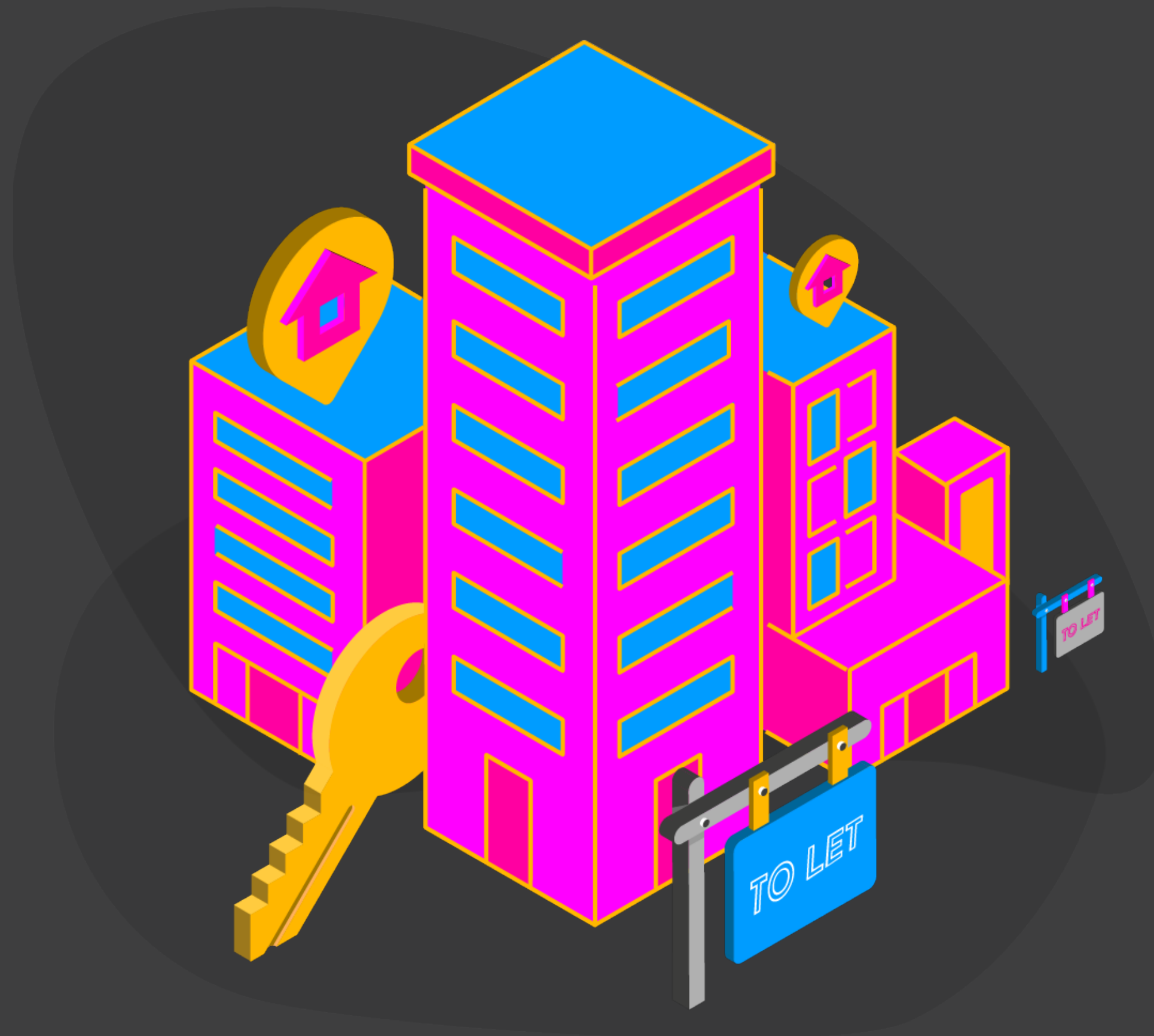


UKMC

**UNCOVER THE
BENEFITS OF
BUY-TO-LET
MORTGAGES**



**WHATEVER YOUR STRATEGY,
INVESTING IN PROPERTY CAN
BOTH BOTH EXCITING AND
FINANICALLY REWARDING.**

**THERE ARE SO MANY OPTIONS
WHEN IT COMES TO INVESTING IN
PROPERTY, WHETHER YOU WANT
TO JUST BOY THE ONE FOR LONG
TERM CAPITAL GROWTH, THINKING
ABOUT YOUR RETIREMENT, OR, IF
YOU WANT TO BUILD YOUR OWN
PROPERTY EMPIRE , WE GOT YOU
COVERED**



WHAT IS A BUY TO LET MORTGAGE?

