

Lending Criteria Guidelines

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themelton
building society

Lending Criteria Guidelines

These guidelines are designed to give general guidance to mortgage brokers on the Melton's lending criteria. The guidelines summarise our minimum high level criteria required as part of our mortgage underwriting process. In addition, the Melton applies a number of other credit assessment tools which may result in an application being declined, despite appearing to meet the guidelines documented.

The Melton reserves the right to change its lending policy at any time, however, we aim to ensure this document reflects the Society's current approach to mortgage lending.

Please note the Society will lend in England and Wales only. All underwriting is carried out manually. For all mortgage applicants the Society uses a credit reference agency to complete a voters roll search together with a credit search.

Contents

Loan types and sizes	Page - 1
Mortgage types	Page - 1
Mortgage terms	Page - 1
Repayment strategy	Page - 2
Age requirements	Page - 3
Applicant residency status	Page - 3
Employment	Page - 4
Income	Page - 6
Affordability & Commitments	Page - 7
Impaired credit	Page - 8
Deposit	Page - 9
Security	Page - 10
Standard application requirements	Page - 12
Solicitors	Page - 13
First time buyer definition	Page - 13
Buy to Let	Page - 13
Self build	Page - 15

Loan types & sizes

Maximum Loan To Value	<ul style="list-style-type: none"> As specified in product literature LTV based on the lower of the purchase price or valuation Advances in London are subject to limits of: <ol style="list-style-type: none"> Minimum property value of £300,000 (£250,000 for shared ownership) and Maximum LTV 75%
Minimum Loan	<ul style="list-style-type: none"> £25000
Maximum Loan	<ul style="list-style-type: none"> As specified in product literature

Mortgage types

Purchase	<ul style="list-style-type: none"> Permitted
Remortgage	<ul style="list-style-type: none"> Permitted on properties which have not been subject to sale or remortgage in the preceding six months with the following exceptions: <ul style="list-style-type: none"> Inherited properties Self-build properties Properties to be renovated Loan purposes considered: <ul style="list-style-type: none"> £ for £ remortgage Home Improvements Capital raising including debt consolidation** <p>** Where a loan is advanced that consolidates other debts, payment will be made directly to the borrower's creditors to ensure that commitments are repaid</p> <ul style="list-style-type: none"> Where funds are being raised in addition to any loan being remortgaged and those funds are more than 10% or more of the value of the property, additional checks will be carried out to verify the purpose of that borrowing Where a loan is made for home improvements exceeding £10,000, the details of those home improvements will be verified Loans to raise capital for purposes, other than for home improvement and debt consolidation (e.g. cars, caravans, school fees, wedding expenses etc.) may be considered subject to the term of the loan being in line with the expected life of the asset The following types of loan will not be considered: <ul style="list-style-type: none"> Loans to repay gambling debts Loans for holidays Loans for business purposes
Short Term Lending	<p>Permitted in line with general criteria secured against borrower's prime residential property to max 60% LTV. Short term loan purposes considered:</p> <ul style="list-style-type: none"> Assist in purchase of a new residential property whilst awaiting sale of the existing property Residential development finance on another property Self build Purchase a residential property where a term of less than 5 years is required
Shared Ownership	<ul style="list-style-type: none"> Permitted The maximum loan to value ratio considered by the Society is 95% of the share being purchased subject to a maximum of 75% of the value of the property for the purposes of staircasing (maximum 60% LTV for new build flats) Society will only lend on 25% of affordable scheme housing on any single development subject to a cap of 10 properties

Mortgage terms

Minimum Term	<ul style="list-style-type: none"> • 5 years
Maximum Term	<ul style="list-style-type: none"> • 40 years

