The Property Secrets Guide to Buy to Let Finance 2014

First Published 2014

More Than Two Publications, Nottingham

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About The Author

Peter Jones is a Chartered Surveyor, an author and a serial buy to let property investor.

He has been involved in property for over 30 years having graduated from the College of Estate Management, Reading University, and then qualifying as an Associate member of the Royal Institution of Chartered Surveyors in 1983, before being elected a Fellow in 1992.

By the age of 35 he was a Salaried Partner in a well respected firm of Chartered Surveyors, and was managing partner of their West End of London Office. His specialty was commercial property but during the recession of the 1990's his specialisation became redundant, and so did he.

Finding himself with no regular income, and with no savings, but with a wife and 3 young children to support, he borrowed some money from a relative and bought a house to refurbish and sell-on. That was the start of his own property business and, despite starting with none of his own money, he quickly assembled a multi-million pound property portfolio. He now owns 64 letting units, and lives off the passive income they produce.

Peter is still actively involved in buying and renovating property, and regularly flips properties for profit.

Peter has written a number of successful property books. The first, *An Insider's Guide to Successful Property Investing*, was first published in 2000 and was one of, if not the very first, book of its kind which was written for what we'd now call buy to let investors.

On the back of its success he was invited to be a guest writer for Property Secrets, and wrote Spanish Property Secrets, French Property Secrets, and Portugal Property Secrets.

He has since written a number of other successful titles dealing with UK investing including *63 Common Defects in Investment Property and How to Spot Them*, *The Property Renovator's Workshop,* and the highly acclaimed *The Successful Property Investor's Strategy Workshop* in which Peter describes step-by-step how he built his own property portfolio, starting with virtually none of his own money. Details of his books can be found at www.StrategyWorkshop.co.uk and www.PropertyRenovationProfits.co.uk.

He also writes regularly for Property Auction News and Hot Property Alert, and is a guest blogger for Property Secrets, Progressive Property and LandlordZONE.

Peter also provides a 'Pay as You Go' mentoring and coaching service and details can be found at www.ThePropertyTeacher.co.uk/mentoring

Peter's blog can be found at www.ThePropertyTeacher.co.uk

The Property Secrets Guide To Buy to Let Finance

According to some, we've just entered into the buy to let boom age, and things are just about to take off. For the first time in a long time all the major house-price indices are showing positive growth, month on month.

First time buyers are returning to the market, transaction levels are up, mortgage lending is increasing.

A natural confidence has come back into the market, no doubt fuelled in large part by the Government's Help to Buy Scheme, by which the Government effectively guarantee the risky end of a mortgage on condition that a mortgage lender lends a larger amount. This is encouraging lenders to offer ninety-five percent mortgages and is once again making property accessible to buy for those who have been forced to rent for the last few years.

There are some who are saying that this will all end in tears, but in the meantime we are likely to see a feeding frenzy, because the British public will only be denied owning property for so long. And the fact that the Scheme now applies to all property, second hand properties and pre-owned properties as well as new build properties, means there are few restrictions on who can apply and what they can buy.

Property is back in fashion. In fact, more accurately, we should say that it's been in fashion but those who have wanted to buy property, like first time buyers just haven't been able to raise the finance to do so. For different reasons the finance is now available again and the buyers are coming back into the market.

That's the owner occupier market but what has that got to do with a buy to let boom? Well, as demand from owner occupiers increases, house prices will increase, and many who have been considering buy to let, but have perhaps been putting it off waiting for the market to stabilize (it's amazing how long the press have been telling us that the property market is about to crash again when in reality that was never likely to be the case) can now buy with confidence.

As the property market continues to improve, and is evidently doing so, there are many who would not naturally put their money into property who may now be tempted to do so. There are many people who are keeping their cash in the bank but, with interest rates still destined to stay low for years to come, it will be more and more obvious to them that if they want to get a decent return on their money, they are going to have to take it out of the bank and put it into a more tangible asset like property.

For the last few years, non-geared returns on property have averaged around four to eight percent, which is already a significant margin over the average return of a cash deposit in a bank, which can be less than one percent and not much more even in a structured saving scheme like an ISA. But if an investor knows what they are doing, and they are prepared to gear up (in other words borrow money to add to their own, otherwise known as take out a mortgage) then the geared returns can be two or three times the non-geared return, or perhaps even higher, depending upon what they buy, where they buy it and how they buy it.

Then there are those who have their money in the stock market. It always makes me laugh when I see articles and headlines saying that the stock market has out-performed property over any given period of time. Let's just put this into some perspective. On December 31st 1999 the FTSE 100 stood at just under seven thousand. At the same time, according to the Nationwide, the average price of a house in the UK stood at around sixty thousand pounds.

Today, as I write, the FTSE 100 stands at six thousand five hundred, still lower than where it stood at the beginning of the millennium.

By contrast, today, according to the Nationwide, the average price of a house in the UK is now one hundred and seventy thousand pounds, almost three times the value back at the beginning of year 2000.

I rest my case.

Buy to let investors who bought property a while ago are already enjoying positive cash flow, and are now seeing increasing equity. Equity can be defined as the difference between the value of the property and any mortgage held on the property, and so it is, in a sense, "the wealth" of the property owner. Yes, it's true that this "wealth" is on paper only until they sell. But an alternative to selling is that, as prices rise, they can re-finance and take out that extra equity and use it as a deposit to buy another property and so increase their cash flow, or, if they really wanted to, they could spend it as 'tax free income'.

The point is that existing buy to let investors need little convincing of the power of buy to let, and many current landlords have been, and will be, buying more properties to expand their portfolios.

I could go on and on, but the point is that there are multiple drivers in the market which are together acting to push demand and to push prices.

As a consequence of the improvement in the property market, buy to let is booming again. According to Mortgages for Business (www.mortgagesforbusiness.co.uk) there are currently around 720 buy to let mortgage products available, offered by 27 different lenders, up from about 480 buy to let products just 12 months ago.

Products are coming and going the whole time, all with different terms and conditions, and so it is extremely difficult to keeps tabs on it all unless you are full time in property finance.

Professional investors will tell you that '*finding the right finance package is as important as finding the right property deal'*. In fact it is so important that they will tell you that *an investor should spend as much time investigating finance as they do looking for a property*.

Poor finance can make even a great property deal bad…great finance can make a poor deal better.

Chances are that, unless you are cash rich, if you decide to invest in property in the UK you will use buy to let finance, so we're going to have a detailed look at what buy to let finance is, and how you can increase your chances of successfully applying for it.

Before I go any further, let me insert the usual disclaimer.:

I'm not a mortgage broker or an IFA and I'm not qualified to give financial advice. The contents of this ebook are for general guidance only and should not be relied upon when making mortgage, investment or financial decisions. A reader should take advice from a qualified mortgage broker or their IFA before applying for any loan or making any investment or financial decisions.

With that out of the way let's start by looking the questions I'm most often asked about buy to let finance.

What Buy to Let Looks Like Today and How to Get It

Here are the principal questions I get asked about buy to let finance, it's terms, and how to apply for buy to let mortgages. In answering these questions I've principally referred to The Mortgage Woks, Birmingham Midshires (BM Solutions) and Paragon as they are three of the biggest buy to let lenders and give a good representation of what you can expect.

What's The Best Loan to Value Ratio I Can Get?

When buy to let started in the mid 1990's there were only a limited number of lenders and they tended to restrict loans to around 65% to 70% of the value of the property. As buy to let became more popular other lenders saw how the market had taken off and were eager to jump on the bandwagon. This competition between lenders has resulted in wider choice resulting in much more favourable loan packages being available.

Prior to the credit crunch buy to let lenders were routinely offering mortgages with 85% loan to values, and in some instances even 90% loan to values.

When the credit crunch bit 75% became the absolute maximum for a period of time.

