Buy to Let Mortgage advice you can depend on

Whether buying your first Buy to Let property, adding to your property portfolio or remortgaging, this guide gives an overview of the main considerations.

Your property may be repossessed if you do not keep up repayments on your mortgage or any of other debt secured on it.

Some buy to let mortgages are not regulated by the Financial Conduct Authority

If you want to learn more and receive advice tailored to your personal circumstances, please get in touch.

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Our Lenders

As part of Openwork Ltd, we can access competitive rates from most of the UK's best-known lenders.

Residential

Accord Mortgages
Aldermore
Bank of Ireland UK
Barclays
BM Solutions from Birmingham Midshires
Clydesdale Bank – We care about here
Coventry for intermediaries
Danske Bank
Fleet Mortgages
Halifax
Hodge
HSBC
Kensington
Kent Reliance for Intermediaries
Leeds Building Society
Metro Bank
Nationwide Building Society
NatWest Intermediary Solutions
Newcastle Intermediaries
The Nottingham For Intermediaries
paragon
platform – The intermediary lender of The co-operative bank
Post Office Money
Precise Mortgages
Principality Building Society
Progressive Building Society
Saffron For Intermediaries – Special Situations. Everyday
Santander for Intermediaries
Scottish Building Society
Scottish Widows
Skipton Intermediaries
the mortgage works – common sense lending
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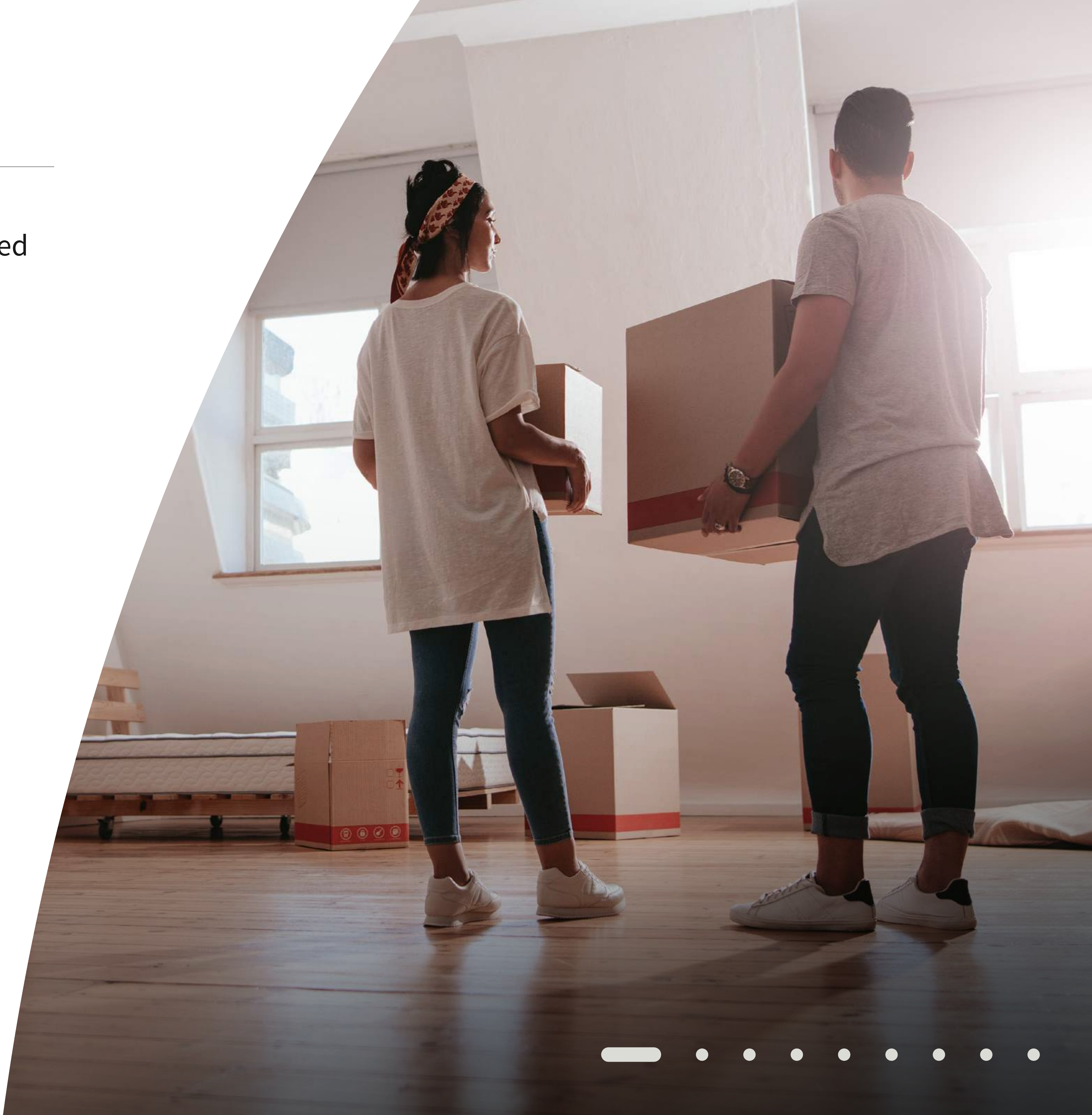
How much can you borrow?

