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Buy-To-Let Mortgage Guide 2015

Written by Martin Lewis, Liz Phillips, Guy Anker, Lesley Adamson and Johanna Gornitzki

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Introduction

The explosion in property prices at the start of the millennium led to a buy-to-let boom of people buying homes and renting them out as an investment. Like all investments, there is risk, and some got burnt.

Nevertheless, it's still popular with savers desperate to make more from their spare cash than they can get in a savings account or pension.

Lots of people have been tempted to get involved because they feel they understand property as it's something tangible to own. Yet buy to let is just as much about understanding mortgages and finance as it is about knowing your bricks and mortar.

The goal is for the rental income to cover your mortgage and other costs with a bit to spare. This will hopefully generate a good income as well as leave you with a big profit when you sell. What's more, you can deduct the interest paid on the mortgage from any profit you make, reducing the tax you need to pay.

But, like any investment, there are no guarantees.

And just because you own your own home doesn't mean you have the skills to make buy to let work. It's a lot of responsibility to take on, not to mention an additional debt.

The stakes are high, and as the credit crunch years showed, it's not for the faint-hearted.

It's not about making a quick buck either. You need to be committed for the long haul.

There are a lot of maybes. So the first question you need to ask yourself is: do you really want to do it?

Is buy to let for you?

Your biggest overhead is likely to be the mortgage on your own home, so your first priority is ensuring you can comfortably pay that. If so, then the question is: are you prepared to take on another major loan?

Do this and you're putting your faith in the property market and you may well end up with most — if not all — of your assets tied up in bricks and mortar. On the face of it, it seems a no-brainer. Once you find a flat or house at a good price, all you have to do is find tenants to pay off the mortgage for you. Then, some time down the line, you sell it and sit on a pile of cash from the profit.

But there are risks...

- **Warning! There's no protection.** Unlike residential mortgages, buy-to-let mortgages are not regulated. So you'll have no one to turn to if things go wrong. The Treasury and the EU have been talking about regulating buy-to-let since 2009. So far, nothing has been done but new rules are being introduced to the buy to let market in 2016. However, if you've chosen to buy to let before then, they won't affect you. This means if you're mis-sold, mis-advised or deceived, you can't complain to the Financial Ombudsman.
- **Finding the right tenants.** They may do a runner owing you rent. Or they might stay, but not pay the rent or trash the property. It's an expensive hassle getting them evicted.
- **Can't sell.** The property market blows hot and cold. It's often not easy if you have to sell in a hurry, as a property isn't a 'liquid' asset.

Other hurdles...

There are also several other factors to take into account that can make buy to let a bumpy ride. They include:

- **Finding the right property.** Location, timing and knowing the market take careful research. Many rush it and make mistakes.
- **Fixing property problems.** You need to sort out faults, keep the place in good order, even if you're busy at work, or pay an agent to manage it for you, cutting into your return.
- **Stress.** Worrying about finding a tenant or how to track down a reliable plumber to fix a broken boiler? Then it's probably not for you. And are you tough enough to stand up to tenants who are giving you a hard time or deal with those who can't afford the rent?

Martin's Mortgage Moment

Is buy to let worth it?

The yearning many have to pick buy to let as their prime investment worries me. It's not wrong, but years in a house price boom have left many thinking 'invest in property and you can't lose'. Wrong! Property isn't as safe as houses.

So consider the worst case scenario. You buy a house, no one rents it, house prices in your area crash and you can't escape. That's a dire situation — and it could cripple the rest of your finances.

Now that doesn't mean you shouldn't do it. Just like buying shares, investing in property is about risk. But it does mean don't do it unless you're prepared to accept the risk it can go wrong.

You are trading the potential to make substantial gains with the potential to suffer substantial losses.

What really scares me is people who are highly geared (meaning their investment is funded by lots of mortgage debt, not their own cash. See page 8 for more info on this) and only have property investments. If there's a property crash, the losses will be magnified. I won't say 'don't go for it', but be aware of the massive dangers of putting all your eggs in one basket.

"Just like buying shares, investing in property is about risk."

How much can you borrow?

If you want to buy a property to let out, you need a special buy-to-let mortgage. When assessing your suitability, lenders look at how much you'll get back in rent against the size of your mortgage payments.

There are two key things you need to bear in mind:

1. **You can only borrow 75% of the property's value.** A few may lend up to 80% and the odd one may go up to 85%, but this is very rare. This means you need a huge deposit, and cheaper rates only start if you have 40% to put down.

2. **You need to yield a rental income that would cover 125% of your mortgage payments.** For example, if your monthly mortgage payment is £600 a month, you need to be able to rent it out for £750 a month or more. The surplus gives you a cushion against empty periods when you've no tenants and helps with maintenance costs. (If you have a repayment mortgage, this doesn't apply as you'll be paying more towards your mortgage to reduce the loan itself. Here, you should work out what you'd pay if you did have an interest-only loan, and charge 125% of that sum in rent.)

