



**ZEPHYR**

HOMELOANS

# Underwriting Guide

September 2019

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## Supporting Documentation

The following documents should be used in conjunction with this Underwriting Guide:

- Income & Expenditure Form
- Business Plan
- Cash Flow Summary
- Portfolio Overview
- Application Submission Guide

These supporting documents are all available from the Zephyr Homeloans website in the Useful Documents library. Visit [www.zephyrhomeloans.co.uk/documents](http://www.zephyrhomeloans.co.uk/documents)

## 1. Introduction

This document is an abridged version of the Zephyr Homeloans Underwriting Policy. It has been produced to highlight key policy rules and lending criteria to enable registered intermediaries to submit complete and accurate mortgage applications. Zephyr Homeloans reserves the right to decline any application at any stage.

## 2. General Lending Criteria

### a) GENERAL

Maximum Number of Applicants for standard and SPV applications: 4

Residency Status: All applicants, including directors of SPV applications, must be a UK national or have permanent Rights to Reside in the UK with the exception of the armed forces. This will be validated either from mortgage statements, CRA output or a Land Registry search.

First Time Landlord (FTL) describes any applicant or Limited Company (SPV) that have never previously purchased a buy-to-let property. We will lend to FTL's where the applicant or at least one Director (if a Limited Company) currently owns a residential property with no arrears history for at least 1 year.

Landlord Experience: Standard

- At least one applicant or director must have owned and still own at least one property, residential or buy-to-let, for a minimum of 12 months.

Landlord Experience: HMOs & MUFBs

- At least one applicant or director must have owned, let and still own one or more buy-to-let properties for a minimum of 12 months. If this is not evident on a credit search, then verification from the applicant or director will be needed.

Power of Attorney Applications: Not permissible

**We will lend to the following customer segments:**

#### Standard

- Individual(s) or Limited Companies purchasing or remortgaging buy-to-let residential properties

#### Specialist

- Individual(s) or Limited Companies purchasing or remortgaging specialist properties:
  - HMOs
  - MUFBs
  - New Builds
  - Flats above Commercial Premises

#### Customer Types

Within the segments, the following customer types are included:

#### Employed - Also see Section 6

- Permanent employees
- Fixed term contract employees, including commission only
- Directors with less than 20% shareholding in a limited company.

***Applicants must not be under notice of termination or redundancy.***

#### Self Employed - Also see Section 6

- Sole traders
- Partners, inclusive of those employed within a Limited Liability Partnership (LLP)
- Company Directors with an excess of 20% shareholding in a Limited Company
- Sub-contractors
- Fixed term contractors where they invoice through their own Limited Company, LLP, PLC or as a Sole Trader/Partnership

#### Criminal Record

We will not accept applications from customers with a criminal record, or where they are living with someone who has, unless the conviction is for a minor traffic offence, or is spent under the Rehabilitation of Offenders Act 1974. Where it is identified that the customer, or someone who lives with the customer, has an unspent criminal record the application will be declined.

## **b) CONSUMER BTL**

Zephyr Homeloans do not lend on a Consumer Buy to Let basis. Where it is identified that an application is considered subject to Consumer Buy to Let regulatory requirements, the application will be declined.

## **Inherited Properties**

We are unable to accept applications in respect of inherited properties that have been previously occupied by relatives of any borrower as we only offer buy-to-let mortgages on an unregulated basis.

## **c) APPLICANTS**

### **Age**

All applicants and Limited Company Directors must meet the minimum age criteria.

- Minimum: 21
- Maximum: 95 at end of term

## **d) EXPERIENCE**

We will accept any applicant or director that has never previously purchased a buy-to-let property where that applicant or director currently owns a residential property with no arrears history for at least 1 year. Where the application is to purchase or remortgage Houses in Multiple Occupation (HMOs), Multi-Unit Freehold Blocks (MUFBs), New Builds or Flats above Commercial premises, at least 1 applicant or Director must have at least 1 years' experience of letting residential properties.

## **3. Portfolio Landlords**

Zephyr Homeloans defines a Portfolio Landlord as an existing landlord or Limited Company (SPV) that holds four or more mortgaged properties, including the current application(s). Such applicants will be subject to underwriting criteria as set out by the Prudential Regulation Authority.

### **Business Plan & Cash flow**

All portfolio landlords will be required to provide a cash flow showing anticipated performance of the mortgage security over the previous and subsequent 12 month periods.

Portfolio landlords are required to submit a business plan to support their application. The Business Plan should include:

- Summary of their relevant experience in the buy-to-let market
- A property schedule via the Zephyr Homeloans Cash Flow Summary
- Details of their current investment strategy
- Details of their future investment strategy
- Funding requirements
- Any other supporting information

Templates to assist the applicant in submitting a Cash Flow Summary and Business Plan are provided as downloads from the Zephyr Homeloans website.

The purpose of the Business Plan & Cash Flow Summary is to provide Zephyr Homeloans with assurance that the existing and proposed mortgages are sustainable from a financial perspective. The cash flow should therefore demonstrate the sustainability of the portfolio over the previous and future 12 month periods. The underwriter will need to sample check existing properties within the portfolio to validate rental income and mortgage payments to a minimum of 25% of the portfolio. This may be done from sight of bank statements covering the past 3 months and/or up-to-date Tenancy Agreements. Mortgage payments should be cross checked with the credit file/ Companies Register. If fewer loans are evident on the schedule compared to Equifax or if the aggregate value/payments declared are more than 5% lower than the reported valuers this should be followed up and explained.

