
Leeds

Building Society

Introducer Residential Mortgage Lending Guide



December 2011

CONTENTS

- Section 1 – Summary of Lending Conditions5
- Section 2 – Definition of Prime.....7
 - Definition of ‘Prime’ lending7
 - Assessment of Security.....7
- Section 3 – Business Origination8
 - Originating Source8
 - Quality of Business8
 - Interviews.....8
 - FSA Mortgage Conduct of Business Rules.....8
- Section 4 – Employment and Income Status.....9
 - Employed Requirements.....9
 - Income9
 - Employers’ References9
 - Short Term Contracts10
 - Pension Requirements10
 - Provision of 3 Years’ Accounts11
 - Income Multiplier11
 - 3 Years’ Accounts Not Available.....12
 - LTV Does Not Exceed 80%.....12
- Section 6 – Definition of Income13
 - Primary Income.....13
 - Other Income13
 - Applicant Has Second Job.....14
 - Shared Ownership / Equity Guidance Note14
 - Additional Income Necessary to Support Loan14
- Section 7 – Income Multipliers15
 - Number of Applicants15
 - Current Income Multiples - Standard Lending15
 - Shared Ownership / Equity Guidance Note.15
- Section 8 – Loan to Value16
 - Introduction.....16
 - Remortgage up to 95% LTV16
 - Already Owned Properties.....16
 - Capital Raising.....16
 - Builders/Vendors Deposits.....16
 - Family Purchase.....16
 - Right-to-Buy Scheme.....17
- Section 9 – Society Maximums18
 - Limits18
- Section 10 – Credit & Other Commitments19
 - Introduction.....19
 - Example Calculation19
 - Credit Card Agreements.....19
 - Commitment Due to Expire.....20
 - Overdrafts.....20
 - Credit Reference Agency20
 - Voter’s Roll.....20
 - Proof of Occupancy20
- Section 11 – Proof of Payment.....21
 - Satisfactory Conduct.....21
 - Other Financial Commitments.....21
 - Guarantors.....21
- Section 12 – Additional Security.....23
 - Panel Insurers.....23

- Higher Lending Fee23
- Other Additional Security23
- Section 13 – Solicitors/Licensed Conveyancers.....24
 - Society’s Panel24
 - Maintenance of Panel’s Details24
 - Unacceptable Solicitor/Conveyancer24
 - Acceptance Criteria.....24
 - Exceptions24
 - Purpose of Policy24
 - Criteria.....24
- Section 14 – Property26
 - Criteria.....26
 - Shared Ownership26
 - Release of Retention Policy.....27
 - Contaminated Land.....27
 - Ex-Local Authority Property27
 - Converted Property29
 - New Properties29
- Section 15 – Tenure.....30
 - Introduction.....30
 - Leasehold Flats And Maisonettes.....30
- Section 16 – Early Repayment and Arrangement Fees31
 - Arrangement Fees31
 - Early Repayment Terms.....31
 - Early Repayment Charges (ERC’s).....31
- Section 17 – Stage Payments.....32
 - Introduction.....32
 - Self Employed Builders32
 - Ultimate LTV32
 - Release of Monies32
 - Insurance32
 - Building to be Demolished and Land Purchased33
- Section 18 – Repayment Types34
 - Introduction.....34
 - Capital and Interest.....34
 - Interest Only34
 - Endowment35
- Section 19 – Buy To Let Lending36
 - Criteria.....36
 - Assessment of Income36
 - Loan to Value.....37
 - Commercial Lending37
 - Related Tenants37
- Section 20 – Holiday Lets38
 - Criteria.....38
 - Income38
 - Loan to Value.....38
- Section 21 – Let To Buy.....39
 - LBS Mortgage on Existing Property39
 - Mortgage With Another Lender on Existing Property39
 - Mortgage on New Property39
- Section 22 – Second Properties40
 - Applicant’s Contribution.....40
 - Second Properties.....40
 - Concessionary Purchase Price40
 - Property to Be Occupied By Family Member.....40
- Section 23 – Verification of Identity41

Introduction.....41
Identity Required41
Section 24 – Dishonesty, Undue Influence & Convictions42
Joint Mortgages42
Convictions42
Residency.....42

Section 1 – Summary of Lending Conditions

The Residential Lending Policy covers areas of lending acceptable to the Society. 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.

