



Residential Mortgage Lending Policy

Spain



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Section 1 - Introduction

Originating Source

Mortgage Applications are originated from the Society’s Gibraltar Branch and can be received from the customer:

- Directly.
OR
- Via Mortgage Introducers.

Quality of Business

The quality of business from originating sources is monitored by reference to the quarterly Arrears Characteristics Reports. This is reviewed by the Head of Internal Audit and any concerns reported to the Executive Directors.

Outside criteria lending is separately monitored by the Mortgage Lending Management Team and feedback is provided to the Underwriters and to originating Branches, where necessary.

Interviews

Mortgage interviews are:

- Arranged for mortgage applicants via the Gibraltar Branch.
- Compulsory to qualify for certain product types, from time to time.

Code of Mortgage Lending

The Society complies with the high level aims of Mortgage Regulation and adopts this as best practice in Gibraltar, where this is appropriate. The following levels of advice are given:

| Level | Advice Given |
|-------|---|
| One | The customer makes his own choice without advice. |
| Two | The advisor presents the products available but offers no advice to the customer. |
| Three | The advisor provides the recommendation on the most appropriate product after assessing the customer's needs. |

The level of advice given is stipulated on the mortgage offer.

Processing of New Applications, Underwriting & Post Completion Administration

Processing of New Applications and Underwriting are undertaken by the UK Head Office.

Post Completion administration is undertaken by the UK Head Office.

Continued...

Section 1 – Introduction, continued

Target Borrowers

The broad target market is UK ex-patriates residing in Spain, Gibraltarians and UK residents; principal market will be UK nationals and ex-patriates and Gibraltar nationals.

Note: Applicants who have not resided in the UK, Ireland, Gibraltar or Spain in the previous 2 years will not be accepted.

Purchase/ownership of property is in the name of the individual and not through a Company vehicle.

Currency

This Policy Guide relates to both lending in Sterling and Euro.

Section 2 - Employed Status

Acceptable Types Of Employment

- Permanent full or part-time employment with at least one applicant earning a minimum of £20k or the Euro equivalent.
- Fixed Term Contract (refer to 'Fixed Term' section below).
- More than 1 job - each job is acceptable under its' own merit.
- Have been in employment continuously for the last 6 months, irrespective of the nature of this employment.
- Have had no more than 2 different employers in the last 6 months.
- Provided applicant in full time employment, probationary period does not need to have been completed.

Guidance Note: Applications will be accepted where an individual is employed in Spain and paid in Euro's where the income is translated into English.

Income Verification

Income will be confirmed by receipt of the following documents:

- Last P60/P7 or equivalent (optional requirement subject to underwriter's decision).
- Last 3 months' wage slips.
- Last 3 months bank statements showing salary credits.

Providing that:

- Originals are obtained and certified as being true copies by the branch.
- The payslips must show a clear amount of income, which must tie up with the cumulative amount on the most recent pay slip.
- Any additional earnings (e.g. overtime) will only be used if they are clearly differentiated and supported by the cumulative figure.
- An employer's reference will be requested if there is any doubt over any aspect of the employment. Particular care should be taken in cases where the applicants are related to their employer.

Continued...

Section 2 - Employed Status, continued

Employers' References

Where an employer's reference is obtained, replies must be:

- In response to the Society's written request.
- Validated by the employer's company stamp.
- Addressed to the Society, confirming the following details:
 - Job title.
 - Length of service.
 - Basic annual income.
 - Overtime, bonus commission.
 - Permanency of employment.
 - Whether applicant is under notice of termination or redundancy.
 - Any adverse features affecting employment.
 - Address held for applicant.

Fixed Term Contracts

Applicants who are employed on short term contracts can be considered under the following criteria:

- A satisfactory employer's reference is received; confirming there is no reason to suspect the contract will not be renewed.
- A satisfactory previous employer's reference is required, where the applicant has changed employment within the last 12 months.
- As an alternative to an employment reference, last 3 months payslips and most recent bank statement are acceptable.
- Historical evidence of continuity of employment contracts over last 3 years.
- Temporary ('non-fixed') contracts are not acceptable.

New references/income confirmation will be required after 6 months from the date of evidence if the advance has not been completed.

