Broker guidelines

These guidance notes will help to clarify the process for our brokers when submitting a case with InterBay and will highlight the key issues for you to consider and address at each point of the process.

Many of your questions should be answered in the following pages. However, each case is different and will have individual characteristics so if you've any questions relating to a specific case that you have submitted you should contact the Broker Liaison Team on **0345 878 7000**.

These guidance notes focus on our core loan types including buy to let, houses of multiple occupation, commercial investment and owner occupied commercial and bridging. An explanation of our specific requirements for each of the above is attached in Appendix 2. In Appendix 3, we've also added a question and answer section that hopefully will cover some of the more topical points. Our aim is to update this section on a regular basis to ensure it is consistent with our policy at the time.

Relationship managers (SBDMs and Broker Liaision Team)

The role of your Senior Business Development Manager (SBDM) is to 'make a difference' to your business. The most obvious way they can do this is to assist you in the 'shaping' of deals and ensure that you fully understand the InterBay products and process flow to further enhance the commercial knowledge that you already have. They are there to help you with marketing and to assist you in developing new business. The visits from your SBDM should form proactive discussion areas including assessing the business versus plan in accordance with the expectations advised within the Group introducer agreement.

Your dedicated Business Development Consultant (BDC) is responsible for the day-to-day progress of your case from initial enquiry right through to completion. As they are based at head office, they are able to discuss all areas of the process with the relevant departments your client's application will pass through. As with your SBDM, the Broker liaison Team will be able to assist you with regular updates and requirements on individual cases at every stage. Their role is integral to the entire sales procedure and a valuable asset to you as a broker with the aim of making sure loan applications pass through to completion as smoothly and efficiently as possible.

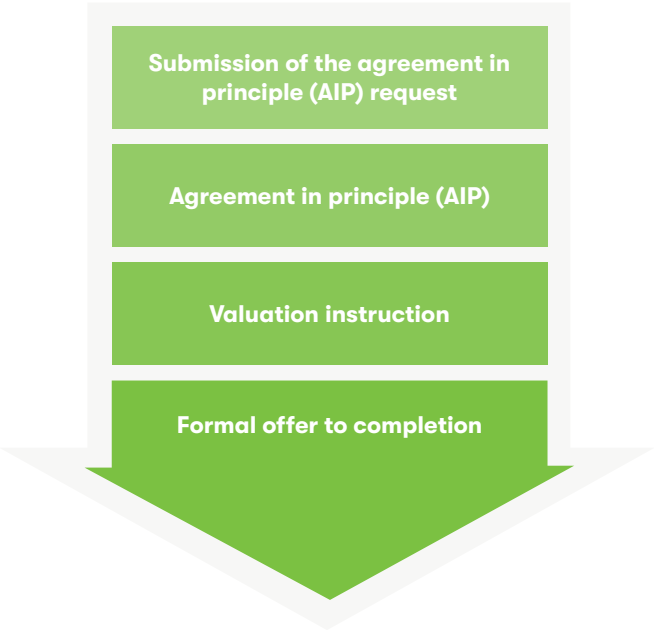
Website calculator

One of the most useful tools designed to assist you when dealing with brokers or clients is the online calculator facility which is contained within the InterBay website. The quotation facility here is very user friendly, enabling you to tailor the client's requirements and provide instant quotations – very useful when providing figures over the telephone, by email or by post.

The website itself is also a source of information containing the enquiry and application forms required by InterBay, which can be easily downloaded. Newsletters, product updates, staff profiles and a whole host of other information are also available to all Brokers and new and innovative improvements are soon to enhance this facility.

Process keypoints

We've a defined loan process (see Appendix 1) but the key stages are as follows:



Submitting the AIP request

The Agreement in Principle (AIP) request is the first stage of the process and is an easy to follow online portal that requests some key salient data and a summary of the loan proposal. For help using the online portal, please refer to the Broker portal user guide that is available to download on our website. It is, however, important to ensure that all sections of the AIP request are completed appropriately and that those areas that aren't relevant are clearly marked with 'N/A'. This will enable a quick response to the enquiry and will ensure that nothing is left open to interpretation. Incorrectly completed or incomplete AIP requests may lead to delays and possible declines if the information is misrepresented. Please provide a photograph for all commercial securities and treat the Case summary section of the AIP Request as your opportunity to sell the loan proposal to us. Finally, please ensure the declaration is completed as we are unable conduct a credit search without it.