Lending Area	Maximum Loan to Value	Summary of Lending Conditions	Refer to Detailed Lending Policy Section
Prime	95% (cases with a LTV in excess of 90% are subject to meeting a minimum credit score)	Prime lending is defined as lending where no current or previous adverse has been reported. The specific criteria are outlined in section 2 of the Lending Guide.	2
Buy to Let	80%	<ul style="list-style-type: none"> Maximum number of properties of 4 (Portfolio max of £1.25m) Maximum loan amount of £500k Minimum rental cover of 125% 	19
Shared Ownership / Equity	<p>Shared Equity Max LTV of 95% of borrowers share</p> <p>Shared Ownership Max LTV of 100% of borrowers share (cases with LTV in excess of 95% must meet the society's credit score)</p>	<p>Equity Sharing/Shared Ownership applications will be accepted where:</p> <ul style="list-style-type: none"> The Shared ownership arrangement is through a registered Housing Association or Registered Social Landlord. The maximum loan will be 95% of the borrower's share. The lease must allow an adequate mortgage protection clause that protects the Society from any losses that may be suffered should the property be taken into possession, or achieved by way of a suitable Deed of Postponement/Priority. The initial share to be purchased by the borrower is at least 25% of the current market value of the property. The lease must allow for the Society in the event of possession to take full vacant possession. For Scottish shared ownership, only applications from the approved Homestake / Lift Scheme will be considered. 	14
Right to Buy	90% of the discounted purchase price.	<p>The discounted purchase price will be the maximum loan. Submitted with the application will be:</p> <ul style="list-style-type: none"> 'Right-To-Buy' documents, showing details of the discounted price and confirming the eligibility of the applicants. A landlord's reference or suitable alternative evidence of rent payments. 	8
New Build	80%	A second-hand valuation (excluding Shared Ownership)	14

Lending Area	Maximum Loan to Value	Summary of Lending Conditions	Refer to Detailed Lending Policy Section
Properties		properties) 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)	<ul style="list-style-type: none"> • Cases up to 95% LTV can include up to £1000 for costs that are included in the LTV calculation. • Re-mortgage lending with an element of non-property related capital raising is restricted to maximum LTV of 75. 	8
Interest Only	75%	<ul style="list-style-type: none"> • Max LTV for sale of property repayment strategy of 70%. • Max LTV for savings/investment strategy of 75%. 	18
Capital Raising	95% (cases with LTV in excess of 90% must meet the society's credit score)	<ul style="list-style-type: none"> • Applications which include a capital raising element may be considered up to a maximum of 95% LTV. Capital raising for business purposes is not permitted. • Capital raising with an element for non-property purposes is restricted to maximum LTV of 75%. 	8

Section 2 – Definition of Prime

Definition of 'Prime' lending

For clarification a definition of prime lending is outlined below:

- No missed mortgage payments in the last 12 months;
- No arrears on any credit agreement (e.g. credit / store cards, mail order credit and mobile phone contracts) within the last year, where the cumulative amount overdue at any point reached more than one monthly payment;
- No arrears on any credit agreement 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 greater than £500, within the last four years;
- Not being subject to an Individual Voluntary Arrangement (IVA) at any time within the last six years (discharged over six years ago);
- Not being subject to a bankruptcy order at any time within the last six years (discharged over six years ago);
- Not being subject to a previous property possession within the last six years.

Guidance Notes

Technical arrears as part of the above definition are to be excluded. Technical arrears means circumstances where the borrower has been the victim of a banking error giving rise to late payment and the credit file has been updated accordingly.

*In the case of loans involving **two or more borrowers**, the impaired credit test is whether any one of the borrowers individually meets any of the six listed impaired credit conditions.*

Assessment of Security

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

Section 3 – Business Origination

Originating Source

Mortgage Applications are originated from the following sources:

Branch network.

Direct Mortgages channel (Call Centre), either by telephone or the internet.

Mortgage Introducers, who must be registered with the Financial Services Authority (FSA) and have an FSA number and have been assessed by the Society's Intermediary Vetting Programme. Applications from this source are received by post/DX or via the internet.

Quality of Business

The quality of business from originating sources is monitored.

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.

FSA Mortgage Conduct of Business Rules

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.

Section 4 – Employment and Income 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).

