



# YOUR BASIC GUIDEBOOK

## ON BUYING TO LET AND BUY TO LET

# MORTGAGES

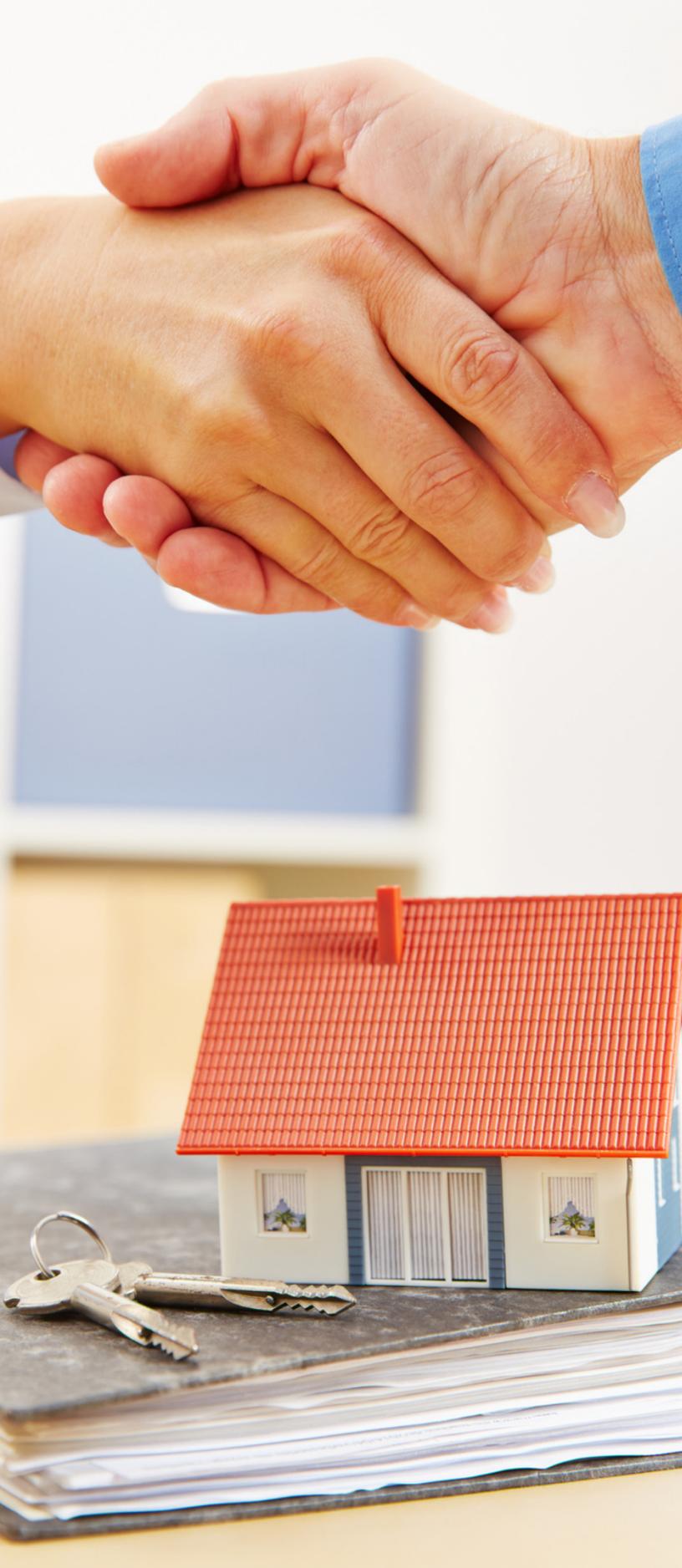




Investing in property is one of the most secure and productive monetary related choices you can make. The rental market is buoyant and the demand and necessity in housing keeps on developing.

Suppose you are looking either to expand your monthly income or to build up a lasting investment plan, at that point, buying and letting a property could be an insightful alternative to other forms of investment.

This guidebook will give you a basic understanding of property letting for the novice Landlord and is an overview on buying, planning, and letting an investment property.



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## 1. WHAT IS A BUY-TO-LET (BTL) MORTGAGE?

If you do not have the cash saved in order to purchase your investment property outright, you'll have to apply for a mortgage to fund the cost of the purchase. However, this should be a particular buy-to-let mortgaged designed for Landlords. A residential loan is only applicable when you plan to live in the property.