As a consequence the maximum loan to value ratio (LTV) you are likely to be offered today is 80% of the *lower* of the valuation or the purchase price. At the time of writing one lender, Kent Reliance, occasionally offers an 85% buy to let product. They are the exception and not the rule. The next best is The Mortgage Works who have several 80% buy to let products for experienced landlords. To qualify you need to have been a landlord for at least 6 months. If you have not been a landlord for at least 6 months the maximum LTV they will offer you is 70%.

Kent Reliance are seen as being fairly aggressive and something of a trend setter but the problem with this product is that being a smaller Building Society they only have limited funds to advance, and those limited funds are usually exhausted fairly soon after the product is launched.

As you would expect, where a lender offers a higher LTV, they also often charge a higher interest rate to reflect the increased risk they are taking.

They will also impose tighter application criteria.

What's The Best Rate I Can Get?

That's a great question because the answer isn't very straight forward.

It's easy to get a great headline rate but the reason why it's great is often because it's fixed for a limited time, and/or the lender is making up what they lose on the rate by charging higher upfront application and administration fees.

So what looks like a great rate might not be so great after all. We'll look at comparing deals, and taking into account fees and other costs, a little later.

Some lenders will also charge lower interest to borrowers with multiple investment properties on the basis that successful investors with a proven track record are a lower risk.

It's also generally true that the more a lender will loan, the higher the rate of interest they will charge – in other words if you take a 80% loan you will save on the amount you need to put down as a deposit but you will invariably pay more in interest than if you take out a 60%, 70% or 75% mortgage.

What Are The Best Buy to Let Loan Deals Around?

Buy to let products are being pulled, and new ones are being launched, almost continuously, so unless I update this ebook almost on a daily basis it's going to be out of date almost all the time.

However, just to give you an idea, here are a few of the best deals at the time of writing. By the time you read this the chances are they will no longer be available, but it's more than likely they'll have been replaced by similar deals.

A very popular product (at the time of writing) is a 75% LTV BM Solutions (Birmingham Midshires) buy to let mortgage. It's an exclusive deal, as they'll only lend to you it if you use their appointed conveyancer.

There's two options. There's a two year tracker currently at 3.89%, up to 75%, with half a percent fee, and they also give £500 cash back per property. If you don't fancy a tracker rate, there is a fixed option at 3.99%, with the same cash back and the same fee.

The best headline rate offered by The Mortgage Works is 2.29% on a 60% LTV, with arrangement fees of 2.5%.

Accord offer a five year fixed rate of 3.79% on a 75% LTV with a 2.5% fee.

Leeds Building Society has a two year fixed rate of 2.79% on a 60% LTV with a £199 arrangement fee.

Skipton Building Society has a 3.58% two year fixed with a rate of 3.58% with a £995 fee.

Nottingham Building Society has a 3 year fixed rate on a 75% LTV with a £1,999 fee.

Santander has a 5 year fixed at 3.99% on a 60% LTV with a £1,495 fee but with a £250 cash-back.

What Fees Will I Have to Pay?

Fees vary from lender to lender and from product to product.

Some lenders charge a 'booking fee' which can be anywhere up to £250.

Most will charge an application (or administration fee) which can be a fixed charge, say £995, or a percentage of the loan, say up to 3%.

This may or may not include valuation fees.

Occasionally a lender might offer a product without fees but it's more than likely that what they lose in fees they'll recoup by charging a higher interest rate.

Around 10% of all buy to let products have no arrangement fees.

When you are doing your sums, make sure you take fees into account. I know this sounds obvious but a 3% fee on a £250,000 is £7,500; that could be a sizeable proportion of your first year's rent and can seriously affect your Cash-on-Cash return.

What’s The Maximum Amount I Can Borrow?

There are two elements to the answer to this question.

The first is, do you mean what’s the maximum you can borrow on an individual property? As ever this will vary from lender to lender but if we use The Mortgage Works as an example, they vary the maximum per property depending upon the LTV of the loan you take.

So, for example, they’ll lend up to £350,000 with an LTV of 80%, £1m with an LTV of 65%, and £1.5m with an LTV of 50%.

By contrast Paragon will lend up to £500,000 with an LTV of 75%, £1m with an LTV of 70%, and £2m with an LTV of 65%.

However, that’s only half the answer because, as we’ll see later, most if not all lenders have a cap on how much they’ll lend an individual borrower.

What’s The Minimum Amount I Can Borrow?

I’m going to keep saying this but it will vary from lender to lender. Again, using The Mortgage Works as an example, their minimum loan is £25,001 which implies a minimum value for a property of £31,250.

However, it’s not as simple as that because their minimum property value or purchase price, which ever is the lower is £50,000.

Birmingham Midshires also have a minimum loan of £25,001.

Paragon have a minimum loan of £30,000.

What’s The Minimum Value of Property I Can Buy?

For Birmingham Midshires the minimum value (or purchase price) is £40,000. As we’ve just seen, with The Mortgage Works the minimum value is £50,000, with Paragon it’s £75,000

How Long Can I Borrow The Money For?

Typically the minimum term is 5 years. The maximum term is 35 years for The Mortgage Works, 25 years for Paragon. Birmingham Midshires will go to 40 years subject to maximum age at maturity.

Am I Too Old or Too Young to Be or Start in Buy to Let?

Typically lenders will consider applicants with a minimum age of 21. Birmingham Midshires require a minimum age of 25.

Typically an applicant will need to be 75 or younger at the date of maturity of the loan, although The Mortgage Works will accept applicants who will be 90 at the maturity of the loan as long as they are a joint applicant with an experienced landlord.

Paragon will accept applicants who will be 80 at the end of the term.

Who Are The Best Lenders to Apply To?

It's an obvious answer but the best lender is the one who can provide a buy to let product which most closely fits your needs.

Also don't assume that bigger is always best.

Many smaller lenders, including smaller building societies, have come into the buy to let market and can offer very attractive terms

For example, Kent Reliance offer a buy to let mortgage with an 85% LTV, which, as far as I know, is the largest LTV available.

Similarly, Saffron Building Society offer an 80% LTV, and a 75% LTV light refurbishment loan.

You can also try The Principality Building Society, Coventry Building Society, Skipton Building Society, The Peterborough & Norwich, The Leeds Building Society, the Nottingham Building Society and many, many others.

There are also 'new' lenders such as Aldermore and Shawbrook.

And some of the big mainstream lenders, such as Santander, now offer buy to let loans.

Having said that, a draw back of the smaller lenders is that they limited funds allocated to their products and so the products can be pulled very quickly if they are popular.

Also, the bigger lenders often have a larger range, and therefore a larger choice, of loans and terms.

Is There a Limit on How Much I Can Borrow?

In the good old days before the credit crunch, most buy to let lenders were quite happy to keep lending to individual borrowers so they could buy multiple properties.

After the credit crunch, and with tightening credit conditions, that all changed.

Most, if not all, lenders now have a cap on the amount that they will lend an individual borrower. This cap is either a restriction on the number of properties that they can buy, or a monetary cap, in other words a maximum amount that they can borrow regardless of the number of properties purchased.

Prior to the credit crunch Birmingham Midshires restricted the maximum number of properties that they would lend on for an individual borrower to nine. After the credit crunch that restriction was reduced to three. In addition to that the Lloyds Banking Group have a restriction of nine properties in total across the whole of the group, which includes Birmingham Midshires. Lloyds Banking Group also have a maximum of £2m total lending across the Group.

By comparison, Virgin, who have only relatively recently returned to the buy to let market, have a limit of ten properties.

The Mortgage Works have a monetary cap of £1.5m on 80% LTV and £5m on 65% LTV.

Paragon have a blanket limit of £5m per borrower.

The good news is that although there are caps in place this shouldn't restrict an investor from assembling a portfolio. If a borrower maxes out, so to speak, with their lender the answer, of course, is to go to another lender. Most lenders are not concerned with how many mortgages you have with other lenders, they are only concerned with how much exposure they have to an individual borrower. That means that it's easy for an investor to spread the loans around.

