



# Commercial Investment Lending Criteria



**Property  
Finance.**

# Proudly different.

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Loan	
<b>Minimum Loan</b>	£40,000
<b>Maximum Loan</b>	Aggregated exposure limited to £25,000,000 subject to single asset and single tenant exposure being limited to £5,000,000.
<b>Term</b>	Minimum 2 years. Maximum 25 years.
<b>Repayment Method</b>	Interest only and capital repayment options are available. (Up to 70% LTV for Interest only on Commercial Property)
<b>Maximum LTV</b>	75%.

Refinance	
<b>Re-mortgage Period</b>	No minimum length since time of purchase.
<b>Capital Raise</b>	Considered for any legal purpose.  Capital raises of more than £150,000 or when more than 50% equity is being removed that are not in keeping with profile should have a satisfactory explanation  Ex-pats can be considered if funds are being used for a further purchase of a UK asset.
<b>Repaying a bridge</b>	Acceptable when the bridge was used to complete works or an auction purchase. In other scenarios we will need to understand the reason bridging finance was used.
<b>To complete works</b>	Minor works (Décor/internal fittings/general upkeep etc) to the security property are permitted where the value and structural integrity of the building will not be compromised.

Purchase																	
<b>Purchase Price</b>	The maximum loan is calculated against the lower of the purchase price and valuation. (See valuation methodology for clarity on what value is to be used).																
<b>Undervalue Purchase</b>	<p>Subject to:</p> <ul style="list-style-type: none"> <li>■ Acceptable when the difference in purchase price and market value is within 20% and the seller is unrelated to our customer</li> <li>■ If the difference in market value and purchase price is over 20% then further investigation will be required</li> <li>■ If there is evidence of stressed position of the seller then we cannot proceed.</li> </ul> <p>Family related transfers at nil or below market value are acceptable with an acceptable explanation for the transaction with evidence that the family member is not in a distressed financial situation. We will require:</p> <ul style="list-style-type: none"> <li>■ Mortgage history/credit search (at our discretion)</li> <li>■ Letter of no interest</li> <li>■ Clear bankruptcy search against outgoing owner</li> <li>■ Declaration of Solvency</li> <li>■ Indemnity policy</li> </ul> <p>Transfers from associated Ltd companies at less than market value are unacceptable.</p> <p>Increase in value since vendor purchased – For purchases where there has been a substantial increase in value since purchase, we require a written explanation which should be referred to the valuer for comment and validation.</p>																
<b>Portfolio undervalue</b>	Can be considered by exception when we lend no more than 75% of the value and 90% of purchase price. The minimum portfolio value should exceed £1.25m.																
<b>Deposit</b>	<table border="1"> <thead> <tr> <th>Source</th> <th>Details</th> </tr> </thead> <tbody> <tr> <td>Personal Savings</td> <td>Evidence of build-up of funds</td> </tr> <tr> <td>Gift</td> <td>Acceptable subject to evidence that the third party will hold no interest on the security</td> </tr> <tr> <td>Directors Loan</td> <td>Acceptable subject to transfer at full MV</td> </tr> <tr> <td>Additional Borrowing</td> <td>Details of the loan offer should be obtained for an assessment to be made on affordability</td> </tr> <tr> <td>Vendor Deposits and 2nd Charges</td> <td>Not acceptable</td> </tr> <tr> <td>Builders Incentives</td> <td>LTV reduced by 5%</td> </tr> <tr> <td>Bounce Back loans</td> <td>Are an acceptable form of deposit with supporting evidence of funds within bank statements. These are subject to the loan being used for the benefit of the business.</td> </tr> </tbody> </table>	Source	Details	Personal Savings	Evidence of build-up of funds	Gift	Acceptable subject to evidence that the third party will hold no interest on the security	Directors Loan	Acceptable subject to transfer at full MV	Additional Borrowing	Details of the loan offer should be obtained for an assessment to be made on affordability	Vendor Deposits and 2nd Charges	Not acceptable	Builders Incentives	LTV reduced by 5%	Bounce Back loans	Are an acceptable form of deposit with supporting evidence of funds within bank statements. These are subject to the loan being used for the benefit of the business.
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Customers																	
<b>Age</b>	Customers (including beneficiaries and guarantors) must be a minimum of 21 years of age at the start of the mortgage. If older than 80 at the end of the term than a succession plan is required.																
<b>Customer type</b>	<ul style="list-style-type: none"> <li>■ Individuals (UK, EU and other foreign nationals residing in the UK, see ID section)</li> <li>■ LTD Company (UK Incorporated)</li> <li>■ PLC (UK Incorporated)</li> <li>■ LLP (UK Incorporated)</li> <li>■ Trusts (Minimum Loan size £1m new loans, Refinances case by case)</li> <li>■ SIPPS (Minimum Loan size £1m)</li> <li>■ Ex-pats</li> </ul>																
<b>Ltd, LLP or PLC</b>	For company applications where shareholding is owned by another company, it will be necessary to trace back the ultimate beneficial owners and obtain the relevant personal guarantees.																
<b>Personal Guarantees</b>	<p><b>As a minimum, a personal guarantee equal to 25% or £50,000 (whichever is higher) of the loan size will be required from all directors where they have more than a 25% shareholding.</b></p> <p>For Complex Commercial loans a personal guarantee equal to 100% of the loan size will be required.</p>																
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## Customers continued

