WBW

MORTGAGES

Introduction

Whether you are an experienced property landlord, or a first time investor, we trust you will find this guide valuable. When borrowing to invest in a rental property it is important to ensure you have a clear understanding of the process and your knowledge is up-to-date.

This guide will help to clarify the terminology, benefits, risks and associated costs of borrowing to invest in rental property.

Here to Help You

Buying your first or next investment property can be a daunting prospect. There are many questions you will need to ask yourself:

Then come the mortgage-related ones such as:

- How much will it cost?
- What return will I get?
- Can I afford it?
- How much deposit will I need?
- What type of mortgage do I want?
- Will I get a mortgage?

The buy-to-let market is complex. There are many different mortgages to choose from.

So it's good to know that, as your adviser, we are on hand to answer your questions. We will help you with the tricky process of not only getting a mortgage, but getting the right mortgage.

Our Role is To:

- Ensure you do not waste money unnecessarily by paying a higher monthly amount than you need to for your borrowings
- Save you time and effort by recommending the most appropriate solution
- Stop you missing out on the most cost-effective way of arranging your loan.

We take pride in offering a personal service that takes into account your individual circumstances. Your financial situation is unique, so we work hard to understand your goals and aspirations, and make financial recommendations based on a comprehensive and detailed analysis of your needs.

To help clarify technical terms and jargon, we have included an A-Z glossary, which is based on our understanding of taxation, regulation and legislation for the 2021/2022 tax year.

This communication does not constitute advice and should not be taken as a recommendation to purchase any of the products or services mentioned. Before taking any decisions we suggest you seek professional advice.

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Why Buy-To-Let?

The introduction of assured shorthold tenancies in 1997, which made the rights of tenants and landlords more equal, created the buy-to-let market that exists today. Some say buy-to-let has forced up property prices. There is no doubt it has a part to play as first-time buyers are getting older and younger people are renting.

The whole point of buying-to-let is for its investment potential – both capital growth on the value of the property and the income it generates in rent. Buy-to-let lending is to support investment, not home ownership. It is important to note that lenders carry out post completion checks in relation to scheme abuse to see who is residing at the property.

There are risks like any investment. For example:

- if you are considering cancelling or surrendering any existing investments in order to purchase a property to let, there may be cost or tax implications. You should seek financial advice before considering these options
- there could be difficulties with tenants who breach
- agreements impacting time and legal fees, as well as income
- periods of rental voids if the property is not tenanted (during redecoration or change of tenants)
- the higher the sum borrowed the more you are at risk of rent not covering your loans or expenses
- investing in a single property can result in a lack of diversity if you do not already have a good spread of existing investments. You may be better off doing so, even if this triggers early repayment charges payable to your existing lender, as this could still mean a net saving to you.

Choosing the right property

While WBW doesn't provide advice on the suitability of investment properties, we have included some things you should consider.When choosing a property to let, your main considerations are different to those you might apply when choosing a house in which to live.

For example, you might not choose to live in an area heavily populated by students, but when looking for rental potential that same area may be exactly what you're looking for.

Choosing the right property with the right rental yields is important. This is true not just for your income but also because you want the rent to more than cover the cost of your buy-to-let mortgage.

The Association of Residential Letting Agents (http://www.arla.co.uk) produces a booklet giving you tips on what to look out for when choosing a buy to let property. Their site also has guidance and advice for both first time and experienced landlords.

Finding the right mortgage

The buy-to-let mortgage market is a specialised one. In April 2014 the mortgage industry implemented the changes that came from the Financial Conduct Authority's (FCA) Mortgage Market Review (MMR). The MMR changed the face of mortgage lending, forcing lenders to pay much more attention to affordability and expenditure rather than simply assessing gross rental income.

Lenders view buy-to-let mortgages as higher risk than residential mortgages because they know that many landlords rely on rental income to make the mortgage repayments and if the property is vacant for a period there is no income. Because of this perceived risk, interest rates tend to be higher than residential mortgages. The lender will also demand a larger deposit.

Typically in the current market you will struggle to borrow more than 75% of the property value, and any lender will look for rental income that covers around 125% of the mortgage repayments. A lender will expect you to prove the rental income potential too.

