

# The **co-operative** bank for intermediaries

## Lending Criteria Summary

### Version 4.3

17<sup>th</sup> November 2023

Important Information: This document is for the use of professional Mortgage Advisors only. It is not intended for use by the general public

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## 1 Introduction & Responsible Lending

The purpose of this document is to provide guidance on our Lending Criteria which is part of the framework in place to ensure that we have complete confidence in the applicant's ability and willingness to repay at the time of application and a high degree of confidence in their continuing ability to repay during the life of the account. It also ensures we operate within the agreed key risk indicators of the business. We reserve the right to amend this document at any time without notice.

Some loans may be of a more complex nature requiring a full risk assessment by an experienced Underwriter. This document provides the guidelines that are used to determine the lending decision but as each application is unique, additional information/references may be requested to finalise the lending decision. We may on occasion need to decline an application even if it appears to fall within these lending criteria.

Additional references needed to apply the criteria include Mortgage Charges Tariff, and the list of currently available mortgage products.

### 1.1 Responsible Lending

This document incorporates the principles of responsible lending and the fair treatment of customers. It clearly states the factors that we will take into account when assessing an applicant's ability to repay and to lend only where the mortgage is assessed as being affordable.

### 1.2 Documents Used to Support the Lending Decision

The maximum acceptable age for documents used to support lending is shown in the table below:

Document type	Age at release of completion funds
Application form	Signed within the last 6 months (where applicable)
Employer/accountant's reference	Signed within the last 6 months
Bank Statements	Most recent one issued within the last 6 months
Payslips	Most recent one issued within the last 6 months
Valuation report	Signed within the last 6 months
Credit search	Carried out within the last 6 months

### 1.3 Buy to Let Loans

Customers applying for Buy to Let loans must meet the lending criteria set out for mainstream lending but will also be subject to additional criteria outlined in Section 5 Buy to Let.

## 2 The APPLICANT

### 2.1 Credit Scoring

All applications must pass the Banks credit score.

### 2.2 Affordability Assessment

All applications are subject to affordability assessment. The model uses the combination of total gross annual income with tax and national insurance applied, credit commitments, other significant expenditure, council tax, basic expenditure, stressed mortgage payment and Help to Buy loan (where applicable) to calculate affordability. The result is then used to ascertain whether or not the loan is affordable.

The maximum loan available will be calculated based on both the affordability results and the product/LTV criteria available.

For the purpose of affordability, a dependent is defined as someone not named on the mortgage but who is financially supported by a party to the mortgage.

### 2.3 Minimum / Maximum Age

Minimum Age at application is 18 years.

Maximum Age at expiry of mortgage term is 75. For customers retiring during the mortgage term, the application will be referred an underwriter to assess affordability on projected or actual retirement income.

## 2.4 Residency

All borrowers must have right to live and work in the UK.

The mortgage applicant(s) must usually be resident in the UK or Guernsey at the time of application and at least one of the applicants must be permanently residing or planning to reside in the property when the mortgage completes. We do not offer mortgages for ex patriots.

If the applicant(s) are not subject to UK or Guernsey tax, then they are not acceptable.

Where the applicant is not a UK national or Republic of Ireland citizen then the application may be acceptable where **all** of the following apply:

- applicant(s) is subject to UK or Guernsey tax laws
- applicant(s) is not a Foreign Diplomat or Embassy Staff
- applicant(s) has lived in the UK for a minimum of 3 years
- applicant(s) has proof of indefinite leave to remain in the UK

For clarity indefinite leave to remain can be evidenced by the following means:

- Indefinite leave stamp in passport
- An unexpired Biometric Residence Permit showing 'indefinite' rights to remain (this includes 'indefinite leave to remain', 'indefinite leave to enter' or 'no time limit', this is also classed as "settlement")
- Letter from the Home Office confirming indefinite right to remain in the UK
- Immigration status share code so we can confirm the settled or pre-settled status.

All persons over 17 who plan to reside in the property must sign a Deed of Consent. Applicants and solicitors are required to tell the Bank of any changes to the proposed occupancy between the date of application and completion.

## 2.5 Number of Applicants

The maximum number of applicants is two who, for Residential mortgages, should both be occupying the property on completion.

## 2.6 Married/ Cohabiting Applicants

We will allow applications in sole names for married, common law or civil partners. All persons detailed on the Title Deeds must be party to the mortgage.

Where the Mortgage is to be in a Sole Name, then a Deed of Consent is required for the other occupant. On joint remortgage applications, checks should be made before offer to ensure that independent legal advice has been obtained by the party who will not benefit directly where additional monies are being raised as part of the remortgage which are not for the joint benefit of both applicants.

## 2.7 First Time Buyer Definition

Our definition of a first time buyer is an applicant who has never acquired an interest in property anywhere in the world.

