**Residential Mortgage Loans Due Diligence Questionnaire** [November 2019 Version]

**–** *Name of**Participant MM/DD/YY*

This Due Diligence Questionnaire (DDQ) forms part of the eligibility process for Participants wishing to positon residential loan pools as collateral with the Bank of England. Answers will be used to inform the Bank’s discussions with Participants on site visits or annual review conference calls.

Due Diligence Questionnaire Guidance

* **Answers to questions should cover all asset types** being discussed as part of the review (e.g. owner occupied and BTL). If necessary, split your responses to each question into sections to ensure each asset type is adequately covered.
* **Participants should answer all applicable questions with a written response for each**. Whilst Participants may mention a supporting document there should always be an explicit answer to each question provided. This enables the Bank to track changes between reviews. Keep answers direct and clear. Where answers need to be quantified, please ensure to do so. Plain English is preferred in all instances where technical language is not necessary.
* **For subsequent reviews, the DDQ should be** **black lined versus the last submission.** This will ensure visits/conference calls focus on changes and minimise any repetition of previously discussed topics.

Supporting Documents

The following documents should be uploaded to the Portal alongside the questionnaire:

* **Lending policy** (including a log of recent changes).
* **A copy of, or specific details of, any affordability models** you may use as part of your underwriting process.
* **Arrears and forbearance policies**.
* **Two recent MI/Board/Risk committee packs covering the asset types being reviewed** (these should provide management information on the risk characteristics of the loan book, origination controls, risk register/limits etc). Please also submit the minutes for each of these meetings.
* **List of all internal audit reports issued since the last visit (or in the case of new participants in the last five years (or 2 internal audit cycles)).** This should include the titles and ratings for each one (focus should be on audits covering systems, processes and controls within underwriting, loan origination, securitisation (if relevant), portfolio monitoring and risk management). Once reviewed the Bank will then specify which reports it would like to be submitted.
* **Performance data:** (i) completion of the ‘sold repossessions’ template (attached below); and (ii) completion of the ‘foreclosure by vintage’ template (attached below). Item (ii) should be split by buy-to-let and owner-occupied lending and further split by LTV bucket if available. The data should reflect the total UK mortgage book and span at least one business cycle covering at least one downturn.
* **BoE data tape glossary –** This document should highlight any instances of non-compliance with mandatory fields or particular definitions versus the Bank’s published data tape requirements.

Declaration

By submitting this questionnaire, [Name of the participant] confirms that the questionnaire has been completed to the best of its knowledge and the responses have been reviewed prior to submission. [Name of participant] acknowledges that any information found to be incorrect or misleading may result in re-assessment of eligibility resulting in the proposed portfolio being rendered inadmissible as collateral.

**Name:**

**Date:**

1. BoE Collateral Plans
	1. Details of individuals at the Participant responsible for managing collateral positioned with the Bank. These should cover individuals responsible for the funding strategy, data reporting and the payment of legal bills.

|  |  |  |  |
| --- | --- | --- | --- |
| **Name***(plus job description)* | **Email Address** | **Phone number** | **Address** |
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* 1. Details of the Participants expected use of BoE schemes over the next twelve months (drawing/repayment plans).
	2. What collateral changes are expected to facilitate this (i.e. top ups, new pools)? Include information on expected values and timings. How does this interact with projected amortisation of existing pools?
	3. What funding plans does the Participant have to repay drawings made in the Term Funding Scheme/Funding for Lending Scheme?
	4. Please detail any non-vanilla risk characteristics present within existing or planned residential mortgage pools. For the purposes of this question, a vanilla pool of residential mortgage loans would have the following characteristics:
* Mortgages originated post MCOB;
* Owner-occupied or BTL (no holiday homes, second homes etc.);
* No portfolio landlords as defined in the PRA’s Supervisory Statement SS13/16;
* All borrowers would be aged 65 or less at the scheduled maturity date of the loan;
* Full income verification for owner occupied loans and full rental verification for buy-to-let loans;
* Borrowers with no previous bankruptcy, CCJ’s, missed mortgage payments or missed loan payments;
* No shared ownership, shared equity or self-build properties;
* No help-to buy loans; and
* No shared security.
1. Strategy, Outlook and Competition

