Eastwood Financial Solutions
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MORTGAGE FACTSHEET

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 as a result of changes in tax legislation effective from 6 April 2017 (to be fully implemented by 2020).

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REDUCING TAX RELIEF

Landlords have been able to offset mortgage interest and buy-to-let mortgage arrangement fees against their Income Tax bills at up to 45% for higher earners. However, this tax relief is being reduced and will be capped at 20%. The new measure is being phased in over three years from 2017. Wealthier, higher-tax-paying landlords will therefore be the most affected.

Because buy-to-let mortgages are riskier for lenders, you will generally need a bigger deposit than with residential mortgages – typically at least 25%.

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.