Section 3 - Self Employed Status

Important Note

The requirements in this section apply to the self-employed, sub-contractors and company directors with more than 33% shareholding.

Applicants must have been self-employed for a minimum period of 2 years at the date of application and be UK nationals or EU nationals with business based in the UK, Gibraltar or Spain. UK/Gibraltar accounts or tax assessments to be available, or Spanish accounts which have been translated into English and where the accountant can be appropriately vetted.

Take particular care when considering applications where future earnings are difficult to assess (e.g.: entertainers, musicians, professional sportsmen etc).

Continued...

Section 3 - Self Employed Status, continued

The following evidence is not an exhaustive list and where it is not available, the underwriter may accept other evidence.

If considered necessary by the Underwriter, proof of the continuing existence of the business may be required from the Accountant.

All accounts must be prepared and certified by a professionally qualified Accountant who is a member of one of the following bodies:

- Institute of Chartered Accountants.
- Association of Chartered Certified Accountants.
- Chartered Institute of Management Accountants.
- Chartered Institute of Public Finance Accountants.
- Association of Authorised Public Accountants.
- Institute of Chartered Secretaries & Administrators.
- Appropriately qualified and bone-fide Spanish accountant if accounts written in English.

| Type of Self Employment | Evidence of Income Required | What is Acceptable As Income |
|---|---|---|
| Sole Traders (Solely owned business of sole trader with or without a trading name) | Last 3 years full & consecutive accounts or Last 2 years accounts plus projected accounts for current year Last 6 months personal bank statements | Net Profit |
| Individuals (Non-trading business) | As above or last 2 years Tax Assessments and Last six month's bank statements Assessment | Net Profit/Income or as per Tax |
| Individuals (Sub-contractors) | As above or last 2 years Tax Assessments and Last 6 months bank statements Assessment | Gross income less expenses or income as per Tax |
| Individuals (Income from investments in a non-quoted company and applicant is not an employee of company) | As above or last 2 years Tax Assessments and Last 6 months bank statements | Gross income or income as per tax Assessment |
| Individuals (Income from investments - Quoted Investments on any Recognised Exchange for shares) | As above or last 2 years Tax Assessments and Last 6 months bank statements | Gross income or income as per tax Assessment |

Continued...

Section 3 - Self Employed Status, continued

| Type of Self Employment | Evidence of Income Required | What is Acceptable As Income |
|---|---|---|
| Partner in Professional Partnership | In partnership of 8 or more reference from attributable Managing partner As above or last 2 years Tax Assessments Last 6 months personal bank statements | Net profit to the applicant |
| Incorporated Bodies less than 33% interest (or controlling share) An employee of the company | Treat applicant under Income from Employment | |
| Incorporated Bodies 33% to less Dividends & than 50% interest or controlling share | 3 years most recent & consecutive accounts or Last 2 years accounts plus projected accounts for current year Last 6 months personal Bank statements | Salary |
| Incorporated Bodies 50% or greater interest (or controlling share) | 3 years full & consecutive accounts | Salary, dividend & share of undrawn profits whether retained or withdrawn from business |

Section 4 - Income From Other Sources

Accepted Income Types

Pensions - Acceptable Evidence

Where applicants request a mortgage term which takes them beyond normal retirement age, proof of pension income will be required to substantiate the loan.

Given the inherent difficulty to verify available income in retirement, only pension income within 5 years of retirement is to be verified. Additional checks will be carried out and recorded checking the plausibility and sustainability of the type of employment where the borrower is working past retirement age. (eg. It is less likely for an applicant to continue to work beyond retirement in a manual role than it would be in a clerical role.)

Exception:

Proof of pension income will not be required where the applicant has more than 5 years to work until normal retirement age.

Example:

- Applicant is aged 50 and has 15 years to work until normal retirement age.
- A term of 25 years has been requested.
- Proof of pension will not be required.

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Section 4 - Income From Other Sources, continued

Verification of income should be in one of the following forms of evidence:

- State Pension – Pension Warrant Book
- Company Pension – statement from Administrators
- Personal Pension – statement from Insurance Company

In addition to the above 6 month's personal bank statements will be required.