There are different contrasts between a residential and buy-to-let mortgages, and they start with how you can be able to afford them. Rather than your earnings, the financiers will mainly use the likely rental income of the property as your essential income source to fund the loan. Some Lenders will consider your income as an auxiliary factor. Regularly, lenders will need your expected rental income to meet at any rate 125% to 145% of the month to month interest repayments on loan.



## 2. KEY DIFFERENCES BETWEEN RESIDENTIAL AND BTL MORTGAGES

It's commonly less expensive to get a residential mortgage; even the interest rates are usually lower as are the product charges. The primary distinction between a buy-to-let mortgage and a residential mortgage are:

- The mortgage lender will consider potential rental income rather than personal income as a means to service the loan. With buy-to-let mortgages, the sum a bank will lend will depend upon the rental income that the property will potentially achieve.
- Buy-to-let mortgages are frequently taken out on an interest-only basis rather than a capital repayment basis. This is as most landlords will hope to sell the property in the long run and earn income from the rent rather than pay this income toward the debt.
- Residential mortgages come with regulatory protections designed to minimise the risks of borrowers losing their home. This means that there are strict controls set that all residential mortgage lenders must follow from how a mortgage is sold through to repossession (the worst case scenario). Most Buy-to-Let Mortgages are not Regulated and consider business transactions.

If a residential borrower wishes to move out of and rent their property that has a residential mortgage on it, it is fundamental that they contact their mortgage loan provider. There will be a breach in their contract agreement if a borrower decides not to contact their lender.

## 3. WHO CAN GET A BTL MORTGAGE?

### HOMEOWNER:

You own your own home, regardless of whether it is fully yours or mortgaged. A small handful of lenders may consider First Time Buyers but the majority will only consider homeowners.

### CLEAN CREDIT HISTORY:

You have a good credit history and haven't exceeded your limit on other borrowings/loans. Some lenders will consider individuals with adverse credit for Buy to Let mortgages but interest rates are higher making the investment returns lower.

### DEPOSIT & INCOME: CURRENTLY MOST LENDERS:

look for investors to have a 25% deposit for most mortgage deals (a few will consider 20%) and the majority will require that at least one applicant has a base salary/self employed income of £25000 per year



## THE AMOUNT OF LOAN YOU CAN GET FOR BUY-TO-LET MORTGAGES

- For BTL mortgages, the amount of loan you can get is connected to the measure of rental income you hope to get (a few lenders will allow personal income towards the loan but very few). Lenders usually need the rental income to be 25-30% higher than your mortgage payment on an interest only basis.
- To discover what your potential rent may be on a property you should converse with local letting agents, or check online on property portals to discover how much other properties are rented out for in the same area.



## 4. LOCATION LOCATION LOCATION

“Its all about location, location and location” is a cry regularly heard as the most significant factor when searching for a home. This key factor, be that as it may, likewise applies when you are hoping to invest into a buy-to-let property.

Before you set your heart on someplace, it's genuinely essential to consider where you will buy the property carefully. Will it be in the town you live in, a close-by city, or even someplace further?

In due course, this is an investment, so you have to think about the yield and rental return. How you intend to manage the property can also be a significant factor - in case you're anticipating utilizing an overseeing agent, it opens up the chance of looking further.

While you may have what seems to be an undeniable decision, you'll have to think about the advantages and disadvantages of your picked area, and how well a rental property would operate in the area.

Examine and do some investigation into the local market. Put yourself in the shoes of your prospective tenants and attempt to comprehend what they'll be on the lookout for. This could incorporate open space and proximities to other significant urban communities, lively nightlife, local games clubs, excellent schools, and neighbouring families.

## 5. SELF MANAGE OR USE A LETTING AGENT

Numerous other property owners would genuinely prefer not to be landlords – they'd be far more joyful if the cash could simply roll in without the requirement for tenants. However, other people wouldn't see any problems with managing it themselves without anyone's help.

If you don't want to conduct the work involved with finding and overseeing tenants, you can utilize a letting agent – yet that accompanies expenses and concerns too.

Letting Agency Administrations are either two types which are Let Only or Fully Managed. A "let only" service are responsible for some or all of the following:

- Markets the property
- Responsible for looking for tenants
- Orientates the tenants
- Compile the tenancy arrangement
- Manages the record
- Moves them in





Once the letting agency moves all tenants into the house, you will be the one in charge of other roles. Expenses for a Let Only assistance are ordinarily charged as either: 5-8% of the annual rent or a one-off charge

***A full management service is responsible for the following:***

- Collection of rental fees, and pursuing it up if tenants don't pay on time.
- Inspecting the property consistently and giving you news about the property current condition.
- Taking care of your legitimate responsibilities.
- Arranging any property upkeep that is required.
- Responding instantly to occupant demands.
- Handling rent builds, reestablishments, registration, etc.

