

Commercial Mortgages Lending Criteria

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Loan	
Loan Size	Minimum loan size - £250k Maximum loan size - £10m (£6.5m for a single asset up to 60% LTV, £4m for a single asset at 60% LTV or above).
Loan Term	A minimum of 2 years and a maximum of 30 years.
Maximum LTV	2% Fee Product - 70% LTV (but cannot exceed 71.4% including fee) 5% Fee Product – 70% LTV (but cannot exceed 71.4% including fee)
Repayment Methods	Capital and Interest. Interest only (up to a maximum of 20 years).

Customer	
Age	Applicants must be a minimum of 21 years of age at the start of the mortgage. For Commercial Investment the youngest applicant must be no older than 85 years of age at the end of the mortgage term. For Commercial Owner Occupier the youngest applicant must be no older than 75 years of age at the end of the mortgage term. Applicants who breach either limit will be accepted if jointly borrowing with another applicant who falls within the policy age limits.
Acceptable Customer type	Redwood accepts the following customer types: <ul style="list-style-type: none"> • Individuals • UK Registered Sole traders • UK Registered Partnerships • UK Registered Private Limited Companies • UK registered Limited Liability Partnerships • Trusts • SIPPS/SSAS Pensions
Acceptable residency status	The Bank will lend to the following: <ul style="list-style-type: none"> • UK passport holders. • Non-UK passport holders with the permanent right to reside in the UK.
UK National domiciled overseas	Where lending is directly to a UK passport holder domiciled overseas, the maximum LTV is limited to 60%.
Unacceptable customer types	The Bank will not lend to: <ul style="list-style-type: none"> • Non-UK passport holders domiciled overseas. • Non-UK passport holders without a permanent right to reside in the UK. • Non-UK registered self-employed. • Non-UK registered Limited or non-limited companies. • Limited Partnerships. • Housing Associations.
Proof of ID and Address	The Bank uses an automated system for identity and address verification. If this fails or the applicant resides abroad acceptable evidence will be required.

ILA	All customers will require independent legal advice.			
Credit status	The Bank's acceptable credit criteria is as follows:			
		Tier 1	Tier 2	Tier 3
	CCJ	0 in 24 months.	0 in the last 24 months (CCJs lower than £250 accepted), need to be satisfied by approval.	Not more than 2 in the last 24 months (CCJs lower than £250 accepted), need to be satisfied by approval.
	Defaults	0 in 24 months.	0 in the last 24 months (CCJs lower than £250 accepted), need to be satisfied by approval.	Not more than 1 in the last 24 months (CCJs lower than £250 accepted), need to be satisfied by approval.
	Secured Arrears	0 missed payments in the last 12 months. No unpaid historic arrears.	0 missed payments in the last 12 months. No unpaid historic arrears.	Not more than 1 missed payments in the last 12 months. No unpaid historic arrears.
	Unsecured Arrears	0 instances of arrears or arrangements to pay in the last 12 months.	Not more than 1 instance of arrears or arrangements to pay in the last 12 months.	Not more than 2 instance of arrears or arrangements to pay in the last 12 months.
	Bankruptcy/ CVA/IVA	Discharged for at least 36 months.	Discharged for at least 24 months.	Discharged for at least 12 months.
	Business Credit Profile	None registered or outstanding in the last 36 months: <ul style="list-style-type: none"> • Receivership • Administration Order • Winding up Petition • Disqualified Directors • Compulsory Liquidation 	None registered or outstanding in the last 24 months: <ul style="list-style-type: none"> • Receivership • Administration Order • Winding up Petition • Disqualified Directors • Compulsory Liquidation 	
Personal Guarantees	<p>Where lending is on a Commercial Investment property a 25% guarantee will be required from the ultimate director(s) of the borrowing entity except where:</p> <ul style="list-style-type: none"> • The guarantee cannot be provided (e.g. SIPP/ SSAS / Trust). • A Corporate Guarantee is more appropriate. • It is appropriate to take a higher guarantee amount in mitigant of other risk factors (subject to underwriter discretion). <p>Where lending is on a Commercial Owner-Occupier or OpCo basis a 100% guarantee will be required from the ultimate director(s) of the borrowing entity.</p>			
Debentures	Debentures are sought where available.			