   This rental income is usually calculated on mortgage payments more expensive than the ones you're making. Often lenders calculate your monthly payment using the rate you'll move on to *after* a special short-term deal ends. Or it'll pick a higher notional rate, typically 6% or 7%, to allow for rate rises (as at January 2015).

Here are other factors lenders will look at:

The rental income must be confirmed. Your lender will check you can achieve the rent you say when it does the property valuation. It'll compare rents on similar houses in the area.

You must be a homeowner. Nearly all lenders will require you to own your own home first, though it doesn't have to be mortgage-free.

It's more difficult if you haven't rented out a property before. Some lenders won't lend to first-time landlords, so if you haven't done it before your choice might be restricted.

You must earn at least £25,000 a year. Even though the rent must cover the mortgage for you to get the loan, most lenders want you to have an income too.

You must have a good credit score. Lenders look at your other debts on things such as credit cards and personal loans, as well as your own mortgage. They can ask for a breakdown of your monthly outgoings even if you have an excellent credit score. If they think you're pretty stretched, you won't get it. See www.moneysavingexpert.com/creditrating for more information on how to improve your credit score.

You can't borrow to raise the deposit. You must prove you have the cash for the deposit in savings. If you're taking equity out of your own home to raise the deposit, lenders will look more closely at your mortgage payments.

You can't be too old. Lenders have upper age limits, anything from 65 to 90 years old. This is the maximum age you can be when the mortgage ends, not when it starts, and as you get older it's harder to remortgage.

There are big fees to pay. Arrangement fees are even higher than on residential mortgages. Expect to pay at least £1,500 as a flat-rate fee. These can be added to the mortgage provided you remain within your LTV band, though you'll then pay interest on them.

You may end up paying more if the fee is a percentage of the purchase price, say 1% to 3%, which would cost you £1,500 to £4,500 on a £150,000 mortgage.

Interest rates are higher. Buy-to-let mortgages generally charge one or two percentage points more than a standard mortgage.

You must buy the right type of place. Lenders are picky about rental properties. Ex-council property, flats above shops or in high-rise blocks can sometimes be a no-no. Check out restrictions with a specialist buy-to-let broker (see page 27) before going house-hunting.

NEVER try to buy to let with a normal mortgage

Don't be tempted to apply for a residential mortgage to cut costs. You'll be committing mortgage fraud. If the lender finds out, it'll either charge you a penalty and/or move you on to a more expensive product or withdraw the mortgage altogether.

This also applies if you decide to let out your own home. It could be because you're moving somewhere else and can't sell, or you plan to rent somewhere yourself in a new area.

If you're letting out your own home, you're supposed to tell your lender. You'll either be put on a new deal and charged a premium, or if you're lucky you'll get 'consent to let' (it'll either be free or have a small admin fee), which allows you to let out your home without having to change mortgage or pay any extra fees.

Martin's Mortgage Moment

You need to understand gearing

No, this is nothing to do with a car's engine. A geared investment is where you borrow to invest. The result of this is if it goes right, your gains are massively accelerated. If it goes wrong, so are your losses. Understand you're spinning that wheel. This is very relevant to buy-to-let investing as unlike residential mortgages you aren't in a "I'd have to pay rent each month anyway" position, which offsets the risk.

When you gear, you magnify everything

The smaller the amount of cash you put in compared to the debt, the higher you are geared.

For ease of numbers, say you're buying a £100,000 house. Let's take three examples.

John — Buys a house, all in cash — £100,000.

Jane— Puts down a 50% deposit, so pays £50,000 upfront.

Freddy — Puts down the typical minimum 25% deposit, so pays £25,000 upfront.

Scenario 1: The house price increases to £150,000

Here John, who put all the cash down, has a return of 50% on his investment. Jane has a 100% return — in other words, she's doubled the money she put in. Freddy has got back 200% of what he put down — an incredibly lucrative deal.

Provided you're meeting your mortgage payments, lenders may let you use the portion of the property you own outright, or 'equity', to borrow more money. So you could take out a chunk of it to buy a second property, either by remortgaging or asking the lender to give you the extra cash and adding that amount to your home loan.

As long as the rental income sums add up, you could use that newly-released money as a deposit on another buy-to-let property. And if it also increases in value, you can remortgage and release money again and buy a third property, and so on. All this just from your original deposit.

This is why many people gear. To put it in simple terms, if you had £100,000 and put it down as four 25% deposits on four houses — then if things go right you could make a lot more than just buying one property in cash.

Scenario 2: The house price drops to £75,000

Here, John has seen his investment drop by 25%. Jane has lost 50% of her investment, but Freddy has lost it all.

So now imagine you'd bought lots of places with only a small amount of money. The losses may be unaffordable — it's not rare for buy-to-let investors to have their properties repossessed or even experience a knock-on impact on their own homes. In the worst case, you could end up losing your home too.

These kinds of complicated, highly-geared deals should only be risked by experienced investors who know what they are taking on. If you're not sure, the best route is to play safe.

