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BUY-TO-LET

· Mortgage Guide ·

themortgagecentres.co.uk

WHAT IS A *Buy-to-Let mortgage?*

Simply put, a Buy-to-Let mortgage is a mortgage for people who own a property for the sole purpose of renting it out. Interested in becoming a landlord or already have experience and wish to add to your knowledge? Then read on to learn more.

In the past, it could have been perceived that Buy-to-Let mortgages were only available to professional property investors. However, this is certainly not the case, and they continue to be widely available for many. Investing in property does not come without risks, and there are many legal responsibilities that will lie with the property owner. We've put together this handy guide to help you be aware of the facts.

The first thing to understand about Buy-to-Let mortgages is that, while in many ways they are similar to residential mortgages, there are some fundamental differences to consider. The main one of these is that you should not personally live in a property that you own with a mortgage on a Buy-to-Let basis, and equally, if you wanted to rent out your own home, you should look to change your residential mortgage should you have one, to a Buy-to-Let product or where applicable look to obtain a consent to let from your current residential lender.

Another difference is that Buy-to-Let mortgages are usually more widely available on an interest-only basis than their residential counterparts. This means that your monthly payments go towards paying the interest on the loan and not the capital, often referred to as "servicing the debt". One of the reasons some buy to let borrowers go for this is that it makes the monthly repayments lower, this in turn may enable better management of finances, especially during times of rental voids.

Do note, however, that if the loan is set up on an interest-only basis, it is still your responsibility to ensure the borrowing can be repaid during the agreed term. This may necessitate selling the property if you are unable to refinance the loan.

DON'T *forget...*

Just as property prices can rise, they can also fall, which could possibly reduce any potential profits or indeed leave you with a loss. It's important therefore to ensure you have considered all the pros and cons of property investment. Our team of experts can help you to fully understand the risks.

HOW MUCH
can you borrow?

The amount of money you can borrow with a Buy-to-Let mortgage is predominantly directly linked to the rentable value of the property.
So, the higher the achievable rent, the larger the proposed mortgage can be.
Do note however that the loan to value will also have its part to play in regard to this with a typical maximum being 75% of the property value or purchase price.

Every lender works out how much they are prepared to lend in a different way, so there is no hard-and-fast rule, but the best place to start is with our online Buy-to-Let mortgage calculator. This will give you a ballpark figure as a starting point.

A typical calculation that a lender will apply when assessing the maximum loan amount permitted will be that the rent must be equal to or in excess of 125% of the interest payment calculated at a rate typically between 5%–5.5%. In some cases, this can be as high as 145%. The method used will be determined by a number of reasons including but not limited to, the type of tenancy i.e. single dwelling; HMO; holiday let, the reason for the loan, the tax band the applicant falls into.

DON'T
forget...

It's important to understand that property investment comes with its risks as well as potential rewards. While the investment can come with its benefits, some of these can take time to materialise. Therefore ensure you consider the timescales that may be involved.

HOW MUCH *does it cost?*

Generally speaking, a Buy-to-Let mortgage rate will be higher than a residential one. Not only could the mortgage payment be more, but there are also a number of ongoing costs that come with being a landlord. Here, we've outlined some of the most common of these to help you budget effectively.

MORTGAGE DEPOSIT *or equity*

Work on the assumption that you will need at least a 25% deposit or have 25% equity in a property you already own. Although products with lower deposits or higher loan to values are available, they can be limited in availability.

STAMP *Duty*

Stamp Duty is also applicable to Buy-to-Let properties, and if you're already a home or property owner, it will likely be subject to the higher second property surcharge, currently an additional 3%.

GENERAL *fees*

As with any property purchase, you'll need to cover the cost of a solicitor, surveyor and mortgage broker, plus where relevant a mortgage arrangement fee, which could be up to 3% of the loan amount.

PROPERTY MINIMUM *standard costs*

Before renting out a property, it is your responsibility to ensure that it meets and maintains the Minimum Energy Efficiency Standards (MEES).

DON'T *forget...*

It is extremely important that you go into any investment with your eyes open, so we would highly recommend seeking advice from a professional. Our experienced, friendly team is here to try to help you avoid the pitfalls, so get in touch today.

ONGOING *costs*

PROPERTY *management*

If using an agent, expect to pay between 10–15% of your rental income for them to deal with day-to-day issues. You can do it yourself, of course, but do ensure you are able to deal with the demands of the tenant and are fully aware of your legal responsibilities.

PROPERTY *maintenance*

As a landlord, you are legally responsible for ensuring the property remains habitable, so you will need to be able to afford potentially expensive repairs at short notice.

INCOME *tax*

Rent received is an income and in most circumstances subject to income tax. These rules are constantly changing so always seek professional advice to find out where you stand.