All Cash Flows should provide information regarding the rental income and the actual and forecasted costs incurred in managing the properties including an allowance for voids, property maintenance and property management, if an agent is appointed.

The Cash Flow may show that the applicant wishes to use their own personal income to supplement the rental income where this is insufficient for the interest coverage ratio. Zephyr Homeloans will not lend in respect of any application where the ICR, using rental income only, is lower than 125% of the relevant stress rate.

The facility to utilise personal or portfolio income to support a shortfall in rental cover is not available to Limited Company applications or applications for specialist property types.

Cash flow should show a surplus in the second 12 month period.

Details of other properties held will be provided as part of the Business Plan. If the schedule contains more loans compared to Equifax, it is not necessary to validate the performance.

## 4. Special Purpose Vehicle (SPV) Applications

Limited Companies purchasing or remortgaging Houses in Multiple Occupation (HMOs), Multi-Unit Freehold Blocks (MUFBs), New builds or Flats above Commercial premises, or Limited Companies purchasing or remortgaging single residential buy-to-let properties.

A Limited Company is an independent legal entity responsible for everything it does, including managing its own finances. Any profit, after taxes are paid, belongs to the company. It can distribute these after-tax profits among the shareholders who own it. A company must not form part of a group structure, parent or subsidiary, and must be an independent entity.

Applicant Type Limited Companies (SPVs)

- Acceptable Standard Industry Classification (SIC) Codes: 68100, 68209 or 68320
- Number of Directors and Shareholders per application: Maximum of 4
- Only acceptable if Directors hold at least 80% of the company's shares
- ALL directors must be on the application

Guarantees

Personal guarantees from each director are required. These will be on a joint and several basis with all other directors so that each director is liable to repay the full mortgage debt in the event of default.

Zephyr Homeloans allows up to a maximum of 4 Directors providing at least 80% of shares are held and the company has been set up for the sole purpose of buying, selling or managing residential property. The company details quoted can be verified by reference to Companies House or via an Equifax search.

A Limited Company, unless recently created, must be registered with HMRC. They must register at Companies House (England & Wales) with a Registered Office, Company Number and have registered their Memorandum & Articles of Association (M&AAs). As part of the underwriting process, a manual Credit Search via Equifax for the Limited Company, will be required.

As part of any Limited Company application, we will capture and store the following information:

- Full name of the Limited Company
- Registered Company Number
- Registered Office address
- Law to which it is subject. This is found on the Certificate of Incorporation, a copy of which can be obtained via Companies House
- Memorandum of Association. This is found with the Certificate of Incorporation via Companies House

### Individual to limited Company Purchases

Zephyr Homeloans will lend to a Limited Company which is purchasing a property from a Director of that company under the following conditions:

- Consideration must be as per the valuation amount
- The seller must have owned the property for a minimum of 12 months
- Properties previously occupied by the seller (i.e. consumer buy-to-let) are not permitted
- The seller is required to arrange separate legal representation (our solicitors can act on behalf of Zephyr Homeloans and the purchaser, but not for the seller)
- In addition to the current policy regarding the source of the deposit, we would also allow the sellers' equity to convert to a Director's loan upon completion

## 5. Credit Status

All applicants and Directors of Limited Companies requesting mortgage lending must have a good credit history. In the event of any one of the applicants or directors triggering one or more of the Adverse Credit History statuses detailed below the application will be declined.

A credit history search will be undertaken at both Decision in Principle (DIP) and at Full Mortgage Application (FMA) irrespective of the period between each search. The credit search carried out at DIP will be a soft footprint with a hard footprint left at FMA.

Any applicant not meeting our specified credit criteria will result in their application being automatically declined. Applicants whose credit file shows late or missed payments may be referred to underwriting and any acceptance will be at the underwriter's discretion.

### Credit Criteria

Mortgage/secured loan arrears

- No missed payments per mortgage account in the last 12 months and no more than 1 missed payment in the last 24 months

Unsecured loan arrears and credit cards

- No more than 1 month in arrears in last 24 months and no arrears in the last 6 months

County Court Judgements (CCJs)

- Maximum of 1 up to £250 in the last 3 years, nil in last 12 months. Must be satisfied

## Defaults

- No defaults registered within the last 24 months

## Company Liquidations, Administration, Winding Up Orders & Receiverships

- None in last 3 years, although certain types of liquidations may be considered, for example voluntary liquidation

## Bankruptcy/Sequestration

- None in last 6 years

## Individual Voluntary Arrangements

- None in last 6 years

## Trust deed

- None in last 6 years

## Corporate Voluntary Arrangements (CVAs)

- None in last 6 years

## Debt Relief Order (DRO)

- None in last 6 years

## Payday Loans

- None in last 6 years

## Forced or Voluntary Possessions or Assisted Voluntary Sale

- None in last 6 years

## Notice of Correction

An application will be referred where there is a Notice of Correction evident on file. A suitably mandated underwriter will undertake a manual assessment and, if they are satisfied the explanation received relating to the adverse credit is plausible and, if appropriate, capable of substantiation, they may upgrade the decision to an accept.

## Unable to trace on Bureau / Thin Credit File / Low Score

Where an application is referred due to no traceable file on the bureau or a paucity of credit history data, an underwriter will undertake a manual assessment, including obtaining the appropriate identification verification documents. If they are satisfied that the explanation received for the lack of data is plausible, they may upgrade the refer decision to an accept.

Where an applicant or director has a low credit score the application will be referred for manual underwriting where the full credit file will be considered.

## 6. Income

### a) EMPLOYMENT STATUS

#### Employed

- In a permanent position for at least 6 months.

