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Lenders target landlords in bid to boost profits

Buy-to-let owners are being urged to join action against West Bromwich's tracker rate rise

Anna Mikhailova Published: 29 September 2013



Rental property owners are feeling the squeeze (Steven Puetzer)

FURIOUS landlords are planning a legal challenge against a building society's decision to impose a shock rate rise on thousands of buy-to-let borrowers.

Last week West Bromwich, the seventh-largest building society in the country, wrote to 6,700 landlords to say it would be increasing the rate on their tracker deals by two percentage points from December.

The deals have been pegged at 0.99 points above Bank rate, which has remained at 0.5% since March 2009. Now someone with a £200,000 interest-only loan will have to pay an extra £333 a month when the rate rises from 1.49% to 3.49%. Over five years this would add £20,000 to the cost of repayments, according to calculations by the broker Largemortgageloans.com.

West Brom is only targeting landlords with more than three properties who took out loans between 2006 and 2008.

Justin Selig of the Law Department, a firm of solicitors that plans to challenge the mutual's decision,

said: "Borrowers are claiming that they didn't see any warnings in their original paperwork suggesting rates could rise like this."

Selig is working with the forum Property118.com to rally borrowers who have been affected by the West Brom change. The forum is already full of complaints from landlords.

By continuing to use the site, you agree to the use of cookies. You can change this and find out more by following this link. Reader Zoe Earnshaw, a charity worker from Gateshead who has three young children and a small buy-to-let portfolio, now faces an increase in her monthly mortgage payments. From December the rate will rise from 0.99% to 2.99% above Bank rate, so 3.49%. [Accept Cookies](#)

"Financially, it will be hard for us. We will have had no chance to plan our finances to cope with it."

West Brom said: "These changes, which are permitted under the terms and conditions of the accounts, are a reflection of market conditions and the need for us to carry out our business prudently, efficiently and competitively."

"These Market conditions have changed significantly since these mortgage agreements were taken out, resulting in an increased cost of funding to lenders. We have done all we can to avoid passing on the increase to date."

The move follows a similar controversial rate hike by Bank of Ireland in May. It affected 13,500 landlords, although this was later scaled back by 1,000 after the bank was challenged about the wording of its paperwork.

A group complaint made by Bank of Ireland borrowers to the Financial Conduct Authority (FCA) was rejected this month. David Lawrenson of the advice site LettingFocus.com said: "[West Brom] will be aware that the FCA does not want to get involved in these buy-to-let loan arrangements and has already made its move."

Selig said: "Now the FCA has shown it will not take any action, this could open the floodgates for other lenders with similar types of tracker products to do the same. We are trying to gather enough support to fund legal action against both West Bromwich and also Bank of Ireland. Our feeling is that these banks need to be stopped. Individuals may not have the resources to fight back."

What are the options for landlords?

West Brom said it will waive early exit fees for borrowers affected by the price hike. Landlords could secure a cheaper rate by moving to another deal. The average buy-to-let mortgage rate has fallen from 5.05% to 4.33% over the past year, according to Moneyfacts, the data firm.

Ray Boulger of John Charcol, the broker, said: “Providing the properties have a decent rental income they will not be short of options as other buy-to-let lenders are keen to attract new borrowers.”

Aaron Strutt of Trinity Financial, another broker, feels it may be worth abandoning tracker loans to avoid the risk of these changes. Many borrowers, he said, may be inclined to stick with their low rate until they receive a letter saying repayments are rising, “but it may make sense to remortgage to a lower fixed rate”.

Virgin Money has a two-year fix for buy-to-let investors at 3.38%. It requires a 40% deposit and has a £1,995 fee.

Where can landlords complain?

You can go to lawdepartment.co.uk to join the group action, or complain to the Financial Ombudsman Service — although a complaint will first have to be made to West Brom.

What about other borrowers?

Even if you are not affected by this rate hike, check the terms of your mortgage to see if you could be liable to such changes.

Boulger said: “Most lenders have clauses buried in their small print that in theory allow them to do whatever they like. However, such clauses must be subject to the Unfair Contract Terms legislation. What West Bromwich is trying to do risks dragging the building society sector into the same sort of disrepute that affects banks.”

However, David Whittaker at the broker Mortgages for Business said: “West Bromwich is still recovering from a relatively recent liquidity crisis — so the additional revenue from this move could be seen as a prudent step to help bolster their balance sheet.

“These mortgages are not consumer products. They are aimed at business people who are looking to make a profit, and they should be aware of all the terms and all the possible implications.”

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