## 2.8 Credit Bureau Searches

A credit search against all UK addresses occupied by each of the applicants over a period of 3 years prior to the date of the application will be carried out by us. In addition a credit search will be carried out on any undisclosed addresses. Should any additional name or address information arise during the application the case will be reassessed and the decision may be changed.

Following the Bank's credit search, the application will be declined if neither customer is present on the voter's roll, and neither applicant has active credit.

We will **not** consider any applicant who:

- Is bankrupt, has bankruptcy proceedings pending, or who is registered on the Scottish Debt Arrangement Scheme
- Has been discharged from bankruptcy within the last 6 years
- Has an individual voluntary arrangement (IVA) or a Trust Deed (TD) or Administration Order, recorded during the last 6 years
- Has an unsatisfied CCJ
- Has satisfied CCJs recorded during the last 6 years where the total value of the judgment is more than £100. The Scottish equivalent is a Decree (DEC) and the same rules apply
- Has any Default(s) registered in the last 12 months or has any Default(s) registered during the last 6 years totalling more than £500
- Has any type of repossession

## 2.9 Previous Lenders and Landlords References

Details of any mortgages currently held or redeemed within the last 12 months should be detailed on the application form. Proof of payment for the most recent 6 months will be required. Where the applicants are living in rented property, we reserve the right to request a reference.

## 2.10 Secured, Unsecured and Revolving Credit

One missed mortgage payment or two unsecured payments in the last 6 months can be considered provided the application still passes credit score and a satisfactory assessment is completed by the underwriter.

Missed payments above this level and worst current status greater than 1 will be declined, excluding communications commitments

Any payment less than the contractual monthly amount will be classed as a missed payment.

## 2.11 Bank Statements

Bank statements will be requested to support all applications. Internet bank statements are acceptable. Where statements are also required for ID purposes, these should comply with the Bank's standard ID requirement guidelines.

## 2.12 Retaining Existing Properties

Applications where the applicant wishes to retain an existing property (mortgaged or not), the former marital home, rent out the property, or owns a second home will be considered. The following conditions will apply:

- We do not lend to individuals who own more than 10 BTL properties on a residential application
- Where a loan is greater than £500,000 we will not accept applications where any part of the deposit is being raised against any existing property (including current residence, any Buy to Let, second home etc.)
- All mortgages and property details must be disclosed
- The existing mortgage(s) must have had no missed payments in the last 6 months and be up to date
- Where the property is currently owner occupied and is now to be rented out (i.e. Let & Buy scenario), mortgages are only available where the customer is not a first time landlord and owns other Let properties. Also a rental certificate or written confirmation as to the anticipated rental figure must be obtained from an ARLA/NAEA registered independent third party, to confirm the rental income is sufficient to cover the 125% of the retained mortgage payment. Applicant's income must also be sufficient to service 50% of the remaining mortgage as a commitment (added into the affordability calculation). The maximum LTV in this scenario is 75%. Surplus rental income over and above the relevant mortgage payment cannot be taken into account as additional income

OR

- Applicant's income must be sufficient to service the remaining mortgage as a commitment (added into the affordability calculation). If this amount is increasing as a result of a remortgage transaction i.e. to raise funds for the deposit, the higher monthly mortgage payment must be provided and used in this calculation
- Standard LTV limits apply
- All existing investment mortgages will be treated as self-funding

### **2.13 Criminal Convictions**

If the borrower makes us aware of any criminal conviction (other than a driving offence) or there is a pending prosecution, the application will be declined

### **2.14 Guarantors**

We do not accept guarantors.

### **2.15 Professional mortgages**

The Banks professional mortgage product will provide support to newly qualified professional applicant(s) which meet the Banks approved list and criteria requirements.

Key feature of the professional mortgage product will allow enhanced income multipliers up to a maximum of 6x income, subject to the Banks affordability assessment.

Customers applying for professional mortgage product must meet all of the Secured lending criteria, apart from standard income multipliers but will also be subject to additional criteria outlined below:

- Purchase applications only
- Maximum 6 x income multiplier
- Minimum income requirement for the professional applicant is £35,000, joint applications are acceptable but at least 1 applicant must be a professional and the professional must meet the minimum requirement
- Acceptable professions: Accountants, Architects, Actuaries, Barristers, Chartered Surveyors, Dentists, Medical Doctors, Optometrists, Pharmacists, Solicitors and Veterinarians
- The qualification must align to one of the registered bodies listed below and must be within the last 5 years:
- Accountants
  - Institute of Chartered Accountants England & Wales
  - Institute of Chartered Accountants Scotland
  - Chartered Institute of Management Accountants
  - Association of Chartered Certified Accountants
  - Chartered Institute of Public Finance and Accountancy
- Architects
  - Royal Institute of British Architects
- Actuaries
  - The Institute and Faculty of Actuaries (IFoA)
- Barristers
  - The Bar Council