Income

Primary income is defined as:

- Employment;
- Self-employment
- Pension
- Savings Investment

Any other form of income will be referred to the Sanctioning Team

Income will be confirmed by means of up to the last 3 months' wage slips providing that:

- Originals are obtained and certified as being true copies by the branch, or authorised Intermediary.
- The payslips must show a clear amount of income, which must tie up with the cumulative amount on the most recent pay slip.
- Any additional earnings (e.g. overtime) will only be used if they are clearly differentiated and supported by the cumulative figure.
- Contract workers will be excluded.
- An employer's reference will be requested if there is any doubt over any aspect of the employment. Particular care should be taken in cases where the applicants are related to their employer. Always obtain an additional confirmation of receipt of income in these cases, e.g. 6 months' bank statements.

Note: If required, P60s can be utilised as an alternative means of confirming bonus/commission payments.

Employers' References

Where an employer's reference is obtained, replies must be:

- In response to the Society's written request.
- Validated by the employer's company stamp.
- Addressed to the Society, confirming the following details:
 - 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 held for applicant.

Short Term Contracts

Applicants who are employed on short term contracts can be considered under the following criteria:

- Last 3 months payslips and most recent bank statement as income confirmation.
- A satisfactory previous employer's reference is required, where the applicant has changed employment within the last 12 months.

The contract must have been renewed at least once with the same employer or there must be an established record of employment covering a minimum of 12 months within the same field of business.

Pension Requirements

Where applicants request a mortgage term which extends beyond retirement, 70, or stated retirement date, if earlier, additional pension income maybe checked.

Section 5 – Self Employed Status

Important

Take particular care when:

Considering applications where future earnings are difficult to assess (**eg:** entertainers, musicians, professional sportsmen, barristers etc).

The applicants are related to their employer (**ie:** where the income reference is completed by a relative). Always obtain an additional confirmation of receipt of income in these cases (**eg:** 6 months' bank statements).

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 chartered or certified (i.e. member of one of the bodies listed below), Original Self-Assessment forms issued by the Inland Revenue (SA302), certified by the branch/ introducer are required.

- 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.

Income Multiplier

The income multiplier will be applied to the average of the last 3 years' net profit figure, or other income provided where:

- A steady progression in turnover and profit is reflected;
- Self-employed applicants with variable profits will be considered. Applicants must have three full years' accounts available together with a stable or 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.

3 Years' Accounts Not Available

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, provided the accounts reflect an improving position.

LTV Does Not Exceed 80%

Cases where the LTV does not exceed 80% and only 1 years' full accounts are available 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.

.

Section 6 – Definition of Income

Primary Income

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

- Large town allowance.
- Rent allowance.
- Mortgage subsidy (100%).

Other Income

Other income is defined as:

- Commission.
- Bonus. *
- Overtime. *
- Shift Allowances.
- Working Family Tax Credit/Child Tax Credit***.
- Disability Benefits.
- Rental Income. **
- Car Allowance.
- Maintenance.
- Guaranteed pension credits.

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.
Working Family/Child Tax Credit***	100% (up to)	
Disability Benefit	100% (up to)	
Mortgage Subsidy/Rent Allowance	100%	If guaranteed.
London/Large Town Allowance	100% (up to)	
Car Allowance	100% (up to)	
Maintenance	50%	If confirmed.
Pension Credits	100%	If guaranteed.

* 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.

** The use of net rental income can be added to those income types that are used for assessing the applicant's ability to support the loan.

*** Benefits in respect of childcare costs are not to be included within allowable income.

We can use 50% of rental income, providing we can obtain proof of payment for a 12 month period. The proof of payment can be obtained from a qualified Accountant, Property Management Company, letting/estate agent or through Bank Statements.

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 as follows:

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

Shared Ownership / Equity Guidance Note.

In order to derive the appropriate level of income verification for shared ownership and shared equity applications; the loan to value should be calculated using the customers share, rather than the property value.

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).

Section 7 – Income Multipliers

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, 3 or more applicants can be considered.

Current Income Multiples - Standard Lending

Loan Amount	LTV	Single (Up to)	Joint (Up to)
Up to £750k	50% max	4.5 x	3.75 x or 4.5 x main plus 1 x second
Up to £750k	75% max	4.5 x	3.75 x or 4.5 x main plus 1 x second
Up to £750k	80% max	4.5 x	3.75 x or 4.5 x main plus 1 x second
Up to £500k	85% max	4.25 x	3.5 x or 4.25 x main plus 1 x second
Up to £400k	90% max	4.0 x	3.25 x or 4.0 x main plus 1 x second
Up to £300k	95% max	3.75 x	3.00 x or 3.75 x main plus 1 x second

Shared Ownership / Equity Guidance Note.

