

## Commercial Mortgages Lending Criteria

### Table of Contents

<b>Loan .....</b>	<b>2</b>
<b>Customer .....</b>	<b>2</b>
<b>Landlord Type .....</b>	<b>3</b>
<b>Required Documents.....</b>	<b>4</b>
<b>Experience .....</b>	<b>4</b>
<b>Refinance.....</b>	<b>5</b>
<b>Purchase .....</b>	<b>5</b>
<b>Affordability .....</b>	<b>5</b>
<b>Information used to assess affordability .....</b>	<b>5</b>
<b>Security.....</b>	<b>6</b>
<b>Property Demand .....</b>	<b>6</b>
<b>House of Multiple Occupants (HMO) .....</b>	<b>6</b>
<b>Multi-Unit Freehold Block (MUFB) .....</b>	<b>6</b>
<b>Unacceptable Commercial Securities.....</b>	<b>7</b>
<b>Valuations.....</b>	<b>7</b>
<b>Valuation Methodology.....</b>	<b>7</b>

Loan	
<b>Loan Size</b>	Minimum loan size - £250k Maximum loan size - £6m (£3m for a single asset up to 65% LTV, £2m for a single asset over 65% LTV).
<b>Loan Term</b>	A minimum of 2 years and a maximum of 25 years.
<b>Maximum LTV</b>	2% Fee Product - 70% LTV (but cannot exceed 71.4% including fee) 5% Fee Product – 70% LTV (but cannot exceed 71.4% including fee)
<b>Repayment Methods</b>	Capital and Interest. Capital and Interest, with initial interest only options up to 5 years.

Customer	
<b>Age</b>	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.
<b>Acceptable Customer type</b>	Redwood accepts the following customer types: <ul style="list-style-type: none"> <li>• Individuals</li> <li>• UK Registered Sole traders</li> <li>• UK Registered Partnerships</li> <li>• UK Registered Private Limited Companies</li> <li>• UK registered Limited Liability Partnerships</li> <li>• Trusts</li> <li>• SIPPS/SSAS Pensions</li> </ul>
<b>Acceptable residency status</b>	The Bank will lend to the following: <ul style="list-style-type: none"> <li>• UK passport holders.</li> <li>• Non-UK passport holders with the permanent right to reside in the UK.</li> </ul>
<b>UK National domiciled overseas</b>	Where lending is directly to a UK passport holder domiciled overseas, the maximum LTV is limited to 60%.
<b>Unacceptable customer types</b>	The Bank will not lend to: <ul style="list-style-type: none"> <li>• Non-UK passport holders domiciled overseas.</li> <li>• Non-UK passport holders without a permanent right to reside in the UK.</li> <li>• Non-UK registered self-employed.</li> <li>• Non-UK registered Limited or non-limited companies.</li> <li>• Limited Partnerships.</li> <li>• Housing Associations.</li> </ul>
<b>Proof of ID and Address</b>	The Bank uses an automated system for identity and address verification. If this fails or the applicant resides abroad acceptable evidence will be required.

<b>ILA</b>	All customers will require independent legal advice.	
<b>Credit status</b>	<b>The Bank's acceptable credit criteria is as follows:</b>	
	CCJ	Not more than 2 in the last 24 months (CCJs lower than £250 accepted), need to be satisfied by approval.
	Defaults	Not more than 1 in the last 24 months (CCJs lower than £250 accepted), need to be satisfied by approval.
	Secured Arrears	Not more than 1 missed payments in the last 12 months. No unpaid historic arrears.
	Unsecured Arrears	Not more than 2 instance of arrears or arrangement to pay in the last 12 months.
	Bankruptcy/CVA/IVA	A period of not less than 12 months discharged.
	CIFAS	No adverse fraud data.
	Business Credit Profile	None registered or outstanding in the last 24 months: <ul style="list-style-type: none"> <li>• Receivership</li> <li>• Administration Order</li> <li>• Winding up Petition</li> <li>• Disqualified Directors</li> <li>• Compulsory Liquidation</li> </ul>
<b>Personal Guarantees</b>	<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"> <li>• The guarantee cannot be provided (e.g. SIPP/ SSAS / Trust).</li> <li>• A Corporate Guarantee is more appropriate.</li> <li>• It is appropriate to take a higher guarantee amount in mitigation of other risk factors (subject to underwriter discretion).</li> </ul> <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>	
<b>Debentures</b>	Debentures are sought where available.	

<b>Landlord Type</b>	
<b>Non-Portfolio Landlord (1-3 properties)</b>	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.
<b>Portfolio Landlord (4+ properties)</b>	<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.		

Experience			
<p>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.</p> <p>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.</p>			
	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	<p>Evidence of a minimum of 2 previously completed refurbishment projects.</p> <p>The refurbishment experience must be accompanied by the appropriate investment experience to support the term-out option.</p>		

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

## Affordability

For Commercial investment properties: The rental income must meet the minimum debt service coverage ratio (DSC) over the amortising period of the loan to confirm the affordability.

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 debt service coverage ratio (DSC) over the amortising period of the loan to confirm the affordability.

	Company Type		Stress Rate	
Property Type	Limited Company	Personal	5 Year Fixed Rate	Less than 5 years fixed and variable rates
Commercial Investment	135%	150%	Pay Rate	The higher of Pay Rate +2% OR 5.5%
Commercial Owner Occupier	135%	150%		
Large HMO (Commercial weighted)	145%	175%		

Information used to assess affordability		
Security	What we accept	What we use

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

Security	
<b>Legal charge</b>	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.
<b>Location</b>	England, Wales and Scotland.
<b>Value</b>	The Bank will not lend on any single asset that has a Market Value (MV) less than £75k.
<b>Tenure</b>	Redwood will lend to a leasehold as long as there is a minimum of 75 years remaining at the end of the mortgage term.
<b>Regulation</b>	Redwood is unable to consider any lending application that is deemed to be regulated.
<b>EPCs</b>	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)	
<b>Commercial weighted HMO</b>	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 5 years interest only as part of a capital and interest repayment term mortgage and a maximum loan term of 25 years.
<b>Licences</b>	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)	
<b>Definition</b>	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"> <li>• Self-contained</li> <li>• Able to be sold separately</li> </ul>
<b>Classification</b>	<p>A small MUFB is defined as having up to 6 single self-contained units.</p> <p>A large MUFB is defined as having 7 or more self-contained units.</p>

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

Valuations	
<b>Overview</b>	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.
<b>Validity</b>	Valuations are valid for 6 months.
<b>Qualifications</b>	The Bank will not lend on any single asset that has a Market Value less than £75k.

Valuation Methodology	
Security Type	Methodology

<b>Large HMO (Commercially weighted)</b>	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).
<b>Commercial Investment</b>	Vacant Possession (VP)
<b>Commercial Owner Occupier</b>	Vacant Possession (VP)