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MBS LENDING LIMITED

MORTGAGE UNDERWRITING GUIDE

December 2011

MORTGAGE UNDERWRITING GUIDE

1. **Application form**

The application form and any supplementary documents must be checked for completeness and all appropriate sections and declarations signed.

Arrangement fees and HLCs will be added to the loan up to a maximum loan to value of 62%, this does not prevent the applicant paying the fees prior to completion. Valuation fees must be paid by the applicant before a valuation is obtained. Please note that any fees added to the loan will be included in the mortgage balance for the affordability calculation.

2. Credit references

A credit reference enquiry will be made with Equifax in respect of all applicants in their current and previous names and at their current and other known addresses.

3. Identity and Address verification

One form of personal identification is required for each applicant. Original documents or copies of documents certified by a professional person (e.g. mortgage adviser, solicitor, accountant, IFA) will be accepted. The following documents will be acceptable:

- Current valid full UK passport
- Current valid Non UK Passport supported by 2nd item of personal ID
- Current full UK Driving Licence
- Current UK Photocard Driving Licence
- State/Local Authority funded benefit statement
- Valid Firearms Certificate or Shotgun Licence
- Inland Revenue Documentation

If the personal identification does not include a signature we will also require a bank card or credit card to verify the customer's signature.

One form of address identification is required for each applicant. Original documents or copies of documents certified by a professional person (e.g. mortgage adviser, solicitor, accountant, IFA) will be accepted. The following documents will be acceptable:

- Domestic utility bill (not mobile phone) - must not be more than 3 months' old
- Current Council Tax bill
- Bank/Building Society/ Credit card statement - must not be more than 3 months' old
- State/Local Authority funded benefit statement
- Inland Revenue Documentation dated within the last 12 months
- Council Rent book
- Current full UK Driving Licence
- Current UK Photocard Driving Licence

Please note that two separate documents are required. The same document (e.g. Driving licence) cannot be used for both categories.

If the applicant has not been seen face-to-face by the Mortgage Intermediary a third piece of identification from either list will be required.

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Foreign Nationals

A Foreign National must 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.

EU Nationals

A national of an EU member state that was a part of the EU before May 1, 2004 (these are: Luxemburg, Belgium, Ireland, Germany, France, Sweden, Spain, Greece, Portugal, Italy, Sweden, Finland, Denmark, Netherlands, UK, Iceland) must have 36 Months PROVABLE residency and a current valid passport.

Nationals of Czech Republic, Estonia, Latvia, Lithuania, Slovenia, Slovakia, Poland or Hungary must register with the Home Office under the “Worker Registration Scheme” and hold a workers registration certificate.

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4. Income

Acceptable Income

All applicants must be UK Tax Payers, in arriving at income from permanent employment the following may be taken into account:

| | |
|--|------|
| Basic Salary | 100% |
| Second job | 50% |
| Guaranteed overtime/bonus | 50% |
| Private Pensions | 100% |
| Location Weighting allowance | 50% |
| Car Allowance (only if guaranteed) | 50% |
| Rental income (unencumbered properties) | 50% |
| Maintenance payments (under court order) | 50% |

Guarantors will not be considered.

Unacceptable Income

Travel Allowance
Child Benefit/Child Tax Credit Payments/Working Family Tax Credits
Expenses
Income Support
DSS Payments
Agency Work
Regular overtime/bonus or commission
CSA Payments
Incapacity and Disability benefit

Minimum acceptable income:

£10,000 sole applicant
£18,000 joint applicants

Applications with more than 2 borrowers

If there are more than 2 borrowers applying for the mortgage we will use 100% of the first 2 borrower's income only.

Income calculations

The Affordability Calculator calculates the disposable income of mortgage applicants to provide the maximum amount an applicant can borrow. It takes into account tax and National Insurance based on the standard PAYE codings and contributions levels. Applicants are required to complete an income and expenditure form to determine all sources of income and items of personal expenditure. Underwriters are required to verify all items, or where this is not possible consider whether such costs are reasonable. Where items are not disclosed, a default amount, based on national statistics, will be assumed.

Income is determined according to the table above.

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Commitments are determined in accordance with the table below.

Contingency expenditure based on 30% of gross disposable income (income less tax and NI and loan commitments) will be deducted from income.

