

# Risks and Features

## Rent only Buy to Let Purchase Plan (BTLPP)

Al Rayan Bank PLC provides you with this important information to help you decide whether a rent only Buy to Let Purchase Plan is right for you.

### 1. How our BTLPP works

Our product uses the Islamic financial principles of co-ownership (Diminishing Musharaka) with leasing (Ijara). For purchases, this is where you choose the property in the normal way and apply to Al Rayan Bank to buy the property. Al Rayan Bank undertakes the usual enquiries and valuation. Both you and Al Rayan Bank contribute towards the purchase of the house as partners (e.g. 60% from Al Rayan Bank and 40% from you). The transaction is completed by Al Rayan Bank taking the title of the property in its name.

For refinances, Al Rayan Bank undertakes the usual enquiries and valuation, and then purchases the relevant share of the property. Your contribution to the transaction is the equity in the property. The transaction is completed by Al Rayan Bank taking the title of the property in its name.

For reference, when we refer to the rent, rental review, tenant and tenancy, we are referring to the relationship between you and ourselves. We do this because Al Rayan Bank agrees to sell its share of the property to you at the same purchase price at the end of the term. Both you and Al Rayan Bank enter into a Lease Agreement under which Al Rayan Bank agrees to let its share in the property to you for an agreed term, during which rent will be paid by you on a monthly basis (the rent amount will be reviewed every three months).. You also sign a Service Agency Agreement, and agree to a charge on the property in favour of Al Rayan Bank to secure the outstanding payments amount due under the BTLPP agreements.

At the end of the agreed finance term you will make a lump sum payment to acquire the property from Al Rayan Bank, and Al Rayan Bank transfers the legal title of the property to you.

With a rent only BTLPP, the monthly rental payments you make only cover the rent that Al Rayan Bank charges you. **With this type of finance you are not acquiring any of our share in the property.** As long as you've made all of your monthly rental payments, your share in the property at the end of the finance term will be the same as at the beginning (unless you have made additional acquisition payments during the finance term). To acquire Al Rayan Bank's share in the property, you will need to make a lump sum payment at the end of the finance term. **It is your responsibility to put plans in place to ensure that you can acquire Al Rayan Bank's share in the property at the end of the finance term.** A rent only BTLPP is higher risk than an acquisition and rent BTLPP, where your monthly payment will consist of the agreed rental payment and an acquisition payment that allows you to buy Al Rayan Bank's share of the property, over the term of the finance agreement. There is no guarantee that the plans you put in place will enable you to purchase Al Rayan Bank's share in the property at the end of the finance term. You should therefore carefully consider the implications of a rent only Buy to Let Purchase Plan.

Al Rayan Bank has a dedicated Sharia Compliance Officer and a panel of respected Sharia Scholars, called the Sharia Supervisory Committee, which acts as an independent body to ensure that all of Al Rayan Bank's products and business activities are Sharia compliant. Our rent only BTLPP has been approved by our Sharia Supervisory Committee. Please ask us if you require more information in relation to our Sharia Supervisory Committee.

### 2. Who is it right for?

Our rent only BTLPP could be right for you if you want to buy or refinance a property to let, in a way acceptable under Islamic law. Interest based mortgages are available in the market but do not normally comply with Islamic law. You should consider carefully whether this product is appropriate for your needs and is right for you in light of your financial position. If you are in any doubt, you should speak to someone who can give you independent professional advice.

### 3. What are the features?

Features	Discount variable rental rate (BRODV01166)
Minimum finance amount	£30,000
Maximum finance amount	£500,000 (higher amounts may be considered)
Minimum property value	£90,000
Maximum property portfolio	Five properties across all providers
Maximum £2,500,000 per customer across all Al Rayan Bank Home Purchase Plan and Buy to Let Purchase Plan products	<input checked="" type="checkbox"/>
Minimum age of applicants	25 years old
Payment term	7 – 30 years
The rent rate at which your monthly payments will be calculated	3.49%
• Which is discounted from the Al Rayan Bank Variable Rental Rate by	2.00%
• Which applies until	31 December 2017
• Which reverts to the Al Rayan Bank Variable Rental Rate	Which for BTLPP is Bank Base Rate (BBR) + a margin <sup>1</sup> of 4.99% for life
Maximum finance to value (FTV)	65%
Minimum rental income <sup>2</sup>	125% of the equivalent monthly payment calculated at the BTLPP Affordability Rent Rate
BTLPP Affordability Rent Rate	Rent rate + 1.00%
BTLPP product fee <sup>3</sup>	1.00% (minimum fee of £995)
Available for:	
• New purchases	<input checked="" type="checkbox"/>
• Refinancing	<input checked="" type="checkbox"/>
• Release of additional capital	<input checked="" type="checkbox"/>
Additional acquisition payments can be made in	March, June, September and December <sup>4</sup>
Minimum additional acquisition payment of £4,000 <sup>5</sup>	<input checked="" type="checkbox"/>
Rent reviewed in	March, June, September and December
New rent rate effective from	April, July, October and January
The property can be sold at any time	<input checked="" type="checkbox"/>

