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MORTGAGE SERVICES

Buy to Let Guide

This guide is right for those diving into the exciting journey of buying or refinancing a property in the UK with the intention of renting it out.

It's crucial to grasp the ins and outs of purchasing a buy-to-let (BTL) property and tap into the wisdom of specialists in key areas:

- Mortgage
- Tax
- Conveyancing and Legal.

We're here to shed light on the considerations you need to make and showcase how our professional mortgage adviser will assist you with the buy-to-let mortgage process.

A mortgage, essentially a legal agreement, involves a financial institution like a bank or building society lending money at interest, all while holding the title of your property until the debt is settled.

Now, here's the twist – a buy-to-let mortgage differs from its residential counterpart because it's tailored for those planning to rent out their property. The lender will consider many factors, including your personal income and expenditure to help decide if they are happy to make you an offer. However, with BTL the lender will also take into account how much you will be able to rent the property out for.

Curious to learn more about the pivotal role our specialise mortgage adviser plays in this process? Feel free to request our guide for more information.

SOME BUY TO LET MORTGAGES ARE NOT REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.
TAX TREATMENT VARIES ACCORDING TO INDIVIDUAL CIRCUMSTANCES AND IS SUBJECT TO CHANGE.
YOUR HOME MAY BE REPOSSESED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

Things to consider

There are some important decisions you need to make when deciding to buy a property to let, but we can guide you smoothly through everything. It is different for everyone, so here is a really simple guide to work out what is best for you:

Market, regulation and mortgages

Venturing into the realm of being a landlord can be a fantastic avenue for boosting your income or securing a property as a long-term investment. To maximise its profitability, it's crucial to seek sound advice from a seasoned mortgage adviser. Lucky for you, that's where we come in! Armed with up-to-the-minute knowledge of UK legislation and regulations, we're here to not only guide you through the nitty-gritty of your mortgage needs but also connect you with tax specialists who can steer you toward the most tax-efficient path when acquiring a rental property. Let's make your landlord journey both lucrative and hassle-free!

Being confident you can afford it

Lenders traditionally calculate how much you can borrow by looking at the property's value and the expected rental income.

It is standard practice to build in a buffer too. This allows for hidden costs such as the property sometimes being empty, paying estate agency fees and spending on maintenance. It is calculated by using what is known as the interest coverage ratio (ICR). The ICR determines the amount the lender would like the rental income to be, to cover the mortgage and other costs.

Over the years, regulation changes mean these calculations have got stricter. Lenders will also 'stress-test' the mortgage, to make sure that an increase in interest rates will not cause any problems and you will still make a profit.

Let's break it down with a real-life example. Imagine a £200,000 mortgage, a typical ICR set at 145% of mortgage interest, and a stress test using a 5.5% interest rate. The result? You'd need a minimum rent of £1,329 per month to keep the ship sailing smoothly.

Taking personal income into account

This is known as income top-slicing. When the stress-tested monthly rental calculation doesn't quite hit the sweet spot, some lenders take a closer look at your personal income. They will look at how much you earn compared to all you spend, including your residential mortgage, household expenditure and rental property costs.

If, after covering all those bases, you've still got some extra income hanging around, these lenders work their magic. They blend that surplus with the anticipated rent, concocting a maximum borrowing limit that's tailor-made for you. It's like a magic trick for your mortgage – turning your extra income into borrowing power!

Your income and affordability

The magic number you can borrow? This amount will depend on your affordability. This means that our professional mortgage adviser will need to understand all your financial income and expenditure. Whether your income is received via employment, self-employment, contract work, dividends or a partnership, our professional mortgage adviser will be able to advise on the documentation required to support your application.

Am I a 'portfolio landlord'?

If you're the proud owner of four or more properties or if you've got big dreams of expanding your property empire, brace yourself for some extra hoops lenders might ask you to jump through.

The regulation is not prescriptive, but some examples include the lender's relationship with the borrower, how much experience the borrower has as a landlord and a view of the borrower's overall property portfolio.

Our expert mortgage adviser has been instrumental in assisting numerous clients labelled as 'portfolio landlords.' They bring a unique touch to the table, leveraging their expertise to refinance and expand property portfolios. Thanks to solid connections with key lenders in the market, our clients have found valuable support in building their property dreams.

What are my responsibilities as a landlord?

Your role includes staying on top of regulations, conducting routine inspections, and ensuring tenants' rights are maintained. From managing repairs and rent collection to handling tax payments and other legal obligations, there's a lot on your plate.

Items to keep up to date include:

- Annual gas safety inspection
- Electrical safety certificate
- Energy Performance Certificate
- Property and landlord insurance
- Liability insurance

You've got options - You can either manage everything yourself or hire professionals to take care of it for you. For example, you can avoid all the hassle of day-to-day management by taking on a fully managed service from your letting agent.

What taxes should I be aware of on a BTL property?

Stamp Duty Land Tax (SDLT)

SDLT is the tax you pay when you buy a property. There is a standard calculation when you buy your main home, which goes up the more expensive it is. The same applies when buying further properties but includes an additional 3% rise.

