

# Lending guidelines and submission requirements

1 January 2012

## Submission requirements

**In all cases, intermediaries are required to collect evidence of income and we may ask you to provide this evidence as part of the application process on any individual case.**

**In respect of self-employed income:**

- last 2 years accounts prepared by a qualified member of an accountancy body acceptable to us (see section 7)  
or
- last 2 years self assessment tax returns plus HM Revenue and Customs (HMRC) approval form SA302 or SA300 (if HMRC calculated) or SA310 (if self calculated)

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**Last 3 months payslips or most recent P60 in respect of any employed income**

The applicants most recent residential mortgage statement may be requested where it is not possible to evidence the mortgage by credit reference agency search.

We reserve the right to contact the applicant(s) and request additional information or references such as an accountant's reference, employment reference, mortgage statements or a bank reference (see section 8).

# Lending guidelines

These guidelines represent a summary of our lending criteria for residential investment properties located in England and Wales.

These guidelines may be altered at any time without prior notice. Requirements may vary for individual cases and these are guidelines only.

## 1. Loan requirements

### ■ **Minimum loan amount**

Purchase/Remortgage : £30,000

### ■ **Loan to value (LTV)**

The maximum loan to value for purchases and remortgages is as follows:-

- up to 75% LTV: maximum loan up to £500,000
- up to 70% LTV: maximum loan up to £1,000,000

Any fees that may be added to the loan are excluded from the LTV calculations.

### ■ **Maximum aggregate borrowing**

A lending limit of £1,000,000 and no more than 5 properties applies across all Paragon Group mortgage products.

### ■ **Loan purpose**

We will consider applications for either purchase or remortgage of residential investment property.

Capital raising will be considered for all purposes concerned with the owning and renting of residential property.

### ■ **Purchase application**

The loan amount will be based upon the lower of purchase price or current valuation.

### ■ **Remortgage application**

Where the applicant(s) has been the registered owner(s) of the property for less than 6 months, the loan amount will be based upon the lower of the purchase price or current valuation. Exceptions will be considered where it can be demonstrated, that since the date of purchase, significant improvement works which have enhanced the property value have been carried out.

In all instances, the property must be registered at the Land Registry as owned by the applicant(s), at the date of completion.

### ■ **Mortgage term**

Minimum: 5 years

Maximum: 25 years

### ■ **Repayment methods**

Interest only, capital and interest repayment and part interest only and part capital repayment loans are available.

It is good practice to make provision for the repayment of the loan upon maturity or in the event of death during the term. However, we do not require a life policy or investments to be assigned.

## 2. Income/affordability

### ■ Income

Applicant(s) income can include:-

- gross employment income
- taxable self employed income

Income from renting property cannot be included.

### ■ Affordability

- The gross rental income from the property should equal or exceed the Interest Coverage Ratio requirements as defined within the selected product criteria subject to an absolute minimum coverage of 125%.
- Applicants may be subject to validation of their income. Intermediaries should obtain and hold on file proof of income in all cases.

## 3. Personal details

### ■ Applicant(s)

Applications will be considered for a maximum of two individuals who should have been resident and liable to tax in the UK for a minimum of the last 2 years. Applications from limited companies are not acceptable.

All applicant(s) must have indefinite leave to remain in the UK.

Applications from expatriates will not be accepted.

At least one applicant must be the owner of a residential property or residential investment property.

### ■ Age at application

Minimum: 21 years

The applicant(s) should not be over 65 years of age at the application date.

The applicant(s) should not be over 80 years of age at the end of the mortgage term.

## 4. Credit history

A comprehensive review of the credit history for each applicant will be undertaken, which will include a credit search on all applicants. In addition, we will use a credit score in order to ascertain the acceptability of the application. We will not normally consider any application where there is evidence of poor credit history, such as county court judgments, defaults or arrears on any loan.

## 5. Employment

At least one applicant must be employed or self-employed as defined below.

### ■ Employed applicant(s):

Applicant(s) must be in permanent non-probationary employment. Applicant(s) on long term contract work will be considered on an individual basis.

- **Self employed applicant(s):**

Applicant(s) who work on a subcontract basis will be treated as self employed.

An applicant will be classed as self employed where the individual owns 20% or more shareholding of the company or is employed by a family business.

Applicant(s) must have been trading in their present business for a minimum of 2 years.

