



# **VANILLA**

## **INTERMEDIARY LENDING CRITERIA**

**April 2012**



**Leeds**  
Building Society

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## **Introduction**

The Vanilla Residential Lending Policy covers areas of lending acceptable to the Society where the property is located in the UK. Underwriters have the discretion to request any additional information where doubt exists with an application. Senior mandate holders may use their discretion to underwrite cases outside of the normal lending criteria providing the case is recorded as outside of criteria and full notes documenting the rationale for the decision is recorded on the system.

The Society will **originate mortgage applications** through its:

Branch network;  
Direct Mortgages channel (via telephone or the internet); or  
Mortgage Introducers<sup>1</sup>.

A summary of the formal process for accepting new sources of introduced business is given below:

- Vetting process designed to approved lending networks and clubs; and
- A more granular vetting process designed for that firm / individual who is an acceptable member of the approved lending network / club.

## **Interviews**

Mortgage interviews are:

- Arranged for mortgage applicants dealing directly with one of the Society's Branches.
- Carried out by the Intermediary where the application is introduced.
- The Society complies with the FSA Rules concerning the conduct of mortgage business. The following levels of advice are given:
  - **Non-Advised** - The customer makes his own choice without advice.
  - **Advised** - The advisor provides the recommendation on the most appropriate product after assessing the customers needs.

The level of advice given is stipulated on the mortgage offer.

- The decision to lend will be based on the borrowers' ability to repay;
- The rationale for any decision to lend (particularly where this falls outside the Society's lending criteria) will be retained against the system based mortgage application.

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<sup>1</sup> All mortgage introducers must be registered with the FSA.

High Level Lending Criteria

Lending Area	Maximum Loan to Value	Summary of Lending Conditions
Borrower's credit quality	95% (cases with LTV in excess of 90% must meet the society's credit score)	Prime lending is defined as lending where no current or previous adverse has been reported. Click here to see the specific criteria.
Right to Buy	90% of the discounted purchase price.	<p>The discounted purchase price will be the maximum loan.</p> <p>Legal fees may be added up to a value of £500 Submitted with the application will be:</p> <ul style="list-style-type: none"> <li>• 'Right-To-Buy' documents, showing details of the discounted price and confirming the eligibility of the applicants.</li> <li>• A landlord's reference or suitable alternative evidence of rent payments.</li> </ul>
New Build Properties	80%	A second-hand valuation will be used to calculate the loan to value. The full deposit (dependant on specific product) based on the second-hand valuation is required from the applicant.
Re-mortgages	95% (cases with LTV in excess of 90% must meet the society's credit score)	Cases up to 95% LTV can include up to £1000 for costs that are included in the LTV calculation.
Interest Only	50%	Savings / Investment repayment strategy.
Capital Raising	50%	Sale of Property repayment strategy.
Capital Raising	95% (cases with LTV in excess of 90% must meet the society's credit score)	Re-mortgage applications and homeowner loans which include a property related capital raising element (e.g., home improvements, purchase of additional land etc.) may be considered up to a maximum of 95% LTV.

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<b>Lending Area</b>	<b>Maximum Loan to Value</b>	<b>Summary of Lending Conditions</b>
	75%	Re-mortgage applications and homeowner loans which include a non-property related capital raising element (e.g., debt consolidation, holiday etc.) may be considered up to a maximum of 75% LTV. Capital raising for business purposes is not permitted.

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A summary of the Society's minimum and maximum criteria is given below:

### Society Maximums

<b>Maximum/Minimum</b>	<b>Limit</b>
<b>Maximum Loan</b>	£750,000
<b>Minimum Valuation</b>	£40,000
<b>Maximum Term</b>  This will usually be limited in accordance with the Valuer's recommendations or applicant's circumstances.	40 years
<b>Minimum Term</b>	5 years
<b>Maximum Age</b>	80 years at end of mortgage term  70 years at the date of application
<b>Minimum Age</b>	18 years

### Repayment Types

The 2 main repayment types are as follows:

- Capital and Interest.
- Interest Only.

A combination of methods can be arranged to suit the applicant's specific requirements; however, a maximum LTV of 50% is in place where any element of the loan is on an interest only basis

The mortgage statement will advise the customer on an annual basis of the type of mortgage repayment they have selected.