You need to pay this supplement whether it is a second home, a new home if planning to rent out your current one (known as 'let to buy'), or a BTL purchase, even if you are living in rented accommodation yourself.

No shortcuts here, though. You cannot avoid the 3% by saying you own one property and having your spouse buy the second in their name. You and your spouse are considered to be one 'unit'.

Stamp Duty Land Tax Examples	
Purchase price	**SDLT**
£250,000	£7,500
£400,00	£19,500
£550,000	£31,500

Income tax

You are liable to pay tax on income earned from rental property. If it's a personal purchase, you'll be dealing with income tax, and if you own it through a limited company, it's corporation tax time. The exact amount hinges on factors like rental income, mortgage interest, and other costs that can be deducted for tax purposes.

Before you dive into the world of Buy-to-Let (BTL) and make any decisions, it's a smart move to chat with a tax pro who can guide you through the ins and outs.

Accountants

Lots of landlords opt for an accountant. While it's an extra expense, they can actually be your money-saving ally by helping cut down on the taxes you owe. The key is finding someone with a knack for property tax and a solid track record in advising landlords.

Should you go for a personal buy or dive into the limited company route?

An Accountant who is a specialist in property tax will be the person who can advise you on this. Tax relief is currently available on the entire mortgage interest at the current basic rate (20%).

Buying a property in your own name

You will pay more income tax if you are a higher or additional rate taxpayer or will become one once your rental income is accounted for. This will mean either reduced profit, or potentially a net loss after tax.

Buying a property via a limited company (special purpose vehicle or 'SPV')

This option can be more tax efficient for higher and upper-rate taxpayers. However, remember that being a limited company comes with other responsibilities. You will be a company director and need to abide by the Companies Act 2006, there is likely to be additional admin time and costs involved, and professional fees may be higher.

What does this mean for my mortgage?

At the moment some lenders will consider offering a mortgage on a limited company basis, and their interest rates and fees will typically be higher than what they offer to personal landlords.

Whether it ultimately works out cost-effective for you depends on your income, mortgage rates, and fees, along with capital gains tax, inheritance tax and income from dividends.

Mortgage Considerations

Deposit

Give some thought to the amount you can comfortably put down as a deposit for your purchase. A higher deposit translates to a lower loan-to-value ratio, often leading to access to products with more favourable interest rates. Let our expert mortgage adviser assist you in figuring out the appropriate deposit for your situation.

Term

The term of the mortgage can vary depending on your needs, age, and budget. You've got a window of 5 to 40 years to play with. Opt for a longer term, and you'll dance with more interest but enjoy lower monthly payments. Go for a shorter term, and you'll pay less interest, waltzing your way to mortgage freedom faster. Our expert mortgage advisor will craft the right term for you—trust us, it's not always about stretching it to the max!

Repayment Option

When it comes to paying off your mortgage, you've got a couple of options on the table. The usual route involves chipping away at both the capital and interest over the suggested term. Stick to your payments, and you'll see that outstanding debt gradually shrink each passing year.

On the flip side, there's the interest-only approach. With this method, you're only tackling the interest, leaving the principal untouched. This means that the outstanding debt does not reduce but will be repaid by some other means that you may have.

Our professional mortgage adviser will recommend the most appropriate for you once they understand your circumstances.

Product Types

We've got a range of products to choose from, and our expert mortgage adviser is here to suggest the right one for you. The primary product options boil down to fixed and variable. With a fixed option, your payments stay steady for a set period, while a variable option lets your payments dance a bit, going up or down based on various factors tied to the product.

Product Fees

Certain products may carry fees set by the lender. Typically, products with associated fees also offer perks such as a reduced interest rate, complimentary valuation, or cashback upon completion. While it's an option to include the product fee in your loan, keep in mind that this will accrue interest and be repaid over the mortgage term. Our professional mortgage adviser will compare the available products for you and discuss your options.

Credit Score

Typically, lenders run a credit check to get a sense of your financial history. Your credit score, a result of this check, plays a key role in the lender's decision regarding your mortgage application. Taking charge of your own credit check might be a good idea, and our expert mortgage advisor can guide you through the process.

Once our expert mortgage adviser gets a grasp of your unique situation and aspirations for buy-to-let, they'll craft a tailored solution that rightly aligns with your mortgage needs.

Other guides

For more information, please ask for our guides on:

- The role of the professional mortgage adviser
- New builds
- Shared ownership
- First time buyer and house-buying process
- Moving home
- Remortgaging your property

You will see from all this information above that mortgages in relation to Buy-to-let properties can be complicated, and it is important to not only understand the commitment that you are undertaking but to ensure that you have the right mortgage borrowing, term, repayment method, product, and lender to suit your circumstances.

Our professional mortgage adviser will guide you through this process.

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CURCHODS
MORTGAGE SERVICES

Wix Hill House | Epsom Road | West Horsley | Surrey | KT24 6DY

Call: 01483 479 070 | email: mortgages@curchods.com

www.curchodsmortgageservices.com

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