Mortgage Insurance

How it works

Bath Building Society

We're different because you are

Bath Building Society is committed to responsible lending.

Bath Building Society has a firm commitment to all of its stakeholders; borrowers, saving customers, Members, regulators and the communities it serves, to lend responsibly. By this we mean we look to ensure that borrowers will be able to afford their mortgages, not just when times are good, but also when interest rates rise or when borrowers face increased financial pressures. In circumstances where borrowers do get into difficulties, the Society strives to make sure that they are given practical advice and assistance in addressing any arrears and the Society will take action to repossess properties only as a last resort. Accordingly repossession action is rare, but it is prudent to plan for all eventualities. This is why the Society takes out mortgage insurance in certain circumstances.

The basic principle of Mortgage Insurance

Bath Building Society, in normal circumstances, is prepared to lend up to about 80% of the purchase price or the value of the property, whichever is lower. The reason why Lenders in general do not lend above 80% "loan to value" is because, should a mortgage fall into serious arrears and the property has to be sold at a time when property values have fallen, the Lender could be substantially out of pocket if the proceeds of the sale are lower than the value of the mortgage. We do recognise that the ability to borrow in excess of 80% of the value of the property is an important consideration for many borrowers including first time buyers, particularly at a time when house prices are high. The Society has therefore developed an arrangement with a Mortgage Insurer to ensure that the Society's interests are better protected when lending above 80%. The Society will purchase an insurance policy which, subject to a successful claim on this insurance, will reimburse the Society for losses incurred on repossession of properties up to the insured amount. **The cost of purchasing this insurance is included in the rate we charge you for your mortgage.** This type of insurance is sometimes called "Mortgage Indemnity Insurance" or "Mortgage Indemnity Guarantee" and the premium paid to obtain this insurance is sometimes known as a "higher lending charge".

A Lender can make a claim on this insurance after it has sold the repossessed property where there is a "shortfall" i.e. where the price obtained for the property is less than the outstanding mortgage (plus any arrears, fees and charges which have accrued in the sale process). The insurance is designed to cover the Society for any loss incurred between 80% of the value of the property at the time of application and the amount actually lent.

Two practical examples

1. Let us take an example of a property costing £200,000 where the borrower is putting in £10,000 of their own money as a deposit and borrowing the remaining £190,000 from the Society. The Society's normal lending maximum would be £160,000, equating to 80% of the value of the property. The Mortgage Indemnity Insurance policy would cover the gap between £160,000 and £190,000. So if the property were sold in possession and realised £170,000, then those proceeds of the sale would be paid to the Society. The Society would then recover the remaining £20,000 lost from the insurance policy. In the situation described the borrower's stake of £10,000 would be lost.

2. Let us now take a different scenario in which a property costing £200,000 with a £190,000 mortgage is sold following repossession for £145,000.
   In this scenario the borrower's stake of £10,000 would be lost, the Society would take the proceeds of the sale, but would lose the remaining £45,000. However, the Society would be able to claim the difference between £160,000 (the 80% level) and the £190,000 on insurance. So in this situation the insurance would pay out £30,000, the Society would lose £15,000 and the borrower would lose £10,000.

The borrowers' responsibility to repay the shortfall

When you take out a mortgage, you make a personal promise to repay all of the money you owe under the mortgage. This promise applies whether your mortgage is insured or not. What this means is that either the Society or its Insurer can claim from you any money they lose following the sale of your repossessed property. It is the Society's policy to seek to recover all shortfalls in the event of sales of repossessed properties and the Society has the right to recover the money owed for 12 years following that sale. The Society's Insurer also has the right to claim from you any sums they have paid out under the insurance policy and, again, they have the right to recover the money owed for 12 years following payment of the insurance claim.

Who is being insured here?

Some have misunderstood the nature of mortgage insurance, taking it to mean the mortgage insurance covers borrowers. In fact, this insurance covers Lenders. Borrowers benefit from being able to borrow a higher proportion of the property's value than they would otherwise be able to because the Lender is more confident they will not make a loss on the loan, or that any loss made would be reduced by the insurance cover: the insurance itself covers the Lender and not the borrower.

In the past some borrowers have believed that because their loan carries mortgage insurance they can hand in the keys to their property (known as "voluntary surrender") and avoid the payment of any shortfall. This is incorrect as the insurance is designed to cover the Lender's interests and, besides, the promise to pay all monies outstanding under the mortgage applies irrespective of the existence or otherwise of mortgage insurance.

The Insurer

The Society has entered into an arrangement with **Am Trust International**. They are a large scale private insurance company operating in the USA and in a number of European countries, that provides mortgage insurance to many UK Lenders.

This brochure is intended as a general guide and you should contact us for a fuller explanation if necessary.

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We're different because you are

Head Office:
15 Queen Square,
Bath BA1 2HN.

Telephone:
01225 475719
Fax:
01225 424590
Email:
mortgages@bibs.co.uk

Web:
www.bathbuildingsociety.co.uk

Telephone calls may be recorded to help the Society to maintain high standards of service delivery.

Your home may be repossessed if you do not keep up repayments on your mortgage. Think carefully before securing other debts against your home.

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