LHV Redemptions / Partial Redemptions & Security Release Guidance

Purpose

This guidance explains how partial redemptions are processed, what you should expect, key timescales and why redemptions completed close to a scheduled payment date can impact future payments and cashflow.

The aim is to ensure you understand the process upfront and can plan redemptions accordingly.

Frequently Asked Questions

What is a partial redemption?

A partial redemption occurs when a property is released from the Bank's security package following a sale, whilst the remaining loan continues.

The amount required to release a property is subject to:

- Bank approval.
- The agreed capital reduction required by the Bank.
- Payment of accrued interest and any applicable fees.
- Satisfaction of any legal requirements.

What should I do if I am planning to sell a property?

If you are considering selling a property that forms part of the Bank's security package, please contact us as early as possible.

Early engagement allows us to:

- Review the proposed release of security.
- Confirm any required capital reduction.
- Explain any applicable fees or Early Repayment Charges (ERCs).
- Arrange legal instructions where required.
- Discuss any timing considerations that may affect future repayments.

This helps minimise delays and provides greater flexibility when planning completion dates.

Can I obtain a redemption statement immediately?

Not always.

Before a redemption statement can be issued:

- The proposed release of security must be approved by us.
- The required capital reduction must be agreed.

LHV Bank Limited (13180211) is registered in England and Wales at 1 Angel Court, London, United Kingdom, EC2R 7HJ.
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority under FRN 993767.
Our lending products are not included within the scope of this regulation; for more information, please see fca.org.uk/firms/financial-services-register.

- Bank solicitors must be instructed where applicable.
- Any necessary reviews and approvals required under your facility arrangements must be completed.
- If the redemption statement is to be calculated to a date after your next direct debit payment is due, that payment must have cleared. This will be two working days after the payment is made.

Only once these requirements are met can a redemption statement be prepared.

Why do I have to pay the Bank's legal costs?

We instruct our own solicitors to act in connection with the release of security.

In accordance with your facility terms, you are responsible for the reasonable legal costs associated with the partial redemption and release of security.

How much notice is required?

Once solicitors have been instructed, we require a minimum of **5 working days' notice** of the proposed completion date.

Providing less notice may impact our ability to produce redemption figures and complete the release on your requested date.

Why does the Bank require advance notice?

Partial redemptions require legal, operational and approval processes to be completed before security can be released.

Providing sufficient notice helps ensure redemption figures are accurate, legal documentation can be completed and any payment timing implications can be discussed before completion.

Will I need to pay an Early Repayment Charge (ERC)?

Possibly.

Depending on the terms of your facility, an Early Repayment Charge (ERC) may apply when a property is released from the Bank's security package or where capital is repaid before the end of an applicable incentive, fixed-rate or ERC period.

The amount of any ERC will depend on:

- The proposed release of security must be approved by us.
- The terms of your facility agreement.
- The amount being repaid.
- Any annual repayment allowance available under your facility.
- The timing of the redemption.

Any applicable ERC will be included within your redemption statement.

If you are considering a partial redemption or sale of a secured property, please contact us as early as possible so we can explain whether an ERC may apply.

What is included within a redemption statement?

Before a redemption statement can be issued:

- The approved capital reduction.
- Accrued interest up to the redemption date.

LHV Bank Limited (13180211) is registered in England and Wales at 1 Angel Court, London, United Kingdom, EC2R 7HJ.
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority under FRN 993767.
Our lending products are not included within the scope of this regulation; for more information, please see fca.org.uk/firms/financial-services-register.

- Any applicable fees and charges.
- Any applicable Early Repayment Charges.
- Legal costs where applicable.

Why do you collect accrued interest at redemption?

Interest accrues daily and is charged in arrears.

We collect accrued interest as part of the redemption process to ensure all sums due up to the redemption date have been settled before security is released.

This ensures all amounts accrued and payable up to the redemption date have been settled prior to any security being released.

Why can redeeming close to a payment date affect my next payment?

Where a redemption takes place close to a scheduled payment date, accrued interest may already have been collected through the redemption statement before your next Direct Debit is collected.

If your next payment has already entered the billing and collection cycle, it may not be possible to amend it before collection.

As a result, once the Direct Debit is collected, some or all of the amount that would otherwise have been applied towards interest may instead reduce your outstanding loan balance.

This can result in an earlier-than-expected reduction of principal.

What happens if I make a partial redemption after my next payment is within the billing and collection cycle?

If you make a partial redemption after your next regular payment has entered the billing and collection cycle, the amount of that Direct Debit will not change.

For example, if:

- Your original loan balance is **£6,361,425.00**
- Your interest rate is **8.2%**
- Your regular monthly Direct Debit due on **14th September** is **£44,303.40**
- The billing and collection cycle for that payment started on **4th September**
- You make a partial redemption payment of **£5,636,690.98** on **11th September**, made up of **£5,596,675.00** capital plus **£40,015.98** accrued interest

Then:

- Your regular Direct Debit of **£44,303.40** will still be collected on **14th September**, as it is already within the billing and collection cycle.
- **£515.42** of this payment covers the interest accrued up to 14 September.
- The Direct Debit is applied to the loan on **15th September**, once the funds have been confirmed, but is backdated to **14th September** for payment purposes.
- As interest for **15th September** has accrued by the time the Direct Debit is applied, a further **£171.81** is used to cover the interest for the next payment period.
- The remaining **£43,616.17** of the Direct Debit is used to further reduce the loan balance.