Mortgage payments will be calculated on the higher of initial rate, reversionary rate or SVR plus 1% and the mortgage will be subject to a cap of 3.50 times single income or 3.0 times joint incomes. The maximum term used within the calculator is 25 years

Employment and Income verification

Employed

Applicant must have been employed in their current job for a minimum of 3 months.

Applicant must have been in continuous employment for 12 months having held no more than 3 jobs within this period.

Employment by fixed term contract must have:

- Been renewed at least once.
- Have 6 months to run to renewal.

Employment within a probationary period providing continuous employment and in a similar line of work may be acceptable but should be referred to MBS Lending.

Income will be verified by written reference from the applicant's employer in all cases. The following documents will also be required:

- Latest computerised P60
- Last 3 monthly (6 weekly) consecutive payslips.

Please note that hand written documents will not be accepted.

MBS Lending reserves the right to ask for additional information where we feel it is necessary.

The applicant(s) most recent 3 months bank statements must also be provided.

Previous Employment

A reference will be required for any previous job which the applicant has held during the last 24 months.

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Self Employed

Applicants must have been trading for a minimum period of 24 months

For all self employed applicants or company directors we will require an accountant's certificate detailing the most recent (not more than 12 months old) 3 years trading figures or 2 years plus a projection for next year.

Acceptable Accountants qualifications are AAT, ACA, ACCA, ACMA, CPFA, FCA, FCCA, FCMA.

Stable/increasing net profits: Income will be calculated as the latest annual net profit figure (or share of net profit), plus any allowable additional income less any commitments which are to remain after completion (annualised payment to be deducted) then income multiplier applied.

Unstable net profits: a satisfactory explanation must be received from the accountant
An average of the 2/3 years figures will be used.

Sub-Contractors

Sub-contractors must have been in that position for a minimum of 24 months and be able to prove income by reference to accounts prepared by a recognised accountant or by reference to HMRC documentation. We will also require a reference from the company that the application sub-contracts for.

Commitments

Regular commitments in respect of loans, credit cards, hire purchases agreements, mail order, maintenance etc. will be deducted from income as follows:

| | |
|---|--|
| Loans, hire purchase maintenance: | Annual payments made |
| Credit cards and mail order commitments | 60% of outstanding balance (5% of outstanding balance X 12) |
| Child care costs | Annual payments in excess of £3,600 |
| Overdrafts | Maximum balance outstanding in last three months |
| Negative capital | For self-employed applicants, any negative capital disclosed in the accounts or accountant's reference |

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Where a commitment appears on a credit reference but has not been declared on the application form but the account is satisfactory and falls within normal lending criteria, there is no need to contact the applicants for further information.

MBS Lending will require a Landlords Reference for borrowers who currently rent a property from Local Authorities and Corporate bodies. We will not require a reference for a borrower who rents their property from a family member.

5. Existing/Previous lending & Known Debt Problems

| Product | Mortgage Arrears | CCJ's | Bankruptcy | IVA |
|------------------|---|---|-----------------------------------|---------------------------------------|
| Near Prime Extra | Max 1 in last 24 months, 0 in last 3 months | Max £500 in last 36 months, £0 in last 6 months | Not accepted | Not accepted |
| Near Prime Plus | Max 1 in last 12 months, 0 in last 3 months | Max £500 in last 24 months, £0 in last 6 months | Not accepted | Not accepted |
| Near Prime | Max 2 in last 12 months, 0 in last 3 months | Max £1,500 in last 2 years, £0 in last 6 months | Discharged for at least 36 months | Satisfied 36 months ago |
| Light Adverse | Max 3 in last 12 months, 0 in last 3 months | Max £4,000 in last 2 years, £0 in last 6 months | Discharged at least 12 months | Satisfied at least 12 months |
| Medium Adverse | Max 3 in last 12 months, 1 in last 3 months | Max £6,000 in last 2 years, £0 in last 6 months | Discharged | Satisfied or conducted satisfactorily |

Notes

Details of any mortgages or secured loan/second charges currently held or redeemed within the last 12 months will be required and references required unless Equifax Insight information is available.

If the mortgage or secured loan/second charge does not appear on the Equifax credit search we will accept 12 months proof of payments from the lender.