### Capital and Interest

Monthly payments consist of capital and interest and repay the amount advanced with interest charged over the term of the mortgage.

Applicants are recommended to ensure appropriate life assurance cover is taken out (e.g. mortgage protection insurance).

### Interest Only

The Society only accepts two types of repayment strategies. One using an savings/investment vehicle and the other through the sale of property.

Where the repayment strategy is an investment/savings vehicle the max LTV is 50%.

Where the repayment strategy is the sale of property the max LTV is 50% and must have equity of at least £150,000 in the property.

Where an investment based vehicle is / will be in place, a basic check is required to be undertaken by the underwriter to confirm that the estimated maturity value of the repayment vehicle provided, is at least 100% of the loan amount. The underwriter is not required to comment on the suitability / appropriateness of the vehicle or the calculation of the estimated value provided by the applicant. Where, from this check, a shortfall is identified, the loan or shortfall element must be advanced on either a capital and interest basis, or the shortfall made up by means of increasing the deposit required (reducing the maximum LTV).

Examples of acceptable saving / investment repayment vehicles are listed below: (although please note that this list is not exhaustive):

- Endowment.
- Annuity lump sum.
- Investment lump sums.
- ISA.

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Applicants are made aware in the offer of advance and on their annual statements to ensure that adequate arrangements are in place to repay the loan amount at the end of the mortgage term and that investment vehicles are not assigned to the Society.

In addition, the applicants will be required to complete a declaration as part of the offer documentation.

Monthly payments consist entirely of interest. .

Applicants are advised to take out life assurance (**i.e.**, level term assurance to ensure the mortgage is repaid in the event of death). Such policies are not assigned to the Society. The details of the repayment vehicle are obtained on the application form but are not verified by the underwriter.

Applicants are made aware in the offer of advance and on their annual statement that it is their responsibility to ensure that an adequate repayment method is in place. Applicants are free to select their own repayment vehicle, which is not assigned to the Society.

### **Borrower**

#### **Credit Search**

A credit search is carried out, using an approved Credit Reference Agency. Underwriters have the discretion to request any additional information where doubt exists with an application.

#### **Credit Score**

The Society utilises credit scoring as part of the application assessment process.

#### **Definition of Prime**

Acceptable borrowers are defined by the Society's definition of prime, which is given below:

- No missed mortgage payments in the last 12 months.
- No arrears on any previous (or current) unsecured loan (including credit / store cards, mail order credit and mobile phone contracts) within the last twelve months, where the cumulative amount overdue at any point reached more than one monthly payment.
- No arrears on any loan (unsecured or secured including credit / store cards, mail order credit and mobile phone contracts) within the last three years, where the cumulative amount overdue at any point reached more than two monthly payments.
- No more than one county court judgements (CCJs) or default, which must have been satisfied within 3 months of issue, with a total value not greater than £500, within the last four years.
- Not being subject to an Individual Voluntary Arrangement (IVA) unless discharged over six years ago.
- Not being subject to a Bankruptcy Order unless discharged over 6 years ago.
- Not being subject to a previous property possession within the last six years.

### **Affordability Assessment**

In assessing the ability to repay (implemented April 15, 2012) the Society utilises an affordability model. This uses the net available income after taking into account financial and average household expenditure, to determine the size of a mortgage that a borrower can realistically service.

[Click \[here\]](#) to access our Affordability Calculator.

### **Number of Applicants**

Single or joint applications are considered to be the norm and multiple applicants are not usually acceptable. However, where a close family relationship exist which is likely to stand the test of time, up to 4 applicants can be considered.

## **Verification of Identity**

If the applicant is an existing borrower with the Society, proof of identity may not be required.

### **Identity Required**

The Money Laundering requirements as agreed from time to time will be adhered to. For specific details please see the Financial Crime Guidance Notes maintained by the Society's Financial Crime Department.

### **Residency**

Applicants must usually:

- Be UK tax payers.
- Have resided in the UK for a minimum of 2 years, unless:
- They have been in service abroad with HM Forces

OR

- They have been employed by a UK based or internationally known employer and are still with the same company.

AND

- Their family will be resident in the property.

For non-UK Nationals, a valid EU passport should be provided. For Non- EU Nationals the applicant's permanent right to reside should be evidenced and confirmed.