The Mortgage Application Process

Borrowing check - amount, affordability, how much, deposit, fees and costs budgeted for, applied for credit file, seek a decision in principle	**Scottish buying process** Buying a property in Scotland is different to England and Wales, in the way you make and agree your offer, as well as gain entry to your new home. **Fixed price v offers over** There are two ways of buying a property – 'fixed price' (where the person selling the home dictates the exact price they are willing to accept) and 'offers over' (where the person selling receives offers over a given price). Fixed price is effectively a 'first to offer the price wins' race. Offers over is more like 'blind bidding' as a deadline is usually set, offers made and the person selling the house can choosen their preferred buyer (usually on price). **Concluding missives** This happens normally around two weeks after the offer has been accepted, and searches have been done. It is similar to 'exchange' in England and Wales, in that the contract is binding afterwards. **Date of entry (settlement)** Similar to 'completion' in England and Wales, this is when funds have been drawn down from the lender and keys to the new property are made available.
Offer accepted	
Mortgage recommended and application sent	
Mortgage underwritten - validation checks on property, income & expenditure. More information may be required as a result to satisfy lending requirements	
Valuation instructed - mortgage or structural?	
Mortgage offer obtained	
Exchange of legal contracts - check that your required protection provisions are in place	
Completion of legal contracts - funds drawn down from lender	

While this is a very structured process, please be aware that there are things that can delay progress that are outside of our control (e.g. property not valuing to the levels expected, further proof of income required by lenders).

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A-Z Mortgage Glossary

A-Z Glossary to Buying a Rental Property

This is a yearly renewable cover that provides payment for a short period of time if accident, sickness or unemployment occurs. Often there is a deferred period after the point of claim (e.g. six weeks), and it is after this point that benefits are then paid. Benefits are normally only paid for periods of up to two years. Be aware that premiums will vary at renewal each year.

At the moment it is easy to lull yourself into believing you can afford the mortgage you need - mortgage rates are at all-time lows and feel easily affordable.However, you need to ask yourself if you can afford your mortgage payments if interest rates rise and whether you can repay the capital if house prices fall.

Let's say you manage to find a mortgage with an interest rate of three percent, fixed for three years. That's a great rate. After three years you find interest rates have gone up and the best deal you can now get is six percent. That's an increase of three percentage points but, more frighteningly, your interest rate has increased by 100%. Will your net take home pay have increased at the same rate?

You should budget on the assumption that interest rates will rise during the term of your loan. So be sure you can afford your mortgage repayments when that happens, not just now.

This is the interest rate that takes into account the total charge for lending you the money each year. It includes the added costs of the loan (such as arrangement fees), as well as factoring in the frequency that interest is charged (daily, monthly, quarterly or annually). This results in a figure that shows the equivalent rate on an annual basis. While this is a good initial benchmark for comparison, it should not be looked at in isolation as the only way to choose your mortgage.

These may be attractive to the price you pay for the property. Be aware that some lenders may restrict the amount they lend in relation to these types of contracts. This protects them against market sentiment and may mean you have to invest more of your own deposit.

This is insurance that protects the property, fixtures and fittings. It can protect against fire, flood, subsidence and accidental damage. A key point to note is that the amount of cover chosen is to cover the rebuilding cost of the property, which is often different to its market value. The amount you have to pay towards any claim is called an excess, and can vary depending on what is being covered (e.g. subsidence, fire).

The stage in England and Wales where the property ownership finally changes for a purchase. Your conveyancer arranges for your deposit and lender monies to be paid to the person selling and completes the legal documentation.

This insurance protects items that can easily be removed from a property. Cover can be for risks such as fire, theft or accidental damage. The amount you have to pay towards any claim is called an excess, and can vary depending on the item covered and what it is being insured against (e.g. accidental damage, theft).

The job of a conveyancer (or solicitor) for a purchase is to help:

- Carry out a search of local planning information for items that may impact the value (e.g. upcoming land developments, new roads)
- Prepare a fixtures, fittings and contents list – this makes it clear what you are buying (e.g. kitchen appliances, lights, carpets)
- Confirm from the vendor whether they are aware of any material, structural or other defects to the property that you should know about
- Obtain proof that the property legally belongs to the person you are buying it from
- Research and find the property's legal boundaries
- Review and advise you on the contract for sale (prepared by the seller's solicitor)
- Agree a completion date.