Charges for full management are typically charged as a percentage of the monthly rent, within the range of 7% to 15% which is the standard. Utilising a letting agent is the correct decision for many Landlords; otherwise, there wouldn't be so vast numbers doing lettings agency businesses. This offers Landlords the opportunity to engage in Buy To Let investing with the support of professionals on the tenant management side. There are landlords who joyfully self-manage their own tenants, and these tend to be full time Landlords who have the time available to them. Consider your own personal circumstances and people skills and assess the time and money you have available, what you appreciate, and how sure of yourself you are of managing tenants.

## 6. RENTAL CALCULATIONS AND LOAN-TO-VALUE (LTV)

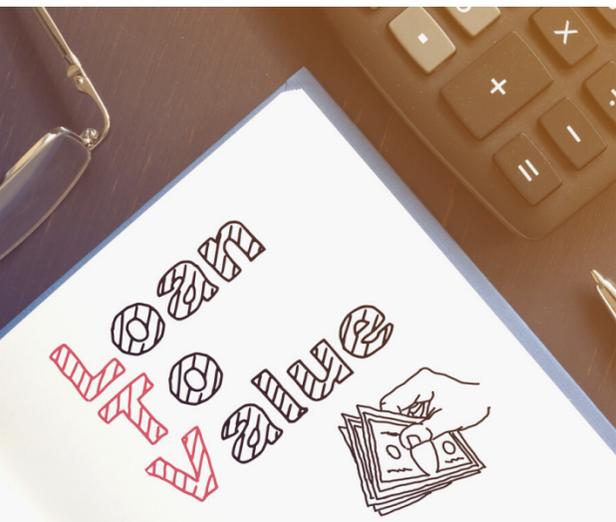
Loan To Value or LTV the size of your mortgage compared to the value of the property you need to buy. It is given as a percentage.

So if, for instance, you have a mortgage of £150,000 and you're buying a property that costs £250,000, your LTV would be 60%. This implies 60% of the property's value is paid for by your mortgage, and 40% is paid for out of your cash (your deposit).

### HOW DO I COMPUTE MY LTV?

An ideal approach to work out your LTV is to divide your mortgage sum by the value of the property and multiply by 100.

Let's say you buy a property worth £250,000 and your mortgage sum is £150,000:  $\text{£150,000} / \text{£250,000} = 0.60$



## HOW IMPORTANT IS LTV?

The higher your LTV, the riskier it is for the mortgage lender offering you a mortgage.

For instance, if you had a £150,000 mortgage on a £200,000 property and the value of that property were to fall to £140,000, your lender would experience a loss if you defaulted on the payments and they need to repossess the property.

On a positive note the lower your LTV, the more wide-ranging your mortgage choices will be and usually the lower the interest rates. Lenders generally offer their best BTL mortgage products to borrowers they consider lower risk, which implies homebuyers with a significant deposit to put down, or the individuals who own a substantial measure of equity in their property if Remortgaging.

If your LTV is 60%, you'll have a broad scope of great deals to make a selection from, as lenders will even now think of you as less likely to default on your mortgage than somebody with a little deposit.

## 7. INTEREST COVER RATIO ALSO KNOWN AS STRESS TEST RATE

When a lender is considering giving you a Buy-to-Let (BTL) mortgage they want to ensure the monthly payments will be met so they look to assess the rental income of a property and also apply a stress test referred to as the Interest Cover Ratio (ICR).

As a simple explanation the ICR results in you needing the rent on a property to be higher (from 25% to 45% approximately depending on the lender) than your interest only mortgage payment. This Stress Test is to ensure that you have a little extra so that if the property is vacant for a couple of months you will have a cushion of extra rental income.

Here, your mortgage adviser will be able explain this calculation in more detail and shop around for you to find the best deal for your circumstances.



## 8. EXPECTED RETURNS

The returns on a buy-to-let investment are rental profits minus the costs (interest on mortgage loan, taxes, fees and maintenance) of running a Buy to Let and hopefully your property will benefit from capital appreciation (the increase in property value) over the time you hold on to the property. Do your research on location and rental demand looking at current, previous and predicted values to decide where to purchase to boost your returns.