The amount you can borrow depends on expected rental income.



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How much can you borrow?

The amount you can borrow is based on what your likely monthly rental income will be.

Lenders use interest cover ratios or rent to interest calculations to work out how much profit a landlord is likely to make. This makes sure that rental income can cover the cost of the mortgage plus a margin to cover other costs that may arise.

Depending on the lender and the mortgage product the projected rental income could be at least 125% of the mortgage payments but could be as high as 145%.

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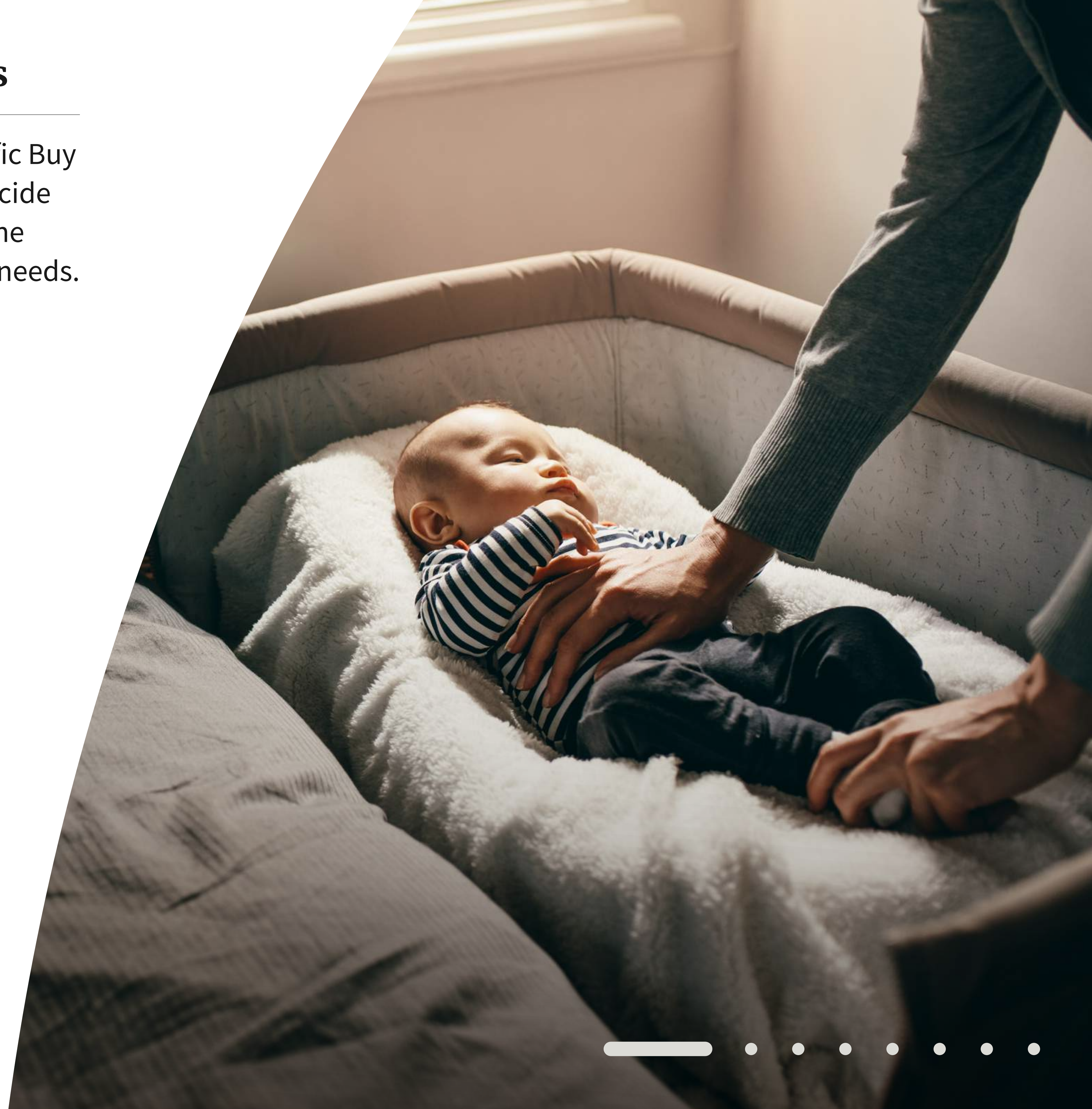
Types of Mortgages

Before you choose a specific Buy to Let deal, you need to decide what type of mortgage is the most appropriate for your needs.



