# INFORMATION ABOUT YOUR MORTGAGE:
# A GUIDE TO MORTGAGES ON PROPERTIES TO BE LET

BIRMINGHAM MIDSHIRES

# INTRODUCTION

## This guide gives details of our mortgages and is split into two parts:

- The first part is useful for customers who let their property.
- The second part gives you lots more information about our mortgages – you should read this part alongside your Mortgage Illustration and offer letter as it will help you decide if the mortgage you have applied for is suitable for your needs.

For simplicity:

- Whenever the booklet refers to "conveyancer" we mean the legal professional dealing with the mortgage for example a solicitor or licensed conveyancer.
- Whenever the booklet refers to 'Buy to Let' we mean where you are taking out a mortgage on a property to let to tenants.

We offer mortgages only on properties that will be let out to tenants.

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|---|
| YOUR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT COMPLY WITH THE COMMITMENTS LINKED TO YOUR MORTGAGE CONTRACT |

# PART I

## Is Buy to Let for you?

When you are thinking about taking out a Buy to Let mortgage, you will need to add up the costs of buying and running your property.

The main costs are for the purchase, the mortgage payments and running the property. You should also think carefully about taxation, marketing, maintenance and general property management. It's also important that you comply with all the legal requirements of being a landlord.

## Will your Buy to Let mortgage be regulated?

With Birmingham Midshires, a Buy to Let mortgage is a loan you can use in relation to an investment property that you or your family won't live in and that you intend to rent out to tenants. This kind of mortgage is not regulated by the Financial Conduct Authority (FCA). If you did not buy the property with the intention to let it out, it may be classed as a Consumer Buy to Let mortgage, which would be regulated.

If you have a mortgage adviser they will ask you questions to decide the appropriate level of regulation that should be applied to your mortgage.

Your mortgage offer will confirm if your loan is Consumer Buy to Let or unregulated. If you have any questions or concerns about the consequences of your mortgage not being regulated you should seek independent legal advice.

## Be careful, there are some risks For example:

- **Finding the right tenants**. Renting a property to a tenant doesn't always go smoothly. Be careful when deciding who your tenants will be. Sometimes tenants leave the property owing you rent. Some don't pay the rent and won't leave. Some may damage your property, leaving you with expensive repairs.
- **Periods when your property is not let**. At times you may not be able to find a suitable tenant. So you need to make sure you have enough money to pay your mortgage even though you will not be getting any rent.
- **You can lose money**. The property market is not always stable and prices can go down as well as up. This means your property could become worth less than you paid for it.
- **Location**. Consider the location and demand for rental properties. Some areas are more desirable than others.
- **Repayment method**. If you are thinking of using the sale of your property as your interest-only repayment plan, you must consider that its value may fall. If it does, you will have to find another way to repay everything you owe.

**This isn't a complete list and there may be other things to consider.**

**Remember:** We only offer Buy to Let mortgages where your property will be occupied as a home on the basis of a rental agreement. We do not offer this kind of mortgage if you or your family intends to live in the property.

## What can I use my loan for?

### You may use your loan:

- To purchase a property you intend to let.
- To raise funds on a property you already own and let.
- For home improvements or essential repairs on a property that you let.
- To remortgage your home and then let it to tenants.

**This isn't a complete list, ask your mortgage adviser if you have questions about the purpose for which you may use the loan.**

## Can you afford it?

Before you decide whether or not Buy to Let is right for you, you need to be aware that there are more costs than just the deposit.

**Deposit**. You usually need at least a 25% deposit for a Buy to Let mortgage with us.

**Product fees.** This is a fee for the mortgage product that you take; it can usually be added to your mortgage, but you will then have to pay interest on it.

**Mortgage adviser fees**. Your mortgage adviser may charge you a fee to arrange the mortgage.

**Legal fees**. A conveyancer charges legal fees for doing the legal work connected with buying your property. Fees can vary and are often based on the purchase price plus other costs.

**Government Land Tax.** This is a government tax charged on land and property transactions in the UK. The tax is charged at higher rates if the property is not your main residence. Different rates also apply depending on the purchase price. For the most up-to-date information please visit **www.gov.uk/stamp-duty-land-tax**

This tax is an expensive extra cost that you should take into account when thinking of buying a property.

**Local authority search fees**. The local authority will charge for answering your conveyancer's questions about the property you want to buy, such as whether the local authority maintains the roads adjoining the property or whether you will be responsible for this.

