

Vernon Building Society

Lending Criteria – Adviser Guide

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Lending Area

- Property to be used as security must be in England or Wales

Residential Loan Criteria

Minimum purchase price	£100,000
Minimum Loan	£25,001
Maximum term	35 years (capital & interest) 30 years (interest only or part & part)
Minimum term	5 years
Max age at term end	85 (unless Retirement Interest Only)
Maximum Applicants	4
Maximum loan amount	
<80% LTV	£1.5m
80-85%	£400k
85-90%	£350k
90-95%	£300k
Capital raising	Accepted
Debt consolidation	Existing customer only if affordability dependant on debts being consolidated.

Interest Only

Max LTV	
Residential	60%
BTL	75%
Retirement mortgage	50%
Part I/O & Part C&R	80% (interest only element max 50% of total)
Acceptable repayment vehicles	<ul style="list-style-type: none"> • Regular savings plan (current value must be at least 50% of the loan amount) • Sale of assets (sterling only) - subject to current value at least equal to the loan amount • Periodic capital repayments - subject to minimum 2 years' history of bonus/dividend payments • Sale of mortgaged property (where property valued at minimum £350k and there is a plausible downsize plan) <p>The Society will review any proposed repayment plan for plausibility</p>

Affordability

Our affordability calculator must be completed and submitted with the DIP/application. Available on our website:

<http://www.thevernon.co.uk/Mortgage/CalculatorAdvanced.aspx>

Expenditure that would be difficult to reduce in times of stress should be used in the calculation

Family Assistance	
Gifted deposit	Accepted
Guarantor mortgages	Accepted - affordability assessment must show the borrower can meet at least 70% of the repayment The affordability assessment must show that the Guarantor is able to afford the full amount of the loan. Account taken of term/age as well as status of Guarantor Minimum Age 25, Maximum Age 85 at the end of the Mortgage Term.
Joint family borrower / sole ownership	Accepted

Employed Applicants	
Minimum employment period	3 months
Probation period	Can process loan but will not complete it until employer confirms permanent position
Income treatment:	<u>% used in affordability calculator</u>
<ul style="list-style-type: none"> • Salary • Guaranteed regular income • Car allowance • Guaranteed shift allowance • Zero hours contracts • Secondary employment • Seasonal • Fixed term contracts • Maternity pay • Non-guaranteed income 	100% net income 100% 100% 100% 100% (min 12 months history) Up to 100% by referral to underwriter Up to 100% subject to 3 year history - Only as a secondary applicant 100% subject to min 12 months history in same occupation Sole applicant - not permitted unless returning before mortgage completion Secondary applicant - up to 100% subject of intent to return to work within 3 months of completion 50% - as a Secondary applicant (100% if 3 years' history evidenced)
Evidenced by	Up to 3 months' salary advices Plus most recent P60 for guaranteed regular income or last 3 years P60s for non-guaranteed income. See individual affordability calculation result for specific case requirement

Self-Employed Applicants

Income treatment	<p>Average of last two years' net profit</p> <p>If an individual moves from employed to self-employed in the same field of work then one year's accounts plus two prior P60s will be acceptable proof of earnings</p>
Evidenced by	<p>Latest 2 years Tax calculations and HMRC Tax Year Overview; and Latest years Accounts - prepared or certified by a qualified accountant</p>
Acceptable accountancy bodies	<ul style="list-style-type: none"> • A.C.A or F.C.A • A.C.A.S or F.C.A.S • A.C.C.A, F.C.C.A, A.A.P.A or F.A.P.A • A.C.C.A, F.C.C.A, A.A.P.A or F.A.P.A • A.C.M.A or F.C.M.A • A.C.P.A or F.C.P.A • M.A.A.T or F.M.A.A.T • A.A.I.A or F.A.I.A [not FAIA (acad)] • C.T.A (Fellow), F.T.I.I (Fellow), C.T.A or A.T.I.I • A.F.A (Associate) or F.F.A (Fellow) • C.P.F.A
Limited company directors	<p>Shareholding >20%: an average of the last two years share of net profits and director's remuneration</p> <p>Evidenced by two years audited accounts and tax calculations</p>
Sub-Contractors	<p>Eighteen months continuous service in same type of employment with min. 6 months remaining on current contract</p> <p>We accept the gross value of the annual contract or an average of the last 3 months' income</p> <p>Evidenced by copy of current contract and/or CIS payment and deduction certificate</p> <p>If pays own tax or sub contracts to more than one company we will treat as self employed</p>
Professional Contractors	<p>Subject to a minimum of 24 months contracting history as evidenced by accounts (Discretion may be applied subject to minimum of 12 months contracting history where applicant was previously in permanent employment in the same field of work)</p>

	<p>A professional contractor is someone working within the professional service industry, for example, but not limited to: IT consultants; Business/Management Consultants; Project Management/Business Analysts.</p> <p>Permitted subject to a minimum calculated gross income of £75,000 per annum.</p> <p>Gross income is calculated based on the current contract daily rate (as evidenced by the current contract) x Number of Days Worked x 46 weeks.</p> <p>Net income is subject to standard tax and national insurance as declared on Self-Assessment Tax return.</p> <p>Minimum of 4 weeks remaining on contract at offer or evidence of further contract accepted.</p>
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Retirement Lending

