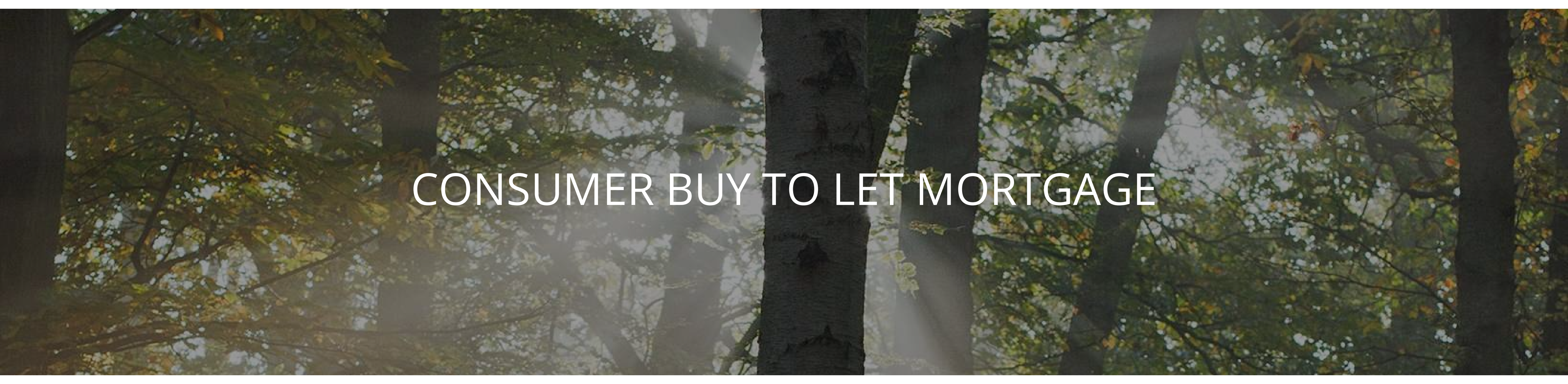

CONSUMER BUY TO LET MORTGAGE

What is it?

Consumer Buy-To-Let (CBTL) mortgages are any buy-to-let contracts that are not entered into by an individual 'wholly or predominantly' for the purpose of a business.

They are usually more expensive than residential mortgages.

Consumer Buy-To-Let mortgages are only suitable for people who have become a landlord by default as opposed to making an active business decision, for example, where a property has been inherited or has been previously lived in and the individual is unable to sell it, so resorting to a Buy-To-Let arrangement (BTL).

Investing in property is risky, so you shouldn't take out a BTL mortgage if you can't afford to take that risk.

They are in many ways just like residential mortgages, but with some key differences:

- Interest rates on buy-to-let mortgages tend to be higher
- The minimum deposit for a buy-to-let mortgage is usually a quarter (25%) of the property's value (some lenders offer deals with a 20% deposit, others want a 40% deposit)
- The fees tend to be much higher
- The level of borrowing is typically based on the level of rental income
- A 3% stamp duty surcharge applies, which applies to the entire purchase price of the property

Most BTL mortgages are interest-only, which means you don't pay anything off the lump sum borrowed each month but, of course, at the end of the mortgage term you need to repay the capital owing in full. BTL mortgages are also available on a repayment basis.

Unlike obtaining a mortgage on a property you wish to live in, most BTL mortgage lending is not regulated by the Financial Conduct Authority (FCA). There are exceptions, for example, if you wish to let the property to a close family member (e.g. spouse, civil partner, child, grandparent, parent or sibling). These are often referred to as a consumer buy-to-let mortgages and are assessed according to the same strict affordability rules as a residential mortgage.

Repayment method

With repayment mortgages you pay the interest and part of the capital (the amount you borrowed) off every month. At the end of the term, typically 25 years, providing you pay all mortgage repayments due, you should manage to have paid it all off and own your home.

Interest only

With interest-only mortgages, you pay only the interest on the loan and nothing off the capital.

Although BTL mortgages are typically on an 'interest only' basis, with the property being sold at a later date, with the potential of generating sufficient monies to fully repay the outstanding loan at the end of the term, the lender may require you to have a repayment strategy in place so that you have sufficient funds available to fully repay the loan at the end of the mortgage term.

Failing to maintain an adequate repayment strategy could result in you having difficulty in fully repaying the mortgage capital at the end of the term. You should review the progress of your repayment strategy on a regular basis to ensure enough capital is available when repayment becomes due. The mortgage lender will also check during the term of the mortgage that your repayment strategy remains in place and still has the potential to fully repay the capital borrowed.

Current Account Mortgage

A current account mortgage reduces the overall amount 'owed' when your savings or current account balance are taken into account. The mortgage and current/savings account are normally combined into a single account, effectively acting like one big overdraft.

The lender normally stipulates a minimum amount that needs to be left in the account each month to repay your mortgage over the agreed period. If there is a surplus, then you will pay less interest and pay off your mortgage early. Similarly, if you leave less than the required amount in the account, you will end up paying more for your mortgage.

A current account mortgage also normally has the typical features of a current account such as a cheque book, access via cash machines, direct debits, etc.

Offset Mortgage

An offset mortgage sees your earnings paid in, permits overpayment, underpayment, lump sum deposits, payment holidays and all the other features of a flexible mortgage, as well as giving you a cheque book, debit card and the facility to set up direct debits. However, instead of combining all the accounts (current account, mortgage, and savings) into one and having a single balance, the different components are kept separate, but work towards reducing the mortgage debt.