**Strategy**

* 1. Details of the Participant’s general business (including origins), overall business strategy and any recent or planned changes.
	2. What are the general characteristics of the mortgage business, please include a section on each of:
		1. Highlights of the Participants financial performance within the mortgage business over the last year including market share, profitability, gross and net lending growth rates;
		2. Details of the organisational and management structure of the mortgage lending business including any anticipated changes;
		3. Tenure/experience of key management personnel;
		4. Details of any changes in key management personnel that have taken place over the last 12 months;
		5. Any anticipated changes in key management personnel in the next 12-24 months;
		6. Strategic goals for the mortgage business including the Participant’s origination strategy (e.g. Who is the target market? What is the Participant’s unique selling point? Are originations broker led, price driven, service driven etc?);
		7. Key risks around the mortgage strategy with reference to the (local) market in which you operate. Specifically, how these views are incorporated in the origination, underwriting and risk management of mortgage loans;
		8. The Participant’s view of the current state and future outlook of the domestic banking sector in terms of trends and growth areas and how this may affect their business; and
		9. Details of any projects currently planned for cost-cutting or headcount reductions which may affect the business.

**Outlook and Competition**

* 1. What are the Participant’s growth targets for total mortgage assets? Please provide a split across different mortgage products where relevant (such as high LTV owner occupied lending, BTL non-portfolio landlords, BTL portfolio landlords, shared ownership, lending in or at retirement etc?
	2. How does the Participant intend to meet these growth targets?
	3. In the event these growth targets are not being met, what options does the Participant have at its disposal to facilitate increased growth?
	4. What are the biggest current and future threats to growth?
	5. Who are the Participant’s main competitors in the mortgage market?
	6. In the last 12 months has the Participant entered into any new mortgage product areas? Please give details regardless of whether or not the Participant intends to include them in pools positioned with the Bank of England.
	7. In the next 12 months, is the Participant planning to enter any new mortgage product areas? Please give details regardless of whether or not the Participant intends to include them in pools positioned with the Bank of England.
	8. Detail the Participants approach to pricing mortgage loans. Including any methodology and the governance process for approval.
	9. How do you expect that climate change might affect your firm and the wider market?
1. Underwriting and Origination

**Distribution**

* 1. Details of the Participant’s marketing strategy and the distribution of its lending products (for instance, by branch network, authorised intermediaries and/or telephone sales), including;
		1. What is the split of originations through different origination channels, and how has this changed over the past five years?
		2. Which intermediary networks are used?
		3. Details of how the intermediary panel is managed, including;
			1. What is the process for admission to the intermediary panel?
			2. What monitoring is done as to the quality of loan applications arriving from individual intermediaries?
			3. What monitoring is done with respect to the performance of loans deriving from a particular intermediary?
			4. How many brokers have been removed from the intermediary panel in the past three years, and for what reasons?

**Underwriting Approach**

* 1. Full details of underwriting policies and procedures in place at the time of origination for the proposed loans to be submitted to the Bank, including;
		1. Details of underwriting staffing, including; location, headcount, training policies, average experience/tenure.
		2. What are the mandate levels for underwriters?
		3. How is the performance of underwriters managed?
		4. What training is provided for new underwriters and how is their performance tracked and monitored through time?
		5. What checks are carried out to ensure consistency of underwriting across the business and with lending policy? Please detail any quality assurance checks completed by the first line including: sample sizes, frequency and the governance process for reporting on findings.
	2. Outline the underwriting process from an application being received to a decline or offer being released. This should detail the different teams involved, systems or scorecards used and how data is captured during the different stages of the process.
		1. How manual or automated is the underwriting process? At which stages are automated processes used? What proportions of loans receive no manual review?
		2. Are there any differences on account of the origination channel?
		3. What is the average time to offer from a completed application being submitted? Does the Participant have any targets which performance is monitored against?
		4. Please provide information on the accept/decline rates at the following underwriting stages (where applicable): Decision In Principal, Underwriting, Senior mandate referral/Credit Committee.
		5. What models and scorecards are used in making credit decisions (including credit scoring models)? How often are these reviewed? Please detail changes made over the last year and the rationale for them. Outline the governance process followed to agree these.
		6. Full details of the Participants record management approach for underwriting documentation.
		7. Full details of any insurance products taken out by the Participant in relation to mortgage originations (e.g. MIG, title insurance). Who provides these policies? Would these policies pass to the Bank of England in the event of the Participant defaulting?