**Other relevant property searches, for example mining or environmental searches**. Sometimes your conveyancer will have to carry out other searches because of where your property is. These may be environmental searches to check if certain industrial processes are carried out in the area or if the property is built on land that may have been contaminated because of the way it has been used in the past. Mining searches ask for records of any mining work that may affect the property. The organisations that answer these questions will charge for this and you will have to pay these costs.

**Land Registry fees**. The Land Registry will charge for any searches of the property register the conveyancer asks for. It also makes a charge for registering you as the owner and us as the lender, which you will have to pay.

**Valuation fees**. Your mortgage adviser will discuss valuation schemes and fees with you when you make your full application. The valuation fee depends on the property value and which type of valuation scheme you choose.

**Preparing your property for rent**. Depending on its condition, you may have to do structural or decorative work. You may also have to budget for furniture and appliances if you intend to let your property furnished.

**Complying with safety regulations**. Make sure you keep up to date with the latest safety regulations for landlords, for example gas and electrical safety.

**Mortgage Costs**. Make sure you can cover your mortgage payments, even when you don't have a tenant in the property.

## Taxes

Usually you have to pay two types of taxes if you're a Buy to Let landlord, these are income tax and capital gains tax. You can find more detailed information about taxation by visiting the HM Revenue & Customs website at **www.hmrc.gov.uk**

We recommend you seek independent tax advice before you complete this transaction.

## Property running costs

Owning a Buy to Let property means you are likely to incur other costs which include:

- **Property maintenance** – as a landlord you are responsible for making sure your property is in good order and habitable for your tenants, as well as rectifying any faults and maintaining the safety of gas and electrical appliances.
- **Service charges and ground rents** – these are usually only payable if the property is leasehold. You'll also need to check that the lease allows letting.
- **Insurance** – you must at least take out buildings insurance and make sure your insurer knows it is a Buy to Let property.
- **Letting agent fees** – you should budget for letting agent fees. They usually charge a percentage of the rental income.

**Often, unexpected costs arise in running a property, so it is a good idea to have a reserve fund to cover them.**

## Tenancy contracts

The tenancy must meet our requirements and these will be set out in your mortgage offer.

# PART 2

## Taking out a Birmingham Midshires mortgage

## What types of mortgage products are there?

We have different types of mortgage products with different types of interest rates. These change from time to time and your mortgage adviser will give you details of the current range when you apply.

| Type of product | How it works | Early repayment charges | What it means for you | Is it right for you? |
|---|---|---|---|---|
| **Fixed rate** | Your interest rate and your monthly payments are set at a certain level for an agreed period (the product rate period). At the end of that period, you will switch to another rate, usually a rate that tracks above the Bank of England base rate for the life of the loan. | Early repayment charges usually apply during the fixed rate period.<br><br>Sometimes they can apply after the fixed rate period too. | Your interest rate stays the same during the fixed rate period, even if the Bank of England base rate changes.<br><br>You won't benefit if interest rates fall. The interest rate will stay the same. | Ask yourself if being certain that your interest rate won't rise is more important than the possibility of paying a lower interest rate. With a fixed rate, you won't benefit from any falls in the interest rate during the fixed rate period. |
| **Tracker rate** | This is a variable rate loan with an interest rate that is above, below or the same as the Bank of England base rate or some other rate it tracks for an agreed period (the product rate period). At the end of that period, you will switch to another rate, usually a rate that tracks above the Bank of England base rate for the life of the loan. | Early repayment charges usually apply during the tracker rate period.<br><br>Sometimes they can apply after the tracker rate period too. | It may benefit you to choose a tracker if you can afford to pay more when interest rates rise so that you can benefit when they fall.<br><br>A tracker may not be suitable if you live on a tight budget that won't stretch to higher monthly payments when rates rise. | Ask yourself if you are confident that you will be able to make your monthly repayments if interest rates rise. |

## Annual percentage rate (APR)

Your Mortgage Illustration will show you the APR for your mortgage. This is a notional annual interest rate which takes account of fees and charges to reflect the total cost of your mortgage. Your Mortgage Illustration will detail the fees which are included in this calculation. An APR is calculated using a standard method so it provides an effective way for you to compare quotes from different lenders.

The illustration will show you how much your mortgage could cost you if interest rates increased by one percent. If you have applied for a Consumer Buy to Let mortgage, your Mortgage Illustration will also tell you how that would affect your APR.

