

# Buy to Let Mortgage – What you need to know

Buy to Let mortgages are mortgages that are used when someone buys a property in order to rent it out. There are some similarities between a residential mortgage and a Buy to Let mortgage.

## What is a Buy to Let Mortgage?

A Buy to Let mortgage is a type of property investment where a landlord buys a property intending to rent it out to make a profit. It can be a house, flat or any other building that has been purchased with a Buy to Let mortgage.

The buyer is not allowed to live in the home permanently. Buy to Let mortgages are typically offered at an interest-only basis. The borrower must settle the monthly interest payments with the rental income.

## Who can get a Buy to Let Mortgage?

Buy to Let mortgages could be difficult to obtain for those who don't already own a residential home. Mortgage lenders often have strict eligibility criteria.

The general criteria for getting a Buy to Let mortgage is:

- Income/affordability
- Deposit
- Credit History
- Borrower status
- Your age
- If you are based in the UK

## How do Buy to Let Mortgages Work?

The majority of Buy to Let mortgages are provided on an interest-only basis. This means that for each month of the mortgage term, you will only pay the interest, none of the capital.

In the short term, this makes this type of mortgage more affordable, but you will need to have a plan for paying off the full loan or refinancing at the end of the mortgage.

## How much deposit do I need for a Buy to Let Mortgage?

For investment property, you are going to need a deposit of between 20-25% of the value of the home. Just like with standard residential mortgages, the more of a deposit you put down, the better the rate that you will be able to get. The most coveted Buy to Let deals will be reserved for those who have a deposit of 40% or more.

## Buy to Let Mortgage Rates and Fees

Buy to Let mortgages rates have typically been lowering over the last few years. In March 2020 the average fixed-rate buy-to-let mortgage had an interest rate of 3%. This is down from 3.94% five years previously. The variable-rate deals had a similar pattern. They dropped from 3.85% to 3.0% between 2015 and 2020.

## Buy to Let Mortgages for Portfolio Landlords

Landlords who have four or more properties are described as portfolio landlords. The Bank of England has made it more challenging for these types of investors to get finance.

### **Can I get a Buy to Let Mortgage with Bad Credit?**

There are some lenders that are willing to approve Buy to Let mortgages for those with bad credit. It will usually depend on what type of adverse credit you have. It is essential to find a lender that specialises in bad credit mortgages.

Lenders often use an automated system to make decisions about if you can get a mortgage with them, and you can find you get declined with bad credit if you haven't worked with a Mortgage Broker.

Speaking to a mortgage advisor is advisable if you have bad credit as they are aware of the market lenders and those who would be more sympathetic and have products to suit your individual requirements.

### **Can I get a Buy to Let Mortgage with a Low Credit Score?**

Your credit score and credit history are not the same. A credit history of your financial conduct in previous years. This is usually mapped over six years. A credit score is something that is specific to lenders.

Even if you don't have a bad credit history, you can get a low credit score. A low score doesn't make it impossible to get a Buy to Let mortgage, but it might make it more difficult to get an advantageous rate.

### **How Much can you Borrow on a Buy to Let Mortgage?**

Just like a typical residential mortgage, what you can borrow is linked to income. However, in the case of a Buy to Let, the amount of mortgage you can borrow is related to how much rental income you can expect to get for a specific property.

Buy to Let mortgage lenders usually want to see a rental income that is 25-35% higher than the mortgage payments.

### **Plan for No Rental Income Months**

There could be occasions that you are unable to rent your property, or that your current tenants haven't paid their rent. You shouldn't rely on your property always having tenants. It is a good idea for you to have a financial buffer for the times that you don't.

When you are making your affordability calculations, you should see how much you can set aside from each month of rental payments that you get.

### **What Taxes do I Need to Pay if I have a Buy to Let Mortgage?**

If you pay the basic rate of tax, the capital gains tax on a Buy to Let second property is charged at 18%. If you are in the higher rate of taxpayers, then it will be charged at 28%. With other assets, the basic-rate of CGT is 10%, and the higher-rate is 20%.

For income tax, you will be taxed at either 20%, 40% or 45% depending on your tax bracket. You are able to offset your rental income against allowable expenses.

For mortgage interest tax relief, it is restricted to the basic rate of income tax. No relief is available for capital repayment of a mortgage loan. Interest payments you're able to deduct are at 20% tax for the entire amount.

### **How can a Mortgage Broker Help get a Buy to Let Mortgage?**

A Mortgage Broker has access to a wide range of lenders and mortgage types for all circumstances. Their experience and knowledge in specialist areas will help you to get the information you really need, as well as give you access to the most appropriate Buy to Let rate mortgage too.

Buy to Let mortgages are a long term investment, and it is essential that you get all of the information and make the applications to the lender that make the best sense for your situation.

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**We will charge a fee of between £99.00 and £999.00. The amount we will charge is dependent on the amount of research and administration that is required. Please refer to the Terms of Business for further information.**

**YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE**

**The Financial Conduct Authority does not regulate all Buy to Let mortgages.**