Where the above evidence is not available, the underwriter may use his/her discretion to obtain other suitable forms of pension income verification.

Rental (Investment) – Rules

The use of rental income can be added to those income types that are used for assessing the applicant's ability to support the loan.

We can use 100% of rental income, providing that one of the following evidence is used:

- Last 3 consecutive year's accounts
Or
- Last 3 year's tax assessments
Or
- Last 12 month's bank statements

Section 5 - Definition of Income

Primary Income

Primary income is defined as basic salary, plus the following:

- Large town allowance.
- Rent allowance.
- Mortgage subsidy (100%).

Other Income

Other income is defined as:

- Commission.
- Bonus. *
- Overtime. *
- Shift Allowances.
- Working Family Tax Credit
- Rental Income**.
- Car Allowance.
- Maintenance Payments.
- Investment Income

Continued...

Mortgage Lending Guide – Spain
Section 5 - Definition of Income, continued

When income is largely made up of bonus/commission or has a high overtime content, the maximum amount of other income to consider is no more than 100% of basic salary. Other income is also taken into account as follows:

| Income Type | Amount up to: | Condition |
|---------------------------------|---------------|------------------------|
| Overtime/Bonus/Shift Allowance | 100% | If guaranteed. |
| Commission | 50% * | If regular. |
| Working Family Tax Credit | 50% | If regular/guaranteed. |
| Mortgage Subsidy/Rent Allowance | 100% | If guaranteed. |
| London/Large Town Allowance | 100% (up to) | |
| Car Allowance | 100% (up to) | |
| Maintenance Payments | 50% | |
| Investment Income | 100% | |

* Senior Mandate Holders have discretion to utilise up to 100% of bonus and overtime payments where there is evidence that these payments are clearly sustainable. In utilising this discretion, consideration will be given to the LTV, loan type and occupation of the applicant.

** The use of Rental Income or income derived from investments can be added to those income types that are used for assessing the applicant's ability to support the loan.

We can use up to 100% of rental or investment income, providing we can obtain proof of payment for a 12 month period. The proof of payment can be obtained from a qualified accountant, Property Management Company or through Bank statements.

Borrowing Capacity (Euro Mortgage)

| No. of Applicants | Income |
|-------------------|--|
| One | Up to 3.25 x single income |
| Two or more | 3.25 x first applicant's income plus 1 x second applicant's income or Up to 3 x joint income |

Borrowing Capacity (Sterling Mortgage)

| No. of Applicants | Income |
|-------------------|---|
| One | Up to 3 x single income |
| Two or more | 3 x first applicant's income plus 1 x second applicant's income or Up to 2.5 x joint income |

Continued...

Section 5 - Definition of Income, continued

Applicant Has 2nd Job

If the applicant(s) has a second job, income from that source can only be considered if:

- The job has been held for at least 6 months.
- Employment can be established as permanent.

To establish the risk, full details of both jobs must be submitted as follows:

- Income.
- Length of employment.
- Nature of employment.
- Number of hours worked per week.

Number of Applicants

Single or joint applications are considered to be the norm and multiple applicants are not usually acceptable. However, where a close family relationship exists which is likely to stand the test of time, 4 applicants can be considered.

Continued...

Section 6 - Credit & Other Commitments

Introduction

When calculating the amount which the applicant can afford to borrow, existing financial commitments (eg: other loans, mortgages, HP agreements, maintenance payments, liability for leasehold payments) will be taken into account. This includes any existing mortgage, in Spain, UK or Gibraltar, which will remain outstanding.

The annual payments due on such commitments must be deducted from gross income before the multiplier is applied, as in the 'Example' below.

Example

Mr Smith earns a basic salary of €29,000 but has a personal loan of €8,700 requiring monthly payments of €72.50 and pays maintenance of €108.75 a month. The assessable income is as follows:

| | |
|-------------------|---------|
| Basic Salary | €29,000 |
| Less | |
| 12 x €72.50 | € 870 |
| 12 x €108.75 | € 1,305 |
| Assessable Income | €26,825 |

Therefore, the amount which can be borrowed =
 $€26,825 \times 5 = €134,125$ (using € multiplier)

Credit Card Agreements

If the outstanding balance of the credit card held by an applicant exceeds €1,450, the outstanding liability must be taken into account by calculating 3% of the outstanding balance x 12. For example:

| | |
|------------------------------------|--------|
| Outstanding balance of credit card | €2,900 |
| x 3% | €87 |
| x 12 | €1,044 |

Total amount to be deducted from gross income before the multiplier is applied is therefore €1,044.

