



Further Advance Lending Guidelines

1st January 2010

Further Advance Lending Guidelines

SUBMISSION REQUIREMENTS

Paragon reserves the right to not process a further advance at its sole discretion.
All further advance products are subject to availability of funds and withdrawal at any time.
Please see our latest Further Advance and Product Transfer Sheet for current products.

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| Definition | All Buy to Let Landlords Applications for Individual or Portfolio Residential Investment Property |
| Income and Employment Criteria | Minimum income of £25,000 Employed Applicants should be in permanent non-probationary employment. We will consider long term contract work on an individual basis Self Employed To include Professional Portfolio Landlords. Individuals who work on a subcontract basis will be treated as self employed Minimum trading term : 2 years |
| Submission Requirements | Fully completed Further Advance Application Form * Where all current mortgage payments can be located on the credit search, proof of the preceding 12 months mortgage payments may not be required In respect of both Rental and Self Employed income: Last 2 years Accounts prepared by a qualified member of an accountancy body approved by Paragon (see section 11) Or Last 2 years self assessment Tax Returns plus HM Revenue & Customs approval Form SA302 or SA300 (if Revenue calculated) or SA310 (if self-calculated) Last 3 Payslips or most recent P60 in respect of any employed income Last 3 months personal and rental Bank Statements Full documentation in support of loan purpose (to include estimates, plans, details of properties being purchased, purchase prices etc) |
| Additional requirements for Aggregate Lending in excess of £2 million | Cash Flow Forecast Net Worth Statement * Summarised Business Plan * Interview with Senior Underwriter * available in the Literature Library on our website at www.paragon-mortgages.co.uk |

Further Advances are generally available to borrowers on current schemes where the loans with Paragon have been successfully maintained for a minimum period of 6 months.

The Further Advance plus current balance outstanding must comply with the scheme and lending guidelines applicable to the existing mortgage.

Further Advance Lending Guidelines

1. AMOUNT OF ADVANCE

Minimum: £2,500

Maximum (Aggregate of original loan plus further advance(s)):-

For loan purpose of:-

- Undertaking repairs, improvements and refurbishments to residential investment properties mortgaged to the Paragon Group:
Up to 75%: Maximum £500,000
Up to 70%: Maximum £500,001 to £1,000,000
Up to 65%: Maximum £1,000,001 to £2,000,000

For loan purpose of either:-

- Undertaking repairs, improvements and refurbishments to residential investment properties not mortgaged to the Paragon Group
- Deposits or the full purchase consideration for residential investment property purchases where not mortgaged to the Paragon Group.
Up to 70%: Maximum £500,000
Up to 65%: Maximum £500,001 to £1,000,000
Up to 60%: Maximum £1,000,001 to £2,000,000

Mortgage Term

Minimum: 5 years Maximum: 25 years

However, the maximum term for a further advance must not exceed the end date of the main loan.

Repayment Methods

Interest only, capital and interest repayment or part interest only and part capital repayment are available. It is good practice to make provision for the repayment of the loan upon maturity or in the event of death during the term. However, we do not ask for a life policy or investments to be assigned to the mortgage.

Paragon Group Reference Rate

The Group Reference Rate is set by the Company to reflect market conditions. This rate may be used in the affordability assessment of applications. The rate is reviewed on a regular basis.

2. INCOME/AFFORDABILITY

Income

Minimum Income £25,000

Affordability

All applications will be subject to a joint assessment of the minimum income being achieved and the gross rental income from the property. This should equal or exceed 125% of the interest only payment of the loan, calculated at either the Paragon Group Reference Rate or the Product Pay Rate, whichever is applicable to the product chosen.

3. PERSONAL DETAILS

Applicants

The maximum number of Applicants is four, all of whom should normally have been resident and liable to tax in the UK for a minimum of 3 years. Further advance applicants must mirror those of the main loan.

Age at Application

Minimum: 21 years

Mortgages should normally be repaid by retirement age, unless evidence to service the loan beyond this age can be demonstrated.

4. LIMITED COMPANIES

Limited Companies must be registered and trading in England, Wales or Scotland, and have directors who are resident in the UK for

tax purposes. The company must have been incorporated for the principal purpose of buying and holding residential investment property.

Full personal guarantees must be available from all the directors on a joint and several basis, subject to the company having a maximum of 4 directors. We reserve the right to request full personal guarantees from shareholders with significant holdings. Accordingly, the expression 'applicants' should, where appropriate in these guidelines, be interpreted to also mean guarantor(s).

5. CREDIT HISTORY

A comprehensive review of the credit history for each applicant will be undertaken, which will include a credit search on all applicants. In addition, we will undertake a credit score to assist in the underwriting assessment. We will not normally consider any application where there is evidence of poor credit, such as county court judgements, defaults or arrears on any loan.

6. EMPLOYMENT

Employed Applicants

Applicants must be in permanent, non-probationary employment. We will consider long term contract work on an individual basis.

Self Employed Applicants

Individuals who work on a subcontract basis will be treated as self employed.

An Applicant will be classed as self employed where the individual owns 20% or more shareholding of the company or is employed by a family business.

Applicants must have been trading in their present business for a minimum of 2 years.

7. PROPERTY/VALUATIONS

Paragon requires a first legal charge over a traditionally constructed residential property in England, Wales or Scotland with a minimum property valuation of £50,000

Multi-Unit Property

We may consider, on an individual basis, a single property divided into a maximum of 20 units. Properties will not be considered for further lending where more than 50% of the units are now on long leases. At our discretion, and where considered appropriate, an investment valuation may be obtained for further lending purposes. In such circumstances the property value must exceed £100,000. For properties with up to 10 units, a minimum value of £75,000 will apply. Where more than one purpose built flat, which is capable of sale separately, is held on a single title, the value of each individual unit must meet our minimum property value of £50,000.