Most lenders will be prepared to accept your choice of conveyancer, as most experienced solicitors will have acted for the lender in question before. However, it can be best to check beforehand.

These agencies hold information on most UK adults. That data helps lenders assess the risk of lending to a specific person. There are a number of agencies in the UK, the main ones being Experian, Equifax, Callcredit and Checkmyfile. You can request a copy of your credit file from them, which is very worthwhile. You may be charged for this and some also have a monthly fee, so take care to check their terms and conditions.

To help a lender assess your application, it is usual that they will use a form of scoring system to decide whether to accept your application. Different lenders give different levels of importance to your circumstances, and some set a higher pass mark than others.

It is normally based on three core areas:

- Public record information (e.g. the electoral roll)
- Credit account information (e.g. records of amounts of loans and your payment history), and
- Search information (e.g. the number of applications you have made for credit)

This means that care is required to ensure you approach the most suitable lenders, as an application will be recorded as a search (even if unsuccessful) and can then influence other lenders' decisions .

- Check your credit file – the information isn't always accurate and you can ask the agency to correct any inaccuracies
- Make sure you're on the electoral register – lenders can be a bit suspicious of anyone not registered to vote
- Check your address is current on all your credit, bank and mobile phone accounts – you don't want to give the impression that you have more than one address
- If you have credit cards you don't use, close the accounts – having several credit cards can count against you
- If you've never had credit in the past, apply for a credit card so you can build a credit score
- Make sure you pay all your bills on time – being only a few days late can result in a default showing on your credit file
- Avoid using payday loans – it will make you look like someone who can't manage money.

This is insurance that pays out when a defined medical event occurs. For example, following a heart attack, stroke, cancer or some other specifically defined critical illness.

Cover is for a set term, which may be equal to a mortgage term, for when children have grown up, until retirement or another life stage milestone. It may be worth considering having one policy for

a set term to cover the mortgage, and another that will provide money to help provide for your different lifestyle if a serious illness happens.

Most people choose a lump sum to be paid out. There is the option of receiving it as set income over the term remaining, which is often a lower cost option.

Lenders are no longer happy to take all the risk of buying your next property, and so do not lend 100% of the value of the property. If you are unable, in the future, to pay your mortgage, the lender needs reassurance that it can take your home and cover the loan by selling it.

Less risk taking means lower loan-to value (LTV) ratios, and personal deposits need to be larger than in the recent past.

The source of the deposit may come from your current property, savings, inheritance or a gift. Be aware that deposit loans from family and friends can still not be accepted as a source of deposit by some lenders, or can influence how much they may lend you.

It is a legal requirement that you disclose your circumstances fully and accurately. Also, non-disclosure of credit commitments, missed payments, County Court Judgements (CCJs), accurate address history, and number of dependents will have a big impact on your application now and also on any future application for financial services (as evidence of this may be loaded onto fraud databases).

Disclosing any issues to a lender does not automatically mean the application will be declined - indeed many lenders have provision for this type of business.

You may wish to consider obtaining a credit report to identify any historical or current credit issues, as well as check your past address history.

During the completion stage, this is when funds are released from your lender to be used for the property purchase.

This is normally shown as a percentage of the loan but can also be a fixed fee. They apply if you repay your loan during any special incentive periods (e.g. discount). Some products extend that time beyond the initial period so be aware.

Part payments can also sometimes trigger this, although most lenders allow a small percentage a year to be repaid without this happening.

In England and Wales, this is the stage after which you are legally committed to purchase the new property. Usually deposits will be moved to the vendor's conveyancer, so if you withdraw from the process you will lose the deposit. Insurance and protection should be in place at this point.

The difference between the value of your home and our outstanding mortgage is known as equity. You could use the equity in your home as your deposit for your new mortgage. Less risk-taking by lenders means lower LTV ratios, so the more equity the better. If you get into trouble making your mortgage repayments your lender needs to be sure it can cover the outstanding mortgage by taking your home and selling it. The lower the LTV the more chance your lender has of achieving this.

To get the best deals on interest rates you'll need around 20% equity. As a rule, the more equity you have, the lower your interest rate.

This cover will pay out if death occurs, and provides an income per year for the term remaining on the policy. For example, for a 20-year term, where the claim occurred after five years, there would be 15 annual payments made in total.

The payments are not normally subject to income tax but may impact some state benefits.