Types of Mortgages

Variable rate

Your monthly payment fluctuates in line with a Standard Variable Rate (SVR) of interest, set by the lender. You probably won't get penalised if you decide to change lenders and you may be able to repay additional amounts without penalty too. Many lenders won't offer their SVR to new borrowers.

Discounted rate

Like a variable rate mortgage, your monthly payments can go up or down. However, you'll get a discount on the lender's SVR for a set period of time, after which you'll usually be switched to the full SVR. You may have to pay a penalty for overpayments and early repayment, and the lender may choose not to reduce (or delay reducing) its variable rate – even if the Base Rate goes down.

Discounted rate mortgages can give you a gentler start to your mortgage, at a time when money may be tight. However, you must be confident you can afford the payments when the discount ends and the rate increases.

Tracker rate

Your monthly payment fluctuates in line with a rate that's lower, or more likely higher than a chosen Base Rate (usually the Bank of England Base Rate). The rate charged on the mortgage 'tracks' that rate, usually for a set period of two to three years.

You may have to pay a penalty to leave your lender, especially during the tracker period. You may also be liable to pay an early repayment charge if you overpay on your mortgage during the tracker period. A tracker mortgage may suit you if you can afford to pay more when interest rates go up – and, of course, you'll benefit when they go down. It's not a good choice if your budget won't stretch to higher monthly payments.

Flexible mortgages

These schemes allow you to overpay, underpay or even take a payment 'holiday'. Any unpaid interest will be added to the outstanding mortgage; any overpayment will reduce it. Some have the facility to draw down additional funds to a pre-agreed limit.

Fixed rate

With a fixed rate mortgage the rate stays the same, so your payments are set at a certain level for an agreed period. At the end of that period, the lender will usually switch you onto its SVR.

You may have to pay a penalty to leave your lender, especially during the fixed rate period. You may also be liable to pay an early repayment charge if you overpay during the fixed rate period. A fixed rate mortgage makes budgeting much easier because your payments will stay the same during the fixed rate period - even if interest rates go up. On the other hand, it also means you won't benefit if rates go down.

Repayment methods

The two most common ways of repaying your mortgage are capital repayment and interest only.

Repayment methods

Interest only

For an interest only mortgage, your monthly payments will only cover the interest on your mortgage balance. The capital you owe (i.e. the amount you borrowed) will not go down and you will need to repay this in full at the end of your mortgage term. This means you will need to make a separate investment or combination of investments to generate the capital required, and you will also need to prove that you can afford to do this. You should bear in mind that the value of investments can go down as well as up and you may not get back the original amount invested. For an interest only mortgage, the lender will need to see your plan for repaying the loan when the interest only period ends. If you fail to generate enough to repay your mortgage by the end of the mortgage term, you may be forced to sell your property.

With an interest only mortgage, you must be able to demonstrate how you will repay the capital sum at the end of the term.