Commitment Due To Expire

Where a commitment is due to expire within 12 months from the date of the application, it will not usually be deducted from gross income, **unless** it is significant in terms of overall income.

The test of significance will normally be an annual commitment representing more than 10% of the annual gross salary.

Credit Reference Agency (UK Residents only)

The Society uses a credit reference agency (**Equifax Europe**) to conduct a credit search, which covers all addresses for a minimum of a 3 year period (where appropriate). **A credit search can only be carried out where the applicants are UK residents or have had a previous UK residential address in the last 3 years.**

Continued...

Section 6 - Credit & Other Commitments, continued

Voter's Roll (*UK Residents only*)

If the applicant is not registered on the voter's roll, an explanation will be required and satisfactory evidence must be produced showing the applicant actually resided at the stated address (**eg**: provision of utility bills or council tax correspondence).

Credit History

The Society has adopted a specific definition of 'Vanilla / Prime', any application that fails to meet the criteria will be declined.

Vanilla / Prime Definition

- No arrears on a previous (or current) mortgage or other secured loan or unsecured loan (including credit / store cards, mail order credit and mobile phone contracts) within the last 12 months;
- No arrears on any loan (unsecured or secured including credit / store cards, mail order credit and mobile phone contracts) within the last three years, where the cumulative amount overdue at any point reached more than two monthly payments;
- No more than one county court judgements (CCJs) or default, which must have been satisfied within 3 months of issue, with a total value greater than £500 or Euro equivalent, within the last four years;
- Not being subject to an Individual Voluntary Arrangement (IVA) at any time within the last four years;
- Not being subject to a bankruptcy order at any time within the last four years;
- Not being subject to a previous property possession within the last six years.

Guidance Notes

- *Technical arrears as part of the above definition are to be excluded. Technical arrears means circumstances where the borrower has been the victim of a banking error giving rise to late payment and the credit file has been updated accordingly.*

*In the case of loans involving **two or more borrowers**, the impaired credit test is whether any one of the borrowers individually meets any of the six listed impaired credit conditions.*

Section 7 - Proof of Payment

Satisfactory Conduct

Confirmation must be obtained from existing and previous lenders that loans have been conducted satisfactorily over a 1 year period (including loans redeemed within previous 3 years).

Satisfactory evidence of payment history, showing the previous 12 months' payments, is also acceptable in the form of bank or lender's statements.

The last annual mortgage statement will be accepted as proof of mortgage payment together with bank statements since showing mortgage payments.

This is subject to a clean credit history over the last 3 years, otherwise 24 months' proof of mortgage or rental payment will be required.

| Type | Proof |
|----------------|--|
| Private Rental | No verification is required |
| Company Rental | Last 12 months' proof of payment or reference from rental company/agency confirming satisfactory rental. |

If the reference is adverse, proof of payment for a 24 month period is required.

Other Financial Commitments

In certain cases, proof of payment may also be requested, (**eg:** where other financial commitments appear to compromise the ability to repay the proposed mortgage).

First Time Buyers

Unless available on credit bureau search (UK addresses only), first time buyers will be required to provide actual proof of payment for a 6 month period for existing personal loans, where the monthly payment exceeds €145.

Section 8 - Guarantors

All cases where a Guarantor is proposed should be referred to Head Office for consideration and approval.

Section 9 - Loan to Value

Overview

The Society will consider loans up to 65% of the valuation of the property, as provided by our panel of professional valuers, for villa and terraced properties.

The Society will consider loans up to 50% of the valuation of the property, as provided by our panel of professional valuers, for flat / apartment properties.

These arrangements apply to both purchases and re-mortgages.

Already Owned Properties

Properties which are already owned, but where there is no existing charge on the property, can be remortgaged, provided the loan exceeds €36,250.