#### Self-Employed & Contractors

- 1 years evidence of income from the applicants accountant or an accountants certificate or SA302 together with a tax-year overview (SA100). Unless using income top up, then two years are required.

A self-employed applicant may be:

- A Sole Trader
- A Partner in a business
- A director with a shareholding of 20% or greater, where a company director holds a shareholding representing less than 20% of the issued share capital we would assess them as employed
- Foster Carer

For self-employed applicants a minimum trading period of 1 year is required which we will evidence via income from accounts, an accountants certificate or an SA302 in conjunction with a tax year overview.

## Note

- Where an applicant has selected 'professional landlord' as their occupation we will require evidence of a minimum gross rental income of £25,000 and 1 years evidence of income as per self-employed
- Where rental income has only recently exceeded the minimum amount, at the underwriter's discretion, this may be evidenced from bank statements and/or copies of ASTs
- Where two borrowers form a single household and one borrower is employed, there is no minimum rental requirement for the second borrower
- Where borrowers are from separate households, each portfolio landlord's share of the rental income must exceed the minimum amount

## Contractor (self-employed)

Contractors, where they invoice through their own Limited Company or as a Sole Trader or Partnership, must have been employed on this basis for a minimum of six months with at least 3 months remaining. They must have on year's full trading at time of application and must also have one year's preceding income from this type of employment. For the purposes of assessing affordability the second year's income should be annualised.

## Temporary / Agency Worker

Clients working on a temporary contract through an agency will be treated as self-employed for the purposes of affordability and income verification.

## Zero Hour Contracts

Applicants must have continuous employment for the last 24 months and are treated as employed for the purposes of affordability

## Retired

- Evidence of pension income from bank or pension statements

## Unemployed

- Not Acceptable

There is a requirement for all applicants to validate their employment and employment income.

The applicant must have been employed in a permanent position for a minimum period of 6 months prior to submitting an application and not on notice of termination of employment. Where the applicant does not meet this criterion, we may consider, (subject to underwriter review), by a suitably mandated underwriter, applicants who have a minimum track record of 12 months employment in the same sector.

## Important Note:

- We will not issue an offer until original documentation is received and validated
- Copy documents provided or uploaded must be certified by the broker, with a company stamp, signature and date provided on the document

## Probationary Employment

Applicants working within a probationary period are acceptable subject to the following:

- If the applicant is in their first permanent job with a long probationary period, at least 12 months must be served with the employer
- In addition to providing their last three months bank statements, together with payslips, the applicant should provide a copy of their contract of employment
- For applicants not in their first permanent job but who are subject to a probationary period, 12 months previous track record of employment in the same sector is required with consistency of employment evidenced

## Employees on Fixed Term Contracts

This is where a job is only for a set period, although the contract may be renewed or extended. Applicants must be employed on a fixed term contract basis for a minimum of 6 months at the time of application, with at least 3 months remaining.

If this is their first fixed term contract they must evidence continuity of employment in the same sector or discipline for the previous 12 months. For the purposes of assessing affordability the applicant will be treated as employed.

## b) INCOME

### Minimum income

- No minimum income requirement with two exceptions:
  - At least one applicant to be earning £50,000 if using earned income to make up a rental shortfall;
  - £25,000 gross income required if the applicant's employment is "professional landlord". Gross income is the amount of verified income that a limited company director or individual receives.

### c) REQUIRED DOCUMENTS

- Applicants are to provide their most recent payslip demonstrating 6 months continuous employment or a P60 will be required or a previous payslip
- Where these payslips do not demonstrate six months earnings, via the YTD figures, the most recent P60 or further payslips must be provided to evidence the 6 month history
- In the event of the Applicant(s) moving jobs but not yet having commenced their new employment and/or the salary declared for affordability being higher than that previously received, the applicant(s) should provide:
  - Pay slip from their current or previous employer, assuming that the applicant is working a Notice of Termination at the time of the application or has left the organisation and is having time out: maximum 3 month break
  - Copy of the Contract of employment detailing terms and conditions of the applicants new employment which must include salary details and the effective start date of employment
  - Letter of Acceptance from the new employer confirming receipt of the applicant's acceptance to their contract of employment
  - Like for like status can be evidenced from the Equifax report. An underwriting tolerance of two times the contractual monthly subscription applies.

### Accountancy Bodies

Where an accountant certificate has been used to evidence employment, it can only be accepted if it is prepared by an Associate or Fellow of an approved accountancy body; these are listed below:

- Institute of Chartered Accountants (ICA)
- Association of Chartered Certified Accountants (ACCA)
- Chartered Institute of Management Accountants (CIMA)
- Institute of Financial Accountants (IFA)
- Association of Authorized Public Accountants (APA)
- Chartered Institute of Public Finance & Accountancy (CIPFA)
- Chartered Institute of Taxation (CIOT)
- Association of International Accountants (AIA)

### e) ICR's

Zephyr Homeloans will only offer mortgage loan facilities to applicants where we are satisfied the required mortgage loan is affordable. We will consider the property to be self-financing if the gross rental income generated from the property covers the interest only payment using the stress calculation applicable to the applicant type, property type, transaction type, borrower tax status and rate type as set out in the table below.