BUY TO LET MORTGAGES ARE FOR LANDLORDS THAT WANT TO BUY PROPERTY TO RENT OUT TO A TENANT AND GENERATE AN ADDITIONAL INCOME.

Buy To Let mortgages do have a lot of similarities to a standard mortgage (you'll find that most lenders will have some form of Buy to Let mortgage product), though there are a few things around the criteria that are different.

For example, Buy To Let mortgages affordability may be assessed on how much Rental Income can be generated, rather than the amount of money you earn. the product fees and interest rates tend to be a little higher than a standard mortgage and its usually easier to have these mortgages on an interest **Only repayment basis.**



WHAT IS A BUY TO LET MORTGAGE?



HOW DO BUY TO LET MORTGAGES WORK?

Typically, Buy to Let mortgages are a bit more expensive than the type of mortgage used to buy your own home. That's because traditionally, lenders see getting rent from tenants to be more of a risk than a homeowner making their own monthly mortgage payments. You also need to be aware that lenders will take into account extras such as maintenance costs, agent's fees and landlord's insurance when working out how much you can borrow. See on your credit file.

WHO CAN GET A BUY TO LET MORTGAGE?

A Buy to Let mortgage can be for someone who wants to become a professional landlord or already owns properties and wishes to add to their portfolio. Others who may need to apply for a Buy to Let mortgage are 'accidental landlords' - those who own their home but would like to rent it out. If it's for less than a year, you can apply for a Consent to Let. For longer than this period, you may want to think about switching to a Buy to Let mortgage. Becoming a landlord might be planned, or by default you inherit a property. Either way, the asset you have can help towards your overall property investment strategy.

HOW MUCH CAN YOU BORROW WITH A BUY TO LET MORTGAGE?

The amount you can borrow with a Buy to Let mortgage is calculated in a different way to most other mortgages:

- Your mortgage amount is typically based on how much income you will earn renting out the property. This is what's called your Income Coverage Ratio - it's there to make sure your rental income is enough to cover the total cost of your mortgage and associated fees.
- Lenders also use something called stress rate. This factors in your income and existing debt to calculate whether you could afford a higher rate of interest.

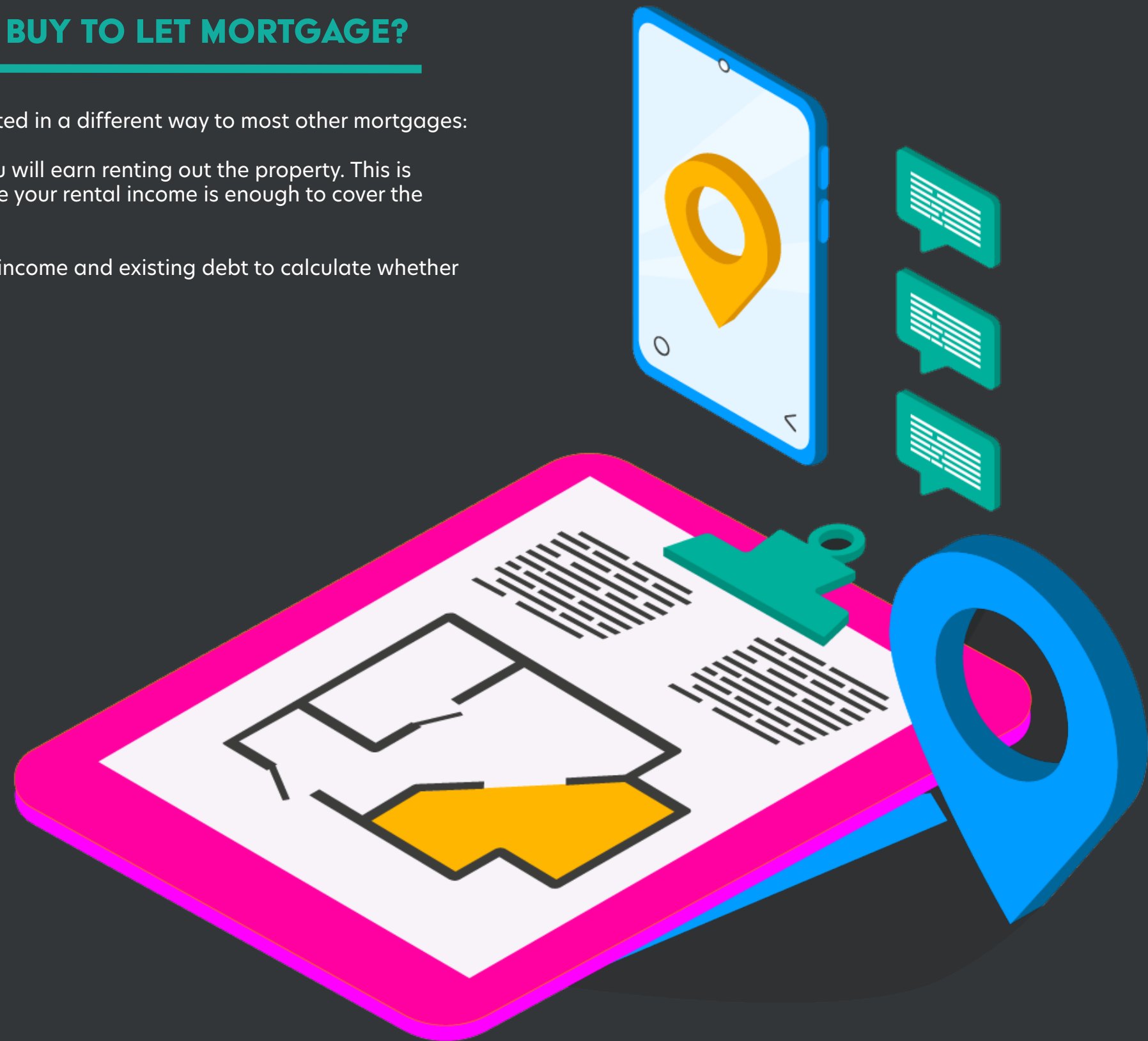
The stress rate and Income Coverage Ratio (ICR) may be impacted on your current tax position.