### **YIELD:**

The profit for your buy-to-let investment is known as the rental yield and is reliant on various factors such as; the property type, area, economic situations and the property condition.

### GROSS YIELD:

The gross yield of a buy-to-let property is the yearly rent divided by the actual price of the property, expressed as a rate.

### NET YIELD:

The net yield is the yearly rental income on your buy-to-let property less costs, such as mortgage payments, fixed costs, expenses and periods when there are rental voids, divided by the price of the property, expressed as a rate. Less expensive buy-to-let properties will give better yearly yield, and landlords tend to search for rental yields within the range of 130-150% of mortgage payments.



## 9. SOME DUTIES AS A LANDLORD

Becoming a landlord implies taking on specific duties, from a legal point of view such as the wellbeing of your tenants. You'll have to remember that renting out a property is like having your own business – you'll also have to reveal annual income for tax purposes.

There are different legalities you'll need to conform to, some of which could require appraisals or accreditations. It's essential to check whether the local authority has a particular plan or for residential landlords and you may need to abide by their local regulations, so it's worth contacting them to ensure you are not going against the rules. Current regulations include, yet are not restricted to the following:

- Gas safety Certificates
- Energy performance Certificate
- Safeguarding the tenant's deposit
- Serving recommended information
- Landlord permit
- Compliant fittings
- Safe electrical machines

Not complying with legislation can prompt legal proceedings and fines, it's critical to ensure that you're set up to invest the time, energy and cash to guarantee you're in every case legally agreeable. In case you're uncertain, it's likewise worth considering an agreement with a letting or managing agent.

## 10. WHAT IS A HMO & HMO LICENSING

HMO is short for House in Multiple Occupation. There are various sorts of accommodation that could fall under this definition, depending on the number of individuals who are living in it.

### **HMOs STANDARDS**

Just due to the more significant number of individuals under one rooftop, the landlord of an HMO has higher expectations to meet. For instance:

#### **SECURITY -**

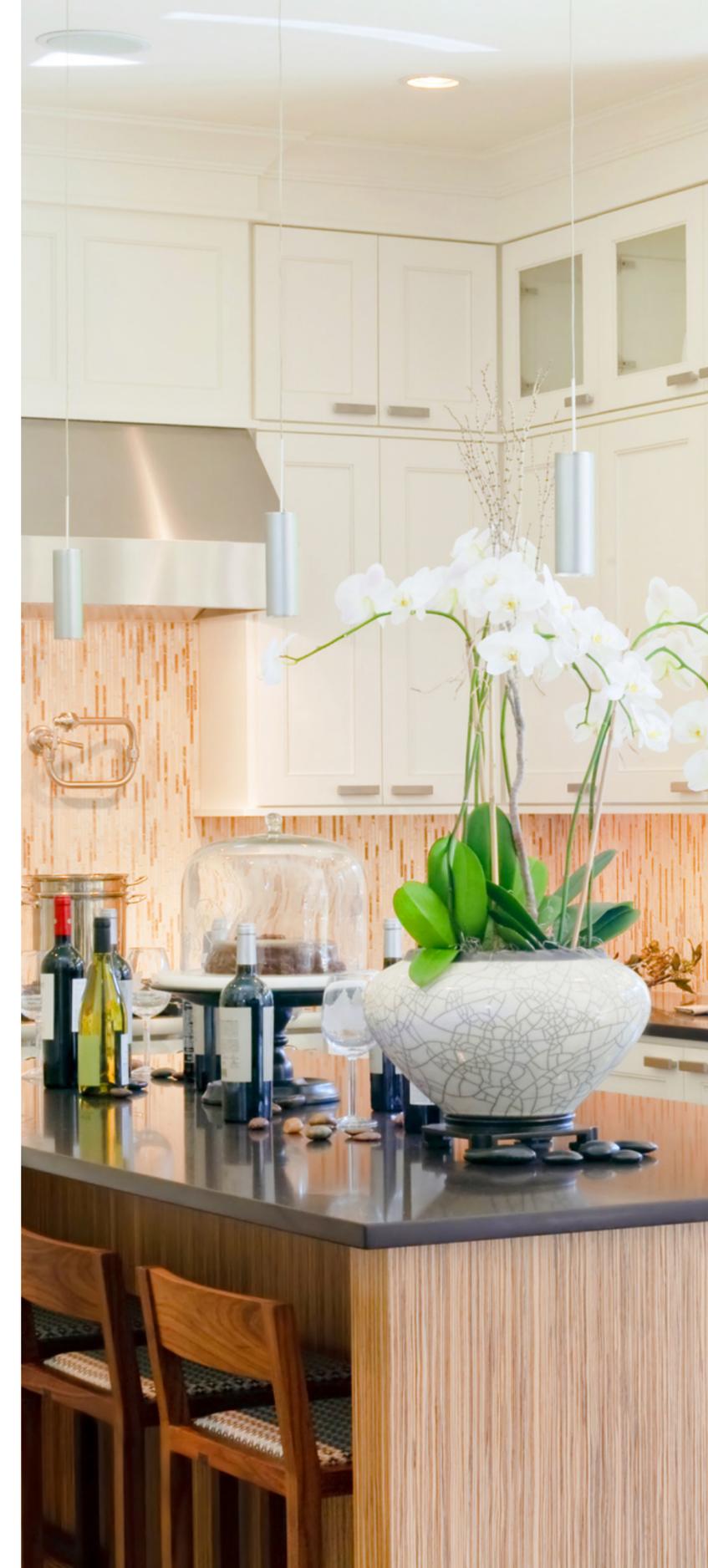
gas security safety test must be conveyed each year, and electrical framework checks at regular intervals. Smoke alarms and carbon monoxide alarms must be fitted.