Repayment strategy

Capital and interest	<ul style="list-style-type: none"> • Permitted
Interest only	<ul style="list-style-type: none"> • Permitted on specific products - refer to product guide • Maximum LTV 60% • Minimum equity £120,000 • Repayment strategy: <ul style="list-style-type: none"> - Endowment policy <ul style="list-style-type: none"> - Projection from the provider based on current value and contribution levels - The Group will use the projected value based on the lowest of the standard growth assumptions set down by the Regulator as the amount that can be used on interest only - Term must coincide with or mature before expiry of the mortgage term - Commutable sum from pension <ul style="list-style-type: none"> - Projection from the provider based on current value and contribution levels - The Group will use the projected value based on the lowest of the standard growth assumptions set down by the Regulator as the amount to be used to calculate the maximum cash lump sum that can be taken - Term must coincide with or mature before expiry of the mortgage term. It must be both legal and practical for benefits to be taken at the end of the mortgage term - ISA <ul style="list-style-type: none"> - Projection from the provider based on current value and contribution levels - The Group will use the projected value based on the lowest of the standard growth assumptions set down by the Regulator as the amount that can be used on interest only - Where the investment is a cash ISA (or other cash based deposit), a calculation should be carried out based on the current value and contribution levels to assess whether there is likely to be sufficient to repay the proposed interest only amount at the end of the mortgage term. The interest rate used in the calculation will be prudent - Term must coincide with or mature before expiry of the mortgage term - Realisation of other assets/Investment properties <ul style="list-style-type: none"> - Ownership and value of assets must be able to be established together with details of any encumbrances. The value of the assets subject to any encumbrances must be sufficient to repay the loan in full at the end of the mortgage term - Downsizing <ul style="list-style-type: none"> - Equity of at least £120,000 must be available in the property. Subject to assessment of feasibility based on full details of applicant's plan to move including estimate of date, location and type of property the applicant intends to move to • For Buy to let applications, the repayment strategy could be sale of the property
Part and Part combined	<ul style="list-style-type: none"> • Permitted on specific products - refer to product guide • Maximum LTV 60% • Minimum equity £120,000 • Repayment element of a part interest only mortgage can count towards the minimum £120,000 equity

Age requirements

Minimum Age	<ul style="list-style-type: none">• 18 years
Maximum Age	<ul style="list-style-type: none">• 75 at the end of the mortgage term• Where the term of a mortgage would go beyond an applicant's intended retirement age, or state pensionable age, if earlier, independent documentation is required to demonstrate that the mortgage will remain affordable in retirement. Where the applicant has indicated that their indicated retirement age is beyond state pensionable age, we will assess whether this is feasible, given the nature of the job being performed

Applicant residency status

EU Member Citizens	<ul style="list-style-type: none">• A citizen of an EU member state must be currently resident in the UK with 36 months provable residency and a current valid passport or national ID card• A UK citizen returning to the UK after living abroad must have 36 months residency before the Group will consider a mortgage. <p>Individual consideration may be given to members of the Armed Forces, applicants who have been abroad for less than 12 months before returning and those who have maintained a UK address while they were away.</p>
Non EU Member Citizens	<ul style="list-style-type: none">• A non EU citizen must be currently resident in the UK, have 36 months provable residency and a right to stay in the UK by the way of a permanent 'Right to reside' OR 'Indefinite leave to remain' stamp and a current valid passport

Employment

Employed

- Applicants must have been employed in their current job for a minimum of 3 months
- Applicants must have been in continuous employment for 12 months, in the same line of work and having held no more than three jobs in that period
- Any gaps in employment of up to 3 months within the last 12 months must be referred for consideration. Gaps of up to 12 months in last 24 months are acceptable subject to a satisfactory explanation and that the applicant has been in their current role for a minimum of 12 months
- Employment within a probationary period is not acceptable
- Income paid in cash is not acceptable
- Maternity leave:
 - Where applicant is currently on maternity leave, they will be asked of their intentions to return to work. Income based on the response (i.e. full-time, part-time) can be taken into account in considering the application. The applicant(s) must be asked to confirm that the mortgage will remain affordable during the remaining maternity leave period
- Employment by fixed term contract must have:
 - Been renewed at least once
 - Have at least 3 months to run to renewal
 - Have every chance of being renewed

Verification:

- Income will be verified in all cases by the most recent 3 monthly (or 6 weekly) consecutive payslips
- A satisfactory employment reference from the applicant's current employer (and from previous employer(s) if the applicant has had more than one employer in the last 24 months) is required where the LTV exceeds 75% LTV. References will also be required on lower LTV cases to establish, for instance, whether overtime or other payments are regular and likely to continue. The underwriter has discretion to ask for references as they see fit in relation to any application
- Hand written documents will not be accepted
- Three months' full bank statements, evidencing receipt of salary, must be produced in support of each application