## 6. Property

We will take a first legal charge and will only consider single self contained properties in England and Wales. Houses in Multiple Occupation and multi-unit blocks are not acceptable.

- **Minimum property valuation: £75,000**

- **Let property**

Property may either be let:

- on an assured shorthold tenancy subject to a minimum term of 6 months and a maximum of 12 months or
- to a limited company registered in England, Wales or Scotland for up to 3 years or to a local authority or housing association for up to 5 years **provided** it is subsequently occupied by a private individual or individuals whose rights of occupation do not extend beyond the term granted to the acceptable tenant, (in both cases being pre-approved by us and being on appropriate terms).

Property shall not in whole or in part be let to or occupied by:

- the applicant, or any member of their family
- the vendor of the property, or any member of their family
- any previous owner of the property, or any member of their family
- an employee of the applicant
- an associated subsidiary, or parent company of the applicant

Sale-and-rent-back arrangements are not acceptable.

Holiday lets are not acceptable.

Where a tenancy agreement pre-dates the completion of the loan then the solicitor acting must ensure that our interests are fully protected.

- **Property exclusions**

Property is unacceptable if it is:

- a freehold flat or maisonette in England and Wales
- designated as defective under any housing legislation
- subject to agricultural or other planning restrictions
- subject to notice of mineral extraction, contaminated land or previous mining subsidence and landfill
- an ex-local authority property
- being purchased under the right to buy scheme
- built within the last 10 years without an NHBC certificate or other guarantee acceptable to us
- non-traditional construction such as concrete or timber or where existing or possible structural defects are apparent
- a shared ownership property
- located within either 10 metres of an electrical sub-station or 100 metres of an overhead high voltage cable or communication mast.
- a flat in a block over 4 storeys high (except within Greater London)
- a studio flat, under 30 square metres

- a new or recently built flat where there is, or is likely to be, a low demand from tenants
- a property which is attached to, or is, part commercial
- a property with an element of "flying freehold"
- a self-build property
- a property with restrictions relating to sale or occupancy eg section 106 notice
- a property subject to chancel repairs/liability
- a property subject to issues identified by an environmental search
- a converted flat where the applicant occupies a property in the same building

#### ■ **Tenure**

Freehold or leasehold (subject to a minimum of 70 years unexpired term at the commencement of the mortgage and 50 years unexpired term at the end of the mortgage).

Note: Possessory title is not normally acceptable.

#### ■ **Valuations**

A security assessment and valuation report will be arranged to determine the suitability and value of the property for mortgage purposes.

Properties that are likely to have low demand from tenants due to their current condition, location or other factors, including poor maintenance or management of common areas, will not normally be acceptable.

We reserve the right to accept or decline any individual property.

#### ■ **Occupation**

Depending on the specific conditions of each loan, the property must either be occupied by acceptable tenants (see let property), or may be vacant between lettings for up to 90 days, subject to the terms of the insurance cover being complied with.

## 7. Further information

#### ■ **Purchases**

Minimum purchase price £75,000.

Proof of the source of the deposit may be requested.

Where the applicant(s) are not providing the whole of the balance of the purchase price from their own funds, full details must be provided for consideration by us.

#### ■ **Property investment clubs and syndicates**

Applications will not be accepted where the property is being purchased or refinanced through, or where the applicant is in anyway connected to, a property investment club or syndicate.

#### ■ **Identity**

Where the identity of all applicants cannot be established through the underwriting process, proof of identity verified by the solicitor or mortgage broker will be required.

#### ■ **Accepted accountancy institutes:-**

- Institute of Chartered Accountants in England & Wales (ACA/FCA)
- Institute of Chartered Accountants of Scotland (CA)
- Association of Chartered Certified Accountants (ACCA / FCCA)
- Chartered Institute of Management Accountants (ACMA/FCMA)
- Association of International Accountants (MAIA/FAIA)
- Association of Accounting Technicians (MAAT/FMAAT)

- Association of Authorised Public Accountants (AAPA/FAPA)
- Institute of Chartered Secretaries and Administrators (ACIS/FCIS)

## 8. References

We reserve the right to request additional information or references such as an accountant's reference, employment reference, mortgage statements or a bank reference. Such information may be renewed if completion does not take place within 6 months of them being obtained.