In order to derive the appropriate income multiple for shared ownership and shared equity applications; the loan to value should be calculated using the customers share, rather than the property value.

Section 8 – 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.

The maximum loan to value for new build properties is 80%, based on the 'second-hand' valuation provided by the valuer. This excludes shared ownership applications, which will be subjected to the shared ownership criteria.

Remortgage up to 95% LTV

Cases up to 90% LTV can include up to £1000 for costs. Please note, the element included for costs **must** be added to the loan and the resultant value must not take the LTV figure over 90%. The property should have been owned for at least 6 months prior to the re-mortgage as outlined in the solicitor's instructions.

Already Owned Properties

Properties which are already owned, but where there is no existing charge on the property, can be remortgaged (on a Non-Regulated basis), provided the loan exceeds £25,000. No limit applies for Regulated Mortgages.

Capital Raising

Applications 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**.

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.

Applications for capital raising are only considered where the property is first class and normally ex-local authority properties, back to back houses or studio flats are **not** acceptable.

Builders/Vendors Deposits

Where a mortgage subsidy is being granted with a new mortgage application and this exceeds 5% of the property valuation, the maximum LTV (based on the 'second-hand' valuation) will be restricted to 90%. The applicant will be required to provide as a minimum, the full deposit dependent on the product selected. The Society does not lend at 100% of the purchase price.

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.

Right-to-Buy Scheme

The discounted purchase price will be the maximum loan. Right to buy lending is restricted to a maximum of 90% of the discounted purchase price (a minimum 10% deposit is required).

Legal fees may be added up to a value of £500.

Submit with the application the:

- 'Right-To-Buy' documents, showing details of the discounted price and confirming the eligibility of the applicants.
- A landlord's reference or suitable alternative evidence of rent payments.

Section 9 – Society Maximums

Limits

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

Section 10 – Credit & Other Commitments

Introduction

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, the existing mortgage commitment should be included as a deduction from useable income prior to applying the income multiplier.

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
Less	
12 x £50	£00,600
12 x £75	<u>£00,900</u>
Assessable Income	£18,500

Therefore, the amount which can be borrowed =
 $£18,500 \times 3.25 \times \text{income} = £60,125.$

Credit Card Agreements

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

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

Total amount to be deducted from gross income before the multiplier is applied is therefore £720.

Our approach to assessing other commitments when calculating disposable income is to be reviewed after introduction of the new mortgage processing system. This will involve the introduction of measures aimed to mitigate the risks including the use of credit scoring, the use of affordability measures including assessing the proportion of income expended on other credit commitments and loan to value ratios.

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.

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 (where appropriate).

Voter's Roll

If the applicant is not registered on the voter's roll, satisfactory evidence must be produced showing the applicant actually resided at the stated address (**eg:** 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 is not required for existing Society borrowers or where a satisfactory lender's reference is obtained, in connection with a re-mortgage transaction.

Examples of acceptable proof of occupancy is:

- Bank, Building Society.
- Utility Bills.
- Inland Revenue Correspondence.
- Council Tax Correspondence.

Please refer to the FCT approved occupancy list for further details.

Section 11 – 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.

Confirmation obtained from existing and previous lenders that loans have been conducted satisfactorily must cover a minimum 1 year period.

Satisfactory evidence of payment history, showing the previous 12 months' payments, is also acceptable in the form of bank or lender's statements. 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.

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

Other Financial Commitments

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

Guarantors

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

- Guarantors are not accepted for Buy to Let applications
- 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.

Other forms of Additional Security that may be taken by the Society to support a mortgage are listed below:

- Lien on investment/bank account.
- Lien on Life Policies.
- Second Charge on Guarantors Property.
- Surety on investment monies placed with the Society.
- Surety by deposit of Title Deeds of unencumbered property.

Section 12 – Additional Security

Panel Insurers

Where the mortgage advance exceeds the normal LTV ratio (80%), additional security is obtained. This normally takes the form of a mortgage indemnity, provided by the Society's panel insurer.

Higher Lending Fee

The fee charged is based on the gross percentage rate multiplied by the value of cover (**ie:** total loan less basic loan).

In some circumstances the Society may take a mortgage indemnity without passing the cost on to the borrower in the form of a fee.