Agreement in principle

Prior to an Agreement in Principle (AIP) being issued, InterBay will pull credit and will review the AIP request in order to understand the loan proposal. If the information has not been completed appropriately or a further explanation is required then the broker portal will be updated requesting the additional information prior to submitting the case to the Underwriting team.

Once the AIP request can be submitted to Underwriting they will only review the following at this stage of the process:

- The details contained within the AIP request (including the photograph), and
- The Equifax credit search results, including all aspects of an applicant's previous credit history, outstanding CCJs, Anti-Money Laundering and electoral roll checks, voters roll confirmation etc.

If the review confirms that the loan proposal is within Loan Criteria and Lending Policy, then an AIP will be issued and uploaded onto the broker portal within the Service Level Agreement (SLA). The AIP will include our standard conditions to be satisfied and any additional case-specific conditions that are required as a condition of any Loan Offer. This is a credit underwritten AIP.

Please note that Underwriting will not review the case on a piecemeal basis.

It's not unusual for a loan proposal to sometimes fall outside specific product criteria and in these circumstances we would recommend that you discuss the loan proposal further with your Senior Business Development Manager or the Broker Liaison Team. We are not "tick box" underwriters and we will consider cases on their own individual merits if it's prudent to do so, notwithstanding that the case may not entirely fit product criteria. These cases are considered on an exceptional basis and as a consequence they may have to be presented to Transactional Credit Committee (TCC) for approval. A loan proposal that is submitted to TCC is done so by the Underwriter through both a written submission and verbal presentation. The Underwriter is likely to be subjected to a number of probing questions about the loan proposal and as a consequence, prior to a case being submitted to TCC, it's possible that further information and/or verification will be requested. Ordinarily, any case submitted to TCC is done so with the support of the Underwriter and it would therefore be beneficial to all if supporting documentation and verification from the broker, introducer and applicant is provided as quickly as possible. TCC takes place on a Wednesday and Friday. The broker portal will then be updated after the meeting to advise the outcome and highlight any specific conditions imposed.

Valuation Instruction

Having reviewed and agreed to the AIP, the payment of a valuation fee and £145 administration fee by the applicant represents clear intent that they're serious about proceeding which can be paid over the phone by calling **0345 618 5794** or by bank transfer. InterBay also require a signed declaration and fully completed rent roll form if the subject property is let at this stage, all of which can be updated by the broker portal for assessment. It's helpful for you to have also discussed a planned completion date with your applicant and for you to provide this to us. We can then start to plan and prioritise the case accordingly. It's at this point that the loan application will be passed to the lending assessor who will correspond with you regarding the conditions required in order to progress the loan to formal offer. Upon receipt of the fees, you're able to request that all documents be underwritten prior to valuation if there are any concerns. Simply upload the documents to the broker portal and request for the pre valuation underwrite when you make the payment over the phone. Please note, that the valuation fee is refundable if we decline the case at this stage however the administration fee is non refundable.

Where the application is a buy to let or HMO and the customer(s) jointly or separately have four or more mortgaged residential investment properties they would be classed as a portfolio landlord.

In order for us to satisfy the PRA requirements for assessing portfolio landlords we'll require the following:

- Business plan
- Assets and liabilities statement
- Cash flow
- eTech verification of background portfolio (link on the website).

The eTech verification is required prior to the valuation being instructed.

We have a standard valuation fee scale for properties that have a Market Value (MV) of less than £1m and for those properties that have a MV in excess of £1m, a valuation fee is agreed on a case-by-case basis. It's important that when you complete the approval for valuation fee form that you complete the form fully, clearly identifying points of contact regarding access etc.

If the property is held as investment then a rent roll form will also be required, as the current income stream and the salient terms of an occupational lease are key components that the valuer will consider when arriving at their opinion of MV.

