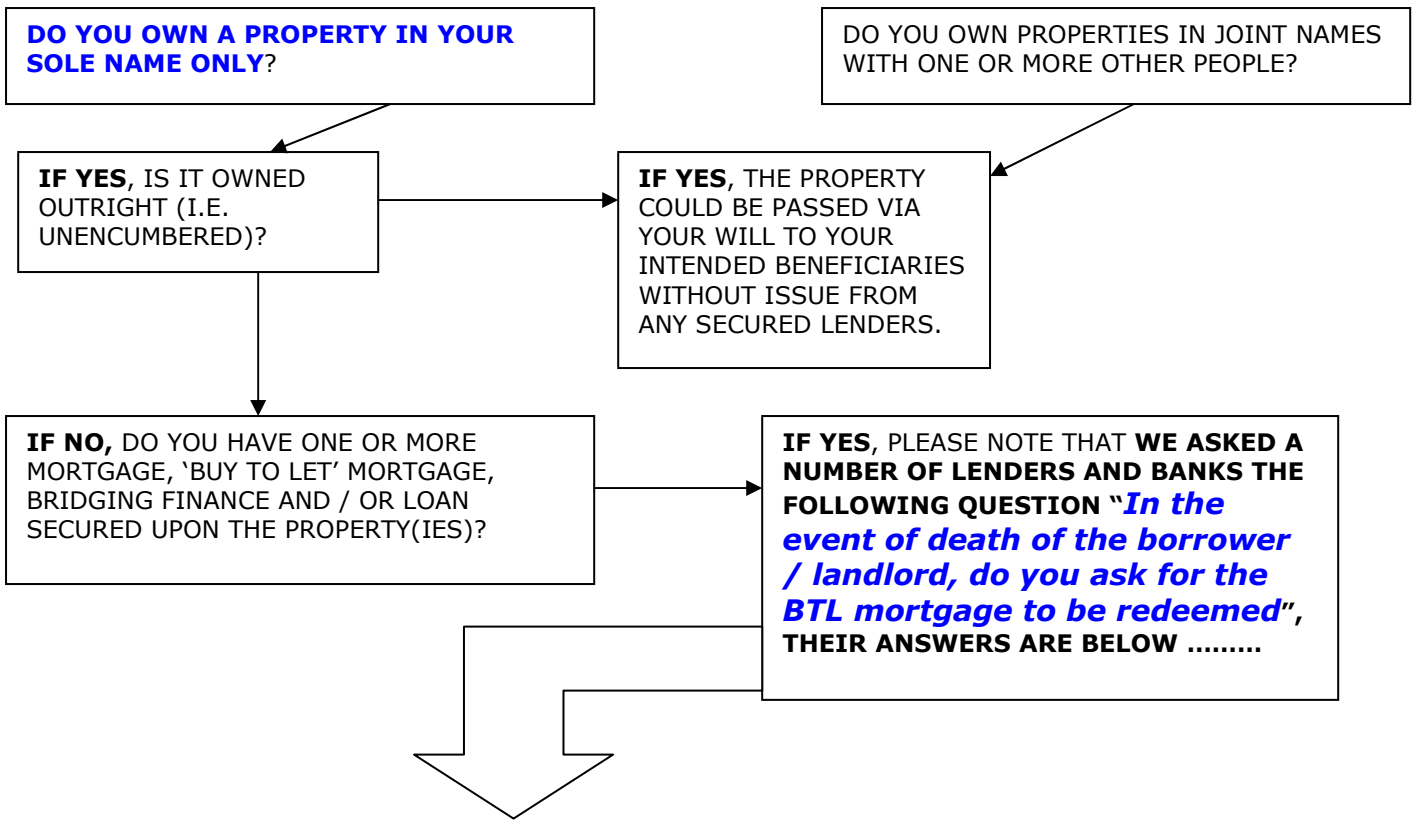


Why Life Insurance for Landlords (and all other mortgage borrowers) is crucial



As an avid reader of, and contributor to various online property forums, I was very interested to read a couple of recent articles entitled 1) “**Should landlords buy life insurance?**” and 2) “**What happens when a landlord dies?**” - both of which touched on the subject of what happens to the BTL mortgage contract if a borrower / landlord dies and also what happens to the property(ies) in this situation too.

What caused me to carry out some further detailed research in this matter, however, is that it was quite clear, not only from the comments left by readers but from my own experience as a Financial Adviser with 20 years business practice working in the BTL mortgage and insurance sector, and also as a portfolio landlord myself, that different people think different things will happen to their estate when they die.

