

Buy-to-let mortgages



18 September 2023

Short term finance

Lending criteria and product guide

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Our Products

Our short term finance products are available on either standard refurbishment, light refurbishment or heavy refurbishment propositions.

Standard

Available where short term finance is required on a property that requires cosmetic or minor improvement works.

Light refurbishment

Available where refitting and modernisation works that do not materially change existing floor area are required, and where costs do not usually exceed 25% of the current property value. This does not cover alterations that require planning permission, permitted development rights or building regulations approval and should not involve any major structural works to the property. There should also be no change of use to the property, except between planning use class C3 to C4 (permitted or with consent in place), ie smaller properties up to and including six sharers.

Heavy refurbishment

Available where alterations that require planning permission, permitted development rights or building regulations approval are required. This includes the conversion of a house to a large HMO, ie more than six sharers, and conversion of an existing residential property to self-contained units (maximum of 10). Changes can involve structural works to the property, although the completion time limit is up to 12 months, and costs do not usually exceed 50% of the current value.

In all instances:

- The long term strategy must be to rent the property
- Funds to complete scheduled works must be evidenced
- At least one applicant must have a minimum of three years letting experience

Short term to let applications

This is what we call a simultaneous short term finance and buy-to-let application on the same property. If you wish to make a joint application on either a standard or light refurbishment proposition, simply select the short term to let option when making an online application, and this will create both applications when submitted to us.

There are a number of benefits to making a joint application on a property for both short term finance and a long term buy-to-let mortgage with Paragon, including:

- Continuity of service – the same underwriters will be reviewing both applications
- Speed of processing the buy-to-let application – this will be assessed at the same time as the short term finance application
- Simultaneous issue of the mortgage offer – and the buy to let offer is valid for six months, as opposed to the normal three months

If you've already made a short term finance application, you can apply at any time in the usual manner for a long term buy-to-let mortgage with Paragon on the property. This will be subject to the current buy-to-let criteria and submission requirements and the registration of the legal charge in respect of the short term finance mortgage must have taken place before we can complete on a long term buy-to-let mortgage.

Whether it is a short term to let or a subsequent buy-to-let application, the following fee reductions apply:

- No exit fee payable upon redemption of the short term finance application
- No application fee payable on the buy-to-let application
- No initial valuation fee payable on the buy-to-let application, just a £100 fee to re-inspect the property prior to completion

In all cases, the surveyor will assess the property and confirm whether the planned works meet standard, light or heavy refurbishment.

Post-completion monitoring

Due to the complex nature and limited timeframe of this borrowing, close contact will be maintained by a bespoke team of underwriters throughout the term. Monthly statements will be issued, and regular contact made.

Standard refurbishment

| Initial LTV | Monthly product rate | Maximum product term | Early repayment charge | Application fee | Product fee | Product code |
|-------------------|----------------------|----------------------|------------------------|-----------------|-------------|--------------|
| < = 70% | 0.65% | 6 months | 1% for 1 month | £150 | 1.75% | STF003 |

Light refurbishment

| Initial LTV | Monthly product rate | Maximum product term | Early repayment charge | Application fee | Product fee | Product code |
|-------------------|----------------------|----------------------|------------------------|-----------------|-------------|--------------|
| < = 70% | 0.75% | 9 months | 1% for 2 months | £150 | 1.75% | STF006 |
| < = 70% | 1.20% | 9 months | 1% for 2 months | £150 | NIL | STF009 |

Heavy refurbishment

| Initial LTV | Monthly product rate | Maximum product term | Early repayment charge | Application fee | Product fee | Product code |
|-------------------|----------------------|----------------------|------------------------|-----------------|-------------|--------------|
| < = 65% | 0.75% | 12 months | 1% for 2 months | £150 | 1.75% | STF011 |

Where the interest is rolled up, there is additional LTV criteria. Where the interest is serviced, the LTV can be higher. Please refer to the table on page 5 for further details.

£ Fees

| Name of charge | What is this charge for? | How much is the charge? |
|---------------------------|---|--------------------------------|
| Application fee | A non-refundable fee payable at application on all submissions. | £150 |
| Product fee | This fee can be added to the loan but is excluded from the initial LTV calculation. | See individual product details |
| Funds transfer fee | This fee for the telegraphic transfer of funds to the solicitor will normally be added to the loan upon completion. | £25 |
| Mortgage exit fee | This fee is based on the original advance and is payable either at the end of the mortgage term, or before the end of the mortgage term if the loan is transferred to another lender. | 0.25% of the original advance |
| Extension fee | This fee is payable if Paragon agree to extend the short term finance loan beyond the original timescale. | 0.30% of the original advance |
| Re-inspection fee | This fee is payable on short term to let applications only. It is charged on the buy-to-let mortgage for re-inspection of the property prior to completion. | £100 |

Valuation fee scale

The mortgage valuation report is a Security Assessment carried out for the benefit of Paragon Banking Group to determine if a property provides acceptable security for mortgage purposes. A valuation fee will be charged at application stage, in accordance with the fee scale shown below.