#### **Hygiene -**

ensuring that there are sufficient garbage removal facilities and bin sacks. Providing washing and cooking facilities of acceptable standards. Waste segregation should also be implemented.

#### **FACILITIES -**

landlords, must preclude overcrowding and keep shared and standard areas in good condition.





Maybe the most significant distinction is that HMO tenants can complain to the local council who are bound to make a move than a non-HMO property. The Environmental Health Department of each local council is answerable for taking up complaints about wellbeing and security in HMOs and can urge landlords to amend issues. The council can indict both the landlord and any managers that they have working for them, and can even assume control over the management of the property themselves

A few HMOs require a permit but not all. The permit is obtained from the local authority. It will ordinarily be required when the HMO is up to three stories high, where there are two distinct households situated there, and there are at least five not related individuals living in the HMO building.

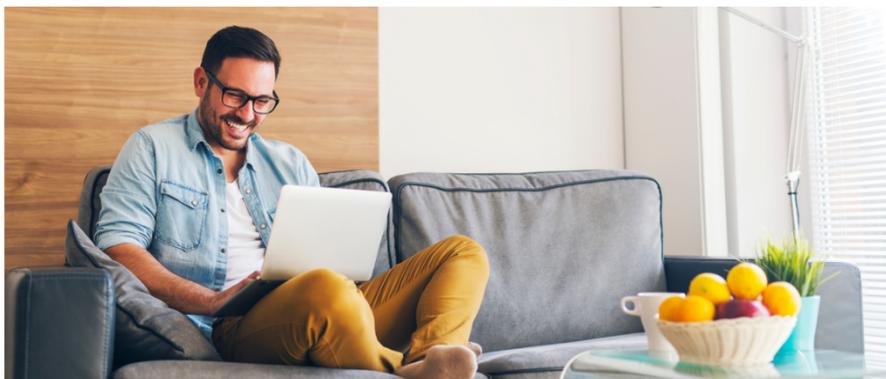
A landlord with a property that meets the above necessities must apply for a permit to the local authority that will take a proper look at whether they are a fit and appropriate individual to be an HMO landlord. They will likewise take a proper look at factors like the security rate of the property and its size.

## 11. SUMMARY

Finally, we've come to the end of this guidebook. Investing in buy-to-let can be a secure and productive investment but requires hands on management and research.

Similar to all investments, every business has its risks. For instance, you could be hit by increasing loan costs or having difficulties with uncooperative tenants.

City Mortgages offers New and Experienced Landlords fees free mortgage advice for their Buy to Let mortgage and protection requirements. We help Landlords with our knowledge of the ever complex Buy to Let market and make getting a mortgage as stress free and straightforward as possible through our simple process.





## **COMBINING PERSONAL ADVICE WITH TECHNOLOGY AND SPEED**

We are able to complete the whole mortgage advice process via telephone and securely online avoiding time-consuming face to face meetings. This approach combines the need for a personal touch to understand your needs over a phone or video call and the speed of online technology to process your mortgage applications.

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We work with Landlords Nationally covering the whole of the UK and we offer flexible contact times in the evening and on weekends to help with your busy schedule.

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Your property may be repossessed if you do not keep up repayments on your mortgage.

You will pay no fee for our services

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