- Chartered Surveyors
  - Royal Institution of Chartered Surveyors (RICS)
- Dentists
  - General Dental Council
- Medical Doctors
  - General Medical Council
- Optometrists
  - The General Optical Council
- Pharmacists
  - General Pharmaceutical Council (GPhC)
- Solicitors
  - Law Society of Scotland
  - Law Society of England & Wales
  - Law Society of Northern Ireland
- Veterinarians
  - Royal College of Veterinary Surgeons

The Bank will require certification of the full qualification which must be within the last 5 years and must align to one of the registered bodies listed above. Evidence is required for all applicants who hold the recognised qualification to qualify for the professional mortgage

## 3 INCOME & AFFORDABILITY

### 3.1 Income - General

At least one applicant must be either employed/self-employed or retired. Applications will be considered where one applicant is employed/self-employed or retired and the second borrower is in receipt of benefit income. All income must be UK sterling denominated, where the customer is new to bank. For all variations of existing lending, foreign currency income is permitted in line with prevailing financial crime policy. All cases utilising foreign currency income will be referred to underwriting for a credit decision. Cases involving multiple foreign currencies will not be accepted.

There may be variations in income due to parental leave or sickness. If a customer is on or due to go on parental leave, income can be used from the most recent payslip, prior to leave, providing they intend to remain in current employment. If they have advised they will return to work on a part time basis, the lower figure should be used.

Any existing or future child care costs must be included in outgoings.

If the payslips indicate the customer is currently in receipt of sick pay, the application will be assessed on an individual basis depending on the circumstances.

The Bank does not accept any type of furloughed income for new originations, ports, further advances or transfer of equities, this is applicable to both employed and self-employed applicant(s).

### 3.2 Minimum Time in Employment

For employed applicant(s) there is no minimum time in employment.

### 3.3 Minimum Income

The minimum household income is £15,000.



Interest only - Minimum income requirements for residential interest only: Single - £60,000 / Joint - £80,000

Professional mortgage - Minimum income requirement for the professional applicant is £35,000, joint applications are acceptable but at least 1 applicant must be a professional and the professional must meet the minimum requirement

Please see Section 5 for income requirements on Buy to Let loans.

### 3.4 Acceptable Income

- Income from employment/self-employment.
- Income from trust funds (see Additional Income section)
- Pension income
- Second and other jobs (see Additional Income section).
- Investment or dividend income (see Additional Income section).
- Rental Income (see Additional Income section)
- Maintenance (see Additional Income section)
- Allowances confirmed by the DWP (see Additional Income section).
- Tax Credits (see Additional Income section)
- Universal Credits (see Additional Income Section)
- Stipend Income (See Additional Income Section)
- We do not accept income derived from foster care

In calculating employed income, we will use:

- 100 % of basic income
- 100 % of any contractual allowance such as London Weighting or shift allowance
- 50 % of regular additional payments (overtime bonus commission allowances)
- 50 % of income from interest or UK listed company dividends
- We do not use expenses/reimbursements in the income calculation

In calculating self-employed income we will use:

- For Sole Traders and Partners, the applicant's share of the net profit
- For directors of limited companies, the applicants salary and dividends. The profit for the business should show an increasing trend over the 2 year period
- See section 3.8 Self-employed Applicants for details of how to assess fluctuating self-employed income

### 3.5 Additional Income

Where the applicant requires additional income to qualify for the loan requested they must provide adequate documentary proof of all income. If an applicant holds more than one job, 100 % of the income will be taken where normal criteria are met for each position and the second job has been held for a minimum of 12 months. Only income from 2 jobs can be considered.

The following additional income may be used:

- 100 % Maintenance income can be taken into consideration, providing this is evidenced by the latest 3 months bank statements showing maintenance credits which must show payments have been received in each of the last three months or a court order or CSA/Child Maintenance Service (CMS) documentation
- 50 % of income from trust funds providing they are evidenced via an accountant or latest years SA302's and Tax year overview (most recent proof of income can be no more than 18 months old)

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- 50 % of investment or dividend income providing this is evidenced via an accountant or latest years SA302's and Tax year overview (most recent proof of income can be no more than 18 months old)
- 100 % of net profit from property rental with a minimum of 2 years figure where this can be evidenced by an accountant's certificate or latest SA302 and tax year overview, the most recent years figure will be utilised
- 100 % of Stipend income can be taken into consideration, stipend income is acceptable as a supplementary income. The applicant must have a minimum contract of 12 months with 6 months unexpired and stipend cannot be the only form of income on an application. Stipend can be evidenced via a letter (to the customer) from the stipend supplier which details the length of the stipend and the income being received and supported with a bank statement evidencing the most recent stipend income credit
- **Tax Credits & Legacy Benefits**

50 % of Tax credits providing these are confirmed via HMRC documentation.