"These kinds of complicated, highly-geared deals should only be risked by experienced investors who know what they're taking on."

Can you afford it?

Before you dip a toe in the buy-to-let market, you need to be aware that you not only need to raise enough money for a deposit, there are other costs to consider too.

First of all, do your sums so you know what you need upfront.

Work out your budget carefully to decide how much to offer on it. You'll be regretting it for years if you pay too much.

You should be going into buy to let to give you an income over and above the mortgage repayments. If the property goes up in value, that's a bonus but it's not guaranteed. The rule is — income first, profit (hopefully) later. We all know of people who've been stung by paying too much when prices are rising only to find they fall again when the market cools.

Here's an example of how to do the maths on a **£200,000** property:

1. **The deposit.** You need *at least* 20%, but let's be conservative and go for 25%, which will give you a wider choice of deals. **£50,000**.
2. **The mortgage arrangement fees.** There's quite a range. Fees are either flat or a percentage of the loan, so let's say **£2,000** and we'll assume you go for a fee-free broker.
3. **Stamp duty.** On properties costing less than £125,000, there's no stamp duty to pay. On properties costing more than this, you'll pay stamp duty of 2% for the portion between £125,000 and £250,000, then 5% for the amount between £250,000 and £925,000. So on a £200,000 property you'd pay **£1,500**.
4. **Legal fees, valuation and survey.** These costs can really vary. On remortgages, you can find deals which will give you free legal work and a valuation, but it's less common the first time. The broker will give you a closer idea, but budget for **£2,000**.
5. **Insurance.** You must take out buildings insurance and if you're letting it furnished, you need contents insurance too. Remember, carpets and flooring are considered content. The tenants are responsible for insuring their belongings so don't over-insure on the contents side. There are also specialist landlords and rent insurance policies. Landlord insurance covers you for all sorts of nasties including legal expenses for evicting tenants or loss of rent when the property is empty. Meanwhile, rent insurance is best if your main worry is covering times when the property isn't let out. Let's estimate **£500** a year.

So you could need around **£56,000** upfront for a £200,000 buy to let.

Other costs to take into account

How much are letting agent fees?

Here, don't be afraid to haggle. If there are several letting agents in the area, you can play one off against the other. But you should budget for at least 7% of the annual rent for finding tenants and 12% if the agent's managing it for you, plus VAT.

Taxes

There are two types of taxes you may have to pay if you're a buy-to-let landlord: income tax and capital gains tax.

Income tax

You have to pay income tax on the rent you receive, but you can knock off costs before working out how much to pay.

So your income minus expenditure and mortgage interest equals your profit. It's that figure that's added to any other income you have (such as a standard job), which you then pay standard income tax on at either 20%, 40% or 45%, depending on your total income. Don't forget the income from your buy to let, along with your other earnings, may push you into a higher tax band.

Capital gains tax

When you come to sell, there'll be capital gains tax to pay if the property has increased in price. You're allowed to make £11,100 in 2015/16 before paying capital gains tax at either the 18% or 28% level, depending on your income tax rate.

This allowance is on ALL your capital gains, which includes sales of property and shares during the tax year.

If you're a couple and buy it jointly, then you each have this capital gains tax allowance, doubling it to £22,200.

What expenses can I deduct from my earnings?

A big perk is you can deduct numerous costs from the rent to come to a profit figure. These include:

- Mortgage interest
- Agents' fees
- Maintenance and repair bills (but you're not allowed to deduct the cost of improving the property, known as 'capital expenditure')
- 10% a year for wear and tear on the furnishings and white goods or the cost of furnishing, but not both
- Buildings insurance
- Contents insurance, council tax and utility bills (if you pay them)
- Accountants' fees

Keep a record of all your expenses for at least six years in case the taxman asks to see them. You'll have to fill out a self-assessment tax return.

Example

You rent out your property for £10,000 a year.

Mortgage interest	£6,500
Agent's fee	£1,200
Maintenance & repair (including wear and tear)	£1,000
Buildings insurance	£150
Accountant's fee	£100
Total expenditure that can be deducted from you tax bill	£8,950
Total taxable income from rental	£1,050

This example shows how expenses you incur when owning the property can be offset against your tax bill, minimising the amount you have to pay. We've deliberately simplified the example to illustrate the offsetting — in reality you'd want to look for a property that gives you a higher rental income.

What sort of property to buy

Three things matter most — your likely tenants, the sort of property most in demand and the types of properties lenders won't give you a mortgage on.

Obviously, you need to research the market. Check on the internet and look in estate agents' windows to get an idea of what's available and the rents charged. Pick up lists of lettings to see if you can spot any gaps in the market. If there are pages of one-bed flats that have been vacant for ages, avoid them or that area.

Think about what tenants want

Remember, you're not buying for yourself. Too many amateur landlords fall in love with a place and forget it's not about where they would like to live, but what appeals to tenants.