### **Credit Reference Agency**

The Society uses a credit reference agency to conduct a credit search, which covers all addresses for a minimum of a 3-year period.

### **Voter's Roll**

If the applicant is not registered on the voter's roll, an explanation will be required and satisfactory evidence must be produced showing the applicant actually resided at the stated address (e.g. provision of utility bills or council tax correspondence).

### **Proof of Occupancy**

If proof of occupancy is not available at a current (or previous) address where the applicant has been resident for less than a 6-month period, this requirement may be dispensed with at the discretion of the underwriters. This is provided all other aspects of the application are satisfactory.

Proof of occupancy may not be required for existing Society borrowers or where a satisfactory lender's reference is obtained, in connection with a re-mortgage transaction.

### **Fraud Checks**

All applicants are required to provide proof of identity and address.

At all stages of mortgage application processing, the Society is alert to the possibility of mortgage fraud. Extensive systems and controls are in place to protect the Society against financial crime, including:

- SIRA fraud prevention system.
- CIFAS fraud database.
- CIFAS Staff fraud database.
- Work events via MAS.
- Monthly AML reports from MAS.
- Ad-hoc reporting.

### **Dishonesty, Undue Influence & Convictions**

#### **Joint Mortgages**

Caution must be exercised in relation to certain joint mortgage transactions where the purpose of the loan would seem to be significantly more beneficial to one party than to the other (**eg**: a remortgage raising capital to repay a partner's debts).

In the case of Joint Mortgages, both applicants should be interviewed to ensure:

- Each party is fully aware of the liabilities resulting from the loan.
- Either applicant has not been unduly influenced or made misrepresentations to the other, to obtain the advance.

If there are any doubts about the application in this respect, each applicant must be advised to seek independent legal advice.

#### **Convictions**

Cases will not be considered where the applicant has disclosed any convictions other than those, which are, spent under the Rehabilitation of Offenders Act 1974 or any pending prosecutions:

- Relating to any aspect of dishonesty, such as theft, robbery, fraud or arson.
- Which may have a bearing on the borrower's future employment or the likely conduct of the mortgage account.

## **Employment Status**

### **Employed Requirements**

Applicants must:

- Be in permanent full or part-time employment.
- Have been in employment continuously for the last 6 months (including the probationary period).

### **Short Term Contracts**

Applicants who are employed on short-term contracts can be considered (under the following criteria) as long as the contract has been renewed at least once with the same employer or there is an established record of employment covering a minimum of 12 months within the same field of business.

### **Applicant Has Second Job**

If the applicant(s) has a second job, income from that source can only be considered if:

- The job has been held for at least 6 months.
- Employment can be established as permanent.

To establish the risk, full details of both jobs must be submitted covering the:

- Income.
- Length of employment.
- Nature of employment.
- Number of hours worked per week.

## **Self Employed**

Self Employed applicants will be considered:

- With increasing profits.
- With variable profits. However, applicants must have three years' accounts available together with a improving projection. Applications of this nature are restricted to a maximum loan to value of 80%.
- Self-employed applications reporting a downward trend in net profits are not acceptable.

## **Sole Traders/ Partnerships**

Gross income will consist of net profit (or a share of net profit for a partnership).

## **Directors of Limited Companies**

**Directors of limited companies with a minimum shareholding of 25%** will be regarded as self-employed applicants. The income multiplier will be applied to the average of the last 3 years Directors salary plus dividends.

**Directors of limited companies with a shareholding of less than 25%** will be regarded as employed and income will be assessed as such, through payslips to evidence salary and other income, e.g., dividends.'

## **Provision of 3 Years' Accounts**

Three years accounts or a fully completed Accountants Certificate, prepared by a qualified Accountant, must be provided and, if considered necessary by the Underwriter, proof of the continuing existence of the business.

If the Accountant is not a member of one of the bodies listed below, original Self-Assessment forms issues by the Inland Revenue (SA302) certified by the branch/ introducer are required.

Acceptable Accountancy bodies:

- Institute of Chartered Accountants.
- Association of Chartered Certified Accountants.
- Chartered Institute of Management Accountants.
- Chartered Institute of Public Finance Accountants.
- Association of Authorised Public Accountants.