Where a valuation inspection has been carried out and the proposed security is subsequently declined, a copy of the report will not be made available, but a summary of why the property is deemed unsuitable will be given. In these circumstances the valuation fee is non-refundable.

We reserve the right to reinspect the property at any time during the mortgage term, at our own cost.

| Purchase price / remortgage estimated valuation | Valuation fee |
|---|-----------------------|
| £75,000 to £100,000 | £280 |
| £100,001 to £150,000 | £300 |
| £150,001 to £200,000 | £340 |
| £200,001 to £300,000 | £395 |
| £300,001 to £400,000 | £450 |
| £400,001 to £500,000 | £490 |
| £500,001 to £600,000 | £570 |
| £600,001 to £700,000 | £650 |
| £700,001 to £800,000 | £690 |
| £800,001 to £900,000 | £750 |
| £900,001 to £1,000,000 | £815 |
| £1,000,001 to £1,500,000 | £1,000 |
| £1,500,001 to £2,000,000 | £1,250 |
| £2,000,001 to £2,500,000 | £1,500 |
| £2,500,001 plus | Refer to lender (RTL) |

Submission requirements

For all short term finance applications:

- Fully completed online application form
- Fully completed property schedule
- Fully completed Schedule of works (pdf version available on our website)
- Exit strategy
- Evidence of funds to complete works

In respect of employed, self-employed and property rental income:

- Last two years accounts prepared by a qualified member of an accountancy body acceptable to us (see section 6) OR
- Last two years self-assessment tax returns together with the corresponding SA302 tax calculation (or equivalent) and Tax Year Overview
- Last three months' payslips or most recent P60 in respect of any employed income

Proposed schedule of works

In all instances a proposed schedule of works must be provided, either with the online application or immediately after.

It is important that as much detail as possible is provided, in terms of the proposed works, pricing, timescales and contractors, including a detailed project plan if available. All information will be provided to our Surveyor prior to the valuation, which will be not be carried out until full details are received.

1. Loan requirements

- **Minimum loan amount**

Purchase/Remortgage: £30,000

- **Maximum loan amount:**

Purchase / Remortgage: £1,000,000

- **Minimum property valuation:**

£50,000

- **Loan to value (LTV)**

| Refurbishment type | Maximum LTV based on initial loan where interest is rolled up | Maximum LTV based on end loan balance where interest is rolled up | Maximum LTV based on initial loan where interest is serviced | Maximum LTV where loan is >£750,000 |
|--------------------|---|---|--|-------------------------------------|
| Standard | 70% | 75% | 75% | 70% |
| Light | 70% | 75% | 75% | 70% |
| Heavy | 65% | 70% | 70% | 65% |

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

- **Maximum aggregate borrowing**

A normal total mortgage exposure per borrower of £5,000,000 may be advanced to an applicant on a property portfolio.

- **Loan purpose**

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

- **Purchase application**

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

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.

It should be noted that property sales between corporate entities that are part of the same group or have common directors, are not normally acceptable.

- **Remortgage application**

We will consider remortgage applications where the applicant(s) have been the registered proprietor(s) 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 (or in Scotland, Registers of Scotland) as owned by the applicant(s), at the date of completion.

- **Mortgage term**

Standard

Minimum term: 1 month

Maximum term: 6 months

Short term to let maximum term: 6 months

Light refurbishment

Minimum term: 1 month

Maximum term: 9 months

Short term to let maximum term: 6 months

Heavy refurbishment

Minimum term: 1 month

Maximum term: 12 months

Short term to let not available

- **Repayment methods**

Interest only loans with the repayment type of either serviced monthly payments or gross rolled up interest are available.

- **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

- **Income**

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

All income must be evidenced and can include:

- gross employment income
- taxable self-employed income

State benefits and investment income will not be considered.

- **Affordability**

All applications will be subject to validation of the income requirements above. 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 applicants' credit history
- the applicants' income and employment status
- the viability of the applicants' business
- the suitability and value of the property
- the loan to value

3. Personal details

- **Applicant(s)**

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

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 expatriate applicants are not accepted.

