.
32. Custom Build loans help to finance the development phase of the project and once plots or homes are sold to occupiers, repayment of the loan plus interest always becomes due.
33. The sales (disposals) to occupiers could take the form of a serviced plot (without a built home), or a plot with a partially completed home (requiring final fit-out⁴) or a home at practical completion which has been built to the requirements of the identified purchaser. A single project might include a mix of all of these types of sales.
34. Whichever type of disposal occurs, the purchaser must always take responsibility for financing their individual purchase (expected to be with a retail mortgage) and owns the home and/or plot at legal completion of the disposal. The proceeds from these sales must be used to re-pay the Custom Build loan plus accrued interest to the HCA.
35. Interest is added to the loan from the date of the agreement and is “rolled-up” on a daily basis. The total amount to be repaid will be forecast at the outset and agreed as part of the project budget and cash flow. The cash flow will be updated regularly as the project progresses so the amount to be repaid will always be known. A loan illustration is included in the Annex.
36. The loan agreement will have a “long-stop” date by which all plots or homes must have been sold and the funding repaid. Some project long-stop dates may be after 31 March 2015, when the fund closes. Regardless of whether sales have been achieved, the long-stop date will trigger repayment in full of the loan plus accrued interest. Loans that can demonstrate earlier repayment will be advantaged in the application assessment process.
37. The loan will be pro-rated across the homes so sale of a single plot or completed home triggers repayment of a proportionate amount of loan and interest.
38. The HCA will require that a charge is registered on the site title, as security for the loan, before any funding can be drawn down. The HCA’s charge will be progressively released as occupiers purchase their homes and their mortgage lenders provide funds to individual purchasers to legally complete their purchase.
39. The HCA will give a legal undertaking to release its charge on repayment so that “retail” mortgage lenders are in no doubt they can secure their own debt. This should not therefore constrain the choice of lenders available to owners.
40. If a custom home builder also has some secured bank lending in place to part-fund the development phase, the HCA may agree a postponement of its security charge behind the first lender. However, if the HCA is unable to take a first charge it may require a higher interest rate for the Custom Build loan to reflect the greater risk of non-recovery if default occurs. Further details are included in the section on loan agreement terms (see below).

⁴ Also known as ‘self-finish’ projects

Relationship to other funding

41. Projects that benefit from capital funding under other national programmes such as “Get Britain Building” will not be eligible. Projects which have benefited from “seed corn” funding under the Community Right to Build (CRtB) may apply and will be considered for the fund (subject to such development having planning permission). However, receipt of CRtB funding does not guarantee that an application for a Custom Build loan will be successful.
42. Projects which benefit from deferred payment agreements under “Build Now, Pay Later”⁵ on HCA or other Government-owned land will be eligible to apply for Custom Build loans. The forecast deferred payments will be included in the agreed project budget and cash flow for each Custom Build loan agreement only where they will be paid prior to re-financing by the end purchaser with a retail mortgage (or other funds being used for purchase by the ultimate owner).
43. Custom Build loans can be accessed by projects with allocations already in the 2011-15 Affordable Homes Programme. If the proposed Custom Build Homes are part of an allocation in this programme, the landlord must be a Registered Provider and the terms of the Custom Build loan do not alter the obligations of the 2011-15 Affordable Homes Programme framework delivery agreement i.e. the tenures that can be provided and the conditions precedent for grant payment are unaffected. In this context, Custom Build will be the procurement route for Registered Providers of social housing and Custom Build loan funding (if an application is successful) is a potential source of development finance.

Assessment process and criteria

44. Applications to the fund will be made to the HCA through a standard expression of interest form in electronic format. The form is available on the HCA website.
45. Applications for funding will be assessed by the HCA in a two-stage process:
 - Initial assessment leading to short listing; and
 - Due diligence.
46. The initial assessment will use the following criteria:
 - Meeting threshold eligibility requirements;
 - Scheme size, mix, total scheme costs and estimated market values;
 - Value for money;
 - Deliverability, including planning status and timing of completions;
 - Evidence of commitment from purchasers/final plot owners;
 - Previous experience of delivery;
 - Meeting local area development standards; and
 - Extent to which the project promotes innovation.

