

Shared Ownership

Adverse Credit Policy

Our policy supports affordability and sustainability

The basics

Customers with adverse credit wanting to buy a shared ownership property aren't necessarily excluded from doing so. However, they can represent more financial risk to Leeds Federated. The customer may also be at a higher risk of being put in an unsustainable financial position.

Adverse credit can put up barriers to accessing mortgage lending and / or can push customers into using lenders and brokers which charge heavily for the extra risk.

Our approach

We will take a flexible and individual approach to adverse credit. Initial assessment and a risk evaluation will be done by Metro Finance, their knowledge and experience along with lenders requirements will help guide customers.

Should a circumstance be unusual or a lender has been found externally that Metro Finance would not normally recommend we would then look to take a view on the risk to the customer and Leeds Federated, using the below table as a guide

Debt Type and outcomes

Missed Mortgage / Rent Arrears	If this has happened in the last 12 months, it won't usually be accepted. That said, we may consider the situation through an individual assessment.
Unsecured Arrears	We'll carry out an individual assessment
Count Court Judgments or registered defaults	None in the last 36 months. Plus, they must be satisfied prior to the mortgage application. They may be acceptable in the following situations: <ul style="list-style-type: none"> • All CCJ's/defaults were registered more than three years ago and satisfied prior to mortgage application • All CCJ's/defaults were satisfied more than 12 months prior to application regardless of date of registration • The CCJ's/defaults in aggregate amount to less than £300, regardless of date of registration, and were satisfied prior to mortgage application.
Individual voluntary arrangement (IVA) and discharged bankrupts	IVA/bankrupts who have been discharged over three years ago and who have noresidual debt may be accepted following an individual assessment
Repossessions	Previous repossession over 3yrs ago acceptable, provided no outstanding debt to lender and no other credit issue in last 3yrs. (requires letter from repo lender to confirm no outstanding debt)

High interest rate lenders

Leeds Federated will not dictate which mortgage lenders buyers use. However, we will seek to ensure arrangements are affordable and sustainable.

There will inevitably be a variance in mortgage interest rates and deals buyers can obtain depending on their circumstances and deposit size. In some situations, applicants may only be able to obtain mortgage finance at a rate that is notably higher than average mortgage rates for shared ownership. This can be for multiple reasons, including employment situation or credit history.

Whilst such applicants may be able to satisfy affordability and sustainability, the higher mortgage rate at the start creates a vulnerability in terms of the potential greater impact of changes to base-rate in future, that can create additional risk for Leeds Federated and the customer.

For this reason; particular attention will be given if any mortgage / other lender rate that is 2% above the average rate for the closest equivalent mortgage (considering loan to value, length of fixed rate term) of five mainstream shared ownership lenders (e.g. Leeds, Halifax, Nationwide, Santander, Barclays). Leeds Federated may decide to set a higher parameter in terms of remaining net income on the budget planner and take an overall view of the case to decide if it can proceed.

Key points for customers

There may be circumstances where the above applies but there are extenuating circumstances, we will take these into account, but the overall decision will come down to the risk to the customer and Leeds Federated.

Key points for colleagues

A scenario where a customer has adverse credit and comes to Leeds Federated from Metro finance the decision should be discussed and agreed with the Sales & Leasehold Manager.

Key points for board/committee members and the regulator

This policy ensures that we process applications in an impartial, equitable and consistent manner. It is driven by changes to affordability guidance as set out in the Homes England Capital Funding Guide, effective from 01 August 2024.

This policy is intended to support affordability and sustainability for the customer and to manage risk to Leeds Federated.

Policy updates

The Sales & Leasehold team is responsible for updating this policy.

Policy updated and approved by Leadership Team 30/07/2024. Next review due 30/07/2026.