### **2 Years Trading Accounts**

If 3 years accounts are not available due to the length of trading, then the average of the last 2 years net profit figure, plus a satisfactory projection or Accountants Certificate showing this information may be acceptable. In such cases, 100% of the projection will be taken into account.

### **1 Years Trading Accounts**

Cases where the LTV does not exceed 80% a only 1 years full accounts are available, due to the length of trading, may be considered. The average of the 1 years net profit figure and **up to** 100% of a satisfactory projection may be acceptable, providing the accounts reflect an improving position.

### **Income Multiplier**

The income multiplier will be applied to the average of the last 3 years net profit figure.

**Pension Requirements**

Applicants who are older than 55 years, at the point of application, who request a mortgage term that extends beyond their 70<sup>th</sup> birthday, or stated retirement date, if earlier, proof of pension income will be required to substantiate the loan, in addition to the usual checks based on current income.

**Additional Income Necessary to Support Loan**

Where additional income is necessary to support the loan (e.g. pension income) proof will be required of that income. The following amount will be considered:

- 100% of pension income (private and/or state pension).
- Guaranteed pension credits.

## Guarantors

### **GUARANTORS ARE SUBJECT TO ALL LENDING CRITERIA AND ALL CASES WILL BE APPROVED BY A SENIOR MANDATE HOLDER:**

Guarantors will be subjected to the normal rules regarding the Society's maximum age.

Guarantors should be of substantial means to ensure that if they are called upon, there will be no questions of their ability to meet the commitment. The Guarantor's own income (less existing credit commitments) must be sufficient to support the **full mortgage amount** requested, plus any outstanding mortgage balance the guarantor may already have and must be covered by income and multipliers.

The applicant is expected to be able to afford the mortgage payment on his / her own within a reasonable period (e.g., 5 years).

The proposal must be forwarded as a Decision in Principal to the Underwriting Team for preliminary approval before a full application is submitted.

The applicant and the Guarantor must usually have good family ties (e.g. parent and child).

The Guarantor is not party to the mortgage but the DEED of Guarantee is retained with the Deeds.

The Guarantor must be advised to take Independent Legal Advice.

## Underwriting Requirements

### Primary Income

Primary income is defined as basic salary, plus the following:

- Large town allowance.
- Rent allowance.
- Mortgage subsidy (100%).
- Self employed income.
- Pension income.

### Other Income

Other income is defined as:

- Commission.
- Bonus / Overtime (Senior mandate holders have discretion to utilise up to 100% of bonus and overtime payments where there is evidence that these payments are clearly sustainable. In utilising this discretion consideration will be given to the LTV, loan type and occupation of the applicant)
- Shift Allowances.
- Child Benefit / Working Family Tax Credit / Child Tax Credit (Benefits in respect of childcare costs are not to be included within allowable income)
- Disability Benefits.
- Rental Income (The use of net rental income can be considered).
- Car Allowance.
- Maintenance.
- Saving Income (assessed on a case by case basis).
- Guaranteed Pension Credit.

When income is largely made up of bonus / commission or has a high overtime content, the maximum amount of other income to consider is no more than 100% of basic salary. Other income is also taken into account as follows:

Income Type	Amount	Condition
Overtime/Bonus/Shift Allowance	100%	If guaranteed.
	50%	If regular.
Commission	50%	If regular/guaranteed.
Child Benefit / Working Family /Child Tax Credit***	Up to100%	
Disability Benefit	Up to100%	
Mortgage Subsidy/Rent Allowance	100%	If guaranteed.
London/Large Town Allowance	100% (up to)	
Car Allowance	100% (up to)	
Maintenance	50%	If confirmed.

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50% of rental income can be used, providing proof of payment for a 12-month period is obtained. The proof of payment can be obtained from a qualified Accountant, Property Management Company, Letting / Estate Agent or through Bank Statements.

## Requirements for third party references

### Employment References

Where an employer's reference is obtained, replies must be in response to the Society's written requested, validated by the employer's company stamp and addressed to the Society, confirming the following:

- Job title.
- Length of service.
- Basic annual income.
- Overtime, bonus commission.
- Permanency of employment.
- Whether applicant is under notice of termination or redundancy.
- Any adverse features affecting employment.
- Address help for applicant.