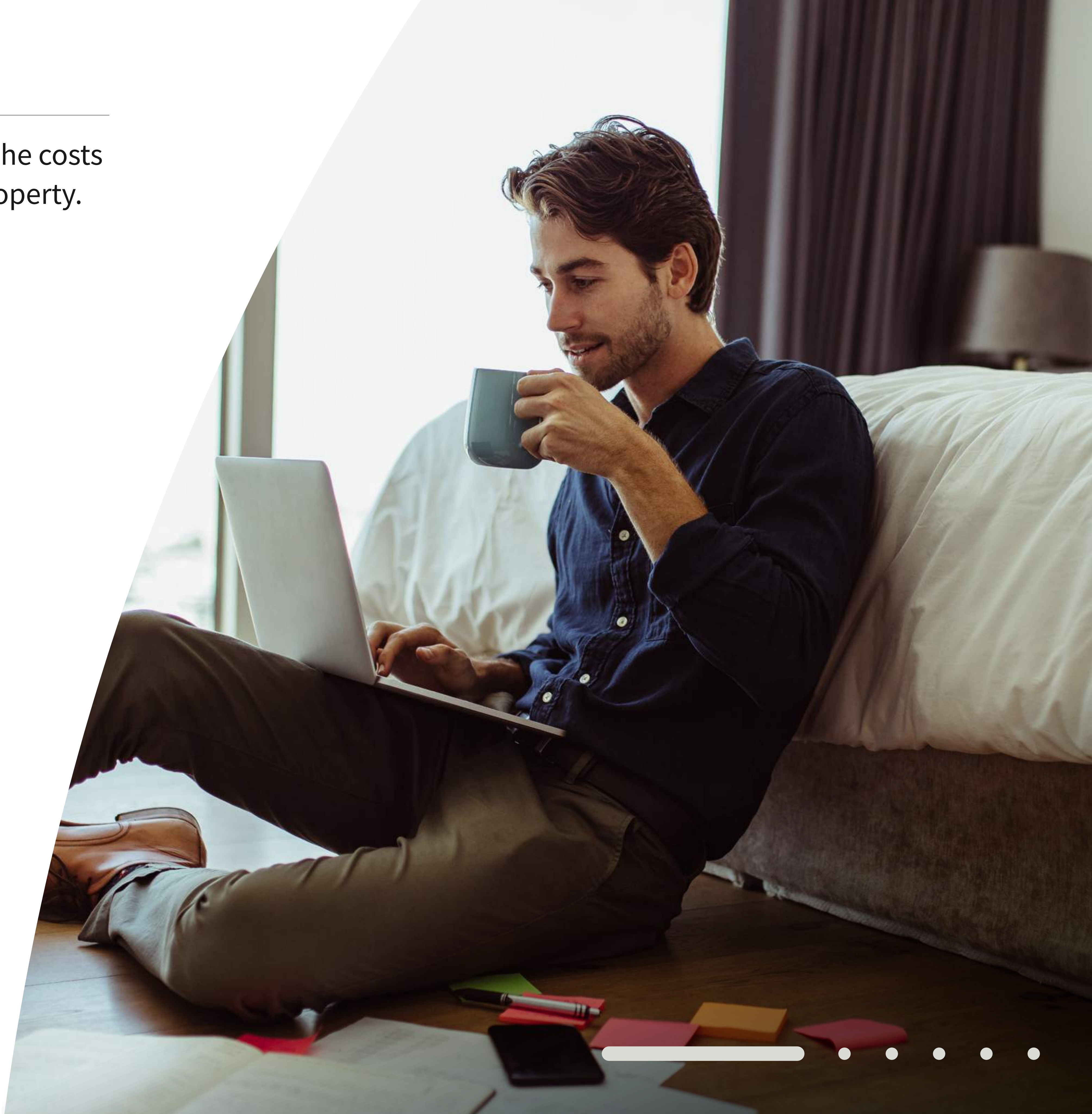
Capital repayment

On a repayment mortgage, your monthly payments will partly go towards repaying the interest accrued on the money you've borrowed and partly towards repaying the capital sum (i.e. the amount you borrowed).
The benefit of capital repayment is that you'll be able to see your outstanding mortgage reducing each year (albeit very slowly in the early years), and you are also guaranteed that your debt will be repaid at the end of the mortgage term, as long as you keep up your payments.
On a capital repayment mortgage, the shorter the term you pay your mortgage over the bigger your monthly payments will be. By having a longer term, you may benefit from a lower monthly payment, but you will also pay more interest to the lender over the mortgage term.
You will need to think about how soon you want to be `mortgage free' and weigh this up against a mortgage term that makes your monthly repayments affordable.

Capital repayment is the most common way of repaying your mortgage.

Costs involved

It’s easy to underestimate the costs involved when buying a property.



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Costs involved

Valuation fee

Lenders may ask you to pay the valuation fee. The type of valuation you choose will depend on factors such as the age and condition of the property.

Application/Arrangement fee

This is the costs your lender will charge you for arranging your mortgage. Some lenders will allow the fee to be added to your mortgage, but this means you will be charged interest on it over the term of the mortgage.

Legal costs and fees

The fees charged by a solicitor include the charge for conveyancing (the transfer of ownership of land), and the costs of legal registrations and miscellaneous costs (known as disbursements) such as Local Search fees and Land Registry fees. Some lenders may offer to finance some or all of the legal costs as an incentive.

Higher lending charge

If the amount you wish to borrow is greater than a certain proportion of the property's value (typically 75%), you may incur a higher lending charge

Early repayment charge (ERC)

Lenders may charge an ERC if you make an overpayment in excess of any stated limit, if the loan is repaid early or you remortgage during early repayment period. This can sometimes be a significant amount, so you should always check the terms in the offer letter from your lender.

Deeds release or exit fee

Lenders may charge a fee to release the deeds of a mortgaged property to you or a new lender.

Our advice fee

Before we get started, we will explain how we will be paid for arranging your mortgage.

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Costs involved

In England and Northern Ireland, you can be liable to pay Stamp Duty Land Tax when you buy a residential property or a piece of land. In Scotland you will pay Land and Buildings Transaction Tax and in Wales you will pay Land Transaction Tax.

If you purchase a residential property between 8 July 2020 to 31 March 2021, you only start to pay SDLT on the amount that you pay for the property above £500,000. These rates apply whether you are buying your first home or have owned property before.