⁵ A summary of Build Now, Pay Later can be found at <http://www.communities.gov.uk/publications/housing/buildnowpaylater>

47. The criteria section below sets out an outline of how each will be considered. Shortlisted applications for funding will then be subject to a due diligence process to verify suitability for funding, including:
- Bidder and project financial standing;
 - Evidence of site ownership, planning status;
 - Availability, sources and status of other project funding;
 - The application cannot proceed without Custom Build loan funding;
 - The amount of Custom Build loan required and interest rate to be charged;
 - The project delivery risks are at an acceptable level and mitigated by the HCA's security for the funding required.

Initial assessment criteria

Meeting threshold eligibility requirements

48. As detailed above, organisations submitting an expression of interest must be able to demonstrate they are an appropriately constituted body or charity. This may be subject to further checking before a project can be shortlisted. The HCA cannot shortlist proposals that do not meet this requirement.
49. Applications for funding in excess of £3m will not be considered.
50. Proposals must be for residential development, other uses will not be considered.
51. Projects for fewer than five homes will not be considered. Although there is no upper limit on the number of homes, as outlined above, a £3m funding cap will apply.

Scheme size, mix, costs, and estimated market values

52. There is no upper limit on the number of homes but proposals are constrained by the £3m cap. However, the HCA is unlikely to favour applications for very large proposals (c20+ homes) when this scale of custom building is largely untested in England and given the objective of demonstrating success of the funding model to private investors through a range of projects.
53. Proposals should include details of the house types, number of bedrooms and total gross floor area of each home. Applicants must also provide robust estimates of all project costs, the estimated market values for each home in a scheme and the Custom Build loan funding required.
54. Proposals to provide a mix of home types that address a range of individual and family needs are encouraged. HCA will use the average cost and loan limits to prioritise schemes that offer better value for money (see below).

Value for money

55. The average development total scheme costs (including land) of each home in a project must not exceed £250,000. Schemes that can demonstrate a lower average cost (and satisfying the other eligibility criteria) will be prioritised over those with a higher cost.

56. Similarly, Custom Build funding is limited to 75% of agreed total scheme costs so a lower funding proportion for homes will be favoured. Schemes that can demonstrate a lower funding proportion (and satisfying the other eligibility criteria) will be prioritised over those requiring the full 75%.

Deliverability, including planning status and timing of completions

57. Project applicants must provide details of the planning status for the scheme. Schemes that can demonstrate full planning permission will be prioritised over those with outline permission. Projects with outline permission which have indicative dates by which full planning permission is expected to be secured will be preferred over those with no dates.

Commitment from purchasers/final plot owners

58. Proposals should include details of potential plot or home purchasers and the level of commitment they have made. In the absence of potential buyers, applicants should include details of the estimated market demand for plots in the local area. The HCA will favour those schemes that show evidence of commitment e.g. deposits taken or strong likelihood of commitment from purchasers/potential purchasers over those with no evidence of purchaser interest. Potential purchasers should always be owner occupiers. Sales to investors are not permitted.

Previous experience of delivery including financial standing

59. Applicants with experience of custom build housing delivery will be prioritised over those with no experience. Applicants must submit their latest accounts or, for newly incorporated bodies, management accounts and a statement setting out their track record. There will be further examination of financial standing at due diligence. Applicants that can point to a track record will be favoured.
60. For newly created legal entities that cannot demonstrate previous experience in custom home building, the HCA's focus will be on understanding the sources of funding and its proposed arrangements for procurement of construction. Legal entities created specifically for a Custom Build loan application can effectively demonstrate a "track record", for example, in their selection of development partners with previous experience in this area.

Standards

61. All projects must meet local standards and HCA standards if building affordable homes. Projects that will not meet local standards cannot be supported.

Innovation

62. The HCA does not have a single, fixed delivery model in mind for Custom Build loan projects. Therefore, applicants should set out any innovation it

proposes to apply in a project, for example in the design, procurement and construction process. Applicants should also set out any innovative proposals in the approach to developing homes and place in terms of, for example, working with groups of plot/home purchasers and state why these are different to conventional arrangements and what benefits they bring. Projects with an element of viable innovation that can deliver added value to a project (at the same time as meeting other criteria) will be favoured.

Due diligence

63. Short-listed schemes will then undergo due diligence, when the HCA will assess schemes and may request additional information to verify suitability for funding, including:
- Bidder and project financial standing;
 - Evidence of site ownership, planning status;
 - Availability, sources and status of other project funding;
 - The application cannot proceed without Custom Build loan funding;
 - The amount of Custom Build loan required and interest rate to be charged;
 - The project delivery risks are at an acceptable level and mitigated by the HCA's security for the funding required.
64. A due diligence pack will be issued to all shortlisted bidders. In summary the due diligence phase will have three key elements: project assumptions and finance, and applicant financial standing.