If you own the freehold of a property, it means that you own the building and the land it stands on.

Most lenders calculations are based on unfurnished rental agreements, irrespective of how you intend to let out the property. This can give lower rental and lower yields while lowering the amount you can borrow against your expectations. The cost of fittings also needs to be considered, as well as budgeting for their maintenance.

This is where the seller decides to take a higher offer, even after initially accepting yours. This could leave you out of pocket on expenses like the legal costs and survey fee. In England and Wales, the sale is secured by law only when contracts have been signed and exchanged.

Under the Scottish system, the seller confirms his acceptance of the offer. If the seller then gets a better offer and wants to change his mind, his solicitor will refuse to act for him on the new transaction – as doing so would leave him open to charges of professional misconduct. Rival solicitors are free to take the business if they wish, but this seldom happens in practice.

A guarantor doesn't have to be a parent but usually is. A guarantor takes on some of the risk of you being unable to meet your repayments. The lender will normally require your guarantors to offer their property as security against the guaranteed part of the mortgage.

Technically they become immediately liable to repay the outstanding loan if you are no longer able to make your payments. In reality what usually happens is an agreement is made between the lender and the guarantor, so they maintain payments until you are able to do so.

The amount of lenders willing to consider this for buy-to-lets is very limited.

This was previously known as a mortgage indemnity guarantee (MIG). It is where high LTV lending happens and an insurance policy is taken out by the lender to protect itself – should you default and property values decline.

This cost is passed on to you through this charge. Not all lenders charge this as high loan-to-value loans are rare for buy-to-lets.

If your property will have multiple occupants, you must check to see whether you require a licence (www. propertylicence.gov.uk). You will find that this will limit the number of lenders willing to consider your application.

With an interest only mortgage, your payments to the lender cover only the interest on the loan (i.e. they do not repay any of the capital). The total amount of your debt does not reduce over time and the full amount of the loan still has to be repaid to the lender at the end of the term, so you will need to ensure you have that money ready.

So you can make this final payment, you can invest so that you generate enough capital to repay the loan at the end of the term. If you choose to invest, some investment vehicles can have tax advantages and when you move or remortgage, your investment vehicle can usually be reallocated to the new mortgage.

However, there is no guarantee that your chosen investment vehicle will grow sufficiently to repay your loan (although you can usually top up your contributions to investments as you go along if this looks likely to be the case).

When you buy property you must pay tax based on its value. In England, and Northern Ireland you pay Stamp Duty Land Tax (SDLT); in Scotland you pay Land and Buildings Transaction Tax (LBTT); and in Wales you pay Land Transaction Tax (LTT). The rate at which you pay tax is based on the price of the property and becomes progressively higher as you move through price bands. From April 2016 there were higher rates of SDLT and LBTT on purchases of additional residential properties, such as buy-to-let. The current rates of SDLT, LBTT and LTT for additional properties are:

Up to £500,000	Up to £250,000	Up to £125,000	3%
n/a	n/a	Over £125,000 to £250,000	5%
Over £500,000 to £925,000	Over £250,000 to £925,000	Over £250,000 to £925,000	8%
Over £925,000 to £1.5 million	Over £925,000 to £1.5 million	Over £925,000 to £1.5 million	13%
Above £1,500,000	Above £1,500,000	Above £1,500,000	15%

You can find an SDLT calculator on the HM Revenue and Customs website at https://www.tax.service.gov.uk/calculate-stamp-duty-land-tax/#/intro

Up to £145,000	0%
The next £105,000 (£145,001 – £250,000)	2%
The next £75,000 (£250,001 – £325,000)	5%
The next £425,000 (£325,001 – £750,000)	10%
Above £750,000	12%

The table shows standard LBTT rates for Scotland. In addition there is an Additional Dwelling Supplement (ADS) to be applied on purchases of additional residential properties in Scotland (such as buy-to-lets properties and second homes) of £40,000 or more. The current rate of ADS is 4% of the 'relevant consideration' (usually the purchase price). For more information and to use an LBTT calculator visit the Revenue Scotland website at www.revenue.scot/land-buildings-transaction-tax/tax-calculator/lbttproperty-transactions-calculator.