### Credit & Other Commitments

When calculating the amount that the applicant can afford to borrow, existing financial commitments (**eg.**, other loans, HP agreements, maintenance payments, liability for leasehold payments, maintenance lease, ground rent and service charges.) will be taken into account.

The annual payments due on such commitments must be deducted from gross income before the multiplier is applied.

For self-build mortgages, existing mortgages not redeemed at first release will be aggregated and must be covered by income and multipliers.

### Example Calculation

Mr Smith earns a basic salary of £20,000, but has a personal loan of £6,000 requiring monthly payments of £50 and pays maintenance of £75 a month.

The assessable income is as follows:

Basic Salary	£20,000
<b>Less</b>	
12 x £50	£600
12 x £75	<u>£900</u>
Assessable Income	£18,500

Therefore, the amount which can be borrowed = (£18,500 x 3.25 x income = £60,125)

### Credit Card Agreements

Where the aggregate of all outstanding credit card balances is over £1,000 a minimum monthly payment of 3% is applied.

Example:

Outstanding balance of credit card	=	£2,000
Monthly repayment	X 3% =	£ 60
	X 12 =	£ 720

In this example the total amount to be deducted from gross income before the multiplier is applied would therefore be £720.

### Commitment Due to Expire

Where a commitment is due to expire within 12 months from the date of the application, it will not usually be deducted from gross income, **unless** it is significant in terms of overall income.

The test of significance will normally be an annual commitment representing more than 10% of the annual gross salary.

### Overdrafts

Overdrafts will be assessed by a mandate holder, where the current account has / or had in the previous 12 months, an unauthorised overdraft. The underwriter will use their judgement in these instances and reserves the right to request further information in order to underwrite the application.

### Other Financial Commitments

In certain cases, proof of payment may also be requested, (e.g., where other financial commitments appear to compromise the ability to repay the proposed mortgage).

## Proof of Payment

### Satisfactory Conduct

The credit bureau data is utilised to confirm the satisfactory payment of existing loans. However, where this data is not available, confirmation must be obtained from existing and previous lenders that loans have been conducted satisfactorily for a minimum of the previous 12 months.

The last annual mortgage statement will be accepted as proof of mortgage payment if the year end statement date is within 6 months of the date of the mortgage application.

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No verification is required for private rental payments but 12 months proof of payment of a company rental is required.

## **Loan to Value**

### **Introduction**

The Society will consider loans up to 80% of the purchase price or valuation (whichever is lower) on the security of the property alone.

The advance may be increased up to a maximum of 95% of purchase price or valuation (whichever is the lower) provided a suitable additional security is arranged (cases with LTV in excess of 90% must meet the society's credit score).

The maximum loan to value for new build properties is 80%, based on the Royal Institute of Chartered Surveyors (RICS) new build guidance

### **Remortgage**

The property should have been owned for at least 6 months prior to the re-mortgage as outlined in the solicitor's instructions.

### **Capital Raising**

Re-mortgage applications loans which include a property related capital raising element (e.g., home improvements, purchase of additional land etc.) may be considered up to a maximum of 95% LTV (cases with LTV in excess of 90% must meet the society's credit score).

Re-mortgage applications which include a non-property related capital raising element (e.g., debt consolidation, holiday etc.) may be considered up to a maximum of 75% LTV.

Capital raising for business purposes is not permitted.

### **Right to Buy**

The loan must not exceed 90% of the discounted purchase price.

Legal fees upto the value of £500 can be added.

Right-To-Buy' documents, showing details of the discounted price and confirming the eligibility of the applicants must be submitted with the application.

A landlord's reference or suitable alternative evidence of rent payments is required.

### **Builders/Vendors Deposits**

Where an incentive is being granted with a new mortgage application, this should be notified to the valuer, who will consider the incentive as part of the valuation. The applicant will be required to provide, the appropriate deposit, in accordance with the Policy and product.

### **Family Purchase**

Gifted family deposits will be considered for vanilla and Shared Ownership (including Shared Equity) applications where the gift is from a family member as defined by the FSA, Spouse, Parent, Grandparent, Sibling, Child, Grandchild. Gifted family deposits will not be considered for Buy to Let and Overseas Euro lending. The valuation provided by the valuer is to be used to calculate the loan to value.