**Lending Policy**

* 1. Outline the governance process followed to make changes to the mortgage lending policy. Please outline any changes made over the last 12 months.
	2. Outline the Participants approach to exceptions to lending policies, including:
		1. Are exceptions to lending policy allowed?
		2. What is the sign off process for exceptions and how is the decision rationale recorded or flagged in systems?
		3. What proportion of the Participant’s book is an exception (percentage by number/loan balance)? What proportion of originations over the last 12 months were exceptions? Is there a limit to the value of exceptions permitted?
		4. What are exceptions permitted for?
	3. Please outline the customer due diligence process or checks undertaken on borrowers prior to a lending decision including anti-fraud, anti-money-laundering and know your customer.
	4. Please outline the Participant’s policy with regards to leasehold properties (e.g. lease length, time to expiry).

**Affordability Model**

* 1. What documents/information are used to assess income?
	2. Is income automatically verified for any borrowers?
		1. When did you start using automated income verification?
		2. What proportion of your mortgage portfolio has been assessed using automated income verification? Is this expected to increase going forward?
		3. Please detail the criteria that is used to determine if a borrower qualifies for automated income verification.
		4. How is income automatically verified?
		5. Do you outsource any part of the automated income verification process?
		6. Are there any tolerance levels in place which if breached means that income cannot be automatically verified?
		7. What other checks and balances are in place?
		8. How do you store and record proof of income? For example, are payslips recorded on your systems?
	3. Full details of affordability assessment policies in place at the time of origination for proposed loan pools (incorporating changes over the period to date), including;
		1. How is affordability assessed? What are the affordability pass/fail thresholds?
		2. What expenditure items are taken into account when assessing affordability and how are these evidenced? How much value is given to each item?
			1. If statistical expenditure data is used, what is the source? How often is this updated?
			2. If an internal source, on what basis have these figures been calculated? If external, to what extent have you amended or excluded any underlying expenditure categories?
		3. What is the stressed interest rate used in the affordability assessment and how is this agreed/updated?
		4. What income multiple back stops does the Participant use (if any)? What proportion of the Participants residential loan book has an income multiple greater than 4.5x?
	4. Are any of the loans in the portfolio positioned with the Bank of England originated pre-MMR? If yes, please provide full details of income verification process policies in place at the time of origination for proposed loan pools.
	5. How does the Participant verify the income of self-employed applicants? What income is used within the affordability model for these cases?