InterBay has an approved panel of valuers which is reviewed and updated quarterly by the Real Estate Manager. The valuers will normally arrange an appointment within two working days of instruction and in most circumstances the property inspection and valuation report is provided within 10 working days from the date of instruction (six days for the buy to let shortform reports and Bridging). There are of course exceptions to this, especially if the instruction comprises a portfolio of properties. In these circumstances we'll obtain an estimate of timings from the valuer at the date of instruction and this will be communicated to you by the Real Estate team via email.

We do experience delays in receiving the valuation reports which are sometimes no fault of the valuer. This is mainly because the applicant is unable to provide access in a timely fashion (this is more pertinent for buy to let and commercial investment valuations where access arrangements need to be agreed with the tenants) and/or tenancy information hasn't been provided.

For Commercial applications, following receipt of the valuation report, it'll be reviewed by a qualified surveyor within the Real Estate team who'll review the report to ensure the property has been appropriately valued and that the property is readily marketable and provides suitable lending security taking into account the loan proposal.

The valuers are instructed to provide an opinion of value on the following bases:

- Market Rent
- Market Value (detailing suitable marketing period in which to achieve this figure)
- Market Value assuming full vacant possession
- Where a valuation is provided as an operational entity, e.g. trading hotel, the valuer shall also provide an opinion of Market Value on the following special assumption:
    1. Accounts or records of trade would not be available to a prospective purchaser
    2. The business is closed
    3. The inventory has been removed
    4. The licences, consents, certificates, and/or permits required in order to trade from the property are lost or in jeopardy.

The basis of valuation that we adopt will depend on the type of property and this is discussed further in Appendix 2.

The valuation report will remain valid for 6 months only and if the loan does not complete within 6 months of the date of valuation a further property inspection and updated report will be required. The applicant will be responsible for the fees for the updated reports.

The period in which the valuation report is being carried out provides a great opportunity for you to collate all the information requested within the AIP. If you do this during this period, this will avoid any delays with your loan application.

Formal Offer (FO)

If the loan application papers and valuation are satisfactory for our purposes we'll issue a Formal Offer (FO) letter detailing any conditions precedent and who is responsible for satisfying the conditions.

Prior to issuing a FO the Underwriters will review all the information provided together with the valuation review outcome to ensure that the loan proposal fits within our core lending criteria. The Underwriters are mandated but if these mandates are exceeded the case will be referred to Transactional Credit Committee (TCC). Whilst there may be some case-specific considerations the key criteria that the Underwriters are seeking comfort on are the following points:

- The credit research results and bank statements demonstrate good financial conduct
- The security address is marketable and offers suitable security at the proposed loan amount
- The applicant has suitable experience and a demonstrable track record in operating their business (owner occupied properties)
- The applicant can afford and has the ability to meet the mortgage payments.

When considering the above the Underwriters will at least require the following as standard:

1. 3 months' business and personal bank statements
2. 12 months' mortgage history on the subject property (remortgages only)
3. Copy of last 2 years' accounts for company loans.

If there are further questions, clarification is required on some of the above points following the receipt of the information, or the Market Value reported is lower than anticipated, this will be communicated to you via the broker portal.

Assuming there are no issues the FO will be sent to the applicant in the post with copies emailed to you by the InterBay Completions Consultant responsible for completing the loan. It is important that you contact the applicant promptly to discuss the FO and conditions required, and to confirm the desired completion date which should also be promptly communicated to the InterBay Processor. The applicant will have 14 days in which to sign and return one original copy of the FO. Please note if the FO isn't returned to us in the 14 day period it will expire and we'll have the right to withdraw.

At the same time, we'll instruct our solicitors to commence the legal process. If the applicant has appointed their own solicitors, our solicitors will correspond directly with them. If they wish, the applicant can select one of our panel solicitors to act for them. Our panel solicitors have developed a very strong relationship with InterBay, having advised a number of our clients over the last few years. Unfortunately, we're unable to offer dual representation on Bridging applications. Our panel solicitors interact closely with InterBay's solicitors to ensure matters progress smoothly and effortlessly. Based in Southampton, our panel solicitors are well located to make visits in person to InterBay and its other panel firms. They have direct dial phone and mobile numbers, email addresses and are contactable 24/7. They guarantee a response within 2 working hours of receipt and have a fully dedicated team of 20 lawyers available to pick up matters. Due to their experience of being involved in commercial mortgage deals on behalf of InterBay clients, they understand the process and the importance of timescales. They have a proactive approach to ensuring that deals complete efficiently.

