

Buy-to-let: statement of practice



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Context

This statement of practice outlines the overarching principles of CML members' general approach to buy-to-let (BTL), including the sale and administration of BTL mortgages excluded from the regulatory scope of the Financial Conduct Authority (FCA). It is intended to ensure that BTL borrowers understand their lender's responsibilities as well as their own, and sets out information customers can expect to be provided with by the lender, either directly or via an intermediary.

Details of how this statement of practice applies to CML members and how it is monitored are included at the end of this document.

In this document, any reference to 'advice' is generic and is not aligned to the FCA's Handbook definition that applies to advised sales of regulated mortgage contracts.

The responsibilities of mortgage lenders

BTL mortgages are designed to finance the purchase or remortgage of residential property for letting in the private rented sector.

Although the majority of BTL mortgages are non-regulated from a conduct of business perspective, CML members agree to willingly provide information to customers in a way which is clear, fair and not misleading, as well as to lend responsibly and treat customers fairly.

If a landlord fails to adhere to the terms of a BTL mortgage, the lender will seek to work with the landlord to agree a practical solution while considering the position of tenants and the protection of value in the property.

The responsibilities of BTL landlords

Letting residential property is a commercial transaction. Individuals should therefore only contemplate becoming a landlord if they have wholly satisfied themselves that they are competent and capable of undertaking such a venture. This includes competency in managing a portfolio, and an understanding of their obligations and responsibilities towards the tenant.

The lender, either directly or via an intermediary, will only supply customers with information on the BTL mortgage itself. A BTL lender will not advise on any property investment decision or on how landlords can meet their obligations to tenants. It is important that prospective landlords fully understand the risks and consequences of becoming a private landlord as well as the potential rewards. Independent financial, legal and tax advisers may provide advice on the decision to acquire residential property for letting. Recognised landlord bodies can also help landlords understand their responsibilities.

The principles relating to BTL lending, below, do not represent an endorsement of the customer's decision to purchase residential property for letting.

Principles of BTL mortgage lending and administration

1. BTL lending principles

1.1 Each lender will have its own BTL lending strategy, approved by a relevant senior management committee. This will be based on its understanding of the BTL market, the customers it wishes to target and how its approach to BTL complements its overall mortgage lending strategies and risk appetites.

1.2 Each lender will have its own internal set of BTL policies, which are regularly reviewed (at least annually). These will cover matters such as:

- a) Responsible lending (how affordability is assessed, taking into account the rental income from the property and prudently allowing – by stress-testing – for rental voids or increases in mortgage interest rates)
- b) Advice and the provision of information
- c) Property valuation in accordance with regulatory requirements under BIPRU, the Prudential sourcebook for Banks, Building Societies and Investment Firms
- d) Sales and distribution
- e) Risks (how core risks will be identified, mitigated and/or managed e.g. concentration risk and portfolio risks)
- f) The management information required to inform risk controls and policy reviews
- g) Record keeping requirements (both for the policy and individual lending decisions)
- h) Fraud and misuse mitigation
- i) Arrears and possessions handling
- j) Complaint handling

1.3 In reaching these policies, each lender's Board or Credit Committee will consider lending limits and controls such as:

- i. The volume of its business written on a BTL basis – both at aggregate (where that lender also writes regulated residential business) and product levels;
- ii. Responsible lending controls;
- iii. Lending against particular property types judged by the lender as higher-risk;
- iv. Particular concentration risks;
- v. Lending to particular customer types including first-time and experienced landlords; and
- vi. The types of tenant or tenancy agreements deemed acceptable, where risk is perceived to be higher.

1.4 All lenders will have their own mortgage terms and conditions, aligned to their BTL lending strategy. A lender will also take account of any necessary considerations in relation to Unfair Terms in Consumer Credit Regulations where appropriate to do so.

2. Information that lenders will give to customers

2.1 For both direct and intermediated sales, the lender will ensure that the advertising of its BTL products and services is clear, fair and not misleading.

