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Financial Adviser SERVICE AWARDS 2020
Mortgage Lenders and Packagers

NatWest Intermediary Solutions

Your guide to our interest only mortgages

NatWest

Here's a guide to the key eligibility criteria, customers' responsibilities, the risks associated with this type of mortgage and the acceptable repayment vehicles.

Your customers will need to:

Have a minimum annual basic salary/income of £75,000. For joint applications at least one applicant can earn £75,000, or the joint applicants can earn a combined income of £100,000.

Examples of qualifying and non-qualifying income

- Sole application, income £75,000: Meets minimum income criteria of £75,000 for sole application
- Joint application, income £50,000 + £60,000: Meets minimum combined income criteria of £100,000 for joint application
- Joint application, income £75,000 + £20,000: Meets minimum income criteria of £75,000 for sole application
- Joint application, income £50,000 + £40,000: Fails minimum income criteria for both sole (£75,000) and joint (£100,000) applications

Plus there's:

- a maximum loan to value (LTV) of 75%
- a minimum interest only loan amount of £25,000
- where a mortgage loan is requested on a part interest only and a part capital and interest basis, the interest only element can be up to a maximum of 75% of the total loan size (subject to a maximum LTV of 75%)
- if the sale of the primary residence property is a RPS, the maximum LTV available for interest only is 50%, with the remaining 25% LTV of the loan being on a capital and interest basis
- an age range of 18 or over and the term of the mortgage must be within 90 days of the customer's 70th birthday (subject to the maximum terms above). For joint applications the age of the eldest applicant should be used when calculating the term
- a maximum term of 35 years before repayment. (30 years for residential loans of more than £500,000)
- a maximum of two applicants both of whom must be on the mortgage and the title to the property
- availability to first-time buyers
- availability to new and existing customers

Please note affordability will be assessed on a capital and interest basis for the part of the loan not covered by the current value of the RPS. The calculation will be based on the proposed term (linked to the RPS expected maturity).

Customers won't be eligible for an interest only mortgage if they:

- plan to repay their mortgage within 3 years
- want to use it to consolidate debt
- are applying through one of the Help to Buy or shared equity schemes
- live outside the UK or have no right to reside in the UK for the duration of the mortgage

They'll need to make sure the outstanding capital balance is repaid at the end of the term and:

- have a repayment strategy type, approved by us, that enables them to repay their mortgage at the end of the mortgage term
- provide evidence of their repayment strategy – at the start and when requested during their mortgage term
- review the repayment strategy regularly with us – to make sure they're on track to pay off the mortgage and to make any necessary changes
- keep us informed of any changes to their repayment strategy, which might affect their ability to repay at the end of the term
- where there are concerns about their repayment strategy, they must discuss options with us to ensure that their mortgage is repaid by the end of the term
- make up any shortfall at the end of the term – if they can't repay the mortgage in full they could lose their home

We expect that as their broker, if you review your customers' finances in the future, that you would review their repayment strategies and keep us informed of any changes in their circumstances, or concerns that they have about their interest only mortgages or repayment strategies.

You need to make customers aware of the following risks associated with an interest only mortgage:

- The amount of the loan outstanding will not reduce over the period of their mortgage – so they'll pay interest on the full sum borrowed throughout the term
- If they wait until the end of the term before paying back their mortgage, they'll pay more than the interest charged on an equivalent repayment mortgage
- They'll be more exposed to interest rate changes over the period of their mortgage – which may go up and down
- There is a greater negative equity risk than a repayment mortgage, which means they could end up owing more than their property is worth
- Failure to keep us informed about their repayment strategy, or any changes to it, could result in a breach of their mortgage conditions

Acceptable repayment strategies (RPS):

- Stocks & shares (traded on an authorised exchange – in or outside an ISA)
- Investment vehicles (unit trusts, OEICs, ICVCs, endowments – in or outside an ISA)
- Pension (UK authorised)
  - Money purchase scheme – 25% of current value
  - Final salary scheme – the guaranteed lump sum
- Sale of property (see notes below)

Sale of property:

- Must be in the UK
- We base the value on the current unencumbered value (equity)
- Where the property is not the main residence we can consider up to 75% LTV on interest only
- We are happy to consider up to 75% LTV unless the RPS is the main residence which is restricted on LTV (see sale of main residence section below)

Please note that all RPS must be denominated in Sterling and will be assessed on a sliding scale that is dependent on the number of years remaining before the end of term requested

Sale of main residence

If the sale of the main residence is being used as part of the RPS, the following criteria apply:

- The sale of the main residence can only be used as a RPS for that property and NOT for any other property
- Regardless of property value, if there is any interest only element, the maximum LTV is 75%, and, within that, the maximum interest only LTV is 50%
- There must be a sufficient mix of current equity and capital and interest loan to ensure that there is at least £200,000 of equity in the property **at the end of the term**
- As long as the interest only portion is small enough to enable at least £200,000 equity in the property at the end of the term, the balance of the capital and interest loan can be any amount up to a total LTV of 75%
- If the property is lived in presently by the customer, the application must clearly state the customer's future plans for sale and, if a Principle Place of Residence (PPR), how the customer intends to re-house themselves/family allowing for their personal circumstances and estimated property equity

The following table illustrates how this approach is implemented for the sale of the main residence as a RPS:

Property value £	Total max loan LTV	Total max loan amount £	Poss C&I portion	Poss C&I portion £	Min equity at end £	Max IO loan £	Max IO LTV
400,000	75%	300,000	25.00%	100,000	200,000	200,000	50.00%
350,000	75%	262,500	32.15%	112,530	200,030	149,980	42.85%
300,000	75%	225,000	41.67%	125,010	200,010	99,990	33.33%
275,000	75%	206,250	47.73%	131,260	200,010	74,990	27.27%
226,000	75%	169,500	63.50%	143,510	200,010	25,990	11.50%
225,000	75%	168,750	63.89%	143,750	200,000	25,000	11.11%