Students, singletons, young professionals and families all have different needs location-wise. Students want to be close to the university campus, single and professional people need good transport and families will be interested in being near to good schools. Get this wrong and your rent will be lower than similar properties in the same area. You could also struggle to fill the property. Vacant periods, known as voids, are one of a landlord's worst nightmares.

It's worth factoring that in when you price your property too. You don't need to have a property empty very long before you'd have been better off taking a lower offer. Imagine you want £1,000/month but it takes six weeks to rent out. It'd take 15 months before you'd have been better off than renting it straight away for £900. And by then, you may be looking for a new tenant again.

Know the area

Local letting agents will know whether the demand is for one-bedroom flats or family houses. Of course, whether you can stretch to more than a small flat will depend on how much you've saved for a deposit.

You don't have to buy somewhere close to you. Most buy-to-let investors do, but if you're going to use an agent to look after it, then there's no need. You give yourself more choice by casting your net wider.

Don't pay more than it's worth

Our free guide to house prices (**www.moneysavingexpert.com/houseprices**) has more than 30 tools to help you judge that you're paying the right price, including Land Registry figures, which record what a place actually sold for, not just the asking price. You'll also find housing trends and forecasts, though predictions are as reliable as a fortune-teller's tales.

The internet is a goldmine of information on property valuations, and all for free. You can also find out if you're buying in a high-crime area or a flood risk zone, and the type of people who live nearby.

Is it worth buying a wreck and doing it up?

You could get a bargain if you're prepared to do up a property. Haggle hard if it's tired or in need of work. Refurbishing an out-of-date property will boost its value. A builder will give you an idea how much it'll cost, unless you've got the 'do it up' skills yourself.

You should aim to work on the same basis as professional developers. Their rule of thumb is that when it's done, your gaff should be worth 20% more than the cost of the refurb and the purchase price combined.

It's worth noting though that in some high-demand areas, the discount for a wreck is relatively small as so many people are looking for a blank canvas to style themselves.

Resist the urge to over-develop it. It simply needs to be clean, tidy and modern, unless you're buying in a really glitzy area and targeting a sophisticated tenant.

Lenders are fussy about the property

As mentioned earlier, lenders can be picky about ex-council flats as well as new developments — they may be overpriced. Also, if developers are targeting buy-to-let investors, the market will become flooded, making it hard to find tenants.

Fussy lenders also don't like properties that are too cheap — some expect a minimum valuation of £50,000 (though there's not much you can buy that cheaply!) while others will only lend on properties valued over £100,000.

If you're building a portfolio of properties, you may be restricted to three or a maximum amount you can borrow from one lender.

What type of mortgage should you choose?

As with a residential mortgage, there are plenty of different types of mortgage deals to choose from. Navigating through the plethora of deals on offer can seem bewildering, but it boils down to a series of consecutive choices — at each one, write down your preferences, so when it comes to finding your mortgage you know what's right for you.

Choice 1: Repayment mortgage or interest-only?

This is the first decision you need to make.

Interest-only

The majority of buy-to-let property investors choose interest-only loans because they mean lower monthly payments — making it easier to meet the stringent borrowing rules set out earlier in this guide.

An interest-only mortgage does what it says on the tin — you only pay the interest during the term, and owe the entire loan amount when the loan matures.

Yet only paying the interest also increases your risk if things go wrong and the property is no longer worth as much. Then you're in for a serious loss, as you'll still have to pay back the original loan to buy it in the first place.

Repayment mortgage

On a repayment mortgage your monthly payments include both the interest and a chunk of the actual loan so you repay it gradually. On maturity, the entire debt is clear.

On a £200,000 loan over 25 years at a typical buy-to-let rate of 4.5%, your monthly repayments would be £1,120 on a repayment basis. But this falls to £750 on an interest-only mortgage. As you can see, this makes it far easier to meet the 125% of rental income rule. Try it yourself — use our calculator: www.moneysavingexpert.com/mortgagecalculator.

So which should you go for?

The MoneySavingExpert.com mantra is "pay off debts with the highest interest rate first". This is almost always going to be your buy-to-let mortgage rather than the one on your home.

However, this needs to be balanced against the tax implications, as income earned from rent is liable for income tax. But, as explained on page 12, you can deduct mortgage interest payments from your rental income to minimise your tax bill. So many investors choose to keep their debt higher on their buy-to-let properties, even though it's more expensive.

It's best to get individual tax advice on this point before you decide whether paying off some of your mortgage debt is worth it.

Remember you don't *have* to take out an interest-only mortgage. Think about switching to a repayment mortgage after a few years, especially if the rent has risen faster than the cost of your mortgage.

CHAPTER 6

Choice 2: Do you want a fixed or a variable rate mortgage?

This is the really big choice, and it's never easy. There are many different type of deals but all fall roughly into two camps. They're either fixed or variable.

Fixed-rate mortgages

Here, regardless of what happens to interest rates, with a fixed mortgage your repayments are, well, fixed. They don't move, they're like a statue, as still as a pyramid. OK, hopefully that's enough and you've got it.

