PARAGON MORTGAGES PRESS RELEASE
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PARAGON REFINES MORTGAGE AFFORDABILITY CRITERIA

- Graduated interest coverage ratio (ICR) adopted, tailored to each landlord's tax status
- Reference interest rate updated
- New criteria effective from 12 December 2016

Paragon is making changes to its affordability assessment for buy-to-let mortgages to reflect the increase in costs that some landlords will face as a result of the changes to mortgage interest rate tax relief announced in the 2015 Summer Budget.

Whilst the tax changes only start to be implemented in April 2017 and will not be fully reflected in landlord's costs until 2022, Paragon is refining its affordability assessment now to ensure that loans remain affordable into the future.

Paragon is adopting an approach that seeks to assess the tax status of the individual landlord and reflect this in the affordability calculation. As a result, the ICR will not change for landlords who are unaffected by the tax changes. Landlords paying basic rate income tax and corporate landlords will continue to be assessed at an ICR of 125%. Where it is identified that a landlord will be paying a higher rate of tax, a higher ICR of 140% will be used when assessing affordability.

The revised approach to affordability also includes changes to the reference interest rate used in the affordability calculation. For all products other than longer term fixed rates, the reference or stressed rate will be set at 2% above product rate or 5.5%, whichever is higher. For longer term fixed rates the current stressed rate is 4% or the product rate if higher. All applications will continue to be subject to a background, forward-looking affordability assessment to ensure that products remain affordable when a fixed or discounted rate term comes to an end.

John Heron, Director of Mortgages, said, "Government policy towards the Private Rented Sector will increase costs for landlords and it is clear that this will need to be reflected in lender affordability assessments.

"The PRA's supervisory statement released in September this year is helpful in ensuring that lenders approach this in a consistent fashion.

"The changes that we're announcing today are designed to tailor affordability to each landlord's individual circumstances, whilst keeping the application process straightforward for brokers and their customers."

ENDS

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NOTES TO EDITORS

The affordability criteria will apply to Paragon Mortgages and Mortgage Trust buy-to-let mortgage products.

Paragon Mortgages is a leading provider of buy-to-let mortgages delivering lending solutions designed for professional landlords with more complex requirements. These include lending to limited companies as well as private individuals, lending on more complex property including HMOs and multi-unit blocks, higher aggregate lending limits and the ability to accommodate more complex letting arrangements including local authority leases and corporate leases along with standard Assured Shorthold Tenancy agreements (ASTs).

Mortgage Trust provides mainstream buy-to-let mortgages designed to meet the needs of smaller scale private investor landlords addressing primarily single self-contained properties let on a standard AST.

Paragon Mortgages is part of The Paragon Group of Companies, a FTSE 250 finance provider.

In February 2014 Paragon Group launched its banking subsidiary, Paragon Bank PLC. It is a retail-funded lending bank with a direct-to-consumer Internet platform for savings. Its loan products are distributed via intermediaries.

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