

## Reading 26

Moody's Investors Service 2012, Residential MBS, Special Report, *Reduced use of receiver of rent is credit positive for UK buy-to-let RMBS*, extracted from *Moody's Credit Insight*, 19 March.

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## SPECIAL REPORT

# Reduced Use of Receiver of Rent Is Credit Positive for UK Buy-To-Let RMBS

Extracted from "[Moody's Credit Insight](#)", dated March 19, 2012

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UK lenders have reduced their use of a “receiver of rent,” a trend that will continue according to a survey we conducted in February 2012. As receivers of rent are typically appointed following payment problems, the decline in their use suggests that the performance of buy-to-let (BTL) deals will remain stable.

**Our survey suggests a decline in the use of a receiver of rent in the past year, a trend that looks likely to continue.** Taking into account the eight lenders who responded, our weighted average index value was only 37.5%,<sup>1</sup> which indicates reduced receiver of rent use as the value is less than 50.0%. One respondent commented that the complexities of property management was a reason for their limited use, in particular due to limited economies of scale with single-property landlords.

**Use of a receiver of rent generally indicates a problem in performance.** The decreasing use of a receiver of rent shows that BTL investors are on the whole more resistant to the stresses of the current downturn.

The appointment of a receiver of rent indicates that a BTL investor’s financial distress is increasing, because the rental cash flows are not being used to service the mortgage.

The decreasing use of receiver of rent is also a sign of the improving creditworthiness of BTL investors.

One may view the use of a receiver of rent as an arrears management tool similar to forbearance (such as a switch to an interest-only mortgage, extension of mortgage term, and capitalisation of arrears) for owner-occupied properties, which can mask the true picture of arrears or borrowers’ financial health.

**Less receiver of rent use reduces the risk of a distressed sale at a later date.** If the borrower has missed payments, the property may not be fully rented and may be in a state of disrepair. If a receiver of rent decides to re-let a property following a tenant’s vacating, but is subsequently unable to find a new tenant, a delay may occur before the property is ultimately sold, leading to a greater interest loss.

Even if the receiver finds a new tenant, a greater principal loss may be incurred if the housing market weakens further and the property has to be sold at a time of more distress.

**Declining use of receiver of rent reduces the complexities of servicing transfers.** Using a receiver of rent is an operationally more complex method of resolving payment problems than attempting earlier foreclosure. Back-up servicing arrangements are more complex, which makes transfer of the servicing of the mortgages more difficult. Additionally, pressures in the macroeconomic environment in the UK, combined with reductions in extraordinary levels of systemic support, translate into increased financial pressure on UK servicers.

**UK BTL RMBS performance has improved continuously over the past 12 months, as the declining use of receiver of rent would predict.** BTL performance will remain stable due to both receiver of rent use and interest rates continuing to be low. Performance in this sector has been stable for the past year, mainly because of a low interest rate environment and relatively low job losses, both of which have helped tenants remain current on their rents. The difficulties that many first-time buyers have in securing a mortgage and the limited housing stock in the UK are also supporting tenant demand. As a result, our three-month arrears BTL index declined from 2.0% in November 2010 to 1.7% in November 2011.

### Receiver of Rent

A receiver of rent, or LPA receiver with powers outlined in the Law of Property Act 1925, is a person or a company a BTL lender appoints to collect rental income and manage an investment property on behalf of a borrower following missed mortgage payments. Using a receiver of rent allows a lender to take control of a BTL property by diverting the rental cash flow from tenant payments; it also allows a lender to manage and sell a property. As such, using a receiver of rent may be more appropriate when the market for rentals is strong, but soft for property sales.

Based on our survey, the proportion of BTL arrears cases with a receiver in place ranges from 10% to 40%, with lenders currently using from one to six receiver-of-rent companies. Generally, the decision to appoint a receiver of rent depends on whether a tenancy agreement is already in place and whether the rental income covers the monthly mortgage payment.

Although the timing of an appointment can vary, a lender will usually consider taking control of a delinquent landlord's property as early as two months after a mortgage goes into arrears.

The receiver of rent remedy does not exist in Scottish law. Therefore, as with an owner-occupied case, a lender would seek repossession of the property through the appropriate court process.

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<sup>1</sup> Out of the eight lenders that responded, two used receiver of rent more often over the past 12 months, two lenders recorded no change from the prior year and the remaining four had reduced levels of use. The index value is therefore  $(2/8 \times 100\%) + (2/8 \times 50\%) + (4/8 \times 0\%) = 37.5\%$ .

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