

LENDING GUIDELINES AND SUBMISSION REQUIREMENTS

October 2019

Submission requirements

The following items are the minimum requirements and must be submitted to support your application. If you have an agreement in principle, please provide the reference number.

In respect of self-employed income:

- Full latest year's accounts prepared by a qualified member of an accountancy body acceptable to us (see section 5) **OR**
- Full latest year's self-assessment tax return or equivalent tax calculation (previously SA302), together with the corresponding Tax Year Overview

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.

All applications:

- The most recent three months' bank statements

Where it is not possible to evidence an existing mortgage by a Credit Reference Agency search, alternative verification will be required for the last 12 months' payments. We reserve the right to request additional information or references such as an accountant's reference, employment reference, mortgage statements or further/other bank statements.

Underwriting decisions

Our underwriters will consider each case independently to allow us to be flexible, in many cases using our rules as guidelines, however we request that our customers must meet the following criteria in order to apply for a mortgage:

- Maximum LTV of 85%
- Property LTV restrictions will always apply
- The mortgage must always be evidenced as affordable
- There must be no legal issues with the property title
- A maximum lending limit of £5,000,000 across Paragon Banking Group
- Own at least one Buy-to-let property

Lending guidelines

These guidelines represent a summary of our lending criteria for owner-occupied residential properties located in England and Wales. More information concerning residential mortgages can be found on our website at www.paragonbank.co.uk. 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

Further Advance : £10,000

- **Minimum property valuation:**

£75,000 or £150,000 in London postcode areas within the M25

- **Loan to value (LTV)**

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

LTV	MAXIMUM LOAN	
	EMPLOYED	SELF-EMPLOYED
<=75% London and South East	£1,500,000	£1,500,000
<=75%	£1,000,000	£1,000,000
<=85%	£750,000	£750,000

PROPERTY TYPE	LTV	MAXIMUM LOAN
New build flats	<=80%	£750,000
Second residential property	<=80%	£750,000

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

London and South East means Greater London, Hertfordshire, Bedfordshire, Buckinghamshire, Berkshire, Essex, Surrey, East and West Sussex, Kent, Hampshire and Oxfordshire.

- **Maximum aggregate borrowing**

There is a lending limit of £5,000,000 across Paragon Banking Group, which includes any buy-to-let and residential lending.

- **Loan purpose**

Purchase, Remortgage or capital raising will be considered for residential owner-occupied properties, but not for the following purposes:

- Help-to-buy
- Homebuy
- Shared ownership
- Assisted purchase schemes
- Signed under a power of attorney
- Business loans

- Loans for speculation and gambling debts
- The purchase of investment property, eg timeshare

Where the applicant is consolidating consumer credit, the affordability will be assessed as though the credit is not being repaid.

Second homes will be considered to a maximum exposure of 80% LTV on the second property.

- **Purchase application**

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

Proof of the source of the deposit may be requested.

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

- **Remortgage application**

We will not normally consider remortgage applications where the applicant has been the registered proprietor for less than six 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 as owned by the applicant(s) at the date of completion.

- **Mortgage term**

Minimum: 5 years

Maximum: 30 years

- **Repayment methods**

Interest only or capital and interest repayment are available.

Interest only repayment is subject to:

- Maximum 75% LTV;
- A suitable and credible repayment strategy (eg endowment, investments, pension lump sum, net proceeds from other UK residential property etc);
- Sale of the property may be considered providing the equity level is not less than £350,000 (London and the South East) or £200,000 (all other areas) at the time of the granting of the mortgage;
- Monthly repayments being paid out of earned or investment income will be considered with 12 months' history of the investment income, and we will consider the potential for the investment to fall.

2. Income/affordability

We will assess the affordability of a mortgage using the disposable household income, which is based on the declared monthly expenditure from the applicant and their evidenced net income. Where the applicant does not meet our modelled expenditure, we will consider individual circumstances, providing the client can prove why their expenditure is lower than anticipated.

- **Income**

The applicant(s) should have a minimum combined gross annual income of £15,000 per annum. Applicant(s) income can include:

- Employment income with up to 100% of overtime, bonus or commission if proven to be regular, sustainable and reasonable;
- Self-employed income.

Please refer to the acceptable income table on our website www.paragonbank.co.uk for which benefits are acceptable as income.

- **Affordability**

Applicants will be subject to validation of their income and expenditure through bank statements.

We must be satisfied that the applicant(s) are able to withstand increases in mortgage interest rates and potential fluctuations in their household disposable income.

3. Personal details

- **Applicant(s)**

Applications will be considered for a maximum of two individuals who are existing Buy-to-let landlords and have been resident and liable for tax in the UK for a minimum of the last two years. However, not all the applicants' income has to be liable for UK tax.

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

Applications from UK expatriates will not be accepted.

- **Age at application**

Minimum: 18 years, or if self-employed 21 years, at application

Maximum: 85 years at the end of the mortgage term

Where the applicant is within ten years of their state retirement age or declared retirement age, whichever is the lower, and wishes to borrow past this date, the applicant will require enhanced underwriting and we will need:

- Full details of their expected pension income, including the most recent pension statement;
- Confirmation from the customer as to their expectations on retirement and whether they will clear any credit outstanding;
- The amount of the lump sum they will take from their pension scheme (minimum of 25%).