CAPITAL *gains tax*

As well as paying tax on rental income, you may also have to pay capital gains tax on any profit or gain you make on the property. Again, this can be a complex matter and we recommend you seek professional advice.

DON’T *forget...*

As tax rules change, there has been an increased demand to purchase Buy-to-Let property via a limited company. However, don’t forget that although this may be of potential benefit for your personal income tax, you will still have to take into consideration any corporation tax and ongoing accountancy costs, plus the cost of setting it up in the first place. Find out more on page 6.

WHAT'S *the criteria?*

As with any mortgage, every situation is different, and therefore Buy-to-Let mortgages have to be assessed on a case-by-case basis. However, there are a few common factors to consider.

THE BORROWER

Buy-to-Let mortgages, on the whole, are designed for those who already own their own home or an existing Buy-to-Let, with or without a mortgage.

Having said that, if you're a first-time buyer, while it may be more difficult, it is by no means impossible. In such cases, the lender may look more closely at your current situation and possibly ask additional questions to help satisfy that the property is not to be used for your own personal use.

Many lenders will look for an applicant to have a minimum level of "earned" income typically £25,000 per annum, although this could be set at a higher level or indeed not be relevant at all in some situations.

There is another way that you can apply for a Buy-to-Let mortgage, and that is through a limited company. The rise in popularity of these "limited company" Buy-to-Let products is in response to changes to Buy-to-Let mortgage interest tax relief. More and more private landlords are considering setting up limited companies for their property portfolios in order to maximise tax efficiency.

Although this might sound like a no-brainer, it's not necessarily right for everyone. With initial set-up fees, accountancy costs and corporation tax to pay, it is extremely important to seek professional financial advice before making any decisions.

DON'T *forget...*

The team at The Mortgage Centres has a huge amount of knowledge and experience in all forms of Buy-to-Let mortgages and can provide advice on which is the right option for you. So, if you're at all unsure – or even if you're not – calling us should be your first step.

WHAT'S *the criteria?* *(continued)*

THE PROPERTY

Buy-to-Let mortgages are available on a wide range of freehold and leasehold property types. In fact, it is probably easier to talk about the types of property that may not qualify.

As with residential mortgages, mobile homes and houseboats are not usually recognised by lenders as suitable security. Additionally, there are a number of property types that will need special consideration, including: studio flats with limited living space, ex-local authority flats in larger blocks or flats above commercial premises such as fast food outlets.

Another thing to remember is that lenders may be unwilling to proceed if you already own numerous other properties in the same postcode area. This is to spread risk geographically by not putting all their eggs in one basket, so to speak.

DON'T *forget...*

If you are purchasing a leasehold property, your lender will likely also need to factor in any related ongoing costs such as ground rent and service charges when they assess the affordability of the loan.

FINDING *the right scheme*

The actual interest rate that will be available on a Buy-to-Let mortgage can vary considerably depending on a number of factors. These include the size of your loan, the rental value of your property and, perhaps most importantly of all, the type of scheme you arrange and the market conditions at the time. What's right for you will depend entirely on your specific situation, but here are a few things to bear in mind.

FIXED *rates*

Fixed-rate mortgages are locked into a specific rate of interest for a designated period of time and during this period they will remain the same, regardless of what happens in the market.

Although fixed rates are often priced slightly higher than a comparable variable discount or tracker at the time of applying, they provide the peace of mind that you are protected against possible future interest rate increases. Plus, knowing your payments will not change may allow you to better plan for the future. Of course, interest rates can fall as well as go up so fixed rates do still come with their risks.

TRACKER *or discounted rates*

Tracker mortgage rates are pegged against a prevailing rate in the market, such as the Bank of England base rate or the LIBOR rate. This means that if the prevailing rate changes, so do your mortgage payments. A discounted scheme works much in the same way but is linked to the lender's own standard mortgage rate.

Tracker and discounted rates can be beneficial because they let you take advantage of interest rate drops, however, there is always the risk that rates will rise, potentially leaving your hands tied having to remain on a less attractive rate.

FINDING *the right scheme* *(continued)*

MORTGAGE *review*

Whether you choose a fixed rate or variable rate Buy-to-Let mortgage, the deal will typically only be valid for a limited period of time. Once this period comes to an end, you will likely automatically revert to your lender's standard variable rate, which is often much more expensive. In order to avoid these unnecessary costs where applicable, it is recommended that you review your borrowing needs and where relevant have a new product lined up that is best-suited to your needs.

In this situation you should, where appropriate, always see what's available on the wider market, but before committing to a particular product, also ensure you compare these to that which your current lender has available.