2.2 As part of this, the lender will adopt a general approach of:

- a) Marketing products in a balanced way, avoiding misleading headline claims; small print; and giving insufficient prominence to key risks (including a warning that the property could be repossessed if the landlord does not keep up with monthly payments).
- b) Ensuring materials are not misleading, avoiding setting unrealistic expectations of a product based on selective information about past performance.

2.3 For both direct and intermediated sales, the customer will receive information from the lender on BTL products to aid the customer's own comparisons. This will be delivered in a form broadly consistent with the Key Facts Illustration (KFI) or the European Standard Information Sheet (ESIS). This will include, where applicable, details of:

- i. The extent to which the mortgage has been recommended, if at all, by either the lender or intermediary;
- ii. The product type;
- iii. The mortgage term;
- iv. The total amount repayable by the end of term;
- v. The monthly instalment payable for the period of the initial product rate;
- vi. The monthly instalment payable at the lender's reversion rate;
- vii. An overall cost illustration;
- viii. Any fees associated with the mortgage;

- ix. Any early repayment charges and the circumstances under which they fall due; and
- x. Any additional features including reference to keys risks.

2.4 This information will not constitute financial advice.

2.5 The lender will ensure its own front line agents and intermediary panel are made aware of relevant policies, products and services.

2.6 The lender, either directly or via the intermediary, will make the customer aware of the risks associated with any affordability assumptions in respect of BTL property. In particular, this will include the possibility of a shortfall in rental income arising as a result of void periods, rental arrears, lower than expected rental income, increases in running costs or higher mortgage payments due to increased interest rates.

2.7 In making the customer aware of the risks associated with BTL affordability a lender may consider using the following wording within their disclosure materials:

We have assessed the affordability of this mortgage based on the expected monthly income generated from letting the property to a tenant. The actual income generated may be different and can be influenced over time by changes within the rental market. You will remain responsible for meeting the costs of your mortgage and the additional costs associated with letting property for the duration of your ownership.

2.8 The lender, either directly or via the intermediary, will make clear to the customer the consequences of non-payment of a BTL mortgage, that the property could be taken into possession or a receiver of rent appointed and that any shortfall after the property is disposed of would remain the responsibility of the borrower [see section 5].

2.9 Lenders could consider using the following wording in order to make the customer aware of the risks associated with non-payment of a BTL mortgage:

If you fail to keep up with payments on your mortgage a 'receiver of rent' may be appointed and/or your rental property may be repossessed.

2.10 The wording above could be applied to marketing, customer disclosure, annual statements and ad-hoc communications with BTL borrowers. If a lender does not use the wording prescribed in this section, they will nevertheless ensure that disclosures of a similar nature are conveyed to the customer.

3. Customer responsibilities

3.1 The customer will be responsible for adhering to all terms and conditions of the mortgage and maintaining all contractual mortgage payments.

3.2 Where the BTL mortgage is on an interest only payment basis, the customer will be responsible for the repayment of the capital at the end of the mortgage term.

3.3 The property must be for letting, rather than occupied by the customer.

3.4 The lender will not advise on matters that do not directly relate to the provision or administration of the BTL mortgage.

3.5 Those aspects on which the lender will **not** advise the customer, but which the lender will expect customers to understand and adhere to include the following:

- a. To understand and comply with the legal requirements of being a landlord, including health and safety obligations towards the tenant and implications associated with any licensing or registration requirements on the landlord
- b. To treat tenants fairly
- c. To understand that there is a commercial risk in becoming a landlord
- d. To consider how mortgage commitments will be maintained in the event of void periods
- e. To protect the value in the property through upkeep, maintenance and, for leasehold property, adherence to valid requests from the freeholder and/or its managing agent
- f. To ensure appropriate buildings insurance cover is in place upon completion and throughout the duration of the mortgage

3.6 The lender may wish to signpost the borrower to other sources of information and these may include any of the following:

The [National Landlords Association \(NLA\)](#)

The [Residential Landlords Association \(RLA\)](#)

The [Association of Residential Letting Agents \(ARLA\)](#)

OR the lender may signpost to its own or other sources of information

4. Lender responsibilities – affordability

4.1 The lender will have, and operate in accordance with, a written policy, approved by a relevant senior management committee, setting out the factors it will take into account in assessing a customer's ability to pay the sums due.