**Valuations**

* 1. Full details of valuation policies in place at the time of origination for proposed loan pools (incorporating changes over the period to date), including;
		1. What applications were subject to full valuations, automatic valuation models (AVM’s), indexed valuations and ‘drive by’ valuations?
		2. Who carries out property valuations (including AVM’s, indexed valuations and ‘drive by’ valuations)?
		3. Are there any restrictions (such as property type / LTV) to using AVM’s, indexed valuations or ‘drive by’ valuations?
		4. How are AVM confidence intervals taken into account when assessing the valuation?
		5. How is the valuation panel managed for fraud?
	2. Details of indexation used for monitoring current LTV levels within the book including index(es) used and frequency of update.
	3. Are climate risks taken into consideration as part of your valuations? If yes, how?
1. Risk Management, Monitoring and Controls
	1. Full details on the structure of the risk management division within the organisation, including number of people, previous mortgage experience and tenure.
	2. Outline the Participants risk management framework and how this applies to the mortgage lending business.
	3. Describe the risk function’s activities:
		1. Does the Participant have risk resources devoted to mortgage credit risk? Is this split per mortgage product line or shared with other areas (such as personal loans)?
		2. How is the quality of mortgage originations monitored within the risk function?
		3. Define the Participant’s credit risk appetite. Outline how this was determined, approved and embedded within the organisation. How does the Participant ensure it is adhered to?
		4. What kind of stress testing does the Participant carry out on its lending book? What levels of loss provisioning does it have and how does it come up with these?
		5. Does the risk function have oversight/ownership of the firm’s lending criteria and policies?
		6. Does the risk function have full control over the specification, development and maintenance of the credit models/scorecards/affordability models?
		7. What is the role of the risk function in live underwriting decision-making?
		8. How does the risk function set, monitor and enforce risk policies on broker, valuation, and application fraud?
		9. Describe the process by which observed problems with underwriting or servicing observed by Risk Management are fed back to the relevant front or back office in terms of changing criteria, procedures. Give examples of where this has occurred in recent years.
	4. What are the main committees responsible for risk management of residential mortgages and how do they interact? For each group, please provide detail on;
		1. Membership of the group
		2. Terms of reference of the group, including areas of responsibility (e.g. setting lending policy, monitoring MI)
	5. Provide a summary of the MI and risk limits used to monitor the residential mortgage book. How are book triggers/limits agreed? Outline any changes to limits made over the last year.
	6. How does the Participant consider concentration risk within the mortgage book? Including large exposures, geographic and employer concentration.
	7. Detail any developments to the risk function over the last year. What is planned for the next twelve months?
	8. Details of any discussions or actions taken by regulators against the relevant risk management or credit rating systems in the past five years.
	9. How is your firm incorporating the risks from climate change within your risk management framework?
2. Servicing, Arrears and Foreclosures
	1. Details of servicing staff, including location, headcount numbers, training policies and average tenure/experience levels;
	2. Details of servicing operations and policies, including;
		1. Please provide a breakdown of the percentage of accounts paid by direct debit, standing order or other payment methods.
		2. Are all first payments made within 30 days of the advancement of funds, or is there scope for borrowers to roll partial payments into month two or other arrangements such as payment holidays for initial payments?
		3. What proactive credit management is done of borrowers before accounts are in arrears?
	3. Details of the collections process, including;
		1. What are the key milestones for an account as it passes through the collections process?
		2. Are accounts with different risk characteristics subject to different collections strategies?
		3. Outline the level of automation within the servicing process. How are arrears cases tracked? How does this link to the core mortgage system?
	4. Details of forbearance policies in place and forbearance options that are available to borrowers;
		1. Provide management information showing the current and historic levels of forbearance arrangements in place and the effectiveness of forbearance arrangements;
		2. Are accounts with forbearance options still counted as in arrears? Does this include where forbearance was applied prior to an account missing any payments?
		3. Outline the governance process used to agree forbearance.
	5. Details of contingency plans in place to deal with increases in arrears and collections. What flexibility does your current arrears strategy provide for any unforeseen changes and how would you approach altering staffing levels?
	6. Please detail how the performance of the overall mortgage book is expected to compare to the performance of the pools being positioned. Are there any material differences (LTV’s, seasoning etc) between the firm’s total residential mortgage portfolio and the collateral pools prepositioned?
	7. Description of any anticipated events which may impact the ability to administer the portfolio of mortgage loans on behalf of the Bank, including any changes in the costs of servicing or compliance with laws and/or regulations;
	8. Details of any outsourcing arrangements that may impact the residential mortgage business. This should include information on the day to day management of the outsourced relationship, summary of any service level agreements which have been agreed, details on any mandates for decision making held by the outsource entity, linkages with the Participants core mortgage systems and information on contract termination;

Interest Only Loans (if applicable)

* 1. Outline the Participants interest only servicing strategy.
		1. How frequently does the participant contact borrowers in the lead up to maturity?
		2. What was the response rate from the most recent exercise?
		3. What proportions of borrowers do not have a repayment plan in place?
		4. What is the participants approach to tackling the risks associated with borrowers with no plan in place? What forbearance options are used to address this?
		5. How is the performance of Interest only loans past maturity monitored and how long does the Participant allow before initiating repossession?
		6. On average, what proportion of interest only loans fail to repay the bullet payment by the scheduled maturity date? On average how long do these borrowers take to make the make such a payment?
1. IT Systems and Reporting

**IT Systems and Processing**

* 1. Provide an overview diagram showing the IT systems (including interfaces) used to capture the end to end process for mortgage loans. For each system summarise its function. Please flag any that are now legacy systems or in the process of being replaced.
	2. The diagram should include processing timelines, details of the software used, the flow of data between systems and key processing controls (e.g. verifications reconciliations, exception reports, checks around data amendments and overwrites).
	3. For business and IT staff, please summarise what controls are in place around system access / roles, user administration and to maintain segregation of duties across IT systems?
	4. How is data input into systems checked (e.g. at mortgage origination)?
	5. Are there any changes in IT systems planned that will impact the mortgage portfolio and data tape production etc? If so, please detail them below with expected timings.
	6. Do all product switches remain in the pool? How are these reported in the data tapes? (i.e. does the static data, including origination date, change?, does the loan ID change?)