Rental Income:

Rental income must be verified by a letter or reference from an ARLA registered agent, or by reference to a tenancy agreement plus proof of 6 months' rental income evidenced on bank statements

Employment

Self Employed

- Applicants must have been trading for a minimum period of 24 months
- For self-employed and company directors owning 33¹/₃% or more of the company, the most recent (not more than 12 months old) 3 years accounts or 2 years plus a projection are required

Profits:

- Stable/increasing net profits: Income will be calculated as the average of the 2/3 most recent annual net profit figures (or share of net profit)
- Unstable net profits (i.e. where profit increases and decreases over the three year period, or where profits increase or decrease by 20% or more from one year to the next): a satisfactory explanation must be received from the accountant. Where a satisfactory explanation is received the average of the 2/3 years most recent accounts will be used
- Declining net profits (more than 20% year on year) are not normally acceptable

The income of company directors will be based on:

- an average of salary and dividend payments in the last three years, or
- the most recent year's income,

whichever is the lower

Where the applicants own 100% of the shares in a company then the residual net profit may also be taken into account

Verification:

- A statement from an accountant confirming the profits before tax for the last two or three years (as appropriate) plus a projection is required in all cases where the loan to value exceeds 75% or only two years accounts have been provided
- Acceptable Accountants qualifications are ACA, ACCA, ACMA, CPFA, FCA, FCCA, and FCMA. Other accountancy qualifications may be acceptable but would need to be referred for consideration
- SA302 documents will only be accepted where the loan to value is less than 75% and income can be validated through bank statements

Sub-Contractors:

- Sub-contractors must have been in that position for a minimum of 12 months and be able to prove income by reference to accounts prepared by a recognised accountant or by reference to HMRC documentation

Income

General income requirements

Applications with more than 2 applicants

- If there are more than 2 applicants applying for the mortgage with the Society we will use 100% of the first 2 applicants' income plus 50% of any third applicant but no income from any fourth applicant
- All applicants must be UK Tax Payers and resident the UK. In arriving at eligible income the following may be taken into account:

Basic Salary	100%
Shift Premium	100%
Private Pensions	100%
State Pension	100%
Invalidity and disability benefit	100%
Guaranteed overtime or bonuses	100%
Regular overtime/bonus/commission	50%
Second job	50%
Area Weighting allowance	100%
Car Allowance (only if guaranteed)	100%
Rental income (unencumbered properties)	100%
Rental income (encumbered properties)	100% of any surplus rent above 130% of the mortgage commitment
Maintenance payments (under court order)	100%
Maintenance with no court order	50%

- Where basic salary has been reduced because of salary sacrifice, the amount of income taken into account shall include the amount of salary sacrificed
- Guaranteed overtime and bonuses must be evidenced by an employer's reference. Where something is stated to be guaranteed the employer will be asked under what circumstances such payments would not be made
- Regular overtime and bonuses must be evidenced by an employer's reference or at least 3 months wage slips
- Commission paid in addition to a basic salary, which forms more than half of a person's income may be taken into account at a rate of 50%, subject to an employer's reference in which they confirm that the commission has been paid for at least the last twelve months, the average rate, and that it is likely to continue for the foreseeable future

Unacceptable Income

- **Unacceptable income includes:**
 - Share dividends and interest on savings accounts
 - Temporary employment
 - Travel Allowance
 - Child Benefit/Child Tax Credit Payments
 - Working Families Tax Credits
 - Expenses
 - Income Support
 - DWP Payments
 - Agency Work
 - Foster Care income

Affordability

Affordability Assessment

- The Group bases its lending decisions on the applicant's ability to repay their loan. To assess affordability please refer to our affordability calculator available on our website

Commitments

Mortgage/ Tenancy

Mortgage:

- Full details and proof of payments will be required for all current and previous mortgages, including second charges, held in the last 12 months unless Equifax Insight information is available
- We will accept the latest mortgage statement, which must be supported by bank statements showing payments from the statement end date to the application date
- For let to buy, where current mortgage will remain, rental income must cover the mortgage payments by minimum of 130%. In addition, confirmation will be required from current lender that they are in agreement with the tenancy and a copy of the tenancy agreement will be required

