
House Crowd Finance Limited

Underwriting & Procedures Manual

June 2017

Contents

- 1) Background
- 2) Applicant details
- 3) Loan size and LTV guidelines
- 4) Exit Strategy
- 5) Credit references
- 6) AML
- 7) Property
- 8) Commercial lending
- 9) Solicitors
- 10) Loan extensions
- 11) Underwriting Mandate
- 12) Tariff of Charges
- 13) Deal life cycle and process
- 14) Client loan file format
- 15) Redemption of loan procedure

1. Background

This underwriting and procedures manual is to be used for assessing bridging loan applications and enquiries with the view to the making of acceptable loans.

Our underwriting policy sets out the factors that we take into account in assessing a loan applicant's ability to pay sums due under a proposed agreement. The purpose of a written policy is to ensure that our underwriting criteria and lending decisions are consistently applied and promote fair customer outcomes for borrowers and minimise credit risk for lenders.

The manual is for guidance purposes and discretion may be used as the underwriter should assess the quality of the information that has been supplied and request further information if necessary for the underwriting of the application.

Applications will primarily be sourced from a range of brokers and introducers.

Each case must be accompanied by a fully completed application form once the client has accepted a Decision in Principle and decided to proceed.

The application form must be accompanied by the upfront fees (valuation and administration) as well as appropriate money laundering documents, a completed identity verification form and any other requested documents (e.g. assets and liability statement).

Definitions:

House Crowd Finance Limited (HCF)

Credit committee:

- Frazer Fearnhead
- Lewis Walters
- Charlotte Hall
- Jane Surman

Underwriting Principles

Our affordability assessment will assess whether the borrower can sustainably afford to repay the capital and interest due under the article 36H agreement over the proposed repayment term.

We will conduct credit searches on borrowers to ascertain their credit score in order to determine their credit risk.

Affordability Assessment

Our affordability assessment entails assessing the credibility of the borrower's repayment strategy. Where the borrower requires a secured loan as a temporary finance solution while changing to a long-term finance arrangement our affordability assessment will entail assessing the credibility of the borrower obtaining a longer-term finance agreement. We will accept the following repayment strategies:

The sale of the property subject to the mortgage.

Entry into a refinance agreement with another lender under a longer-term finance arrangement.

We will not accept the following repayment strategies:

An expectation that the value of the property which is the subject of the mortgage will increase over the repayment term sufficiently to enable the borrower to sell the property to repay the capital and interest borrowed.

An expectation by a borrower that entering into a mortgage agreement will improve their credit status enabling them to refinance to a longer-term finance agreement.

Evidential requirements

We will obtain evidence from borrowers to demonstrate that they have a credible repayment strategy.

Where the borrower's repayment strategy is the sale of the mortgaged property we will arrange for a property valuation to be conducted by an RICS qualified surveyor appointed by us from our panel.

Where the borrower's repayment strategy is the replacement of the short-term loan with longer-term finance (e.g. a mortgage), we will request evidence of a guaranteed offer or agreement in principle that will be in place once the repayment term expires.

Security Assessment

We will take security for the loan by taking a first or second charge over the borrower's property. The borrower's property which is proposed as a security must, at least, equate in value to the capital that will be provided under the article 36H agreement. Where a property already has a first charge in place, we may seek a 2nd charge where necessary.

Property Valuation

We engage RICS qualified surveyors to carry out a valuation of the borrower's property. The surveyor's valuation provides an open market value and a restricted market value (i.e. the projected value the property can be sold within 90 days). We lend to a maximum 75% LTV of the open market value in order to safeguard against the credit risk borne by the lenders.

Anti-Fraud Controls

We will incorporate anti-fraud controls into our affordability assessments by engaging solicitors to carry out financial crime and anti-money laundering due diligence on prospective borrowers. This will include proof of ownership, proof of identification and proof of address.

Monitoring

We will monitor the effectiveness of our credit policy by collecting Management Information in respect to default rates. High default rates will indicate weaknesses in our credit policy.