This is another advantage of using a whole of market broker (see "Should I Use a Broker?") who should be able to match a borrower with a lender with whom they've not exhausted that particular lender's credit line or cap. With the property market recovering, and more lenders coming back into buy to let, there are plenty of lenders to choose from and so most buy to let borrowers shouldn't run out of lenders to approach.

So the days of building a portfolio isn't finished, but borrowers do need to approach multiple lenders rather than sticking with one preferred lender.

What Should an Existing Investor Who Already Has a Loan or Loans be Considering, Especially if They Want to "Do Buy to Let Better"?

Established landlords with properties that have increased in value since they last mortgaged them may find it's worth considering remortgaging.
There are three potentially beneficially options open to them:

First, they can release equity and use the money as deposits to fund further purchases.

Second, they can leave the equity in the property (i.e not borrow it out) but can change their mortgage to one with better terms. This can allow them to save money and increase cash-flow by tweaking rates. Don't forget, property is a business and you need to make money and make you sure you are getting the best returns.

Third, they can withdraw equity ***and*** go on to better terms to save money.

Can I Get Into Buy to Let If I Have No or Limited Money To Put Down As a Deposit?

When I first started looking at finance some 20 or so years ago, it was evident that

*Although I had equity in my own home, my mortgage lender would take a dim view of me releasing that equity to use to buy an investment property

*Any buy to let lender I approached would take a dim view of me borrowing money against my own home to make up the shortfall between the loan and the purchase price

Over the years lenders attitudes have changed, specifically their attitude towards investors using an equity release loan or similar on their main residence to pay the balance between the purchase price and a buy to let loan.

In fact, one way an investor can reduce the amount of interest they pay on a buy to let loan is to use any spare equity in their own home. This allows the possibility of remortgaging their home at a more favourable rate (as a general rule residential mortgages are cheaper than buy to let, although with the high competition in buy to let between lenders this isn't always the case) and using the monies drawn out to increase the amount of deposit they can put down on a buy to let mortgage. Most lenders are now happy for investors to use 'equity release', either from their own home or from their other buy to lets, to part fund their new purchases.

The two critical issues for lenders now is that the deposit can be proved, and that the borrower is taking some of the risk.

By that, I mean that lenders are hot on money laundering and will need you to prove where your deposit funds have originated from. Raising money from the equity in your own home, or another property investment in your ownership, is now a more acceptable way to fund a deposit because the source of the money is transparent. They can see that it hasn't come from some dubious or illegal activity.

The second issue is borrowers taking risk. The banks like to see that a borrower has some of their own money in the deal so the bank isn't taking all the risk, and they can see the borrower is taking some of the risk and has something to lose.

So it seems that anyone who has their own home with equity is well on the way to being able to get a buy to let loan up and running. And even if you don't have your own home but can prove that your deposit came from a legitimate source, chances are there are lenders who will consider an application.

(see also "Will a Lender Consider a Gifted Deposit?")

Will a Lender Accept a Joint Application?

Yes, many lenders will. So if you don’t have the funds for a deposit, can you buy as a Joint Venture with some one who does, and make a joint application for a buy to let mortgage?

How Does a Lender Calculate How Much They Will Lend?

Although typically most lenders will lend up to 75% of the lower of either the value or the purchase price, or less typically 80% or even 85%, the value or the purchase price is not the only consideration.

All lenders will take into account the rental value of the property but how they do so varies.

Some will take into account the rental value and your income. For example they will offer based on a multiple of your other income plus a proportion of the annual rental value.

Others will require you to provide financial statements and bank statements proving your current income is sufficient to meet your household costs, particularly your domestic mortgage (if any) but will lend against the investment property based upon the actual or anticipated rental value.

Again, how they account for the rent also varies.

Some require that the rent received is equivalent to 125% of the mortgage payments you will make. Others may require up to 135% coverage. Back in the boom, when lenders were throwing caution to the wind, I heard of one lender who, for established clients with a proven track record in buy to let, were prepared to drop to only 100% cover which, looking back, makes little sense.

In other words, they will determine how much you can borrow by calculating affordability and using current interest charges.

So, using a simple example, if you are considering taking an 80% buy to let loan at 5.5.% interest on a property costing £100,000 where the rent (actual or anticipated) will be £500 per month, they will lend you the lower of either:

*£80,000 (being 80% of £100,000) or

*the equivalent loan represented by £500 per month or £6,000 per annum at 5.5%.

If we divide the rent of £6,000 a year by 1.25 (to find the equivalent rent that needs to be covered by 125%) we arrive at £4,800 per annum.

At 5.5% annual interest payments on £80,000 would be £4,400, so there is enough rent cover, as £4,800 exceeds £4,400.

In other words, this property is a *safe bet* for the buy to let lender as there is some slack in the 125% coverage, but they will restrict the loan to £80,000 (80% of the purchase price) anyway.

Most lenders will calculate affordability assuming that the loan is to be an interest only loan, regardless of whether you are applying for an interest only loan or a capital repayment loan. And if the mortgage is on a special cheap rate, or has an initial fixed period on a special cheap rate, like 3.49% for 2 years, the lender will usually have the proviso that the rent cover is calculated using a higher notional rate like 5%.

Will a Lender Consider a Gifted Deposit?

In some circumstances, yes.

The Mortgage Works will consider two gifts per application, for example a gift from a mother and father AND a gift from a grandfather and grandmother, as long as the donor is resident in the UK, and the funds originate from within the UK.

Birmingham Midshires will also accept gifts from a family member.

Birmingham Midshires will accept gifted builders deposits as long as the gift does not exceed 5 % of the lower of the purchase price or value.

Vendor deposits are not acceptable.

What If I Have no Income, or Limited Earnings?

Most lenders have a minimum income requirement for their borrowers. This minimum income requirement varies from lender to lender. Generally speaking it is around £25,000 although there are one or two lenders who insist on higher levels of income. Paragon require a minimum of £25,000 which includes aggregated incomes for joint applications.

If you think about it this is a bit of a bizarre situation because from a lending point of view, when a buy to let lender decides whether to lend, they principally look at the rental income from the property and assess whether that is going to service the mortgage interest payments.

I have often wondered why lenders who are nominally interested in the rent also ask for our personal financial details. For example, I've always had to produce copies of bank statements and my mortgage statement.

The reason, of course, is that they are just checking to make sure the applicant is of reasonable financial standing.

However, two of the biggest buy to let lenders, Birmingham Midshires and The Mortgage Works, don't have a minimum income requirement. Birmingham Midshires did have a minimum income requirement but that was scrapped at the back end of 2013. As far as I know The Mortgage Works have never had a minimum income requirement.

The Mortgage Works' guidance notes specifically state that assessment of income ISN'T required for experienced landlords who are also owner occupiers. However, if the loan exceeds 4.25 x their personal income, each case will be considered on a case by case basis.

As a buy to let property is, in effect, a self financing, stand-alone vehicle, 90% of loans are agreed on the basis of the rent and don't take into account how much you are earning, unless a minimum salary is a criteria for that lender.

In theory, as long as the property is the type of property that that particular lender is comfortable lending against, and as long as the financial figures stack up and the rent is 125-130% of the mortgage payment, you should be able to obtain a loan.

If you have too low an income to make an application, you can make a joint application for a buy to let mortgage – for example, you could make an application using multiples of both your income and perhaps a spouses or partner's income.

There are lenders who will consider up to 4 applicants on one application. Generally spouses and partners are acceptable, and some lenders will consider up to 4 non-related applicants.

So if, for example, a lender has a minimum income requirement of £25,000 per annum, disregarding the potential rent from the buy to let property, but you only earn, say, £15,000 per annum, you can make a joint application with your partner, spouse, business partners or friends and include their income with yours.

Having said that, generally speaking, anyone who currently has a job and/or some savings, and who finds a property investment with a positive cash flow after allowing for potential mortgage repayments, should be able to obtain a buy to let loan.

What do Lenders Look For When They Assess an Application?

The first thing a lender will ask themselves is, "Is this borrower an acceptable risk?", although it's worth remembering that each lender uses different criteria to assess this.