Landlord Type	
Non-Portfolio Landlord (1-3 properties)	A non-portfolio landlord is defined as one who owns 3 or less 'mortgaged' investment properties (they can own more than 4 in total) Nb. This excludes unencumbered assets and private residential houses.
Portfolio Landlord (4+ properties)	<p>A portfolio landlord is defined as one who owns 4 or more 'mortgaged' investment properties including the subject of the loan. Nb. This excludes unencumbered assets and private residential houses.</p> <p>The portfolio will be reviewed to assess affordability, where the rent covers a minimum of 125% ICR at a rate of 5.5%.</p> <p>Additional documents are required for underwriting when the customer is a portfolio landlord, these are outlined below.</p>

Required Documents			
Customer Type	Portfolio Landlord	Non Portfolio Landlord	Commercial Owner Occupier
Portfolio Schedule	✓	✓	
3 months Business Bank statements	✓	✓	✓
Latest financial accounts	✓ If the loan is over £1m	✓ If the loan is over £1m	
Last 3 years financial accounts			✓
Business Strategy, Cashflow, Assets and Liabilities form	✓		
Assets, Liabilities, Income & Expenditure (ALIE)			✓
Unique Applicants	Where the applicant is a SIPP, SSAS or TRUST they will be required to provide additional documents. Please contact your BDM for this information.		

Property Demand
<p>The Bank will not lend on a commercial security if the demand for letting is over 12 months.</p> <p>The Bank will not lend on a commercial security if the demand for sale is over 12 months.</p>

Experience
The Bank's lending products are available to experienced customers only, where the experience is deemed relevant and proportional to the lending proposal. The borrowers are expected to meet the following criteria and suitable evidence to support this should be made readily available.

The Bank may provide flexibility to borrowers who do not meet this criteria, and will consider wider and longstanding experience of a borrower at application stage. Consideration will be given to borrower's history of property investment, ownership history and experience in the real estate sector.

	No. of Asset(s)		
Years Experience	0	1	2
Up to 1 year	No	No	No
Up to 2 years	No	No	Yes
Over 2 years	No	Yes	Yes
Commercial Owner Occupier	The company must have a minimum of 3-years trading in the relevant sector, supported by financials.		
Refurbishment	Evidence of a minimum of 2 previously completed refurbishment projects. The refurbishment experience must be accompanied by the appropriate investment experience to support the term-out option.		

Refinance

Capital raise or Equity release	This can be considered for any legal reason.
Repaying a bridge	If the asset has been recently purchased or light works are to be undertaken on the asset a satisfactory explanation will be required.

Purchase

Purchase Price	Commercial Investment - The maximum loan is calculated against the Vacant Possession Value. Commercial Owner Occupier - The maximum loan is calculated against the Vacant Possession Value. Large HMO (commercially weighted) – The maximum loan is calculated against the Market Value. (see valuation methodology for clarity on what value is to be used).
Deposit	The source of funds will need to be declared and proof may be required.

Affordability

For Commercial mortgages: The properties rental income must meet the minimum applicable coverage ratio to confirm the affordability of the loan.

For commercial investment properties: The rental income must meet the minimum coverage ratio.

For Commercial Owner Occupier Mortgages: The lower of the average of the last 3-years trading accounts OR the most recent 12-months trading accounts must meet the minimum coverage.

The affordability of loans on an interest only repayment type will be assessed using the Interest Coverage Ratio (ICR).

Those on a capital and interest repayment type will be assessed using the Debt Service Coverage ratio (DSC).