We will review our credit policy when triggered by changes in regulation or, at least, on an annual basis. Our credit policy will be reviewed by our credit committee in conjunction with our compliance manager.

Record Keeping

We will maintain client files which will record the information taken into account in each affordability assessment. Client files will maintain a record which will include:

Evidence of the borrower's repayment strategy;

Surveyor's report;

Solicitor's due diligence;

The repayment term and payments due under the agreement; and

The assessment of affordability under the agreement.

We will maintain a record of changes to our credit policy.

2. Applicant Details

The application may be in an individual name(s) or a company name.

In respect of company applications, personal guarantees may be required from company directors.

Borrower must be resident within the UK and Europe.

Excluded Applicants

- Under 18 years of age at completion.
- Over the age of 65 years old at completion
- Repossessed – in the last 2 years.
- Bankrupts – in the last 2 years.
- IVA – in the last 6 years.

Convictions - HCF will not accept any application from an individual where there is evidence that that person may have committed fraud or been involved in financial irregularities.

3. Loan sizes and LTV guidelines

Minimum gross loan size: £30,000.

Maximum gross loan size: £1,500,000 – loans over £1,000,000 by majority credit committee approval

Maximum loans outstanding to one borrower at any one time is £2,000,000.00

Maximum LTV is 75% of Open Market Value for first charges. 70% maximum for second charges and 50% maximum for land.

We can take a 1st charge over residential property, semi-commercial or commercial premises or land with no agricultural ties

We can take a second charge over residential property, semi-commercial or commercial premises or land with no agricultural ties, provided that there are no restrictions on enforcing a sale in the event of default and consent is obtained from the 1st charge holder.

Once valuation has been obtained, if the 90-day value is more than 15% lower than the OMV, an explanation should be obtained from the valuer for credit committee to approve the LTV against OMV.

Term

We will lend for a maximum period of 12 months, we may however consider extending for 1, 2 or a maximum of 3 further month's period subject to the following:

We are satisfied that the need for the extension is genuine, i.e., a delay in selling the property/obtaining a BTL mortgage etc.

The borrower has maintained regular contact with us and no difficulties have arisen in gaining information from them.

The property has been inspected recently and we are comfortable with the condition of the property

Payment of an agreed extension fee and payment of extension period interest in advance.

4. Exit Strategy

A full analysis of the exit plan must be done prior to a decision in principle being provided. This includes a review of the true value of the property, the client's current credit history and circumstances for requiring a bridging loan.

There must be a full understanding of the exit strategy. For example, is it realistic and plausible, can the borrower provide supporting evidence. All evidence must be put on file.

If the client intends to re-mortgage – do they have a current Decision in Principle (DIP) from a lender either on a residential or commercial basis. What other evidence can they provide for this – a letter from a bank, for example.

If the client intends to refinance to redeem the bridging loan, have we received a credit search to see what their credit score is or credit history. Following this, is it considered feasible for them to be able to be able to refinance elsewhere.

Even if the route for exit is the sale of the property, a credit search is still required as this route may not happen in time and re-finance may be the only exit available in order to redeem the loan on time.

We will consider whether the client has already marketed the property for sale and whether the asking price looks reasonable?

We will not accept speculative methods of payment as a repayment route.

5. Credit References

A credit report must be obtained from the borrower(s) from Experian, Equifax or similar reputable credit agency.

The following must be checked and deemed satisfactory;

The applicant's full name(s), including any middle names and previous names are the same as that provided on the application and match the ID provided.

Date of birth(s) and residential history are correct, with the electoral role entry matching the current residential address.

If any accounts show more than 1 missed/late payment in the last 24 months, or are in default a full explanation must be obtained from the borrower including, if the funds remain unpaid, how they intend to clear the sum owing or provide any evidence that the entry is an error.

Any GAIN or CIFAS entries will need to be investigated and evidence provided.