All CCJ's must be satisfied, in the process of being satisfied or justifiably disputed except that the following will not be taken into account for underwriting purposes:

- CCJ's registered more than 24 months ago
- CCJ's up to the value of £100
- CCJ's satisfied over 12 months ago

IVAs must have been conducted satisfactorily for 6 months and a reference from the IVA Company obtained.

Arrears are defined as where less than 90% of the required mortgage payment has not been made within 28 days of the due date.

A full explanation of any defaults with an aggregate of £1,000 or more will be required. This will include details of current monthly payments and plans for future payments. Any

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defaulted accounts which are not redeemed with the funds from the MBS Lending mortgage will be included in the Affordability Calculation.

MBS Lending will require a written explanation of Mortgage Arrears, CCJ's, Bankruptcy, Repossessions and IVAs from the borrower.

Repossession orders must have been settled over 12 months ago, MBS Lending will not lend on a property where they believe a repossession order is in place.

Please note known debt problems are per application **NOT** per customer.

6. Valuations

Where an application form is received and has been checked, a credit reference has been obtained and everything appears satisfactory, valuation instructions may be issued immediately.

A physical valuation will be carried out in all cases. MBS Lending uses Landmark Surveyors as a panel manager to conduct all physical valuations. The normal practice is that the property will fall within 20 miles of the valuer's office. The quality of the valuations received is monitored and those valuers falling short of the required standard would be removed from the Colleys panel.

Valuations are valid for 3 months from the date of inspection.

Builders' incentives will be deducted from the purchase price so that the loan is calculated upon the lower of the discounted purchase price or valuation.

MBS Lending may also accept valuations carried out by the following companies:

Colleys
Shepherds
Countrywide
LMS
E-surv
Connells
Lexicon
Ashdown Lyons
Spinnaka

Valuation reports should be accompanied by at least 5 photographs of the subject property.

All valuations must be instructed by MBS Lending or one of our authorised packagers.

7. Acceptable properties

Property must be an owner occupied private dwelling house.

Detached/semi-detached/terraced/town house/bungalow built of traditional construction, i.e. brick or stone walls and tiled or slated roof.

Leasehold flats or maisonettes in a maximum of 4 storeys with a minimum remaining lease of 35 years at the end of the mortgage term.

Properties in England and Wales, but not properties within the Greater London area (i.e. bounded by the M25). .

Ex-Local Authority Houses are acceptable up to 60% LTV. Ex-Local Authority flats are acceptable subject to normal criteria and the following:

- Maximum of 60% LTV
- Minimum Valuation of £150,000
- No longer within a Pre-emption period

8. Unacceptable properties

Properties outside of England and Wales.

Properties of non-standard construction.

Flat roofed properties

Multiple-occupancy properties

Freehold flats.

Properties attached to commercial properties.

Property affected by subsidence.

Property in derelict condition.

Property in shared ownership

Commercial properties

Holiday Homes

Properties valued under £50,000

Ex-Council houses in an area where the number transferred into private ownership is less than 40%.

Properties which have been subject to sale or remortgage in the 6 months preceding the date of the mortgage application

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Any property that does not receive a satisfactory valuation report.

9. Interest Only Loans

Normally the Society will expect a repayment vehicle to be in place to repay the mortgage at the end of the term. This repayment vehicle might include:

- Endowment policies
- The commutable sum from a Personal Pension.
- ISA's

Such vehicles are accepted by the Society on the proviso that the responsibility for ensuring that the vehicle will be sufficient to repay the mortgage remains with the applicant. The existence of an appropriate repayment vehicle must be validated by the underwriter by reference to appropriate documentation. If the documentation does not include a maturity projection, a basic calculation must be carried out to evidence that the proposed arrangements will be sufficient to repay the loan at the end of the term.

Interest only mortgages may be particularly relevant for (though not restricted to) the following customer types:

- Borrowers with investment properties or second homes that they can sell without risking their main residence.
- First time buyers who can afford the mortgage on a repayment basis but want to spend some of their income on home set-up costs during the initial period of their mortgage.
- Older Borrowers with a lot of equity, who wish to repay the capital through selling the property by downsizing to a smaller property.
- High net worth borrowers who have the means to repay capital through realising other assets.
- Financially capable borrowers who have made firm arrangements to repay the capital, such as through investments.