<b>Experience</b>	Commercial and semi commercial	1 BTL owned for 1 year+ AND FRI lease in place with 2 or more years to run before break/expiry AND single commercial tenant OR 2 years relevant sector experience. If unclear, client interview to understand plan to manage the property
	Complex Commercial	2 years relevant sector experience supported by client interview to understand plan to manage the property
	Ex-pats	At least 2 UK investments properties for a minimum of 12 months and at least 1 applicant to have a minimum income of £50,000
	Portfolio Landlords	Successful track record of owning relevant properties in the same sector
<b>Outside Portfolio</b>	The customers outside portfolio will be reviewed to assess long term affordability. A stress rate of 5.5% will be applied and the rental must cover a minimum of 125%. The overall gearing of the outside portfolio must not be over 75%.	
<b>ID and Residence</b>		
<b>Residential Status</b>	<p>Applications are acceptable from UK nationals residing in the UK and EU/EEA and other foreign nationals residing in the UK. Ex-pats (UK nationals living or working outside of the UK) are acceptable subject to ex-pat experience.</p> <p>Applications from foreign nationals residing outside of the UK where there is no joint UK based joint applicant cannot be accepted.</p>	
<b>Proof of Address and ID</b>	<p>Shawbrook uses an automated system for identity and address verification, if this fails or the applicant resides abroad, acceptable evidence will be required.</p> <p><b>All customers must provide certified signature ID.</b></p> <p>(See Documents &amp; Conditions Checklist).</p>	
<b>ILA</b>	<p>We will require the following to have independent legal advice:</p> <ul style="list-style-type: none"> <li>■ Customers or occupiers over 70</li> <li>■ A customer who will not benefit from the proceeds of the advance.</li> <li>■ A customer who is on the mortgage application but not named on the title.</li> </ul>	

## Affordability

The loan must meet the minimum debt service cover ratios (DSCR) in order to confirm affordability:

		5+ year fixed rate on 10+ year + term only			All variable term loans and all fixed rate up to 5 years total term		
		Payrate DSCR Cover			Stress rate DSCR cover		
Property type	Product type	Personal application	Ltd company application	Stress rate	Personal application	Ltd company application	Stress rate + product margin
<b>Semi-Commercial</b>	CI2	145%	130%	Pay Rate Only	130%		All in rate + stress rate of 1%
<b>Commercial</b>	CI1	130%					
	CC1	N/A					

The following information may be used to assess affordability and calculate the Debt Service Cover Ratio:

