Information on Residential Mortgages

Your BCB Relationship Manager (RM) is here to help guide you through the mortgage application process and answer your questions.

What is a mortgage?

A mortgage is a type of loan. It is a contractual agreement between a customer and a bank where the bank lends money to the customer, and a property (usually the borrower's home) is used to secure repayment of the loan and associated fees and interest (the mortgaged property). Over the term of the mortgage, which is usually between 5 and 30 years, the customer must make monthly principal and interest payments to the bank as repayment for the loan (repayment structure further explained below). Until the mortgage is repaid in full, the bank will hold a financial interest in the property used to secure the mortgage.

In obtaining a mortgage a customer is incurring a debt to the bank. Mortgages are a significant financial responsibility and any person seeking a mortgage should obtain independent legal advice, so they fully understand all the requirements and obligations expected of them and set out in the mortgage documents.

Features:

- The borrowing term ranges from 5 up to a maximum of 30 years.
- You can ordinarily borrow up to 80% of the purchase price of the property which means that you will need to fund at least 20% by your own cash and have funds to cover any closing costs including legal fees and stamp duty (see below).
- Variable interest rate comprised of an interest margin on top of the bank's base lending rate (which is published on its website). Although the interest margin is normally the same for the life of the loan, because the base lending rate can change over time so can the total interest rate. Because of this your repayments may vary.
- The bank will also charge one-time fees for the arrangement of a mortgage which are payable at the beginning.
- Eligibility for a mortgage is based on several factors including (but not limited to) clear demonstration of affordability (which means that the bank is satisfied that the borrower can responsibly afford to repay the facility without putting themselves in financial difficulty) and a good credit history.
- The terms and all conditions of the mortgage agreement will be set out in the Facility Letter, which all parties will sign and be legally bound by.

Things you should consider before applying for a mortgage

- ***Affordability:*** You need to carefully assess whether you can afford the mortgage, including the monthly payments. Draw up a budget over several months to see how much free income you have and make sure that this does not limit other important

payments that you must make. The cost of living in Bermuda is relatively high so you should consider your baseline living expense (like electricity, food) as well as any regular or contractual commitments you might have (e.g. other loans, rent, childcare, school fees, etc. When assessing affordability, you should also clearly understand the costs associated with a mortgage such as valuation fees, structural survey, legal fees, stamp duty, property insurance and other related costs.

- ***Change in circumstances:*** You need to consider how you will continue to pay for your mortgage if your personal circumstances change. Your home may be at risk if you do not maintain your repayment schedule.
- ***Land Tax:*** Land tax is payable annually to the Government of Bermuda based on the property's assessed annual rental value. and it is the homeowners' responsibility to pay this tax. This may influence your budget and consequentially, your ability to keep a regular payment schedule.
- ***Insurance:*** Appropriate property insurance must be maintained by the borrower over the property used to secure the mortgage and to a sufficient amount. This will be a requirement of the mortgage agreement and set out in the Facility Letter.
- ***Stamp Duty:*** Stamp Duty is payable on most mortgages. Please speak to your RM, real estate agent and/or legal advisor to get an indication as to what amount of stamp duty is payable on your mortgage and whether you qualify for a stamp duty exemption.

Risks

Increases in Payments: When a mortgage is subject to variable interest rates, your monthly payments will increase if the bank's base rate increases. BCB's base rate is posted on its website, and any increase will take effect no less than 30 days after the increase is posted on its website.

Penalty Interest: If your payment is late, you may be subject to penalty fees, and your variable interest rate may be replaced with a higher Default Interest Rate (which will be set out in your Facility Letter and will be based on the bank's base rate).

Inability to repay: If you miss a required payment or breach the terms and conditions of the loan as laid out in the Facility letter the bank has a right to declare your mortgage in default and may proceed with legal action to recover the amount owed to it, including a sale of the property securing the mortgage. If the proceeds of the sold property do not cover amounts owed to the bank under the loan, the borrower is still contractually required to repay any residual balance.

Negative Equity: As the value of the mortgaged property can change over time if this were to fall below the amount owed to the bank on the mortgage this is called negative equity. Simply put in this situation you would owe more money on the loan than you could recover if you sold the property at that moment in time.

Key Terms

Term	Definition
Principal	The outstanding balance of the loan.
Base rate	The base rate is the minimum interest rate that the bank will charge a borrower. It is advertised on the bank's website, here: https://www.bcbank.us/our-rates/.When the base rate changes, the new base rate will be published on the website and will take effect no less than 30 days later.
Interest	The cost to the borrower for the loan. The interest terms will be set out in your Facility Letter. Failure to make regular timely payments may result in a Default Interest Rate being applied to the mortgage.
Variable interest rate	A variable interest rate changes in accordance with the bank's base rate, which changes due to market conditions. Most mortgages incur a variable interest rate. Under a variable interest rate your payments will increase when BCB's base rate increases. Currently, BCB only offers variable interest rates for residential mortgages.
Equity	The value of the property minus any debt against it.
Term	The term is the length of the mortgage or the number of months or years until the mortgage is fully satisfied including fees and interest. It can range up to 30 years.
Mortgage Payments	A mortgage payment is a periodic amount paid to the bank for repayment of a mortgage loan and to service the interest owed on the loan. The payment is usually paid monthly and will be applied to the interest accrued on the mortgage balance and then to the reduction of the outstanding principal.
Credit history	A borrower's history of honouring credit agreements or repaying debts in a timely fashion. A good credit history helps support the bank's assessment of affordability.
Facility Letter	The Facility Letter sets out the terms and conditions of the loan between the borrower and the bank, including the responsibilities and obligations of both parties.
Guarantor	A guarantor is a person other than borrower who provides additional assurance to the bank that a loan will be repaid in full through a contractual document called a guarantee. It is a significant legal undertaking and obligation. If the borrower fails to repay the mortgage, the bank can look to the guarantor to satisfy the debt, which may result in legal action and sale of the guarantor's assets, including any property owned by the guarantor, to settle the debt. Ultimately, an inability to repay a mortgage can affect the finances of the guarantor. Guaranteeing a mortgage is a significant financial responsibility and any person considering provision of a guarantee to a mortgage should obtain independent legal advice, so they fully understand all the requirements and

	obligations expected of them and set out in the guarantee and the mortgage documents.

Why choose Bermuda Commercial Bank?

Bermuda Commercial Bank Limited is the specialist Bermuda bank delivering innovative and effective solutions to provide superior customer experience. We offer tailored financial solutions and personal attention to Bermuda-based clients.

We understand that there are other mortgage options in Bermuda, but BCB differentiates itself from the competition in several different ways:

- ***Competitive Market Rates**:* Bermuda Commercial Bank strives to offer the most competitive interest rates for mortgages.
- ***Personalized Service**:* BCB is relationship driven and our local staff offer fast and personalized hands-on service to clients throughout the process of obtaining a mortgage.
- ***Help to Buy**:* BCB is committed to supporting Bermudians getting on the property ladder and has partnered with the Bermuda Government to offer additional assistance for qualified first-time home buyers. For more information, please visit our website https://www.bcbank.us/lending/bda-govt-guarantee/.