100 % of Disability Living Allowance, Personal Independence Payment or Employment Support Allowance (ESA) confirmed by the DWP.

- **Universal Credits**

The Bank will accept 50 % of the monthly payment confirmed in the Universal Credit award statement, providing that the applicant has earned income shown on the letter. Any housing benefit must be deducted from income used.

If there is no salary or wage seen on the statement, only Universal Credits, then this is not acceptable income.

## 3.6 Proof of Income

The Proof of Income documentation required is detailed below. If the application is "Joint" then both applicants must provide Proof of Income if it is required.

## 3.7 Employed Applicants

We require full details (including start and end dates) of all employment held within the last 6 months.

Where the applicant is in PAYE employment and the income is required for the loan the following conditions must be met:

- The applicant's position must be permanent. Fixed term contracts are acceptable where the applicant has a minimum contract of 12 months with 6 months unexpired
- We will decline any application where someone is employed on a casual or seasonal basis
- The applicants must not be under notice of termination or redundancy
- We do not accept applicants who are paid in cash

We must have

- The latest 3 month's computerised pay slips. Hand written documents will not be accepted **OR**
- An employer's reference or employment contract ( Dated within the last 12 months)

**PLUS** the applicant's personal bank statement for the latest full month showing the latest salary credit and household expenditure.

If the applicant works for the family business or for a business owned by their co-habitee we may request the qualified accountant's confirmation of the annual gross income.

## 3.8 Self-employed Applicants

Minimum trading period is 2 years.

The following proof of income can be accepted

- Last 2 years tax assessments (SA302 (hard copy or self-service version) AND Tax Year Overview) **OR**
- Certificate from a suitably qualified accountant with 2 years figures

**PLUS** the customer's personal bank statement for the latest full month showing the latest salary/income credit and household expenditure.

The Underwriter may, in addition, request business bank statements and/or accounts to support the assessment of the application by exception

The proof of income figures provided must include the last financial year-end and this must be no more than 18 months old.

The affordability calculation will use the lower of

- Last year's income
- The average of the last 2 years

Where profits/income is declining, the application may be declined

Where a self-employed applicant is relocating we require written confirmation from the acting accountant that the relocation will have no effect on the future profitability of the existing business. If this cannot be supplied the application will be declined.

### 3.9 Accountant's Qualifications

We will accept accounts/accountant's certificates from accountants qualified with one of the following bodies:

- Institute of Chartered Accountants (England or Wales) FCA/ACA.
- Institute of Chartered Accountants (Scotland) ICAS.
- Institute of Chartered Accountants (Northern Ireland) ICAI  
(All chartered accountants may just sign as CA)
- Chartered Association of Certified Accountants ACCA/FCCA.
- Chartered Institute of Management Accountants CIMA/ACMA/FCMA.
- Association of Authorised Public Accountants AAPA/FAPA.
- Association of Accounting Technicians MAAT/AAT.
- Association of Certified Professional Accountants ACPA/FCPA.

## 4 The LOAN

### 4.1 Minimum Loan

The minimum loan amount is £25,001 but sometimes product specific minimum loans will also apply.

### 4.2 Maximum Loan

#### 4.2.1 Maximum Loan Limits

The maximum normal loan is £2,000,000. Where the loan amount is in excess of £500,000 additional requirements may be requested once the application has been fully assessed.

#### 4.2.2 Income Multiple Limit on Loan Amount

The maximum income multiple permitted on total gross verified income is as follows;

For applications with a LTV less than or equal to 85 % (incorporating any fees added) a maximum multiplier of 5.5 can be considered.

To qualify for enhanced multipliers the following requirements are to be met:

- 5.5x income multiplier:
  - LTV <=85 %
  - Gross annual income: >= £75,000 combined
  - Increased disposable income requirements apply
- 5x income multiplier:

- LTV <=85 %
- Gross annual income : >= £45,000 combined
- Increased disposable income requirements apply

Applications that do not meet the above criteria would be considered for the maximum 4.49 multiplier.

All applications are subject to affordability assessment

### 4.3 Loan Purpose

Applications will be considered for the purchase, refinance or remortgage of an applicant's main residence and will be secured by way of a first charge. Remortgages can be considered, the reason for the additional borrowing should be detailed on the application form.

### 4.4 Loan Term

The minimum term is 5 years and the maximum term is 40 years. This will also be dependent on the applicant's ages. We will lend where the term goes beyond the applicant's retirement age if the projected or actual pension income is sufficient to support the loan.

### 4.5 Loan to Value

The Loan to Value ratio is calculated on the lower of the purchase price or property valuation.