Project assumptions and finance

65. The HCA will not fund schemes which would be funded in the absence of a Custom Build loan. HCA investment will not substitute for existing development finance. On all sites the HCA will want to verify that it is providing the minimum funding required to allow the scheme to progress, that the scheme will deliver custom built homes and the builder is making a contribution. HCA funding is never more than 75% of agreed project costs.
66. Through the due diligence appraisal the HCA will seek (amongst other things) to:
- Appraise the project financial position and test underlying assumptions;
 - Test that the builder is making contributions and has the funding available to do so;
 - Identify the minimum funding needed to progress the development;
 - Secure potential for recovery of funding through loan repayment, and interest;
 - Maximise value for money;
 - Understand and consider the financial and sales/re-financing risks associated with the project.

Applicant financial standing

67. If the applicant is already a HCA Investment Partner, it will not be required to undergo a separate assessment of financial standing, although where necessary it may be required to provide updated information such as recent accounts.
68. Organisations which are not Investment Partners will be asked to undergo a review of financial standing. For all shortlisted projects, the HCA will consider the most appropriate form of security for its investment. This will primarily be a first charge on land but a second charge could be acceptable. This may require negotiation with existing sources of finance for a project.

69. An assessment of creditworthiness and level of security available will be required for all loan applicants to set the Custom Build loan interest rate.
70. The HCA reserves the right to request additional financial information from any bidder if necessary. The HCA also reserve the right to take account of a bidder's track record on investment recovery with the HCA, through current and previous programmes.

Evidence

71. The Due Diligence pack will set out what shortlisted bidders will be expected to provide at the Due Diligence phase for their projects. It is likely to include:
 - Project programme, including showing key tasks to start on site and completion
 - Completed cash flow in standard format (the HCA will supply templates)
 - Evidence of planning permission (including S106 obligations) and other relevant consents
 - Certificate of Title
 - Financial standing information (for organisations which are not already HCA Investment Partners).

Loan agreement terms

72. Approved applicants will enter into a loan agreement with the HCA. Loan agreement Heads of Terms are available on the HCA website. Applicants must indicate the amount of funding they are seeking on the expressions of interest form and confirm agreement to the Heads of Terms.
73. The loan offered by the HCA at the end of the due diligence process will be based on the HCA's view of the minimum necessary for the project to proceed. Both the quantum and type of investment offered by the HCA will be based on the HCA's appraisal of the project and might be less than the funding sought.
74. Loans will be on a commercial basis to be repaid as homes/plots are sold. Each agreement will have a longstop date by which all the loan must be repaid. The interest rate will be calculated using the EC Reference rate plus a Margin calculated on the basis of an assessment of creditworthiness and security offered. For more information see the Annex.
75. Other key terms will include:
- The agreement will set out milestones for project delivery including longstop dates for starts and completions of homes or serviced plots.
 - It is required that all schemes in which the HCA advances loans, will be managed on an open book basis. Borrowers will be required to provide regular reports on progress including construction progress, homes started and quarterly project cash flow updates.
 - It is anticipated that funding will usually be drawn down against defined qualifying expenditure.
 - The HCA will lend no more than the amount agreed following due diligence (up to 75% per cent of the agreed costs). Successful applicants will be expected to exercise rigorous cost control. No additional loan funding will be made available and any additional costs incurred over those anticipated at application stage will need to be met by other sources of finance.
 - The HCA loan will be secured through a charge on the land.
76. It is envisaged that for some projects partly financed by bank loans an intercreditor deed (ICD) will be required. A standard form ICD will be available on the HCA website as the first due diligence exercises begin.

Further information

77. Custom Build loan application forms are available from the HCA together with the standard Custom Build loan agreement Heads of terms. Forms can be requested by email to: custombuild@hca.gsi.gov.uk. Queries should also be directed to this address. All queries about applications for London must be sent to: CBH@London.gov.uk.

Annex

Assessment of interest rates for Custom Build loans

Interest rates are assessed using European Commission guidance as set out in the Communication of 19/01/081.