Any CCJs must be fully explained by the applicant(s) and investigated, it may be agreed by the credit committee that it will become a condition on the loan that any outstanding CCJ's are to be paid and cleared on completion.

Experian/Credit Expert will provide a risk score:

Score	Category	Risk Level
0-560	Very Poor	Very High Risk
561-720	Poor	High Risk
721-880	Fair	Moderate Risk
881-960	Good	Low Risk
961-999	Excellent	Very Low Risk

A borrower's credit score being under 720 will need to be investigated.

If any of the following have occurred for the borrower in the last 2 years, we will not accept the application:

- Repossession
- Bankruptcy

If an IVA has occurred within the last 6 years, we will not accept the application.

6. Anti-Money Laundering

Proof of Identity

Proof of identity will be required for every applicant in each case to comply with Anti-Money Laundering legislation. Identification will be checked by HCF using Creditsafe and by Jane Hartley Associates using Experian.

We must have acceptable KYC prior to offer on every case.

One form of personal identification is required for each applicant.

The following documents only are acceptable:

- Current valid full UK passport
- Current valid Non-UK Passport supported by 2nd item of personal ID
- Current UK Photocard Driving Licence

If the borrower does not hold photographic ID, refer to credit committee.

If the personal identification does not include a signature we will also require a bank card or credit card to verify the customer's signature.

The borrower's solicitor will also be checked via the Legal Register and they will be required to confirm in writing that they have conducted all appropriate KYC on their client. This is incorporated into the Loan Document.

Proof of Residency

If the client is not showing on the voters roll for their present address then one form of address identification is required.

We must have a minimum of 3 years residency history to use.

The following documents will be acceptable:

- Domestic utility bill (not mobile phone) - must not be more than 3 months' old
- Current council tax bill
- Bank/building society/ credit card statement - must not be more than 3 months' old
- Current full UK driving licence
- Current UK photocard driving licence

Please note that two separate documents are required. The same document (e.g. driving licence) cannot be used for both categories.

Foreign Nationals

A foreign national must have 36 months PROVABLE residency and a right to stay in the

UK by the way of a permanent "right to reside" OR "indefinite leave to remain" stamp and a current valid passport.

EU Nationals

A national of an EU member state that was a part of the EU before May 1, 2004 (these are:

Luxemburg, Belgium, Ireland, Germany, France, Sweden, Spain, Greece, Portugal, Italy,

Sweden, Finland, Denmark, Netherlands, UK, Iceland) must have 36 Months PROVABLE

residency and a current valid passport.

Nationals of Czech Republic, Estonia, Latvia, Lithuania, Slovenia, Slovakia, Poland or

Hungary must register with the Home Office under the "Worker Registration Scheme" and

hold a workers' registration certificate.

All anti money laundering checks will be accompanied by a report carried out by:

Creditsafe

7. Property

Minimum security value is £43,000.

Security can be residential property, semi-commercial or commercial premises or land with no agricultural ties located in England and Wales only.

Valuation fees are paid by the client to HCF.

Once received, HCF will instruct a valuation by a panel surveyor.

An undertaking to pay our legal costs must be obtained from the borrower's solicitor before any legal fees are accrued.

The valuation must be carried out on behalf of House Crowd Finance (Security Agent) Limited.

The surveyor must be qualified as M.R.I.C.S or F.R.I.C.S.

The property should be within a 25-mile radius of the office at which the surveyor completing the valuation is based. Within the M25 this radius should be reduced to 5 miles, unless otherwise agreed by the credit committee.

In-house desktop valuations via zoopla.co.uk / rightmove.co.uk / nethouseprices.com must be used to verify the values provided on valuations. Telephone calls with at least two local agents should also be undertaken to support valuation and establish market liquidity. Records of all research/phone call conversations is to be kept on the client file.

Land registry search must be undertaken to find last sale price of the property and if there is anything that calls the valuation into question (e.g. a higher valuation than the last sale price – allowing for historical market increases in values) an adequate explanation must be provided by the borrower.