The gross rental income is the lower of the current rent evidenced by a current AST or the market value as estimated by the valuer. If higher, the valuer's assessment may be used if the AST has less than 6 months to run

Applicant Type	Property Type	Transaction Type	Tax Status	Rate Type	Stress Calculation		
					ICR%	Stress Rate	Option to use personal income to make up a shortfall?
Individual	Standard (Not New Build)	Not LFL Remortgage	Not Lower Rate	5yr + fix	140%	Product Rate	Yes, Min income £50,000
				Variable or < 5yr fix	140%	Higher of payrate +2%, reversion rate or 5.5%	
			Lower Rate	5yr + fix	125%	Product Rate	No
				Variable or < 5yr fix	125%	Higher of payrate +2%, reversion rate or 5.5%	
Individual	Standard (Not New Build)	LFL Remortgage	Not Lower Rate	5yr + fix	125%	Product Rate	No
				Variable or < 5yr fix	125%	Higher of payrate +2%, reversion rate or 5.5%	
			Lower Rate	5yr + fix	125%	Product Rate	No
				Variable or < 5yr fix	125%	Higher of payrate +2%, reversion rate or 5.5%	
Individual	HMO, MUFB, FAC & New Build	All Transactions	Any Tax Rate	5yr + fix	155%	Product Rate	No
				Variable or < 5yr fix	155%	Higher of payrate +2%, reversion rate or 5.5%	
SPV	Standard	All Transactions	Any Tax Rate	5yr + fix	125%	Product Rate	No
				Variable or < 5yr fix	125%	Higher of payrate +2%, reversion rate or 5.5%	
SPV	HMO, MUFB, FAC & New Build	All Transactions	Any Tax Rate	5yr + fix	155%	Product Rate	No
				Variable or < 5yr fix	155%	Higher of payrate +2%, reversion rate or 5.5%	

The reversion rate is the relevant Zephyr Homeloans LIBOR rate at the time of application plus the reversionary product margin.

## Like for Like

A like for like (LFL) remortgage is a remortgage where there is no additional borrowing beyond the amount currently outstanding. In determining the amount of borrowing, arrangement fees, professional fees and administration costs can be excluded. Like for like status can be evidenced from the Equifax report. An underwriting tolerance of two times the contractual monthly subscription applies.

In no circumstances will we base our assessment of affordability on the equity in the property which is offered as security or take account of an expected increase in property prices.

## Use of Earned Income

For all applications, credit worthiness and rental yield criteria are applicable but a full personal affordability assessment is not required unless a landlord, excluding Limited Companies & in respect of Houses in Multiple Occupation, Multi-Unit Freehold Blocks, Flats above Commercial Premises & new build houses or flats, proposes using their personal income to supplement a rental income shortfall when calculated against the interest coverage ratio quoted in the product criteria.

In cases where the property rental income does not achieve the required ICR, and the application is on an individual basis, we may allow applicants to use earned income to supplement a shortfall in rental provided that:

- The application is not a like for like remortgage and is in respect of a standard property
- Income of at least one applicant can be validated as £50,000 per year or more with evidence from an income and expenditure submission that sufficient surplus income exists to cover the shortfall in rent and achieve the required ICR. We will consider more than one source of income per applicant provided they meet our acceptable income criteria and can be evidenced in line with our standard proof of income criteria
- The ICR, on a rental-only basis, is a minimum of 125% using the stress rate

## Portfolio cross-subsidisation

In cases where the property rental income does not achieve the required ICR, and the application is from an applicant with two properties or more, we may allow surplus rental from other properties mortgaged to Zephyr Homeloans to make up a rental shortfall provided that:

- The application is in respect of a standard property
- The aggregate ICR across all mortgages with Zephyr Homeloans is 155% using the product rate(s)
- Copies of current ASTs are provided to validate that the current rental income meets our requirements to support the additional loan serviceability required
- The ICR of the subject property on a rental-only basis is a minimum of 125% using the stress rate

## Pipeline cases and stressed interest rates

Mortgages which have not completed at implementation of a revised stressed interest rate, but which have progressed to the point where the applicant, as a minimum, has paid the relevant product fee and/or a hard footprint has been left at the Credit Reference Bureau, will not be reassessed for affordability using the revised stressed rate unless there has been a material change to the application which could impact affordability, or where the number of days since the last credit search is greater than the offer validity period. Examples of material change include amendments to:

- Name
- Address
- Date of birth
- Personal circumstances.

In the event of the stressed rate changing between DIP and the applicant paying the relevant product fee and /or a hard footprint being left at the Credit Reference Bureau the revised stressed rate will be used.

## 7. Tenancy

### Tenancies

#### Tenancy Type

- Single Assured Shorthold Tenancy if Annual Rent is less than £100,000 per annum
- Where the annual rent is £100,000 or more then Contractual Tenancy Agreement is acceptable
- Tenancy period of between six and thirty six months can be considered
- Student Lets and HMOs: Single AST or Individual / Room Only AST
- Multi Freehold Blocks: Multiple Assured Short hold Tenancies only

### Corporate Leases

The agreement must be in the name of the customer and the tenant. If the customer has a letting agent working on his behalf and is named on the agreement instead of the customer, this will not be acceptable. For example, when lending to XYZ Ltd, XYZ Ltd and no other entity must be the landlord.

The agreement must allow for a termination within the lease period. This may not be exercised but it gives both parties the opportunity to do so, with notice, and gives the opportunity to sell the property with vacant possession through exercising the break clause.

## Tenant Types

- Asylum Seekers: Not acceptable
- Persons who have or may acquire diplomatic immunity: Not acceptable
- Local Authority / Housing Association Tenants where the rental contributions will be made through a DWP (Department for Work and Pensions) payment: Not acceptable
- Company Lets: Not acceptable
- Holiday Lets: Not acceptable
- Any tenant who retains or may acquire an overriding interest in the property: Not acceptable
- Tenants related to the Landlord: Not acceptable

## High Value Tenancy

Where the rental income exceeds £100,000 per annum from one property, the tenancy is considered to be a Common Law Tenancy as opposed to an Assured Shorthold Tenancy. This type of tenancy is acceptable subject to recommendation by our appointed valuer. The tenancy agreement in this circumstance is known as a Contractual (Non-Assured) Tenancy agreement.