The EC Reference rate is used as the variable base rate (1.74% from 1 January 2012) which is increased by a Margin (to reflect the creditworthiness of the borrower and the level of collateral offered), which produces the overall rates set out below:

Creditworthiness	Collateralisation		
	High	Normal	Low
Strong (AAA-A)	2.34%	2.49%	2.74%
Good (BBB)	2.49%	2.74%	3.94%
Satisfactory (BB)	2.74%	3.94%	5.74%
Weak (B)	3.94%	5.74%	8.24%
Financial Difficulties (CCC or below)	5.74%	8.24%	11.74%

Assessment of interest rates will be carried out by the HCA as part of the due diligence process and the HCA's decision will be final.

Rates will vary in line with EC reference rate base rate changes.

Worked example (for illustrative purposes only)

An eight-plot Custom Build loan application is agreed. This will produce three serviced plots which will be sold for their owners to complete and five plots that will be built to owner specifications and purchased at practical completion.

The HCA is able to secure the Custom Build loan with a fixed first charge on the whole development site. The applicant is judged by the Agency to have “weak” financial standing and “normal” collateralisation (“normal” collateralisation will usually be assessed if the HCA can place a first, fixed charge on the development site). The interest rate to be charged in this example is therefore 6% per annum.

The total cost of building is £1.15m, the Custom Build loan agreed is £862,500 and the interest rate is 6% per annum. The project will be completed (all plots and homes completed and sold) after two years.

The Custom Build loan agreement includes a cash flow forecast (summarised below) and this is updated at regular intervals by the Custom Build borrower and agreed by the HCA. At the outset the total loan including interest to be repaid is £902,085.

The project commences with the borrower purchasing land and the first Custom Build loan advance of £215,625 is drawn down. After the first quarter, Q1 (when the site is purchased), it is assumed that the borrower is spending an estimated £110,000 per quarter thereafter on construction.

At the end of Q2 the first serviced plots are ready and sold. On legal completion of the disposals the borrower repays £116,000 of Custom Build loan. The final serviced plot is sold in Q3 and a further repayment of £58,000 is made in Q3.

In Q3 and Q4 the borrower makes further loan draw downs of £215,625 in each quarter as plot development progresses and construction starts on the five homes. At the end of year 1, £646,875 has been drawn down. The borrower has spent over £780,000, repaid £174,000 of Custom Build loan and the loan amount outstanding at the end of year 1 is £484,958.

Construction continues in year 2 and the borrower makes the final loan draw down of £215,625 by the end of Q2 as fit-out of the five homes remaining commences. At the end of Q2, the first completed home is sold and a further £150,000 of loan is repaid.

Three more completed homes are sold in Q3 and another £450,000 repaid. The final home is completed and sold in Q4, the final repayment of £128,045 made and the loan account fully repaid.

Worked example Custom Build (CB) cash flow

CB loan rate

6%	Yr 1 Q1	Yr 1 Q2	Yr1 Q3	Yr1 Q4	Yr 1 total	Yr2 Q1	Yr2 Q2	Yr2 Q3	Yr2 Q4	Yr 2 total	Grand total	
Expenditure	£452,881	£110,071	£110,071	£110,071	£783,095	£110,071	£110,071	£110,071	£ 36,690	£ 366,905	£ 1,150,000	Expenditure
Plot sale receipts	£-	£180,000	£90,000	£ -	£270,000	£ -	£230,000	£690,000	£230,000	£1,150,000	£1,420,000	Plot sale receipts
CB loan advances	£215,625	£ -	£215,625	£215,625	£646,875	£ -	£215,625	£ -	£ -	£215,625	£862,500	CB loan advances
CB loan repayments	£ -	£116,000	£58,000	£ -	£174,000	£ -	£150,000	£450,000	£128,085	£728,085	£902,085	CB loan repayments
CB Loan outstanding	£217,787	£105,070	£265,360	£484,985	£484,985	£492,296	£567,504	£126,067	£ -	-	-	CB Loan outstanding

Worked example plot assumptions

	Plot 1	Plot 2	Plot 3	Plot 4	Plot 5	Plot 6	Plot 7	Plot 8	Total
Est market value	£ 90,000	£ 90,000	£ 90,000	£ 230,000	£ 230,000	£ 230,000	£ 230,000	£ 230,000	£ 1,420,000
Cost	£ 75,000	£ 75,000	£ 75,000	£ 185,000	£ 185,000	£ 185,000	£ 185,000	£ 185,000	£ 1,150,000
CB loan	£ 56,250	£ 56,250	£ 56,250	£ 138,750	£ 138,750	£ 138,750	£ 138,750	£ 138,750	£862,500
CB loan % cost	75%	75%	75%	75%	75%	75%	75%	75%	

All assumptions and examples are for illustrative purposes only.

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