## 9. Solicitors

We will normally instruct the applicant's solicitors to act provided:

- the firm has a minimum of 4 partners each holding current practising certificates, operates from commercial premises, has been in business for at least 3 years and is currently registered with the Law Society
- the solicitor acting holds a current practising certificate and is currently registered with the Law Society
- the firm is on, or accepted to, our solicitors panel and agrees to the panel terms and conditions

Should an applicant(s) choose a firm that is not acceptable to us we will instruct a firm of our choosing to act on our behalf and any costs incurred will be the responsibility of the applicant(s) whether or not the completion takes place.

We will not allow a change of solicitor post-issue of Offer of loan.

In all cases, we reserve the right to instruct alternative solicitors to act solely for us and any costs incurred will be the responsibility of the applicant(s) whether or not completion takes place.

Please see our Approved solicitors panel on our website at [www.mortgagetrust.co.uk](http://www.mortgagetrust.co.uk) for a full list of approved firms.

## 10. Property insurance

Index linked buildings insurance will be required to be maintained for the rebuilding cost of the property.

We may offer to arrange suitable cover under our competitively priced block policy.

Full details of the competitive buildings and contents cover available will be forwarded to the applicant(s) with the offer.

Alternatively, the applicant(s) may make their own insurance arrangements subject to confirmation that the policy is acceptable to us or, for leasehold property, the freeholders may already have adequate cover in force under the terms of the lease.

Where buildings insurance is not being arranged through us, details of the alternative policy must be provided to confirm that comparable cover will be in force and our interest must be noted on the policy. In such circumstances the applicant must contribute towards the cost of contingency insurance taken out by Paragon Mortgages.

**All properties**, whether or not insurance is arranged through us, must be acceptable to our insurers on standard terms ie exclusions or increased excesses must not apply.

## 11. General

### ■ Life cover

Although we do not require a life policy to be assigned, we strongly recommend that suitable cover for the amount and term of the loan is in place to provide adequate protection for the applicant(s).

## ■ Decision

When considering an application a detailed assessment of the following circumstances will be made, so that an informed decision can be reached regarding the acceptability of the case:

- the applicant's credit history
- the applicant's income and employment status
- the rental income available is sufficient to support the loan
- the suitability and value of the property
- the loan to value
- the applicant's credit score

## ■ Final decision

We reserve the absolute discretion to determine whether to make an offer and the terms on which the offer is made.

## ■ Verification

We reserve the right to validate any references or other documentation received in the course of assessing the application.

We reserve the right to contact all applicants by telephone to verify information submitted in support of the application.

Updated references will be required where completion has not taken place within 6 months.

Before completion of the loan, a revaluation will be arranged by us, at the applicant's expense, where the initial inspection is more than 3 months old.

## ■ Legal charges

We require a first legal charge over the property.

We will not accept subsequent charges in favour of any other party, for any purpose, including borrowing from other lending institutions.

## ■ Interest rates, fees and redemption terms

Please refer to the guide entitled "Interest rates and fees" for full details.

Any application fee/valuation fee will be charged immediately on acceptance of a case for processing and the valuation will normally be instructed immediately thereafter.

## ■ Direct debit mandates

It is a condition of the loan that monthly payments are made from an account in the applicant's name(s), with a UK based bank and made by direct debit which is to be set up prior to the issue of an offer.

## ■ Retention of papers

Papers for applications which do not proceed will be retained for 3 months from the date of notification that the application is not proceeding.

Please note that our offer of advance will be issued by email. Therefore we require email addresses for the principal applicant, solicitor and introducer.

Where you feel that a particular application falls outside these guidelines, but should be considered further, then such cases should be referred to us on an individual basis for a decision.

If you would like an opinion prior to submitting a full application, then simply call us on: **0845 849 4055**.

## 12. Further advances

Further advances may be available subject to market conditions at the time of application.

The borrower must have successfully maintained the loan for a minimum of 6 months. To be eligible a minimum of 5 years must be remaining on the original mortgage term.

The minimum further advance is £5,000 and the further advance plus current balance outstanding, must comply with the product criteria and current lending guidelines. A security assessment and valuation will be arranged to determine suitability and value of the property for mortgage purposes.

The mortgage term for a further advance must match the remaining term of the initial advance.

Capital raising will be considered for all purposes concerned with the owning and renting of residential property.

For further advances, solicitors will not normally be instructed to act, although it is always advised to seek independent advice before taking on any financial commitment.

Solicitors may be required to act in certain circumstances e.g. where changes have occurred to the property since the original advance.