For example:

If you are a basic rate taxpayer, your ICR may be set at 125%

If you're a higher rate taxpayer, your ICR may be set at 145%

This is to ensure the mortgage remains affordable to you, even with any potential rental voids or interest rate rises.



TYPES OF BUY TO LET MORTGAGES:

Unlike residential mortgages, most investors have a buy-to-let mortgage on an interest-only or capital & repayment basis. It's common for people to choose interest only so your monthly payments only pay off the interest, rather than the reducing the capital amount that you owe.

This naturally increases the monthly cash flow however, the whole of the original amount borrowed will therefore still be owed at the end of the mortgage term, so the lender will want to know that you have a plan to repay the outstanding amount - which is most often the sale of the property you are buying. Interest-only mortgages are cheaper per month than repayment (as you are not making any payments towards the loan itself), so are popular with landlords who want to generate the maximum income each month. However, if you prefer to own the property outright over time, a range of repayment mortgages are available, including fixed rate, discounted rate and tracker mortgages. Sometimes Buy To Let mortgages are only available through Mortgage Advisers - so feel free to contact the team if you have any questions.

INTEREST RATES:

Because of the increased risk involved in Buy-To-Let property, mortgages tend to have slightly higher interest rates, although at a time of generally low rates the difference is relatively small, especially if you have a good sized deposit.

PRODUCT FEES:

The fees paid to the lender can be much higher with a Buy-To-Let than with a residential mortgage fee-free deals are not so common as they are with residential mortgage, with fees ranging from £150 to well over £3,000. Some lenders charge a fixed fee, some charge a percentage of the loan. You still have the option though, to add any product fees onto your mortgage should you wish too - your adviser will explain this with you.



WHAT COSTS ARE INVOLVED?

LEGAL FEES

Like all property purchases, you'll need a solicitor, especially if you're purchasing with a mortgage.

INSURANCE

You will need buildings insurance from the moment of exchange of contracts, and you will need to declare to your insurer that the property is tenanted. You may also want to consider Landlord insurance that would cover you for loss of rental if the property was uninhabitable after a fire or flood, legal expenses insurance if you need to evict a tenant and tenant default insurance that protects you when a credit-checked tenant fails to pay the rent.

SURVEY

Many home buyers still consider having an additional survey carried out by an independent RICS chartered surveyor. They are often know as Level 2 (Homebuyers Report) or Level 3 (Structural Survey).