Property Type	Company Type		Stress Rate	
	Limited Company	Personal	5 Year Fixed Rate	Less than 5 years fixed and variable rates
Commercial Investment	130%	145%	Pay Rate	The higher of Pay Rate +1% OR 5.5%
Commercial Owner Occupier	130%	145%		
Large HMO (Commercial weighted)	145%	175%		

Information used to assess affordability

Security	What we accept	What we use
Commercial Investment	Valuer confirmed market rent or passing rent	Whichever is lower
Commercial Owner-Occupier	Accounts to Evidence the EBITDA	The lower of the average of 3 years adjusted EBITDA <u>OR</u> 12 months adjusted EBITDA
Large HMO (Commercially weighted)	Valuer Confirmed Market rent or passing rent	Whichever is lower

Security

Legal charge	The Bank requires a first legal charge over the property. No further charges may be created over the Bank's security without express consent from the Bank.
Location	England, Wales and Scotland.
Value	The Bank will not lend on any single asset that has a Market Value (MV) less than £75k.
Tenure	Redwood will lend to a leasehold as long as there is a minimum of 75 years remaining at the end of the mortgage term.

Regulation	Redwood is unable to consider any lending application that is deemed to be regulated.
EPCs	Properties with an EPC rating below E will not be accepted unless there is a valid exemption.
Property Demand	
The Bank will not lend on a commercial security if the demand for letting is over 12 months.	
The Bank will not lend on a commercial security if the demand for sale is over 12 months.	

House of Multiple Occupants (HMO)	
Commercial weighted HMO	The Bank reserves the right to classify a large HMO/MUFB as a commercial property dependant on the structure, planning and tenancy arrangements. This falls under the discretion of the underwriter. Applicable properties will be limited to a maximum of 20 years interest only.
Licences	Where the valuer confirms an HMO licence is required, evidence of a valid License will be required. In the event that the issuing of the HMO licence has been delayed the valuation report must confirm that the Property is a viable HMO and evidence must be shown, confirming an HMO licence has been applied for.
Multi-Unit Freehold Block (MUFB)	
Definition	The Bank defines an MUFB as a single freehold property that has been divided into multiple self-contained units. Each unit must be: <ul style="list-style-type: none"> • Self-contained • Able to be sold separately
Classification	A small MUFB is defined as having up to 6 single self-contained units. A large MUFB is defined as having 7 or more self-contained units.

Unacceptable Commercial Securities	
<ul style="list-style-type: none"> • Leisure centres and swimming pools • Farm, farmland or land with Live Grazing Stock. • Sports Clubs, Golf courses and equestrian centres • Libraries • Cinemas • Churches / Places of Worship. • Care Homes. • Shopping Centres and Retail Park Units (non-food) • Fishing Lakes. • Properties with Japanese Knotweed Present. • Long-Leaseholds with excessive ground rents, ground rents that have steep step-ups or an unexpired Leasehold Title of <75yrs at the end of the loan term. • land and buildings linked to Contaminated Land. 	<ul style="list-style-type: none"> • Nuclear Fuel & Energy • Stand-alone Garages. • Waste Transfer Sites. • Casinos, arcade or gaming units. • Assets subject to the following licensing: • Sex Establishments. • A premises license is required or place for Regulated Entertainment and / or Provision of late-night refreshment. • Fashion Units and department Stores. • Petrol Stations and car Showrooms. • Grade 1 / Grade A listed buildings • Properties F&G EPC rating (or no rating) without acceptable exemption. • PBSA assets outside of Russel Group university towns/cities.

Valuations	
Overview	Prior to taking a First Legal Charge, the Bank will obtain an independent professional RICS valuation survey. The Bank will not lend on an asset deemed an unsuitable security by the independent body.
Validity	Valuations are valid for 6 months.
Qualifications	The Bank will not lend on any single asset that has a Market Value less than £75k.

Valuation Methodology	
Security Type	Methodology
Large HMO (Commercially weighted)	Will be valued on a yield-based method, with the valuer considering comparable yields of similarly properties in the area. Planning approval must be in place for the property to be used as large HMO (Sui Generis).
Commercial Investment	Vacant Possession (VP)
Commercial Owner Occupier	Vacant Possession (VP)