The portion up to and including £180,000	0%
The portion over £180,000 up to and including £250,000	3.5%
The portion over £250,000 up to and including £400,000	5%
The portion over £400,000 up to and including £750,000	7.5%
The portion over £750,000 up to and including £1,500,000	10%
The portion over £1,500,000	12%

You can find an LTT calculator on the GOV.Wales website at: https://gov.wales/land-transaction-taxrates- and-bands

A leasehold building means you have permission to use the property for a certain term, as agreed with the freeholder who owns the land.

Typically this applies to apartments, where the freeholder will be responsible for maintaining the common parts of the building (e.g. entrance hall, staircase, roof), for which the leaseholder pays ground rent.

When you buy a property there is legal work that needs to be done. You will often hear this called conveyancing. You will probably use a solicitor to do this work for you although you can use a licensed conveyancer.

Your legal bill will be the fees for the legal work plus other expenses that your solicitor has paid on your behalf, such as searches and Land Registry fees. You may see these additional expenses described as disbursements.

Some remortgage deals may include free conveyancing, otherwise expect to pay around £500 + VAT for the legal work plus the cost of disbursements.

The type of tenancy agreement will influence the number of lenders who will consider lending to you. A six-month assured shorthold tenancy agreement (AST) is acceptable to most providers. Your choice will narrow if you are considering letting to a local authority, a company or housing association.

A variation on a theme, where you let the home you are currently living in, so that you can facilitate the purchase of your new home. You need to obtain permission to let from your current lender, and they may not agree depending on their appetite for risk. They may also alter the interest rate you pay. You may need to review the market for other options. Your let-to-buy is then treated like a traditional buy-to-let application, and your new home purchase would be a related, but isolated, application.

This is cover that pays out on death. Some plans pay upon earlier confirmation of a terminal illness where the prognosis is death within 12 months. It can pay out as a lump sum, or as income for a set period.

Cover can last for a set term called Term Assurance, or can last throughout life, called Whole of Life.

The amount of cover can remain the same or increase / decrease annually. Level term assurance stays the same throughout. Decreasing cover is sometimes used to cover a reducing debt, such as a repayment mortgage and usually assumes a given interest rate. Provided your mortgage rates don't exceed that rate, then the cover should reduce at around the same rate as the mortgage.

The amount you pay is called the premium. It can either be guaranteed not to change, or it can be reviewable. Reviewable cover normally changes based on the claims experience of the life assurance company.

Whether you choose to buy the property in your own name, or that of a company, will have tax implications for you. You may also find that some lenders will not lend to a company, or still require a personal guarantee. You should seek professional advice from a tax specialist.

Compared to residential lending, loan-to-values are typically lower (75%) to accommodate the perceived higher risk, and need budgeting for in your deposit.

Unless you choose a lender's standard variable rate mortgage you can expect to pay an arrangement fee for your mortgage. Arrangement fees vary wildly, and may be expressed as a fixed fee or as a percentage of the loan. This means it is difficult to give an accurate estimate but it is not unusual to pay something in the range of £500 – £2,000 or more.

You will usually have the choice of paying the arrangement fee up front or adding it to the loan. Adding it to the loan may ease your cash flow but will cost you more as you will pay more interest.

Compared to residential mortgages, the rates available are higher. This reflects the higher perceived level of risk and as such the higher level of return wanted by the lender.

Standard Variable Rate (SVR)	Your monthly repayments rise and fall in line with changes in your lender's standard variable rate of interest, not necessarily linked to the Bank of England base rate.	The lender does not usually charge an arrangement fee. There are usually no penalties if you redeem the mortgage – often called early redemption penalties.	You have no certainty over monthly repayments. Initial monthly repayments will be more expensive than other options with an incentivised rate for an initial period.
Discounted Rate	Your lender gives you a discount against its SVR for a set period of time. It will normally revert to SVR after the initial period.	Repayments are lower than an SVR mortgage.	You have no certainty over monthly repayments. The lender will usually charge a one-off arrangement fee. There are usually early redemption penalties should you wish to redeem the mortgage during a period set by the lender.
Fixed Rate	The interest rate is fixed by the lender for a set period. It will normally revert to SVR after the initial period.	Your monthly repayments stay the same even when interest rates rise. You can budget knowing what your monthly repayments will be.	Your monthly repayments stay the same even when interest rates lower. The lender will usually charge a one-off arrangement fee. There are usually early redemption penalties should you wish to redeem the mortgage during a period set by the lender.

