Malvern View Mortgages Ltd.

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Buy to Let Guide

YOUR PROPERTY IS AT RISK IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR OTHER LOAN SECURED ON IT

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Brief Introduction

Being a landlord can be a complex and time-consuming job, and the legalities and financial obligations involved mean it's not right for everyone.

We've created this guide to hopefully answer a few of the initial questions you may have about Buy to Let Mortgages.

We're independent, whole of market and have access to 1,000's of mortgages, including exclusive deals you can't find on the high street. We also work with over 80 different lenders, so you can rest assured that we'll be able to find a mortgage that's right for you.

Wayne Phipps,
Director, Malvern View Mortgages Ltd.

“BUY TO LET” Mortgages

A BUY-TO-LET mortgage is designed to enable an individual to finance a property for letting rather than for owner occupation. Consequently most BUY-TO-LET mortgages are not regulated by the Financial Conduct Authority. The exception is when it meets the criteria for a regulated CONSUMER BUY-TO-LET mortgage.

“Business” Buy-to-Let Mortgages

Most BTL mortgage lending is for those looking to use property as an investment and can be on an interest-only or repayment basis. The range of products available and the approach to these mortgages varies between lenders but I’ve briefly described the most common criteria below:

Summarising Buy-To-Let Mortgages

* Lenders usually limit BTL lending to 75-80% of the property valuation and have a minimum property value. (So you need a minimum 20-25% deposit)

* You usually have to already own your own main residence.

* Most Lenders require a minimum gross income, typically £20,000-£25,000 for single applicants. Where there are joint applicants one needs to be on the £20,000-£25,000 minimum, but some Lenders may accept a joint income of over £30,000.

* Most Lenders set a minimum and maximum age range (Min 25yrs with the mortgage ending by the time they are 75yrs old)

* Fees are usually higher!

* Stamp Duty Land Tax (SDLT) is higher than on a residential, in 2020 you actually have to add on 3% to every tier.

* You will become a LANDLORD and all the responsibilities that comes with it

* There are different types of Buy to Let mortgages depending on what you want to do and your circumstances.

Defining 'consumer buy-to-let'

“A buy-to-let mortgage contract which is not entered into by the borrower wholly or predominantly for the purposes of a business carried on, or intended to be carried on, by the borrower.”

This type of mortgage arrived on the market in 2016. You’ll have to get one if you fit into the category of an ‘accidental landlord’.

What Is An Accidental Landlord?

An accidental landlord is any homeowner who ends up letting out their home when it wasn’t their original intention. You’ll have to convince your lender that this is the case in order to be granted permission to let your home.

Here are some of the most common situations where you’d be considered an accidental landlord:

- You inherit a home
- You move into a partner’s home after buying a property
- You need to move house, but are unable to sell the property at a reasonable price
- If you deliberately let out a property to a family member, you’ll also be considered an accidental landlord

However, if any of the following situations apply to you, you won’t be considered an accidental landlord and will have to apply for a traditional buy-to-let mortgage:

- You buy a new property with the intention of letting it out
- You already own multiple buy-to-let properties

If you become an accidental landlord, you’ll need to notify your lender and obtain **“consent to let”** out your property. If you fail to do this, you’ll be in breach of your mortgage terms and may be asked to repay your debt in full.

It’s possible your lender will add a “consent to let” condition onto your current mortgage, although it may charge a fee or increase your mortgage rate. If your lender doesn’t agree to this, you’ll have to switch to a consumer buy-to-let mortgage.

Either way, you’ll also have to inform your home and contents insurance provider about any change of occupiers in your property. This may result in an increase to your insurance premiums, as buy-to-let properties are generally regarded as a bigger risk by insurers.

Consumer buy-to-let mortgages are regulated by the Financial Conduct Authority (FCA), the same body that regulates residential mortgages.

You’ll have to seek out a deal from mortgage providers that serve the consumer buy-to-let mortgage market. As these mortgages have only existed for a short time, there are currently few lenders to choose from, although this market is growing.

We will be able to point you in the direction of the best consumer buy-to-let deals available to someone in your specific circumstances.

What is a Let-to-Buy Mortgage?

Let-to-Buy actually involves having two mortgages.

Your existing home will require a mortgage so that you can let it out. As you intend to let the property, you'll need a Buy to Let Mortgage. Your new property which you intend to live in will require a residential mortgage. This is how a let-to-buy would essentially work.

If you have equity in your current property or even own it outright, you may be able to release some equity This can then provide you with a deposit to help fund your new purchase.

Let-to-buy mortgages are useful for when you don't want to sell your home but want to buy another property to live in. A let-to-buy mortgage would then allow you to let out your current home whilst providing funds to purchase your new home.