#### 4.5.1 LTV by Loan Size

Loan size	Max LTV
Up to £600,000	95 % subject to criteria listed below; <ul style="list-style-type: none"> <li>• <b>Property purchase only</b>, not permitted for Remortgage or Further advance</li> <li>• Only available on a capital and Interest basis</li> <li>• No flats or maisonettes</li> </ul>
£600,001 to £750,000	90 % subject to criteria listed below: <ul style="list-style-type: none"> <li>• <b>Property purchase or Remortgage only</b>, not permitted for Further Advance.</li> <li>• Only available on a capital and interest basis.</li> </ul>
£750,001 to £1,000,000	85 %
£1,000,001 to £1,500,000	80 %
£1,500,001 to £2,000,000	75 %

#### 4.5.2 LTV by Repayment Basis

Interest only is available on new borrowing.

Maximum LTV: 85 % where any part of the loan is interest only

Interest only maximum LTV is 75 % LTV, this can be increase to 85 % LTV with the extra borrowing over 75 % LTV on a repayment basis

Minimum income requirements for residential interest only: Single - £60,000 / Joint - £80,000

The interest only LTV limits are subject to maximum loan size

Interest only offering is available where the applicant(s) can demonstrate a credible repayment strategy, in line with Banks Credible Payment Strategies for new residential interest only (held on the Banks website - <https://www.intermediary.co-operativebank.co.uk/products/interest-only-mortgages>)

For all residential interest-only mortgages a declaration must be completed to support evidence of the repayment strategy.

For all residential interest-only mortgages the affordability assessment will be completed on a capital and repayment basis

BTL loans are available on interest only and evidence of repayment vehicle is not a requirement

Existing mainstream residential customers with an interest only mortgage product can transfer this interest only amount to a new purchase providing they can demonstrate a credible repayment strategy and the loan does not exceed £500,000 or 75 % LTV.

### 4.5.3 LTV by Loan Purpose

For mainstream purchase, remortgage and further advance cases, the LTV will also be subject to the following limits:

Purpose	Maximum LTV
Purchase main residence	95 % *
Remortgage only (replacing the existing mortgage £ for £) main residence	90 %
Remortgage or further advance to purchase additional legal interest (buy out partner) main residence	90 %
Home improvements main residence	85 %
Purchase second residence for family use only	75 %
Capital raising debt consolidation	85 %
Capital raising (other)	85 %
* See section 7 Help to Buy for LTV limits at origination	

Capital raising for business or speculative purposes is not available

### 4.5.4 LTV by Property Type

- For any house/bungalow that has been newly built or converted in the last 2 years or is to be occupied for the first time, the maximum LTV is 85 %
- For any flat or maisonette that has been newly built or converted in the last 2 years or is to be occupied for the first time, the maximum LTV is 80 %

The application fee may be added to the mortgage except where the total amount of borrowing, including the application fee, exceeds the maximum LTV limit of the lower of the purchase price or property valuation.

## 4.6 Source of Deposit

For all house purchase applications, including first time buyer applications, the source of the deposit must be captured. The deposit should be provided from the applicants own funds. For clarity, funds withdrawn from a business are not considered acceptable. Loans, credit cards and other forms of unsecured credit are not acceptable as the source of the deposit. The only exception to this is for members of the Armed Forces, where deposit funded via the Forces Help to Buy Scheme will be acceptable.

Proof of deposit may be required prior to approving an application where the deposit is not wholly funded by the equity from the sale of the applicant's current property. This should be in the form of bank statements, building society passbook held in the applicant's name showing a build-up of funds or proof of investment. The source of any lump sum may be queried.

Gifted deposits are acceptable providing that the deposit is being funded by a non-repayable gift from a family member – spouse, partner, parent, sibling, child, grandparent, aunt/uncle, nephew/niece, or where there is an obvious family connection which can be proved. The donor will be required to sign an appropriate declaration and may be required to evidence available funds.

Vendor gifted deposits are unacceptable.

## 4.7 Right to Buy and Right to Acquire

We do not lend on either Right to Buy (RTB), Right to Acquire Schemes or property that is still in the pre-emption period.

#### 4.8 Deed of Gift and Transfer at Undervalue

If the price being paid for the property is less than the full market value, we can lend providing that:

- The loan is calculated on the purchase price
- All the other aspects of Lending Criteria are satisfied
- A purchase from a family member can be considered providing that the vendor will not be remaining in the property after completion
- We may require a defective title indemnity policy

#### 4.9 Solicitors

We will use the applicant's solicitors providing they are on our panel. If the applicants wish to use a solicitor who is not on our panel, we will require one of our panel solicitors to act for us at the applicant's expense.

#### 4.10 Direct Debit Mandates (DDM)

We will only accept one Direct Debit per mortgage account. The DDM must be on the applicant's personal account only. DDMs from business accounts are not acceptable.

## 5 BUY TO LET

### 5.1 Loan Size

The minimum loan is £25,001 the maximum is £750,000

The maximum portfolio exposure is 3 Buy to Let properties totalling £1,500,000. If the applicant also has their main residential property with the bank, total exposure including residential loan must not exceed £2,500,000.

