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 you will be able to afford your mortgage, not just when times are good, but also when interest rates rise or when you face increased financial pressures. In circumstances where you do get into difficulties, we will try to make sure that you are given practical advice and assistance in addressing any arrears. We will only take action to repossess a property as a last resort. This means that repossessions are rare, but it is still sensible to be prepared. This is why we take 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. Therefore, we work with a Mortgage Insurer to ensure that our interests are better protected when lending above 80%. We will purchase an insurance policy which, in the event of a successful claim, will reimburse us 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 us 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 us. Our normal maximum lending at 80% of the value of the property would be £160,000. The Mortgage Indemnity Insurance policy would cover the gap between £160,000 and £190,000. So if the property were repossessed and sold for £170,000, then those proceeds of the sale would be paid to us. We 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, we would take the proceeds of the sale, but would lose the remaining £45,000. However, we 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, we 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 we or the Insurer can claim from you any money lost following the sale of your repossessed property. It is our policy to seek to recover all shortfalls in the event of sales of repossessed properties and we have the right to recover the money owed for 12 years following that sale. Our 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?
Mortgage insurance is sometimes misunderstood to cover the borrower. In fact, the insurance covers the Lender.

As a borrower, you benefit from being able to borrow a higher proportion of the property value. This is because as a Lender, we can feel more confident we will not make a loss on the loan, or that any loss would be reduced by the insurance cover.

It is important to remember:
this insurance covers us and not you.

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 the outstanding mortgage balance in full applies whether mortgage insurance is in place or not.

The Insurer
We will use a reputable insurer, which may change from time to time. If you would like further details about the insurer currently in use by us, please contact us.

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

We're different because you are

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

Bath Building Society