**BoE Data Reporting**

* 1. How will the portfolio of mortgage loans to be used as collateral in the SMF be readily identifiable and separable from the rest of your mortgage portfolio?
	2. How are the cash flows from positioned collateral identified and reconciled in your systems? Is there a specific collection account receiving cash flows from mortgage loans used as collateral? Could they be easily segregated from other cash flows received? Please provide a detailed process flow statement explaining how this would happen in practice.
	3. Please provide a diagram showing the process for compiling the Loan Data tapes including:
* Timeline of the process from start to finish – how long does it take in total?
* Indications of all IT systems involved.
* Description of the key controls in place stating whether they are manual or automated (e.g. data validation and plausibility).
* Outline the controls around data amendments / overwrites. What audit trail is in place to monitor this?

**Resources/Support**

* 1. Outline a brief description of the IT Department including staff numbers, location and skills profile?
	2. Explain the support arrangements for the IT systems used in the residential mortgage business, including any outsourced / offshored IT.

**Standby / resilience**

* 1. Outline the provision of any disaster management system. What plans does the Participant have in place to deal with unexpected events? How often are they tested?

**Managing Change**

* 1. Please provide information about any planned major changes to the IT systems used for loans reporting and processing in the next 2 years.
	2. Please give an overview of the IT Change Management process including governance, planning, process implementation and deployment and the key staff involved.
1. Audit, Regulation and Ratings
	1. Provide a summary of the internal audit function (including experience and tenure). Is the function outsourced? Is co-sourcing utilised?
	2. Have there been any audits performed in the past few years that relate to the mortgage business. What where the results and actions?
	3. Are there any upcoming audits planned that relate to the mortgage business?
	4. What do internal audit view as the highest risk areas relating to the mortgage business?
	5. How is the audit plan decided?
	6. How are actions tracked and monitored? How are actions closed? What steps are taken when actions are not remediated appropriately?
	7. Details of any action taken by regulators against the mortgage business or any of its employees in the past five years;
	8. Information about any disputes or issues raised by the *external auditors* that would affect the mortgage lending business or any transaction under the SMF;
	9. Details of any contingent liabilities, including those which the *external auditors* agreed not to disclose in the latest financial statements, that could impact the mortgage lending business;
	10. Description of any changes to accounting policies or other accounting changes proposed or contemplated which could impact the mortgage lending business or any transaction under the SMF.
2. Legal
	1. Are you aware of any PPI claims in respect of this portfolio? If so, please specify details of the loans affected by such claims.
	2. Schedule 6 of the Bank of England’s Loans Assignment Annex and Schedule 4 of the Bank of England’s Loans Declaration of Trust Annex[[1]](#footnote-1) both include representations and warranties to be made in respect of each loan in the proposed portfolio.
		1. For new pools, please confirm that the Participant is able to satisfy these representations and warranties.
		2. For pools currently pre-positioned with the Bank but unencumbered (i.e. not securing any drawings), please confirm the Participant is currently able to satisfy these representations and warranties.
	3. Please confirm that you have a record of and have retained a copy of each set of standard loan documentation (including terms and conditions) and for each type of loan in the portfolio.
	4. Do you retain product switches within pools prepositioned with the Bank? If so, please detail.
	5. Are there, as a result of product switches, loans pre-positioned with the Bank that have been completed on new terms and conditions which have not been reviewed by the Bank?  If so, please provide a blacklined version of the changes
	6. How many product switches are in the pool that have been completed on new terms and conditions that have not been reviewed by the Bank?
	7. If borrowers currently pay an interest rate that references LIBOR, or the interest rate will revert to a rate that references LIBOR in the future, how do the terms and conditions of the loans deal with a discontinuation of LIBOR? If there are loans referencing LIBOR, do the terms and conditions of new and legacy loans include a fall back to an alternative reference rate?
3. Lending into and in retirement - Applicable For All Participants With Owner Occupied Loan Pools
	1. Please complete the below table to indicate the proportion of the Participant’s residential mortgage loan book comprising lending to borrowers who are already in retirement or due to be retired by the maturity of the loan.