## What mortgage terms are available?

Mortgage terms of up to 40 years are available; the minimum term we'll consider is 5 years. The term affects the total cost of the mortgage. If you take out a repayment mortgage, the term also affects the monthly payment.

With a repayment mortgage the longer the term, the lower the monthly payment. However, it will take you longer to repay the loan so you will pay more interest. This means it will cost you more over the life of your mortgage.

With an interest-only mortgage, the length of the term makes no difference to the monthly payments because these are repaying only the interest charges and not the loan itself.

You need to make sure you can repay the loan balance at the end of the mortgage term.

## Repaying your mortgage

Buy to Let mortgages can last a long time, so it's important you get the one that's right for you. You will need to think about such things as the type of loan, how long you want it for and what type of mortgage product you would like. If you have received advice from your mortgage adviser they will have asked you about your circumstances and discussed your needs before deciding which mortgage product to recommend to you. The following information sets out the options available.

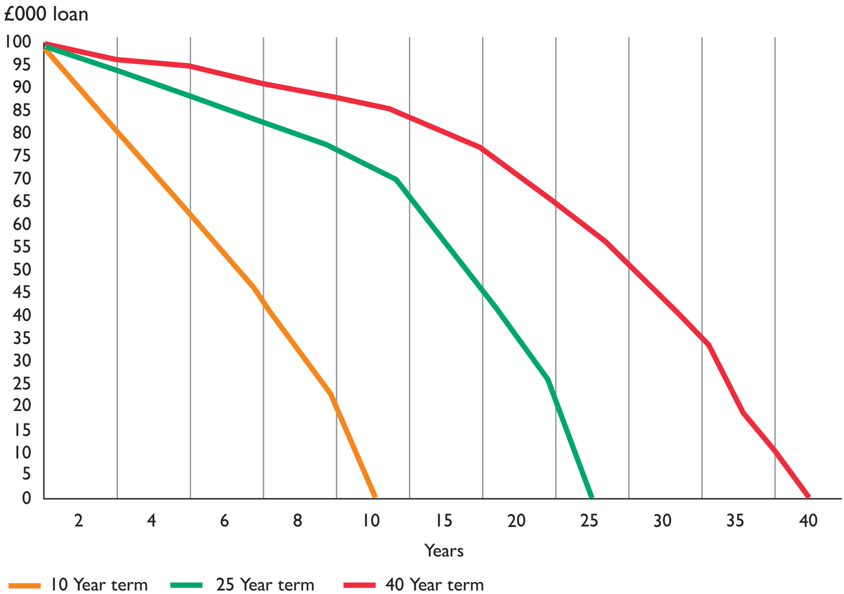
### Methods of repayment

There are three different ways of repaying your loan. These are repayment, interest-only, and a combination of repayment and interest-only.

### Repayment mortgage

Every month, your payments go towards reducing the amount you owe as well as paying off the interest (see Figure 1). This means that each month you are paying off a small part of your loan. Your annual statement will show your loan getting smaller. However, in the early years your monthly payments will mainly go towards paying off the interest, so the amount you owe won't go down much at the start.

**Figure 1 : Illustration of the effect of monthly payments on a £100,000 repayment loan over the mortgage term.**



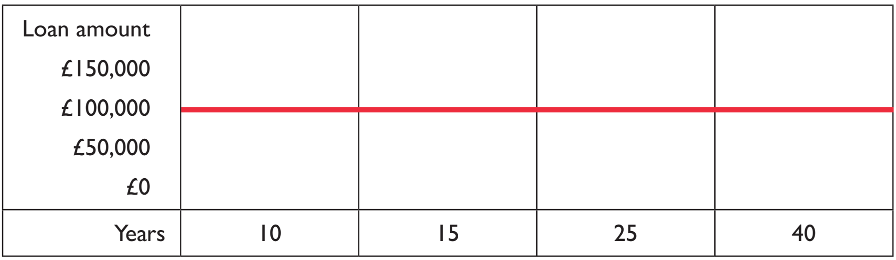
## Interest-only mortgage

With an interest-only mortgage, your monthly payment pays only the interest charges on your loan – you don't pay off any of the loan amount (see Figure 2). This means your monthly payments will be less than if you had a repayment mortgage. However, the total cost of an interest-only mortgage will be higher because you will be paying interest on the full loan amount throughout the mortgage term.

As long as you've made all your monthly interest payments, the amount you owe at the end of the mortgage term will usually be the same as the amount you borrowed. So, to repay the loan, you need a lump sum at the end of the term. You are responsible for making sure you have a plan in place to repay this amount.