So whether you fix for two, three, five years or longer, it's effectively an insurance policy against interest rates going up. Like any insurance policy, this protection from rate increases typically costs you.

Of course, if rates tumble (unlikely with rates currently at rock bottom) your payments won't fall.

So all other things being equal, a three-year fix will have a higher rate than a three-year variable deal. So it depends what price you put on your peace of mind.

Then again, this isn't always the case and there can be quirks — this is all part of the evaluation process.

When a fix ends, most move on to their lender's standard variable rate.

PROS & CONS OF FIXED RATES

PROS
- Certainty. You know exactly what your mortgage will cost.
- Your payments will not go up over the life of the fix, no matter how high rates go.

CONS
- Starting rates are usually higher than on variable products.
- If interest rates fall, you won't see your payments drop.
- If you want to get out early, you'll pay high penalties.

Variable rate mortgages

Here, your mortgage rate, as the name suggests, can and will usually move up and down. The major, but not sole, cause of this is changes in the UK economy.

In times of growth and inflation, interest rates tend to be increased to discourage spending. This makes savings more attractive and borrowing costlier, meaning people are less likely to borrow to spend.

In times of recession, interest rates are reduced to encourage spending.

However, to complicate things, variable rate deals fall into three categories:

1. Trackers

Here the rate tracks a fixed economic indicator. Usually it's the Bank of England base rate. This means it's completely locked in parallel with that rate.

CHAPTER 6

So if the Bank of England rate increases by one percentage point, so does your mortgage. If it falls by one percentage point, so does your mortgage. Most trackers only run for a couple of years and then go to the standard variable rate (see next category) but you can get ones lasting for the life of your loan.

But beware any small print that allows your lender to up rates, even when the base rate hasn't moved. It's rare, but West Bromwich Building Society did this in 2013. See www.moneysavingexpert.com/westbrom.

With buy-to-let mortgages, some trackers follow Libor rather than the base rate. Libor is a rate set between the banks when they decide what to charge each other for borrowing. You may have heard of Libor from the scandal in 2013 when some international banks were accused of fixing Libor to make more money for themselves.

Watch out too for the few deals that have a 'collar' — a minimum level below which the rate will not drop. When the base rate fell to 0.5% during the credit crunch, some collars were invoked so lenders didn't have to go so low.

Always check to see whether deals have a collar before taking them out. Also, be prepared to dispute them if they're invoked later and they weren't in the Keyfacts paperwork you got with your mortgage.

PROS & CONS OF TRACKERS

PROS
- They are very transparent.
- You know that only economic change can move your mortgage rate, rather than the commercial considerations of the lender.

CONS
- Uncertainty.
- If rates rise, so will yours.
- You're also locked into a fixed relationship, so if you are paying a large amount above the Bank of England base rate and interest rates jump, it could mean huge future costs.

2. Standard variable rates (SVRs)

Each lender has an SVR (or rate with a similar name) which tends to roughly, but not exactly, follow the Bank of England base rate.

You can sometimes get deals which start on the standard variable rate (or the buy-to-let variable rate) but it's not common. More usually, the SVR is the rate you're moved on to when your introductory fixed or tracker special offer deal has ended.

SVRs can be anything from two to five or more percentage points above the base rate, and they can vary massively between lenders.

As the base rate shifts up and down, lenders traditionally move their SVRs, although not always by the same amount. For example, they may only drop rates by 0.2% when the base rate drops by 0.25%. But when it goes up they often increase it by at least the full amount, or more, meaning they increase profits both ways.

The most important thing to understand with an SVR is that lenders can and sometimes do move the rate simply because it's to their advantage. There are many examples of this happening, hiking people's costs.

PROS & CONS OF SVRs

PROS
- They can be cheap in some circumstances, but new mortgage customers are rarely allowed to get them.
- If interest rates are cut, your rate will likely drop too.

CONS
- Uncertainty.
- There's no guarantee you'll get the full benefit of all rate changes as you're at the mercy of lenders hiking rates at their will.

"The most important thing to understand with SVRs is that lenders can and sometimes do move the rate, hiking people's costs."

"Be canny. Check the SVR too to make sure you're getting the best rate."

3. Discount rates

These deals usually offer a discount off a standard variable rate (SVR). The discount tends to last for a relatively short period — typically two or three years.

The trouble is that the SVR is set by the lender so it can vary by a percentage point or two from one lender to another.

Be careful when you read the marketing materials — they can be confusing. Some quote the rate with the discount applied and then the rate you'll move on to later (the SVR). Others quote the initial rate, the amount of the discount and then the rate you'll move to after the discount is over. A few just quote the discount and the SVR.

Be canny. Check the SVR too to make sure you're getting the best rate. A 2% discount off an SVR of 5% is no better than a 1% discount off an SVR of 4%. Whatever it says, the main thing is to find the rate you'll pay at the start, then check the SVR for what you'll pay after the discount rate ends.

PROS & CONS OF DISCOUNTED RATES

PROS
- It should be cheaper than the underlying rate, such as the SVR.
- If interest rates are cut your rate will likely drop too.