For the legal process to proceed it's important to note that the applicant must put his solicitor in funds so that the applicant's solicitor can give the InterBay solicitors an undertaking to pay their costs. This is often the cause of delays in progressing the case to completion.

If the applicant has chosen to proceed unrepresented, our solicitors will contact the applicant directly to arrange completion of the Legal Documentation. Once all conditions in the FO and the legal requirements have been satisfied, we'll drawdown funds to proceed to completion.

Once completed, your procuration fee will normally be paid on the day of completion but always within 24 hours.

Summary

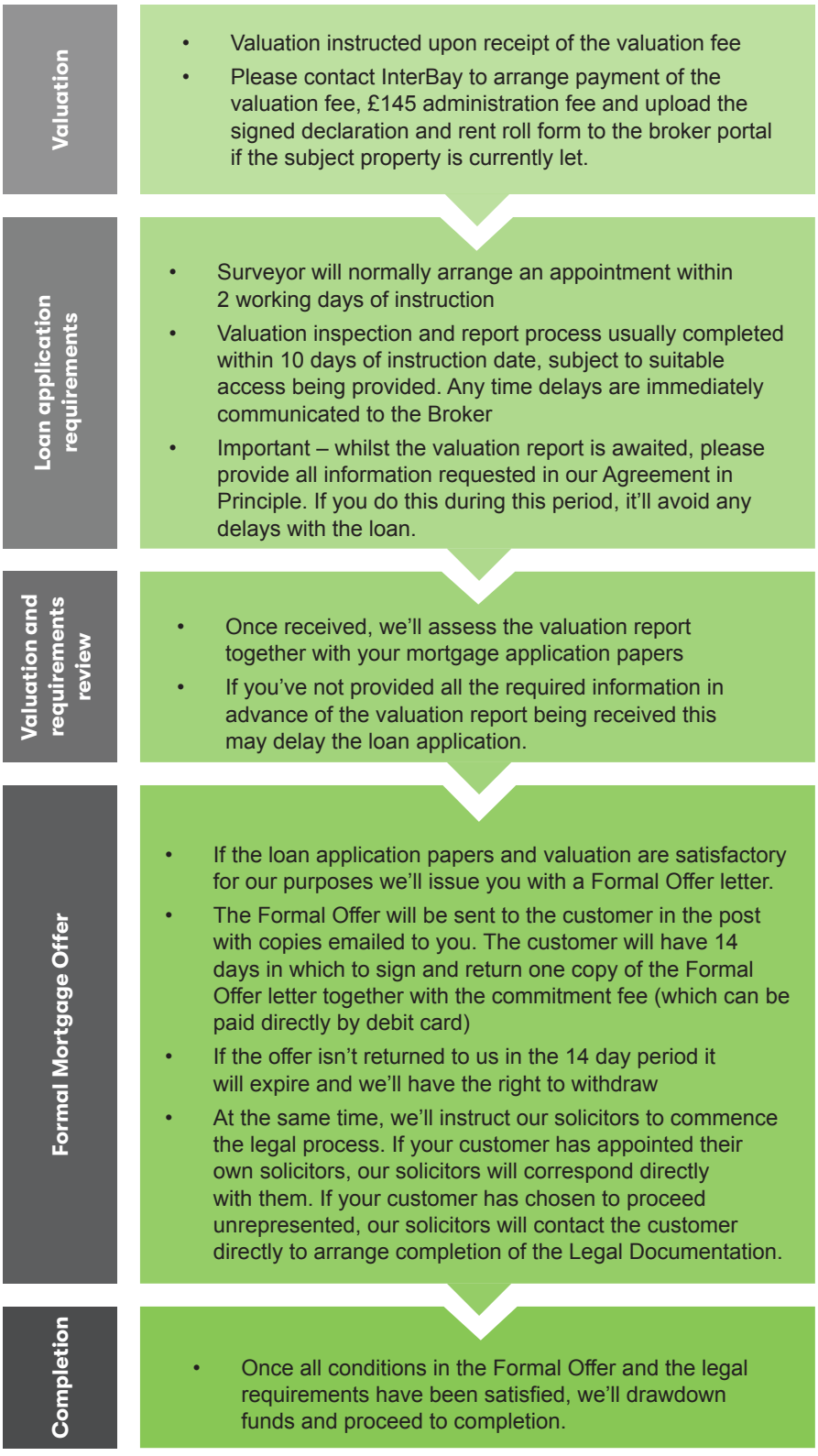
These guidance notes offer a guide only. If you have any questions regarding these Guidelines or the loan process, please contact your the Broker Liaison Team in the first instance.