Irrespective of whether the Tenancy Agreement is an AST or Common Law Tenancy, Zephyr Homeloans reserves the right at all times to seek a copy of the agreement.

## 8. Loan Details

- Purpose: Purchase or re-mortgage, not within 6 months
- Minimum Term: 5 years
- Maximum Term: 35 Years
- Minimum Loan Size: £50,000
- Maximum Loan & LTV Standard: £1,500,000 up to 80% & £2,000,000 up to 75% LTV
- Maximum Loan & LTV Specialist:
  - HMOs & MUFBs: £600,000 up to 80% & £1,000,000 up to 75%;
  - New Builds & Flats above Commercial: £1,500,000 up to 70% LTV.

Any borrower wishing to borrow up to or above £1,000,000 for any individual property is subject to mandated approval by Zephyr Homeloans.

Any borrower wishing to borrow an aggregate amount above £3,000,000 is subject to mandated approval by Zephyr Homeloans.

## Repayment Method

We will accept repayment on one of the following:

- Capital and Interest
- Interest Only with full repayment of the mortgage debt repaid at or before the end of the agreed mortgage term
- Part Capital & Interest, Part Interest Only with the interest only element based on the assumption that the outstanding mortgage debt will be repaid at or before the agreed mortgage term.

## Re-mortgage Criteria

For re-mortgage applications, at least one applicant must have owned the property to be re-mortgaged for a minimum of six months prior to the application date.

## Minimum Valuation

A valuation of the property must be carried out for all new mortgage applications and this must be undertaken by one of Zephyr Homeloans panel surveyors. We will base the valuation on the lesser of the valuation or purchase price, this will be the value used to calculate LTV.

The minimum valuations acceptable are as follows:

- Standard property: £75,000
- HMOs, MUFBs & Flats above Commercial Premises: £100,000

## Capital Raising

Capital Raising is permitted where applicants are raising additional capital for the purpose of property improvements and purchases and where the amount borrowing is less than £25k. Where capital raising is for another purpose or for an amount greater than £25k, underwriting will establish the purpose and keep a record on file.

Additional borrowing of any amount is not permitted for the following purposes:

- Speculative or high risk investments (e.g. spread-betting, currency trading)
- Gambling or payment of gambling debts
- Payment of tax bill, tax penalty or payment of any sort of fine

- Any works to the subject property, or any other property mortgaged to Zephyr Homeloans which would involve the property being unlettable for more than six weeks. For example - extensions or structural alterations
- Where debt consolidation is involved, repayment of sums relating to the borrower's property business is permitted.
- Consolidation of other debts is subject to a maximum value of £25k and is not permitted where any borrower's credit file contains adverse entries or where any borrower has been referred to underwriting due to a low credit score.

### **Additions to the Loan**

The additions that are permitted to the loan amount without impacting the maximum LTV threshold:

- Product fees where payable. The maximum amount of add-ons as a percentage or amount of purchase price or valuation, whichever is lower, must not be more than the greater of 2.5% or £2,500
- Broker fees cannot be added to the loan.

### **Existing Second Charge**

No second charges will be permitted to remain at the time of the Zephyr Homeloans mortgage drawdown.

### **Offer Validity**

Offers are valid for 180 days from the date of offer.

### **Acceptable Sources of Deposit**

The deposit must be from the applicants own resources unless a Limited Company is purchasing a property sold by a Director. In this case, it is acceptable for the seller's equity to convert to a Director's loan upon completion. It is acceptable for part or all of a deposit to be gifted by a party unconnected to the transaction but no specified form of repayment can be required. In such cases we will ask the conveyancer to confirm to us, prior to completion, that the funds are a gift with no repayment required. This condition will be stipulated in the offer documentation.

### **Builders Cashbacks/Deposit**

It is acceptable for a builder to provide, as an incentive, a gift, cashback or contribution towards the deposit. The monetary value of any such contribution will be deducted from the purchase price and our lending based on the reduced value.

### **Unacceptable Sources of Deposit**

- Any loans taken out, with the exception of borrowing from another lender against an additional property owned by the applicant: subject to affordability and criteria
- Funding from credit cards

### **Incentives**

All incentives must be declared at application stage via a UK Finance Disclosure of Incentives form. Where it is known incentives are being offered, a special offer condition will state the conveyancer is to confirm to Zephyr Homeloans the purchase price of the property and disclose all incentives being offered in relation to the purchase.

### **Security**

An All Monies Charge will be applicable to customers with more than one mortgage with Zephyr Homeloans. This will allow us to utilize equity from one mortgage to repay another mortgage if the other mortgage is in breach of a covenant.

### **Payments**

- Direct Debit Only
- Must be made from one of the borrowers bank accounts or the Company's bank account
- A signed direct debit mandate is required for all applications

### **Maximum Exposure**

- £5,000,000 in any unique mix of borrowers
- £7,500,000 in aggregate

Applicant Exposure limits – The maximum we will lend to any unique mix of customers is £5m and the maximum aggregate loan is £7.5m. For example, a customer may have £5m in the same joint names and a further £2.5m in sole name or different set of joint names or Limited company. Any borrower wishing to borrow an aggregate amount above £3m is subject to mandated approval by the Lender.

Any borrower wishing to borrow an aggregate amount above £3,000,000 is subject to mandated approval by Zephyr Homeloans.