The gross percentage rate is dependent upon the LTV band applicable.

Where a request is received to add the fee, the resulting LTV must remain within the product criteria.

The minimum fee is £250 and it is described as a higher lending fee.

Other Additional Security

Other forms of additional security may also be considered, **eg:**

The surrender value of a life assurance policy. The policy does not have to be on the life of the borrower, but must be assigned to the Society. The additional security will not be assessed on any amount greater than the actual surrender value.

Local authority guarantees. The Housing Act 1980 gives local authorities power to indemnify building societies against loss in respect of a borrower default.

A charge over an investment account with the Society.

Section 13 – 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.

Maintenance of Panel's Details

The Panel is maintained on the Lending system and each Solicitor has been allocated a specific code. They are then categorised into Solicitors we can use and those that must be referred to Internal Audit Department, as they are not listed or have an adverse entry registered.

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.

At the time the current criteria was introduced a significant number of sole practitioner firms in all jurisdictions were already on the panel and the status of these firms has not been disturbed.

Purpose of Policy

The policy has been developed solely as a risk management tool and for no other purpose. Historically the Society has experienced a number of service issues, typically with smaller sole firms and is not satisfied with the insurance arrangements in respect of such firms.

The Society's position is that all of its borrowers/applicants are free to deal with any solicitor or firm of solicitors. Equally, the Society's view is that as a client (like any other client corporate or individual) it is entitled to select which firms of solicitors will carry out work for it and that for reasons relating to service and risk management, it is prudent to restrict the circumstances in which it will appoint sole practitioners (whilst remaining sensitive to its borrowers and the legal community).

Criteria

All firms need to comply with the following:

- Need to be a two partner plus firm (exemptions in Scotland and Ireland).
- Need to have fireproof cabinets or strong rooms to store deeds.
- Need computerised accounts.
- Need 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 Ireland).

Introducer Residential Mortgage Lending Guide - 25 -

- 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.

Section 14 – Property

Criteria

The criteria for property is as follows:

- The property must be situated in England, Wales, Northern Ireland, mainland Scotland, Gibraltar, Spain or Ireland. (Refer to specific Overseas Lending Policies relating to Gibraltar, Spain and Ireland).
- For new build properties, the maximum loan to value (based on the 'second-hand' valuation) is 80% (note: excludes Shared Ownership).
- 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 declined.
- Older properties must be modernised to provide basic standards, including provision of a shower or bath and inside W/C.
- Properties must be used for domestic, residential owner occupation and be the intended or main residence of the applicants, unless on the Tenanted Scheme. Where more than 40% of the property is used for non owner occupation, this will be treated as FSOL (Commercial Lending).
- Properties of non-standard construction, including those properties of 100% timber and high alumina cement construction are not acceptable.
- Steel framed properties are not normally acceptable, however, 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, stone) and that a Structural Engineers report conforming 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, may be considered where the valuer states that the re-saleability is unaffected, and have been repaired under a PRC Homes Limited or other approved scheme and a 10- year guarantee.

The Leeds City Council repair scheme with certification is acceptable. All the adjacent dwelling must have been repaired; i.e all the houses in a terrace or both in the case of a pair 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.
- Properties converted for multiple occupation (houses of multiple occupation) are acceptable.

Shared Ownership

Equity Sharing/Shared Ownership applications will be accepted where:

- For Scottish shared ownership, the application is from the approved Homestake / Lift Scheme.

- The Shared ownership arrangement is through a registered Housing Association or Registered Social Landlord.
- The maximum loan will be 95% of the borrower's share for shared equity.
- The maximum loan will be 100% of the borrower's share for shared ownership
- The lease must allow an adequate mortgage protection clause that protects the Society from any losses that may be suffered should the property be taken into possession, or achieved by way of a suitable Deed of Postponement/Priority.
- The initial market share to be purchased by the borrower is at least 25% of the current market value of the property.
- The lease must allow for the Society in the event of possession to take full vacant possession.

As affordability pressures continue there has been an increase in the number of new Shared Equity schemes that are being put forward to allow borrowers access to home ownership. These schemes are assessed individually from both a risk and legal perspective. These applications will be processed on Shared Equity products.

The Shared ownership properties will be valued on the basis of full market value by comparison with similar properties sold on an unencumbered basis. It will also be a requirement for the valuer to provide an additional valuation of the full market value and for the percentage equity that relates to the borrower's share. Full inspection valuations are based on the Royal Institute of Chartered Surveyors (RICS) Red Book new-build guidance and are undertaken by a fully qualified valuer.