Security Type	What we accept	What do we use
<b>Commercial</b>	Valuer confirmation of market rent or Passing rental	Whichever is the lower
<b>Semi-Commercial</b>	Valuer confirmation of market rent or Passing rental	Whichever is the lower
<b>Multi-Unit Block</b>	Valuer confirmation of market rent or Passing rental	Whichever is the lower
<b>Serviced offices or multi-let units on licences.</b>	Valuer confirmation of the adjusted net market rent or net passing rent.	Whichever is the lower  Adjusted net market rent – considers the cost that the landlord will incur being: <ul style="list-style-type: none"> <li>■ Management costs</li> <li>■ Licencing costs</li> <li>■ Repair</li> <li>■ Maintenance costs</li> <li>■ Insurance</li> </ul>

## Affordability continued

<p><b>Vacant Units</b></p>	<p>Where the property is part or fully vacant on completion, the borrower must evidence sufficient outside income to meet the loan payments.</p> <p>If the property is to be let to multiple tenants on licences and there is no trading history available, net market rent is used to calculate affordability. However, it will be a requirement that enough units are let on completion to generate sufficient income to cover the loan payments.</p>
<p><b>Capital and Interest</b></p>	<p>Loan amounts will be calculated on an interest only basis although for borrowers who wish to have a Capital &amp; Interest loan this can be accommodated subject to evidence of supporting income to cover the difference.</p>
<p><b>Outside income</b></p>	<p>Should the rental income from the security provide less than the required minimum DSCR then outside income can be used to support DSCR commitments up to a maximum increase of 5% LTV.</p> <p>Acceptable Proof of Income (see Document &amp; Conditions checklist) is required together with an asset and liability statement and an Income and expenditure statement.</p> <p>For portfolio landlords we will sense check that the income top up has not been used on other loans within the portfolio to avoid double counting.</p> <p>When assessing expenditure, the following is deducted from the net income position:</p> <ul style="list-style-type: none"> <li>■ <b>Credit commitments</b> – this should include all mortgages (which should be stressed accordingly), credit cards, finance agreements and loans. The declared amounts should be checked against available sources such as bank statements and credit search data</li> <li>■ <b>Essential living costs</b> – to include food, utilities, council tax, phone bills, ground rent, service charge, essential travel and childcare. These should be declared by the borrower in their I&amp;E</li> <li>■ <b>Other committed expenditure</b> – such as school fees, child maintenance</li> </ul>

## Security

<p><b>Security Summary</b></p>	<p>Shawbrook must have 1st legal charge.</p> <p>Commercial and Semi-commercial property let or intended to be let third parties are acceptable.</p> <p>For semi-commercial properties the residential element is to be self-contained unless one occupant occupies the whole security.</p> <p>Semi-commercial properties are defined the residential part being greater than 50% of the total value of the site. All other properties will be considered Commercial.</p>
<p><b>Location</b></p>	<p>England, Scotland, Wales.</p>
<p><b>Tenure</b></p>	<p>Freehold and Feuhold (in Scotland) acceptable.</p> <p>Leasehold with minimum 55 years remaining at the end of the mortgage term is acceptable.</p>
<p><b>Demand for Sale</b></p>	<p>Unless stated differently within this criteria, 75% LTV Interest Only is permitted on all security when sales are achievable within 12 months.</p>
<p><b>Demand for Letting</b></p>	<p>Unless stated differently within this criteria, 75% LTV Interest Only is permitted on all security when letting is achievable within 12 months.</p>
<p><b>Leases</b></p>	<p>An acceptable commercial lease should be in place for all tenanted commercial investment property. Licences are acceptable for multi-let commercial property subject to the customer having the required experience.</p>

Flats	
<b>Freehold blocks of flats above commercial</b>	<p>Semi-commercial blocks with multiple flats above can be considered subject to usual criteria.</p> <p>Where there are up to 10 flats within the block, individual values of the flats can be used on an aggregated basis subject to individual leaseholds sales demand being within 12 months. Where there are more than 10 flats within the block, the investment block value must be used.</p> <p>Blocks over 5 storeys must have a lift and cladded blocks are unacceptable.</p>
<b>Size of Flats</b>	<p>Minimum size for flats is 30 square metres. When we are lending on blocks of flats, if the individual flats are less than 30 square metres, aggregated individual values cannot be used, only the investment block value can be used.</p>
<b>Ex-Local Authority Flats</b>	<p>Ex local authority flats in blocks of flats above commercial property up to 5 storeys are acceptable up to 65% LTV subject to sales demand being achievable within 12 months.</p> <p>If the property is in Greater London, ex local authority flats in blocks over 5 storeys are acceptable up to 65% LTV subject to sales demand being achievable within 12 months.</p>