Where the applicant is more than ten years away from retirement, we require proof that they are planning for their retirement.

- **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.

4. Credit history

A comprehensive review of the credit history for each applicant will be undertaken. This will include a credit search on all applicants, where we will use a credit score in order to ascertain the acceptability of the application. 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.

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 applicants who:

- have historic or current county court judgments;
- are historic or currently disqualified directors.

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, self-employed or in receipt of sufficient pension or investment income as defined below.

- **Employed applicant(s):**

Applicant(s) must be in employment. NB, income from more than one job will be considered.

Applicant(s) on long term contract work will be considered on an individual basis.

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

Applicant(s) must normally be able to demonstrate a minimum of two years' experience within their current field.

Applicant(s) must be able to provide a full one year's accounts and/or tax returns as per our submission requirements, together with next year's forecast if only one year's accounts are available.

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 and Wales.

- **Minimum property valuation:**

75,000 or £150,000 within the M25

- **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 owner occupiers due to their current condition, location or other factors, including poor maintenance or management of common areas, will not normally be accepted.

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 six months old.

- **Property exclusions**

A property is unacceptable if it is:

- a self-build property;
- a shared ownership property;
- over or adjacent to commercial premises (except in London and the South East);
- built on unregistered land (unless full conveyance details are provided from the applicant's solicitors or first mortgagee);
- a property with an element of commercial use (except in London and the South East);
- of non-traditional construction such as concrete or timber. Modern methods of construction will be considered by exception;
- a property where existing or possible structural defects are apparent;
- subject to agricultural restrictions. Other planning restrictions may be considered providing the surveyor confirms that the restriction does not have a major deleterious effect on the value;
- a property with an area of "flying freehold" exceeding 10% of the property;
- a property that has been neglected or is in poor order;
- a property built within the last ten years without an NHBC Certificate or other acceptable guarantee;
- subject to adverse factors that will materially affect the marketability including:
 - properties with flat roofs;
 - high voltage pylons or mobile phone masts within 100 metres;
 - electrical substation within ten metres;
 - mine shafts within 20 metres;
 - boarded up houses within the immediate vicinity;
 - properties in areas subject to antisocial behaviour;
 - properties subject to contaminated land or enforcement orders;
- a freehold flat or maisonette in England or Wales;
- a purpose built private flat in a block over four storeys high outside metropolitan areas (ten storeys within the M25 area), or with more than 100 units;
- a studio flat under 30 square metres;
- a poor quality flat conversion;
- a Local Authority or Housing Association flat in England or Wales;
- a property subject to notice of mineral extraction, contaminated land or previous mining subsidence and landfill

- **New build flats**

New build flats are subject to a maximum 80% LTV.

- **Tenure**

Tenure is limited to Freehold, Leasehold and Commonhold with Absolute or Possessory Title (with full indemnity).

- **Residual term of lease**

For leasehold properties, there must be a minimum of 85 years unexpired term of lease at the start of the loan term, and 65 years unexpired term of lease at the end of the mortgage term.

- **Ex-local authority properties in pre-emption**

Minimum loan: £30,000, excluding fees

Maximum LTV: 70%, including fees

Any monies lent for properties in pre-emption must be for home improvements and a schedule of works or invoices will be required to evidence this.

- **Occupation**

The property must be occupied by the applicants, however this may not be on a full time basis. Second homes will be considered to a maximum of 80% LTV.

7. Solicitors

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

- the firm has a minimum of four partners, each holding current practising certificates/licences, 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 the mortgage is completed.

We will not allow a change of solicitor/licensed conveyancer after issuing the 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 the mortgage is completed.

Please see our conveyancing panel on our website at www.paragonbank.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 Customer Guide, and to the reinstatement value which will be provided to the applicant in the valuation report which will be sent with the offer. Where the applicant arranges buildings insurance, details of the policy must be provided. The preference is for the solicitor to confirm on completion, that the Lender will be noted on the policy or that the policy has been issued in the joint name of the Lender and the applicant. However, this will not be insisted upon if the insurer is not prepared to comply.

All properties 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 affordability of 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.

Our offer of loan will lapse if completion does not take place within 90 days 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 90 days.

- **Legal charges**

We require a first legal charge over the property.

- **Interest rates, fees and redemption terms**

Please refer to the guide entitled "Residential product guide" for full details of our interest rates and fees and redemption terms.

Any application fee and 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 loan will be issued by email. Therefore we require email addresses for the principal applicant, solicitor and intermediary.

10. Additional borrowing

Additional borrowing may be available subject to market conditions at the time of application and the specific profile of the individual case. A customer must have had their original mortgage for six months from the completion date before additional borrowing may be considered.

Any additional borrowing will be funded by Paragon's second charge mortgage division, and registered as a second charge against the property.

Applications can only be made through an intermediary.

If you wish to discuss an additional borrowing application with us, please call us on **0345 149 7750**.

These are our submission guidelines, please speak to one of our Underwriters to discuss any case you may feel has strong merit. If you would like an opinion prior to submitting a full application, then simply call us on 0345 149 7756.

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1313-1 (09/2019)

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