The reason for not selling your existing home will vary for different homeowners.

For instance, it may not be practical to sell for the following reasons:

- You plan on moving back into your home
- You've tried selling your property but it won't sell
- You want to retain your existing property as an investment
- Property values have dropped since you purchased your home

If you only wish to let your existing property for a short period of time, then you may be better off avoiding a let-to-buy mortgage and gaining **'consent to let'** from your existing lender.

Gaining consent to let from your lender allows homeowners to let their property and move out for a short period of time. The main disadvantages with gaining consent to let are that it isn't a permanent arrangement and it can be very difficult trying to get a second residential mortgage.

Another alternative could be to simply stay in your existing home. You may also be able to re-mortgage to release equity and spend the funds on home improvements.

Buy-to-Let Considerations

Provided you meet the minimum income criteria, there is no assessment of affordability in the same way as a residential mortgage. In most cases the Lender will insist that rental income is at least equal to a specified percentage of the monthly mortgage payments, usually called the **R**ental **C**over **R**atio. This can be as much as 145%

In this example we'll assume a property worth £150,000 with a £30,000 deposit (20% - LTV 80%), an approximate monthly rental value of £800 and will use an RCR of 145%

An Interest Only or Repayment Mortgage?

An interest only mortgage means you only pay the interest on the loan and never reduce the capital owed. So in the example above that would mean that you start by owing £120,000 and will finish owing £120,000, but your monthly repayments are lower than a repayment mortgage.

A repayment mortgage means that you pay both interest and capitol off each month, so by the end of the term there Is no outstanding balance owed but your monthly payments are higher.

Depending on your individual circumstances, what you want to achieve and what is affordable will depend on the type of mortgage I would recommend for you.

AN INTEREST ONLY EXAMPLE:

An Interest only mortgage at 5% over 20 years, borrowing £120,000 would cost £500 per month.
Multiply that by 145% = **£725 required per month as a minimum rental income.**
(Affordable within the £800 per month rental income anticipated)

OR A REPAYMENT MORTGAGE EXAMPLE:

A repayment mortgage at 5% over 20 years, borrowing £120,000 would cost £792 per month.
Multiply that by the same 145% = **£1148 required per month as a minimum rental income.**
*(**NOT** affordable as its above the anticipated rental income you would receive each month)*

So in this example the only affordable route is the interest only option.

HOW DO YOU REPAY AN INTEREST ONLY MORTGAGE?

* Sell the property, repay the loan and gain any equity is a viable solution for a BTL property.
* Standalone investment plans or portfolios designed to cover the mortgage amount after a certain period.

The Deposit & Other Fees

Remember you usually need at least 20-25% deposit and don't forget you'll need money for fees too.
You'll need to cover the costs of buying, which can include:

- survey fees
- solicitor's fees
- Stamp Duty Land Tax.

There are also running and maintenance costs associated with any kind of rental home.
A sales or letting agent will also charge a fee. If you want to use an agent, compare costs to make sure you get the best deal.
When you sell the property you might have legal and marketing fees to pay.
There are also various other taxes to consider – please refer to page 8 "Taxation Summary"

MONTHLY DEDUCTIONS A LENDER MAY MAKE before deciding a lending amount

* Agent fees
* Allowance for rental voids
* Maintenance
* Other commitments such as insurance

MAKE SURE YOU RESEARCH THE LOCAL RENTAL MARKET VERY CAREFULLY BEFORE YOU COMMIT.

Can I Re-mortgage my Residential Property to Release Funds?

If you have enough equity in your property and cover the Lenders criteria for your increased residential re-mortgage then yes you may be able to re-mortgage your residential property to raise a deposit for a Buy to Let Property.

YOUR HOME IS AT RISK IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR OTHER LOAN SECURED ON IT

Why Are Buy-to-Let Mortgages More Expensive?

The simple answer is that they represent a greater risk to the Lender.
* NO guarantee that the property will be permanently tenanted and there may be long periods with no rental income which may affect the borrowers ability to maintain monthly repayments.
* A borrower may treat the financial commitment less seriously than if the property were their own home.
* The value and future stabiltiy of the property may be adversely affected if badly treated by tenants or not maintained properly by the borrower.

TAXATION SUMMARY OF BUY-TO LET PROPERTIES

Buying Property: Stamp Duty Land Tax *(source: money advice service March 2020)*

Stamp Duty Land Tax is paid when you BUY a property and it's tapered depending on the value of the house. I've included the 2019-2020 rates below:

Anyone buying a second home including a buy to let property will pay an extra 3% on top of the relevant standard rate band.