HMO	
<b>Size</b>	<p>Small HMO defined as those having up to 6 Occupants maximum 75% LTV Interest Only subject to sales demand being achievable within 12 months.</p> <p>Large HMO defined as those having greater than 6 Occupants maximum 75% LTV Interest Only subject to sales demand being achievable within 12 months.</p>
<b>Licences</b>	<p><b>Refinances</b> - All HMO refinances will be subject to the customer having an HMO licence (when a licence is applicable) or where recent works have been completed the property being confirmed as viable for an HMO licence by the valuer.</p> <p><b>Purchases</b> - All HMO purchases will be subject to the Valuation report confirming the property is a viable HMO.</p>

Unacceptable Security			
■ Agricultural Properties/land	■ Gymnasiums	■ Shopping Centres	■ Development sites
■ Equestrian Centres	■ Land	■ Casino's	■ Freehold flats
■ Grade 1 Listed/Grade A (Scotland)	■ Religious meeting places	■ Football /Sports Clubs	■ Hostels
■ Kennels & Catteries	■ Caravan sites	■ Holiday parks	■ Offices used by religious groups
■ Places of worship	■ Fishing lakes	■ Nursing/care homes	■ Educational facilities
■ Amusement Arcades	■ Holiday lets in holiday/sports parks	■ Social clubs	■ Golf clubs
■ Petrol /Ex-Petrol stations	■ Nightclubs	■ Cladded blocks of flats or individual flat in cladded blocks	■ Waste transfer sites



Other	
<b>Flying/Creeping Freehold</b>	The maximum amount of flying or creeping freehold that we can consider is 15%.
<b>Second Charge</b>	When taking 1 <sup>st</sup> charge Commercial or Semi Commercial security, 2 <sup>nd</sup> charges are acceptable on residential property up to 70% LTV (Taking into account the 1 <sup>st</sup> charge balance) with a minimum of £25,000 equity being attributed to the 2 <sup>nd</sup> charge property; Subject to maximum loan of 100% of the lower of the value or purchase price of the 1 <sup>st</sup> charge security.
<b>Subsequent Charges</b>	Required when: <ul style="list-style-type: none"> <li>■ Where the security and adjoining owned property share the same access way</li> <li>■ When we are offered long leasehold security and the customer is also the freeholder</li> </ul>
<b>Solar Panel</b>	Acceptable subject to valuer commentary and terms of the lease arrangement (when solar panels owned by third party).
<b>Japanese Knotweed</b>	These can be considered on a case by case basis subject to evidence of implementation of a professional treatment plan with insurance backed guarantee.
<b>Concentration by Volume</b>	Shawbrook consider property postcode on a case by case basis being considerate to the customers Shawbrook and non-Shawbrook portfolio.
<b>Regulation</b>	<ul style="list-style-type: none"> <li>■ The Customer intends to reside in the property taken as security and the residential element of the security (including associated land) forms more than 40% of the total floor area of the entire security (including land).</li> <li>■ Applications where our proposed customer or a relative of the customer resides or has resided at the security in the last 12 months</li> <li>■ Ex-pat applications when the security is their previous residential property</li> <li>■ Applications when the current vendor will occupy the security after completion, and this equates to more than 40%</li> <li>■ HMO accommodation where a family member or the customer resides</li> </ul>
<b>Non-Traditional Property</b>	<ul style="list-style-type: none"> <li>■ Any Prefabricated Reinforced Concrete (PRC) dwelling which has not been repaired under the PRC (Homes) Ltd licensed repair scheme is unacceptable.</li> <li>■ Wimpey No-fines are acceptable, other no-fines systems are unacceptable</li> <li>■ Laing Easiform built after 1945 are acceptable</li> <li>■ Steel Framed Dwellings are unacceptable</li> <li>■ Large Panel Systems (LPS) are unacceptable</li> <li>■ Timber Framed Dwellings built prior to 1970 are unacceptable, properties built after 1970 but without brick/rendered block external facings are considered on their individual merits</li> <li>■ Mundic properties are acceptable only if a Concrete Screening Test has been prepared strictly in accordance with the latest RICS Guidance and the concrete has been classified as A or A/B. Suspect concrete purpose-built and converted flats will not be considered acceptable, unless the entire block has been tested and the concrete classified as A or A/B</li> </ul>