### 5.2 Loan Purpose

We allow BTL loans for

- Purchase of a BTL property where the borrower, or a close relation has solely a commercial interest in the property and will not be residing in the property at any point
- Remortgage of a BTL property where the borrower, or a close relation has solely a commercial interest in the property, has not lived in the property in the last 2 years and will not be residing in the property at any point in the future
- Remortgage of a residential property onto a buy to let, providing we receive evidence of a mortgage offer on the new residential property prior to the offer of the BTL loan and the customer already holds buy-to-let properties

The Bank does not offer Consumer BTL mortgages, remortgage applications will be defined as a Consumer BTL, where:

- The applicant does not own any properties that are being let out on a rental basis
- The purpose of the loan is not wholly or predominantly for business purposes
- The applicant or close relation have lived in the property in the last 2 years

### 5.3 Loan to Value

Loan size	Maximum LTV
Up to £350,000	75 %
350,001 to £750,000	65 %

The LTV is then also subject to limits on loan purpose

Purpose	Maximum LTV
Purchase	75 %
Remortgage only (replacing the existing mortgage £ for £)	75 %
Home improvements (To the subject property)	75 %
Remortgage* Capital raising debt consolidation	70 %
Remortgage* Capital raising (excluding business/speculative purposes)	70 %

Capital raising for business or speculative purposes is not available

\*We do not allow capital raising for any purpose within the first six months of the original purchase date.

Buy to Let loans are available on an interest only basis.

#### 5.4 Affordability

A residential affordability assessment will be completed on a BTL application factoring in the applicants credit commitments and expenditure, in line with the guidance and/or rules set by the FCA, PRA and the Financial Policy Committee (FPC). The affordability assessment will mirror the assessment completed on a residential application to calculate the applicant's disposable personal income.

Where BTL applications meet the approved criteria the applicants personal income may be utilised to cover a shortfall in rental income received from the subject security. The following criteria will apply:

- Rental income as confirmed by a qualified surveyor for the subject security must cover the stressed mortgage payment at a minimum of 120 % ICR (Interest coverage ratio)
- Acceptable income is in line with Residential Lending, excluding other rental income

Personal income cannot be utilised in the following situations:

- Applicants going past their disclosed retirement age, applicants already retired are acceptable subject to age criteria
- Joint applicants who have separate residential properties

BTL personal income is only available to new customers to the Bank. The Bank is unable to offer personal income assessment for Porting, Further Advance or Transfer of Equity.

#### 5.5 Income

As investment properties are income-producing, the applicants must be in a position to support their existing residential mortgage and other personal commitments. Applicants are required to disclose their full employment/self-employment details including their income on the application form and proof of income will be requested. The minimum household income must be £25,000.

The Interest Coverage Ratio (ICR) for the Buy to Let property must meet the minimum coverage of the monthly repayment as shown below. The monthly repayment is based on the Banks BTL stressed interest rate which depends upon the loan purpose and/or product selected.

The following Interest Coverage Ratios (ICR) will apply to the applicant with the highest gross income:

- Standard rate tax payer (20 %) – 128 % ICR
- Higher/Additional rate tax payer (40 % & 45 %) – 145 % ICR

The only exception is for a Higher/Additional rate tax payer requesting a BTL remortgage replacing the existing mortgage £ for £ where the minimum ICR is 128 %

To determine the appropriate ICR to apply, the Bank will make an assessment of the customer's total gross income taking into consideration the proposed BTL security. This will incorporate the full income details provided, rental income and Banks assumed costs of the proposed security.

We must have the latest computerised pay slip to evidence declared income for employed applicants and the most recent SA302 (hard copy or self-service version) AND Tax Year Overview or accountant's letter to evidence declared self-employed income.

## 5.6 Applicant

Minimum age of applicant is 21 at application. Maximum age is 75 at the expiry of the mortgage term.

Minimum time in current employment 6 months, minimum trading period for self-employment 2 years.

The Bank will not lend to portfolio landlords. This is based on the PRA definition (SS13/16) of portfolio landlords which is four or more buy-to-let properties.

The Bank will therefore not lend to individuals who own/or will own (personally or through a limited company) more than 3 BTL properties including the application security, as applicants will be classed as a portfolio landlord.

BTL is only available to applicants who are currently owner occupiers and have been so for 6 months. For joint applications, we will accept one applicant being an owner occupier providing our credit search shows the applicants are married/cohabiting and are both permanently residing at the owner occupier address.