LHV Bank Limited (13180211) is registered in England and Wales at 1 Angel Court, London, United Kingdom, EC2R 7HJ.
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority under FRN 993767.
Our lending products are not included within the scope of this regulation; for more information, please see fca.org.uk/firms/financial-services-register.

Does this mean I have paid interest twice?

No.

Where this occurs, the funds are not retained by the Bank as additional interest.

Instead, once all interest due has been satisfied, any remaining funds are applied towards reducing your outstanding loan balance, which in turn reduces future interest costs.

However, you may experience a short-term cashflow impact because the benefit is received through a lower loan balance rather than an immediate reduction in your next scheduled payment.

Why doesn't the Bank simply use the excess amount to reduce my next month's interest payment?

Interest on your loan accrues daily and is charged in arrears.

When a redemption takes place, any accrued interest due up to the redemption date is collected as part of the redemption process.

If a subsequent repayment is then collected, we must first apply that payment to any interest that is currently due. Once all interest due has been satisfied, any remaining funds are applied towards reducing the outstanding loan balance.

Future interest that has not yet accrued is not yet due and therefore cannot normally be paid in advance through the standard repayment process.

As a result, where a redemption takes place close to a repayment date, any excess funds collected after interest due has been satisfied may reduce the outstanding loan balance rather than being held against a future month's interest payment.

This may result in a short-term cashflow impact. However, you still receive the financial benefit of those funds through a lower loan balance and reduced future interest costs.

Is this unique to LHV?

No.

This is a normal consequence of loan servicing where a redemption takes place close to a scheduled payment date and the next repayment has already entered the collection process.

Whilst servicing approaches may vary between lenders, the interaction between accrued interest, scheduled repayments and redemption timing is common across the lending industry.

Can the Bank avoid this happening?

Not always.

Where a redemption takes place within **10 days of a scheduled repayment date**, the next repayment may already have entered the billing and collection process. At that stage, there may be limited ability to amend the payment before collection.

The impact can often be reduced through careful timing of the redemption, but it cannot always be eliminated.

When should I aim for a partial redemption to take place?

To avoid delays and minimise potential payment impacts:

Preferred Approach

- Obtain security release approval as early as possible.
- Ensure solicitors are instructed promptly.
- Provide at least **5 working days' notice** of the intended completion date.

LHV Bank Limited (13180211) is registered in England and Wales at 1 Angel Court, London, United Kingdom, EC2R 7HJ.
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority under FRN 993767.
Our lending products are not included within the scope of this regulation; for more information, please see fca.org.uk/firms/financial-services-register.

Timing Considerations

Where possible, complete redemptions:

- Shortly after a scheduled repayment has been collected; or
- More than **10 days before** the next scheduled repayment date.

This reduces the likelihood of payment timing impacts and subsequent changes to your loan balance.

When should I aim for a full redemption to take place?

For full redemptions, the preferred approach is:

- Following confirmation that the most recent Direct Debit has cleared; or
- At least **3 working days before** the next scheduled repayment date.

This helps avoid payment timing and reconciliation issues.

Can I choose to pay capital only and leave the interest until the next payment?

No.

We require accrued interest to be paid at redemption before security is released.

This ensures all amounts due up to the redemption date have been settled and protects both you and the Bank from future reconciliation issues.

This approach is not permitted because all amounts due up to the redemption date, including accrued interest, must be settled before security is released.

Why can't the Bank simply release the security and collect the interest later?

This would create additional risk.

If security was released before accrued interest had been collected and a future payment was subsequently missed, returned unpaid or an Event of Default occurred, the Bank could be left with outstanding amounts that relate to a property which had already been removed from the security package.

Collecting accrued interest as part of the redemption process ensures all amounts due up to the redemption date have been settled before security is released and helps protect both you and the Bank from future reconciliation and recovery issues.

Can I redeem more than one property at the same time?

Potentially.

However, each security release remains subject to individual review, approval and assessment of the required capital reduction. Additional notice may be required where multiple properties are being redeemed simultaneously.

Please speak to your Lending Director as early as possible if multiple property sales are being planned.

LHV Bank Limited (13180211) is registered in England and Wales at 1 Angel Court, London, United Kingdom, EC2R 7HJ.
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority under FRN 993767.
Our lending products are not included within the scope of this regulation; for more information, please see fca.org.uk/firms/financial-services-register.

Key Messages

Please engage with us early

The best way to avoid delays and unexpected payment impacts is to contact us as early as possible when a property sale is being considered.

We will explain:

- Any capital reduction requirements.
- Applicable fees and legal costs.
- Any Early Repayment Charges.
- Interest implications.
- Timing considerations.
- The information required to support the redemption.

Redemptions close to repayment dates

If a redemption takes place within **10 days of a scheduled repayment date**, a subsequent repayment may result in an earlier-than-expected reduction in your loan balance.

This is a normal consequence of:

- Interest being charged in arrears.
- Accrued interest being collected at redemption.
- Payments already entering the collection cycle.

This is standard practice and cannot always be avoided.

Where possible, please discuss any planned property disposals with us at the earliest opportunity so that any potential impacts can be explained and understood before completion.

LHV Bank Limited (13180211) is registered in England and Wales at 1 Angel Court, London, United Kingdom, EC2R 7HJ.
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority under FRN 993767.
Our lending products are not included within the scope of this regulation; for more information, please see fca.org.uk/firms/financial-services-register.