Stamp Duty Land Tax
You must pay Stamp Duty Land Tax (SDLT) if you buy residential property or land over £500,000

Residential property SDLT rates up to £500,000	Zero
The portion from £500,001 to £925,000	5%
The portion from £925,001 to £1.5 million	10%
The portion above £1.5 million	12%

Buyers of additional residential properties, such as second homes and buy to let properties, will have to pay an extra 3% in Stamp Duty on top of current rates for each band.

Land and Buildings Transaction Tax
You must pay Land and Buildings Transaction Tax (LBTT) if you buy a residential property or land over £250,000

Residential property LBTT rates up to £250,000	Zero
The portion from £250,001 to £325,000	5%
The portion from £325,001 to £750,000	10%
The portion above £750,000	12%

Buyers of additional residential properties, such as second homes and buy to let properties, will have to pay an extra 3% in Land and Buildings Transaction Tax on top of current rates for each band.

The rate payable for properties valued at between £180,000 and £250,000 will be zero from 27 July until the end of March 2021. Properties selling for less than £180,000 are already exempt from paying the tax.

Land Transaction Tax
You must pay Land Transaction Tax (LTT) if you buy a residential property or land over £250,000

Residential property LTT rates up to £250,000	Zero
The portion from £250,001 to £400,000	5%
The portion from £400,001 to £750,000	7.5%
The portion from £750,000 to £1.5 million	10%
The portion above £1.5 million	12%

Buyers of additional residential properties, such as second homes and buy to let properties, will have to pay an extra 3% in Land Transaction Tax on top of current rates for each band.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Details above correct as of July 2020

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What else do you need to know?

Buying a property isn’t just about the right mortgage; it also involves solicitors, surveys and insurance.

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What else do you need to know?

Surveying

Before offering you a mortgage, your lender will instruct a survey to confirm the price you're paying for the property is appropriate. The most common types of survey are:

— **Basic mortgage valuation**
This is for the lender's own purposes to confirm the property provides security for the loan.

— **Homebuyer's report**
This provides brief information on the property's condition. The report will include comments on the property's defects and the valuer's opinion as to its marketability.

— **Full structural survey**
This report is the most comprehensive survey it is based on a detailed examination of the property.

Solicitors

You may need to appoint a solicitor or conveyancer to act on your behalf. They will undertake the legal work required to ensure the ownership (title) of the property and land transfers successfully.

If you don't already have a solicitor who undertakes conveyancing work, we can recommend one using a specialist company that provides access to a nationwide network of solicitors.

Some lenders will offer to pay for the basic mortgage valuation as an incentive. You may also want to consider one of the more detailed surveys, depending on the age and condition of the property. In most cases you can use the same surveyor to carry out both surveys, but there's nothing to stop you appointing an independent surveyor should you choose to do so. We can help you do this.

Solicitors, valuers and surveyors are not regulated by the Financial Conduct Authority.

What else do you need to know – Tax implications

Tax relief on interest costs

Previously, landlords could deduct all finance costs from their rental income, with net profits taxed at the landlord’s marginal rate. From April 2017 and phased in over a four year period, tax relief for finance costs will be restricted to a basic rate tax credit, currently equivalent to 20%.

Wear and tear

From April 2016, the “wear and tear” allowance, where a landlord could claim 10% of their rent as tax relief for wear and tear, was replaced by a system that only allows landlords to reclaim the actual cost of furnishings that have been replaced in the tax year. You also have to provide receipts showing what was replaced.