4.2 The lender will undertake a robust assessment of the affordability of the mortgage, in line with its own lending policies.

4.3 When assessing affordability, the lender will take into account rental demand and typical rent levels within the property's locale, as well as the potential impacts of future interest rates, rental voids/arrears and typical letting costs in line with its own policy. When taking into account future interest rate changes a lender must be satisfied that its approach to stress-testing is adequate.

4.4 The lender will take extra care where a BTL applicant has a known adverse credit history and full consideration will be given to the appropriateness of lending in such circumstances.

4.5 The lender will not solely incentivise their own staff or intermediaries by the volume of completions to the detriment of its own responsible lending policy.

4.6 The lender will not knowingly advance, nor should an intermediary sell, BTL mortgages where the intention of the customer is to occupy the property.

5. Handling financial difficulty

5.1 The lender will have, and operate in accordance with, a written policy, (which may be contained in more than one document), approved by a relevant senior management committee, setting out its handling of BTL arrears and possessions.

5.2 The lender will consider the [CML's guidance](#) in the treatment of BTL borrowers who fall into arrears.

5.3 BTL landlords are expected to communicate constructively with lenders to help resolve financial problems.

6. Fraud prevention

6.1 The lender will have in place, and operate in accordance with, a written policy, regularly reviewed, approved by a relevant senior management committee, setting out its due diligence processes designed to prevent, identify and resolve fraudulent cases.

6.2 This policy will include details of:

- a. How the lender will comply with all relevant anti-money laundering regulations, including the Money Laundering Regulations 2007, [SYSC 6](#) and Joint Money Laundering Steering Group guidance
- b. How the lender will take reasonable steps to ensure the fitness and propriety of any intermediary firm through which it accepts BTL mortgage applications. The lender could use watch lists and should remove intermediary firms from its panel where they are found to have driven fraud
- c. How the lender will take reasonable steps to ensure the fitness and propriety of solicitors prior to accepting them on to its panel. The lender will remove solicitors from its panel where they are found to have driven fraud.
- d. How the lender will have in place plausibility checks on new business applications to verify the borrower's intentions
- e. The circumstances under which the lender having identified potential fraud by a third-party will report them to the appropriate authority for further investigation
- f. How the lender will have in place post-completion controls to identify instances where a borrower, or a related person (as defined in article 61 of the Regulated Activities Order), is occupying the property where such occupation would usually require the mortgage to be regulated under the FCA's MCOB rules

6.3 Where a lender identifies illegitimate use of a BTL mortgage product steps will be taken to reach a resolution with the borrower and protect the lenders' interests.

7. Complaint handling

7.1 The lender will have, and operate in accordance with, a written complaints handling policy, approved by a relevant senior management committee.

7.2 The lender will assess complaints fairly and promptly against its own policies.

Note: *This statement of practice applies only to lenders that are members of the Council of Mortgage Lenders. Under the Constitution of the CML, BTL lenders' membership of the CML is conditional on agreeing to comply with this statement of practice. Any CML member that fails to comply, in any serious respect, with this statement of practice can have their membership revoked or suspended where: (i) the issue is, in the reasonable opinion of the CML Executive Committee, not capable of resolution; or (ii) the issue is, in the opinion of the CML Executive Committee, capable of resolution and the Member does not resolve the issue to the satisfaction of the CML Executive Committee after having been given an opportunity to do so.*

Lenders will confirm, and the CML will publish on its website, a list of lenders who wish to have their adoption of this statement of practice known publicly.

Lenders may be required, from time to time, to provide a declaration to the CML, reviewed by the CML Executive Committee, confirming their adherence to this statement of practice.

BTL lenders that are not members of the CML are free to adhere to the statement of practice as they see fit.

This statement of practice will be reviewed regularly through the CML's BTL panel and any changes will be signed off by the CML's Executive Committee.