Tenancy:

- Full details will be required for all current and previous tenancies held in the last 12 months
- A landlords reference will be obtained for all applicants who are renting, including confirmation that payments have been made satisfactorily where the LTV is greater than 75%
- Where the LTV is 75% or less, confirmation of rental payments can be verified by bank statements or landlords reference

Expenditure

- Regular commitments in respect of loans, credit cards, hire purchase agreements, mail order, maintenance etc. will be deducted from income as follows:
 - Loans, hire purchase, maintenance - Annual payments made (Loans with less than 12 months to run may be disregarded, provided the aggregate monthly payment does not exceed 10% of net monthly income)
 - Credit cards and mail order commitments - 60% of outstanding balance (5% of outstanding balance X 12)
Where the aggregate total of credit card and mail order balances is less than £1,000 - these may be disregarded
Where credit card balances are repaid in full each month - The amount should be covered by expenditure items rather than be deducted from income
 - Child care costs - Annual payments in excess of £3,600
 - Overdrafts - Maximum balance outstanding in last three months. If there has been a single instance of an overdraft in the last three months this can be disregarded if a satisfactory explanation is received
 - Negative capital - For self-employed applicants, any negative capital disclosed in the accounts or accountant's reference
 - On other encumbered properties any shortfall (i.e. where the rental income is less than 130% of the borrowing commitment) will be treated as a commitment
- Payday loans shall be treated as follows –
 - If there has been a single instance of a payday loan in the last twelve months and it was less than 10% of monthly net salary, this can be disregarded if a satisfactory explanation is received
 - If a payday loan has been obtained in the last twelve months exceeding 10% of monthly net salary, the loan will be declined
 - If more than one payday loan, of any amount, has been obtained in any of the most recent three months, the loan will be declined

In all other cases the highest payday loan obtained in the last twelve months will be treated as a monthly commitment

Impaired credit

Criteria

The following criteria regarding an applicant's credit history will be considered:

	Existing Homeowners – no missed mortgage payments in the last three years	Existing Homeowners – have missed a mortgage payment in the last three years	First Time Buyers/ Self Build
Unsatisfied CCJs	Must not exceed £500 in total	Not acceptable	Not acceptable
Satisfied CCJs	Total must not exceed £1,000 and they must have been satisfied for more than 3 years	Total must not exceed £500 and they must have been satisfied for more than 3 years	Total must not exceed £500 and they must have been satisfied for more than 3 years
Unsatisfied Defaults	Must not exceed £500 in total	Not acceptable	Not acceptable
Satisfied Defaults	Total must not exceed £1,000 and they must have been satisfied for more than 3 years	Not acceptable except defaults with communications suppliers which have been satisfied may be disregarded at the discretion of the mandator	Not acceptable except defaults with communications suppliers which have been satisfied may be disregarded at the discretion of the mandator
Missed payments on credit card, mail order, communications supplier or similar	Max 6 occasions in the last 2 years	Max 3 occasions in the last 2 years (for further advances to existing borrowers a maximum of 6 occasions in the last 2 years is permitted)	Self-Build - Max 3 occasions in the last 2 years (for further advances to existing borrowers a maximum of 6 occasions in the last 2 years is permitted) First Time Buyer – max 1 occasion in the last 2 years
Mortgage Arrears	None in last 3 years	Must not have exceeded 1 month's payment in the last 2 years or 2 month's payments in the last 3 years	Not acceptable

Deposit

Type

- Builders' and vendors' deposits of up to 5% of purchase price permitted. Such incentives are to be deducted from the purchase price so that the loan is calculated upon the lower of the discounted purchase price or valuation
- Gifted deposits as an incentive from the vendor or other connected person, including builders' deposits, up to a maximum of 5% of the purchase price are permitted
- Parental gifted deposits are acceptable up to a maximum of 50% of purchase price
- Gifted equity is considered by referral

Verification:

- In respect of property purchases the source of the deposit must be verified by written confirmation
- Deposit from a gift from a family member or other third party, such as a builder, written confirmation of the gift will be required from the donor

