

Buy to Let Mortgages

If you're buying a property to let you need a specific buy-to-let (BTL) mortgage.

Fixed, discounted, flexible, variable, tracker and self certification products are available.

Lenders generally require achievable rents to be between 100% and 150% of the monthly mortgage repayments.

You usually need at least a 10% deposit.

Interest rates and fees are generally higher than for residential mortgages.

Buy-to-let has grown in popularity but to let a property you need a special mortgage.

Many people buy-to-let to provide them with security in the future. Buying a property and renting it out privately is against the rules of most conventional mortgages, so if you want to do this you need a buy-to-let (BTL) mortgage.

Although a specialist product, BTL mortgages have become more readily available over the last few years. And the range of products is wide with fixed, discounted, flexible, variable, tracker and self-certification loans all on offer.

Lending criteria

Buy-to-let mortgages are structured in the same way as residential mortgages – you pay a deposit and choose the type of rate you want to pay. The principle difference is that most lenders calculate how much they are going to lend you based on the property's achievable rent rather than your income.

The achievable rent needs to be between 100% and 150% of the mortgage repayments, so if your BTL monthly repayment was £1000, the lender would expect you to be able to let the property for £1000 to £1500 a month. This is judged by an independent source and is to make sure you can cover the other running costs such as insurance, maintenance and vacant periods. Some lenders have different lending criteria, such as lending up to 10 times the annual rental income.

Your own income isn't assessed as such, though lenders will obviously want to know that you have sufficient funds to meet your other financial commitments. And if you are a first-time landlord, some lenders may stipulate a minimum income. For multiple, experienced landlords it will be enough that you rent out several other properties – providing you do so successfully.

Rates and costs

Generally, you can borrow up to a maximum of 90% of the purchase price. Deposits are higher for

BTL loans because lenders need to be convinced that you're committed to the extra financial responsibility. And the investment is a significant one, as you will need a large deposit plus the funds to cover the mortgage payments when the property is empty.

Buy-to-let rates

aren't generally as competitive as normal residential mortgages – although they have improved a lot over the last few years. This type of loan is seen as more risky because essentially it's your tenants who pay back the loan, not you. The higher rate is therefore the lender's way of covering itself.

Arrangement fees can be high on a BTL mortgage and there don't tend to be many fee-free schemes. Early repayment charges are payable during any fixed, discounted or capped-rate period, as with conventional mortgages, but look out for extended tie-ins.

And when you sell the property, remember that you will probably be liable for capital gains tax so employ a good accountant or financial advisor from the start to help you minimise the effects of this as much as possible.

Suitable properties

Providing you can prove an achievable income, the type of property doesn't really matter for mortgage purposes. Apart from the usual restrictions such as no corrugated metal houses, for example, no distinction is made between older and new properties.

Restrictions may be imposed if the property needs extensive repairs or renovation before it can be let – but this is decided by the lender's valuation officer. Generally, there is a delay on the full loan being granted until any necessary work is completed. It's important to take this into account if you're thinking about buying a property not immediately suitable for letting because it may be some time before there are tenants to meet the mortgage repayments.

If you would like to enquire about Buy to Let mortgages follow this link and leave your details for the mortgage adviser to contact you.