Almost all lenders will make an assessment of whether the borrower can service the criteria as applied by the lender. This is known as *credit scoring* your application. If your application passes this test the lender may agree in principle but might still ask for proof of income, or proof of residency, depending upon their lending criteria.

Many borrowers have been frustrated when in all respects they seem to fit the lending criteria of a particular lender, but then fail an actual application.

Usually this all comes down to poor credit scoring.

All lenders will credit score applicants but each will have their own ways and means of doing this.

Credit scoring is something of a ‘black art’ and no one outside of the lending institution knows exactly how it works, otherwise there would be a risk that borrowers or their brokers could manipulate the system.

Credit scoring usually comprises answering a set number of questions and how you answer the questions will decide how many points you score. The more points you score the more likely it is that you will be able to borrow, although most lenders actually have a definite cut-off point or threshold under which they will not lend.

With tightening of credit conditions during the credit crunch, credit scoring became even more stringent. It is probable that many buy to let lenders used credit scoring as a way to control how much they were lending. Rather than pull a product, or change the application process, it was easier for them to impose harder credit scoring to control how much they lent.

Because lenders use credit scoring it makes sense to make sure that your credit score is as high as it can be, and that there are no blemishes on your credit record, which is taken into account.

You will read a lot of advice about improving your credit score by taking short term bank loans periodically and paying them back. Alternatively, you can borrow on a credit card and then pay that money back. If you do this, and repeat the process on a regular basis, the theory is that your credit score will improve.

That may or may not be true, although some claim that it is true, but the main way of maintaining your credit record is to make sure that there are no misdemeanours or mishaps.

The problem is that it is extremely difficult to have a negative note removed from your credit record once you get one.

It is possible to have a mistake rectified, for example if your credit record mistakenly states that you’ve missed a credit card payment, or mistakenly suggests you have a County Court Judgment, you can get a mistake like that expunged and taken off your record.

However, something as simple as missing a credit card payment will affect your credit score and if your application is marginal that could be enough to tip the balance against you.

The most important thing you can do is to make sure that your mortgage payments are up to date as if you have any mortgage payment arrears in the last three years you will probably be disqualified from taking out a buy to let mortgage.

What is Credit Scoring And How Does It Work?

Most large financial institutions use credit scoring when assessing an application for loans and credit.

I'm told that each lender has their own system, which they keep secret so it can't be second guessed and manipulated, but essentially it entails awarding points to different parts of the application. The points are then added together, and a minimum number is required to qualify for the loan.

Usually there are three main sources of information that are used:

*the application form

* history of running other accounts with the lender

*information from a credit reference agency such as Experian or Equifax

Together these will provide details of age, employment history, any other existing credit with the lender or other lenders, how you manage your loans, and any aspects of your financial behaviour that might be considered risky.

What If I Fail On Credit Scoring?

If you are refused on application the most likely reason is that your overall credit score wasn't high enough to reach an acceptable score.

Or it could mean that the application suggests that you might struggle to service the loan.

You can be failed even if you think that you're a reliable payer, it doesn't mean that you are considered a bad payer.

Nor does it mean you'll be turned down on applications for other forms of credit.

If you do fail on credit scoring you can request that the lender reconsiders their decision but they will not change it unless you can provide new information, perhaps showing a change of circumstances.

If your circumstances do change then most lenders will accept a new application.

Also, as each lender has a different system, just because one lender turns down your application, doesn't mean that another lender won't accept your application.

If you want to see a copy of your credit report (as opposed to the lender's credit score) you can request it from the major agencies like Experian and Equifax in return for a small fee.

If any information on your credit report is wrong, in other words if you spot a mistake, you can apply for it to be amended.

What Do I Need to Know About Making an Application

Lenders will make searches against an applicant, so if you apply to a lender and fail and then apply to another lender and fail you will be even less likely to get a mortgage the next time you apply. One or two rejections on a credit file probably won't make too much difference, but once you get beyond those numbers into multiple rejections, then it is probably going to swing the balance against you, although ultimately it will be down to how individual lenders treat the information.

Also, never make more than one application at any one time. If lenders can see that you are making multiple applications they will become very suspicious.

I am not talking about a situation where you are trying to purchase six properties and so you are making six applications. I am talking about the situation where, perhaps to cover your bases and make sure that you obtain finance, you are buying one property but perhaps put applications in with three different lenders, hoping that one will lend to you. Not only will this be expensive in fees but, as I say, this is likely to work against you because all the lenders will know about the other applications.

It would be better instead to go for a decision in principle with each lender in turn. A decision in principle should only take twenty-four hours so just wait for the decision. If it's a decline then obviously you go onto the next lender and ask them for a decision in principle. Although a decision in principle isn't binding it will give you a good idea as to whether you are likely to succeed in your application or not.

Often they'll be looking at things like whether the applicant has had previous mortgages and whether they have been conducted satisfactorily. If an applicant is constantly overdrawn and constantly exceeding their agreed overdraft limits a lender might not look sympathetically on their application. The lenders thinking would be that if the applicant bought a rental property and the tenant moved out, how would they cover any voids when the rent isn't coming in, especially if they were overdrawn.

In this day and age it is also possible that many of us are maxed out on our personal mortgage and/or maxed out on our credit cards, and are already commited to servicing significant debt.

What is a Decision in Principle and Should I Apply For One?

If you're not sure whether you will be successful when you apply for buy to let finance, if you are worried about your eligibility or financial standing, or just want reassurance that finance will be available when you do find a property before you go looking for a property, you can apply for a DIP, a decision in principle.

I'd suggest that you'd talk this through with your broker but essentially you would provide the lender with information about your finances, earnings and assets, and an idea of the likely purchase price of any property you are looking for, along with likely rental income.

Usually within a very short space of time, often within twenty-four hours, the lender will be able to give you an idea as to whether they would be prepared to advance you a buy to let loan.

An advantage of going for a decision in principle is that it obviously saves you paying out full application fees and going through the full application process in advance.

If you decide to go for a decision in principle, it's best to stick to just one lender and to only get one DIP. If you apply for multiple DIPs this could affect your credit rating negatively and make it more difficult for you to obtain finance.

Another use of a DIP is when you find a property and want to know whether it's worth putting an application in before you make a full application.

Don't forget that a DIP is 'in principle' only which means that it's not binding upon the lender and it doesn't guarantee that you will be successful when you make the full application.

Most of the time, if you have a decision in principle, then you should be successful on application, but it would not be wise to exchange contracts or pay a deposit for a property until you have actually received an offer letter.

This is firstly because a decision in principle will be subject to a valuation, and the valuation may or may not support your application.

It is also worth bearing in mind that your circumstances could change between receiving the decision in principle and making the full application. For example, your credit score could change, or your circumstances, such as your employment status, or the amount that you earn, could change. For these reasons, or any number of reasons, a borrower won't want to commit themselves too early in the process.

It is also worth remembering that typically a decision in principle will only last three months which is worth bearing in mind if you are considering refinancing or financing within six months of purchasing a property, or within six months of taking out a mortgage.

Even an offer letter is not a guarantee that you will receive the mortgage. During the low point of the credit crunch it wasn't unknown for lenders to pull offer letters on the day of completion. The small print will allow a lender to do this if they can see that the borrower's circumstances have changed. So it could be that they would issue the offer but then rescore the applicant and decline the mortgage. In other instances, I am aware of lenders rescinding offers after the borrower had exchanged contracts but before completion, particularly in the case of new build properties which were viewed as high risk.

Everything Depends on the Value of the Property!

Don't forget that ultimately, regardless of your credit score, whether you get a loan or not will depend on the valuation provided by the valuer, and the valuer's comments on the valuation report.

Also, each lender will require the property value to exceed their minimum property valuation requirement.

When Should I Put in My Buy to Let Loan Application?

Most borrowers will find a property and have an offer accepted by the vendor before they look for finance. But some investors, especially new investors, like the comfort of knowing they can get funding before they look for property.