If you plan to sell your Buy to Let property to repay the loan be aware that the sale proceeds may not be enough to cover the balance and you will remain responsible for the shortfall.

**Figure 2: Illustration of the effect of monthly payments on a £100,000 interest-only loan over the mortgage term.**




## Combination of repayment and interest-only mortgage

It's possible to split a mortgage between repayment and interest-only. This means that at the end of the mortgage term you will still have an amount of the mortgage to repay, which you will need to do using a lump sum. You will need to make sure you have a plan to repay this amount at the end of the term.

## Early repayment charges

You may have to pay an early repayment charge if you repay all or part of your loan before the end of any early repayment charge period that applies. Your Mortgage Illustration will tell you if an early repayment charge period applies to your mortgage and what period any charge will apply for. We'll base the charge on the amount you owe when you repay the loan. It will never exceed the maximum amount shown in your Mortgage Illustration.

## Taking your product rate to a new mortgage

You cannot take your loan to a new mortgage but you may be able to take your product rate and any remaining early repayment charge period with you. Your Mortgage Illustration and your offer letter will say if this is the case. You will only be able to take your product rate with you if you can meet our lending policy rules at the time that you apply.

## Free remortgage conveyancing

If we offer free remortgage conveyancing as an incentive, we'll choose the conveyancer to deal with the basic legal work done on our behalf. If you would prefer to use your own conveyancer, for example if you want to add or remove a name on your mortgage account, you should not choose this incentive because we won't pay your conveyancer's legal costs.

| What's included in free remortgage conveyancing | What's not included in free remortgage conveyancing |
|---|---|
| The fee for the basic legal work done on our behalf for a standard remortgage. | Any additional services not included in the basic legal work and any legal advice you want the conveyancer to provide. (If you are in Northern Ireland, you cannot ask our conveyancer for advice or additional services – you must instruct a different conveyancer.) |

## Letting your property

You must be intending to let your property to tenants and neither you nor a member of your family may live there during the mortgage term. If we make you a mortgage offer we'll send you details of our letting terms.

## Making your mortgage payments

You must make your monthly mortgage payments on time. If you are relying on rental income to make the monthly payments, you should be aware that there may be periods of time when you are not receiving any or enough rental income, for example:

- You cannot find a tenant.
- Your tenant is not paying their rent.
- You cannot let your property for as much as you were expecting.

If this happens, you will still have to make your monthly mortgage payments. If you don't keep up with the monthly payments on your mortgage, we may take legal action and you may lose your property.

## What type of properties will you lend on?

The property you buy must be located within the UK.

### Freehold

If the property is freehold, then you will own the property and the land it's built on. We don't lend on freehold flats in England, Wales and Northern Ireland.

### Leasehold

If the property is leasehold, then you will own a temporary right to occupy the property and the land it's built on. The property and the land are owned by someone else and they lease them to you for a number of years. Leases can last for decades or centuries. There is usually an annual charge for the lease, called a ground rent. We'll only lend on leasehold properties with at least 70 years left on the lease when you apply. Before you buy, your conveyancer will check the lease terms to make sure they are acceptable.

In Scotland (except in rare cases where there is a form of long lease known as a 'tack') all properties are owned outright by the 'registered proprietor'.

### New build or converted properties

A new property or a property that has been built or converted within the last ten years should be part of a Building Standards indemnity scheme. This gives a ten-year warranty against material defects. There are a number of acceptable schemes, but the main one is run by the National House-Building Council (NHBC).

We'll consider lending on a property that is not part of one of these schemes if it comprises of a development of no more than 15 properties and meets our current monitoring requirements.

## Valuation schemes

We'll need a professional assessment of the property's market value whether you are, buying a property for investment and renting it out, remortgaging, raising capital or carrying out improvements or repairs. Unless we tell you otherwise, you will need to pay the cost of this.

If you are applying for a remortgage or additional borrowing, we'll arrange for a property assessment or revaluation for our own use – you won't need to do this yourself, we choose how the valuation is done. We may arrange for someone to carry out an external appraisal, inspect the property or we may use a computerised model that analyses data from market transactions. If we require a valuation surveyor to make an assessment, we will appoint the valuer.

When you apply for a new mortgage, we'll ask you to choose from two levels of inspection and report.

