



Underwriting Guidance - Covid-19

20th Nov 2020

Following the Government announcement made on 2nd Nov 2020 to extend the Furlough scheme and issuance of the FCA's Mortgages and Coronavirus Payment Deferral Finalised Guidance effective 20 November 2020, we have outlined some guidance around the use of criteria, particularly in respect of existing customers on payment holidays, criteria on new customers seeking payment holidays, applicants who have been furloughed, using the SEISS scheme and applicants who have opted for bounce back loan scheme (BLS) especially now these schemes have been extended by the Government

Nothing below in any way restricts the underwriters from requesting whatever additional information they may require in order to fully assess a case and ensure that applicants can support the finance applied for.

Brokers should be requested to advise the Bank should changes be made to their client's situation during the application stage. This includes being furloughed, un-furloughed, made redundant, using the SEISS scheme or any other change or future anticipated change to income /circumstances, including use of Payment Holidays.

Payment Holidays

- Payment Holidays may be requested by our HPP and BTL Finance customers that are impacted by circumstances relating to Coronavirus in the following instances:
 1. Customers and BTL landlords who have not yet had a payment holiday may be eligible for payment holidays of 6 months in total.
 2. Customers and BTL landlords who have had an initial payment holiday of up to 3 months may be eligible to apply for a further 3 months payment holiday. This further payment holiday does not need to be consecutive, provided it is requested before 31 March 2021.
 3. Existing customers who have previously had payment holidays of less than 6 months may be able to extend, as long as total payment holidays don't exceed 6 months. This includes those Customers who are already in payment shortfall and/or receiving tailored support..
 4. Customers who have had a maximum of 6 month payment holiday will not be eligible for a further payment holiday under the FCA guidance. The Bank will continue to provide tailored support appropriate to the customers' individual circumstances in accordance with the Bank's forbearance policy.
 5. Any customers that have resumed full payments after having had a payment holiday but are now unable to continue to make payments due to circumstances relating to coronavirus may be entitled to a further payment holiday subject to the initial payment holiday being for less than 6 months. Any application for a further payment holiday should be made by 31 March 2021.

Customers will have until 31 March 2021 to apply for an initial or a further payment holiday. After that date, they will be able to extend existing payment holidays to 31 July 2021, provided these extensions are for consecutive payments, and subject to the maximum of 6 months allowed.

Customers who have not yet taken a payment holiday, and who think they need the full 6 months should in good time before their February 2021 payment is due.

Under this guidance, payment holidays will not be extended beyond 31 July 2021.

Note: Any payment holiday request will be reviewed by our collections and recoveries team and the final outcome will be confirmed to the customer upon satisfactory review.

For Internal guidance only:

- Prior to the end of the customer's payment holiday, the Bank will contact the customer to understand their individual circumstances and discuss the most appropriate option available to them;
- Any deferred payments will not automatically be added to the end of the Purchase Plan;
- Any arrears or missed payments occurring before the Covid-19 pandemic or payment holiday period, should be treated as normal, regardless of whether a Payment Holiday has since been granted. Therefore, applicants who have had home finance arrears or defaults within 12 months of application, will not be considered for finance by the Bank.
- **Note:** We do not charge rent on the deferred payment and any additional payments made over and above the monthly instalments by applicant reduces the outstanding amount on deferred payments due to the Bank.
- Any new or existing customer who has utilised a Payment Holiday facility should be treated with care and consideration, but we would need to know why they feel that they can justifiably request a new facility when they appear to be unable to make their existing payments.

Retention Customers:

- No change to current process – customers approaching the end of their fixed term, will be offered new fixed terms (or the Follow On rental rate) based on the products available at maturity and the original FTV. This includes customers who have utilised the Bank's Payment Holiday scheme or any of the Government's financial support packages.
- If a customer requires material changes to their account i.e. an increase in finance, change of term or an addition/removal of a joint applicant, then a new application must be submitted. Applications will be assessed based upon the underwriting criteria at the time of application and subject to new application and valuation fees. This may mean that the applicants do not meet the new criteria or that the changes they require are not available at the present time.

Income Criteria / Furloughed Applicants

This provides guidance on applications where one or more applicants have been furloughed by their employer, or where self-employed applicants have utilised the SEISS (Self-Employed Income Support Scheme).

New Business HPP & BTL:

Employed applicants subject to furlough should be accepted on the following basis:

- 80% of income up to £2,500pm (£30,000pa) or the new limits when they come into force. **These figures need to be evidenced.**
- **Any** additional amounts paid by the employer will be accepted **but need to be evidenced.**
- There is no existing notice or knowledge of impending redundancy or unemployment.

Self-Employed applicants utilising SEISS should be accepted on the following basis:

- Underwriters must assess/confirm the long term viability and sustainability of the business in the sector it operates in
- We can only accept incomes **currently being received and evidenced (no projections)**
- SEISS payments can be used as income to support the case
- Any business or government sponsored loan schemes cannot be used towards deposits

In addition for BTL:

- If self-employed and the rental income exceeds the proposed rental payments (with or without utilising SEISS), the case should be accepted, subject to meeting all other Policy Criteria.
- Last 3 months business bank statements should be requested to show income consistency
- SEISS or furloughed income can be used for minimum income purposes, but the Bank cannot accept applicants on government income support schemes, where income is required as rental top-up.

Contractors HPP & BTL:

- Given completion can take several months, greater consideration should be given to contractors in the last 6 months of their contract at application date. All such applicants should be questioned regarding the future of their contract/income and those in the last 3 months should be asked to provide proof of extension or of a new contract. These cases may have to be reviewed as the application progresses.

Bounce Back Loan Scheme (BBL)

Background

The Bounce Back Loan Scheme was introduced by the Government to help smaller businesses impacted by coronavirus (COVID-19). It aims to assist those businesses to borrow from £2,000 up to 25% of a business' turnover (the maximum amount available is £50,000). The Government will cover any interest payable in the first 12 months through a Business Interruption Payment to the BBL lender, and BBL lenders will benefit from a 100% government-backed guarantee.

The Government has set the interest rate for this loan at 2.5% per annum and the repayment term is fixed at 10 years. No repayments will be due during the first 12 months.

Borrowers remain 100% liable to repay the full loan amount, as well as interest, after the first year.

For sole traders / self-employed and small partnerships.

If an applicant is operating as a sole trader/self-employed or small partnership; the BBL loan will effectively operate as a personal loan and they are personally liable to repay it. However, as per the terms of the Bounce Back Loan Scheme, no recovery action can be taken over a principal private residence or a primary personal vehicle.

- The Bank would require the applicant to confirm the loan amount at the application date; this can also be verified from business bank statement.
- Repayment instalments post 12 months period will be taken into account whilst conducting income assessment for BTL applications where income top-up is required and all HPP applications.

For Companies/SPV (only applicable to BTL)

If an applicant is operating as a limited company, then the BBL funds will sit with the company.

- The Bank would require the applicant to confirm the loan amount at the application date; this can also be verified from business credit report or /and business bank statements.
- Payment instalments post 12 months period will be taken into account whilst conducting income assessment for BTL applications where income top-up is required.
- BBL will appear on the business credit report

The above are guidelines and cannot cover every scenario. Underwriters will need to make decisions on a case by case basis. However, if still unsure about a case, please refer to Credit Risk