

Self Build Mortgage Options Compared

Which type of self build mortgage is the better fit for your project?

When people first look into funding a self build project, they often assume there is just one type of self build mortgage. There is not. In reality, self build mortgages can differ quite a bit in how funds are released, how the lender assesses the project, and how cash flow works during the build. The core point is that self build mortgages are usually **stage-payment mortgages**, meaning money is released in stages as the project progresses rather than as one lump sum.

The biggest comparison is usually between **arrears stage-payment mortgages** and **advance stage-payment mortgages**. Alongside that, borrowers also come across **cost-based** and **valuation-based** structures, which affect how much is released and how the lender measures progress. Those choices matter because they shape how much cash you need upfront, how smoothly the build can run, and how much financial pressure lands on you between stages.

This is where projects can go sideways. A mortgage that looks fine on paper can still be a poor fit if you do not have enough working cash to get to the next drawdown point. That is why the comparison is not just about rates. It is about **cash flow, project type, available deposit, documentation, and risk tolerance**. Lenders will also assess affordability and application evidence in the broader mortgage sense, including income, debts and spending.

What is a self build mortgage?

A **self build mortgage** is a mortgage designed for people building or commissioning their own home, rather than buying a completed property in the standard way. Unlike a conventional residential mortgage, the money is generally released in stages as works progress. BuildStore describes these as stage-payment mortgages designed specifically for homebuilders.

These mortgages are commonly used for:

- one-off self build homes
- custom build projects
- major conversions
- substantial renovation projects that are effectively build-led
- projects where funds are needed at defined construction stages

The main self build mortgage options

The most practical way to compare self build mortgage options is to split them into four main structures:

- **Arrears stage-payment mortgages**
- **Advance stage-payment mortgages**
- **Cost-based mortgages**
- **Valuation-based mortgages**

In practice, these often overlap. For example, a mortgage may release funds in advance and be cost-based, or release in arrears and be valuation-based. So the real comparison is not four totally



separate boxes. It is more like two linked choices: **when the money is released** and **how the amount released is assessed**.

Option 1: Arrears stage-payment mortgages

With an **arrears stage-payment mortgage**, the borrower funds each build stage first, then the lender releases money after that stage has been completed and signed off. This is a common self build structure and can work well where the borrower has enough upfront cash, savings or other resources to keep the project moving between stages.

Strengths of arrears mortgages

The main advantage is that the lender is releasing money against completed work, which may make the structure more straightforward from a lender risk perspective. For borrowers with solid liquidity, this can be perfectly workable.

Drawbacks of arrears mortgages

The obvious downside is cash flow. You may need to fund labour, materials and stage costs before the lender reimburses that part of the project. If your budget is tight, that can create real pressure. This is the bit that tends to separate “possible in theory” from “manageable in real life.”

Best for

- borrowers with strong available cash reserves
- projects with stable cost planning
- people comfortable managing short-term cash flow pressure between stages

Option 2: Advance stage-payment mortgages

With an **advance stage-payment mortgage**, the lender releases funds at the start of each build stage rather than after that stage has been completed. This can be hugely helpful for project cash flow because it reduces the amount of personal capital needed to bridge each stage.

Strengths of advance mortgages

The big win is cash flow support. If the project is material-heavy or the borrower does not want to sink large amounts of personal money into each stage before reimbursement, advance funding can make the build more practical.

Drawbacks of advance mortgages

They may not be available in every case, and lender criteria can be tighter because the lender is releasing money before the work is completed. In simple terms, the lender is taking more timing risk, so the product may be more specialised.

Best for

- borrowers with limited spare cash during the build
- projects where smoother stage-by-stage funding is important
- people wanting lower working-capital pressure during construction



Option 3: Cost-based mortgages

A **cost-based mortgage** means stage payments are generally linked to the actual cost of the build rather than depending purely on the uplift in property value at each stage. BuildStore notes that cost-based mortgages can offer guaranteed payments based on costs.

Strengths of cost-based mortgages

This can be helpful where the project costs are well planned and the borrower wants more certainty around how stage funding is calculated. It can reduce dependence on how much value a valuer attributes to the partially completed build at each point.

Drawbacks of cost-based mortgages

The lender will still want proper build budgets, project information and evidence. If the cost plan is weak, unrealistic or drifting, that can still cause issues. Cost-based does not mean casual. It just means the maths is being driven more by build cost than interim uplift.

Best for

- well-budgeted projects
- borrowers wanting clearer stage-funding logic
- builds where interim market valuation may be less helpful as a funding basis

Option 4: Valuation-based mortgages

A **valuation-based mortgage** means stage payments rely more on the rising value of the property as the build progresses. BuildStore explains that some stage-payment mortgages rely on an uplift in value at each stage.

Strengths of valuation-based mortgages

For some projects, especially those with clear value growth as work progresses, this can align the funding structure to the asset being created.

Drawbacks of valuation-based mortgages

The obvious issue is dependency on interim valuation. If the project is harder to assess, market conditions shift, or the valuer is more conservative than expected, the amount released may not line up as neatly with your spending needs. That can leave a funding gap at exactly the wrong moment.

Best for

- projects with strong, demonstrable stage-by-stage value growth
- borrowers comfortable with valuation-led release mechanics
- people who understand that interim valuations can move less generously than hoped

Side-by-side comparison

1. Cash flow during the build

Arrears mortgage

You fund first, lender reimburses later. That means more pressure on your own working capital.



Advance mortgage

The lender releases money at the start of each stage, which eases pressure and can make project delivery smoother.

Best for:

- Arrears: borrowers with stronger cash reserves
- Advance: borrowers who need smoother live-project cash flow

2. Certainty of stage funding

Cost-based

Funding is generally linked to agreed costs, which can create more predictability where the budget is solid.

