Dynamo

A Guide to Finding the Right Buy to Let Mortgage for You

If you are looking to purchase your first buy to let (BTL) property or expand your BTL portfolio, we understand you may have some questions...and we are here to help.

What is a buy to let mortgage?

Buy to let (BTL) mortgages are for people buying a property to rent out. The lending criteria is similar to a residential mortgage but with some differences.

What are the differences?

First of all, not all mortgage lenders offer BTL mortgages. Those that do may lend to first-time buyers, while others will only lend to a seasoned property investor.

You will typically need a higher deposit to take out a BTL mortgage compared to what you would require for a residential mortgage. Usually the maximum loan-to-value ratio (LTV) is 75%, however some lenders will go higher.

As always, every mortgage application is subject to underwriter approval whether it is a BTL or a residential mortgage.

You should seek professional advice on your mortgage options before you start looking for a buy to let property. Our Mortgage Consultants can advise you on lending criteria, budgeting and affordability.

How we can help

Buying a property to rent out is a serious investment, and you will want expert advice before proceeding with the mortgage application or committing to the purchase.

We are part of a national network of professional, qualified mortgage advisers regulated by the Financial Conduct Authority (FCA) and authorised to give mortgage and insurance advice.

Long-standing relationships with our lenders mean we sometimes have access to exclusive mortgage products not available anywhere else. Our Mortgage Consultants have in-depth understanding of each lender's criteria, which is especially important for the buy to let investor. Whatever your situation we can tailor the right mortgage and insurance products to suit your needs.*

What we will do for you

- We have access to buy to let mortgage products from our large panel of specialist lenders, so you can be sure **we will be able to find the right mortgage for you***
- Confirm **how much you may be able to borrow** and all the costs involved
- Take care of all your **mortgage and insurance** arrangements

*Subject to status and lender criteria.

Your mortgage options

There are lots of different types of BTL mortgage products available, and the right one for you depends on your chosen property and circumstances. Our Mortgage Consultants can compare the products available from our lenders and find you a buy to let mortgage that suits your needs.*

Repayment options

Before you choose a mortgage product it is worth considering what repayment option suits you.

There are two main options:

Capital repayment mortgage

This is a lower risk repayment method most common in residential mortgages. You repay the money borrowed in monthly increments, plus interest (a capital repayment). At the end of the mortgage term, as long as you have kept up your monthly repayments, you will have paid the debt completely and own the property outright.

Interest-only mortgage

The monthly payments are lower as you only pay the monthly interest from the original mortgage amount you borrow. At the end of the mortgage term, as long as you have not taken out any additional borrowing, you will still owe the amount you borrowed so you will need to organise a way to repay the debt. Your options for that are called repayment vehicles.**

These could include:

- **Personal pension plan**
  You could use a lump sum from your pension to repay the mortgage balance.

* Subject to status and lender criteria.
** We are not able to advise on suitability of your selected repayment vehicle. If uncertain we recommend that you seek independent financial advice.

- **Sale of the financed property, or another property**
  Lots of investors choose to repay their mortgage from the sale proceeds of the property itself, or another property they own. The risk here is if you do not have enough equity in the property when you sell or if the market puts you into negative equity, you may have to find extra funds to repay the mortgage.

- **Endowment policy**
  This pays out a lump sum after a specific length of time.

Types of mortgage

Fixed rate

Your monthly mortgage payments are fixed for a set amount of time (usually 2–5 years), which is useful when working out your monthly budgets. You are protected from rate increases during this fixed period, but will not benefit from rate decreases.

Standard Variable Rate (SVR)

You pay the lender's current interest rate. You may benefit from rate reductions, however you could be impacted by rate increases too.

Base rate tracker

This follows an interest rate usually set in line with the Bank of England (BoE) base rate for a certain period of time. It is typically higher and you may benefit from immediate rate reductions, but your payments will go up if the rate increases.

Discounted

You pay the lender's standard variable rate, minus a set discount for a fixed period of time, after which it reverts to the SVR. You could benefit from immediate rate reductions, but equally your payment will go up if the rate increases.

Capped rate

Even if the base rate rises, this mortgage rate will not go past a certain amount for a set period of time. If interest rates fall, so will this rate.

Flexible/offset

Offset the amount you are borrowing by linking the mortgage to some savings or current account balances. Some of these products allow flexibility when making repayments or even allow you to make overpayments. With offsetting, you do not earn any actual interest on the accounts you link to your mortgage. Instead, your savings are used to reduce your mortgage balance.

The Bank of England (BOE) Base Rate

The official bank rate (also called the Bank of England base rate BOEBR or BBR) is the interest rate the Bank of England charges banks for secured overnight lending.
Most UK lenders use the base rate to help calculate interest rates on their own products.

Other things to think about

Arrange your conveyancing

Conveyancing is the legal transfer of a property from one owner to another. It includes all the legal work plus a variety of important searches and checks on the property.

Valuation and surveys

Your lender will require a basic mortgage valuation – a report they will arrange themselves, which confirms the property is worth the money you are asking to borrow.

There are also three main surveys which you might want to consider:

RICS Home Survey Level 2 (survey only)

This is a report suitable for conventional properties, built from common building materials and in reasonable condition. The focus of the report is on assessing the general condition of the main elements of the property.

RICS Home Survey Level 2 (survey and valuation)

This report is as above, but also includes the surveyor's professional opinion on the 'market value' of the property and an insurance reinstatement figure.