|  |  |  |
| --- | --- | --- |
|  | **Whole residential mortgage book** | **Interest only (IO) residential mortgage book** |
| **Borrowers Age at Maturity** | **Value of loans (£millions)** | **Value of loans (% of residential loan book)** | **Average Current LTV** | **Value of IO loans (£millions)** | **Value of IO loans (% of residential loan book)** | **Average Current LTV** |
| 65-70 |  |  |  |  |  |  |
| 70-75 |  |  |  |  |  |  |
| 75-80 |  |  |  |  |  |  |
| 80+ |  |  |  |  |  |  |

* 1. How is the Participants maximum borrower age calibrated? If there is not a maximum age limit, how does the Participant get comfortable without a backstop in place?
	2. What book limits or triggers does the Participant have for lending in/into retirement? How were these calibrated?
	3. How does the participant verify affordability in retirement? Outline where this is different to the standard affordability assessment outlined in Section 3.
	4. What does the Participant consider as key risks with this type of lending and how has the Participant become comfortable that these do not present barriers to lending in this market?
	5. Does the Participant follow an alternative servicing approach for these borrowers?
1. Buy to Let - Applicable For Participants With Pools containing Buy-to-Let Loans
	1. Please outline the rationale for the minimum ICR requirements. What evidence or research was used to justify this?
	2. Does the participant offer 5 year (or longer) fixed rate BTL mortgages? How are these assessed from an affordability perspective?
	3. Amateur vs Portfolio landlords:
		1. How does the Participant consider and capture the risks created by amateur versus portfolio landlords?
		2. How do the lending criteria differ between these segments?
		3. How has the approach to these risks been affected by Supervisory Statement SS13/16?
	4. Limited Companies:
		1. Does the Participant underwrite loans to limited companies? Are these included in collateral pools prepositioned at the Bank? What proportion of the pools do these represent?
		2. Are these cases underwritten any differently to standard BTL cases?
		3. Is a guarantee sought from an individual?
		4. If a guarantee is sought from an individual, is this transferrable to the Bank should the Bank take the loans onto its balance sheet?
	5. Homes of Multiple Occupation (HMO’s):
		1. What is the Participant’s approach to HMO’s? Consider identification, underwriting, limit framework and monitoring and risk appetite in the answer.
		2. Are any different valuation methods applied for HMO’s?
		3. What checks are carried out to confirm that the borrower holds the requisite licenses for the property that is being mortgaged?
		4. Does the Participant intend to position any loans secured on ‘Large’ HMOs? (Large HMO’s are where all of the following apply: (i) it is rented to 5 or more people who form more than 1 household; (ii) some or all tenants share toilet, bathroom or kitchen facilities; and (iii) at least 1 tenant pays rent.)
	6. Receivers of Rent:
		1. What is the Participant’s policy towards using receivers of rent?
		2. What polices are in place around their implementation?
		3. What mandates do the receivers of rent hold?
		4. What monitoring of the performance of receivers of rent is in place?
		5. Can excess monies collected by receivers of rent be used to pay down capital on the loan?
	7. Tenancy Agreements:
		1. What types of tenancy are the leases subject to?
		2. Do any tenancy agreements grant the tenant any security of tenure or allow the tenant a unilateral right of renewal or continued occupancy?
	8. What is your concentration policy with regards to borrowers, region, postcode, individual developments etc?
2. Help To Buy – Applicable For Loan Pools Containing Help To Buy 1 and Help To Buy 2 Loans Only
	1. Please indicate the target volume of loans per annum you plan to originate under the Help To Buy guarantee scheme and under the Help To Buy shared equity scheme.
	2. Please outline which segments of the Help To Buy scheme you plan to participate in (i.e. Only 90-95%).
	3. Please set out the differences in the terms and conditions for Help To Buy loans versus your standard mortgage terms and conditions.
	4. Please list the additional disclosures the borrowers sign for Help to Buy mortgage products.
	5. What additional underwriting controls will be involved in the underwriting of Help to Buy loans?
	6. Will the scheme be restricted to any particular borrower within the scheme rules (for example re-mortgage customers)?
	7. Please outline how Help To Buy loans will be flagged in your the system.
	8. Please provide the latest performance data on any Help To Buy loans and equivalent high LTV mortgages.
	9. How much development work is necessary for you to have the additional data required in the template for Help To Buy loans?
3. Shared Ownership – Applicable For Loan Pools Containing Shared Ownership Loans Only
	1. Business Strategy
		1. When did you move into the market? What is your current book value and lending projections for the next three years?
		2. What is your shared ownership (SO) strategy? Do you envisage any changes to your Shared Ownership (SO) strategy?
		3. What is you view on the development of the SO market in the past five years and the outlook for the future?
		4. Please confirm whether any of the below are included within existing or proposed collateral pools. Include details on the pools impacted and value of any of the below included.