In fact, it can be advantageous when negotiating with a vendor to be able to explain that you have finance arranged in principle and can proceed quickly. But how does an investor arrange this? How far can you get down the finance route before you have an offer accepted?

Some lenders don't require details of the property before they give a decision in principle; they can give a decision in principle subject to receiving details of the property. In effect they make their judgement based on your details. For example they might be assessing whether they would feel comfortable lending you £150,000 (assuming you find a suitable property)

Often you can get an answer in principle within 24 hours but if a lender doesn't need specific details of a property it can be possible to get an almost instant decision, especially via the internet.

What Else Do I Need to Think About Apart From The Headline Rate?

It's natural for investors to think mainly about interest rates but sometimes it's the other costs that make the big differences to whether it's a good finance deal or a bad finance deal - so how should we choose our loans?

Inexperienced investors will often decide which buy to let loan to take out based purely upon the rate of interest charged. An investor might be rate-driven to start with but they should always look at the "small print" of the loan. Often they'll see that it's not as beneficial as they first thought – for example, although there might be an attractive headline rate of interest there might be tie-ins at higher rates later. So it might actually be more cost effective to take a loan with an initial higher headline rate.

Also there are many other costs to consider other than the interest rate, some obvious and some not so obvious, that can affect the overall cost of a loan other than the interest rate charged.

For example, many lenders charge an administration fee for processing your loan as well as a valuation fee. These combined can be many hundreds, or even thousands, of pounds. However, some lenders do not charge fees per se, but will cover their costs by means of a slightly higher interest charge.

It is very easy for a borrower to be potentially seduced by a low rate. One of the cheapest rates I've seen recently was 2.94% which, on the face of it, looks extremely attractive. However, the problem is it will probably have an arrangement fee of somewhere in the region of 3.5% and might only be for a one year fixed term.

Conversely, you may see another product that doesn't look anywhere near as attractive; perhaps the headline rate is 5%. However, it could be for a longer term, perhaps three years or more, and the arrangement fee may be substantially lower.

There is a definite trade-off between the headline rate offered by a lender and their arrangement fees. You will often find that an attractive headline rate is subsidised by an expensive arrangement fee. That doesn't matter too much if you are borrowing a relatively small amount of money but if you are buying an expensive property, and the arrangement fee is a percentage of the amount borrowed, then clearly you are going to be paying substantially more by way of fees.

So when you're looking for an ideal buy to let mortgage product it's essential to look at all the costs as well as the headline rate. You also need to consider what rate the mortgage will revert to after the end of the introductory or fixed rate period, if there is one.

The best way of comparing like with like is to work out the cost over a specific period. So you need to look at the interest rate payable over that period, all of the fees and charges involved, such as application charges, and also what rate the mortgage will revert to at the end of that period.

You will also need to take into account your plans for the property. For example, are you looking to sell it after a relatively short period, or are you looking to hold it long term. If the latter, are you looking to refinance it at some point in the future, and if so when?

A longer term product offers better value in respect of arrangement fees because in a sense these will be pro rata over a longer period.

You might also be able to choose between standard loans, fixed rate loans for 1, 3 or 5 years, capped loans and tracker loans.

All of these will carry differing interest rates and charges, and the suitability of any to you will depend upon how long your loan is for and how you see interest rates moving over the next few years.

Your broker should be able to help you with calculations like this so that you can make a like for like comparison. Most lenders will also charge a *redemption fee*, in effect a penalty charge, if you pay off the loan early. Some lenders will charge as much as 6 months interest *plus* an administration fee, whilst some will charge just an administration fee. If you think there is any possibility that you might wish to pay off the loan early you will need to factor likely redemption fees into your calculations.

What if My Property Needs Repairs or Improvement?

Lenders require a property to be habitable from day one before they will advance a buy to let loan.

Many buy to let lenders are reluctant to advance mortgages against properties which require even minor works of repair, modernisation or improvement. The rationale behind this is that in lending on the property they are taking the potential income into account, and they want to see that income coming in as soon as possible. So if the property requires repair or modernisation, there won't be an immediate stream of income, which puts the lender at risk if they ever had to repossess.

For this reason most lenders will insist that the property is in a letable condition from day one, and as a consequence of that I have seen instances where loans have been declined, based upon the valuer's comments when he has inspected the property, for what would usually be considered fairly trivial reasons.

However, the good news is that some lenders will lend on properties requiring a limited amount of renovation or refurbishment by way of a light refurbishment loan.

The definition of light refurbishment is a little vague but it essentially covers situations where the property requires a cosmetic upgrade, and perhaps minor improvements, such as a new kitchen or a new bathroom.

The way that light refurbishment loans work is that the lender will advance, say, 70%, depending upon their LTV, of the purchase price of the property, or the value, whichever is lower, and will usually also retain a sum of money equivalent to the cost of undertaking the improvement or repair works.

At the time of the initial mortgage application the valuer will be asked to provide an opinion of value of the property in its current un-refurbished condition, and also an opinion of value of the property upon completion of the works.

When the borrower informs the lender that the works have been completed, the valuer will re-inspect, and as long as the valuer is happy with the standard of the works that have been undertaken, the sum of money retained to cover the cost of the works will be released, and any extra equity.

The mortgage will be re-calculated to be 70% of the value of the property after improvement, and any extra equity resulting will be released at the same time.

There are pros and cons with using light refurbishment loans.

The first disadvantage is that only a few buy to let lenders offer a light refurbishment or limited refurbishment loan, so there's not much choice.

The main lender is Paragon, although the terms of their loan make it very limiting, but others include Shawbrook, Kent Reliance, Aldermore and the Saffron Building Society.

Also Precise offer a *bridge to let* facility whereby they bridge the refurbishment and then the loan can be swapped to a more traditional buy to let type loan.

The second main disadvantage is that currently loan to value ratios are limited. Most tend to be around 70%, although Paragon offer a 75% LTV, although this comes with strings attached, Kent Reliance offer 75% LTV, and Saffron offer an 80% LTV.

This can be compared with the best LTVs available for standard buy to let mortgages which include 85% offered by Kent Reliance, and 80% by The Mortgage Works, Mortgage Trust and Saffron.

Another potential disadvantage, depending on what you buy and where, is that most lenders have relatively high minimum valuations for their light refurbishment products. Paragon has the lowest at £75,000, and Saffron and Kent Reliance only lend on properties over £100,000, which is fairly typical.

Paragon describe their limited refurbishment scheme as being for a property that is "currently habitable but where minor works would enhance the overall appeal to the market and its potential rental income. Minor works might typically include the replacement or refurbishment of kitchens and bathrooms, renewal of services or decorative attention. The scheme is not for works that require planning permission, permitted development rights or building regulations approval, and should not involve any major structural works to the property".

That is a fair summary of how all lenders see light refurbishment.

Let's have a look at the different products offered by the different lenders.

Paragon Mortgages

Here's how the Paragon limited refurbishment scheme limited works.

The minimum valuation requirement is £75,000.

Up to 75% of the purchase price or the valuation, whichever is the lower, will be advanced upon completion of the purchase.

A retention amount, being a minimum of £2,500 up to a maximum of £25,000, will be held and, once works are completed, up to 75% of the after-works value can be released.

The works must be completed within three months of the initial advance.

The maximum £25,000 retention is the maximum that will be released on refurbishment.

In other words, even if you increase the value of the property by more than £25,000, £25,000 is the maximum amount of extra equity they will release.

If you run the numbers it means that the most efficient way of using it is to buy a property for £75,000, spend £6,000 doing it up to produce an end value of £108,250. Then we'll be able to get the full £25,000 back out.

But how many properties will fit that scenario? Not many.

But it's not all bad news! There are other lenders with different products

Saffron Building Society

Saffron Building Society also offer a popular buy to let mortgage specifically for light refurbishment works. The minimum valuation of purchase price is £100,000.

They are currently advertising two buy to let light refurbishment products.