### Level 1: A basic valuation

This is the most basic property valuation and the least expensive, it is based on a limited inspection. It is prepared for us to make an assessment of whether we want to lend you the money to buy the property. It is not a condition survey and only gives you limited information about the property. So if you choose this type of valuation, bear in mind that the report might not mention defects that may have affected your decision to buy. You should not solely rely on it when making your decision whether or not to purchase the property. You can choose to upgrade your valuation to a level 2 survey for an additional cost.

### Level 2: Survey and valuation

This survey, which is a Royal Institute of Chartered Surveyors (RICS) HomeBuyers Report, is an intermediate level of report. As well as assessing the property's value, the survey provides information on its condition on the day of inspection. It will also give guidance on serious defects visible at the time of inspection and other issues that should help you decide whether to buy the property. The report will highlight the urgency of any repairs. If appropriate, it will recommend getting specialist advice.

### Building survey

If you want a more detailed report than the level 1 or level 2 valuation we offer, you may wish to consider a building survey. You will need to make your own arrangements to get one.

In a building survey, you will get a customised report where you can choose what's included, based on an agreement between you and the surveyor. We will still need a level 1 basic mortgage valuation, which you will need to pay for. This is to help us make a decision on whether we will lend you the money to buy the property.

## Once you get your mortgage offer

- Take time to read your mortgage offer and conditions because they are really important.
- Ask your conveyancer to explain anything in the mortgage offer and conditions that you don't understand.
- Get several quotes for buildings and contents insurance and decide which one you're going to accept. Make sure the insurer you choose will allow you to let your property.

## My first payment

Payments are taken a month in arrears so we take a full months payment a month after the completion date. We'll write to you when your mortgage starts to confirm how much the payment is and when we'll collect it.

If you are taking out additional borrowing, the monthly payment for this loan will be separate from the payment of your main mortgage. The payment date may be different too.

Your Mortgage Illustration will tell you the monthly payment and costs of your loan based on an assumed completion (start) date of the 1st of the month. It's just an example and you can complete on any date you want.

## At the end of the initial product rate

To ensure the correct amount of interest is paid when the initial product rate ends, a different payment may be required in the month following the end of the product rate period. We will write and tell you the amount(s) before they are due.

## Product transfer

### What is a product transfer?

When you take out a Buy to Let mortgage, you arrange to have a fixed or variable product for a period of time. At the end of this time, the product will end and we'll usually transfer your loan to a variable rate tracker. At this point, you may choose to move it to a new product for a further period of time.

Alternatively, your circumstances may change and you may think a different type of product is more suitable. For example, if you are on a variable rate and interest rates start going up, you may decide that moving to a fixed rate would be better. If you want to apply for a product transfer you'll need to contact your mortgage adviser.

The first month's payment of your new product transfer may be different from subsequent payments on your new interest rate to ensure the correct amount of interest is paid for that month. A different payment may also be required in the month following the end of the product rate period. We will write and tell you the amount(s) before they are due.

## Additional borrowing

### What is additional borrowing?

When you have had your mortgage account with us for at least 6 months, you may ask to borrow more money against your property. We call this additional borrowing. All additional borrowing applications must meet our current lending policy at the time you apply. The policy may have changed since you applied for your main mortgage.

### How do I apply for additional borrowing?

If you want to apply for additional borrowing you'll need to contact your mortgage adviser.

## If you can't make your monthly payments

Sometimes circumstances change unexpectedly – perhaps you can't find a tenant, or you lose your job. If this happens, it may be difficult for you to meet all your financial commitments and you may need some help for a while. If you find yourself in this situation, you should contact us straight away so we can give you the help you need.

If your monthly payments are up to date but you are worried you may not be able to make some or all of your future payments, you should call us. We may be able to reduce your monthly payments for a while until you get back on your feet. When you call we can discuss the various options available to you. Remember, the sooner you contact us, the greater the chance we'll be able to find a way to help you.

### What happens if I fall behind with my monthly payments?

If you miss your regular monthly payment and we haven't agreed that you can do so, we'll write to you. You may also have to pay an arrears charge.

If after reasonable requests you do not pay the amount due, we may also charge you the costs of recovering the money you owe us. We'll always tell you when we intend to make these charges and how much they will be. There may also be extra legal costs if we have had to get a court order to take possession of your property. You will have to pay these and they can be high.

# GET IN TOUCH

0345 850 5000

bmmortgages.co.uk

This information is available in large print, Braille or on audio. Customers can also contact us by using Text Relay.

## Important information

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YOUR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

recycle
When you have finished with this please recycle it

BIRMINGHAM MIDSHIRES

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