### **Second Properties**

Applications where the applicant intends to retain a second property can be considered up to a maximum of 80%.

Applications of this nature can be considered, providing the applicant can demonstrate an ability to support both mortgages.

These cases must be referred, on a preliminary basis, with a reasoned explanation as to why the applicant wishes to retain two properties.

### **Property to Be Occupied By Family Member**

Where the property is to be occupied by a member of the applicant's family (defined as spouse, parent, grandparent, sibling, child, grandchild) the application will be processed as a second property to comply with FSA Regulation.

Where the occupant will not be a family member (as defined above) the application should be processed as a buy to let mortgage.

### **Acceptable types of Security**

#### **Criteria**

The criteria for property is as follows:

- The property must be situated in England, Wales, Northern Ireland or mainland Scotland.
- Minimum valuation £40,000.

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- Properties must be of good quality with ready saleability. They must have a life expectancy well beyond the term of the mortgage and if there is any doubt, the property is deemed unacceptable security.
- Older properties must be modernised to provide basic standards, including provision of an internal kitchen, shower or bath and W/C.
- Properties must be used for domestic, residential owner occupation and be the intended or main residence of the applicants. Where more than 40% of the property is used for non owner occupation, this will be treated as Commercial Lending.

### Construction

The Society prefers to lend on property, which is either of traditional or generally regarded as acceptable non-traditional construction.

#### Standard Construction

This is defined as:

**Walls** - solid (minimum 230mm) or cavity (minimum 280mm) and of brick, natural stone, reconstituted stone, concrete block, cob or flint.

**Pitched Roofs** - timber or, if the property is otherwise of acceptable construction, steel frame covered in slate, thatch, tile or copper.

N.B. Modern lightweight 'mock slate' is generally acceptable.

**Flat Roofs** - covered in asphalt, felt, copper, lead or zinc.

See Valuers Guidance Notes for a full list of acceptable construction types

- Properties of non-standard construction, including those properties of 100% timber and high alumina cement construction.
- Steel-framed properties are not normally acceptable. However, these may be considered where the valuer states that the re-saleability is unaffected and is subject to a durable outer leaf (e.g., of brick, block or stone). Also a Structural Engineers report would be required, confirming that the structural frame is in a satisfactory condition and free from corrosion, where bolted to the floor slab.
- Pre-fabricated re-inforced concrete properties are not normally acceptable; however, these may be considered where the valuer states that the re-saleability is unaffected and have been repaired under a PRC Home Limited (e.g., the Leeds City Council repair scheme with certification is acceptable.) approved scheme with a 10 year guarantee.

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All the adjacent dwellings must have been repaired; i.e. all the houses in a terrace or both in the case of semi-detached must have been repaired.

- In certain cases, properties of unusual construction may be considered, subject to the General Manager – Management Services confirming the property represents adequate security.

### **New Properties**

- The maximum loan to value for new build properties is 80%.
- New properties, or those built within the last 10 years, must be covered by an appropriate approved certification / insurance scheme.
- For Architects and for all other schemes, please consult the Society's CML/Society's Instructions to Solicitors (Part 2).
- Architect's Certificates may be accepted, providing they are signed by a qualified:
  - Architect, who is a corporate member of the Royal Institute of British Architects.
  - Chartered Building Surveyor, who is a corporate member of the Royal Institution of Chartered Surveyors.

Evidence of appropriate current professional indemnity insurance will be required and the certificate must be for the benefit of the borrowers. The Architect must confirm that he has supervised the whole project.

## Self-build

### Introduction

Applications for stage payments can be considered.

### Self Employed Builders

- Applications from self-employed builders requiring building finance will not be accepted.

### Ultimate LTV

- The ultimate LTV must not exceed 80%.

### Release of Monies

- The advance will be released in accordance with the following stages of construction and a revaluation will be required at each stage, for which a revaluation fee will be charged, in accordance with the Tariff of Charges.
- Full planning permission to be in place before application.
- As these types of project can be prolonged it is considered appropriate to obtain an updated revaluation upon completion of the property / or at the final stage release.

