

BUY-TO-LET

Lending guidelines and submission requirements



0345 849 4040



0345 849 4041



pmlenquiries@paragon-group.co.uk



www.paragon-mortgages.co.uk

THE FOLLOWING ITEMS MUST BE SUBMITTED ON APPLICATION:

For all applications:

Fully completed application form

Property portfolio schedule (see the application form)

In respect of both self-employed income 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 and Tax Year Overview

Last three months' payslips or most recent P60 in respect of any employed income

Last three months' rental bank statements to confirm all rental income and investment mortgage payments

In addition, where the applicant is a limited company:

Last three months' company bank statements showing business activity and rental income

In addition, where the property is a 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 multi occupancy basis having regard to the permitted number of occupants and any attached conditions (see section 7)

Where the HMO has been altered/converted or had a change of use the following **MUST** be provided prior to 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

In addition, where aggregate lending with Paragon Group is in excess of £2 million:

Cash flow forecast*

Business plan*

Interview with a senior underwriter

The applicant's most recent residential mortgage statement may be requested where it is not possible to evidence the mortgage by credit reference agency search. We reserve the right to contact the applicant(s) and request additional information or references such as an accountant's reference, employment reference, bank/mortgage statements or a bank reference.

*Electronic copies are available in the literature library at www.paragon-mortgages.co.uk

These guidelines represent a summary of our 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.

1. Loan requirements

- **Minimum loan amount**

Purchase/Remortgage : £30,000

Further advance: £5,000

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

- **Loan to value (LTV)**

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

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

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 and further advances. Capital raising will be considered for all purposes concerned with the owning and renting of residential property.

- **Purchase application**

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

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 as owned by the applicant(s), at the date of completion.

- **Consumer buy-to-let**

We will not consider applications that qualify as consumer buy-to-let mortgage contracts.

- **Mortgage term**

Minimum: 5 years

Maximum: 25 years

- **Repayment methods**

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

Although we do not require a life policy to be assigned, we strongly recommend that suitable cover for the amount and term of the loan is in place to provide adequate protection for the applicant(s).

- **Property investment clubs and syndicates**

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

2. Income/affordability

We will assess the affordability of a mortgage based on the expected monthly income generated from letting the property to a tenant. The actual income generated may be different and can be influenced over time by changes within the rental market.

The applicant(s) will remain responsible for meeting the costs of the mortgage and the additional costs associated with letting the property for the duration of ownership.

- **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, 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 and the property type. The tax band applicable to the applicant with the highest income will be used.

The tax band and ICR levels are as follows:

Applicant type	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)**

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 Expatriates are not acceptable.

- **Age at application**

Minimum: 21 years

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

- **Identity**

Where the identity of all applicants cannot be established through the underwriting process, proof of identity verified by the solicitor or 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

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

- The company 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
- Full personal guarantees must be available from all the directors on a joint and several basis, subject to the company having a maximum of four directors 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(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 applicants 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 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.

7. Property

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

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

- **Valuations**

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

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

Properties that are likely to have low demand from tenants due to their current condition, location or other factors, including poor maintenance or management of common areas, will not normally be acceptable.

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

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

- **Multi-unit property**

The applicant must have a minimum three years' lettings experience as a landlord.

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.

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

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

The applicant must have a minimum three years' lettings experience as a landlord.

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.

- **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.

- **Part commercial property**

The applicant must have a minimum of three years' lettings experience as a landlord.

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, 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
- subject to a pre-emption clause
- 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

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

- ex-local authority houses
- flats in blocks over four storeys high (ten storeys within the M25 area) or with more than 100 units
- studio flats, with a minimum of 30 square metres
- new or recently built flats where there is, or is likely to be, a low demand from tenants
- leasehold flats and maisonettes attached to or above commercial premises
- residential let property where there is a commercial element not exceeding 40% of the total floor space of the whole property (see part commercial property above)
- properties with an element of "flying freehold"
- self-build properties
- properties with restrictions relating to sale or occupancy eg Section 106 notice
- properties subject to chancel repairs/liability
- properties subject to issues identified by an environmental search

- **Tenure**

Freehold or leasehold (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.

- **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 months

or

- to a limited company registered in England, Wales or Scotland for up to three years or to a local authority, housing association or suitable educational institute for up to five years in all instances, provided it is subsequently occupied by a private individual or individuals whose rights of occupation do not extend beyond the term granted to the acceptable tenant.

For full details please refer to our General and Special conditions booklet which can be found on our website, www.paragon-mortgages.co.uk.

Each tenancy agreement must require the rent to be paid at either monthly or quarterly intervals (or in the case of students, termly).

Property shall not in whole or in part be let to or occupied by:

- the applicant, or any member of their family
- the guarantor, or any member of their family
- the vendor of the property, or any member of their family

- any previous owner of the property, or any member of their family
- an employee of the applicant
- an associated subsidiary, or parent company of the applicant

Sale-and-rent-back arrangements are not acceptable.

Holiday lets are not acceptable.

Where a tenancy agreement pre-dates the completion of the loan then the solicitor acting must ensure that our interests are fully protected.

- **Occupation**

Depending on the specific conditions of each loan, the property must either be occupied by acceptable tenants (see let property), or may be vacant between lettings for up to 90 days, subject to the terms of the insurance cover being complied with.

8. Solicitors

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

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

Should an applicant(s) choose a firm that is not acceptable to us we will instruct a firm of our choosing to act on our behalf and any costs incurred will be the responsibility of the applicant(s) whether or not completion takes place.

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

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

Please refer to our approved conveyancing panel which can be found on our website www.paragon-mortgages.co.uk for a full list of approved firms.

9. Property insurance

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

We may offer to arrange suitable cover under our competitively priced block policy.

Details of the competitive buildings and contents cover available will be forwarded to the applicant(s) with the offer.

Alternatively, the applicant(s) may 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.

Where buildings insurance is not being arranged through us, details of the alternative policy must be provided to confirm that comparable cover will be in force and our interest must be noted on the policy. In such circumstances the applicant must contribute towards the cost of contingency insurance taken out by Paragon Mortgages.

All properties, whether or not insurance is arranged through us, must be acceptable to our insurers on standard terms ie exclusions or increased excesses must not apply.

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

10. 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 viability of the applicant's business
- costs associated with letting, managing and maintenance of the let properties
- the rental income available is sufficient to support 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 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.

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

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

- **Legal charges**

We require a first 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 guide entitled "Buy-to-let product guide" for full details.

Any application fee/valuation fee will be charged immediately on acceptance of a case for processing and the valuation will normally be instructed immediately thereafter.

- **Direct debit mandates**

It is a condition of the loan that monthly payments are made from an account in the applicant's name(s), with a UK based bank and made by direct debit which is to be set up prior to the issue of an offer.

- **Retention of papers**

Papers for applications which do not proceed will be retained for three months from the date of notification that the application is not proceeding.

- **Email address**

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

11. Further advances


Further advances may be available subject to market conditions at the time of application and the specific profile of the individual case.

Where an application falls outside these 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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FMNL14237 (04/2017)

PARAGON MORTGAGES 51 HOMER ROAD, SOLIHULL, WEST MIDLANDS B91 3QJ

 0345 849 4040

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 pmlenquiries@paragon-group.co.uk

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