Base Rate Tracker	During a set period the interest rate tracks the Bank of England's base rate. The interest rate is expressed as base rate + x%. The monthly repayments change every time the Bank of England changes interest rates. Some are 'Stepped Trackers' where the margin between base rate and SVR changes at the mortgage anniversary.	You benefit immediately from any reduction in interest rates by the Bank of England. Usually repayments are lower than an SVR mortgage.	You have no certainty over monthly repayments. You suffer immediately from any increase in interest rates. The lender will usually charge a one-off arrangement fee. There are early redemption penalties should you wish to redeem the mortgage during a period set by the lender.
Current Account	A single account from which you run your day-to-day finances and your mortgage. It is like a current account with a large overdraft facility secured against your property.	The lender calculates interest on the current debit balance. There are no fixed monthly repayments; you can overpay, underpay or take payment holidays as long as the debt is within your agreed borrowing limit. Your savings effectively earn interest at the mortgage rate. You effectively have a credit facility where you only pay interest at the mortgage rate.	The lender will usually charge a one-off arrangement fee. The flexible repayment nature means you need self-discipline to ensure you repay the mortgage by the end of the term. If you are not a higher rate tax payer or have substantial savings, you may be better off with a more traditional option that has a lower interest rate. Also, other interest options sometimes allow overpayments and offer better rates.

Offset	A similar idea to the current account mortgage but without a single account. Essentially, your mortgage debt is notionally reduced by the balance in your savings account; you pay interest on this notionally reduced debt.	You pay interest on a lower balance than with a traditional mortgage. You can usually overpay, underpay or take payment holidays as long as the debt is within your agreed borrowing limit. Your savings, effectively earn interest at the mortgage rate.	The lender will usually charge a one-off arrangement fee. The flexible repayment nature means you need self-discipline to ensure you repay the mortgage by the end of the term. If you are not a higher rate tax payer or have substantial savings, you may be better off with a more traditional option that has a lower interest rate. Also, other interest options sometimes allow overpayments and offer better rates.
Cashback	A mortgage that pays you an up front cash lump sum of either a fixed amount or a percentage of the mortgage advance.	Can be useful for first time buyers who may be on a tight budget and could use the cashback for home furnishings.	There are redemption penalties should you wish to redeem the mortgage during a period set by the lender. The rate is often SVR or very close to it.
Capped	The rate will not rise above a certain level for a set period.	Offers similar security to the fixed rate. Initial rates are usually competitive.	The lender will usually charge a one-off arrangement fee. There are early redemption penalties should you wish to redeem the mortgage during a period set by the lender. Rates are often higher than a fixed rate, and caps are normally only two or three years.
Droplock / Switch to fix	A discount or tracker mortgage, which has an option to switch to a fixed rate at any point within the initial discount or tracker period without paying any early repayment charges.	Benefits from base rates when they are low, with the option to switch to the protection of a fixed rate should interest rates look set to rise significantly.	There can be an arrangement fee when this is exercised. There may not be a fixed rate product available at the time the borrower wishes to switch.

LIBOR	Linked to the London Inter-Bank Offered Rate. This is the rate commercial banks lend to each other, and set every day for different periods. (whereas Bank of England would change at most once a month). Most popular is the three-month LIBOR. It is set for a three-month period, and when this expires it is set for another three-month. So in a year it will change potentially four times.	Historically LIBOR can be slightly lower than Bank of England base rate.	You have no certainty over monthly repayments. You suffer immediately from any increase in LIBOR rates, and there is no guarantee that it will not be higher than Bank base rate. The lender will usually charge a one-off arrangement fee. There are early redemption penalties should you wish to redeem the mortgage during a period set by the lender.
Foreign Currency	A mortgage that is not in the same currency as your main income. This means it applies to UK property and not only to properties abroad.	If currency exchange rates move in your favour, then the value of your debt can decrease. This can impact it more than interest and repayments in the short term.	Changes in the exchange rate may increase the Sterling equivalent of your debt and repayments, even if interest rates remain the same. Good practice suggests factoring in at least a 20% change in currency values.