Appendix 1

Your step by step guide to completion

Now you've received your InterBay Agreement in Principle, what happens next?

If the application is buy to let or HMO, we will need to assess the background portfolio of your customer in line with the PRA guidelines prior to instructing valuation.



As part of our commitment to providing a seamless, first class service we like to contact all our borrowers during the processing of a mortgage application to introduce ourselves and to answer any questions you may have about your mortgage application.

Appendix 2

Buy to let/HMOs

Our buy to let product covers single let units to residential blocks of high concentration, portfolios and HMOs. We've listed below some of the points that we will seek comfort on when lending on this property type. We'll need to assess the background portfolio of the customer prior to any valuation instruction or further assessment in line with PRA guidelines.

Single buy to let unit

- A valuation will be carried out on a short-form basis and we'll be instructing the valuer to provide an opinion of Market Value (MV) assuming vacant possession and an opinion of Market Rent (MR)
- Occupancy Agreements must be on an Assured Shorthold Tenancy (AST) basis. (We've previously accepted protected tenants or 2-3 year lease agreements to Housing Associations but these are an exception to the rule)
- For information on Debt Service Coverage Ratio (DSCR) please see the InterBay product guide
- The property should be in a habitable condition and be immediately available to let
- LTV is restricted to 75% for new build flats and to 70% for renovated and converted flats that have been built or converted within the previous 2 years of the loan completion date. A loan proposal in excess of these LTVs will be considered on an exceptional basis
- Studio flats with a gross internal area of less than 30 sq m will only be considered on an exceptional basis and only on a low LTV of circa 50%
- The property should have a minimum property value of £75,000.

Blocks (or part thereof)/Portfolios

- A valuation will be carried out on a long-form basis and we'll be instructing the valuer to provide an opinion of MV for the aggregate value of the units and an opinion of the investment value of the units assuming that they are sold as one lot. The valuer will also provide an opinion of MR
- When considering whether to lend off either the aggregate MV of each unit or the investment value of the block as a whole, the decision will depend largely on the ownership and occupancy profile of the block. If the block already has a high percentage of owner occupiers and the individual units would prove attractive to multiple perspective purchasers as single lots then we're likely to consider the loan on the aggregate MV. If however the occupancy profile is very much short-term AST occupiers and in the event of a sale is only likely to appeal to an investor then we're likely to lend off the investment value only
- When considering the DSCR and affordability of the loan proposal the Underwriters may seek to review the rental history and performance of the block/portfolio and also the operating costs in managing the block/portfolio in order to understand the occupancy levels, whether there are any bad debts from tenants, the costs of management and repair etc
- Where there are high levels of concentration the Underwriters may look to either reduce LTV or increase the margin to reflect the additional concentration risk.
- If in the event that we're considering lending on the long leasehold interests of units within a block and the applicant is in some way linked to the freehold ownership, we may also seek to obtain a comfort charge on the freehold interest in order to protect the marketability of our security.

HMOs

- Most valuations will be carried out on a long-form basis and we'll be instructing the valuer to provide an opinion of MV subject to the current occupancy agreements and income stream and an opinion of the Vacant Possession (VP) value of the property as a single dwelling. The valuer will also provide an opinion of MR. A short-form valuation is acceptable for smaller HMOs up to a maximum of 8 letting rooms
- We're likely in the most part to lend against the lower of the vacant possession value or the investment value of the property
- HMOs are very management intensive and the Underwriter may request sight of recent operating accounts clearly showing the rental income and the operating costs to ensure that the mortgage payments are affordable and that the business is sustainable. It's likely that the Underwriter will also stress test the income streams to ensure that business is robust enough in the event it suffered a higher level of voids.

We'll only lend where a HMO Licence is in place, where required.