The three different accounts are not usually charged at the same rate of interest, the lender charges a set rate of interest on the current account and the savings account OR will 'sweep' the marketplace and apply the best rate of interest that can be found for each particular component. The balance in the two accounts is then added together and the total is then offset against the mortgage.

Importantly, because you're not receiving interest on your current account or savings there is no tax payable.

Often, monthly payments will remain at an equal amount and 'overpayments' are used to reduce the overall mortgage debt. This is how you can pay off your mortgage early and save money with an offset mortgage. Some lenders will amend the monthly mortgage payment instead so that you benefit from lower payments but, of course, you won't be able to pay off your mortgage early.

Types of interest rate

Fixed Interest Rate/ Stepped Fixed

The mortgage has a 'fixed' mortgage interest rate, so you pay a set amount each month for the duration of the fixed period. This allows you the security of knowing your exact monthly commitments in the early years of the mortgage, unaffected by changes in the underlying interest rates. If interest rates fall below the fixed rate you will, however, continue to pay the higher, fixed amount. If you want to repay the mortgage within the fixed rate period, you will usually have to pay a penalty.

Variable Interest Rate

The mortgage has a variable interest rate which can rise and fall in line with market conditions. This does involve a degree of uncertainty as your monthly repayments can vary and increase but will allow you to benefit from a fall in interest rates.

Discounted Variable Interest Rate

The mortgage has a discounted variable interest rate. This does involve a degree of uncertainty as your monthly repayments can vary and increase but it allows you to have a discount on your mortgage payments for a specific period and to minimise your monthly payments, it also allows you to benefit from a fall in interest rates.

Tracker Mortgage

The mortgage has a tracker interest rate. This means that the interest rate is linked to the [Bank of England Base Rate/Other] and is equivalent to that rate plus a certain percentage. This does mean that your monthly premium may vary and can increase and therefore involves a degree of uncertainty, but this does allow you to benefit from a fall in interest rates.

Capped Rate

The mortgage has a capped interest rate which means that the lender has put a "cap" on the maximum interest rate that can be charged. It provides the security of knowing that your monthly repayments will not rise above a certain amount, whilst allowing you to benefit from any drop in the rate below the cap.

Eligibility

Most lenders will expect you to own your home, whether outright or with an outstanding mortgage and you must have a good credit record and not be stretched too much on your other borrowings such as any existing mortgage(s) and credit cards. Your earnings will also be taken into consideration and if they are less than around £25,000 a year you are likely to find it harder to get a buy-to-let mortgage.

You will need to prove your income, and show the lender evidence of any outgoings, including debts, household bills and other living costs such as clothing, childcare and travel costs.

Lenders will have their own upper age limits - typically between 70 or 75. This is the oldest you can be when the mortgage ends not when it starts. For example, if you are 45 when you take out a 25-year mortgage it will finish when you're 70.

The maximum you can borrow is linked to the amount of rental income you expect to receive. Lenders typically need the rental income to be a quarter to a third higher than your mortgage payment (25–30%).

Taxation

If you own your property personally and sell your buy-to-let property for profit, you will need to pay Capital Gains Tax if your gain exceeds the annual Capital Gains Tax threshold. Also, rental income (less certain allowable expenses) is liable to Income Tax. A basic rate tax credit (20%) on your mortgage interest payments is given as a deduction from your income tax bill.

If you are considering using a limited company to purchase a buy-to-let, you should seek professional advice from an accountant.

Risk Considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- Buy-to-let carries with it various risks such as finding tenants, checking tenants' references, ensuring rental payments are received on time, understanding legal responsibilities, maintaining the property and if necessary, using an appropriately qualified managing agent.
- The payments shown within the relevant product disclosure document(s) provided, could be considerably different, and higher, if interest rates change.
- In the event that your income falls, you will still have to make your mortgage payments.
- If you can't find tenants – or if you can't charge the level of rent you expected – you may not be able to cover your mortgage repayments.
- Regular rental income is not guaranteed – you may have periods where the property is vacant.
- Your property may be repossessed if you do not keep up repayments on your mortgage.
- You will still have to pay your mortgage if you lose your job or illness prevents you from working. Think about whether you could do this.
- Your mortgage may have early repayment charges which may result in a penalty if you do not want the mortgage anymore.
- The amount of rent you can charge varies according to a number of factors outside your control i.e. typical rental levels / demands within the property's locality.
- If you elect to have an interest only mortgage, the lender may seek details of a repayment strategy you intend to use to repay the mortgage at the end of the term (as opposed to selling the property in the future to repay the outstanding loan). If relevant, you will need to consider the costs of any such repayment strategy.
- In addition to the actual mortgage repayments, you will also need to consider a range of other likely outgoings, including:
  - Letting agent fees (if you decide to use one)
  - Maintenance / repair costs
  - Annual safety checks
  - Landlord insurance
  - Rent insurance
  - Income tax
- The affordability assessment we have undertaken at this time is based on current interest rates, which may rise in the future, and on your current circumstances, which might change in future.
- The relevant product disclosure document(s) should be read and understood fully.
- If all relevant information has not been disclosed accurately and honestly, this may result in any mortgage contract offered, becoming invalid.

The value of the property may go down, leaving you with potential 'negative equity'.