Properties within Scotland;

Variant shared ownership schemes (e.g. Older Person’s Shared Ownership (OPSO), Home Ownership for People with Long-term Disabilities (HOLD));

Shared ownership within designated rural/protected areas

* 1. Origination
		1. Do you offer shared ownership specific products or are shared owners able to access your standard owner occupied mortgage range? How does the interest rates charged on shared ownership differ?
		2. What is the breakdown of SO mortgages between the type of registered provider (e.g.housing associations and local authorities?)
		3. Does the counterparty maintain a list of Registered Providers with whom it will originate SO mortgages? How is this list managed and controlled?
		4. Please set out the differences in the terms and conditions for shared ownership loans versus your standard mortgage terms and conditions.
		5. Are loans only made against the standard HCA Mortgage Protection Clause/Section 442 Guarantee? How do you ensure that you only lend against the standard guarantee?
		6. How do you ensure you are able to staircase up to 100%, and maintain charge over the entire property?
		7. Are loans made in designated rural/protected areas where staircasing would be limited post-default? If loans are made in such areas, please detail any additional risk management actions taken.
		8. Detail any lending criteria which are different for shared ownership originations versus the Participants owner occupied residential mortgages.
		9. How does the Participant incorporate rent and service charges within its affordability assessment?
		10. Are full valuations performed in all cases?
		11. Would valuations ever be taken from the local authority/housing association? If so, please explain the due diligence performed around such valuations.
		12. Does the Participant require valuers to incorporate shared ownership features within valuations (e.g. resale restrictions)?
		13. How does the Participant monitor geographic concentration within its shared ownership book? Are there are development specific risk limits?
	2. Servicing and arrears
		1. Are payments received directly from the mortgagee?
		2. Do you monitor SO mortgages separately to other mortgages? Are they serviced separately?
		3. How are rent/service charge arrears monitored and what process is followed to address these with registered providers?
		4. Will the Participant capitalise rent arrears and, if so, please detail the frequency/value during the last year?
		5. How do arrears rates/losses compare with wholly owner-occupied mortgages? Please complete the below foreclosure data template purely for your shared ownership loans.



* 1. Enforcement
		1. Please detail the full steps undertaken should enforcement be required.
		2. Where you staircase up to 100% of the property value, please explain the steps undertaken to do this. Are there any circumstances under which you would not staircase? Do you have a policy around offering properties to the local authority/housing association in the first instance rather than looking to sell on the open market?
		3. What is the average time to sale when repossessing a shared ownership property? (Including: communication with the registered provider, staircasing, meeting right of first refusal requirements etc). How does this differ to standard owner occupied residential mortgages?
		4. Detail any situations where the participant has been unable to claim against the Mortgage Protection Clause/Section 442 guarantee or the registered provider has challenged the claim lodged by the participant.
1. Owner Occupied Lending Policy Summary *(if applicable)*

Participants should provide concise information on each lending criterion listed below. Information should relate to the Participant’s current live lending policy. Examples have been included purely to provide guidance on formatting.