Additional packaging requirements

Sale of UK property – other property:

- We'll need evidence that the customer owns the property – dated within three months of the credit application. This will need to be in the form of a Land Registry search or a letter from a solicitor (who is a member of the Law Society) on their stationery. It has to show confirmation of ownership, as well as details of any charges and outstanding mortgage or confirmation there are none
- We'll need a valuation of the property – undertaken in the last year. This can be a formal valuation letter indicating a marketing price from either:
  - a recognised valuer with a recognised qualification
  - a recognised Estate Agent (and member of a national body)
- We'll also need confirmation that any or all properties are insured and may ask for details
- Repayment must not rely on any house price inflation

Pension (UK authorised)

We'll need to see an up-to-date valuation, or a projection of a retirement schedule from the pension provider on their stationery in the last 12 months, if the current valuation is insufficient to produce a lump sum to repay the debt:

- Money purchase scheme – 25% of current value
- Final salary scheme – the guaranteed lump sum

Investment Vehicles (can be within or outside ISA), endowments, unit trusts (EU authorised), Open Ended Investment Companies (OEICs)(EU authorised), Investment Company with Variable Capital (ICVC) (EU authorised)

AND

Stocks & shares (traded on an authorised Stock Exchange within or outside an ISA)

We'll need a statement from the provider, on their stationery dated in the last three months in the customer's name, with the value of the scheme:

- The scheme provider should be a recognised investment manager and/or member of an appropriate financial services industry body
- The expiry date and ability to encash the scheme must correlate with the maturity of the loan e.g. for a 5 year loan the customer should be able to encash at the borrowing expiry date in 5 years time (to the extent to which we are reliant on those funds at that time)

Cash savings

We'll need a statement from the provider, on their stationery dated in the last three months in the customer's name, with the value of the scheme.

Buy-to-Let mortgages

These are available on both Capital and Interest Only methods of repayment. We can accept sale of the property as a repayment vehicle.

Interest only mortgages are suitable for certain types of customers who meet specific criteria

Examples of the types of customers who might be eligible for an interest only mortgage

Fiona, 34, and Johnnie, 35, London

Status

Living together

Work

Accountants, at different 'Big 4' firms

Income last year

Fiona: £100,000 salary, £15,000 bonus

Johnnie: £80,000 salary, £10,000 bonus

Overview

- Live together in Fiona's flat – looking to move to a larger flat in London
- Met through mutual friends at St Andrews University and have been together for six years
- Friends are anticipating their engagement, widely tipped to be during their next ski holiday
- Both work at big accounting firms and both are considered to be on a good career path
- Fiona is already being mentored as potential Partner material

Finances

- Both enjoy travel, adventure holidays and frequent mini-breaks, but otherwise are quite prudent financially
- Always use their full ISA allowances
- Both pay the maximum amount that their firms match into their pensions
- Johnnie's parents will be helping out with the deposit on their new flat
- Fiona has already had two mortgages

Why Interest Only?

- Both agree that it makes sense to pay more into their pensions just now than to make capital repayments – as most of their payments are interest in the early stages of a C&I mortgage
- They can review the advantages on a regular basis at roll-off from the two-year fixed rate mortgage they currently have
- If interest rates rise, they'll probably pay some capital off

Julia, 46, Hampshire

Status

Divorced with one child from previous marriage

Work

Owner of an online and high street clothing business

Income last year

£40,000 salary, £100,000 dividends

Overview

- Julia trained as a solicitor after graduating from Bristol University
- Left the profession to set up a thriving online business, with six high street shops
- Does well from the business, but expecting to sell in the next ten years
- Not sure what she'll do after that

Finances

- Julia's business generates plenty of cash
- Has significant outgoings as her daughter is at an expensive school
- Likes to spend on her car and holidays
- Uses her full ISA allowance each year
- Pays as much of the child support she receives from her ex-husband into a trust fund for her daughter

Why Interest Only?

- Julia wants to be able to put spare cash into growing the business, while still providing for her daughter's education
- Keen to minimise her mortgage outgoings
- Already thinking about downsizing in the not too distant future, as she has no particular attraction to her current house and it's really a bit big for her and her daughter, but she's been too busy to sort it out
- Will help Julia to manage her cash flow, until she's ready to downsize or use proceeds from the business sale to repay
- Note: Julia can't use the sale of her business as a RPS, because it's too hard to value, but she can use her home and is being realistic about downsizing

Where to go for help

Your BDM

Name:

Phone:

Email:

10 The average number of years experience that our BDMs have in the mortgage industry

7 The average number of years experience in the mortgage industry that members of our *Live***TALK** team have

*Live***TALK**

Help with pre-submission applications

We are happy to help you with queries about customer applications on *Live***TALK**, our instant messaging service at **intermediary.natwest.com**.

Use *Live***TALK** for :

- Registration/password queries
- Queries on criteria for new applications
- Queries about using the website

And, get a transcript of your conversation

Help with existing applications

0345 600 0205

Call our dedicated intermediary mortgage processing centre on our local rate number

For help with:

- Checking receipt of supporting documentation
- Providing updates on underwriting decisions
- Managing valuation instructions
- Confirming mortgage offer issued
- Extending mortgage offer term
- Confirming completion dates

Use our online Mortgage Application Tracker to monitor progress of your customers' applications

For more information go to **intermediary.natwest.com**