We need to confirm that the security is not used as permanent residence by the applicant(s), if it is rented we need to verify that none of the tenants in that property is a "related party" to the borrower.

A related party is a spouse/partner/brother/sister/son/daughter/parent or grandparent of the borrower. If one of the tenants is a "related party" then HCF cannot lend to the borrower unless another non CCA regulated option is in place and an exemption is agreed by the Credit Committee.

If there is any suspicion or concern that the applicant may reside at the security:

Valuer will be instructed to confirm that the property is unoccupied with no evidence of current occupation or if occupied by a person NOT the borrower or related to the borrower- to the extent possible.

A separate visit to the security property by either a HCF credit committee member or a person approved by the committee to confirm that the borrower or a related person to the borrower is NOT resident at the security property and they do not intend to use the property as a dwelling.

An undertaking will be obtained from the borrower and/or borrower's solicitor that they are not in occupation at the time of the loan or intend to occupy the property at the time of the loan in a form acceptable to HCF's solicitors and incorporated in to the loan agreement.

Valuation reports will be valid for a period of 3 months unless agreed otherwise acceptable by the credit committee.

Lending is based on Open Market Value "OMV" valuation from an independent valuer from the panel surveyors. If the purchase price is lower than the value of the property, we will need to enquire as to why the purchase price is lower. ***Underwriter's exception may be applied here with a full rationale signed off by the committee.***

From time to time, the credit committee will consider the geographical concentration and exposure to us as the lender in the areas we are lending. In particular, it will consider the concentration of new build flats in certain areas where resale is proving more difficult. We will consider the location of the security in relation to the proposed exit strategy of each borrower.

Valuations received need to be checked thoroughly paying attention to the open market value of the property and 90-day re-sale value.

Address and postcode of the property must be checked to ensure they correspond with the facility letter. The valuation report is checked to ensure it is in the name of HCF(SA) and the surveyor's indemnity limit is confirmed as acceptable.

When checking the value of the property it must be ensured that the LTVs are correct, based upon both net loan and gross loan divided by OMV and that the gross loan LTV is within the agreed parameters.

Ideally, comparables provided should be of a similar type and size of security and they should have been sold within the last 6 months. They should be within 10 miles and within 10% +/- of the market valuation of our security. If this is not the case, the surveyor should be asked to provide clarification.

Leasehold properties must have a minimum of 65 years left on the lease at completion.

We will also consider:

- 100% timber construction
- Steel frame construction
- Non-standard construction
- Freehold flats or maisonettes
- Properties underpinned within the last 5 years (with an acceptable guarantee etc)

Unacceptable properties

Determined as unacceptable security by the appointed valuer

Less than 10 years old without NHBC/Zurich Municipal guarantees or Architects certificate

Properties containing Mundic Block materials

New properties built within the last 10 years must be covered by one of the following

- NHBC
- Foundation 15
- Premier Guarantee
- Qualified Architects Certificate
- Zurich New Building Certificate

Where an architect's certificate is provided this must be issued by one of the following

- RIBA – Chartered Architect
- RICS – Chartered Surveyor
- CIOB – Member of the Chartered Institute of Banking
- BIAT – Member of the British Institute

Buildings Insurance

On or prior to completion of the Loan, the Borrower must ensure that there is adequate buildings insurance cover in respect of each of the Secured Property(ies) with our interest as mortgagees noted therein. The amount and level of such insurance cover must be in accordance with the recommendations of the surveyor.

HCF will check the expiry date of the buildings insurance and if the date falls within the duration of the HCF loan, then the borrower must provide evidence that the policy has been extended for the term of the loan.

As a safeguard HCF may take block insurance over all secured assets.

Panel Surveyors

- Method Valuers
- Robert Sterling Surveyors
- Aztec Property Valuers
- Bruton Knowles
- GVA Grimley
- PLP Property Surveyors

We will conduct quarterly checks to ensure panel surveyors PI cover is in place and will conduct bi-annual surveyor performance reviews.