SAFETY REQUIREMENTS

As a landlord you need to make sure the home has an Energy Performance Certificate, a Landlord Gas Safety Certificate for any gas appliances that is updated every year, and working smoke detectors (and in some cases carbon monoxide detectors).

BROKER FEE

If you use a mortgage broker to help you get the best deal on your mortgage, you will usually have to pay a fee for the advice and, or arrangement of your Buy To Let Mortgage.

VALUATION FEE

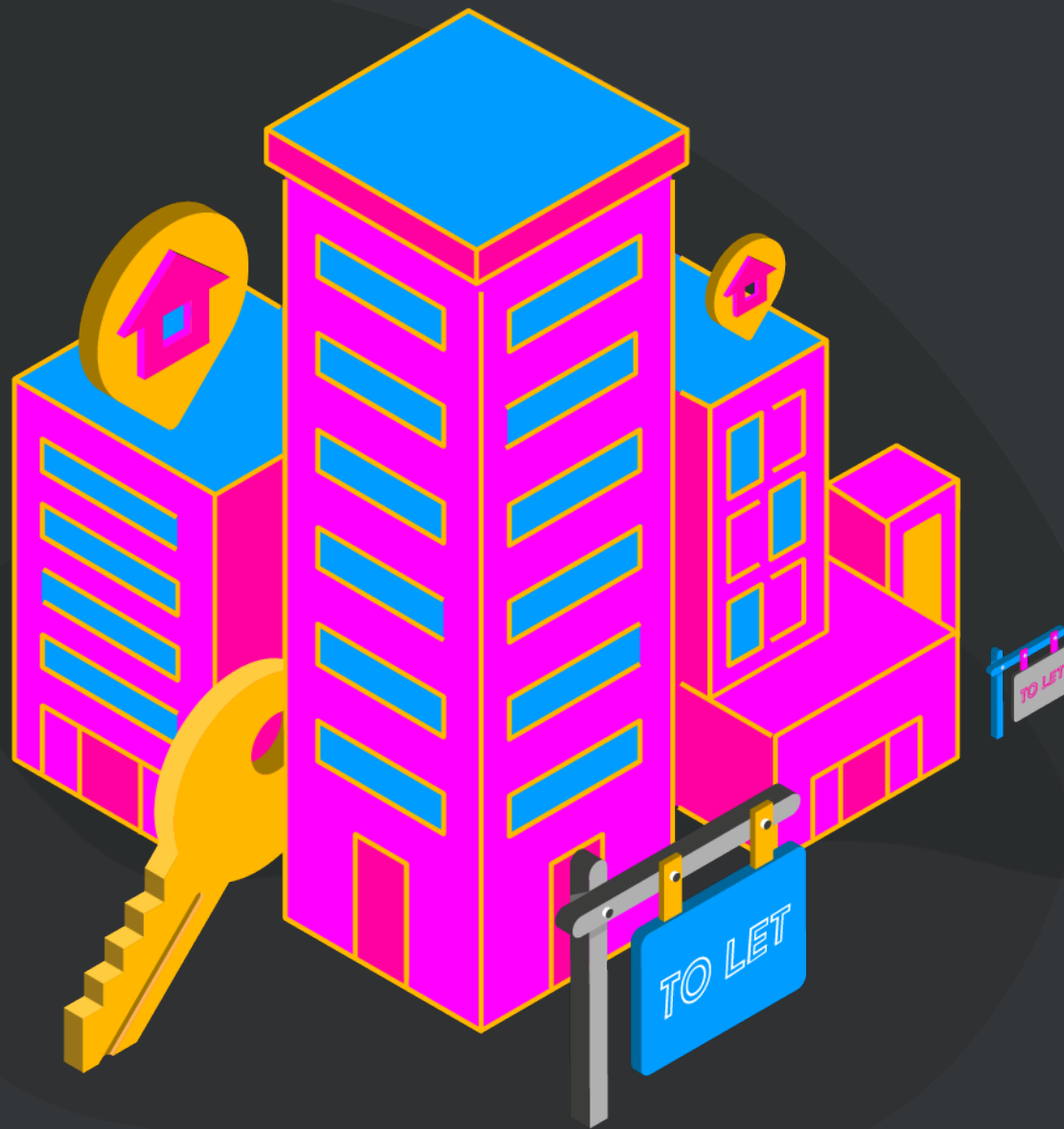
Before giving you a mortgage, the prospective lender will need to value the new property. This day in age, many lenders opt for desktop valuation to ease and speed of the mortgage application process. They also may be a fee for the valuation and it can be dependent on the size of the property.