This information does not constitute tax advice. For more details on how this will affect your circumstance you should consult with an independent tax adviser.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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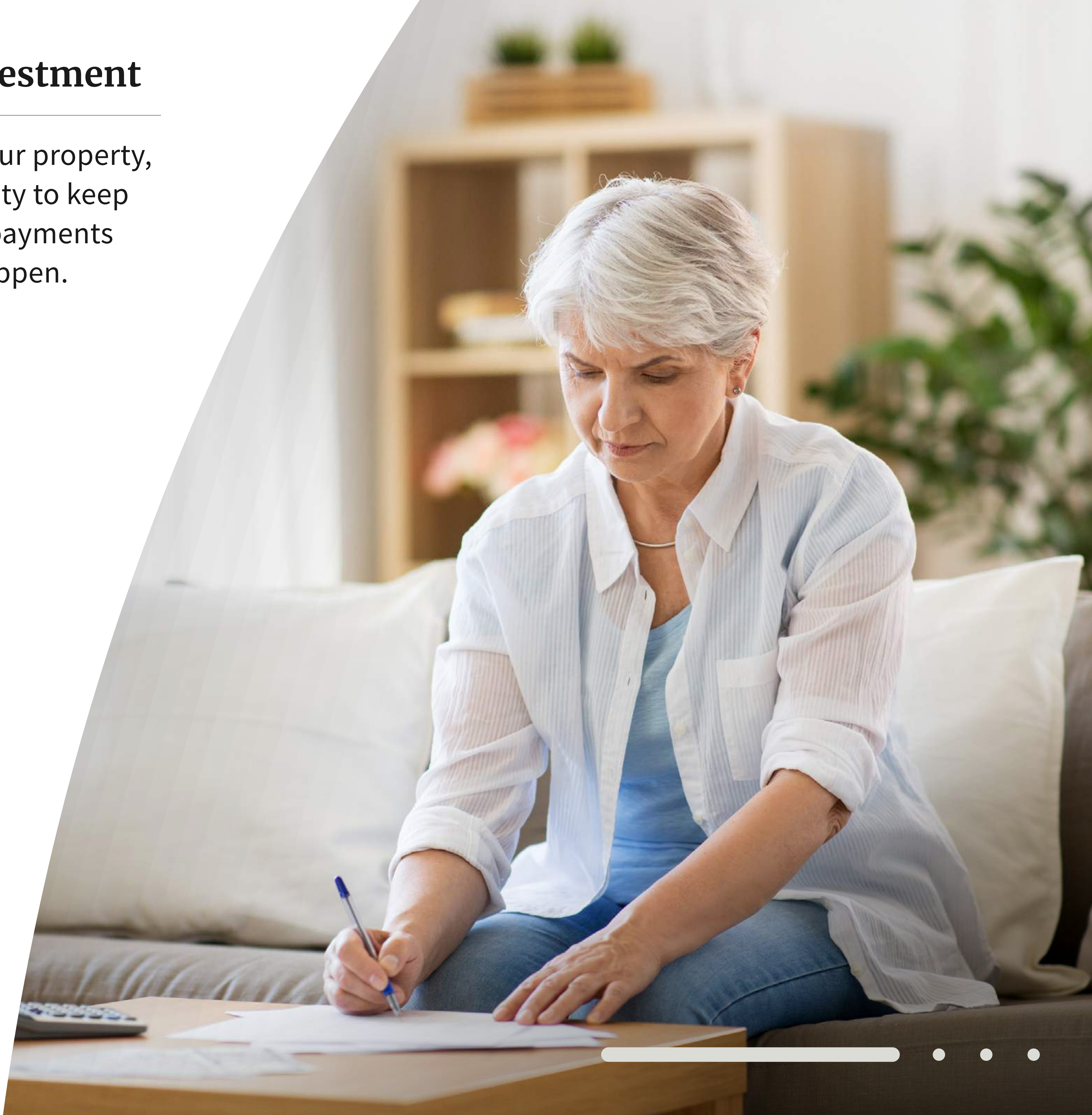
Protecting your Investment

It's important to protect your property, its contents, and your ability to keep up with your mortgage repayments should the unexpected happen.



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Protecting your Investment

Landlords insurance

This will protect your property while it's rented out. This can cover the building itself, any contents belonging to you as the landlord, and your legal liabilities as a property owner.

Buildings insurance

All lenders require you to fully insure the property for the total cost of rebuilding it. Buildings insurance covers your home and it's fixtures and fittings.

Contents insurance

Contents insurance protects your household goods and personal property.

Critical illness insurance

This type of insurance policy pays out a lump sum if you're unfortunate enough to be diagnosed with a specified critical illness such as cancer, stroke or heart attack. You can use the cash payout to clear your mortgage, pay for medical treatment or anything else you might choose.

Serious illness cover

Serious illness cover pays out a cash lump sum of between 5% and 100% of the total cover depending on the severity of the illness.

Income protection

This can replace part of your income if you're unable to work for a long time because of illness or disability. It will pay out until you return to work, the policy ends or in the event of your death. Income protection plans usually have a waiting period before the benefit becomes payable, and the longer the waiting period you choose, the lower the monthly premium.