CONS
- Uncertainty.
- If it's a discount off the SVR, there's no guarantee you'll get the full benefit of all rate changes as you're still at the mercy of lenders hiking SVRs at their will.

4. A hybrid option – capped deals

These used to be more common, but they're now pretty rare. Here, you have a variable rate but with a safety cap, so it can't rise above an upper limit.

The rate you pay moves in line with the base rate or SVR, but the upper ceiling or cap gives you some protection.

They tend to be offered when people are frightened rates might soar.

PROS & CONS OF CAPPED DEALS

PROS • You benefit from interest rate falls and have some protection from interest rate rises.

CONS • The cap tends to be set quite high, and the starting rate is generally higher than normal variable and fixed rates.

Questions to ask

Are there any extended redemption penalties?

What happens when you come to the end of a fix, or a discounted tracker? While most people accept they will be penalised for shifting mortgage or repaying during the period of the deal, some lenders continue to charge redemption penalties even after this — hence 'extended'. They are few and far between, but do check, and try to avoid them.

Does the lender charge daily interest?

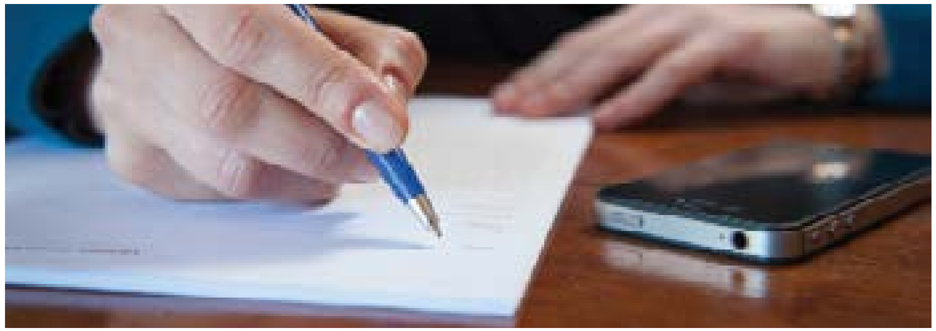
Daily interest means the amount you owe is recalculated every time you pay money off. This only matters if you're on a repayment mortgage or plan to pay back more than your normal mortgage payment at any point. If you're on an interest-only deal, you can't overpay, as you're just paying off the interest each month when it falls due.

With daily interest you pay less interest over the life of the loan. With annual interest you don't get the benefit of 12 months' payments until the end of the year, so you're always paying interest as if you're a year behind.

It can make a huge difference to what you pay. If you've got 10 years to go on your £115,000 mortgage, a 5.35% deal charging daily interest is actually similar value to a rate of 5% where interest is calculated annually.

What happens if I need to sell the property during the fixed or the discount deal?

You'll probably have to pay an early repayment charge, which can be anything from 1%-5%. A lot of residential mortgages are 'portable', which means moving doesn't have to involve a new deal, but this is very rare on a buy-to-let mortgage. So be careful when choosing a tie-in period.



How to get the best buy-to-let mortgage

The aim, of course, is to get you the cheapest and most efficient mortgage available. To do this, you need to track down not just the market's cheapest rate, but also try to find one where you match its acceptability criteria.

It's worth noting that buy-to-let mortgages don't always come from the mortgage names you're used to. But don't let that put you off — often they're just subsidiaries of some of the UK's largest lenders. You might not know them, but you'll know their owners.

To illustrate, here are some of the biggest buy-to-let lenders, and their owners:

- BM Solutions — part of Bank of Scotland
- The Mortgage Works — owned by Nationwide Building Society
- Platform — part of the Co-operative Bank
- Accord — part of Yorkshire Building Society

Step 1: Gather your paperwork

Before you start looking for your buy-to-let deal, gather everything you could possibly need as early as possible so you don't waste any time in the application process while waiting for key paperwork to arrive.

"Before you start, gather everything you could possibly need."

There is often less paperwork needed for a buy-to-let mortgage than for a standard owner-occupier mortgage. But you could still be asked for any or all of the following, so be prepared:

- Proof of rental income (if possible) and mortgage statement on existing property.
- Proof of income (often last 3 months' payslips or 2/3 years' accounts if self-employed).
- Proof of deposit (plus written confirmation from donor if getting help with the deposit).
- Your last three months' bank statements.
- Proof of bonuses/commission.
- Your latest P60 tax form (showing your income and tax paid from each tax year).
- Proof of ID such as a copy of your passport.
- Proof of your own home's address.
- SA302 tax return forms, mainly for the self-employed. These are copies of your self-assessment tax return, which lenders may want to see. These can take weeks to get from HMRC, so be prepared well in advance.

Step 2: Find a mortgage broker

A mortgage broker is a company independent of lenders that can find mortgages for you, advise you on which is best, and then process and sort out your application.