Stage	Finished...	Release Up To...
1	Land Purchase (with full planning permission)	75% of current value
2	Wall Plate	75% of current value
3	Roofed In	75% of current value
4	Plastered Out	75% of current value
5	Completed	80% of current value

The Society can vary the percentage advance released or the stage at which the advance is released on the recommendation of the Valuer.

For the initial advance to purchase the plot, this will be subject to the valuer's recommendation and subject to confirmation that full planning permission has been obtained to erect a residential dwelling.

A copy of a complete detail costing schedule together with the build project plan is required.

### **Insurance**

The same insurance requirements apply as for new properties (i.e., where the property is architect supervised, the latest certificate will be required for each re-inspection).

### **Building To Be Demolished & Land Purchased**

If there is an existing building on the land, either:

- The cost of demolition will be deducted from the amount of the advance available.
- OR**
- The cost of demolition will be retained from the first Stage Payment

### **Converted Property**

If the property is a conversion, the Solicitors must confirm planning permission has been obtained from the local authority and the Valuer must report the conversion is of high quality with a minimum floor area of 60 sq metres.

### **Tenure**

Freehold, leasehold and commonhold properties are normally acceptable as is feudal in Scotland.

### **Leasehold Flats and Maisonettes**

Leasehold flats and maisonettes are acceptable but must comply with the following criteria:

- At least 40 years unexpired lease remains at the end of the mortgage term.
- Variable ground rent increases are fixed by the lease at the outset and reviews (which must be reasonable) are at intervals of 21 years or more.
- Ground rent increases are tied to the market value of the property and the terms of the lease are acceptable.
- Ground rent reviews tied to the retail price index are unacceptable.
- Modern high quality conversions (flats, maisonettes and studio flats) with a minimum floor area of 60sq metres are acceptable.
- Flats and duplex apartments above six storeys are acceptable, with the exception of ex-Local Authority and Housing Association properties.
- Where there are more than four floors there must be a lift.
- Freehold flats and freehold maisonettes are not acceptable.
- Flying freeholds are not normally acceptable; however, these may be considered where the valuer states that the re-saleability is unaffected and where a relatively small part of parts extends over an adjoining property.
- 'Virtual freehold', i.e. with leases in excess of 500 years, are acceptable.

### **Ex-Local Authority Property**

Ex-local authority properties are acceptable, but must be located in areas where re-sale can be readily achieved. A single owner occupied house located in the centre of a large, otherwise Local Authority tenanted estate may be difficult to sell and is, therefore unacceptable.

In England, Wales and Northern Ireland, ex-local authority flats are only considered if they are of satisfactory construction with secure communal access and where a proven re-sale market exists. Acceptability is subject to:

- A maximum of 4 floors in the block.
- The Panel Valuers must be confident of continued marketability and resaleability and have regard to the type and location of the properties.
- Balcony access arrangements are not acceptable.

### **Release of Retention Policy**

Following an inspection by a qualified valuer, a recommendation may be for works to be undertaken. Prior to the receipt of specialist reports or confirmation that works have been done, a retention may be recommended.

Where the retention is low in comparison to the advance and we have sufficient equity, we will agree to waive a retention in accordance with the matrix below:

<b>Valuation of Property</b>	<b>Retention to be Waived</b>	<b>Max Loan to Valuation (LTV)</b>
Less than £50,000	Up to £2,000	80%
Greater than £50,000	Up to £4,000	80%

### **Contaminated Land**

In April 2000, a new statutory regime came into effect as part of the Environmental Protection Act 1990 concerning contaminated land. The primary purpose of the new regime is to identify contaminated land, to bring the damaged land back into beneficial use and to pass the cost of the remediation onto an appropriate party, ideally the original polluter.

Cases where Japanese Knotweed is found and considered high risk by the valuer the will be declined.

An environmental search may need to be obtained (by the applicant or seller) if requested by either the Society's valuer or solicitor. The Society will review the recommendations made by the environmental specialist in conjunction with our Legal Services team and insurers

### Valuations

The Society must carry out an assessment of the value for all properties that provide security for mortgages. This may be achieved in a number of ways, including an internal inspection by a suitably qualified professional valuer, a drive by valuation or a desktop valuation, including the use of a proprietary Automated Valuation models (AVM) with an approved confidence level (CL).

