Buy for Uni FAQs

General

How does Buy for Uni work?
With a Buy for Uni mortgage the student borrower buys suitable accommodation in their own name with a mortgage of up to 100% of the property's value. They then avoid the need to pay rent for their own student accommodation, but instead pay monthly mortgage payments. The student then rents spare rooms to lodgers (usually other students) and uses the rental income to meet the mortgage payments, which can be interest-only or capital and interest (repayment).

The mortgage is supported by parents who will be joint borrower(s) on the mortgage. Where the loan is in excess of 80% of the property value then the parent(s) will also provide additional security in the form of cash or property.

Who is eligible to apply?
Higher education students over the age of 18 in England or Wales with at least one year remaining on their course.

How much can I borrow?
The maximum loan amount is £300,000 and the minimum loan is £125,000

What is the maximum/minimum mortgage term?
Our maximum mortgage term is 25 years, or the date when any parent joint borrower reaches their selected retirement date or age of 75, whichever is earlier. The minimum mortgage term is 5 years.

How do you assess affordability?
Our assessment takes account of all actual income including the projected rental income through letting out rooms, the maintenance loan amount and the parent's income. We then assess this against all expenditure, including mortgage repayments at an amount that takes account of the potential for interest rate rises over the medium term.

What happens when the borrower finishes their course?
You should think carefully about your plans for this time as the next step depends upon your own circumstances. For example, you may continue living in the property and start a career, converting to a standard residential mortgage. You could continue to rent rooms out if you require. Alternatively, it's possible to keep the property as a buy to let investment – you'd need to convert to a buy to let mortgage should you wish to do this and we'd need to reassess affordability at that time.

If the mortgage repayments are on an interest-only basis then the outstanding loan amount will not reduce over time. If you retain the property after university then you will need a plan for repaying this amount – normally by converting the repayments to capital and interest.

In some instances the student may choose to sell the property and clear the outstanding mortgage debt.

It's important to plan for the future. You can come to us for help and advice based on your individual circumstances.

About the property being purchased

Who owns the property?
The property is owned solely by the student.

Are there restrictions on the property?
The property must be in England or Wales, be in good proximity to the university (typically no more than 10 miles) and have no more than 4 bedrooms. The minimum property value is £125,000.

We will not lend on flats.

We will not lend if the proposed occupation of the property requires a mandatory House in Multiple Occupation (HMO) licence. This normally is required if there are 5 or more people living in the house, however it can vary by local authority. Complying with landlord obligations is your responsibility and therefore you should check with the relevant council before making an offer on a house.

More information can be found at: https://www.gov.uk/private-renting/houses-in-multiple-occupation

How many rooms can be rented out?
We restrict the maximum number of lodgers to 3.

How are household bills taken care of?
It is up to you whether you wish to share the cost of these or whether to pay them yourself and include them in the rent. You therefore need to make sure that you understand the cost of running a household when setting rents.

Will I be liable for Council Tax?
If the property is solely occupied by students then under current rules it will be exempt from council tax. If any lodgers are not students, council tax will be liable.

Who can rooms be let to?
Rooms must be let under an Assured Shorthold Tenancy Agreement. You do not have to let to students, but be aware of the council tax implications of letting to others (see above)

Security required

What security is needed?
We will always take a first legal charge (mortgage) over the property being purchased.

We will not require additional security to this if a 20% (or more) deposit is being made towards the purchase.

If less than 20% or no deposit is available, then the mortgage can be supported by either cash deposited in a Vernon savings account in the name of the parent(s) or a charge over the parent's own house.

- If cash security is provided then this needs to be equivalent to the amount of the loan that exceeds 80% of the value of the property being purchased.

- If a charge over property is provided then this must be equivalent to the amount of the loan that exceeds 75% of the value of the property being purchased.

If a deposit of less than 20% is available then the amounts of additional security required as detailed above are reduced accordingly.

We will instruct a valuation over the property being purchased and any additional property provided as security. Any cost will be illustrated to you during the application process.

What is the extent of the joint borrower's liability?
The family joint borrower is jointly and severally liable for the full mortgage amount and all repayments. If repayments are not met and this ultimately leads to us taking possession of the property then all borrowers are liable for any shortfall that may occur after the sale of the property. Where additional security has been given in the form of cash or property then this may be used to make up this shortfall. This will be explained by your legal representative during the process.

How much equity is required in the parent's property where this is being used?
The total amount outstanding on any existing mortgage plus the amount secured by the legal charge required by the Vernon must not exceed 70% of the property value.

