

Guidance notes for Substitution of Properties

What is a Substitution of Property (SOP)?

A SOP is required when a borrower wishes to release one of the properties from their TMW Portfolio account and replace it with another. A portfolio mortgage will have two or more properties acting as security for one mortgage account. A SOP allows a property to be sold or remortgaged and replaced with another without fully redeeming the portfolio mortgage account. We'll not allow any increase in loan, Loan to Value (LTV) or portfolio size (number of properties held under the account) or any reduction in the overall rental cover of the portfolio.

A SOP is only required on TMW Portfolio accounts. These accounts were provided on a portfolio basis where any new borrowing was approved based on new and existing properties. The entire mortgage balance is secured against all of the securities held. Therefore individual loans aren't linked to specific properties.

Who can request a SOP?

You may either request a SOP directly, instruct a solicitor or broker to act on your behalf. If you do instruct a solicitor or broker to act on your behalf the relevant third party authority section of the application form will need to be completed. Completion of this section of the form will allow your solicitor or broker to have authority only in relation to the SOP request.

How long does it take to receive a quote to substitute a property?

The final quote will take approximately 30 working days, from receiving your request to sending the final quote; however this is dependent on the overall size of the portfolio and the valuations required, as detailed below. Failure to fully complete this application form may delay the release figure.

Is a new valuation required?

Yes, we'll need to carry out an internal valuation on the security being mortgaged to TMW and the security being replaced.

Internal valuations will be instructed on both the security being released and being mortgaged to TMW. Following an internal valuation our systems will be updated to reflect the new values. A valuation fee will be required for both securities and access will be required to both securities. This is to be paid for by the borrower. Please note, that as a new internal valuation is conducted our system will be updated. This may mean the LTV changes on the account.

How is the SOP figure calculated?

We'll provide you with a SOP figure that is calculated to maintain the loan to value and rental cover. We'll not allow for any increase in LTV, overall loan amount, portfolio size or reduction in the rental cover. We'll only allow one security to be released and one added. If the security to be added has a lower value or rental we'll require funds to maintain the current system LTV and rental cover.

The LTV and rental cover are based upon the last full internal valuations carried out by TMW and current mortgage balance outstanding. We'll apply a stress rate of 5.99% when calculating the rental cover. This may be higher than the rate currently payable and is only used to calculate the rental cover.

Once we've calculated the figure we'll look to apply the funds to the loan with the lowest early repayment charge if applicable and highest interest rate. If a loan has expired this will be repaid first irrespective of rate. You can however request that a specific loan is repaid via the application form (unless a loan has expired). Early repayment charges maybe applicable to certain loans held within the portfolio and we can provide details of this if required.

A charge will apply for administration of the SOP, please refer to our current Tariff Guide. Any early repayment charges and any arrears on the account will also be taken into consideration when calculating the SOP figure.

Can I request a quote for more than one property?

Yes, if you're unsure which property in your portfolio to sell you can also request substitution figures for each one. Only one set of figures can be acted upon and internal valuations will be required on all securities.

How long is the quote valid for?

90 days from the date that the quote letter is produced. Redemption quotes can't be extended. If the 90 days has expired a new request will have to be submitted.

Will my direct debit be automatically amended?

This will depend on when the SOP is processed in relation to your next direct debit payment. If there isn't sufficient time to change the direct debit for your next payment, a refund will be issued if applicable.

For any further details please contact:

The Mortgage Works
Portman House
Richmond Hill
Bournemouth
Dorset BH2 6EP
Tel: 08000 30 40 60

Scenario 1 – Full Internal Valuations carried for both securities are the same

Internal valuations are carried out on both the security to be released and substituted. Both the values and rental figures are the same. The SOP figure is calculated by maintaining the current system based LTV and rental cover against the last full internal valuations.

Example

Property - Existing BTL Security	Last Internal TMW Valuation	Last Internal TMW Rental
Address A	£100,000	£6,000
Address B	£100,000	£6,000
Address C	£100,000	£6,000
Address D	£100,000	£6,000

LTV Based on Last Internal Valuations 75.00%	
Existing Portfolio Borrowing: £300,000	Rental covers 133.56% @ 5.99% stress rate

Property - Proposed BTL Security	Last Internal TMW Valuation	Last Internal TMW Rental
Address E	£100,000	£6,000

To replace Address D with Address E both would have to be internally valued. The figures in bold presume these are the updated values. As the value and rental of both securities is the same we would not require any funds in order to substitute the securities. This would be the same if the proposed security was valued higher than the security being released. If the proposed security to be added is higher in value we'll not release any funds. However, the current LTV would reduce.

Scenario 2 – Full Internal Valuations carried out and proposed security is lower in value

Internal valuations are carried out on both the security to be released and substituted. The security being added to the portfolio is lower in value than the security being released. The rental figures are the same.

Example

Property - Existing BTL Security	Last Internal TMW Valuation	Last Internal TMW Rental
Address A	£100,000	£6,000
Address B	£100,000	£6,000
Address C	£100,000	£6,000
Address D	£100,000	£6,000

LTV Based on Last Internal Valuations 75.00%	
Existing Portfolio Borrowing: £300,000	Rental covers 133.56% @ 5.99% stress rate

Property - Proposed BTL Security	Last Internal TMW Valuation	Last Internal TMW Rental
Address E	£80,000	£6,000

To replace Address D with Address E both would have to be internally valued. The figures in bold presume these are the updated values.

Property - Existing BTL Security	Last Internal TMW Valuation	Last Internal TMW Rental
Address A	£100,000	£6,000
Address B	£100,000	£6,000
Address C	£100,000	£6,000
Address E	£80,000	£6,000

We require £15,000 to maintain LTV as noted above. We calculate the SOP figure to maintain both the current LTV and rental cover. The current system LTV may alter as a result of a SOP.

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