Lending into Retirement		
Pension provision assessment depends upon length of time before retirement and how long the loan term extends into retirement:		
Period from retirement	Proof of income	Underwriting approach
< 10 years to retirement and/or loan extends > 5 years beyond retirement	Evidence of pension income	Affordability based on lower of earned or pension income
> 10 years from retirement and extends < 5 years beyond retirement	Evidence of pension contributions and Lending into Retirement declaration (available on website)	Affordability based on earned income
Applicant already in retirement	Evidence of pension income	Based on pension income. Consideration given to whether index linked depending upon the term

Retirement Mortgages

The Society has Retirement Mortgage products which allow borrowers to extend the term for their lifetime using the proceeds of property sale to repay the loan. These product are subject to additional criteria detailed below.

Minimum Age

55 (youngest applicant for joint applications)

Maximum LTV

50%

To establish whether your client needs a Retirement Mortgage or a standard product please see the Retirement Mortgage Product Eligibility table below.

Retirement Mortgage Product Eligibility

	Capital & Interest	Interest-only repayment NOT from the mortgage property	Interest-only repayment from mortgaged property
Age 75 or less at maturity	Standard products	Standard products	Standard products
76 - 85 at maturity	Standard products	Standard products	Retirement products
Over 85 at maturity	Retirement products	Retirement products	Retirement products

Other Income Treatment

Our senior underwriters have some discretion to take into account benefits and allowances as shown below. Their decision to do this will depend on the wider merits of the individual case so we would recommend you seek a decision in principle before making an application.

Investment Income	50%
Disability Living Allowance	Up to 100% can be used subject to DWP confirmation
Incapacity Benefit/Employment & Support Allowance	50% if in receipt for min. 6 months
Income support	Not permitted
Working Tax Credit	<80% LTV - 50% >80% LTV - not permitted
Carer's Allowance	<80% LTV - up to 100% with track record and evidence of continuity >80% LTV - not permitted
Foster Carer's allowance	Up to 100% with min. 2 years track record
Child tax credit	<80% LTV - 50% >80% LTV - not permitted
Income from family living in property but not on mortgage	Not permitted
Income from lodger (not family)	100%
Rental Income	50% (unencumbered property)
Pension Income	100%
Maintenance	50% (subject to court order) (May consider up to 100% where LTV<80% and not the sole income)
Original documentary evidence required for all of the above to be factored into affordability calculator	

Impaired Credit History

The Society does not offer sub-prime lending and therefore applicants with any of the following Impaired Credit History record cannot be accepted.

- **Secured loan** account (including mortgage) with a payment status of 3 or worse in the last 24 months.
- **Unsecured loan** account with a payment status of 3 or worse in the last 24 months.
- 1 or more **CCJ's** with a total value greater than £500 within the last 36 months.
- Have been subject to an **Individual Voluntary Arrangement (IVA)** or Administration order within the last 36 months.
- **Bankruptcy** order or Scottish Sequestration in force in last 6 years
- Repossessions or voluntary repossessions within the last 5 years

We can consider applications where the impaired credit history (including defaults) is outside the above criteria. In such cases, the underwriters will assess the case using all relevant information including a full explanation for any adverse credit. In all cases, the enquiry should initially be referred to the Intermediary Sales Team on info@vernonintermediaries.co.uk. A Decision in Principle can only be obtained following a satisfactory credit report by the Society.

Property	
Age	Any, subject to valuation
Tenure	Freehold Leasehold - a minimum of 50 years to remain at end of mortgage term
Flats	Maximum 6 storeys (over 4 storeys must have lift) May consider 7-10 storey flats - please refer
Studio flats	Permitted subject to a minimum floor area of 39 square meters, in line with the Government issued Technical Housing Standards - Nationally Described Space Standard
Construction	All standard construction types subject to satisfactory valuer's comments and insurability Non-standard construction should be referred
Generally unacceptable security	The following are considered to be unacceptable security and are generally not permitted (however discretion may be given on non-standard construction types, subject to satisfactory Valuer's comments and insurability): <ul style="list-style-type: none"> • Listed under the Housing Defects Act; • Agricultural restrictions; • Shared Ownership; • Properties which are solely for commercial use; • Local authority flats & maisonettes; • System built concrete construction; • Steel clad properties; • Pre 1990 steel frames properties; • Pre 1970 timber frame properties; • Prefabricated/(pre) reinforced/poured or shuttered concrete construction unconventionally clad i.e. not brick, concrete or stone block; • Easi-form construction; • Pre 1970's no-fines concrete; • Mundic block; • High alumina cement; • 100% Timber construction; • Properties built on contaminated land; • Mobile Homes; • Farms & small holdings; • River boats.
Flying Freehold	Discretion is permitted for Flying Freehold properties. - subject to Valuers comments and rights of access for essential / routine maintenance.
Right to Buy	Accepted up to 100% of concession price

