Mortgage Guides

by Key Mortgage Advice

Buy to Let Mortgages

Talk to the experts

What is a buy to let mortgage?

- If you wish to purchase a property that will be rented out to private individuals, to students or a family, you will need a specialist mortgage called a Buy to Let Mortgage
- These types of mortgages are available from most of the main banks and building societies and you can choose the same types of products that you would on a residential mortgage, for example fixed and tracker options
- Interest rates are very competitive, but priced slightly above a residential mortgage
- Both interest only and capital repayment options are available for the client to choose from, with the sale of the buy to let property often considered an acceptable repayment vehicle
- You need a larger deposit for a buy to let mortgage – normally 20-25%, although a few lenders will offer you an option of having a 15% deposit as a minimum
- You or your family won't be able to ever live in a buy to let property and the lender will base the amount of mortgage on offer to you calculated on the rental income you plan to receive from the property
- You can also arrange a buy to let mortgage in the name of a limited company which may be more tax efficient
- There are also specific mortgages for holiday let scenarios

How much can I borrow?

- Lenders often don't allow first time buyers to arrange a buy to let mortgage, but there are a few exceptions in banks
- Many lenders need at least one applicant to be a home owner
- Income earned by an applicant is not necessarily "assessed" to ensure affordability for a buy to let, however most lenders expect the applicants to be earning a minimum income – often £25,000 pa
- Many buy to let mortgages allow for lending past the normal state retirement age
- A close family member cannot be the anticipated tenant in a buy to let purchase
- It is possible to lend to a house of multiple occupations, which include student accommodation
- Properties can be considered where the applicant is buying a property with the tenant in situ
- Some lenders will consider multi-lets where a property is split into self-contained units all on just the one freehold title
- You cannot use Help To Buy or a shared ownership property for a buy to let purchase
- Lenders generally expect the property the client is buying to be in a lettable state from completion, therefore properties in need of renovation are often not suitable

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How can you assess whether a property will meet the rental yield requirements for a lender?

Follow this example calculation to ensure the property you have in mind would satisfy the lenders underwriting policy regarding rental yield:

Purchase price **£150,000** Deposit required – **25%**

Mortgage being borrowed - **£112,500**

Calculation:

(Mortgage borrowing x **5.75%**) x **125%**

Divide the answer by 12 to give the minimum amount of rental income per month the property needs to achieve

£112,500 x **5.75% = £6,468.75**

x **125% = £8,085.94**

Divide by 12 = £673.82

The property in the above calculation needs to achieve a minimum of **£673.82** in rent per month

Remember

- 3% extra stamp duty is payable on buy to let or holiday let properties
- Make sure you get tax advice to ensure you buy an investment property in the most tax efficient way
- You can get relief of mortgage interest for holiday lets as they are treated as a business by HMRC

How do lenders calculate the amount you can borrow?

- Lenders will expect the rental income to cover the proposed mortgage payment at 125%, based on a higher 'worst case' standard variable rate
- The calculation is worked out on the mortgage payment being interest only, regardless of how the client plans to repay it
- There are different rules for higher rate tax payers and lenders will generally need the mortgage payments to be covered at 145% for these clients
- If you have more than 4 buy to let properties, you will be classed as a portfolio landlord and stricter rules apply. The banks you can approach will be limited and the lenders may insist on the rental coverage being greater
- Lenders will often consider the background portfolio of investor landlords to make sure that the overall borrowing based on the value of all their properties does not exceed their limits, and they will often check that the rental income of all the properties combined covers the mortgage payments based on their calculations
- There are some options for clients who have a strong income to support properties with lower rental yields that do not meet the bank's calculations, these are often specialist lenders and not the main high street banks, however they still offer competitive rates and flexible products

Need help? Book your FREE appointment with us now!

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