The Society will consider whether the borrower's intention is plausible and where doubt exists further information to support the borrower's proposal will be requested. The underwriter must evidence how a loan will be repaid at the end of the term and justify the rationale for this decision.

In particular, cases where the borrower's intention is to sell the property to repay the loan, the Underwriter should assess the feasibility of this. If it is known that a property is being bought at the lower end of the market, the Underwriter may question the validity and likelihood of the ability to trade down and buy another property. In any event the maximum amount that may be lent without a specific repayment vehicle is 50% LTV (25% in MBS Lending Limited). A minimum of £100,000 equity will also be required.

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If an interest-only borrower is close to retirement, enquiries should be made into the feasibility of their strategy. As part of responsibility the underwriter should consider whether the applicant would be better served by a lifetime mortgage.

The term of an interest only loan, which is not supported by an appropriate repayment vehicle must not exceed the applicant's anticipated retirement age, or state pensionable age, whichever is the earlier.

10. Miscellaneous

First Time Buyer Definition

A First Time Buyer is a person who

- has never held a mortgage, or
- has not held a mortgage in the last three years or
- has not held a mortgage within the last three years for a period of at least twelve months

If the main party to the mortgage has not had a mortgage during the last 36 months self certification will not be available.

Gifts of Deposits

In respect of property purchases the source of the deposit must be verified by written confirmation. If the deposit for the property is 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. 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 acceptable. Parental gifted deposits (or from other related third parties) are acceptable up to a maximum of 50%, but any greater than 25% of purchase price must be referred to a person with an appropriate mandate for consideration.

Proof of Deposit

In respect of property purchases the source of the deposit must be verified.

Married & Co-Habiting

If the borrower share the mortgaged property with a spouse or partner there is no need for both parties to be jointly named on the mortgage. MBS Lending will, however, require the normal Consent to Mortgage form to be completed by the person that is not named on the mortgage.

Secured Loans

MBS Lending will require a reference for a Secured Loan if it is not detailed on the Equifax report.

Solicitors and Licensed Conveyancers

The borrower may choose to use Solicitors or Licensed Conveyancers subject to the company being registered on the www.solicitors.co.uk website and there being 3 or more partners in the company and having Professional Indemnity Insurance cover of at least £2million. Sole Practitioners are not acceptable.

DWP Contributions

Application will not be considered if the borrower has received DWP contributions towards their mortgage or rent payments within the last 6 months.

Criminal Convictions

MBS Lending will not accept any application from an individual who, it is apparent, has committed financial irregularities or fraud.

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Capital Raising

Quotes and estimates will be required for home improvements which total £10,000 or more.

Loans to repay gambling debts or tax debts will not be considered.

Let to Buy

Rental income must be verified by a letter or reference from an ARLA registered agent.

For let to buy applications the rental income must cover the mortgage payment by a minimum of 130%. In addition confirmation from current lender should be obtained that they are in agreement with the tenancy and a copy of the tenancy agreement must be obtained.

Mortgage term beyond retirement

If the applicant's intended retirement age is not disclosed in the mortgage application or accompanying documents this information must be requested from the applicant as soon as possible.

The normal maximum age for a borrower at the end of the term is his anticipated retirement age, or state pensionable age, whichever is the earlier, and affordability should be calculated on this basis. Where this age would be exceeded, the underwriter must be able to demonstrate by reference to independent documentation that the mortgage will remain affordable in retirement. The underwriter must also discuss with the applicant the importance of ensuring that mortgage payments can be maintained beyond state pensionable age and a note to this effect is recorded in the underwriter's justification of the case.

State pensionable age can be calculated on an individual basis at:

<http://pensions-service.direct.gov.uk/en/state-pension-age-calculator/home.asp>

It is unlikely that an applicant will be able to provide an accurate figure of their income after retirement. Underwriters should obtain documentation that the applicant is a member of a company pension scheme, or has a personal pension, or other means of income after retirement age. A sense check is required.

The term of an interest only loan, which is not supported by an appropriate repayment vehicle must not exceed the applicant's anticipated retirement age, or state pensionable age, whichever is the earlier.

The maximum loan to value for interest loans without a repayment vehicle is 50%.

For joint mortgages where one or more borrowers is likely to have retired before the end of the term, consideration should be given as to the effect of the death of one borrower on the ongoing affordability. Consideration should be given to pension entitlements and life cover. Additional life cover may be required.