Capital Raising

Applications that are for capital raising purposes will not be accepted.

Section 10 - Society Maximums

| | |
|----------------------------------|--|
| Maximum Loan | The maximum loan the Society will permit is €725,000. |
| Maximum/Minimum Valuation | The maximum valuation the Society will permit is €1,160,000. The minimum valuation is €72,500. |
| Maximum Term | The maximum term the Society will permit is 40 years. This will usually be limited in accordance with the Valuer's recommendations or applicant's circumstances. |
| Minimum Term | 5 years. |
| Maximum/Minimum Age | The minimum age for a mortgage applicant is 18. The maximum age is 65 years, however, applications may be considered up to the age of 75 years (at the end of the mortgage term) where the applicant can demonstrate the ability to service the loan by continued employment or pension income. |

Section 11 - Early Repayment & Arrangement Fees

Arrangement Fees

Arrangement fees vary according to the product and can be added to the advance.

Early Repayment Terms

A standard early redemption administration charge applies to all cases with the exception of loans reaching maturity. The fee is quoted on the Tariff of Charges which is reviewed annually.

Early Repayment Charges (ERC's)

The Society's Treasury Team in conjunction with Marketing Department calculates Early repayment charges.

ERC's must represent a genuine pre-estimate of the Society's loss if a customer elects to redeem early.

The level of any ERC will depend upon the particular product concerned.

Section 12 - Solicitor

Society's Panel

The Society operates a panel of Solicitors. Provided the Solicitor chosen to act on behalf of the applicant is on the Society's panel, the Society will also instruct the Solicitor to act on its behalf.

Maintenance of Panel's Details

The Panel is maintained locally on the LEAP/SUMMITT system and each Solicitor has been allocated a specific code.

Unacceptable Solicitor

If the applicant(s) use a Solicitor not on the Society's panel, then the Society's own Solicitors will be instructed to act for the Society.

Section 13 - Property

Location

Subject to all other criteria the Society will lend in the following locations:

- Spain - The property must be along the coastal strip situated in the Costa de la Luz, Costa del Sol, (coastal strip La Linea - Motril), Almeria, Costa Blanca and Costa Brava. The coastal strip is defined as up to a maximum of 15km (as the crow flies) from the sea.
- Canary Islands
- Balearic Islands

Guidance Note for lending in Spain:

Applications in excess of the maximum 15km from the sea are not usually considered, however, the Society will consider applications in excess of 15km, where the loan is secured on a high quality detached single dwelling unit with established communication and support facilities. The maximum loan to value for properties outside of the location criteria is 50%. Any decision will be subject to the Society's valuer's specific comments in respect of the property / surrounding area and the Society's lawyers being able to cover the area.

Note: A case may be declined following specific feedback from the Society's valuer on properties outside of the location criteria. The applicant may still be liable for the valuation fee.

Criteria

The criteria for property is as follows:

- Properties must be of good quality with ready saleability. They must have a life expectancy well beyond the term of the mortgage and if there is any doubt, the property is declined.
- All properties must provide basic standards, including provision of a kitchen, shower or bath and inside W/C.
- Properties must be used predominately for domestic, residential owner occupation. Applications from professional landlords for the sole purpose of holiday letting will be declined.

- Lending on new developments will only be considered where the whole of the complex is fully completed and intelligence suggests that a large proportion of properties have already been sold through to completion. (properties only secured by deposits are not deemed as sold through to completion)
- Funds will not be released against land alone.
- Older properties must be modernised to provide basic standards, including provision of a kitchen, shower or bath and inside W/C.
- Lending will be limited to flats / apartments where the building is no more than three storeys high.

When considering the acceptability of a property offered as security, the Society will follow the recommendations of the Surveyor acting on behalf of the Society.

Release of Retention Policy

Following an inspection by a qualified valuer, a recommendation may be for works to be undertaken. Prior to the receipt of specialist reports or confirmation that works have been done, a retention may be recommended. Where the retention is low in comparison to the advance and we have sufficient equity, we will agree to waive a retention in accordance with the matrix below.

| Valuation of Property | Retention to be Waived | Max Loan to Valuation (LTV) |
|-----------------------|------------------------|---|
| €72,500 + | €5,800 | 65% (villa / terrace properties) 50% (flat / apartments) |

New Properties

The borrower needs to obtain a 'Decenal' guarantee on new build properties. This will provide them with warranties and assurances regarding the amounts they deposit and ensuring the builder remains responsible for any defects in the property. This responsibility runs for 10 years and is similar to the NHBC certification scheme in the UK.