HMO Properties

Where the property is a House in Multiple Occupation ("HMO") that requires either a Mandatory, Selective or Additional Licence, the applicant must provide a copy of the licence.

Part Commercial Property

We may have approved as security, residential let property where there is a commercial element not exceeding 40% of total floor space of the whole property. An investment valuation of the property will be undertaken and the gross property valuation will be discounted by the notional value of the commercial element. Paragon's let property product criteria will then apply to the residential element of the valuation. The rent-to-mortgage ratio will apply, but income from the commercial letting will not be taken into account.

Let Property

Property must be let either:

- (i) On an Assured Shorthold Tenancy subject to a minimum term

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of 6 months and a maximum of 12 months OR

- (ii) To a Limited Company registered in England, Wales or Scotland for up to 3 years or to a Local Authority or Housing Association for up to 5 years PROVIDED it is subsequently occupied only by a private individual or individuals whose rights of occupation do not extend beyond the term granted to the acceptable corporate tenant. (In both cases being pre-approved by the lender and being on appropriate terms.)

The property shall not in whole or in part be let to or occupied by the applicant, or any guarantor, or any member of the family, or employee, or associated subsidiary, or parent company (as the case may be) of the applicant.

Property Exclusions

Since the property is already in mortgage, it should comply with our property criteria. However, a property is unacceptable if the following are now found to exist:

- Properties that have been neglected or are in poor order or are otherwise incapable of letting.
- A security now in a poor area with saleability issues.
- Within a block of flats with inadequate block maintenance/management.

The following types of property may be considered on an individual basis, subject to valuation and the surveyor's comments on saleability as at the date of valuation for further lending purposes:

- Leasehold flats and maisonettes attached to or above commercial premises.
- Flats in blocks over 7 storeys high (10 storeys within the M25 area), or with more than 100 units.
- Properties with restrictions on occupancy e.g. section 106 notice.
- Ex Local Authority houses/flats.
- Studio flats, with a minimum of 30 square metres.

Tenure

Freehold, Heritable Ownership or Leasehold, in which case, a minimum of 40 years unexpired must remain at the end of the mortgage term. The valuation for further lending purposes will, however, reflect any short lease.

Valuations

A security assessment and valuation report will be arranged by Paragon to determine the suitability and value of the property. Paragon reserves the right to accept or decline any individual property for further lending purposes.

Occupation

Depending on the specific conditions of each loan, the property must either be occupied by tenants, or may be vacant between lettings for up to 90 days, subject to the terms of the insurance cover being complied with (see Let Property section above for approved letting arrangements).

8. REFERENCES

Paragon reserves the right to request additional information or references such as an accountants reference, employment reference, bank/mortgage statements or a bank reference in support of the application.

9. SOLICITORS

Normally a solicitor will not be instructed to act in the matter, except if the property is in Scotland, although it is always advised to seek independent advice before taking on any financial commitment.

Where solicitors are instructed:

- The firm must have a minimum of 2 partners, operate from commercial premises and have been in business for at least 3 years.
- The solicitor acting must hold a current practising certificate

and be shown in the current edition of the Scottish Law or Solicitors and Barristers Directory.

In all cases, Paragon reserves the right to instruct solicitors to act on our behalf only and any costs incurred will be the responsibility of the applicants whether or not the completion takes place.

10. PROPERTY INSURANCE

ALL PROPERTIES, whether or not insurance is arranged through Paragon, must be acceptable to our insurers on standard terms, that is, exclusions or increased excesses do not apply for certain events.

In the event of a higher reinstatement value for the property being identified on the further advance valuation, it will be necessary for the existing buildings insurance to be increased accordingly.

11. GENERAL INFORMATION

Identity

Where identity of all applicants cannot be established through the underwriting process, additional proof of identity will be required.

Decision

Overall Assessment

When we consider an application, a detailed assessment of the following circumstances will be made, so that an informed decision can be reached regarding the acceptability of the case:

- The applicants credit history.
- The type and length of employment, or the viability of the applicants business and for let properties, the managing agents charges and maintenance costs.
- The rental income available is sufficient to support the loan on completion.
- The suitability and value of the property.
- The application credit score.

Final Decision

Paragon reserves the absolute discretion to determine whether or not to make an offer of loan and the terms on which this is available.

Life Cover

Although we do not insist that a life policy is assigned to us, we strongly recommend that suitable cover for the amount and term of loan is in place to provide adequate protection for the applicants.

Legal Charges

A first legal charge is required over each property mortgaged to Paragon. Paragon do not normally give approval to a second charge, for example in respect of further borrowing from other lending institutions.

Interest Rates, Fees and Redemption Terms

Please refer to the guide entitled 'Further Advance and Product Transfer Sheet' for full current details. This can be found within the Literature Library of our website www.paragon-mortgages.co.uk.

Direct Debit Mandate

It is a condition of all further advances that monthly payments are made by direct debit from an account in the applicants name.

Approved Accountancy Institutes

Institute of Chartered Accountants in England & Wales (ACA/FCA)
Institute of Chartered Accountants in Scotland (CA/FCA)
Institute of Chartered Accountants in Ireland (CA/FCA)
Association of Chartered Certified Accountants (ACCA/FCCA)
Chartered Institute of Management Accountants (CIMA)
Chartered Institute of Public Finance Accountants (CIPFA)
Association of International Accountants (AIA)
Association of Accounting Technicians (AAT)



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