The Society outsources its arrangements for obtaining a **reliable security valuation** to e.Surv. This service is monitored on a quarterly basis though regular reviews. A formal process is in place to manage any proposed changes to Panel appointments.

e.Surv adopt 'in-house' auditing and anti fraud measures. Further information on the risk mitigation methodologies implemented by e.Surv is documented within the detailed Valuations Guide.

**Full inspection** valuations are based on the Royal Institute of Chartered Surveyors (RICS) Red Book and undertaken by a fully qualified valuer. However, a special assumption to value new build properties on a 'second-hand basis, is in place, in order to mitigate the greater risks posed within this category of property.

### Mortgage insurance guarantee

MIG Policies provide cover in the event of the Society exercising its power of sale due to a mortgage falling into arrears through non-payment.

### Excess of Loss

With effect from 1 January 2001, the Society obtained this cover through an '**Excess of Loss**' arrangement.

The EOL policy covers lending above 80% LTV and has a deductible of 15% and provides cover, at 1.5 times the sum insured, for the next 5% of claims. Claims above 20% revert back to the Society.

The Society has delegated underwriting authority from the indemnity guarantee provider. The Society's internal and external auditors are responsible for ensuring that procedures and controls for the setting up of insurance guarantees on new residential lending are complied with and effectively monitored.

## **Insurance**

The Society requires, as a minimum, an appropriate building insurance policy to be in place. The Society has block scheme arrangements for **buildings and contents insurance** cover with Aviva. The buildings and combined buildings and contents insurance premium is based on the Society's valuer's estimated reinstatement cost, in accordance with the Royal Institute of Chartered Surveyors guidelines and the geographical location of the property.

The Society recommends that a **life insurance product** be in place and acts as an appointed introducer / representative of Aviva.

The Society recommends that all capital and interest mortgages be supported by appropriate **mortgage protection policies** (i.e. a decreasing term assurance policy).

In addition, where interest only mortgages are arranged, the Society recommends that suitable arrangements are made to repay the advance either in the event of death, or at the end of the mortgage term i.e. a **level term assurance policy** in the event of death.

The Society actively encourages mortgage applicants to protect their mortgage payments in the event of unemployment, accident or sickness resulting in an inability to work for a specified period.

## Solicitors/Licensed Conveyancers

### Society's Panel

The Society operates a panel of Solicitors or Licensed Conveyancers. Provided the Solicitor/Licensed Conveyancer chosen to act on behalf of the applicant is on the Society's panel, the Society will also instruct the Solicitor/Licensed Conveyancer to act on its behalf.

### Unacceptable Solicitor/Conveyancer

If for any reason the Solicitor/Licensed Conveyancer chosen is not acceptable to the Society, then the Society's own Solicitors will be instructed to act for the Society.

### Acceptance Criteria

The Society does not accept new sole practitioner firms unless they operate in remote rural areas.

### Exceptions

The policy has been relaxed for Scotland and Northern Ireland due to the demographic distribution of populations within those jurisdictions. In Scotland for example, sole practitioners will be admitted to the panel outside the major urban centres.

### Criteria

All firms need to comply with the following:

- To be a two partner plus firm (exemptions in Scotland and Northern Ireland).
- To have fireproof cabinets or strong rooms to store deeds.
- To have computerised accounts.
- To operate a client account.
- Need **not** to have their indemnity insurance through the Law Society assigned risks pool (this does not exist in Scotland and Northern Ireland).
- To have indemnity insurance via a qualifying insurer.
- Need to have a minimum cover of at least £2m (£3m for LLP's) of professional indemnity cover.

We accept applications from limited companies and / or limited liability partnerships (LLP's) so long as either has more than one director.

If a partnership changes to a sole practitioner they are removed, from the panel.

## **Early Repayment and Arrangement Fees**

### **Arrangement Fees**

Arrangement fees vary according to the product and can be added to the advance.

### **Early Repayment Terms**

A standard early redemption administration charge applies to all cases with the exception of loans reaching maturity. The fee is quoted on the Tariff of Charges, which is reviewed annually.

### **Early Repayment Charges (ERC's)**

Early repayment charges are calculated by the Society's Treasury Team in conjunction with Marketing Department.

ERC's must represent a genuine pre-estimate of the Society's loss if a customer elects to redeem early.

The level of any ERC will depend upon the particular product concerned.