RICS Home Survey Level 3

This is a report suitable for a larger, older or run-down property, a building that is unusual or significantly altered, or if you are planning major works. It provides detailed information about the structure and fabric of the property.

We can help you choose which survey you will need for the property and arrange it for you on your behalf.

Fees

Although there are some mortgage products without fees, some do have costs. Our Mortgage Consultant will discuss these fees with you. Here are some fees you may incur to secure your mortgage with a lender*:

- Arrangement fee – paid to the lender for arranging your buy to let mortgage

- Booking or reservation fee – usually charged upfront, it reserves the buy to let mortgage you have been offered while your application is being processed

- Broker fee – this is a fee payable to us for our advice and the administration of your mortgage application

- Legal fees – costs incurred by your conveyancer for the legal work required for a buy to let mortgage

- Valuation/survey fee – pays for the valuation/survey carried out on the property

- Stamp Duty – this is a one-off fee that buyers have to pay the government on properties worth over a certain amount.

In Scotland stamp duty is called Land and Buildings Transaction Tax, and in Wales it is called the Welsh Land Transaction Tax. Depending on the property value you may be exempt from stamp duty, particularly if you are a first-time buyer. We can tell you about this, or you can check the government website for current thresholds.

Secure a mortgage

Deposit

Typically you may need to raise at least 25% of the value of the property to get a buy to let mortgage.

*The total fees payable will depend on your lender.

That means if you were buying a £100,000 property you would need to raise at least £25,000 before applying for a buy to let mortgage.

However, if you raise a larger deposit, you might gain access to buy to let mortgage products with lower interest rates which could potentially result in lower monthly payments.

If you are funding your purchase with the sale of another property, your equity may cover your deposit.

How much can you afford to borrow?

How much you can afford to borrow for a buy to let mortgage depends on lots of things: your income, expenditure, financial situation and personal circumstances are all factors. If you are buying a property with someone else, their income and financial situation will also be taken into account.

Lenders need to know much more about you than just your salary before making a decision on how much they are willing to lend by way of a buy to let mortgage. The lender will look closely at your financial history and existing commitments before making a decision. This is done for every mortgage application.

Each lender's criteria can be a little different, so what might be enough for one is not guaranteed to be accepted by another. Speak to one of our Mortgage Consultants who can explain each lender's criteria and advise you on what you can afford.

Secure a Decision in Principle/Agreement in Principle

A decision in principle (DIP) or an agreement in principle (AIP) is confirmation that a lender has checked your finances and is willing to lend you a certain amount as a buy to let mortgage, subject to underwriting.

How to apply for a buy to let mortgage

Once you have found a property and want to make a buy to let mortgage application, our Mortgage Consultant will complete the paperwork. Please have to hand original copies of the following documents. Do not worry if you do not have them all to hand – our Mortgage Consultant will advise where to send the documents you need, depending on the lender.

Photo ID

- Valid UK/EU passport
- Valid driving licence (if not being used for address verification)
- Valid firearms ID card
- National ID card

Income proof

- Latest P60 and last 3 months' payslips (some lenders may accept less than 3 months' documents)
- If self-employed, last 3 years' audited accounts/SA302 form, including tax year overviews (some lenders may accept less than 3 years' documents)
- Accountant's certificate (which includes their name and address)
- Proof of any bonuses/recent pay rise
- Pension/benefit statements

Address verification

- Utility bill dated in the last 3 months (not a mobile phone bill or junk mail)
- Valid driving licence (as long as the address is correct and it is not being used for photo ID verification)
- Annual council tax bill
- HMRC/DWP letters dated within the last 3 months
- Last 3 months' bank statements (showing income and expenses)
- Latest credit card statement
- Latest mortgage statement (if applicable)

If you are making a joint application, we will need to see those documents for both of you.

Once our Mortgage Consultant has recommended a buy to let mortgage based on your circumstances*, they will submit a full mortgage application to the lender with certified copies of your documents (to prove they have seen the originals), details of the property and the conveyancer you are using to complete your purchase.

The lender will process your application and arrange a mortgage valuation/survey on the property. This is the point you may want to consider a survey upgrade for your own peace of mind (please refer to the valuation and surveys section on page 7).

Mortgage offer

Once the lender is satisfied with the results of the valuation report and the details you provided as part of the buy to let mortgage application, they will be in a position to issue a mortgage offer. A copy will be sent to you and your conveyancer, who will continue to work towards exchange of contracts and completion.

*Subject to status and lender criteria.

Insurance

Protecting your investment

The buy to let mortgage lender will require you to have buildings insurance suitable for landlords in place from the point you exchange contracts on a freehold property. Landlords Insurance is a type of buildings/ contents insurance that is tailored specifically for landlords to ensure essential covers are in place, such as Landlords Property Owners Liability and Loss of Rent Cover. These elements of cover protect against third party claims and lost rent if the property becomes uninhabitable.

There are other insurance products you may also want to think about:

- Contents insurance
- Life insurance
- Critical illness
- Income protection

For more information, speak with a member of our Protection Team.

Making a will

If you have not made a will, investing in a property that will form part of your estate is a really good reason to finally do it. Planning what happens to your money, possessions and property would save your loved ones additional stress, worry and cost at a difficult time.

Our will-writing partner can provide a simple, straightforward service for your peace of mind. Just ask our Mortgage Consultant for details.

Contact us: www.dynamo.co.uk 01276 601040

Any fees payable will be explained in your initial no-obligation appointment, before you choose whether to use our Mortgage Services.

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