You will make an offer for the new property and hopefully that will be accepted. Obtaining a legal mortgage offer is the next important part. This is where the lender starts their assessment (underwriting) process of you and the property. A mortgage offer is normally required by your conveyancer before moving to the next stage. Please note, that although extremely rare in reality, a lender reserves the right to withdraw your offer at any point prior to completion.

When you buy a property you incur certain one-off costs that can add up to a significant amount of money. These include land taxes (stamp duty), legal fees, valuation/survey fees, and mortgage arrangement fees.

Most lenders will first look at the rental income, yield and property value to assess your application. They are also likely to look at your personal income and expenditure to satisfy them that mortgage payments can be met in the event of a rental void.

This is insurance that pays the hospital or doctor for your treatment. It can include treatment in a private ward, or being seen earlier in an NHS ward. Some plans also allow you to claim if you are not able to be seen by the NHS within a set period. Other plans may charge a little more and don't have any link to NHS waiting times.

You are either medically checked and underwritten at outset (so you know what you're covered for and what you won't be), or have no medical checking at outset (but conditions that occurred two years before taking out the cover are not covered, and often there is no cover for a reoccurrence within five years after taking out the plan).

Premiums are usually reviewable annually.

Some properties such as flats over commercial properties, studio flats and ex-local authority premises can be viewed as having reduced future attractiveness and as such some lenders may not operate in that market. This may restrict your lending options.

Listed buildings (e.g. Grade 1, Grade 2) may have restrictions on how you can maintain or alter the property as well as buildings near to it (e.g. garage). Some unlisted properties can also be subject to similar restrictions (e.g. in an area of outstanding natural beauty).

Buy-to-let mortgages are not regulated. There are best practices that any reputable mortgage adviser or lender will follow and these are based on the practices and processes that apply in the residential mortgage market.

The Mortgage Credit Directive (2016) has also included some consumer protection for 'consumer buy-to-let' mortgages.

Consumer buy-to-let is defined as a contract which is not entered into by the borrower wholly or predominantly for the purposes of a business carried on, or intended to be carried on, by the borrower.

The legislation sets out a series of circumstances that would constitute a buy-to-let customer acting for the purposes of business, and therefore take them outside the scope of the legislation.

These include where a customer:

- Uses the mortgage to purchase a property with the intention of renting it out
- Has previously purchased the property with the intention of letting it out and neither the customer nor a relative has inhabited it
- Already owns another property that has been let out on the basis of a rental agreement.

The legislation also enables a firm to presume that a borrower is acting by way of business if the agreement includes a declaration from the borrower that they are acting as a business and understand that they are forgoing protections offered by the legislation to consumers, unless the firm has reasonable cause to suspect that this is not the case.

As a reputable mortgage adviser we follow best practices and processes irrespective of whether a solution is regulated or not.

What may be a suitable return for you, may not be seen the same way by a lender.

Typically minimum rental yields are formulaic and driven by two things:

1. the rate used to calculate the mortgage payment
2. a percentage override to allow for any rental void or increases in short-term interest rates which might impact your personal finances (these range between 100 – 130%).

You need to ensure you have enough personal income and resources to maintain payments if your property becomes vacant. This is because your monthly payments to the lender will continue irrespective of your rental situation.

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A tenant that falls into arrears can jeopardise your ability to meet your mortgage repayments. If you fall into arrears with your mortgage repayments you risk losing your property. Rent guarantee insurance covers you if tenants default on their rent and protects your ability to pay your mortgage. Some policies also cover any associated legal costs.

With a repayment mortgage your monthly repayments cover both capital and interest on the loan.

As the term continues, the amount outstanding on the loan reduces so the full amount of the loan will have been repaid at the end of the term as long as you have maintained payments.

No other repayment vehicle is needed and it avoids the risk of investing (e.g. in the stock market).

If you remortgage, you may be tempted to extend the end repayment date in order to lower your monthly payments. However this means that the amount you repay overall increases over time.

As with all investments, the value of a property can go down as well as up. Past performance is not a guide for the future. If your mortgage loan exceeds the property value, you will have negative equity. Also factor in the costs of selling, such as using an estate agency, into your net value. However, if you pick the right area, and are realistic about returns, you can reduce the risks.

Unforeseen structural problems could prove expensive, so budgeting for regular maintenance is crucial, as is having the right level of buildings insurance.