STAMP DUTY

Stamp Duty Land Tax is paid when you purchase a home. Those who already own a residential property (whether they live in it or rent it out) have to pay an additional 3% on top of the standard Stamp Duty rates.



IF YOU DON'T FANCY PAYING SO MUCH EXTRA TAX ON YOUR RENTAL INCOME, YOU COULD THINK ABOUT PURCHASING A BUY-TO-LET PROPERTY THROUGH A LIMITED COMPANY.



The sums don't add up for everyone so you would need to take expert advice before making such a leap. If the property is owned by a company, all costs, including mortgage interest payments, can be deducted as business expenses.

The company pays corporation tax on profits. The tax rate is currently set at 19%. As a landlord, you can draw income in the form of dividends. In 2021-22 the first £2,000 of dividends is tax-free but you pay tax on further withdrawals at:

- › 7.5% as a basic-rate taxpayer
- › 32.5% if you fall into the higher-rate bracket
- › 38.1% for additional-rate taxpayers

Capital gains is also a consideration as the company will be liable for corporation tax on gains if a property is sold at a profit. Then you'll pay income tax if you need to withdraw the money.

SPECIALIST LENDERS:

If you're considering setting up a Limited Company to own properties, it's best to seek the best advice possible. There are lender that will lend to your newly formed company from Day 1 - however, you'll need to ensure you have the correct SIC codes!

- › 68100 Buying and selling of own real estate
- › 68209 Other letting and operating of own or leased real estate
- › 68320 Management of real estate on a fee or contract basis
- › 68201 Renting and operating of Housing Association real estate

BUYING A PROPERTY TO LET OUT CAN BE A SOUND INVESTMENT LONG TERM, IT CAN PROVIDE REAL LONG TERM CAPITAL GROWTH AND ADDITIONAL INCOME - BUT IT ALSO TIES UP LARGE AMOUNTS OF MONEY AND COULD COME WITH SOME RISKS, SO IT'S NOT A DECISION TO BE TAKEN LIGHTLY. BEFORE PURCHASING A BUY-TO-LET PROPERTY, CONSIDER THE FOLLOWING:

HAVING YOUR MONEY TIED UP

Consider how long it could take to get access to your money again. With other investments, such as shares, you can sell straight away and have cash in a few days, but it can take three to six months to sell a property - maybe even longer! On top of that, get the best sale price it might need some essential repair works to sell quickly.

SELLING

If you change your mind about being a buy-to-let landlord there are considerable costs in selling, in particular legal fees for conveyancing and possible Early Repayment fees on your mortgage.

RISK VS REWARD

While property is historically a good investment, it is not fool-proof; house prices can fall for many reasons - national economic issues, local blighting from a new development, bad neighbours or a property falling into disrepair, so it's possible you could lose some of your original investment should the conditions change not so much in your favour.

EPC RATING

As part of the governments initiative to ensure we're striving to become a carbon neutral society, new rules have been introduced that all Buy to Let properties must be upgraded to an Energy rating of C or above by 2025. So keep this in mind whilst viewing potential properties.

ONGOING COSTS

You will find periods when you are between tenants when no rent is coming in but the mortgage still needs to be paid, and all homes require some level of repair and routine maintenance, so you have to be prepared for periods when you will be paying out rather than receiving a return. We'd recommend that you have a contingency fund in place to cover rental voids which may mean you leaving any profit you make for the first year, or two, in a separate account.

You may also want to factor in any Letting Agents fee for the management of the property, depending on service, you'll usually pay a % fee of the rent each month.

TAXATION

Don't forget that you will need to declare the money you make as a landlord, and this will usually involve an annual tax return.

Over recent years, legislation has changed, especially for those that are already in a higher rate of tax. So before you begin your investment journey, it's important to understand your overall tax liabilities each year.

LEGISLATION

Being a landlord comes with some legal responsibilities, particularly about the safety of the building, as well as checking the immigration status of tenants, so you need to be willing to keep records and do some paperwork (or pay a letting agent for full management).

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**As a mortgage is secured against your home, it could
be repossessed if you do not keep up the mortgage
repayments.**

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

The Financial Conduct Authority does not regulate taxation advice and some as-
pects of Buy to Let Mortgages.

The Levels and bases of and reliefs from taxation are subject to change.

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buy-to-let mortgages.

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