Security

Property Types

- The following types of property are acceptable as security:
- Properties in England and Wales only
- Property with a minimum valuation of £90,000, (Property in London: minimum valuation £300,000, £250,000 for shared ownership)
- Property in shared ownership
- Owner occupied private dwelling

Acceptable security types:

- Houses:
 - Detached/semi-detached/terraced/townhouse/bungalow built of traditional construction, i.e. brick or stone walls and tiled or slated roof
 - Flat roofed properties will be considered although for older properties the valuer's comments will be specifically sought
 - Properties with agricultural or equestrian ties may be considered by referral up to a maximum of 65% LTV
- Flats:
 - Purpose built leasehold flats or maisonettes
 - Maximum 4 storeys
 - Leasehold with remaining term on the lease of 70 years at the end of the mortgage term
 - New-build leasehold flats subject to a maximum LTV of 60%
 - Flats in converted houses may be acceptable if the conversion has been done to a professional standard. Such mortgages would be subject to initial referral for consideration
- New build acceptable warranty:
 - NHBC
 - Zurich Municipal
 - HAPM
 - Premier Guarantee
 - Building Life Plans

Security

Unacceptable Security

The following types of property are not acceptable:

- Properties of non-standard (classed as defective under the Housing Act) construction
- Freehold flats
- Studio flats
- Bedsits
- Houseboats
- Property adversely affected by subsidence
- Property in a derelict condition
- Multiple occupancy properties
- Properties with a value of less than £90,000
- Properties described in the valuation report as being unsuitable for mortgage purposes
- Properties with flying freehold in excess of 15% of floor area
- Properties attached to commercial premises
- Ex local authority flats
- Ex-local authority houses in an area where the number transferred into private ownership is less than 40%
- Farms/Small holdings
- Restricted properties
- Properties which are affected by Japanese Knotweed

Loans on properties which have been subject to sale or remortgage in the preceding six months will not normally be accepted with the following exceptions:

- Inherited properties
- Self-build properties

Security

Non Standard Construction

Any properties of non-standard construction or defective construction as defined under Housing Act 1985 listed below will not be considered:

Airey
Boot
Boswell
Butterley
Cornish Type 1
Cornish Type 2
Dorran
Dyke
Gregory
Hawksley
Laing Easi Form
Lileshall
Myton
Newland
Orlit
Parkinson Frame
Remma Hollow Panel
Schindler
Smith
Stent
Stonecrete
Terran
Underdown
Unity
Waller
Wates
Wessex
Wimpey no fines
Winget
Woolaway

Where appropriate for properties of non-standard construction not covered by the list above a referral will be made to the Group's Valuer Panel manager for further advice relating to the construction type

Standard application requirements

Evidence

A list of our standard application requirements can be found on our website:
www.themelton.co.uk/brokers

Solicitors

Panel

The Group operates a panel of solicitors and licensed conveyancers, which is managed by LMS. New firms may be added to the panel subject to each firm satisfactorily meeting our requirements; having two or more partners (i.e. sole practitioners are not acceptable), minimum PI insurance of at least £2 million, carry out a minimum of 120 conveyancing cases per annum and be CQS/CLC listed

First Time Buyer

Definition

For the purpose of this policy a first-time buyer is defined as a person who:

- has never held a mortgage
- has not held a mortgage in the last three years

Where the mortgage is to be in joint names the FTB definition need only apply to one of the applicants

Buy to Let

Buy to let applications will be considered in line with general criteria and in addition the following will also apply:

Minimum Age

- 25

Income

- Minimum earned income of £25000 between both applicants
- SA302 acceptable to evidence income for self employed

Portfolio

A maximum portfolio of 4 properties in total in mortgage to the Society or other lenders will be allowable to an individual or connected counterparty. Full details must be obtained from the applicant and details verified, as far as possible, to the loans reported on the credit search

The maximum that may be lent to any individual or connected counterparties is £500,000 in aggregate