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:

Valuation of Property	Retention to be Waived	Max Loan to Valuation (LTV)
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.

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.

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 will therefore, be 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.

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.

New Properties

- The maximum loan to value (based on the RICS Red Book new build guidance with a special condition to value new build properties on a 'second-hand' approach) for new build properties is 80% (note: excludes Shared Ownership properties, where other risk mitigants are in place).
- New properties, or those built within the last 10 years, must be covered by an appropriate approved certification/insurance scheme.
- For Architects, see below 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.
-

Section 15 – Tenure

Introduction

Freehold, leasehold and commonhold properties are normally acceptable and 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.
- Freehold flats and freehold maisonettes are not acceptable.
- Flying freeholds are not normally acceptable, however, 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.

Note: 'Virtual freehold', i.e. with leases in excess of 500 years, are acceptable.

Section 16 – 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.

Section 17 – Stage Payments

Introduction

Applications for stage payments can be considered. See section 9 when calculating the amount that the applicant can afford to borrow.

- The offer period is 3 months.

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 re-valuation will be required at each stage, for which a re-valuation fee will be charged, in accordance with the Tariff of Charges.

As self build / stage payment mortgages 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 outline planning permission) Land Purchase (with full planning permission)	60% of current value 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

Note 1: The Society can vary the percentage advance released or the stage at which the advance is released on the recommendation of the Valuer.

Note 2: For the initial advance to purchase the plot, this will be subject to the valuer's recommendation and subject to confirmation that outline planning permission has been obtained to erect a residential dwelling.

Note 3: A copy of a completed detailed costing schedule together with the build project plan is required.

Insurance

The same insurance requirements apply as for new properties (**ie:** where the property is architect supervised, the latest certificate will be required for each re-valuation).

Building to be Demolished and 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.

Section 18 – Repayment Types

Introduction

The 2 main repayment types are as follows:

- Capital and Interest.
- Interest Only.

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

A combination of methods can be arranged to suit the applicant's specific requirements.

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 a savings/investment vehicle and the other through the sale of property.

Where the repayment strategy is a savings/investment vehicle the max LTV is 75%. Any additional lending, above the 75% maximum, can be advanced on a capital and interest repayment basis.

Where the repayment strategy is the sale of property the max LTV is 70%. No additional lending, above the 70% maximum LTV is acceptable.

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 savings/investment repayment vehicles are listed below: (although please note that this list is not exhaustive):

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

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.

The sales process adopted by branches and Direct Mortgages seeks further clarification of the repayment strategy to be used by the borrower (and this is flagged as a high or medium risk and may result in a referral to a Financial Consultant) but does not comment on the adequacy of this.

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.

Endowment

A life assurance policy is arranged either independently or by the Society, in accordance with the life assurance company link with Aviva.

When the life assurance policy matures, the proceeds are designed to repay the loan and surplus is paid to the policyholder.

The Society does not insist on the Endowment policies being assigned.

Section 19 – Buy To Let Lending

Criteria

- Buy to Let mortgages will be considered.
- Buy to Let re-mortgages (including capital raising) will also be considered.

The maximum number of properties in a portfolio is 4 (regardless of who the lender is). For existing buy to let customers that now exceed the new limit (e.g. 2 buy to let mortgages with us and 4 elsewhere) we are happy to carry out further advances at the buy to let maximum loan to value of 80%.

The criteria excludes residential applications (i.e. if we receive an application for a residential property and the applicant has 4 or more B2L properties we will lend).

The criteria excludes properties that are unencumbered (they are not to be included in the portfolio limit)

- The change to criteria applies to overseas applicants.
- Buy to let is not usually applicable for first-time buyers
- Buy to let is not usually applicable for applicants under 21
- Buy to let applicants in receipt of benefit income are not usually accepted.
- The maximum loan amount is £500k

Where investment property is the applicant's main line of business, or where more than 3 rental properties are already owned, the applicant must demonstrate that the business is well financed and that they have sufficient experience in the lettings market.

The Applicant must be in receipt of an income (as per the allowable income sources within Lending Policy) of at least £20k per annum. This will ensure that, for part time landlords, a sufficient element of 'contingency' is in place to fund void periods. The Society will continue to accept BTL applications based on the current criteria for rental income.