Valuation-based

Funding depends more on how value is assessed at each stage, which can be less predictable from a borrower perspective.

Best for:

- Cost-based: borrowers wanting stronger budgeting certainty
- Valuation-based: projects where interim value growth supports the funding model

3. Upfront capital requirement

Arrears mortgage

Usually higher, because you may need to pay for works before drawdown is released.

Advance mortgage

Usually lower, because funds are released earlier in the construction cycle.

Best for:

- Arrears: those with more liquidity
- Advance: those wanting to preserve personal cash through the project

4. Suitability for tight-budget projects

Arrears mortgage

Can be harder to manage on a tight budget because timing gaps matter.

Advance mortgage

Often more practical where the borrower does not want to keep injecting large amounts of money ahead of lender release.

Best for:

- Arrears: less budget-sensitive cash-flow positions
- Advance: tighter cash-flow managed builds



5. Dependence on interim valuations

Cost-based

Lower dependence on valuation uplift as the primary driver of stage release.

Valuation-based

Higher dependence on interim valuation judgments and value growth.

Best for:

- Cost-based: borrowers who want less valuation risk
- Valuation-based: projects where uplift is a strong part of the funding story

6. Application and lender scrutiny

All self build mortgages tend to require more project detail than a standard residential mortgage because the lender is funding a build rather than a finished home. More generally, mortgage applications also involve affordability checks, proof of income, debts and spending, and in some cases adviser support can be particularly useful for non-standard applications.

Best for:

- Any option: borrowers with organised paperwork, realistic budgets and a clear project plan

When an arrears mortgage may make more sense

An arrears self build mortgage may be the better option if:

- you already have strong cash reserves
- you can comfortably fund work between stages
- you are less concerned about temporary cash-flow gaps
- the product terms are otherwise competitive for your project
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When an advance mortgage may make more sense

An advance self build mortgage may be the better option if:

- you want smoother project cash flow
- you do not want to keep funding stages first and reclaiming later
- the project is buildable but your spare capital is not endless
- reducing short-term funding strain matters more than theoretical neatness

When cost-based may make more sense

A cost-based structure may be stronger if:

- your build budget is detailed and realistic
- you want greater certainty on how funds are calculated
- you do not want the project to depend heavily on interim market uplift decisions



When valuation-based may make more sense

A valuation-based structure may be stronger if:

- the project shows clear value progression through the build
- the lender and product are comfortable funding against uplift
- you understand that interim valuation outcomes can affect release levels

Common mistakes people make when comparing self build mortgage options

Focusing only on the headline rate

The structure of release can matter just as much as the rate. A cheaper-looking mortgage can still be a poor fit if it starves the project of cash at the wrong moments. This is an inference based on how stage-payment mechanics work.

Underestimating working capital

This is the classic trap with arrears-funded builds. On paper it looks fine. On site, invoices arrive before lender money does.

Not understanding how the stage payments are assessed

Cost-based and valuation-based are not just jargon toppings. They affect how much money lands and when.

Going in without organised financial evidence

Mortgage lenders assess affordability and supporting information. The more non-standard the project, the more important it is to have the paperwork under control.

Questions to ask before deciding

Before choosing between self build mortgage options, ask yourself:

- Do I have enough cash to fund stages before reimbursement?
- Would advance funding make the build materially easier to manage?
- Is my budget detailed enough for a cost-based route?
- Am I comfortable with valuation-led stage releases?
- How much contingency do I really have?
- What happens if the build costs overrun or a stage takes longer than planned?
- Have I properly stress-tested affordability, not just at application but during the build?

Comprehensive conclusion

There is no single best self build mortgage option because the right structure depends on how the project is going to operate in the real world, not just how it looks in a finance illustration. Self build mortgages are generally stage-payment products, and the biggest practical differences are whether funds are released **in arrears or in advance**, and whether the release is assessed on a **cost-based or valuation-based** footing.



An **arrears stage-payment mortgage** is often better suited to borrowers who already have enough available cash to keep the build moving between stages. It can work well, but it places more pressure on the borrower's own working capital. If cash reserves are strong, that may be manageable. If not, it can become a headache dressed up as a mortgage product.

An **advance stage-payment mortgage** is often better suited to borrowers who need smoother cash flow and want the lender's funds released at the start of each stage. This can make a major difference to how practical the project feels day to day, especially where labour and material costs need funding before a stage is completed.

A **cost-based structure** is often stronger where the project costs are detailed, realistic and well planned, because it gives more certainty around how stage funding is calculated. A **valuation-based structure** may work where the project shows clear value uplift as it progresses, but it introduces more dependence on interim valuation outcomes.

In practical terms, the decision usually comes down to four things:

First, your cash flow.

If you need the lender to support each stage before completion, advance funding may be the better route. If you can comfortably fund stages first, arrears may still work.

Second, how you want funding assessed.

If certainty matters more, cost-based can be attractive. If the project supports a valuation-led approach, that may also be viable.

Third, how strong your planning is.

Self build borrowing is less forgiving of vague numbers and messy paperwork than many people would like. Affordability, income evidence and application quality still matter.

Fourth, whether the mortgage fits the actual build process.

A product that looks competitive but creates repeated cash squeezes is not really competitive. It is just better dressed trouble. That last line is an inference, but a fair one given how stage-payment structures operate.

In plain English, **advance and cost-based options are often easier for borrowers who want smoother project cash flow and more predictable funding, while arrears and valuation-based options may suit borrowers with stronger liquidity and comfort with stage-by-stage reimbursement or valuation-led releases.** The best option is the one that matches the way the build will actually be funded on site, not the one that just looks neatest in the brochure.

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