Nearly all the major lenders offer buy-to-let mortgages, but there are many specialist lenders that will only deal with you through mortgage brokers. These specialist lenders often have market-leading rates so you could really miss out if you don't get advice from a broker.

This is in contrast to the residential mortgage market. There, many of the best deals are direct only, or at least available direct if people choose. Here, going direct means restricting your choice.

However, it's important to understand that buy-to-let mortgages aren't regulated. So there's no safety net, and no ombudsman to turn to if your broker makes a mistake.

Our tips to find a broker are:

- **Pick one who also does residential mortgages.**

This way they'll be qualified and are likely to follow the same processes for all loans they broker. So while you don't have regulatory protection, they're at least likely to be following processes the regulator sets out for residential mortgages, and will be used to scrutiny.

- **Ask if it checks all lenders.**

Some mortgage brokers are tied to one or a small panel. We'd dodge those.

The real choice is between one who checks all the lenders that work with brokers, and the few that check all those plus the very few extra buy-to-let 'direct only deals' that brokers can't set up for you.

The first type has the advantage that some of them (mainly working by phone rather than face-to-face) are fees-free, including London & Country, the sponsor of this guide. The second type has the advantage that while you pay, you get belt and braces security. Every possible deal is looked at.

If you do go for the fees-free option, then as we'll show you in a few pages, you can then quickly check the direct-only deals yourself if you like.

- **Ask how much it charges.**

Brokers can make money in two ways:

– *Receiving a procuration fee from the lender*. This is roughly £350 per £100,000 of mortgage. It doesn't affect what you pay.

– *Charging you a broker fee*. If your broker does charge you a fee, this can be anywhere between £300 and £1,000. (Don't pay more — some do it via a percentage of loan value. If that's too high, avoid.)

While it's legal for them to do so, we'd avoid any broker that charges upfront or even before you complete your mortgage. In other words, don't pay unless you get the mortgage.

Don't think just because your broker's charging you, it won't be getting commission from a lender. If the total from you and the lender is more than £800 and it's not complicated by issues such as your credit history not fitting, there may be room to haggle. The lender's commission is usually a percentage of the loan amount, which really means you're in a

position to haggle hard on bigger loans.

To find a broker, we've an updated list at www.moneysavingexpert.com/mortgagebrokers. While that guide is focused on residential mortgages, all those in there can also transact buy-to-let mortgages.

However, you don't have to use a nationwide, phone-based broker — there are lots of extremely good local brokers. If you choose one carefully using the earlier questions, you should get decent face-to-face service. If that's your chosen route, and you don't know one, you can check on www.unbiased.co.uk to find one in your local area.

Martin's Mortgage Moment

Mortgage brokers can make it easier and faster

Just going to your existing bank or building society means you'll only be offered its products — nothing wrong with that as a benchmark, but what you really want to do is get the best deal from across the market.

That's where a good mortgage broker can help. I often favour sorting your finances out yourself. But as mortgages are such a big single transaction, getting professional help can be a boon. And in the buy-to-let market, as a broker gives more choice, it's a virtual necessity — and as it can be done fees-free in some cases, there's no need for additional cost.

There are further broker benefits too.

They should be able to quickly source a relevant product that fits your credit history, and will carry more clout with lenders to ease acceptance on otherwise unobtainable mortgages. There are also some deals which are exclusive to individual brokers so you may want to check more than one.

And finally, if things go wrong, it means you've someone else to try to put pressure on the mortgage company to sort it out.

Step 3: Check direct-only deals

If your broker doesn't check these, it's worth doing yourself too. A few lenders, such as HSBC and First Direct, offer buy-to-let mortgages that can't be arranged via a broker, so to cover all bases it's worth checking these two to make sure you're not missing out.

The best way to check direct-only deals is online. The comparison sites www.totallymoney.com/mortgages and www.google.co.uk/mortgages are useful.

If you do find a cheaper deal direct, it's worth discussing it with your broker.

Your responsibility as a landlord

The law is quite strict about what a landlord must do to protect those living in their property, as well as on tenancy agreements and safeguarding deposits.

Tenancy contracts

Most private tenancy agreements are assured shorthold tenancies (ASTs), or short assured tenancies (SATs) in Scotland. These are typically for a year, with a break clause at six months (in England) when either you or the tenant can give notice to leave.

Since 2007, landlords in England and Wales using an AST have had to put their tenant's deposit in a Government-backed protection scheme within 30 days of getting it. This became law in Scotland in 2011, and in Northern Ireland in 2013.

If you don't protect your tenant's deposit in one of the schemes, you could pay a penalty of one to three times the deposit.

Deposit schemes

There are two options here:

1. Custodial schemes

The Deposit Protection Service (DPS) is a custodial scheme and is free to use. When your tenants move out you agree with them how much of the deposit will be paid back to them. Tell the DPS and it will be repaid, with the interest it's earned, within 10 days.

The benefit of this scheme is that if there are any arguments, it's referred to the Alternative Dispute Resolution (ADR) service, which decides what is fair. If it still can't be agreed then it goes to the courts.