Life insurance

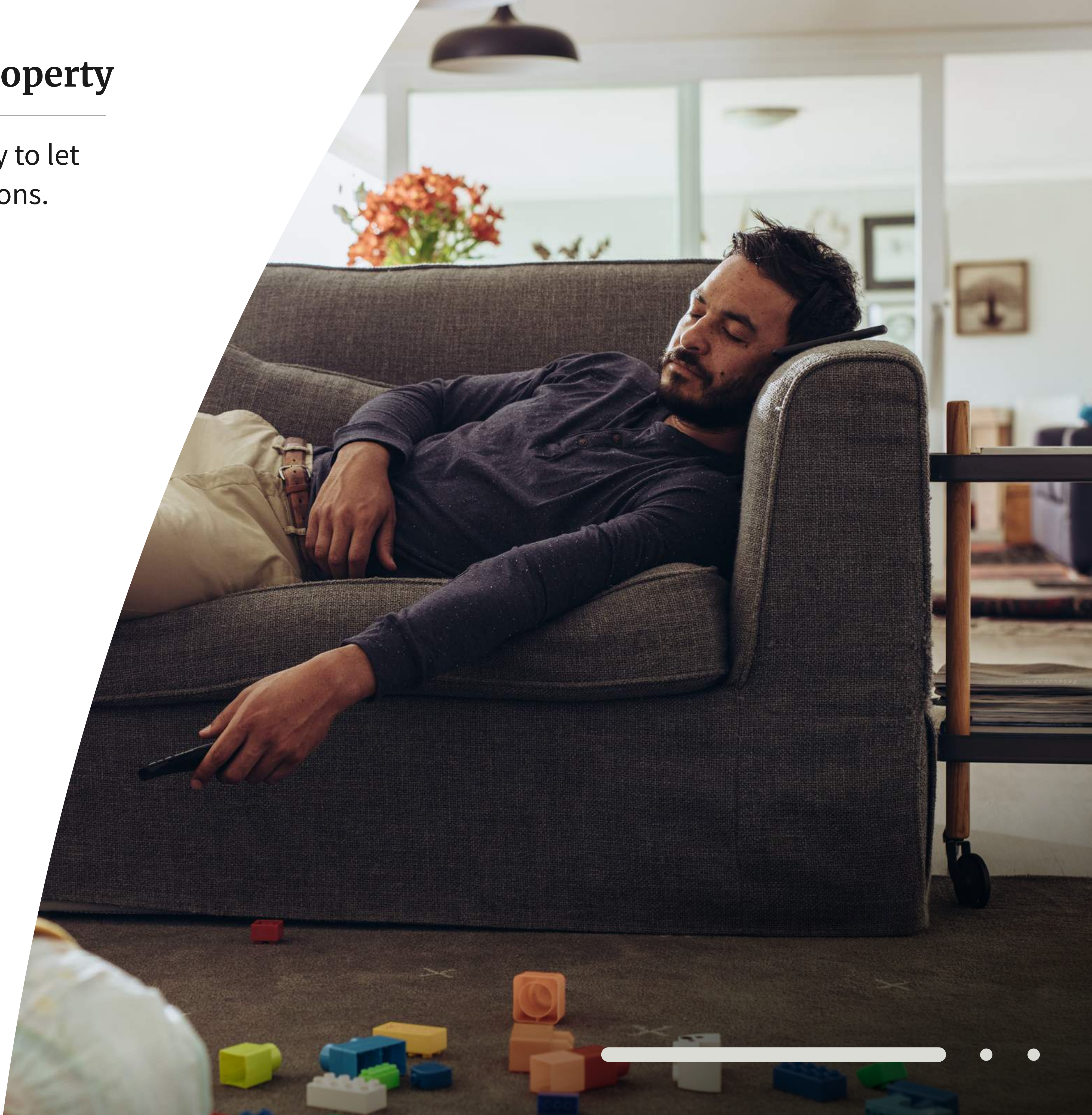
If you die unexpectedly, a Life Insurance policy will pay out a cash sum to your family. Mortgage Protection is a type of Term Assurance where the amount of cover decreases over the term of the policy, tying in with the outstanding amount on a repayment mortgage.

Mortgage payment protection insurance (MPPI)

Also known as accident sickness and unemployment (ASU) cover, MPPI helps you keep up your mortgage repayments if you can't work because of redundancy, accident or ill-health. Benefits are usually paid for 12 months, although some providers offer 24 months' cover for accident and sickness only.

Renting out your property

Once your property is ready to let there are some considerations.



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Renting out your property

Finding tenants

You will need to choose between using a letting agent, who will find tenants, obtain any references and draw up a tenancy agreement on your behalf, or being self-managed and making your own arrangements.

Deposit protection schemes

Landlords must put deposits in a government-backed tenancy deposit scheme if the property is let on an assured shorthold tenancy that started after 6 April 2007.

Collecting the rent

You may want your tenants to pay rent directly in to a designated account or you may want a letting agency to manage this for you.

Property maintenance

You are legally required to keep a property safe. You will need to arrange annual gas safety checks and certificates for the gas and electricity supplies.