One has a 75% LTV and is on a 2 year fixed rate of 4.47%

The other, which is potentially much more interesting to us, has an 80% LTV and a five year fixed rate of 5.07%.

Their website gives this example;

Purchase price of property £100,000
Initial advance £75,000
Property value after improvements £130,000
Total borrowing £97,500
Further advance £22,500

Aldermore

Aldermore offer a light refurbishment product.

They will advance 65% LTV on day one on the lower of the purchase price or the valuation with a retention on the advance to take the total advance up to 70% of the completed value.

The works must be undertaken within six months from the date of drawing the original advance.

There is an arrangement fee of 2.5% with a procuration fee of 0.75% and a minimum interest margin of 5% over the base rate of 3%, with an additional loading of 1% during the refurbishment phase.

Shawbrook

Shawbrook offer a short term mortgage for refurbishments, with a 75% LTV and a minimum loan of £75,000, meaning a minimum valuation of £100,000. The maximum loan period is 18 months. The rate charged is 8% above 3 month Libor which means it's roughly 8.5% a year at today's rates.

So this is really a bridging facility.

But you can switch to their standard buy to let mortgage, again with a LTV of 75% and a minimum loan and value of £75,000 and £100,000 respectively, with the choice of interest only, capital repayment or partial capital repayment terms.

The maximum term for interest only is 10 years and the rates are nearer 4% at the moment.

Precise

Precise have a *Bridge to Let* facility. Here's a quick summary of how it works. They offer a light refurb bridging facility with a maximum LTV of 70% for a maximum of 18 months. The minimum loan and valuation amounts are £50,000. The monthly rate is 0.95%. and there is a 2% facility fee.

Once the works are completed, within 4 months you can switch to their Bridge to let buy to let mortgage. This has an 80% LTV for loans under £500,000, with a maximum term of 30 years and with rates of around 5%.

So there's lots of different products, each with the pluses and minuses. Whether it's worth using one of these more expensive bridging type products will all depend upon the figures. You may consider it worthwhile to use a more expensive product initially if you intend to refinance down the line and then switch to a cheaper product like a normal buy to let product.

So it's worth playing with the figures and seeing which combination works best for you.

Are There Any Tax Consequences in Taking Out a Buy to Let Loan?

Even if you are cash rich there are good tax and financial reasons why you should not buy a property for cash, and then look to refinance it.

I'm not an accountant or a tax expert but from what I have read and understood there seems to be some ambiguity as to how HM Revenue & Customs treat some situations, as the "rules" seem complicated.

It seems that the following apply.

If you buy an investment property using a buy to let mortgage, or by remortgaging your own home and then take out buy to let finance, the interest element of your loan can be off-set against the rent for tax purposes.

If, on the other hand, you buy an investment property for cash (i.e. not with borrowed funds) and then take out a buy to let mortgage, you cannot off-set the interest against the rent for tax purposes.

Although interest on a loan can be off-set against income (rent) for tax purposes, capital repayments cannot. An investor will therefore need to consider whether they want an interest only loan or a capital repayment loan.

Can I Buy From And Through Deal Packagers and Third Party Sourcing Agents?

Birmingham Midshires and The Mortgage Works have changed their lending criteria to exclude properties sold by sourcing companies.

The reason? Simply that they questioned the quality of the properties and the terms they are sold on. From now on, unless the mortgage application form states that the property was sourced by the borrower direct from an estate agent they may have difficulty convincing a lender to lend.

One could argue that this is 'throwing the baby out with the bath water' as not all property sourcers, agents and property clubs are rogues and villains. Many are totally ethical but unfortunately this seems to be a blanket policy.

It also means that many lenders are also suspicious of other arrangements such as deals negotiated direct with a vendor, who might have been found by way of leaflets or newspaper adverts.

And, of course, it's not helpful for investors who don't have the time or the experience to source their own properties and who want to use the services of a property sourcer.

Specifically Birmingham Midshires will not lend on a property where a 'finder's fee' or commission is payable, or where a sale is deemed to be a 'distressed sale'.

Should I Apply For a Fixed Rate or a Variable Rate?

As we saw in the section about costs, you should never take the headline rate at face value, and you should always look behind it to see what the other terms of the offer include.

The attraction of a fixed rate is that it will invariably be a discounted rate for the duration of the fixed period. Often the fixed rate offered will vary according to the length of term that the mortgage rate is fixed for. So a two year fixed rate will usually be at a cheaper rate than a three year fixed rate, and the three year fixed rate will usually be at a cheaper rate than a five year fixed rate.

Ultimately, the decision whether to take a fixed rate or a variable rate will depend upon what rates are being offered, the terms of the mortgage product and the costs involved.

You also need to be aware of what rate the mortgage will revert to once the fixed rate comes to and end.

Interestingly, Birmingham Midshires recently offered a variable rate product and a fixed rate product where the rate was almost identical.

The first product was a two-year tracker available with a loan to value of 75%, with ½% fee, which is extremely low in the current market, at a rate of 3.39% plus base, making it 3.89%.

But they also offered the identical product, as far as the loan to value and fees were concerned, on a two-year fixed at 3.99%.

So, in that instance, it is probable that most borrowers would prefer the extra security provided by a fixed as the difference in rate was negligible.

Standard practice is now for fixed rates to revert to a follow-on rate being the lenders standard variable rate. The problem with a standard variable rate is that most lenders have written into the small print that they can pretty well charge what they like as a variable rate, and can change it at any time.

So a borrower may be tempted by the certainty of an attractive fixed rate period but, after the fixed rate ends, will be in uncertain territory.

If the variable rate is set at an unsustainable level then a borrower could remortgage and, if they are out of the fixed rate period, that should be free of any early repayment charges.

However, I am sure that most borrowers would want that to be a course of last resort because there will be fees incurred in remortgaging.

How Easy is it For First Time Investors to Get Buy to Let Loans?

Most buy to let lenders are happy to lend to first time investors. Probably Birmingham Midshires are the market leaders for first time investors.

Some lenders offer preferential terms to more experienced landlords, for example The Mortgage Works will offer an 80% loan to value mortgage to a current landlord, whereas a new investor will only be offered a maximum of 75% loan to value.

However, some lenders won't lend to first time investors at all. For example Aldermore prefer dealing with experienced investors and won't lend to first time landlords.

What Should New Investors be Careful of?

Be cautious of buying property in buy to let ghettos – that is areas full of buy to properties where over-supply and a limited number of tenants can result in reduced rents, especially where the tenants play the landlords off against each other.

Research tenant demand as a highest priority and research all costs like service charges.

Know why you are buying a particular property. If you are buying a property as an investment it must perform as an investment.

Don't be rushed into buying – buy wisely.!

What Happens if I Pay My Buy To Let Loan Off Early?

Generally speaking, most buy to let products will have a redemption charge if you pay the loan back early, for example if you sell the property and then pay back the mortgage.

This is particularly the case where there's a fixed rate initial period. During a fixed rate period the redemption charge is likely to be higher even than for a normal buy to let loan.

Typically a borrower will be subject to redemption charges if they pay back the loan within the first three years, and the charge will usually be somewhere between 3% and 5% of the loan amount.

This is something to bear in mind if you are thinking of actively trading properties, and it may well be that using buy to let finance isn't the best way for you to do this.

Can I Move My Mortgage to Another Property Instead?

Many borrowers don't realise this but quite a lot of buy to let mortgages are portable. For example, Birmingham Midshires and Virgin both do fully portable buy to let products.

Generally speaking, if you take out a buy to let loan on a property and then sell it, you will have a period, generally anything up to six months, in which to make an application on another property and then transfer that mortgage to the new property, and so avoid repayment charges.

Naturally the property to which you want to transfer the mortgage must meet criteria, and in this respect the valuation will be critical, and your own circumstances need to be the same as when you took out the mortgage or have improved.

In practice the lender will take the early repayment charge but will then re-credit that to the new mortgage account once the new mortgage is granted and is in place.