8. Company Lending

The additional checks we will undertake when the applicant is a limited company include:

- Obtaining the full name of the company
- Checking on Companies House what the current registered address is
- Obtaining a current list of all directors
- Obtaining KYC (identification and proof of residency) for all directors of the company.
- Obtaining a copy of the Certificate of Incorporation.
- Obtaining a copy of the Memorandum and Articles of Association.
- Obtaining a copy of their most recent accounts.
- Checking for any changes in the registered address of the company.

The person instructing us must be a current director of the company.

We will require personal guarantees from all parties to the loan.

9. Solicitors

HCF will select from a panel of its own solicitors to act on its behalf.

English solicitor panel:

- Jane Hartley Associates Ltd
- Pennington Manchester
- Blackstones Solicitors

Clients must choose their own solicitors which we will check and verify on the Law Society website:

<http://www.lawsociety.org.uk/choosingandusing/findasolicitor>

Solicitors being used by the client must have a minimum of 2 SRA approved partners, a copy of this check will be printed out and added to the client folder.

Upon completion, the Report on Title must be signed off by a credit committee member.

Our appointed solicitors will carry out a full title inspection.

All cases will also be covered by title insurance.

The client's solicitor may also provide an undertaking to allow us to complete certain tasks to assist with the completion of a loan. If an undertaking is provided our solicitor will ensure the items have been actioned after completion and provide us with the evidence of this to be saved in the client file.

10. Loan Extensions

In certain circumstances, we may consider extending the loan for up to another 3 months. Before we will consider allowing the client to extend the loan we will consider when was the property was last inspected, whether the last valuation is greater than 3 months old and if confirmation cannot be sourced from the valuer that we can still rely on the report for a further number of months, then a re-inspection/re-valuation will be instructed (at cost to the borrower).

The client will be required to pay the future interest and an extension fee on the existing loan prior to the redemption date of the current loan.

Consideration needs to be made as to why the exit strategy is more likely to succeed this time around rather than on the original Loan Agreement and the reasons why the borrower is requesting an extension on their existing loan.

It will also be dependent on whether the borrower has acted in a reasonable way when considering whether or not to extend the term.

If the loan is a second charge the first charge must be re-checked to ensure this has not fallen into arrears since the start of the HCF loan.

11. Underwriting Mandate

All loans that are sub £200,000 require sign off from 2 committee members.

All loans that are over £1,000,000 require sign off from 3 committee members.

12. Tariff of Charges

Chaps payment	£35
Returned Direct Debit/Cheque Payment Fee	£35
Late Payment Admin Fee	£250
Formal Demand	£100
Credit Card Payment Surcharge	3%
Companies House Registration of Charge Document	£50 per charge
Deed of Priority/Postponement	£200
Security Release Fee	£90
Companies House Statement of Satisfaction of Charge	£90
Stage Payment Processing Fee	£50
Redemption Statement (no charge for the initial statement)	£50

13. Deal Life Cycle and Process

Enquiry comes in via websites or from broker/ introducer network.

If enquiry is NOT QUALIFIED, i.e. does not meet HCF criteria then it is rejected.

If enquiry is QUALIFIED – HCF standard application completed along with application fee.

HCF welcome pack then emailed to client for signature on application form.

Welcome pack returned by client along with required KYC.

Deal is passed to underwriting team.

Indicative offer produced and sent to client.

Credit report supplied from client and checked.

Desk top valuation carried out.

Land registry search carried out.

Client pays valuation fee.

Valuation instructed.

Valuation report completed.

Lawyers instructed and legal pack sent to borrower's solicitor.

Legal process carried out by lawyers. HCF solicitor to obtain another credit report from Experian for the file.

Deal completes.

Solicitor pays HCF broker fee and HCF arrangement fee.

Halfway through term - soft reminder letter from HCF.

