

FURTHER ADVANCE LENDING GUIDELINES AND SUBMISSION REQUIREMENTS

October 2018

Submission requirements

Paragon reserves the right to process a further advance at its sole discretion. All further advance products are subject to availability of funds and can be withdrawn at any time. Please see our Further Advance Guide on our website for the products currently available.

The following items must be submitted on application:

For all applications:
Fully completed application form
Fully completed property schedule
In respect of employed income:
last three months payslips or latest P60 for employed income
last two years accounts prepared by a qualified member of an accountancy body acceptable to us OR
last two years self-assessment tax returns together with the corresponding SA302 tax calculation and Tax
Year Overview for self-employed income
For Portfolio further advance applications, we may also require the following (subject to underwriter assessment):
Last three months rental bank statements to confirm all rental income and mortgage payments
Last two years rental accounts or self-assessment tax returns together with corresponding SA302 and Tax
Year Overview
Cash flow forecast, Business Plan and Net Worth Statement
Where the applicant is a limited company/limited liability partnership (LLP):
Last three months company/LLP bank statements showing business activity and rental income
Where aggregate lending with Paragon is in excess of £2 million:
Interview with a senior underwriter to be arranged following submission of application

Lending guidelines

These guidelines represent a summary of our portfolio and non-portfolio 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.

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

To be eligible for a further advance you must have:

- Maintained a loan for six months
- A minimum of five years remaining on the original mortgage term

1. Loan requirements

- **Minimum loan amount**

Purchase/Remortgage: £5,000

- **Minimum property value:**

£75,000 Available for properties located in England and Wales

- **Loan to value (LTV)**

Portfolio (4 or more buy-to-let mortgaged properties, limited company/LLP, HMO/multi-unit or part commercial applications):

The maximum loan to value per property for purchases, remortgages and further advances (aggregate or existing loan(s) plus further advance) is as follows:

- up to 80% LTV: maximum loan up to £500,000
- up to 75% LTV: maximum loan up to £750,000
- up to 70% LTV: maximum loan up to £1,000,000
- up to 65% LTV: maximum loan up to £2,000,000

Non-portfolio (3 or less buy-to-let mortgaged properties):

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 75% LTV: maximum loan up to £750,000
- up to 70% LTV: maximum loan up to £1,000,000

- **Maximum aggregate borrowing**

Portfolio:

A normal total mortgage exposure per borrower of £5,000,000 may be advanced to an applicant on a property portfolio. A total mortgage exposure above £5,000,000 may be considered on a bespoke basis upon request. If agreed, a maximum aggregated LTV of 70% will apply.

Non-portfolio:

A lending limit of £1,000,000 will apply.

- **Mortgage term**

Minimum: 5 years

Maximum: 25 years

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

- **Repayment methods**

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

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 the property for the duration of ownership.

- **Income**

Applicants should have a minimum combined gross annual income of £25,000 per annum (for non-portfolio applications property rental income cannot be used to support minimum income requirement).

All income must be evidenced and can include:

- gross employment income
- taxable self-employed income

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 using a combination of the tax band applicable to an applicant’s income. The tax band applicable to the applicant with the highest income will be used. We will also carry out an affordability assessment taking into account the existing loans secured against the property.

Applicant type	Single self-contained properties	HMO’s, Multi unit and all other property types
Basic rate tax payer (20%)	125%	130%
Limited company	125%	130%
Higher rate tax payers (40%)	140%	145%
Additional rate tax payers (45%)	140%	145%

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)**

Further advance applicants must match those who are party to the main loan

4. Limited companies / limited liability partnerships (LLPs)

- Even if the customer is classified as non-portfolio under PRA regulation, applications must be made through our portfolio application process.
- Full personal guarantees must be available from all the directors/members on a joint and several basis, subject to the company/LLP having a maximum of four directors/members who each must be able to satisfy Paragon’s lending criteria
- At least 80% of the applicant company shares should be owned by the directors and guarantors in their personal names
We reserve the right to request full personal guarantees from significant shareholders. The expression “applicant(s)” should, where appropriate in these guidelines, be interpreted to also mean guarantor.
- Even if the customer is classified as non-portfolio under PRA regulation, applications must be made through our portfolio application process.

5. 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, 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 current 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.

6. 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
 - Institute of Chartered Accountants of Scotland
 - Association of Chartered Certified Accountants
 - Chartered Institute of Management Accountants
 - Association of International Accountants
 - Association of Authorised Public Accountants
 - Association of Accounting Technicians – Must be 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.

7. Property

The further advance will be secured by way of a second charge against the property.