#### Notes:

- <sup>1</sup> Al Rayan Bank reserves the right to change the margin on its products, however, a cap applies of 2%. This means that Al Rayan Bank cannot increase the margin on its BTLPP products by more than 2% over the margin that applied at the outset. Customers will be given at least 30 days' advance notice of any changes in the pricing structure.
- <sup>2</sup> The rental income will be confirmed by the surveyor in the valuation report. The minimum rental income required is 125% of the equivalent monthly payment, where the monthly payment is calculated based on the Al Rayan Bank BTLPP Affordability Rent Rate. The BTLPP Affordability Rent Rate is the rent rate for the product you have chosen plus 1.00%.
- <sup>3</sup> £499 is payable on application with the balance paid prior to drawdown of the finance monies. A full refund of the product fee that has been paid will be made where the decision to decline is made by Al Rayan Bank through no fault of yours. Where the decline decision is taken because you have misrepresented yourself in the application, no refund of the product fee will be due.
- <sup>4</sup> When an additional acquisition payment is made, you can choose to either reduce your monthly BTLPP payments, or reduce the term of your BTLPP.
- <sup>5</sup> Additional acquisition payments are subject to a small administration fee, currently £25. Please refer to the BTLPP Tariff List for details of charges.

## 4. What are the risks?

The rent you pay is reviewed at three monthly intervals. If the rental rate is increased, your monthly payments will increase. The rent rate may increase, decrease or stay the same at each rent review.

The monthly payment you make is for the rent charged by Al Rayan Bank to you, on Al Rayan Bank's share of the property. The monthly payment you make does not include any acquisition payments and therefore your share in the property does not increase over the finance term. You will need to pay a lump sum, equal to the full outstanding acquisition payment, at the end of the finance term. It is your responsibility to ensure that you have put plans in place to acquire Al Rayan Bank's share of the property.

If you cannot acquire Al Rayan Bank's share at the end of the finance term, there is a risk that Al Rayan Bank may sell the property to clear the outstanding finance amount and ultimately you may lose the property.

If the property is subject to void periods (periods where the property has no tenant), you will still have to pay your monthly payments. As a responsible finance provider, it is important that Al Rayan Bank work with you to ensure that you can afford the monthly payments. Unfortunately if circumstances occur where you do not keep up your monthly payments, then ultimately you may lose the property.

We have taken all reasonable steps to ensure that your interests, including your right to occupy the property throughout the term of the plan are protected. This includes ensuring that:

- The agreements between us are legally enforceable; and
- Your increasing share in the property is properly recorded

Therefore, in the unlikely event that we sell any of our obligations or rights under BTLPP (including our legal interest in the property) to a third party, you will not lose any payments you have made, your share of the property or your right to buy the property at the end of the term.

## 5. What are your commitments?

- You must pay a minimum deposit as required by the product you have chosen
- You must ensure that the building is insured at all times, provide us with a valid copy of the policy each year and our interest must be noted in the policy
- The Building Insurance policy must cover your responsibilities as a landlord, and allow for the letting of the property
- You must make your monthly BTLPP payment. Details of the payments you must make will be provided to you in a Financial Quotation Statement
- You must put plans in place to enable you to acquire Al Rayan Bank's share in the property at the end of the finance term

## 6. How flexible is it?

- You can sell the property whenever you wish
- You can make quarterly additional acquisition payments subject to a minimum of £4,000 and a small administration fee of £25
- You can make full payment at any time, however,
  - You cannot have further money advanced on the plan
  - You cannot take payment holidays/breaks

## 7. What are the additional costs/charges?

No matter how you choose to finance the purchase of the property, there will always be some unavoidable costs and expenses. The costs listed below are the most frequent costs you will face when purchasing a property. Depending on your circumstances you may incur additional charges. For details of all charges that apply with an Al Rayan Bank Buy to Let Purchase Plan please refer to our BTLPP Tariff List.

- Valuation fee – Al Rayan Bank needs to establish the value of the property, and that the property is suitable security for the transaction. To do this we will arrange for a surveyor to visit the property. The cost of the valuation depends on the property value; you can refer to our Tariff List to find out the cost of the valuation.
- Solicitor's fee – For Islamic finance, the Law Society suggests that both you and the provider should obtain separate legal advice. You will be responsible for the cost of your solicitor. You will also be responsible for the full cost of our solicitor unless it is otherwise indicated in your offer letter. For details of the charges that apply for our solicitor please refer to our Tariff List.
- Clearing House Automated Payment System (CHAPS) fee – Our solicitor uses CHAPS to transfer the finance amount to your solicitor. This incurs a small administration fee that on completion, you will be required to pay to our solicitor.
- Buildings insurance – It will be your responsibility to insure the buildings. The finance will not be released until proof of cover is provided. It will be mandatory to note the interest of Al Rayan Bank (Al Rayan Bank PLC) on the buildings insurance. Should Al Rayan Bank be notified that the cover has ceased, Al Rayan Bank will purchase the cover and charge this to you.

## 8. Tax implications of Buy to Let

It is important that you understand the tax implications that relate to a Buy to Let property.

Al Rayan Bank is not able to provide tax information and the accompanying documentation should not be relied on in this manner. Any information that is provided is for guidance only.

If you do have concerns about the effect of Buy to Let on your tax status, it is your responsibility to ensure that you contact your local tax office, or a suitably qualified financial adviser.

## 9. What do I do now?

If you would like any further information on this product, please contact us on **0800 4087 786**.

**YOUR PROPERTY MAY BE AT RISK IF YOU DO NOT KEEP UP THE PAYMENTS ON YOUR BUY TO LET PURCHASE PLAN**

**Finance is subject to status and valuation.**

**Applicants must be 25 or over or as otherwise specified.**

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