## 5.7 The Property

In addition to the mainstream requirements, the additional property criteria apply:

- The property should be let on a single (AST) Assured Shorthold Tenancy agreement or a Private Residential Tenancy (PRT) in Scotland
- The Bank will consider applications where property tenants will be in receipt of Housing Benefit
- We do not lend on HMO's. We define a HMO as a property let to 3 or more tenants who do not form one household, but share facilities such as a bathroom and kitchen
- Applicants must ensure that buildings insurance arranged is suitable for a Buy to Let property
- Multi let properties are not acceptable.
- We do not offer BTL loans on property in Northern Ireland.
- The maximum LTV on a new build house/bungalow is 75 %
- We do not offer BTL loans on new build flats/maisonettes.
- The property must not be an ex public sector flat
- The tenant must not be either a family member or a previous owner
- The applicant must have no more than 25 % exposure in any block of flats
- The property must be suitable for immediate letting
- The property must not be subject to any sale and rent back agreement, or any similar scenario
- We will only accept flats situated above/adjacent to commercial property where the valuer can confirm the valuation is not adversely affected by the surrounding property
- We do not lend on properties that have internal door locks and/or separate utility services

## 5.8 Valuation

The valuer will be asked in his instructions to provide a valuation for rental purposes giving a monthly rental figure based on an unfurnished basis for a single family occupation together with confirmation of the demand for letting and saleability.

# 6 THE SECURITY

## 6.1 Property



The Bank will lend on property that is built of standard construction as advised by the valuer. We must have a First Charge over the security property and the security must be in England, Scotland or Wales. The following forms of property ownership are acceptable to us –Joint Tenants and Tenants in Common.

The property must be used for owner occupied residential purposes, full vacant possession must be obtained at completion and no part-let, sub-let or part-possession will be accepted. There must be no Local Authority approval for the use of the property for any purpose other than residential.

The property must be Freehold, Leasehold or Absolute Owner. Leasehold properties should have a minimum unexpired lease of 85 years at the time of application.

Property with 2 kitchens or annexes will be considered on mainstream loans as long as the immediate family of the borrower will occupy, it is suitable for the type of security and no one other than family members appear on the voter's roll (for remortgages).

The property must be insured for the full reinstatement value as recommended by the valuer in the report. Applicants arrange their own insurance. For Leasehold flats - the Bank will only accept leasehold flats where the Buildings Insurance is arranged by the Freeholder or Management Company under the terms of the Lease for the whole block or suitable arrangement is in place to protect the whole building

## 6.2 Property Types

The property must be built of standard construction as advised by the valuer. We will lend on:

- Fully repaired PRC properties with brick external skin and suitable guarantees from a licenses scheme
- Laing Easy form
- Concrete No Fines
- Cross wall construction
- Timber frame with brick exterior
- Standard roof construction (this includes thatch)
- Standard flat roof construction

Modern Methods of Construction (MMC) will be considered with the minimum following requirements:

- Accredited certification with a minimum 60-years design life assessment through Builtoffsite Property Assurance Scheme (BOPAS), British Board of Agrément (BBA), Building Research Establishment (BRE) or NHBC Accepts
- Acceptable new build warranty (in line with the Banks approved list)/ if built in the last 10 years, Professional consultant certificate is not suitable for MMC
- Meets the Bank's overall guidance and RICS requirements
- Proposed security has the necessary Building and Planning regulation in place
- Proposed security is suitable for mainstream lending
- Standard building insurance available

MMC is subject to the valuers assessment of the saleability and demand

Unless:

- The property is subject to any restriction in occupancy, use, resale or anticipated life span.
- Has any commercial element
- Is tenanted, multi occupied or has bed-sit accommodation.
- Flats and maisonettes above/adjacent commercial properties where the valuer confirms the valuation is affected
- Is currently affected by progressive structural movement, current dry rot, Japanese knotweed which is outside of RICS guidance or contaminated land
- The valuer indicates re-saleability/demand is poor
- The property is being purchased under a Shared Ownership, Shared Equity or Right to Buy scheme

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- The property was purchased under a RTB or RSL Scheme and is still in the pre-emption period.
- The property is being purchased:
  - From the applicants own limited company
  - From a family member who will continue to live in the property
  - From a vendor who has not owned the property for 6 months.
  - Where there is a back to back sale, assignable contract.
  - New but the vendor is not the original builder/developer

We will lend on flats providing they are:

- Leasehold
- Have a floor area in excess of 30 square metres
- In blocks no more than 10 floors or 15 in Central London (See box below)

Prime London Postcode Area

<b>N1</b>	<b>N1C</b>	<b>NW1</b>	<b>E1W</b>	<b>E14</b>	<b>EC</b>
<b>SW1</b>	<b>SW3</b>	<b>SW5</b>	<b>SW6</b>	<b>SW7</b>	<b>SW10</b>
<b>W1</b>	<b>W2</b>	<b>W8</b>	<b>W9</b>	<b>WC</b>	<b>SE1</b>

## 6.3 New Build

We do have criteria specific to new build property. The Banks definition of a new build property is one that has been built or converted within the last 24 months or one that has been built longer than this but has never been occupied since construction/conversion.