Purchase price of property	Rate of Stamp Duty	Buy to Let/ Additional Home Rate*
£0 - £125,000	0%	3%
£125,001 - £250,000	2%	5%
£250,001 - £925,000	5%	8%
£925,001 - £1,500,000	10%	13%
Over £1.5 million	12%	15%

Capital Gains Tax (source: money advice service March 2020)

Whether or not you pay Capital Gains Tax (CGT) on the money you make from a property depends on whether it's your home – the property you live in for most of the time or have lived in within the last three years.

> Selling your main home in the UK will generally mean you won't have liability to pay CGT – this is because you can claim Private Residence Relief on any profit subject to certain conditions having been met. If you have let out some or all of your home during your period of ownership, you might need to pay CGT.
>
> If you sell another property – for example, a holiday let, a rental property or a property you bought for someone else to live in – you can't claim Private Residence Relief and might need to pay CGT.
>
> When you sell a property in the UK, you will pay tax on the profit and may be able to use your annual CGT tax free allowance (£12,300 for the tax year 2020/21) to reduce the amount subject to tax. If you're a basic-rate taxpayer you'll pay at a rate of 18% and for higher or additional-rate taxpayer, it will be 28%.
>
> Couples jointly owning their property can combine their individual allowances, potentially allowing a gain of £24,000 before liability to pay CGT.

Rental Income: Income Tax (source: money advice service March 2020)

If you rent out some or all of a property for someone to live in, you pay tax on the profits you make on the rental income. You treat these profits just like a normal part of your income, so you'll pay tax at your normal rates. You can reduce the tax you pay by making sure you calculate the profits correctly.

This involves working out what you can deduct as allowable expenses – things like letting agents' fees, Council Tax and buildings insurance.

Mortgage Interest Tax Relief (source: money advice service March 2020)

The rules around mortgage interest tax relief have changed. This will mean relief for finance costs on residential properties will be restricted to the basic rate of Income Tax, which is currently 20%.

Finance costs includes mortgage interest, interest on loans to buy furnishings and fees incurred when taking out or repaying mortgages or loans. No relief is available for capital repayments of a mortgage or loan.

Previously, you were able to deduct all of this interest on your mortgage from your rental income before tax was paid.

TAX CAN BE COMPLICATED AND MALVERN VIEW MORTGAGES WILL ALWAYS RECOMMEND THAT YOU SEEK APPROPRIATE LEGAL ADVICE

I Want A Buy to Let Mortgage - What's Next?

CONTACT US

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Website: malvernviewmortgages.co.uk

Call: 07814 853464

FIRST MEETING – What to Expect..

I'll let you know what you need to prepare in advance for your first meeting which usually takes about 90 minutes.
(*I send out an email with a checklist and the documents listed below in blue attached.)*

I'll start by providing and presenting to you:
* **A Business Card,**
* **Buy-to-Let Terms of Business**, *which explains the services we provide and how much it will cost you.*
* **Privacy Document,** (*Data Protection explanation and recording your preferences for contact)*
* A copy of the Financial Conduct Authorities **"Treating Customer Fairly"** initiative.

*** I provide a folder with all this in for safe keeping and filing your future documents ***

At your first meeting I'll complete a thorough Fact-Find in order to get to know you, what you want to achieve and your current circumstances. Only by doing this can I provide the right mortgage solution for you.

You can expect it to take about 90 minutes and once complete and I'll usually look to arrange the 2nd meeting in order to present my "recommendation".

SECOND MEETING – What to Expect..

At this meeting you can expect to be presented with your personal recommendation in a manner that is clear and straightforward to understand.
You'll have your own copy of the **Key Facts Illustration** which gives you a breakdown of the mortgage and the I'll tell you why it is specifically suitable for you.
I'll also provide a "**Suitability Letter**". This will explain, in writing why I've recommended this specific mortgage and is usually sent within 7-10days.

WHAT THEN?

1. You can authorise me to obtain a **Decision in Principle** from the Lender. *(This doesn't guarantee a mortgage but is one step closer. Be aware, too many of these may affect your credit score)*
2. We can then move on to a Formal **Application.** Be aware it can take a few weeks to receive an offer from the Lender.

Remember, **I only charge £249 at the point of making an application**. Up until then my services are free and without obligation. I don't just leave you there either, we would be happy to provide guidance and assistance on an ongoing basis.

For more information on becoming a Landlord visit the Money Advice Service Website
www.moneyadviceservice.org

SOURCES: **London Institute of Banking & Finance & *MONEY ADVICE SERVICE 2020***

YOUR NOTES