### **Recently purchased or acquired Back to Back sub sales**

For remortgage applications, the applicant must have owned the property for a minimum of six months. This should be validated from either mortgage statements or a Land Registry Search.

## UK Bank Accounts

All applicants must have a UK bank account from which mortgage payments should be made.

It is a condition of the mortgage that a Direct Debit is used to make contractual monthly payments to Zephyr Homeloans Mortgage accounts from a current account held with a UK based bank.

The bank account from where the Direct Debit is to be collected must be in the name of at least one applicant or the name of the Limited Company making the application.

## 9. Property Details

### a) EPC

The property must attain an energy performance rating of "E" or above. Properties rated F or lower are not acceptable.

### b) VALUATIONS

Zephyr Homeloans will obtain a standard valuation report, based upon a physical inspection of the property, carried out by a suitably qualified valuer who is a member of the Royal Chartered Institute of Surveyors (RICS) and on the Zephyr Homeloans valuers panel.

#### Valid For

A valuation report is valid for 180 days. The valuation must be addressed to Zephyr Homeloans and we will not accept re-addressed valuations which have been carried out for other purposes.

Where a property is valued at below the purchase price or the applicant's estimated value and the loan is affected, a copy of the report can be provided to the customer, who will then have the option of a reduced loan or renegotiation of the purchase price, if applicable. The valuation fee is non-refundable once a valuation has been carried out.

Where the rental value quoted by the valuer is less than the applicant's estimated value, for a purchase, the maximum permitted loan amount will need to be amended in accordance with the valuer's estimate. For remortgage applications, the valuer's estimate will be used in the rental assessment.

### c) COMPARABLES

Zephyr Homeloans requires comparable evidence of three completed property sales and three rental valuations. With respect to the capital valuation, the comparables should be located within five miles of the subject property and have been sold on the open market within the last six months; all should be completed sales. The comparables should also be within 10% of the valuation provided. Where these conditions cannot be met, the valuer must give an explanation, in the additional comments section of the valuation form, and approval must be sought from Zephyr Homeloans prior to issuing a mortgage offer. Where comparable properties are not available, or there are valuation discrepancies, acceptance is subject to underwriting approval.

### d) RETENTIONS

Zephyr Homeloans does not offer retentions.

### e) GENERAL

#### Location

Property must be located within England or Wales. We will not accept security over property in the Channel Islands, Isle of Man or Scotland

#### Tenure

- We will accept Freehold and Leasehold properties only
- Leasehold properties are permissible providing the company has no controlling interest in the corresponding freehold. Where this is not the case, any decision to lend rests with the Lender
- Leasehold properties must have a minimum lease of 70 years remaining at the end of the mortgage term
- For leasehold properties, consideration will be given to ground rent and service charge costs in assessing affordability. All applicable charges must be included in the application

#### Important note

In situations where an applicant is purchasing a leasehold property, the applicant should declare any interest in the freehold over and above the share associated with the security property. Where a landlord has an unusual or controlling interest in the freehold, the application may be considered but a charge over the borrower's freehold interest will be a requirement.

#### Freehold Flats

Zephyr Homeloans will not lend on Freehold flats, this includes Tyneside arrangements whereby both the upper and lower flats are bought leasehold but the upper flat owns the freehold for the lower flat and the lower flat owns the freehold for the upper flat.

Multi-Unit Freehold properties are acceptable providing they comprise a maximum of 6 individual units. They may constitute a purpose built block of flats or a house converted into individual units. Each unit will be the subject of a separate tenancy agreement. We will not allow any carve off of a block where our security would be on the remaining units.

### **Flying Freehold**

A flying freehold may be considered where less than 10% of the property extends over another and the valuer states that saleability is unaffected. A flying freehold greater than 10% will be declined.

### **Property Exposure Limits**

Zephyr Homeloans will restrict lending as follows:

- To a maximum of one single unit in developments of up to 7 properties
- 25% of units in developments of between 8 and 50 properties
- 15% where the development comprises 50 properties or more
- To a maximum of 20% of properties within any individual full postcode

The exception would not relate to MUFBs where we may lend on the whole unit which may comprise up to 6 individual units.

### **Applicant Exposure Limits**

The maximum we will lend to any unique mix of customers is £5,000,000 and the maximum aggregate loan is £7,500,000. For example, a customer may have £5,000,000 in the same joint names and a further £2,500,000 in sole name, a different set of joint names or SPV.

The maximum LTV for a customer with balances of £2,000,000 or more with Zephyr Homeloans is 75% on any new lending.

### **Property Type**

Acceptable Property Types

- Detached
- Semi-detached
- Terraced
- End terraced
- Purpose built flat (leasehold)
- Converted flats (leasehold)
- Maisonettes
- Bungalows

Zephyr Homeloans require a minimum term of 70 years left on the lease at the planned end of the mortgage term

### **Houses in Multiple Occupation (HMOs)**

Definition: A property which is let to three or more tenants or five or more tenants for a "large HMO" who form two or more households and who share a Kitchen, Bathroom or toilet

Landlord Experience: Existing landlord with at least 1 years' experience of letting property

Maximum Number of Bedrooms: 6

HMO Licence Requirements: For HMO remortgages, any licence required by the Local Authority must be in place prior to completion. For HMO purchases, where a licence is required, we must have sight of the current licence held by the vendor to evidence that the property is capable of being let on a multi occupancy basis. Our valuer is asked to comment on the requirement for any licensing and compliance with current legislation. We must also obtain confirmation from our solicitors that the customer has applied for a licence and that the Local Authority has acknowledged receipt of the application prior to completion or exchange of contracts. The applicant must also provide a signed undertaking that the property will not be let as an HMO until all licences are in place