- **Age at application**

Minimum: 25 years

The applicant(s) should not be over 75 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 mortgage broker 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. Limited companies / limited liability partnerships (LLPs)

Applications will be considered from limited companies / LLPs registered and trading in England, Wales or Scotland, and whose directors / members should all have been resident and liable to tax in the UK for a minimum of the last two years.

The company / LLP must have been incorporated for the principal activity of buying and holding residential investment property. This must continue to be its principal activity. All other activities must be disclosed at application for further consideration.

- Additional security in the form of a floating charge will be required from companies that have material assets and business activities other than holding and letting residential investment property
- All members of an acceptable LLP must be designated members
- LLPs with corporate members are not acceptable
- 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 portfolio lending criteria
- At least 80% of the applicant company shares should be owned by the directors and guarantors in their personal names. Alternatively, the shares may be held by a holding company whose shareholders and directors are the same individuals as the directors of the applicant company

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(s).

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, we will undertake 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 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):**

Includes existing landlords.

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 subcontractor 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.

7. Property

We will take a first legal charge and will normally consider most types of traditionally constructed residential property in England, Wales or Scotland.

- **Minimum property valuation:**

£50,000

- **Valuations**

A security assessment and valuation report will be arranged to determine the property value, in its present condition at the time of submission.

The surveyor will assess the property and confirm whether the planned works meet standard, light or heavy refurbishment.

A fully completed schedule of works will be required prior to valuation and should be accompanied by as much supporting documentation as possible.

An after works capital value will also be provided. For short term finance only, this will be used to validate the exit strategy.

Where the application is for a short term to let, the property will be assessed in respect of the realistic and sustainable monthly rental income, and any properties that are likely to have low demand from tenants due to location or other factors, will not normally be acceptable.

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

After completion of the loan, we reserve the right to arrange at our discretion, a revaluation at our expense, to review the progress of works.

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

A copy of the current licence, if applicable, must be provided evidencing that the property is capable of being let on a multiple occupancy basis having regard to the permitted number of occupants and any attached conditions

Where the HMO has already been altered/converted or had a change of use, the following **MUST** be provided before release of funds:

- Evidence of planning consent for any alteration/conversion and/or change of use. This may be a permitted development, a formal planning consent or a lawful development certificate
- Evidence of building regulations approvals together with a building regulations completion certificate where applicable

Please note, we **DO NOT** accept indemnity insurance in the absence of the above

- **All Properties**

Where a property has been subject to alteration, conversion or change of use, the following items will be required to be forwarded with the deeds, unless the property is a HMO, when copies will be required prior to release of funds:

- a copy of the current HMO licence, if applicable (for property purchases a copy of the new HMO licence will also be required after completion)
- 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 certificate or a 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

- **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 (see part commercial property above)
- 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
- a property with solar panels installed where they are subject to a lease agreement
- located within either ten metres of an electrical sub-station or 100 metres of an overhead high voltage cable or communication mast
- a holiday let that has restrictive covenants relating to occupancy
- 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 development finance proposition including total or significant demolition and redevelopment from a cleared site, new properties in gardens / grounds or a scheme of a type or nature that requires stage payment releases

- **Tenure**

Freehold / heritable in England, Wales or 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 may be vacant for the duration of the proposed refurbishment works, subject to the conditions of the insurance cover being complied with.

8. Solicitors

We will normally instruct the applicant's solicitors/licensed conveyancers to act on behalf of both parties 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 solicitor/licensed conveyancer acting holds Professional Indemnity Insurance cover of £4 million or more where the loan amount being applied for is £2 million or more
- 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, they will act solely for the applicant. The applicant will then have to select another firm from our panel to act on our behalf and any costs incurred from both firms will be the responsibility of the applicant(s) whether or not completion takes place.

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

Please refer to our approved conveyancing panel which can be found on our website www.paragonbank.co.uk/btldocuments/intermediary for a full list of approved firms. Please check that any firm selected is prepared to act on a dual representation basis on a short term finance mortgage before you instruct them.

9. Property Insurance

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

The applicant(s) must 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.

Details of the policy must be provided to confirm that suitable cover will be in force and our interest must be noted on the policy.

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.

10. General

- **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.**

- **For short term to let applications the Offer of Loan on the buy-to-let loan is valid for a period of six months from issue.**

- **Verification**

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.

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

- **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.

- **Direct debit mandates**


It is a condition of the loan that any 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.

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