

Lending guidelines and submission requirements

Non-portfolio landlords

July 2017

Submission requirements

The following items must be submitted on application:

In respect of self-employed income:

- last two years accounts prepared by a qualified member of an accountancy body acceptable to us (see section 5)
or
 - last two years HMRC produced SA302 tax calculation and Tax Year Overview
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In respect of employed income:

- Last three months' payslips or most recent P60

Please refer to section 2 of these guidelines for clarification of eligible income sources.

- last two years HMRC produced SA302 tax calculation and Tax Year Overview
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In respect of property:

- A fully completed property schedule (please see mortgage application)

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.

These guidelines are designed for non-portfolio landlords who own up to three mortgaged buy-to-let properties. Applications for portfolio landlords, limited companies, limited liability partnerships, HMOs and multi-unit blocks can be made to Paragon Mortgages. Please see www.paragon-mortgages.co.uk for more details.

Lending guidelines

These guidelines represent a summary of our lending criteria for non-portfolio landlords and single self contained residential investment properties located in England, Wales and Scotland. 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

■ **Minimum property value:** £75,000

■ **Loan to value (LTV)**

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

- up to 80% 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 will apply. Applicant(s) must own no more than three buy-to-let mortgaged properties, regardless of lender, including the proposed application.

■ **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.

We will not consider applications where the applicant is purchasing a property from an associated limited company.

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.

■ **Remortgage application**

We will consider remortgage applications where the applicant has been the registered proprietor for less than 6 months. In these instances, 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. A schedule of works and evidence of expenditure will be required.

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

■ **Consumer buy-to-let**

We will accept applications that qualify as consumer buy-to-let mortgage contracts, subject to appropriate criteria being met.

More information concerning consumer buy-to-let can be found on our website at www.mortgagetrust.co.uk

- **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. 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).

- **Property investment clubs and syndicates.**

We will not accept applications where the property is being purchased or refinanced through, or where the applicant is in anyway connected to, a property investment club or syndicate.

2. Income/affordability

We will assess the affordability of a mortgage based on the expected monthly income generated from letting the property to a tenant. The actual income generated may be different and can be influenced over time by changes within the rental market. The applicant(s) will remain responsible for meeting the costs of the mortgage and the additional costs associated with letting property for the duration of ownership.

- **Income**

Applicants should have a minimum combined gross annual income of £25,000 per annum.

Applicant's income can include:

- gross employment income
- taxable self employed income

Income from renting property, state benefits, state pensions and investment income will not be considered, but may be taken into account when calculating the tax band applicable to an applicant.

- **Affordability**

All applications will be subject to validation of:

- The income requirements above
- The gross rental income from the property should equal or exceed the Interest Cover Ratio (ICR) as determined by the tax band applicable to an applicants income. The tax band applicable to the applicant with the highest income will be used.

The tax band and ICR levels are as follows:-

Applicant type	Applicable ICR
Basic Rate Tax Payer (20%)	125%
Higher rate tax payers (40%)	140%
Additional rate tax payers (45%)	140%

We must be satisfied that the applicant(s) are able to withstand increases in mortgage interest rates, cover rental voids and be able to afford the mortgage now and after any fixed/discounted period expires. We may request

evidence of contingency funds which could be used to support increased mortgage payments. We may decline an application if we believe the applicant will not be able to meet mortgage payments should interest rates increase.

3. Personal details

■ Applicant(s)

Applications will be considered for a maximum of two individuals who should all have been resident and liable to tax in the UK for a minimum of the last two years.

Applications from limited companies are not acceptable.

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

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

Applications from expatriates will not be accepted.

■ Age at application

Minimum: 21 years

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

■ Identity

Where the identity of all applicants cannot be established through the underwriting process, proof of identity verified by the solicitor or intermediary will be required. We will also accept documents certified as true copies of the originals if verified using the Post Office Identity Document Checking Service.

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 defaults or arrears on any loan.

We will not consider applications where an applicant:-

- has historic or current county court judgements
- is an historic or currently disqualified director

We reserve the right to obtain a new credit search at any time and any change in the applicant(s) credit history could lead to the application being reviewed.

It is important that we are provided with accurate information. We will check the details with Fraud Prevention Agencies and if false or inaccurate information is identified, details will be passed to the Fraud Prevention Agencies and criminal prosecution may be considered.

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) must have been trading in their present business for a minimum of two years and be able to provide two years accounts and/or tax returns as per our submission requirements.

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.