|  |  |  |
| --- | --- | --- |
| **Lending Criteria** | **Example** | **2017** |
| **Max loan Size** | £1mn |  |
| **Max Term** | 30 years |  |
| **LTV Criteria** | Max 95% LTV: <=£500kMax 80% LTV: >£500k - <=£800kMax 70% LTV: >£800k - <=£1mn |  |
| **Residential lending types currently offered by the Participant** *(incl. outside the BoE collateral pools)* | Outright PurchaseRemortgageShared OwnershipSelf Employed/ContractorLending into Retirement |  |
| **Max Age** (end of term) | 70 |  |
| **Criteria specific for lending into/within retirement***(e.g. different LTV limits, affordability assessment etc)* | Retirement <15 years away- Proof of current income and anticipated retirement income(lower of the two taken for affordability calculation)Retirement >15 years away- Current income used for affordability- Evidence of existence pension contributions |  |
| **Additional First Time Buyer restrictions** | Max 70% LTVMax income multiple 3x |  |
| **CCJs** | No more than two single CCJs to a max of £200 within the last 18 months |  |
| **Defaults** | None allowed |  |
| **Missed Mortgage/ Rent Payments** | None allowed in the last 2 years |  |
| **Repossession/ Bankruptcy** | None allowed in the last 2 years |  |
| **Income Multiple/LTI caps** | 4.5x single3.5x joint |  |
| **Allowable Income** | 100% of contractually guaranteed income50% of variable earnings (such as bonus, commission) |  |
| **Stress rate for affordability assessment** | Higher of 5.5% or SVR + 3% |  |
| **Current SVR** | 4.00% |  |
| **What data is used to determine the applicant’s basic essential expenditure & basic quality of living costs?** | Higher of budget planners and ONS data used.ONS data has been haircut by 10% to ensure the stress is realistic. ONS data was last updated in January 2017. |  |
| **Minimum monthly disposable income required post stressed expenditure deducted** | >£0 |  |
| **Min Property Value** | None |  |
| **New-build Restrictions** (e.g. max LTV, loan amount or property type rules) | Max 80% LTV: New Build HouseMax 70% LTV: New Build FlatMax 5 story block of flats |  |
| **Valuation Type** | Full valuations required except for further advances <60% LTV then an AVM is allowable subject to property rules (e.g. no non-standard construction types) |  |
| **Interest Only***(Additional criteria)* | Minimum £50k single income/£75k joint incomeMax 70% LTVMin £250,000 equity required |  |
| **IO Repayment Vehicles** | - Sale of Mortgaged Property (subject to min equity of £250k)- Unit Trusts- Investment Bonds- Endowment Policies- Stocks and Shares ISA- Cash ISA- Cash Deposits- Sale of UK residential/BTL property- Company and/or Private Pension |  |

1. BTL Lending Policy Summary *(if applicable)*

Participants should provide concise information on each lending criterion listed below. Information should relate to the Participant’s current live lending policy. Examples have been included purely to provide guidance on formatting.

|  |  |  |
| --- | --- | --- |
| **Lending Criteria** | **Example** | **2017** |
| **Max loan size** | £400k |  |
| **Max Term** | 20 years |  |
| **Minimum Age at origination** | 21 |  |
| **Max Age** (end of term) | 85 |  |
| **First time landlord criteria** | Accepted - No prior BTL experience required although must be an owner occupier at point of application |  |
| **Max LTV** | 70% |  |
| **Minimum stressed rental cover ratio (ICR)** | 145% - Standard BTL165% - HMO |  |
| **Is the minimum rental cover ratio for higher rate tax payers assessed pre or post tax?** | Pre-Tax |  |
| **Interest Rate used for Rental Cover Ratio** | Higher of 5.5% or product rateFor 5+ year Fixed Rate: 4.5% or product rate |  |
| **SVR**  | 4.5% |  |
| **Affordability Approach**(Incl. the proportion of the ICR that can be made up of earned vs rental income) | Assessed purely from rental income. No element of earned income included. |  |
| **Min Earned Income** | None |  |
| **Min Time in Employment/Self-employment** | Employed: 6 monthsSelf-employed: 12 months |  |
| **CCJs** | No more than two single CCJs to a max of £200 within the last 18 months |  |
| **Defaults** | None allowed |  |
| **Missed Mortgage/ Rent Payments** | None allowed in the last 2 years |  |
| **Repossession/ Bankruptcy** | None allowed in the last 2 years |  |
| **Max no. of properties with participant**(Include max exposure value if relevant) | Max 4 properties across all lendersMax £3mn exposure |  |
| **Max no. of properties in whole portfolio** | Max 10 properties across all lenders |  |



1. Both available on the Bank’s website under the ‘Apply to participate in the Sterling Monetary Framework’ heading - [hhttps://www.bankofengland.co.uk/markets/the-sterling-monetary-framework](https://www.bankofengland.co.uk/markets/the-sterling-monetary-framework) [↑](#footnote-ref-1)