New build and conversions

- If the security property is a new build, has been converted from an alternative use or is being used for residential use for the first time we'll require appropriate building warranties from NHBC (or a similar warranty provider) or a suitable Council of Mortgage Lenders (CML) compliant Professionals Certificate. This is a CML requirement and also ensures that we have some protection from any sub-standard workmanship.

As a general rule we don't lend on either the "hope value" where it's hoped that an enhanced planning consent will be forthcoming and we also don't lend on an enhanced planning consent uplift in value if an existing planning consent hasn't been implemented and the planning conditions haven't been met.

Commercial Investment

- We've listed below some of the points that we will seek comfort on when lending on this property type
- A valuation will be carried out on a long-form basis and we will be instructing the valuer to provide an opinion of MV for the property subject to the occupational leases and an opinion of MV assuming vacant possession. The valuer will also provide an opinion of MR
- When considering the MV for the property subject to the occupational leases, the MV is derived from the structure of those leases and the current rent payable and provision for rent reviews and break options. It's therefore imperative that when a loan proposal is for a commercial property investment that full tenancy details are provided when the Approval for valuation fee form is submitted. A delay in the provision of these details may lead to a delay in receiving the valuation report

- The tendency is for occupiers to now take shorter term flexible leases and therefore the valuer will give due regard to the re-letting prospects of the property and what, if any, rental incentives may have to be offered to secure a new tenant. In the event that the occupancy leases only have a short term certain unexpired, the Underwriter may seek to ensure the applicant has sufficient cash reserves to cover rental voids, holding costs etc.
- In the most part we will lend off the lower of the investment value or the vacant possession value. There are however circumstances where we will support loan proposals off the investment value, if higher
- In the event of single let investments we will lend off the investment value as opposed to the VP if the tenant is of suitable covenant strength, where there is evidence of perfect rental payment history, and where there is a term certain of more than 5 years beyond the loan expiry date (in the case of interest-only loans). If on a capital and interest repayment basis, the loan must meet our normal criteria at the expiry of the lease ie capital outstanding at no more than 75% of VP on the date the lease is due to expire
- In the event of multi-let properties we may lend off the investment value if the historic occupancy rate has consistently been in excess of 80%, no single tenant accounts for more than 30% of the income stream and we sight satisfactory rental payment history and operating costs. We'll stress test the income levels to ensure that affordability remains robust in the event of losing some tenants
- When we lend off the investment value we cannot (unless by exception) advance more than 90% of the VP value. Leases must be let to a separate third party with no tenuous link between our applicant and the tenant and we will only give weighting to fully committed tenancy agreements i.e. will not give weighting to speculation that a particular tenant will not exercise a break option or they have indicated that they wish to renew a lease.

Commercial Owner Occupied

We've listed below some of the points that we will seek comfort on when lending on this property type.

- A valuation will be carried out on a long-form basis and we will be instructing the valuer to provide an opinion of MV assuming vacant possession. The valuer will also provide an opinion of MR. In some circumstances we may request a trading related valuation eg owner occupied large hotel and this will be carried out by a specialist trading related valuer such as Christie + Co. In these circumstances the basis of valuation will be as follows:
- Where a valuation is provided as an operational entity, the valuer shall also provide an opinion of Market Value on the following special assumption:
    1. Accounts or records of trade wouldn't be available to a prospective purchaser
    2. The business is closed
    3. The inventory has been removed
    4. The licences, consents, certificates, and/or permits required in order to trade from the property are lost or in jeopardy.
- We don't advance against the goodwill value of the property
- The applicant's previous experience and demonstrable track record is a key consideration when determining to lend on these property types. The Underwriters will wish to review previous Trading Accounts in order to understand the financial performance of the business and its ability to cover the mortgage payments. We don't lend to new business start-ups where no suitable experience at a managerial level can be verified
- It's usual for the Underwriters to request copies of business licences.

Appendix 3

What types of Borrowers do you lend to?