- The maximum LTV on new build houses/bungalows is 85 % for Residential and 75 % for Buy to Let
- The maximum LTV on new build flats/maisonettes is 80 % for Residential only. The Bank does not lend on new build flats/maisonettes on Buy to Let
- The property must have passed a final inspection by a new home warranty provider prior to completion of the loan

Houses built within the last 10 years or newly converted property must hold an acceptable guarantee/certificate. These include:

- NHBC Certificate
- Zurich Municipal policy
- Premier Guarantee
- Building Life Plans (BLP)
- LABC New Home warranty
- Hallmark New Homes warranty
- Build Zone Structural warranty
- Checkmate Castle 10
- FMB Latent Defects Policy
- International Construction Warranties (ICW)
- Q Assure
- HomeProof New Build 10 – changed (Formally AEDIS HomeProof New Build 10)
- One Guarantee (England & Wales only)
- Advantage Home Construction Insurance ( AHCI Ltd )
- Ark Residential New Build Latent Defects Insurance

- Or a certificate which states the property was built under the supervision of a suitably qualified Architect.

Retrospective Guarantees/ Warranties or Certificates in line with the new build guidance are not acceptable. For clarity retrospective documentation is where the build of the security has not been fully monitored from the start to completion

#### **Builders Incentives**

Incentives of up to 5 % of the purchase price are acceptable.

All Incentives must be declared on the UK Finance Disclosure of Incentives Form completed by the Seller(s). This information will be considered by the Valuer when providing the property value for mortgage purposes.

The loan to value is calculated on the lower of the purchase price or property value.

Rental guarantees from builders are not acceptable.

#### **6.4 Valuation**

The minimum property valuation is £75,000.

All applications will be checked to see if they meet the Banks Automated Valuation (AVM) criteria. Those that do will then need to 'pass' the appropriate parameters and if satisfactory a physical inspection/valuation will not be required.

A physical valuation is valid for 6 months from the date of inspection.

#### **6.5 Retaining Advance Monies (Retentions)**

Where the property is not currently suitable for lending, the only option we can offer is for the applicant to do the work before we release any funds (works first basis).

#### **6.6 Residential Property With Land or Outbuildings**

Normal lending terms apply to properties up to three acres, providing the applicant does not intend to carry out a business from the property and there are no agricultural restrictions on the land or buildings.

#### **6.7 Shared Ownership**

We do not lend on property that is subject to Shared Ownership

## **7 HELP TO BUY – SHARED EQUITY LOAN SCHEME**

The Bank participates in the UK Government Help to Buy Shared Equity Schemes in London, England and Wales for residential; purchase applications.

An equity loan allows a customer to buy a new build home with just a 5 % deposit. The Government lend up to 40 % of the property value in London and 20 % in England and Wales, with the mortgage making up the remaining funds. The equity loan will be registered as a 2nd Charge.

The equity loan is provided by the Homes and Communities Agency (HCA), who will provide confirmation of scheme eligibility approval on request or to support variations to the help to buy loan.

The following criteria apply to all Help to Buy applications;

- Applicants cannot own or have an interest in any other property (i.e. a BTL in the background).
- The new property is for owner occupation only (applicants cannot sublet the property)
- The property being purchased must be New Build and covered by the Banks approved New Build warranty providers and the Builder/Developer must be participating in the Help to Buy Scheme
- A Minimum applicant deposit of 5 % of the purchase price is required (excluding builder incentives)
- The maximum loan the Bank can consider for new purchases on the Help to Buy scheme is 75 % LTV
- The Bank to have first charge on the whole property
- Minimum lease term for houses is 250 years and for flats 125 years

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- Maximum Standard Mortgage term on capital and interest basis only
- The affordability assessment will take into account the interest only payments to the equity loan (only payable after year 5) at a flat interest rate of 3 %
- Maximum LTI multiplier of 4.49
- The equity loan can be repaid at any time. The minimum payment allowed is 10 % of the properties market value at the time.
- A Further Advance can **only** be considered to purchase an increased share in the property (known as staircasing). This would be subject to HCA approval ( including agreement to a deed of postponement), a satisfactory Bank valuation and compliance with Secured Lending Criteria including standard LTV limits
- The minimum Further Advance is 10 % of the properties market value at application, or £5,000 if lower
- Where a customer applies for a Further Advance or a TOE to remove, the affordability assessment will be amended to include the remaining Equity loan at a flat rate of 3 %
- All Help to Buy Lending is subject to Secured Lending Criteria

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Calls to 0800 and 0808 numbers are free from landlines and mobiles. Calls to 03 numbers cost the same as calls to numbers starting with 01 and 02. Calls to 0845 and 0870 numbers cost 3p per minute, plus your phone company's access charge. Calls to 0844 and 0843 numbers cost 7p per minute, plus your phone company's access charge. Calls may be monitored or recorded for security and training purposes.