Properties that are purchased 'off plan' where there is a subsequent change in the property valuation upon completion, the Society will lend up to 65% (see maximum LTV above) of the initial purchase price. Should the final valuation of the property increases, the Society will consider a loan based upon 65% of the new valuation but not exceeding the purchase price paid.

Habitation Certificate is required prior to release of funds.

Acceptable Property Type

- House/Bungalow/Villa
- Purpose Built/Converted Flats up to a maximum of three storeys high
- Derelict Properties or Properties without basic amenities - subject to renovation (see Stage Payments - section 16).

Not Acceptable

- Timeshare
- Commercial Property/Semi-Residential Property/Rustic land/Finca
- Studio Flats.

Overview

Freehold and leasehold properties are normally acceptable.

Leasehold

Leasehold properties are acceptable if they comply with the following criteria:

- At least 50 years unexpired lease remains at the end of the mortgage term.
 - Variable ground rent increases are fixed by the lease at the outset and reviews (which must be reasonable) are at intervals of 21 years or more.
 - Ground rent increases are tied to the market value of the property and the terms of the lease are acceptable.
 - Ground rent reviews tied to the retail price index are **unacceptable**.
-

Section 15 - Stage Payments

Release Of Monies

The advance will be released in accordance with the following stages of construction and a reinspection will be required at each stage, for which a reinspection fee will be charged, in accordance with the Tariff of Charges.

If a revaluation is required then a revaluation fee will be charged, in accordance with the Tariff of Charges.

Stage Release

An advance may be released in instalments during construction (including conversions). This is **not** available for apartments. For brick and tile construction:

Advance in 3 Equal Stages (or as recommended by Society's Panel Surveyor):

| Stage | Finished... | Release |
|-------|-------------------------|----------------------------|
| 1 | Clearing to foundations | Maximum LTV released = 25% |
| 2 | Roofed In | Maximum LTV released = 50% |
| 3 | Completion | Maximum LTV released = 65% |

Self Employed Builders

Applications from self-employed builders requiring building finance will not be accepted.

Section 16 - Repayment Types

Overview

The Society will only lend on a capital and interest only repayment method.

Capital & Interest

Monthly payments consist of capital and interest and repay the amount advanced with interest charged over the term of the mortgage.

Applicants are recommended to ensure appropriate life assurance cover is taken out (eg: mortgage protection insurance).

Section 17 - Dishonesty, Undue Influence & Convictions

Joint Mortgages

Caution must be exercised in relation to certain joint mortgage transactions where the purpose of the loan would seem to be significantly more beneficial to one party than to the other (**eg**: a remortgage raising capital to repay a partner's debts). In such cases, both applicants should be interviewed to ensure:

- Each party is fully aware of the liabilities resulting from the loan.
- Either applicant has not been unduly influenced or made misrepresentations to the other, to obtain the advance.

If there are any doubts about the application in this respect, each applicant must be advised to seek **independent legal advice**.

Convictions

Cases will not be considered where the applicant has disclosed any convictions other than those which are spent under the Rehabilitation of Offenders Act 1974, or any pending prosecutions:

- Relating to any aspect of dishonesty, such as theft, robbery, fraud or arson.
- Which may have a bearing on the borrower's future employment or the likely conduct of the mortgage account.

Residency

Applicants must:

- Be EU tax payers.
- Reside in the EU, unless:
 - They have been in service abroad with HM Forces.
OR
 - They have been employed by a UK based or internationally known employer and are still with the same company.
AND
 - Their family will be resident in the property or a UK property.

Note: EU includes Gibraltar.

Section 18 - EasyTrack Mortgage

This facility has been developed for existing mortgage customers who are taking out a new mortgage with the Society. The EasyTrack scheme offers enhanced income multiples of +0.25 times.
