



Buy-to-let Mortgages

This factsheet covers information available from both the Money Advice Service (MAS), an independent service set up by government to help people make the most of their money, and the Financial Conduct Authority (FCA), set up to regulate financial services in the UK and protect the interests of consumers.

The FCA, formally the FSA, has been responsible for regulating most mortgage sales since 31 October 2004.

However, unlike obtaining a mortgage on a property you wish to live in, buy-to-let mortgages are not regulated by the FCA unless you wish to let the property to a close family member (e.g. your spouse, civil partner, child, grandparent, parent or sibling).

This means that most buy-to-let mortgages are unregulated and you may not be able to take complaints about this type of mortgage to the Financial Ombudsman Service (FOS), or seek compensation from the Financial Services Compensation Scheme (FSCS) if the firm against which you have a complaint becomes insolvent.

What is a buy-to-let mortgage?

A buy-to-let mortgage is a loan you take out to buy a property which you intend to rent to tenants. The mortgage is usually secured against the property to be let.

It is a long-term investment which you hope will generate an income from rents and a capital gain when you sell the property. But there is no guarantee that you'll make a profit on your investment, and if you need access to the cash a property may take time to sell or re-mortgage.

How much can you borrow?

The maximum you can borrow is usually linked to the amount of rental income you might expect to receive. For example, a lender might require the projected rental income to be 30% higher than your mortgage payment.

Typically, you'll need to pay a deposit of around 20 - 25% of the value of the property, depending on your circumstances.

What type of mortgage can you have?

You can have either a repayment or an interest-only mortgage.

If you choose an interest-only mortgage, you should think about making capital repayments when you can afford to, in order to reduce the amount you'll need to repay at the end of the mortgage term.

You might feel this is unnecessary if you intend to sell the property to repay the mortgage. However, bear in mind that, if house prices fall, you might not be able to sell for as much as you had hoped. And you will have to make up the difference if the property sells for less than what you owe – a risk that increases, the higher the percentage you borrow. If you sell for a profit, you may have to pay capital gains tax.

Don't forget that with a variable rate mortgage, your costs will rise if interest rates go up, eating into – or even wiping out – your income and profit.

Some risks of buy-to-let

Risk	How it might affect your buy-to-let investment	Is there anything you can do about it?
Costs rise unexpectedly	For example, the mortgage payment rises, you have to make major repairs to the property, you employ a property manager and his/her fees rise, and so on. As a result, your income and your profit are reduced.	<ul style="list-style-type: none"> Consider a mortgage with a fixed rate. Your payments will not go up even if mortgage interest rates rise. Be realistic: when planning whether the project is feasible, build in a margin for extra costs and maintenance.
Property is empty for longer than you had expected	Your total rental income for that year is lower than you had expected. At the worst, you may receive no income for several months and have to cover your mortgage payments and other costs from your savings or other income.	<ul style="list-style-type: none"> Factor this scenario into your planning and decide on a contingency plan. E.g. Do you have savings or is there sufficient 'headroom' in income from other sources to cover a void period.
House prices do not rise as much as you had expected, or fall	The after-tax gain you make when you sell the property is less than you had planned or you even make a loss. At the worst, the proceeds from the sale might be too low to repay the mortgage in full.	<ul style="list-style-type: none"> Be aware from the outset that there is no guarantee you will make a profit when you sell the property. Be prepared to put off selling the property so you can ride out any slump in prices. Take a repayment mortgage, so that you are paying off the loan as well as paying interest.
Poor location	There is little or no demand from tenants in the area where you buy, so it stands empty for long periods or the only way to get tenants is to charge a lower rent than you had planned. Either way, your income is reduced.	<ul style="list-style-type: none"> Do your research before you buy – for example, talk to estate agents, visit and check the distance to shops, local schools, public transport. Employ a letting agent to recommend suitable properties – tenants won't necessarily want the same type of property as owner occupiers.
Property is in poor condition	Tenants do not want to live there or you have to spend large amounts bringing the property up to an acceptable standard. Either way, your income (and so your profit) is reduced.	<ul style="list-style-type: none"> Do your research before you buy – get a survey of the property – bear in mind older properties tend to have higher maintenance costs. Employ a letting agent to recommend suitable properties and give you an idea of the rent you might expect.
Bad tenants	Tenants may damage the property, fail to pay rent on time, or upset neighbours. This may increase your costs, reduce your rental income and lead to a need to evict the tenants.	<ul style="list-style-type: none"> Vet potential tenants, including taking up references. If you do not have time to do this yourself, employ a letting agency. Let the property under an assured shorthold tenancy. This lets you evict tenants on two months' notice with a minimum of fuss. Most lenders will insist you use this type of tenancy agreement.

Further information about buy-to-let

Council of Mortgage Lenders

Tel: 0845 373 6771; www.cml.org.uk

Mortgage Guide: Buy-to-let

www.cml.org.uk/cml/consumers/guides/buytolet

GOV.UK

www.gov.uk/

Guide: Renting out your property (Scotland)

www.gov.uk/renting-out-your-property-scotland

Guide: Renting out your property (England and Wales)

www.gov.uk/renting-out-a-property

HMRC

Local tax offices (see Phone Book)

www.hmrc.gov.uk/

Property income manual

www.hmrc.gov.uk/manuals/pimmanual/index.htm

Capital Gains Tax reliefs on property that's not your main home

www.hmrc.gov.uk/cgt/property/reliefs.htm

GREIT04005 - Property rental income: general

www.hmrc.gov.uk/manuals/greitmanual/GREIT04005.htm

The Association of Residential Letting Agents

Tel: 0845 250 6001; www.arla.co.uk

Residential Landlords Association Ltd

Tel: 0845 666 5000; www.rla.org.uk

Documents & Guides

www.rla.org.uk/landlord/documents/landlord_document_centre.shtml

General information about mortgages

Financial Conduct Authority (FCA)

Consumer Helpline Tel 0800 111 6768

consumer.queries@fca.org.uk

Money Advice Service

Tel: 0300 500 5000

Buy-to-let mortgages

www.moneyadviceservice.org.uk/en/articles/buy-to-let-mortgages

Buy-to-let property investments

www.moneyadviceservice.org.uk/en/articles/buy-to-let-property-investments