We'll lend to the following: InterBay eligible borrower types: Individuals, Limited Companies, Limited Liability Partnerships, Self-Invested Personal Pension (SIPP), Small Self-Administered Scheme (SSAS), Trusts

- Individuals: when lending to individuals, our standard conditions will apply depending on the status of the applicant i.e. employed, self-employed, owner occupier, investor etc.
- Limited Companies: for limited company applications we require the majority shareholders to be party to the application and they will be required to provide a full Personal Guarantee (PG). In addition to the PG we'll require a company Debenture. As well as obtaining a Companies House search to ascertain the status of the company, we'll perform a company credit check. Limited Companies registered outside of England or Wales will be considered on a case by case basis and additional due diligence will be carried out at the applicant's cost
- Limited Liability Partnerships: These will be treated the same as Limited Companies although a Debenture won't be required
- Self-Invested Personal Pension (SIPP) and Small Self-Administered Scheme (SSAS): when lending to a SIPP or SSAS the maximum LTV we'll consider is 55% providing this doesn't exceed 45% of the SIPP/SSAS value. We'll request an up to date valuation of the SIPP/SSAS assets. A credit search will be carried out on the Beneficiaries. If the Beneficiaries occupy the property on a lease, we'll need to carry out our usual due diligence on the occupying company
- Trusts: trust will be considered on a case by case basis. A copy of the Trust Deed will always be required to ensure, inter alia, that the Trustees are acting within their power.

How do you calculate the debt service cover ratio (DSCR)?

Debt Service Coverage Ratio (DSCR) will depend on the property type, whether or not we're lending to a limited company and, if we're not lending to a limited company, the number of investment properties owned by each individual. DSCR will be calculated using a stressed rate of 5.5%, or the initial pay rate + 1.55%, whichever is higher.

However, the following exceptions apply:

- if the case is a remortgage with no additional borrowing, DSCR will be calculated using the initial pay rate + 1.05%, with no minimum stress rate
- if the 5 year fixed rate is being used, DSCR will be calculated using the initial pay rate, with no additional margin or minimum stress rate.

To see the level of DSCR required for each property type, please refer to the InterBay product guide.

Do InterBay have any limits on concentration?

Although where there are in excess of 4 units in a block or in close proximity to one another, we may seek to either limit the LTV or load the pay rate to reflect the concentration risk. The quantum of loading will be judged on a case-by-case basis but a loading of between 0.25% and 1% can be expected, depending on severity of concentration. We're also prepared to lend on blocks that are no higher than 12 floors in London Boroughs and 6 floors elsewhere. Flats above the 4th floor must be served by a lift. If the property sits within a local authority or ex local authority block, the flat ownership in the block should be more than 80% privately owned. If the above criteria isn't met, cases will be considered on an exceptional basis.

Do InterBay load the pay rate for any other purpose?

There are other occasions where a loading may be applied (in addition to those allowed for in the product sheet) but these are an exception to the rule and ordinarily will only be applied where we're making a material exception to our Lending Policy. The loading is likely to range from 0.25% to 1% depending on the level of exception being made.

Will InterBay allow any third party investment or mezzanine finance to act as the applicant's equity or part equity in a purchase?

Each case will be considered on its own individual merits but the Underwriter will be giving consideration to the terms agreed for the additional funding in order to assess affordability etc. In the event that the additional lending is required, we'll insist on a formal Deed of Subordination being completed with all the relevant parties to ensure that our loan ranks first in priority. Gifted deposits will be considered but only where the gifted deposit is from an immediate family member to include parents, siblings and/or grandparents.

Do InterBay ever meet the applicant?

There are occasions where we'll insist on meeting the applicant. This will tend to be on cases where our loan exposure to the applicant is approaching in excess of £3m. The meetings will always need to be face-to-face and will either be at our office or at the security address. These meetings tend to take place prior to issuing a Formal Offer. There may be exceptions to this policy and this will be considered on a case-by-case basis. Occasionally the Underwriter may phone the applicant to ask some further questions regarding the case but this isn't a substitute for a face-to-face meeting. The representatives at the meetings from IB are likely to be a senior Underwriter and possibly a Real Estate representative.

For more information call **0345 878 7000**
or visit **interbay.co.uk**

InterBay is a trading name of Interbay Funding, Ltd. a company registered in England and Wales (company number 05595882).
Registered office: The Observatory, Brunel Way, Dock Road, Chatham, Kent, ME4 4AF. Interbay Funding, Ltd. is part of the OneSavings Bank Group.
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