What legal charge is taken over a parent's property?
If there is no existing mortgage over the property then we take a first legal charge. Where there is an existing mortgage we take a second legal charge. Where a second legal charge is being offered the property must be worth at least £200,000.

Are there restrictions on the property to be used as supporting security?
The property must be in England or Wales. If it is in joint names then it must be as Joint Tenants and not Tenants in Common. If there is a mortgage already on it then the value of the house must be in excess of £200,000 and the combined mortgage and second charge must not exceed 70% of its value.

What is cash security?
Cash security is a deposit placed in a savings account with the Society and a legal charge is taken over it. This means that the cash can be used to repay any losses that the Society may incur in the event of repossession and sale of the student property.

Are savings provided as cash security covered by the Financial Services Compensation Scheme?
Yes, full details of the extent of the cover will be provided to you when a savings account is opened.

Do you pay interest on the cash deposit?
The deposit will be made into the Society's Capital Access account type and will receive the interest payable on this account type. More information, including the interest rate payable, can be found on our website. Full details will be provided to you during the application process.

Can additions or withdrawals be made to the cash deposit?
No withdrawals or further deposits can be made to the account as the funds are being used as security for a loan. We will not therefore issue a passbook for the account.

Can a combination of Cash security and Collateral security be used?
No, we would require one or the other, not a combination of both

Parental support

Can more than one parent provide support?

Yes. You should note that we would expect all owners of any additional security to be used to be named as joint borrowers on the mortgage

Can parents help more than one member of their family at the same time?
Yes this is certainly possible providing the cash or collateral security provided is sufficient to do so and that the family helper's income is sufficient when we assess affordability.

When do parents need to get independent legal advice?
As family members are joint borrowers on the mortgage loan they will receive legal advice from the solicitor acting for the purchase. However, where additional security is being provided then the parents would be required to obtain legal advice from a solicitor that is independent to the house buying process to avoid any conflicts of interest. Any cost for this advice will be met by the parents.

Can support be provided by someone who is not a parent?
Please talk to us to outline your proposal. We will consider any such cases on an individual basis.

During the mortgage term

What happens if the mortgage account goes into arrears?
If mortgage payments stop being made we will contact all borrowers to request the shortfall is paid. Should you be experiencing any financial difficulty then it's vital that you engage with us as early as possible so that we can give you appropriate support and guidance. Any supporting cash security cannot be used to make up missed mortgage payments – this would only be called upon if losses were made on repossession.

What happens if the property is repossessed?
In this unlikely event then the property would be sold and the proceeds would be used to repay the outstanding loan plus any interest and charges. If the sale proceeds are insufficient then we would rely on the security provided by the parent to make up any shortfall.

Will all borrowers get regular statements?
Yes, statements will be issued to all borrowers.

What happens if a parent dies?
The deceased's liability will remain as will any charge we have over cash or property. We would discuss the options with the representatives of the deceased's estate should this occur.

How are parents released from their commitment?
Parents are released when the property is sold and the mortgage loan cleared in full.
If parents want releasing before this then the student borrower must be able to demonstrate <u>all</u> of the following:

- That the mortgage amount outstanding is less than 80% of the property's value or 75% if the property is being retained as a buy to let investment. A revaluation will be required.
- That they can afford to meet the mortgage payments with their income alone. This would require an affordability assessment by the Society
- That all mortgage payments have been made on time in the preceding 12 months
- That they are not in breach of any mortgage terms and conditions.

Tax implications

Is the student liable for income tax on the rental income received?

Rent received is classified as income so could potentially be liable for income tax. However, it would need to exceed any tax free allowance plus the additional tax allowance provided under the 'rent a room' scheme. We cannot advise you in this matter so you would need to check with HMRC. More information can be found at:
https://www.gov.uk/income-tax-rates
https://www.gov.uk/rent-room-in-your-home/the-rent-a-room-scheme

If you think that you need to pay tax then it is the responsibility of the student to complete a relevant tax return for HMRC.

What about Stamp Duty?

Stamp Duty Land Tax (SDLT) is payable on property purchases, however there are special allowances for first time buyers. By purchasing a home the student is using their first time buyer status, which cannot be reclaimed. This means their SDLT liability will be higher when they buy another home in the future (subject to the rules at that time). More information can be found at: https://www.gov.uk/stamp-duty-land-tax

By having an arrangement where the parent(s) are on the mortgage but not the property, the arrangement benefits by avoiding the higher SDLT rate for owning additional properties.