You may find it more beneficial to change lender by means of a remortgage whereby you will arrange your new loan with a different provider on the terms and scheme most suited to you. Alternatively, you may find it more appropriate to remain with your current lender and carry out a product transfer. A product transfer or rate switch is the process of changing the rate with your current provider, usually when your current scheme is coming to an end. If it's a like-for-like change and no extra funds are required, you should avoid any additional underwriting or affordability checks.

DON'T *forget...*

Finding the right Buy-to-Let mortgage deal can be an extremely intricate process and some of the offers may not always be available in the mainstream market. For this reason, one of the ways to be completely sure you're getting the most suited mortgage possible is to follow the guidance of a reputable mortgage broker. Get in touch with our team today to find out more.

MAKING *the best of it*

People have Buy-to-Lets for many varying reasons but typically for most they are obtained following a conscious decision to invest in property. As with any investment, there are never any guarantees for the performance, but here are a couple of pointers that you could consider to ensure your Buy-to-Let property is working its hardest to provide the best rental yields.

CREATE A *Home in Multiple Occupation (HMO)*

An HMO is a rental property whereby each room is let individually. You'll need to obtain permission from the Local Authority and be prepared to service multiple tenants, but the rewards can be a significant increase in your rental income.

INVEST *wisely*

When deciding on the property you want to buy, think about the rental yields it could achieve. For example, two properties worth £125,000 that each rent for £550 per month are likley more lucrative than one property worth £250,000 that rents for £850 per month. Also consider the rental demand in the area you are looking to purchase in. Does it have a specific demographic or particular letting requirement i.e. student lets.

MAKING *the best of it* *(continued)*

CHOOSE THE *right mortgage*

Your reasons for investing in a particular property may influence the type of mortgage you arrange. Are you looking for an income in retirement or looking for capital gain through property prices? Interest-only mortgages will provide a lower monthly outlay for the mortgage payment but the balance will remain constant until such time that you are in a position to repay it that may be by means of selling the subject property. Conversely, repayment or capital and interest mortgages cost more each month, but each payment contributes towards reducing your overall balance and therefore will give greater scope for an income in the future.

GET THE *right advice*

In order to maximise your returns, it is important to find the perfect product for your circumstances and that is far more intricate than simply choosing between an interest only or repayment mortgage. Getting professional advice from an experienced mortgage broker can prove to be invaluable. They will delve into all the finest details, potentially saving you thousands over the course of the loan.

DON'T *forget...*

A Buy-to-Let mortgage is a huge commitment and, like any investment, comes with risks. It is extremely important that you seek the necessary professional financial advice before proceeding.

SPECIALIST *products*

There are a number of specialist Buy-to-Let mortgages out there that we have not touched on in this guide and each one is slightly different to the next in respect to how a lender will make an assessment. Below are some of the most common – for more information call our friendly team today.

REGULATED BUY-TO-LET MORTGAGES

If a close family member intends to move into the property, it will need to be a regulated transaction that is subject to stricter guidelines than a regular Buy-to-Let mortgage.

EXPAT BUY-TO-LET MORTGAGES

If you're living abroad and wish to invest in a property in the UK, you may face some challenges, but it is not impossible for many. Speak to our team to find out where you stand.

PORTFOLIO LANDLORD MORTGAGES

If you own or plan to own more than one Buy-to-Let property, some providers will permit you to average out the rental income and LTV, meaning any surplus can be leveraged to extend your portfolio. Owning a portfolio could also result in a lender assessing the overall financial position of the total number of Buy-to-Let mortgages, rather than simply the rentable value of the property in question.

HOLIDAY LET MORTGAGES

With a mortgage on a property that will solely be used as a holiday let, the lender will likely assess your rental income in a slightly different way, considering high, mid and low season rates.

SPECIALIST *products* (*continued*)

LET-TO-BUY MORTGAGES

This type of product allows you to let your current home and switch any mortgage to a Buy-to-Let while taking out a residential mortgage on a new property and can be an excellent option if you're finding it hard to sell.

BUY-TO-LET SECURED LOANS

Buy-to-Let secured loans can be a quick and effective way to raise cash for home improvements, consolidate debts or invest in more properties to increase your current portfolio.

STUDENT PROPERTY BUY-TO-LET MORTGAGES

These mortgages are generally the same as other forms of a Buy-to-Let loan, however they are usually assessed as an HMO and therefore the maximum loan permitted may differ.

BUY-TO-LET MORTGAGES WITH BAD CREDIT

An applicant's credit history will always play its part in a lenders assessment for a mortgage whether this be for your own residence or for a Buy-to-Let. However, should you be in a position where you have experienced credit issues it may still be easier than you might think.

