



## MBS Lending - RESIDENTIAL LENDING GUIDELINES

This document is intended to provide guidance for mortgage intermediaries on elements considered as part of the mortgage underwriting process. It is not exhaustive and a number of other credit assessment tools are also applied which may result in an application being declined despite it appearing to meet the guidelines documented.

MBS Lending reserves the right to change its underwriting policy at any time and without updating these guidelines, however, we aim to ensure the guidelines reflect our current approach to lending.

Please note lending is in England and Wales only.

All underwriting is carried out on a manual basis. For all mortgage applicants a Credit Reference Agency is used to do both a voters roll search together with a credit search.

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## Loan types & sizes

<b>Maximum Loan To Value</b>	<ul style="list-style-type: none"><li>• As specified in product literature</li><li>• LTV based on the lower of the purchase price or valuation</li></ul>
<b>Minimum Loan</b>	<ul style="list-style-type: none"><li>• £25000 (unless otherwise stated in product literature)</li></ul>
<b>Maximum Loan</b>	<ul style="list-style-type: none"><li>• As specified in product literature</li></ul>

## Mortgage types

<b>Purchase</b>	<ul style="list-style-type: none"><li>• Permitted</li></ul>
<b>Remortgage</b>	<ul style="list-style-type: none"><li>• 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"><li>- Inherited properties</li><li>- Self-build properties</li></ul></li><li>• Loans purposes considered:<ul style="list-style-type: none"><li>- £ for £ remortgage</li><li>- Home Improvements</li><li>- Debt consolidation**</li></ul></li></ul> <p><b>** 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</b></p> <ul style="list-style-type: none"><li>• 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</li><li>• Where a loan is made for home improvements exceeding £10,000, the details of those home improvements must be verified</li><li>• Loans to raise capital for purposes, other than for home improvement and debt consolidation (e.g. cars, caravans, school fees etc.) may be considered subject to the term of the loan being in line with the expected life of the asset</li><li>• The following types of loan will not be considered:<ul style="list-style-type: none"><li>- Loans to repay gambling debts</li><li>- Loans for holidays</li><li>- Loans for business purposes</li><li>- Loans for tax purposes</li><li>- Loans for wedding expenses</li></ul></li></ul>

## Mortgage terms

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

# Repayment strategy

<b>Capital and interest</b>	<ul style="list-style-type: none"> <li>• Permitted</li> </ul>
<b>Interest only</b>	<ul style="list-style-type: none"> <li>• Permitted</li> <li>• Minimum equity £175,000 (£250,000 where downsizing is the repayment strategy)</li> <li>• Maximum LTV 60%</li> <li>• Repayment strategy: <ul style="list-style-type: none"> <li><b>Must be held in the UK in £ Sterling. Repayment strategies held outside the UK or not in £ Sterling are not acceptable</b></li> <li>- <i>Endowment policy</i> <ul style="list-style-type: none"> <li>- Projection from the provider based on current value and contribution levels</li> <li>- 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</li> <li>- Term must coincide with or mature before expiry of the mortgage term</li> </ul> </li> <li>- <i>Commutable sum from pension</i> <ul style="list-style-type: none"> <li>- Projection from the provider based on current value and contribution levels</li> <li>- 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</li> <li>- 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</li> </ul> </li> <li>- <i>ISA</i> <ul style="list-style-type: none"> <li>- Projection from the provider based on current value and contribution levels</li> <li>- 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</li> <li>- 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</li> <li>- Term must coincide with or mature before expiry of the mortgage term</li> </ul> </li> <li>- <i>Realisation of other assets/Investment properties</i> <ul style="list-style-type: none"> <li>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. Assets must be held in the UK in £ Sterling</li> </ul> </li> <li>- <i>Downsizing</i> <ul style="list-style-type: none"> <li>Equity of at least 250,000 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</li> </ul> </li> </ul> </li> </ul>
<b>Part and Part combined</b>	<ul style="list-style-type: none"> <li>• Permitted</li> <li>• Minimum equity £175,000 (£250,000 where downsizing is the repayment strategy)</li> <li>• Repayment element of a part interest only mortgage can count towards the minimum equity requirement</li> </ul>

## 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, or
- has not held a mortgage in the last three years, or
- has previously been, but is no longer, named on a mortgage due to a relationship breakdown

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

## Age requirements

### Minimum Age

- 18 years

### Maximum Age

- 80 at the end of the mortgage term
- For joint mortgages, the maximum age 80 years applies to the youngest applicant
- 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 his 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

- A citizen of an EU member state must have settled status, 36 months provable residency and a current valid passport
- A UK citizen returning to the UK after living abroad must have 36 months residency before the Group will consider a mortgage.

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.