## Valuation

A Bank appointed valuation report addressed to the Bank from the pre-approved panel of surveyors with sufficient PI cover must be held or an Automated Valuation Model (AVM) if the AVM criteria is met.

<b>Valuation methodology</b>	The lower of <b>Market value (MV)</b> or <b>Vacant Possession (VP)</b> value to be used for commercial and semi commercial investment property.																	
<b>Validity of Report</b>	Valuations are valid for 6 months.																	
<b>Qualifications</b>	Fellow of the Royal Institution of Chartered Surveyors (FRICS) Member of the Royal Institution of Chartered Surveyors (MRICS)																	
<b>Automated Valuations</b>	<p>AVMs can be considered for security when the following standards are met:</p> <ul style="list-style-type: none"> <li>■ Single-unit residential property</li> <li>■ Maximum value £600k</li> <li>■ Maximum LTV and minimum confidence levels for capital value shall be in accordance with the table below</li> <li>■ England and Wales only</li> <li>■ No property above or adjoining commercial premises</li> <li>■ Freehold or minimum unexpired 85-years leasehold</li> <li>■ No converted flats</li> <li>■ No new-build property built within last 24 months</li> <li>■ Report is valid for 6 months</li> <li>■ Rental income should be taken from the lower of passing and AVM rental value for DSCR purposes</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr style="background-color: #e0f2f1;"> <th>Max LTV</th> <th>Minimum Confidence Levels (value)</th> <th>Minimum Confidence Level (rental)</th> </tr> </thead> <tbody> <tr> <td>75%</td> <td>≥6.0</td> <td>5.0</td> </tr> <tr> <td>65%</td> <td>5.0 – 5.9</td> <td>5.0</td> </tr> <tr> <td>55%</td> <td>4.0 – 4.9</td> <td>5.0</td> </tr> <tr> <td>40%</td> <td>3.0 – 3.9</td> <td>5.0</td> </tr> </tbody> </table>			Max LTV	Minimum Confidence Levels (value)	Minimum Confidence Level (rental)	75%	≥6.0	5.0	65%	5.0 – 5.9	5.0	55%	4.0 – 4.9	5.0	40%	3.0 – 3.9	5.0
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Specialist Reports			
Report	Note	Requirements	Qualifications
<b>Structural</b>	Where the valuer has confirmed evidence of ongoing movement.	<ul style="list-style-type: none"> <li>■ Structural engineers report</li> </ul> <b>If movement noted</b> <ul style="list-style-type: none"> <li>■ 100% retention</li> <li>■ Reinspection</li> <li>■ Insurance backed guarantee</li> </ul>	<b>FIStruct.E or C. Eng or MIStruct.E</b>
<b>Dry Rot</b>	Where the valuer has confirmed the possibility of or evidence of Dry Rot.	<ul style="list-style-type: none"> <li>■ Dry Rot report</li> </ul> <b>If Dry Rot noted</b> <ul style="list-style-type: none"> <li>■ 100% retention</li> <li>■ Reinspection</li> <li>■ Insurance backed guarantee</li> </ul>	<b>PCA</b>
<b>Wall Tie</b>	Where the valuer has confirmed that there is evidence of possible wall tie failure.	<ul style="list-style-type: none"> <li>■ Cavity Wall tie report</li> </ul> <b>If evidence of failure</b> <ul style="list-style-type: none"> <li>■ 100% retention</li> <li>■ Reinspection</li> <li>■ Insurance backed guarantee</li> </ul>	<b>FIStruct.E or C. Eng or MIStruct.E</b>
<b>Environmental</b>	Where the valuer has confirmed that there is evidence of possible contamination or other environmental issues.	<ul style="list-style-type: none"> <li>■ Desktop environmental report</li> <li>■ If the report confirms that there is evidence of contamination or that further in-depth environmental reports required we cannot consider lending</li> </ul>	<b>Enviroscreen or similar</b>
<b>Roofing</b>	Where the valuer makes comment that the roof is not watertight or where it is recommended that the roof requires immediate overhaul.	<ul style="list-style-type: none"> <li>■ Estimate for works</li> <li>■ 100% retention</li> <li>■ Reinspection</li> <li>■ Insurance backed guarantee</li> </ul>	
	Where the valuer makes other comments relating to the roof which are not referring to its structural integrity or water tightness but which need specialist comment.	<ul style="list-style-type: none"> <li>■ Roofing report</li> <li>■ Confirmation from valuer valuation not affected</li> <li>■ Lend against before works valuation</li> </ul>	
<b>Building Survey</b>	If a property has a number of outstanding repairs the valuer may make a recommendation for a detailed survey.	<ul style="list-style-type: none"> <li>■ Building survey report</li> <li>■ Depending on level of works a full retention and reinspection maybe required</li> </ul>	<b>MRICS or FRICS</b>
<b>Damp Rot, Wood Infestation and Defective Gas or Electrical Installation</b>	Where the valuer makes reference to these defects or the need for specialist reports.	Reports are only required before formal offer if the level of works / suggested retention equates to more than 3% of the Property value. The valuer must confirm the security is marketable in its current condition and we must work against the current value. If there are no further derogatory comments than a copy of the report is not required before completion.	<b>PCA, Gas Safe, NICEIC</b>
<b>EPCs</b>	Where the valuer refers that there is no current EPC or that the current rating is sub-standard (below E).	Confirmation from applicant as to the proposal to ensure the property meets the required standards.	