The intention of offering this type of property isn't to facilitate trading, in other words buying and selling. However, lenders recognise that circumstances can change and that borrowers may need, on occasion, to sell a property early. The chances are that if you transferred the mortgage or attempted to transfer mortgages too often the lender may well decline future applications on the basis that you are not using the mortgage as a true buy to let mortgage.

Is it Wise to Borrow Money and to Gear Up?

Some people may think, looking back on the credit crunch and the difficulties that borrowers had, that it is better to have low gearing nowadays.

Others would argue that it is safer to use someone else's money rather than to use your own money.

In the same way, using interest only loans gives you options that using capital repayment loans doesn't give you.

If you use a lower loan to value and put down a higher deposit, and you leave yourself nothing in the bank, that could put your business at risk if you need cash to cover an emergency. Conversely, by using higher loan to value loans, and higher gearing, you leave funds in the bank that are liquid.

So there's an argument that higher gearing, which allows you to use less of your own money, means that you have a greater ability to keep a cash buffer for emergencies.

Of course, it depends upon the circumstances of individual borrowers. If a borrower is cash rich and can take a product with a 60% loan to value which comes at a much lower interest rate, then they may wish to consider that. But if the difference between using an 80% loan to value product or a 75% loan to value product means you either have a little bit of money in the bank account or no money in the bank account, the safe option may be to go for the higher gearing.

Should I Go For Interest Only or Capital Repayment Loans?

A few years ago, with concerns about falling property prices, and considerable concern expressed by the FSA, many banks, if not all banks, have now withdrawn interest only loans for owner occupier residential mortgages.

However, because buy to let loans are classified as commercial, it is still easily possible to obtain interest only loans for buy to let.

The received wisdom in buy to let circles is that a borrower should always take an interest only loan.

To some extent it is counter-intuitive because, at face value, one could assume that one is reducing one's risk by taking out a capital repayment loan and by paying down the loan month by month.

But it comes back to the argument about having cash in the bank, and an interest only loan means less money is going out month by month, meaning that the investor can save more in their bank account to cover emergencies and unexpected costs.

So if something happened like you had a void period, or you had something expensive go wrong with the property like it needs a new boiler, and for whatever reason you couldn't afford the mortgage for a month or two, you can't renegotiate your mortgage terms. So if you are locked into capital repayment terms you won't be able to reduce the amount that you are paying month on month, and that could make life very difficult if you don't have that cash buffer in the bank.

So a strategy which many investors use is to take an interest only mortgage, and assuming that the property produces a positive cash flow month on month, then save the excess money in the bank for a rainy day. This gives liquidity and it gives options.

With so many different Types of Buy to Let Loan Available How Can an Investor Know Which One is Best for Them?

With so many lenders in the market, and each one offering multiple products, it strikes me that there are almost infinite permutations of different buy to let loans available.

A prospective investor needs to carefully consider which finance package best suits them before they commit to a long-term loan.

Essentially, it all depends on the individual needs and circumstances of the borrower and you should take guidance, especially if you are new to buy to let. That is why I'd always recommend you use a broker.

Should I Use a Broker And, If So, When?

I have to say that I have very strong opinions about this. I'd say

"Always use a broker!"

When? Right now! If you are thinking of getting into buy to let, or if you are already in buy to let, making contact with a broker is one of the first things you should do.

Why? Well, you will have already seen, if you have read this far, that there is a bewildering number of buy to let products, all on different terms. And this mix of products is constantly changing. Unless you are 'full time' in the brokering business I think it will be almost impossible to keep on top of what's available and at what terms. There are countless possibilities and permutations of terms and fees and offers.

Most importantly a good broker will be able to steer you towards the product which is right for you.

Although there are sites on the internet which will allow you to compare buy to let mortgages and the headline terms, and although it's possible to actually go to websites of individual lenders, and to apply for buy to let mortgages on the internet, you'll almost always be better off if you find a mortgage through a broker.

Before you do anything you should speak to an experienced broker who knows what products are available on the market, what individual lenders are looking for, and who will be able to assess your situation and guide you in the right direction to the best lender and the best loan for you.

I'd even advise that you speak to a broker before you go looking for property because a good broker will be able to tell you whether what you're planning actually fits with what lenders are looking for.

Always try and use a broker who has access to the whole market. Some brokers are restricted in who they can and will deal with, which means that a borrower could potentially miss out on loans on better terms, or loans which are better suited for their circumstances.

Will a broker charge you fees? Yes, of course, but getting the right finance is worth paying a fee for. Remember what I said at the very beginning of this ebook?

'Finding the right finance package is as important as finding the right property deal'.

It's well worth paying an expert a fee to get the right finance.

Can I Get a Buy to Let Loan on New Build Property?

At the height of the credit crunch it was almost impossible, if not impossible, to get a buy to let loan on a new-build apartment.

Lenders are now tentatively looking at new build apartments again, but will have very strict criteria.

As a general rule of thumb it is much easier to obtain buy to let finance on a new build house than it is finance on a new build flat or apartment.

The Mortgage Works define a new build property as a property built within the last 12 months, or a property built more than 12 months ago but which is still owned by the developer, or a property that was built more than 12 months ago but the first legal sale was within the last 12 months.

Developers need to be on The Mortgage Works approved list and the LTV will be limited to 65%.

In the case of a purpose built flat the floor area also needs to exceed 30 sq m.

And The Mortgage Works won't lend on two adjoining properties.

Are There Any Other Types of Loans if Buy To Let Doesn't Fit With My Project or Property?

Buy to let is an off the shelf product which means it is relatively easy to come by and relatively easy to borrow, but the lending criteria can be strict and inflexible.

So if you have a property that doesn't fit standard buy to let criteria, or if your circumstances don't fit standard buy to let criteria, you may have to look at one of a range of other options in order to obtain finance. This will include commercial mortgages, development loans and bridging loans.

Unlike standard buy to let products, these other financial products can be tailored to fit the circumstances of the borrower as they will be assessed and priced individually.

Finding finance can be difficult because each lender will have a different view and will work to different criteria. For example, some lenders particularly like commercial development projects, whilst others particularly like residential development projects. Some lenders might lend on nursing homes whereas other lenders won't. So you will need to find the lender that fits your requirements.

In assessing the suitability of the project for a loan, and in assessing the suitability of the individual borrower, they look at things like the borrower's past experience and how much deposit they've got to put down. If it's a development loan, they will look at the purchase price, the build costs, the end gross development value, which is how much the project will be worth after the works are completed, and they will risk appraise the project. Typically they will lend using lower LTV ratios, say around 65%, and interest rates will be higher. Whereas a typical buy to let rate may be 5%, a commercial loan may be 6% or 6½%.

However, there are specialist development lenders who will advance significantly more than 65% but will want a slice of the profit in return.

They will also want to advance a minimum loan of around about £500,000 for their trouble.

Can I Use Bridging With Buy to Let?

At lot of people are quite scared of bridging but bridging is just a financial tool like any other. The reason why people are so scared of bridging is you hear horror stories where owner occupiers have used bridging to finance the purchase of a property before the sale of their own house has gone through. If anything happens to their 'chain' and their sale falls through, then they are left exposed to loans at extremely high interest rates.

But as I say, it's just a tool and if you know how to use it, and if you are aware of the risks, then there is no reason why using bridging should cause any problems.

Ultimately it all depends on what you are using bridging for. If you are using it on the right type of project, and if you do your sums and the figures work out, then that's fine.

But you need to know what your exit strategy is before you commit to it. You need to know how long you are going to be bridging for and what your exit will be. Will you be re-financing, in which case how confident are you that you will be able to find a lender to re-finance? Or are you looking to sell, in which case how confident are you that you will be able to sell, and how confident are you that you will be able to sell within the timeframe required?

If you are going to re-finance using conventional buy to let finance then you need to remember the six month rule. There are bridging loan companies that will do a bridge and then convert the loan to a conventional buy to let loan which gives the borrower a guaranteed exit, although the interest rate charged is quite high.

Alternatively some lenders, for example Virgin, will re-finance sooner than six months but they will only re-finance against the original purchase price, and they won't release any increase in equity following the works.