For example, **it has become a very popular misconception that if a property (or properties) is / are held in the *sole name only* of the deceased landlord that, at the time of the borrower’s death, the BTL mortgage lender will simply allow a new ‘name’ (i.e. a beneficiary of the deceased’s Will – assuming they have written one!) to receive the property as a legacy and take over the mortgage without issue.**

Wrong! Absolutely and categorically this is not what happens, as I have found out in my research.....

Not knowing 'up front' what the consequences of this misconception are, can lead to potentially serious ramifications for those left behind, including forced sales, massive detriment to estate value, loss of rental income and also possibly previously unaccounted for IHT and CGT bills to pay, too.

So, as due diligence for my Clients' benefit and to gain an updated understanding of how lenders in today's BTL marketplace view this situation, I posed a detailed question to a wide number of BTL lenders, an extract / summary of which is as follows;

"Specifically relating to BTL mortgages; In the event of death of the borrower / landlord, do you ask for the BTL mortgage to be redeemed?"

Leeds Building Society

"We'd expect the mortgage debt to be repaid from either the cash funds held by the deceased's estate or the sale of the property by the executor of the will.

If the account was in a sole name and no tenant in place, we would allow the next of kin/administrator of the estate a period of two months to resolve the estate either by selling or by the surrender of any life policies. If the property is to be sold as part of the winding up of the estate, we would work with the next of kin/administrator towards a successful sale which may take longer than two months. This action obviously renders the account arrears bearing. If no next of kin/administrator has been established, we would consider taking the property into possession following our usual "vac poss" procedures save as to litigation costs.

However, in the same circumstances but where the property is tenanted, we would work with the letting agent with a view to rental monies being paid to us via the letting agent. We would not work with the tenant direct. If necessary, we may consider putting in an LPA for collection of the rent but this would depend on what the next of kin/administrator intends doing long term. Again, we would work with the next of kin/administrator, however, if there is no next of kin/administrator in situ and the rent was not forthcoming, we would commence proceedings and "join in" the tenants within the legal action.

Aldermore

*"...if sole borrower then technically **we would require the account to be redeemed** – though due consideration will be levied in the circumstances surrounding timeline and we would attempt to contact the next of kin/solicitors dealing with the estate."*

Saffron Building Society

*"In the case of the death of a sole borrower, then we are normally contacted by the executors who are dealing with Probate and the estate. In these circumstances, provided the mortgage payments continue to be met, we would normally allow **a grace period of up to 12 months** in order for the beneficiaries of the property to decide what they are doing with the property.*

*If the beneficiaries require to keep the mortgage then this would have to be treated as a "new" mortgage and **they would need to apply for a new mortgage** facility and meet our normal BTL criteria – ie clear credit history, minimum incomes of £25,000, rental cover should be a minimum of 125% of the mortgage payment etc."*

Principality Building Society

*"In the event of a death of a borrower/landlord if the BTL mortgage was in a sole name **we would ask for this mortgage to be redeemed in full.***

If there is more than one borrower on the mortgage the mortgage would still continue in the normal way – if taken out as Tenants in common the person who is deceased would remain on the mortgage as PR and all correspondence sent as such. If joint tenancy the deceased's name would be removed.

The tenant cannot continue to pay rent if the landlord dies and it is in sole name. The mortgage would have to be redeemed either by sale or by funds from the Personal representative or Estate. The beneficiaries would have to sell the property if they do not have the funds to redeem mortgage or the only way they can take over the mortgage is to borrow money themselves to redeem the account.

As long as we know the property is on market for sale and we have details of the Estate Agent and the selling price, we do give them time to sell property. However, we will send reminders if they do not keep us up dated. Usually 6 months. If sole name we also require a Grant of Probate which names the Executor of the Estate, this is the only person we can give information on the mortgage (unless a Solicitor is involved). The Executor would then need to sign a letter stating we can speak to the Estate Agents acting for the sale."

The Mortgage works

*"I think it's fair to say that whilst **we would expect a sole mortgage to be redeemed**; there would usually be a grace period permitted to allow for the estate to deal with matters."*

Ipswich Building Society

"When any borrower dies we always treat sympathetically. We would expect to be contacted by solicitors or relatives and work with them to resolve the situation.