> "The law is quite strict about what a landlord must do to protect those living on their property."

2. Insurance schemes

With the insurance route, the landlord keeps the deposit but must take out insurance to protect the tenant in case there's a dispute about returning it at the end of the tenancy. The DPS also offers an 'insured option' but there are another two insurance schemes — Tenancy Deposit Solutions Ltd (also known as My Deposits) and the Tenancy Deposit Scheme. You have to register the deposit with them and they both provide a dispute resolution service.

You must tell the tenants which deposit scheme you've used. As long as the tenants have paid their rent and any outstanding bills and not damaged the property, you have to return the deposit within 10 days of them leaving. It's usual for the tenancy agreement to stipulate the home should be cleaned thoroughly before they leave, often by a professional company, if that's the state you handed it over in.

Similar deposit protection schemes exist in Scotland and Northern Ireland.

There are other things you need to consider as well.

- Keeping it safe

You also have to make sure the property is safe. This means getting any gas appliances checked once a year by a Gas Safe-registered tradesman. Once they're passed as safe, you'll get a gas safety certificate, which you must keep for at least two years.

Plugs, sockets, wiring and any electrical appliances also have to be checked to ensure they're safe, especially if you supply equipment such as TVs, fridges and washing machines. They don't have to be checked every year, but it's a good idea to have it done every time you have new tenants.

Any furniture or furnishings you provide must pass the fire safety regulations. Look for labels on sofas and beds which will show they are fire-retardant. Old second-hand furniture and hand-me-downs from family and friends probably won't do.

You must also fit a fire alarm — either a battery-operated one or an alarm connected to the mains if the property was built after 1992.

While it's not a legal requirement, consider fitting a carbon monoxide detector in any rooms with gas appliances — though this is not a replacement for getting a gas safety check every year.

You'll need a licence if your place is a House in Multiple Occupation (HMO). An HMO refers to three or more unrelated people renting a place living as at least two separate households who share a kitchen, bathroom or toilet. This basically refers to bedsits — not sharers or a bunch of students. If you rent out an HMO, you must fit a carbon monoxide detector.

"Get any gas appliances checked once a year by a Gas Safe-registered tradesman."

- Letting agents

If you use a letting agent, whether to find tenants or to manage your buy-to-let, make sure it's a qualified member of one of the trade's professional bodies — the Association of Residential Letting Agents, the National Landlords Association or the National Association of Estate Agents. These groups all have a Code of Practice which sets the standard of service the agent should provide and will deal with complaints if they fall short.

Your agent will do a full inventory of your place before you let it out. This usually costs £100 to £200, depending on the size of the property. It'll note the condition of everything inside including walls, floors, furnishings, light fittings and curtains as well as any furniture. You and your tenant should agree the inventory. Even if you're going it alone, it's a good idea to get in an independent inventory clerk. It'll save arguments later when the tenants leave.

- Visiting your property

Just because you're the owner doesn't mean you can just barge in whenever you want. You should give notice in writing and arrange a time with your tenants, even if you're going in to fix a problem.

You can check whether repairs are needed — tenants tend not to notice that damp is coming in until it is serious — and whether they are sticking to the terms of the contract such as not having pets. If you're paying an agent to manage the property, this is part of the service you pay for and it should do this.

Regular checks will find out if they are bad tenants. There have been nightmare stories of tenants trashing a place, holding wild raves or — even worse — turning a property into a cannabis factory.

> "There have been nightmare stories of tenants holding wild raves."

Tenants' rights and responsibilities

Your tenants' main responsibility is to pay the rent in full and on time and keep to the terms of the contract, for example, by not smoking inside. They should also be considerate neighbours. Provided they keep to the terms of the tenancy, you can't evict them for having the occasional party.

But if they are constantly disturbing those living nearby, it's a matter for the council and, in severe cases, the police will be involved if they're breaching the peace. No doubt neighbours will complain to you or the agent. Try to resolve it as soon as you can by talking to them and explaining that they are causing a disturbance.

If they're being violent or harassing neighbours, they could be breaking the law, which will make it a matter for the police.

Martin's Mortgage Moment

Happy Hunting

Starting out as a landlord is not the end of the story. Your circumstances may change, the deals available will certainly not stay the same. It's perfectly possible that today's perfect fit buy-to-let mortgage will be woefully out of shape in two or three years.

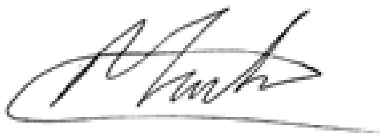
So, it's important to keep your eye on the ball — especially if you've chosen a deal which runs for a short period of time. You should put a note in your diary three months before your initial mortgage deal is up.

Don't ignore it. Use it as a prompt to research the market again. Deals are constantly changing. You can book your next mortgage three to six months before the old one ends.

And make sure that once you've tracked down the best deal, you take it. But don't forget to put another reminder in your calendar for the next time...

If you decide to go for it — happy hunting.

We hope you save some money.



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