Energy Performance Certificates (EPC)

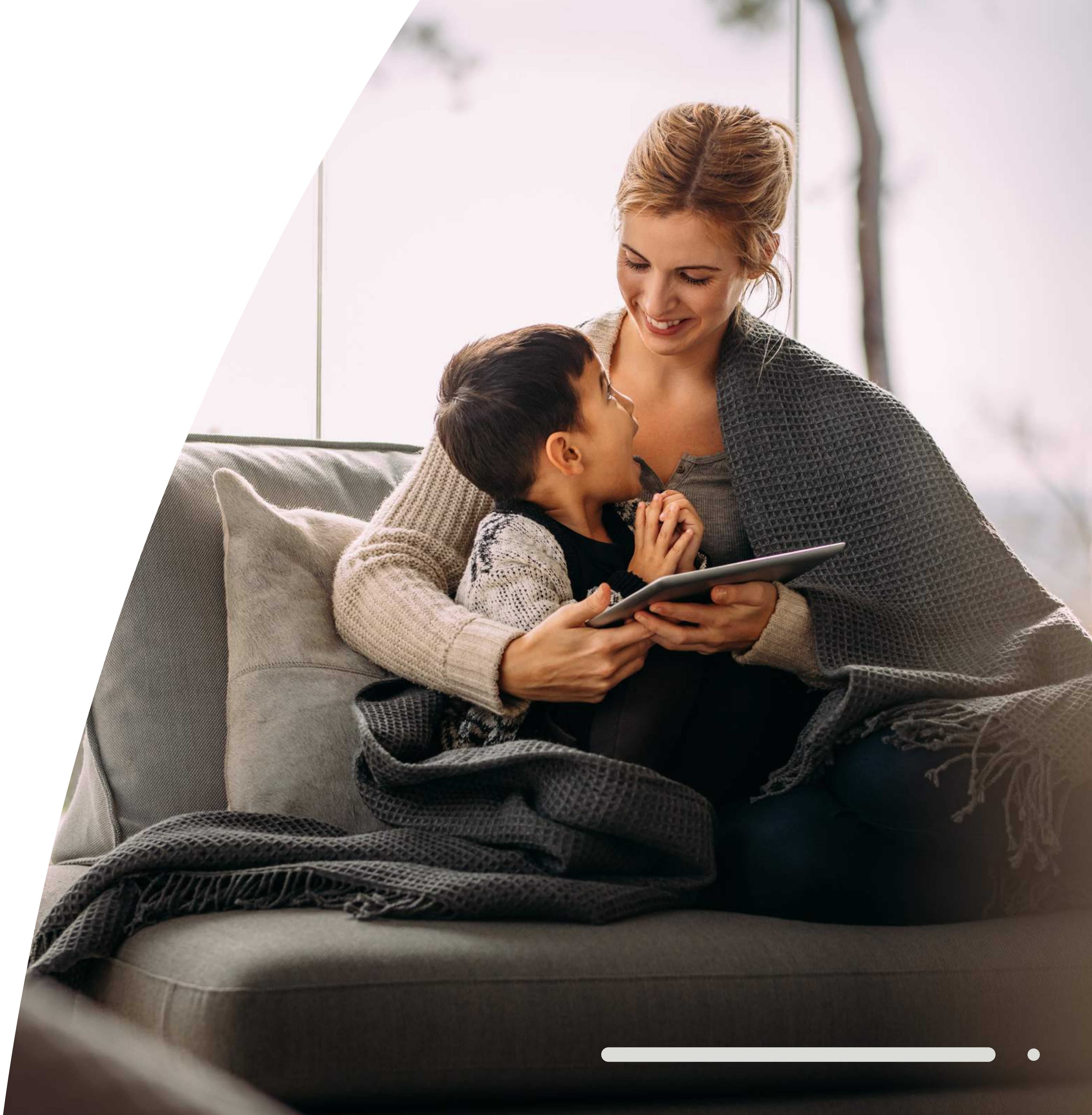
EPCs are compulsory whenever a property is let to a new tenant. You will be responsible for making sure the EPC is available to tenants when required and if you decide to sell the property.

Legal rights

You will need to keep up to date with legislation affecting you and any tenants.

Working with you

Helping you put your plans into action.



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Working with you

Getting to know you

We will want to learn more about you, your circumstances, and your overall financial position. We'll also want to hear your thoughts on which type of mortgage you believe is right for you, before we talk you through the pros and cons of each option.

What we must tell you

When you first speak to us, we have to tell you what our charges are and how they are paid. We also have to say if there are any limits to the range of mortgages we can recommend for you.

Researching the options

Using our expert knowledge and database of several thousand mortgages, we will find the ones that are most suitable for your needs.

Recommending the right solution

Once we have identified the options available, we'll meet with you again or discuss our recommendations over the phone. We'll also write to you so you can review what we have suggested, and why.

Assuming you're happy with our recommendation, we'll work with you to complete the application forms and liaise on your behalf with solicitors, valuers and surveyors. We can also talk you through the vital areas of financially protecting your new property and we'll stay in touch throughout the process – and into the future.

Next steps

We hope this guide has given an insight into what's involved in the Buy to Let process.

If you'd like more information, or would like help planning your first – or next – property purchase, please get in touch.

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