*They normally advise that either the property is to be sold, or transferred into the beneficiary's name. If it is to go to a beneficiary they may **pay the mortgage off from own resources, or arrange a new BTL mortgage to cover.**"*

Clearly, one way or another, the lenders simply want their money back!!

They will all provide a short term sympathetic view, but they are of course in the business of 'risk lending' and they are not there as the family friend. Fair enough, but where does that leave the family which is left behind?

Whereas the 'grace period' seems to range from 2 – 12 months to allow the Executors or Administrators to attend to probate matters and close the estate down, this period will ultimately have a finite time limit on it and the BTL lender, who of course is a creditor, simply wants their funds redeemed one way or another.

So what if the widow(er), children or any other intended beneficiary wanted to take over the property(ies) from the deceased owner? As the lenders above have said, the potential new owner would need to have a BTL mortgage in place and this "would have to be treated as a "new" mortgage, they would need to apply for a new mortgage facility and meet normal BTL criteria".

However, as another forum contributor said in another thread, *"They are less likely to approve that since the credit crunch as they are trying to recoup cheap money and lend it on new terms which are far less competitive. Some lenders have stopped lending altogether (e.g. Mortgage Express, Capital Home Loans and Irish Permanent) and are actively seeking to reduce their loan books wherever possible."*

And all the while, there is worry over the possibility that if cash funds from the deceased's estate are not available (or sufficient) to fully repay the BTL mortgage(s) – and if the intended beneficiaries cannot raise a BTL mortgage in their own name(s) – that these valuable income producing, wealth creating assets will simply be repossessed, possibly sold quickly at not necessarily their full value, tax bills applied and ultimately therefore the legacy will be seriously diminished.

Not quite, I am sure, what the original landlord / property owner wanted to happen!

One glimmer of relief is that if there were **joint borrowers** and one dies, all the lenders tended to agree that the property automatically transfers to the other party and the mortgage continues as was.

So what are the possible, positive solutions for existing sole named BTL borrowers?

In our experience, there are still a few strategies which could be implemented that could ensure an efficient, swift and stress-free transfer of ownership of a sole-owner property (or property portfolio) in the event of premature death during the mortgage term.

It is important to note that the relevant solutions would need to be tailored to suit the specific property owner's personal, financial, family and tax situations, so a simple 'one size fits all' answer here would not be appropriate.

Suffice to say though, that **one of the easiest, quickest and best value solutions is however a properly drafted life assurance contract, which is flexible, tax efficient and written so as to help the intended beneficiaries receive the property(ies) speedily and with the minimum of fuss.**

Much of the £200million+ of life cover sums assured which H D Consultants' has advised on have been **written in Trust** providing many of the benefits detailed above, including **making sure that the right people (the intended beneficiaries) receive all of the money (not less any IHT, and therefore sufficient to repay the BTL mortgages) straight away (without any probate delays or time spent in court contesting the estate and it's asset distribution).**

In summary, if you own one or more (BTL mortgaged) properties in your sole name and your wish is to leave these properties (*and* of course the rental income, as well as any future capital growth) to your spouse, children, heirs and / or other beneficiaries, do not assume that this will 'just happen'.

Proper financial planning is essential and of course we advocate taking advice from experienced, qualified, FCA regulated financial planners, as well as legal and tax planning advice from appropriate specialists too.

For more details, contact our office on 01206 577 266 or office@hdconsultants.net

www.hdconsultants.net/awards www.hdconsultants.net/testimonials www.hdconsultants.net/case-studies

Article written by **Howard Reuben** *aff.SWW, Cert PFS Cert CII (MP), Principal*

T: 01206 577 266

M: 07774 633 639

E: howard@hdconsultants.net



* MORTGAGES * LIFE ASSURANCE * CONVEYANCING * COMMERCIAL FINANCE * BUY TO LET * GENERAL INSURANCE * WILL WRITING *

H D Consultants, Head Office, 109 Maldon Road, Colchester, Essex, CO3 3AX

Email: office@hdconsultants.net Web: www.hdconsultants.net Tel: 01206 577 266 Fax : 08717 334 367

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

Some of the services/ products shown are not or may not be regulated by the Financial Services Authority

Licensed by the Office of Fair Trading as a Credit Broker and Debt Counsellor Member of The Personal Finance Society.

H D Consultants is an Appointed Representative of Personal Touch Financial Services Ltd., which is authorised and regulated by the Financial Conduct Authority. Principal; Howard Reuben Cert PFS Cert CII (MP) * IFA Services: product advice in these areas will be provided by an authorised individual from the PTFS Network