Rental income from buy-to-let properties can vary: if the market is saturated with rental properties, your annual income may remain static or even fall. The condition of your property will also impact your rental levels. You need to build leeway into the rent to allow for periods when the property might be empty between lets (it takes on average four weeks to let a property), and to cover maintenance costs. You should also bear in mind the possibility of rent control being introduced by the Government, which may cap your rental income. If interest rates were to rise more than a corresponding increase in rental, then that could impact your ability to pay your mortgage.

The more cautious investor might prefer to borrow less. You should aim for a rental income of between 1.3 and 1.5 times the monthly mortgage payments.

Many people are put off buying-to-let by the thought that they will have to spend a lot of time fixing problems such as broken washing machines or dealing with tenants who default on payments.

A good agent can take care of everything, from finding tenants and checking references, to managing an inventory and dealing with unexpected problems like burst pipes (although there is of course a cost for this).

We recommend that those landlords intending to use a letting agent use a member of the Association of Residential Letting Agents (ARLA) or a similar reputable trade body. These agents may provide practical assistance with general property management. Their services typically cost from 10% to 15% of annual rents excluding VAT, which is often taken up front for the full term and so can impact your cash flow initially.

Agents can also advise on tenancy agreements. Most lenders require you to have a six-month, assured shorthold tenancy agreement with your tenants. You may also find it more difficult to arrange finance if you are planning on letting to students, or for more irregular tenancy periods, such as holiday lets or company lets. You may also have difficulties if you are planning on letting to a DSS tenant.

It is more difficult to get a mortgage if you are self-employed, when compared with employees. Self-employed people often have more erratic incomes and find it more difficult to prove their incomes.

In the past, self-employed people got around the problem of proving income by using self-certification mortgages, where you would state your income and a lender would take it on trust.

However, too many people took out mortgages they couldn't afford and these loans are no longer allowed.

All lenders will want to see proof of your income, often looking to see a track record over three years or more. That way it can take an average figure and smooth out any spikes.

Proof can take the form of accounts and tax returns, and the SA302 supplied by the HMRC.
Please remember that income means profit not turnover- if you've legitimately suppressed your profits to minimise income tax, this will work against you when applying for a mortgage.

Self-employed mortgages are a bit of a minefield and you really need access to expert knowledge and contacts. We can help you.

The UK Government in 2015 announced a new way that tax relief on mortgage interest payments and expenses will be treated for buy-to-let investors. From 6 April 2020, tax relief for finance costs will be restricted to the basic rate of income tax, currently 20%. Relief will be given as a reduction in tax liability instead of a reduction to taxable rental income.

The disposal of a buy-to-let property may be subject to capital gains taxation. You should seek professional specialist tax advice about this.

Not all lenders will allow students or DSS tenants, so consider carefully the type of occupant you wish to attract, as it may limit the number of lenders willing to lend to you.

Before a lender will grant you a mortgage it will insist on a valuation to prove the property is worth what you're paying for it. The size of the valuation fee will vary by lender and property value but for a property costing £200,000 expect to pay around £200 (source: Halifax Building Society January 2018).

The basic valuation is for the lender's benefit so that it feels comfortable lending against the property. If your property is rented out, then a rental assessment will also be required. It may be possible to raise a larger mortgage with one lender compared to another because of the rental yields they use as well as the loan-to-value percentage.

You may feel you want to add a survey to the valuation that gives you a report on the general condition of the property. Costs vary but for a valuation and survey on a house costing £200,000 expect to pay around £445 (source: Halifax Building Society January 2018).

If you are buying an older property, or one in a general state of disrepair, you may choose a full structural survey. This is a thorough survey that examines the structural condition of the property and gives you advice on repairs.

Depending on the property expect to pay between £500 and £1,000.

Your valuation will also need to include rental expectations, as compared to a normal mortgage residential valuation. Obtaining comparable examples in the same area and for a similar property will help you obtain a benchmark.

This is a feature that can be added to some insurance plans. Should you become disabled, or seriously ill and unable to pay the premiums of a plan, this cover can pay your premiums for you. There is normally a period before this benefit starts where you need to continue paying premiums (a deferred period). Once the deferred period has passed, you will have your premiums paid for you.

YOUR HOME MAY BE REPOSSESSED IF YOU **DO NOT** KEEP UP REPAYMENTS ON A MORTGAGE OR ANY OTHER DEBT SECURED ON IT.

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