Minimum Valuation: £100,000

Maximum Loan at 80% LTV: £600,000

Maximum Loan at 75% LTV: £1,000,000

### **Multi-Unit Freehold Blocks (MUFBs)**

Definition: A property that has more than one residence within it but facilities are not shared between occupants

Can be purpose built, such as a block of flats, or converted, such as a house converted into flats

Minimum Valuation: £100,000

Maximum Loan at 80% LTV: £600,000

Maximum Loan at 75% LTV: £1,000,000

## Flats above Commercial Premises

Definition: We will consider applications relating to flats above commercial premises providing our valuer confirms the property forms a suitable security

Minimum Valuation: £100,000

Maximum LTV: 70%

Maximum Loan: £1,500,000

### Note

Flats above restaurants, takeaways or pubs are subject to underwriting discretion and a favourable valuer's report.

## New Build

### Acceptable Warranties: Required for up to 10 years

- NHBC Build mark
- NHBC Solo
- Zurich - Accepted provided that the warranty is already in place. Zurich (Armour Risk Management Limited) must confirm that it will honour the warranty
- Castle 10 New Home Warranty
- LABC
- Premier Guarantee Certificate
- Build Zone
- CRL Management Ltd (Excluding policies underwritten by Alpha)
- Buildings Life Plan
- Aedis Warranties
- Advantage/Advantage HCI
- International Construction Warranties ( ICW)
- Protek
- Build Assure/FMB Insurance
- Global Home Warranties
- Q Assure/Q Policy
- One Guarantee

### Other acceptable warranties

Certification by certain professional consultants may be accepted subject to it being in standard UK Finance format, where the property has been built or converted within the last 6 years. Architect's certificates may also be accepted, if signed by a Qualified Architect, who is a corporate member of the Royal Institute of British Architects or a Qualified Chartered Building Surveyor, who is a corporate member of the Royal Institution of Chartered Surveyors.

Evidence of appropriate valid personal indemnity insurance will be required and the certificate must be for the benefit of the borrower(s). The Architect must confirm that he has supervised the whole project.

### Condition

The property must be habitable, readily saleable and rentable. Structurally sound and be able to have unconditional buildings insurance arranged upon it that covers full rebuilding and replacement costs to the property including all professional fees and the costs of meeting planning and local authority requirements. The mortgage advance may be wholly or partially retained pending completion of works required to bring the property to a suitable condition for lending, subject to recommendations made by the valuer. Funds will be retained according to the valuer's recommendation.

If the property does not have mains water the conveyancer must ensure the existence of a satisfactory private water supply and that the supply has been continuous during the course of the last 10 years, is suitable for domestic use and that where possible a Certificate of Water Purification is available.

If the valuation states a garage is present, a special condition will state the offer is subject to the conveyancer ensuring that any garages or parking spaces identified in the Valuation Report form part of the title and are charged to Zephyr Homeloans. Where any garage or parking space does not form part of the title, an exclusive legal right to use such a facility should be attached to the title to the property.

We will not lend on properties in the following condition:

- With no kitchen or running water
- With no bath or shower or running water
- With no utilities or other shared services
- Currently suffering from progressive Japanese Knotweed infestation
- Suffering progressive structural movement which requires monitoring
- Properties with on-going structural issues
- Properties that have been underpinned
- Landlocked properties
- Properties where power lines or electricity supply apparatus are located directly over and/or on the site which are not for domestic supply to the subject property
- Properties with floor areas of less than 30 square meters

## **Solar Panels**

### **Installed**

Applications where solar power panels are installed on the property being purchased, or remortgaged, are acceptable subject to the valuer confirming the property is suitable security and where our solicitors confirm that the terms of the lease meets the UK Finance minimum requirements.

### **To be installed**

Where the customer wants to purchase and install solar panels on a property already in mortgage to Zephyr Homeloans, this will be acceptable provided this does not have a material detrimental impact on the value of the property.

Where Zephyr Homeloans receives a request from a solar panel provider company to lease the roof and install solar panels on a property in mortgage to Zephyr Homeloans, consent will only be provided where the terms of the lease meet the minimum requirements set out by UK Finance which is updated periodically on its website.

### **Property Close to Commercial Outlets**

Zephyr Homeloans will rely on the valuer to advise if saleability may be affected due to the proximity of the property to be mortgaged to commercial properties.

### **Restrictive Covenants**

Subject to underwriter approval, we will consider applications where restrictive covenants are in existence providing all other product criteria are met. We will review any valuer comments on potential impact on resale and the ability to rent.

### **Specialist Reports**

We may require a specialist's reports such as but not restricted to:

- Timber and damp
- Electrical
- Trees (arboriculture)
- Drains
- Roof
- Structural
- Cavity wall tie
- Mining report or metalliferous mining report

If any such reports are required, a special condition will be imposed at offer stating a report needs to be obtained and the completed report will be considered by underwriting and may be forwarded to the valuer or solicitor at the clients expense.

### **Ex-Local Authority Properties**

Whilst lending in situations where security is an ex-local authority property is permitted, exposure will be limited. We will agree to lend in situations where at least 50% of properties within the block are privately owned and we require valuer commentary to satisfy us on this point.