Where a property is being purchased to be occupied by a family member, and therefore falls within the scope of FSA regulation, the maximum LTV is 80% (which applies for second properties). The applicant's income must be sufficient to support all mortgage commitment.

Assessment of Income

- Rental income must equate to at least 125% of the mortgage payment, (set as the buy to let revert rate) calculated on an interest only basis. (For Leeds Building Society BTL applications only)
- Rental income is independently verified and provided by the Society's valuers.
- Where an existing track record of property rental is in place, rental income will be verified using the existing tenancy agreement.
- Rental income from tenants who are in receipt of benefits will be considered.

Loan to Value

The maximum loan to value is 80%.

The minimum valuation is £50,000, £85,000 for all properties with a London postcode and £70,000 for properties in the South East.

Commercial Lending

In the event of a BTL application, where the aggregated balances are greater than £1.25m or the request is not from an individual but a company or partnership, a referral to the Commercial Lending Department is made to allow them to consider the application.

Related Tenants

Where the tenant of the property will be a family member (defined as spouse, parent, grandparent, sibling, child or grandchild) the mortgage will be processed as a second property for a dependant relative to comply with FSA regulation. The applicant's income must be sufficient to support all mortgage commitments. The maximum LTV is 80%

Section 20 – Holiday Lets

Criteria

Holiday Let purchases and re-mortgages will be considered.

Enquiries will be made of the applicants to assess overall suitability including:

- Proof of mortgage payments.
- Employment references (to establish main line of business)

OR

- Certified original P60's and the last three wage slips.
- Audited Accounts.

All information must now be declared on the application form to include collaborating information to allow the underwriters to make a decision.

A maximum portfolio of three properties is acceptable (regardless of who the lender may be). Investment property/holiday letting must not be their main line of business.

Single dwellings only will be considered. No consent for multiple occupancy.

Income

The following rules apply to income levels:

- Applicants must have a minimum income of £40,000. Where there are joint applicants, at least one applicant must satisfy this rule.
- Where the applicant's income is insufficient to support the new mortgage (in addition to any existing mortgages) rental income must equate to 130% of the mortgage payment, calculated on an interest only basis. Given the seasonal nature of holiday letting, income will be assessed based on the annual gross rental income.
- Confirmation is required from a reputable holiday letting agent that proposed rental income is realistic.

Loan to Value

- The maximum loan to value is 70%.
- The minimum valuation is £75,000.
- The maximum advance is £250,000.

Section 21 – Let To Buy

LBS Mortgage on Existing Property

Where the applicant wishes to take advantage of the Let to Buy scheme and has an existing mortgage with Leeds Building Society, the following criteria apply:

- Rental income must equate to 125% of the mortgage payment calculated on an Interest Only basis. The borrower's other income and liabilities should not be taken into consideration. Written proof is required.
- Written confirmation is required from a suitably qualified independent source that the proposed rental income is realistic.
- Maximum LTV is 80%.
- Minimum valuation is £50,000, £85,000 for all properties with a London postcode and £70,000 for properties in the South East.

Mortgage With Another Lender on Existing Property

Where the applicant wishes to take advantage of the Let to Buy scheme and has an existing mortgage with another lender, the following criteria apply:

Rental income must equate to 100% of the mortgage payments. An assessment of the applicant's suitability will also be undertaken, and enquiries will be made of the applicants to assess suitability that may include proof of income and mortgage payments.

Written confirmation is required from a suitably qualified independent source that the proposed rental income is realistic.

Mortgage on New Property

Providing the above criteria is met with respect to the Buy to Let property, the applicant can be considered for a 95% mortgage using normal criteria for the mortgage on the new property.

Section 22 – Second Properties

Applicant's Contribution

The applicant must always be required to contribute 10% of the purchase price from their own resources (**ie:** the applicant must always have a personal stake in the property). If this is not the case, the application cannot be considered.

Note: Right to Buy applications are excluded.

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.

Concessionary Purchase Price

The Society will accept a purchase price below the valuation where it can be clearly demonstrated that there is a bone fide reason for a concessionary purchase price to be given - e.g. sale within a family or discounted Right to Buy Local Authority purchase.

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.

If rental income will be obtained this will be used to assess the application using the same methods as for buy to let mortgages.

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

Section 23 – Verification of Identity

Introduction

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

Identity Required

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

Section 24 – 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.

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 (UK tax payer)

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.