## COVID-19

<b>Off-Panel Valuations</b>	Not acceptable.
<b>Valuation and Offer Extensions</b>	These cases will be re-underwritten rather than automatically extended.
<b>Payment Holiday</b>	<p>New Lending &amp; Product Switches</p> <ul style="list-style-type: none"><li>• Where a customer requests any additional lending or a fundamental change to product, this will not be considered until they have completed their payment holiday and made at least two subsequent payments in full after the holiday expired</li><li>• If a customer does not wish to wait until the end of the agreed payment holiday and are only part way through, they will need to cancel the payment holiday and make up any payments that have been deferred before we can consider any additional lending</li><li>• They must also evidence sustainability of income during the holiday period via bank statements/up to date proof of income. Until this is provided, we cannot proceed or consider an application</li><li>• Where a customer is requesting both additional lending and a payment holiday, they will need to select one of these options only – not both</li></ul> <p>If the client has requested a payment holiday from another lender, we can still consider lending to them if we are satisfied with their reasons for needing the payment holiday and the below requirements are met:-</p> <ul style="list-style-type: none"><li>• Clear CAIS/Insight data confirming no late payments and that the accounts have been performing as agreed with the current lender</li><li>• If a payment holiday with another lender is in place, or has been previously, we will not require them to make up payments to the other lender</li><li>• If there were any receipt of rentals during the payment holiday, we would require bank statements to support the build-up of cash reserves and evidence acceptable levels of voids. We understand that clients entered into payment holidays for various reasons in order to support their property portfolio</li><li>• Standard portfolio assessment / stressing via eTech and due diligence needs to meet our standard criteria</li><li>• Where other lenders are incorrectly reporting arrears on genuine holiday payments, we will need evidence of the error and that the customer is in an agreed payment holiday. The evidence must be supplied from the lender to confirm this.</li></ul>