### **Excluded Properties**

- Freehold Flats
- Mobile Homes
- Commercial Property
- Houseboats
- Property held on a commercial basis
- Property held on a Commonhold basis
- Property with planning use classes other than C3(a)(b)(c) and C4
- Property with a pre-emption clause in existence
- Property with restrictive covenants or saleability such as retirement homes, houses or apartments
- Holiday Lets
- Right to Buy - unless purchased more than 5 years ago
- Property subject to a shared ownership deed
- Farms, small holdings or properties with agricultural restrictions in place
- Studio flats or flats with a total floor area of less than 30 square meters
- Property where a Flying Freehold exists affecting more than 10% of the total floor space
- Flat in a block with more than three floors above ground floor and which does not have a lift Note: top floor and attic can be considered as one floor where they are part of the same flat
- Flats or maisonettes in blocks exceeding 10 stories are acceptable subject to mandated approval by Zephyr Homeloans
- Prefabricated buildings and PRC construction
- A property listed as defective under the 1984 and 1985 housing acts unless rebuilt to NHBC standards and with appropriate guarantees. The adjoining properties must also have been repaired to the same standard
- Bed & Breakfast
- Serviced Flats or Apartments
- Retirement Flats
- Park Homes

- Mundic properties where the property is not graded 'A' or 'A/B' following a Petrographic Test
- Sheltered Accommodation
- Property affected by progressive Japanese Knotweed
- Timber Framed – Inner and Outer Leaf
- Wimpey No-Fines
- Laing Easiform construction
- Property where high alumina or Mundic block cement has been used in the construction
- Timber framed property that does not have a brick or "block and rendered" outer skin
- Property on which there is a local authority grant outstanding
- Live/work units
- Property with an anticipated lifespan of less than twenty five years beyond the end of the mortgage term and/or where the condition significantly affects marketability
- Properties with no kitchen. Bathroom or shower room
- Property which has shared access where a relative of the customer resides in the other property
- Property which has any shared services with any adjoining or adjacent property which does not form part of our security
- Social Housing Schemes
- Property where material environmental hazards are present
- Property where saleability may be adversely affected by local planning or by an unsatisfactory mining report
- Property which is being bought from the customer's own limited company
- We will not lend where the property is affected by or within influencing distance of any significant factor which will have a negative impact on the property's value or re-sale ability (e.g. overhead pylons, sub stations, etc.
- We will not lend on any property deemed unsuitable security by the Valuer
- Cross-tenure Property
- Sale and Leaseback
- Mixed use properties

### **Property Construction**

Property acceptability is based on a satisfactory valuation report from our appointed valuer in accordance with the construction and valuation policy detailed below. Non-standard construction will be assessed on individual merit.

Standard Construction can be broadly defined as brick or stone under tiled or slated roofs. Non Standard construction can be wide ranging and will be considered on individual merit. We will at all times be guided by our valuer as, dependent on the location and condition, we may be prepared to lend on the property.

Walls and roofs should be of a traditional construction and of a type that ensures a ready future market for the property.

### **Construction**

- Solid Wall Construction: Yes
- Cavity Wall Construction: Yes

### **Acceptable Wall Type**

- Brick: Yes
- Natural Stone: Yes
- Reconstituted Stone: Yes
- Concrete Block: Yes
- Cob and Flint: Yes
- Large Panel Systems (LPS): Yes, no more than two stories high and subject to structural engineers report
- Steel Framed Houses: Yes, subject to being readily marketable and mortgageable

Any property where there is ongoing movement and monitoring is required is not acceptable.

### **Acceptable Roof Construction**

- Pitched Roof
- Timber frame covered with either tiles or slates
- Thatched Roof
- Reed or Straw
- GRP
- EDPM

### **Flat Roof Types**

- Copper, Lead, Zinc, Asphalt & Mineralized Felt

### **New Build Houses & Flats**

A new build property is one of the following:

- A Property that has been recently constructed or converted and is being sold for the first time as completed and ready for occupation, or has been previously sold on this basis within the last twelve months
- A Property being tenanted for the first time following conversion from a commercial property to a buy-to-let property. Where the property is a recent conversion, the original construction date of the property must be determined and recorded as part of the application via our Online Portal.

The new build property may be a HMO or MUFB in addition to the more standard property types. However, no products are currently available for new build HMO or MUFB.

### **Ownership**

All properties must be held on a 'Joint Tenants' or 'Tenants in Common' basis and each borrower will be joint and severally liable for the full mortgage debt.

## **10. Solicitors**

### **Solicitors – All Applicants**

Zephyr Homeloans will instruct our solicitor to act in all cases. Our solicitor can act on either a joint or sole basis. If the applicant chooses a separate solicitor to act on their behalf the applicant will be liable for both sets of legal costs.

We will only accept instructions to cancel a case from the solicitors acting on our behalf.

### **Additional Solicitors Requirements – Limited Company**

Applicants will need to instruct a solicitor and enter into a Personal Guarantee and confirm that they have received independent legal advice.

## **11. Fees**

The mortgage illustration will detail all fees, including broker & procurement fees. For further details of fees, please refer to the Tariff of Mortgage Charges

### **Additions to the Loan**

The additions that are permitted to the loan amount without impacting the maximum LTV threshold are product fees, where payable. The maximum amount of additions as a percentage, or amount, of purchase price or valuation, whichever is lower, must not be more than the greater of 2.5% or £2,500.

### **Refund of Fees**

Where the application is declined or Zephyr Homeloans is advised that the application is not proceeding, any fees, excluding non-refundable fees, which have been paid as part of the mortgage application, will be refunded to the party who paid the fee. The valuation fee can only be refunded where notification of the application not proceeding is received with sufficient notice to cancel the instruction. Details of fees payable are contained in our Tariff of Charges document.

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12GT7M 34 (09/2019)