■ **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 (AAIA/FAIA)
- Association of Authorised Public Accountants (AAPA/FAPA)
- Association of Accounting Technicians (MAAT/FMAAT) - Must be a practicing and licensed member under the AAT organisation regulations or work for, and be indemnified by, another accountancy firm with a separate qualification from the above list

6. Property

We will take a first legal charge and will only consider single self contained properties in England, Wales or Scotland (where products are available). Houses in Multiple Occupation and multi-unit blocks are not acceptable.

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

■ **Valuations**

A security assessment and valuation report will be arranged to determine the property value, the realistic and sustainable monthly rental income and the suitability of the property for mortgage purposes.

Any property we are considering should be lettable in its current condition.

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.

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

- **At our discretion, the following types of property may be considered on an individual basis:**

- ex local authority houses
- a flat in a block over four storeys high (ten storeys within the M25 area) or with more than 100 units
- leasehold flats or maisonettes attached to, or above, commercial premises

- **Property exclusions**

Property is unacceptable if it is:

- an ex-local authority flat or maisonette
- non-traditional construction such as concrete or timber or where existing or possible structural defects are apparent
- a shared ownership property (currently or previously)
- a converted flat where the applicant occupies a property in the same building
- 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
- being purchased under the Right to Buy Scheme or Housing Association Scheme
- built within the last ten years without an NHBC certificate or other guarantee acceptable to us
- located within either ten metres of an electrical sub-station or 100 metres of an overhead high voltage cable or communication mast
- 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 with an element of "flying freehold"
- a self-build property
- a property with restrictions relating to sale or occupancy such as Section 106 notice, pre-emption clause
- a property subject to chancel repairs/liability
- a property subject to issues identified by an environmental search
- a property which is commercial
- let on any other basis than a private residential tenancy agreement
- a property with solar panels installed where they are subject to a lease agreement

- **Tenure**

Freehold/heritable in England, Wales and Scotland, or leasehold in England and Wales only (subject to a minimum of 85 years unexpired term at the commencement of the mortgage and 65 years unexpired term at the end of the mortgage).

Note: Possessory title is not normally acceptable.

- **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.

■ Let property

The landlord is responsible for checking the legal status of a tenant to ensure they have a permanent right to reside in the UK.

In England and Wales, property may either be let:

- on an assured shorthold tenancy subject to a minimum term of six months and a maximum of 36 months or
- to a limited company registered in England, Wales or Scotland for up to three years or to a local authority, housing association or suitable educational institute for up to five years in all instances, **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 Scotland, property may be let:

- on a short assured tenancy subject to a minimum term of six months and a maximum term of 12 months.

For full details please refer to the General and Special conditions booklet that is appropriate to the property location, which can be found on our website **www.paragon-mortgages.co.uk**.

Each tenancy agreement must require the rent to be paid at either monthly or quarterly intervals.

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.

7. Solicitors

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

- the firm has a minimum of four partners each holding current practising certificates/licenses, operates from commercial premises, has been in business for at least three years and is currently registered with the Law Society/Council for Licensed Conveyancers
- the solicitor/licensed conveyancer acting holds a current practising certificate and is currently registered with the Law Society/Council for Licensed Conveyancers
- the firm is registered on Lender Exchange, agrees to our terms and conditions and has been accepted onto our conveyancing panel

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 completion takes place.

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

In all cases, we reserve the right to instruct alternative solicitors/licensed conveyancers 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 conveyancing panel on our website at www.mortgagetrust.co.uk for a full list of approved firms.

8. Property insurance

Comprehensive buildings insurance must be arranged, in all cases, to the level of cover as set out in the mortgage conditions that are appropriate to the property location. Where the applicant arranges buildings insurance, details of the policy must be provided and our interest noted on the policy. Where insurance is not arranged through Paragon's approved third party insurer, the applicant must contribute towards the cost of taking out contingency insurance in respect of any subsequent loss suffered by Paragon as a result of any inadequacy on the insurance arranged by them.

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.

We reserve the right to request a copy of the insurance policy where the borrower has arranged their own buildings insurance.

9. General

■ 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 tenant's right to reside
- 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.

■ **Our offer of loan will lapse if completion does not take place within three calendar months of issue.**

■ Verification

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

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

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

■ Legal charges

We require a first legal charge (or in Scotland, Security) 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 "Buy-to-let product guide" 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 three months from the date of notification that the application is not proceeding.

- **Email address**

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

10. Further advances

Further advances may be available subject to market conditions at the time of application and the specific profile of the individual case. The affordability assessment for further advance applications will take into account the existing loans secured against the property.

Where an application falls outside the guidelines but you feel it should be considered further, please refer it 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 0345 849 4055.