Security

The Society will only lend on a maximum of 1 flat in any single development

Buy to Let

STANDARD BTL	STANDARD BUY TO LET
Rental Cover & Affordability	<ul style="list-style-type: none"> Gross rental income must cover the mortgage payment (calculated at SVR on an interest only basis) by a minimum of 130%, calculated after assuming no void periods after taking into account any other borrowings. Evidence of actual or anticipated rental income is obtained by reference to a mortgage valuation report. Rental income declared will be compared to the estimated rental figure provided on the valuation report and the lower of the two will be used to assess the 130% coverage
AST	Assured Shorthold Tenancy agreements with a minimum of 6 months and a maximum of 12 months are required
HOLIDAY LET	HOLIDAY LET
	<p>Gross rental income must cover the mortgage payment (calculated at the SVR on an interest only basis) by a minimum of 200%. For the purpose of HBTL, gross rental income shall be;</p> <ul style="list-style-type: none"> - In the case of an existing holiday let (purchase or remortgage), a minimum of one year's gross rental income verified by an approved accountant, or - In the case of a new holiday let, confirmation of potential income from a letting agent with relevant experience in the area of the property, subject to a 40% occupancy rate <p>The property must be free of any planning restrictions that limits use to holiday home use only</p> <p>Details of any company managing and/or marketing the property will be required</p> <p>The requirement for an assured shorthold tenancy agreement is not applicable</p>

SELF BUILD

	<p>Self build applications will be considered where the applicant intends to reside in the property in line with general criteria and in addition the following will also apply:</p>
Minimum Age	25
Security types	<p>The Society will lend on freehold houses and bungalows, but not on flats</p> <p>1. Society Standard</p> <p>The Society will consider loans to individuals requiring funds to purchase land with full planning permission and building regulations approval for a residential property and for the construction of a residential property with monies being released in stage payments in arrears</p> <p>2. Society Advance</p> <p>The Society will consider loans to individuals requiring funds to purchase land with at least outline planning permission for a residential property and for the construction of a residential property with monies being released in stage payments in advance</p> <p>Full details including plans, cost estimates, schedule of works and timescales must be obtained</p>
Loan terms	<p>1. Society Standard</p> <p>The maximum term for a mortgage is 40 years. The maximum loan to value ratio will be as specified in product literature</p> <p>If the applicant intends to remain in their current house for more than 6 months from the inception of the mortgage, a minimum of 12 current monthly mortgage or rent payments will be deducted from income</p> <p>2. Society Advance</p> <p>The maximum term for a mortgage is 40 years. The maximum loan to value ratio is as specified in product literature</p> <p>If the applicant intends to remain in their current house for more than 6 months from the inception of the mortgage, a minimum of 12 current monthly mortgage or rent payments will be deducted from income</p>
Repayment method	<p>Applicants may opt to be charged interest only during the build and switch to repayment or part and part post build</p>
Insurance	<p>Site insurance must be in place at the time of completion and must cover as a minimum:</p> <ul style="list-style-type: none"> • £5m Public Liability • £10m Employers Liability • Contract works for the re-instatement value • Reinstatement for any existing structure • The Society's interest noted as mortgagee <p>Title insurance will be arranged to protect against defective title and/or planning consents and permissions</p>

SELF BUILD

Valuation

1. Society Standard

We will lend up to 75% of the land value and build costs with funds being released in arrears of each stage of the build

Typically the advance will be released in stage payments against an appropriate interim certificate from an architect, architectural technologist, structural engineer or RICS surveyor (minimum PI cover of £1m is normally required). Monies will normally be released at the following stages of construction. The valuer appointed by the Society will be required to carry out reinspections at the following stages of construction (as a minimum):

- Land with full planning permission and building regulations approval
- Foundations
- Wall plate
- Wind and watertight
- Completion

2. Society Advance

We will lend up to 85% of the land value and build costs providing it does not exceed 75% of the end value with funds being released in advance of each stage of the build

The first release for land will be made subject to receipt of outline planning permission

Full planning permission and building regulations will be required prior to release of any subsequent stage payments

For subsequent stage payments release will be made against an appropriate interim certificate from an architect, architectural technologist, structural engineer or RICS surveyor (minimum PI cover of £1m). The valuer appointed by the Society will be required to carry out reinspections at the following stages of construction (as a minimum):

- Foundations
- Wind and watertight
- Completion

For all self build mortgages, with the exception of the first stage release (purchase of property/land), the maximum amount for any stage release is £75,000.



Pre-application enquires please call the **broker support team on 01664 414144**

Applications being processed please call the **lending team on 01664 414141**

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