

BUY-TO-LET

Choosing the right mortgage is essential

Whatever your reasons for buying a property to let, you'll want to find the right mortgage deal. Whether you want to arrange a mortgage on a single property or have a portfolio of properties, we can advise you on the most appropriate deal for your requirements.

As a landlord, you should look at a buy-to-let property as a long-term investment. Over the long term, house prices are likely to increase but, in the short term, they could fall or stay the same. No one knows with any certainty what will happen to house prices in the future.

DO YOUR RESEARCH

It's essential to do your research before taking out a buy-to-let mortgage to purchase a rental property. You also need to be confident that your rental income will comfortably cover your mortgage and all your other expenses.

A buy-to-let mortgage is a mortgage for purchasing residential property with the specific aim of letting it to tenants. The rules around buy-to-let mortgages are similar to those around regular mortgages, but there are some key differences.

COST OF REPAYMENTS

Most buy-to-let mortgages are interest-only. This keeps the cost of repayments down, as you only pay off the mortgage interest each month, not the capital. But, at the

end of the mortgage term, you will not own the property outright, so you will need to remortgage, sell the property or have another way of paying off the mortgage (for example, a separate investment plan).

Buy-to-let lenders will typically look at your potential rental income, rather than your salary or wages, to decide whether you can afford the loan. In some cases, lenders may also look at your personal income, and they may take into consideration the additional cost of an increased tax liability. The government has been phasing out tax relief on mortgage interest since April 2017, with the proportion you're allowed to deduct slowly being reduced each tax year. From 6 April, 2020 you can now only subtract a flat credit of 20% of your mortgage expenses from your rental income when filing your tax return.



PRIVATE RESIDENCE RELIEF

Private Residence Relief (PRR) provides a useful exemption from Capital Gains Tax (CGT). Landlords had been able to claim PRR for all the time they lived in their property before letting it to tenants, plus an extra 18 months after moving out. But from 6 April 2020, this has now been reduced to the time they lived in their property, plus nine months, meaning landlords will lose nine months' worth of CGT relief when they come to sell. CGT relief of up to £40,000 (£80,000 for a couple) is available for those who let out a property that is, or has been, their home. However, from April 2020, this relief now only applies to landlords who are in shared occupancy with their tenant. The deadline for payment of your CGT bill also changed in April 2020, from 31 January in the year after the tax year the sale is made, to within 30 days of the completion of the sale.

COMPETITIVE MARKET RATES

Buy-to-let mortgage rates can be higher than residential mortgages due to the additional risk for lenders. As a result, you can often expect to pay 1% to 2% more in

interest. However, there are plenty of competitive rates on the market that we can review with you.

The larger your deposit will typically mean the better the interest rate you'll be able to get, with more attractive rates available to people with deposits in excess of 40%. The smallest deposit you can get a buy-to-let mortgage with is typically 20% depending on the lender, although your choice of products will be limited, so expect to have to have a deposit of 25% or above. Buy-to-let mortgage schemes available include fixed-rate and variable-rate (such as tracker). ■

REQUIRE FURTHER INFORMATION?

We can help you with your mortgage needs. Whether you're a new customer or we've previously arranged a mortgage for you, please contact us to discuss your requirements.

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