- **Valuations**
A security assessment & valuation report will be arranged to determine the property value, the realistic and sustainable monthly rental income and suitability of the property for mortgage purposes.
Before completion of the loan, a revaluation will be arranged by us, at the applicant's expense, where the initial inspection is more than four months old.
The property must comply with the current Energy Performance Certificate Regulation, and hold a minimum rating of E unless there is an applicable exemption.
- **Let property**
Property may either be let:
 - on an assured shorthold tenancy subject to a minimum term of six months and a maximum of 36 monthsOr
 - to a limited company registered in England, Wales or Scotland for up to three years 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.
For full details please refer to our General and Special conditions booklet on our website.
Each tenancy agreement must require the rent to be paid at either monthly or quarterly intervals.
Property shall not in whole or 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 applicantSale 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.

- **Portfolio properties only:**

- **Investment valuations**

As a guide only, an investment valuation may be adopted where the property is no longer capable of being assessed as a single residential dwelling either due to the overall level of occupancy or its subdivision into separate units.

For multi-unit properties (purpose built or converted) an investment valuation will be undertaken.

For HMO's, an occupancy level of five or more tenants will normally require an investment valuation.

- **House in multiple occupation (HMO)**

A property is a HMO if at least three tenants live there, forming more than one household, and sharing a toilet, bathroom or kitchen facilities.

The applicant must have a minimum three years' lettings experience as a landlord and applications must be made through our portfolio application process, even if the customer is classified as non-portfolio under PRA regulation.

The following minimum HMO values will apply

Up to 10 rooms, the property value must be greater than or equal to £100,000

Up to 20 rooms, the property value must be greater than or equal to £150,000

At our discretion, and where considered appropriate, an investment valuation may be obtained. In these circumstances and where the property has been purchased in the last 12 months it will be subject to a maximum 60% LTV. Where the property was acquired more than 12 months ago and there has been a significant recent uplift in valuation, we may limit the advance to a maximum 60% LTV.

- **Multi-unit property**

The applicant must have a minimum three years' lettings experience as a landlord and applications must be made through our portfolio application process, even if the customer is classified as non-portfolio under PRA regulation.

A single property may be divided into a maximum of 20 units and the following minimum values will apply:

Up to 10 units, the property value must be greater than or equal to £100,000

Up to 20 units, the property value must be greater than or equal to £150,000

If more than one unit (house or flat) is held on a single title and each unit is capable of sale separately, a valuation based on the sum of the parts (with an appropriate discount applied to reflect the single title) may be adopted. In this scenario, the minimum value of each individual unit must be greater than or equal to £50,000.

Properties will not be considered where more than 50% of the units are on long leases.

Where the property has been purchased in the last 12 months it will be subject to a maximum 60% LTV.

Where the property was acquired more than 12 months ago and there has been a significant recent uplift in valuation, we may limit the advance to a maximum 60% LTV.

- **Part commercial property**

The applicant must have a minimum of three years' lettings experience as a landlord and applications must be made through our portfolio application process, even if the customer is classified as non-portfolio under PRA regulation.

We may consider as security, residential investment property where there is a commercial element, not exceeding 40% of total floor space of the whole property.

The commercial usage should be referred for our consideration.

An investment valuation of the property will be undertaken. The gross property valuation will be discounted by the notional value of the commercial element.

The minimum valuation required for either Multi-Unit or HMO properties as appropriate (see above) will apply to the residential element.

Where the property has been purchased in the last 12 months it will be subject to a maximum 60% LTV.

Where the property was acquired more than 12 months ago and there has been a significant recent uplift in valuation we may limit the advance to a maximum 60% LTV.

The normal rent to mortgage ratios will apply, but income from the commercial letting will not be taken into account.

- **All properties**

Where a property has been subject to alteration, conversion or change of use, since completion of the original loan the following items will be required prior to release of funds:

- HMO licence

- evidence that the property has the benefit of planning permission for its current layout and use. Evidence may be in the form of a copy of the planning consent(s) for the current configuration/use, permitted development for change from Class C3 to C4 of the Town and Country Planning (Use Classes) (Amendments) (England) Order 2010, assuming no Article 4 Direction Order in place at the time of the change, or sui generis (as appropriate); an established use of certificate of lawfulness of existing use or development

- evidence that the property has the benefit of appropriate building regulations approval and a copy of the building regulations completion certificate

8. Property insurance

Index linked building insurance will be required to be maintained for the rebuilding cost of the property. On 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. In the event of a higher reinstatement value for the property being identified on the further advance valuation, it will be necessary for the existing buildings insurance cover to be increased accordingly.

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

• Legal charges

We require a second 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 guides entitled "Portfolio further advance product guide and Non-portfolio further advance 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.

• 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 introducer.

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 4040.

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