Self-Build	<p>All repayment types: 80% LTV of final value</p> <p>Maximum Loan Amount</p> <ul style="list-style-type: none"> • £600,000 (refer if greater) <p>Build stages of:</p> <ul style="list-style-type: none"> • Land – max 75% of value • Foundations • Wall plate level • Wind and water tight • First fix and plastering • Second fix to completion. <p>All stages maximum of 75% of build cost at each stage.</p> <p>Stage payments made in arrears</p> <p>All new mortgage applications must be supported by a mortgage valuation report which confirms that the property to be built is suitable for our mortgage and estimates the final value. A re-inspection will be required at completion of the build.</p> <p>For stage releases - Stage inspection and sign off by Construction Industry Council approved inspector (for warranty provider) or Architect's stage sign off.</p> <p>Documentation: Plans and elevations Detailed costings Copy of Planning permission Copy of Building Regulation approval Schedule of works including dates Details of the structural warranty Evidence of capital the applicant has available Details of residence during the project (rent/mortgage/caravan etc.)</p>
Self-Build (cont.)	
New build	Up to 85% LTV Must have NHBC certificate or equivalent
Commercial use	No more than 20% use for commercial Business rates not payable
Properties above or adjacent to commercial premises	May consider please refer

Documentation	
I.D.	<p>We will carry out an electronic search against records held by a credit reference agency to verify name and address. To support this we will require one identity document from the list below (certified copy):</p> <ul style="list-style-type: none"> • Current UK & EU passport • Current photo full or provisional driving licence • Current old style driving licence • Current firearms certificate • Current armed forces ID card • EU state ID card • Current UK disabled driver's pass • Instrument of a court appointment • ID card issued by Electoral Roll Office for Northern Ireland • HMRC tax notification • Housing benefit notification * • Local authority tenancy agreement * • Council tax demand letter or statement * • Tax credit * • DWP state pension document * • Utility bill ** • Current original bank statement ** • Current original credit/debit card statement ** • Mortgage statement * <p><i>* These documents must be dated in the past 12 months</i> <i>** These documents must be dated in the past 6 months.</i></p>
Proof of income/expenditure	<p>Documentary evidence will vary dependent upon the case. The affordability calculator will inform what is required for an individual case.</p>
Additional documentation where relevant	<p>Customer Into Retirement Declaration Key Facts Illustration Affordability calculator Proof of deposit Evidence of repayment vehicle Interest Only Right to Buy notice Building work estimates and planning permission approval AST and Lender approval to let (where BTL exist) Payment of Fees</p>
<p>Documentary evidence should be scanned as PDF and submitted through our online application system or otherwise by secure email.</p>	

Buy to Let	
Acceptable BTL segments	<ul style="list-style-type: none"> • Investment BTL < 4 properties • Investment BTL 4+ properties (portfolio) • Personal ownership • Ltd Company • Regulated BTL (MCOB/MCD) • HMOs • Holiday Lets
Partial business use	Subject to: <ul style="list-style-type: none"> • Business / Commercial use does not exceed 50%. • Independent access to the residential area. • Rent from residential area should be a minimum of 75% of the stressed ICR (interest only)
HMO	Subject to: <ul style="list-style-type: none"> • Local Authority requirements in respect of licence must be complied with • Single tenancy agreement for all occupants
Holiday lets	Subject to: <ul style="list-style-type: none"> • 2 years accounts for letting business OR • Evidence of potential rental income from letting agency OR • other sources of income if appropriate
Loan purpose	Purchase Remortgage Capital raising
Landlord experience	Experienced BTL landlords and investors preferred. For new entrants to the market, their knowledge and experience of the property and financial markets will be taken into account. Through underwriting process all applicants will be assessed to ensure they seem competent
Min/Max age	Minimum: 18, Maximum: normally 75
New build?	Yes
Purpose build flats?	Yes
Let to Buy	Let to buy will be considered, noting that such arrangements will generally fall under the MCD regulations
Lending Limits	
Min/Max term	5/35 years
Min purchase price/value	£125,000
Min/Max loan	£50,000 / £1.5m (consolidated)
Max LTV	75%
Interest Cover Ratio (interest only)	130%

Stressed interest rate	6.20%
Tenancy agreement	AST 6 months
Consolidation (overall LTV for portfolio)	Yes
Affordability Assessment	<p>Investment Property Loans In all cases actual costs will be used to assess affordability assuming a stressed rate and future tax position. Other earned income can be taken into account - a full I/E would be required</p> <p>For portfolio landlords (4 or more properties) Portfolio Analysis spreadsheet of all existing BTL properties with details of their loans, interest rates and rents is required. This will have a stressed interest rate applied to ensure portfolio affordability</p> <p>MCOB & MCD Regulated Loans Full details of all income/expenditure required. This will be assessed using stressed mortgage rates</p>
Detail of existing properties/loans	Required
Accounts/business plans	Required for portfolio landlords (4 or more properties)

Solicitors

Borrower's solicitor can provide dual representation providing practice is at least a dual partnership and where Law Society guidelines permit joint representation

Solicitors acting for the Society must have professional qualifications and professional indemnity insurance of at least £1m (or the amount of the loan if higher)