### Non EU Member Citizens

- 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

- Applicant must have been employed in their current job for a minimum of 3 months
- Applicant must have been in continuous employment for a minimum of 12 months in the last 15 months, in the same line of work and having held no more than three jobs in that period
- Employment within a probationary period will be considered where the applicant has been in continuous employment for the last 12 months and in the same line of work
- Income paid in currency other than £ Sterling is not acceptable
- Maternity leave:
  - Where applicant is currently on maternity leave, applicant 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 in all cases and will be requested by the lender
- Hand written documents will not be accepted
- Three months' full bank statements, evidencing receipt of wages, 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 2 years
- For self-employed applicants and company directors owning 33<sup>1</sup>/<sub>3</sub>% or more of the company, the most recent (not more than 12 months old) 2 years accounts or SA302's and respective Tax Year Overviews are required

### Profits:

- Stable/increasing net profits: The average pre-tax net profit (or share of) from the latest 2 years accounts provided will be used to calculate income
- 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 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 the lower of either

- an average of salary and dividend payments in the last 2 years, or
- the most recent year's income

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 2 years plus a projection may be required at the underwriters discretion
- 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 be cross referenced with bank statements to validate income

### 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

\*AFA or FFA will be acceptable where the LTV is under 50%

# Income

## General income requirements

### 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

### General Income Requirements

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 in all cases and will be requested by the lender

All applicants must be UK Tax Payers and resident in the UK. In arriving at eligible income the following may be taken into account:

Basic Salary	100%
Shift Premium	100%
Stipend income	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 145% of the mortgage commitment
Maintenance payments (under court order)	100%
Maintenance with no court order	50%
Investment income	50% *
Foster care income	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 at least 3 months wage slips and the latest P60 or an employer reference
- 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 the latest 3 months pay slips and last 2 years P60's or employers reference

\*Average of the last two years provable income will be used to calculate the figure to apply the 50% to

\*\*Subject to satisfactory evidence/accounts and proof that there has been foster caring arrangements for at least 12 months

## 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
  - Income paid in cash
  - Income from a second job
  - **Income not paid in £ sterling**

# Affordability

## Affordability Assessment

- The Group bases its lending decisions on the borrower's ability to repay their loan. To assess affordability please refer to our affordability calculator available on our website [www.mbslending.co.uk](http://www.mbslending.co.uk)

# 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 24 months unless Experian 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

### Tenancy:

- Full details will be required for all current and previous tenancies held in the last 12 months
- Confirmation of rental payments will be verified by bank statements

## 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 - will be included in the affordability calculation
  - 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 will be treated as a commitment
  - On other encumbered properties any shortfall (i.e. where the rental income is less than 145% 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

	Near Prime Enhance	Near Prime	Credit Assist	Credit Recovery
<b>Secured arrears (mortgages and loans)</b>	Maximum of 1 missed payment in the last 12 months (0 in the last 6 months)	Maximum of 1 missed payment in the last 12 months (0 in the last 3 months)	Maximum of 2 missed payments in the last 12 months (0 in the last 3 months)	Maximum of 3 missed payments in the last 12 months (1 in the last 3 months)
<b>CCJ's</b>	Maximum £1,000 in last 2 years and must be satisfied (0 in last 6 months)	Maximum £1,500 in last 2 years and must be satisfied (0 in last 6 months)	Maximum £4,000 in last 2 years and must be satisfied (0 in last 6 months)	Maximum £6,000 in last 2 years and must be satisfied (0 in last 6 months)
<b>Defaults</b>	Maximum £1,000 in last 2 years and must be satisfied on or before completion	None in last 3 months	None in last 3 months	None in last 3 months
<b>Bankruptcy</b>	Not accepted	Not accepted	Discharged for 12 months or more	Discharged bankrupts
<b>IVA's / DMP</b>	Not accepted	Satisfied for 12 months or more	Conducted satisfactorily and repaid on or before completion	Satisfied or conducted satisfactorily
<b>Repossession</b>	Not accepted	Not accepted	Accepted if more than 3 years ago	Accepted if more than 2 years ago

#### Please note:

- Considered credit history is per application not per applicant
- The minimum credit score required for an application to be considered is 476

## 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 and will be deducted from the purchase price when calculating the loan to value
- Parental gifted deposits are acceptable up to a maximum of 50% of the lower of purchase price or valuation

#### 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 (max 60% LTV in London)
- Property with a minimum valuation of £90,000
- 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
  - New build houses
- Flats:
  - Purpose built leasehold flats or maisonettes
  - Maximum 4 storeys and no balcony access
  - Leasehold with remaining term on the lease of 70 years at the end of the mortgage term
  - New-build leasehold flats
  - 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
  - BLP Secure
  - Premier Guarantee
  - Buildzone
  - Q Policy
  - Protek
  - Castle 10
  - ICW
  - LABC
  - One Guarantee
  - Ark Insurance Group Limited

# 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
- Agricultural Tie or Restricted properties
- Properties which are affected by Japanese Knotweed
- Conversion of steel framed commercial premises to residential
- Properties which are in effect 'temporary construction'

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 should be referred for consideration  
The Group will not accept properties with defective construction unless any defects have been remedied. The list includes:

Airey  
Boot  
Boswell  
Butterley  
Cornish Type 1  
Cornish Type 2  
Dorran  
Dyke  
Gregory  
Hawksley  
Laing Easi Form  
Lileshall  
Myton  
Mundic  
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

## 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

Pre-application enquiries please call the **broker support team on 01664 414144**.  
Applications being processed please call the **lending team on 01664 414141**.  
Visit **[www.mbslending.co.uk](http://www.mbslending.co.uk)**.  
**Email: [sales@mbslending.co.uk](mailto:sales@mbslending.co.uk) Fax: 01664 565675**

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