IT'S NOT *as easy as it sounds*

The popularity of Buy-to-Let mortgages has risen so much in recent times that there is now an enormous amount of choice in the market, but that doesn't necessarily make it easy.

In fact, the huge number of products out there can actually make it harder to ensure you're choosing the right product for your specific situation. Sure, there are plenty of "best buy" comparison tables or websites and these are great for getting a good picture of the market's state, but there is so much more involved than just comparing rates.

The desired duration of the mortgage scheme or the amount of deposit you can supply are just two examples of factors that are often not reflected in these comparison tools. Additionally, you may be restricted to the products that are available on the mainstream market and might miss the most appropriate option from a specialist lender who doesn't advertise their rates in the same way as high street banks.

In our opinion, by far the best way to proceed, especially if you are new to Buy-to-Let mortgages, is to get in touch with an experienced mortgage broker who will assess your situation and offer the right solution for you.

DON'T *forget...*

Mortgages are an extremely personal thing that depend enormously on your specific circumstances. Therefore, it is important to remember that the right deal is not always the lowest rate.

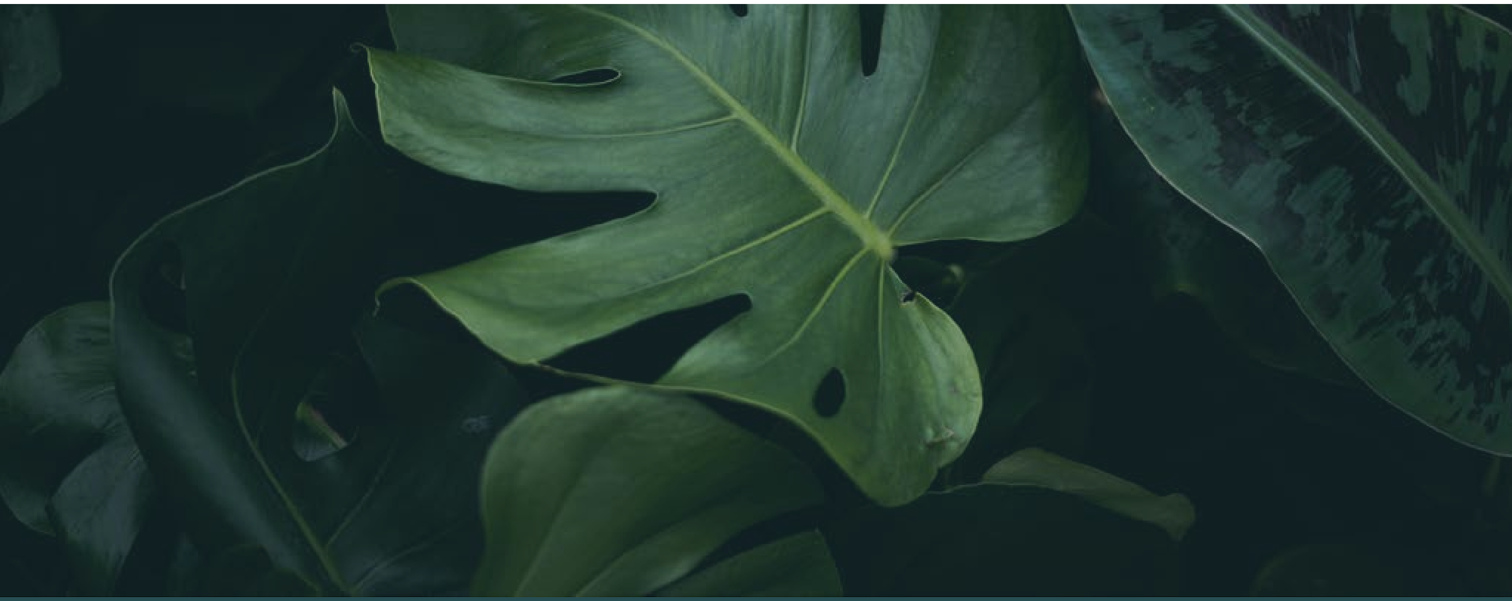
LET US DO *all the hard work*

Making the decision to commit to a Buy-to-Let mortgage is something that should not be taken lightly. When taking on such a huge responsibility, it pays to be sure you're doing it right.

Here at The Mortgage Centres, we have many years of experience in Buy-to-Let mortgages. By chatting to one of our friendly team we can quickly and efficiently find the perfect product for your individual situation.

We typically have access to over 12,000 mortgage products across 90+ lenders, so we can obtain many deals that you won't see on the high street, often on an exclusive basis.

Simply give us a call, answer a few questions about your situation and we will look to do the rest.



The Mortgage Centres

0330 0945876
enquiries@themortgagecentres.co.uk