2 months before due redemption regular communication with the borrower obtaining further evidence of the exit strategy

Loan redeemed

14. Client loan file format

On the front of the paper file, place the Underwriter's Checklist which is required to be completed on every case to act as an audit trail and give a brief outline of the case.

All documents should be kept electronically, the electronic file is to be split into 8 sections as listed below: -

Borrower Information (create sub-files if multiple borrowers)

Introducer Information (sub file)

Signed application

Welcome letter

Receipts for application fee

ID

POA

Credit Report

ALIE

Bank Statements

Pay slips

Deposit monies confirmation

Smartsearch

Any google results

Company Details

Current list of directors

Changes in registered address

Copy of the certificate of incorporation

Memorandum and articles of association

Most recent accounts and last 6 months bank statements

Company credit report

Any google results

Security Property Details (create sub-files if multiple securities)

Valuation payment receipt

Valuation instruction

Valuation report

Land register and plan

Latest mortgage/redemption statement

Energy Performance Certificate (purchases only)

AST

Gas and electrical safety certificate

Second charge consent

Insurance certificate and company check

Office copy of our registered charge

HCF Underwriting

application form

Interest charging calculator

DIP / Indicative offer

Solicitor law society check

Deal proposal form

Credit pack

HCF Deal Legals

Solicitor instruction

Legal pack

Loan offers

Indemnity policies

Completion statement

Approval

Copy of legal mortgage

Extension Documents

Request for loan extension

Extension approval

Payment confirmation

- **Redemption**

Redemption statement

DS1 form

Funds received confirmation

- **Default**

Letter

Upper Level Funding

Deal information form

Valuer confirmation

Solicitor's confirmation

Lender pack

Sub-charge document

15. Redemption of loan – Procedure

Throughout the course of the loan, regular contact is kept with the client. Half-way, three-quarters way through term and 1 month before the loan redemption date, we will call the client and send a reminder letter and statement about the redemption date of the loan. This will be followed up by phone calls and emails where appropriate to track the progress of the matter.

Redemption statements and letters will be produced by HCF and authenticated by at least 1 other credit committee member from checking the final loan documentation and interest calculator.

If the client wishes to redeem the loan early, the interest payable will be reduced, on a pro rata basis, subject to the minimum number of months' interest being paid.

When the client repays the loan, funds will be sent from the client's solicitor to us via our solicitors.

If the client does not repay the loan in full, the charge will remain on the property and the interest on the full amount of the loan will continue to accrue.

Default of payments during term

All interest is paid upfront including arrangement fees so there will never be arrears during the term of the loan.

Arrears only accrue if the loan is not repaid at the end of the loan term.

Events of Default

The loan document includes the usual events of defaults for example (but not exhaustive) the borrower: -

Fails to pay any sum due under any finance document

Fails to comply with the terms of the loan agreement e.g. keeping property in good repair, insuring etc

Insolvency

Recovery of Loan Amount if the loan is not repaid by the redemption date

Letter before action sent next day if loan is not repaid in full by redemption date

Give them 14 days to repay loan

Reminder sent 7 days later

Claim for possession prepared in readiness to submit

Give borrower a further 14 days opportunity to repay the loan

If no sign of certainty issue proceedings – the solicitor will appoint a suitable barrister for this purpose

Continue to chase for repayment whilst the court process continues

Gain possession if still not repaid in full and HCF appoint receiver

If the borrower believes they have ability to repay but need time for instance refinancing or a sale is in process and has an imminent completion or property is put at auction and evidence is provided to establish this then time will be given but all proposals are checked thoroughly to ensure that there is certainty in their proposed mechanism to repay the loan.

Event of Default during term of loan

HCF notify the relevant panel solicitor of an event of default

Letter sent to Borrower notifying breach and to remedy within 14 days (dependent on type of breach and capable of remedy)

Reminder sent 7 days later

If failure to comply – letter requesting to repay the loan in full given them a further 14 days

Claim for possession prepared in readiness to submit

Procedure referred to above adopted.