Bridging works particularly well for development projects where there is enough margin to cover the higher interest charges. Typically a bridging loan will cost between 1% and 2% per month.

But it is not just the interest charges that are high, bridging lenders are not shy when it comes to charging upfront fees, administration charges, arrangement fees and so on.

Bridging is a good alternative to light refurbishment loans if lenders are reluctant to advance against a particular project. A short term bridging loan is probably the most common alternative used for that type of transaction.

Some lenders provide a little more flexibility. For example, although not a typical light refurbishment type loan, Virgin will lend against the original purchase price of the property, and if you can produce receipts and prove that the works were undertaken, they will advance 70% of the cost of the actual works.

What are the main differences between a buy to let loan and a standard residential mortgage?

Buy to let is considered to be a commercial loan product and so the terms offered are not usually as generous as for a standard residential mortgage offered to an owner occupier. For example, being commercial in nature, the lender will expect the borrower to put down a larger deposit than they would for an equivalent residential mortgage. With Help to Buy first time buyers can apply for residential mortgages with 95% LTVs (loan to values) but you won't get anything like that for a buy to let mortgage.

Also, you'll find that, as buy to let is a commercial loan, the interest rate charged will usually be higher, on a like for like basis, than for a standard residential mortgage on similar terms.

Finally, residential mortgages are regulated and monitored by the FSA and the Financial Ombudsman whereas buy to let loans are ‘un-regulated’ and aren’t protected by consumer law.

What Else Should I Consider When Taking Out a Buy to Let Loan?

Here are some things to consider when deciding which loan is best for you.

*Some lenders will not give interest only loans.

*Other lenders will give interest only loans but will require you to have a repayment vehicle such as a PEP or an ISA and to show how you will pay off the loan at the end of the term.

*Other lenders will not require you to establish a repayment vehicle for an interest only loan – this makes it important for you to know your strategy and to be clear on how you will repay the loan at the end of the term, whether it be by refinancing or by selling some or all or your properties.

*Capital repayment loans are tax efficient at the beginning of the loan period when you will be paying back mainly interest, but are tax inefficient towards the end of the loan period when you will be paying back mainly capital.

*If you’re planning to borrow equity out of your properties as prices rise, possibly to fund the purchase of further investment properties, you could consider taking interest only loans. Otherwise you will be merely borrowing back out money you have repaid the bank, and you have to pay administration charges and valuation fees to do so. You should take advice from your broker or IFA on the best type of loan for you.

*Many lenders will have restrictions on the type of property they will lend against. Here are some typical examples:

*Flats in high-rise blocks. Most lenders will have some restriction, for example most won’t lend on a flat higher than five stories up. However, it’s worth shopping around as some will consider higher stories.

*Properties with part commercial use such as a shop with a residential upper part. Many lenders will treat this as a commercial property and will not give a buy to let loan. However, in line with government initiatives to encourage the use of accommodation over commercial premises some lenders, such as Paragon, have special schemes for mixed use properties.

*Leasehold properties, such as flats, with short leases remaining of only 15 to 20 years. As the length of a “long lease” diminishes, so does the value of the leaseholders interest. In order to ensure security for their loan, lenders will want the lease to have at least 25 to 30 years un-expired beyond the length of the mortgage term. So for example if you apply for a 25 year buy to let loan the lender will require the leasehold interest to have at least 50 years un-expired, but more usually 60 years.

*Studio flats. Lenders are usually prepared to grant a normal residential mortgage for a studio flat but obtaining a buy to let loan can be problematic. This is because in many areas there is a restricted market for studio flats.

*Properties occupied by tenants on benefits or asylum seekers. Having tenants on benefits is less of a stigma than it was a few years but some lenders are still wary. Most lenders will avoid altogether properties with asylum seekers, although investors with a track record might be able to persuade their existing lender to make a special case in some circumstances.

*Ex-local authority properties. Most lenders will consider loans on freehold ex-council houses, but are less keen on flats as frequently the freeholder of the block will still be the local council. In deciding whether to lend on ex-local authority property of any type the lender will often seek the valuer’s opinion as to whether the majority of the properties on the estate are now in private ownership or still in council ownership. If the latter they are more likely not to lend, or to restrict the amount of the loan.

*Self-contained flats over shops. Often the lender will take advice from the valuer as to who is trading below or on each side? If the flat is over, or in close proximity to, a fast food outlet or a 24 hour grocer, or any other use that is considered “anti-social” the chances are they will not lend.

*Properties of unusual or non-conventional construction such as post war prefabricated houses. These types of property are prone to inherent defects and are often un-mortgagable.

However, there are many lenders in the market, each with different lending criteria, and there might be a niche lender somewhere who will lend on it.

So in Summary, What Can We do to Make Sure we Have The Best Chance of Getting a Loan?

Think about your credit score and rating, and how to improve it if necessary. You can go online to Experian and Equifax and buy a copy of your credit report, and then take steps to improve it. This will give you a better chance of qualifying for loans.

Make sure you have a “traceable” deposit, although nowadays it is less important that it comes from borrowed funds.

Make sure you buy wisely. Know what type of property you are looking for and why and do your homework properly.

Get some in-depth background knowledge. Go onto price comparison sites to see and compare what products are available.

Also go onto the websites of individual lenders and look at their product ranges. They also have a lot of good information including the specific criteria they apply for applications and what they will lend on.

Then, when you have done all of that, find yourself a good, whole of market broker. There are so many lenders and so many products available there’s a good chance that you’ll be overwhelmed by the choice. Perhaps more seriously, the chances are you are NOT going to know ALL the products available and could easily overlook the one that is right for you.

So always take professional advice from a BROKER. A good broker should be able to save you a lot of time finding not just a willing lender but also the best package.

How I bought £2m of property in 4 short years using buy to let finance.

In fact, it was using this recipe when I started back in year 2000 that allowed me to buy £2m of property in just 4 years, and that was with starting from scratch and using none of my own money.

Of course, property prices have increased a lot since then so that’d be like buying almost £4.5m of property today.

Looking at the market now, there are many similarities to when I first started, and many experts agree that if you want to be financially free using property, now is the best time in years in which to buy.

The same techniques and strategies I used then STILL WORK JUST AS WELL TODAY. In fact, I am still using them to buy even more property now.

That means that, if the experts are right, this is the perfect opportunity for you to do the same as I did and put together your own multi-million pound property portfolio, should you want to.

Or perhaps you’d just like a few buy to lets to supplement your income or to help with your pension?

Whatever your reasons for buying and investing in property I can help you to put together your portfolio much more quickly and simply than I did, and I’ll show you how in a moment.

But why would you need my help? Surely buying property is easy?

Good question, so let me ask you a question in return:

“If property investing and buy to let is so easy, why do so many people get it so wrong?”

I meet a lot of people who jump into investing but who just don’t get it right. I’m often surprised that so many people will commit to spending such large amounts of money, but spurn the chance of help and advice.

In my experience, when things do go wrong it’s often because of one or more of the following three things.

First, many people try their hand at property investing without really knowing what they want to achieve from property. Sure, they may have vague ideas like 'I want to get into property' or 'I want to be a property investor' or 'I want to buy a few properties', but it's all a bit wishy-washy.

They might think, "I know what I want, I want to make some money from property". But does that mean make some income from cash-flow, or by building up equity, or even by making cash lump-sums from developing and trading? Each answer would require following a different strategy and buying different types of properties, possibly in different locations.

I've found from trial and error, and from mentoring many investors one-on-one, that unless you are specific about what you want, your investing is going to be wishy-washy as well. That's why so many investors don't get the results they hope for.

Second, is that if you don't really know what you want to achieve, then how can you choose the right strategy to achieve what you want to achieve? And if you don't have a strategy, how can you possibly buy the properties that are right for you?

The truth is that you can't! After all, if you don't really know what you want, then any property will do. As a result, many investors buy the wrong property or properties, and then wonder why it all went wrong or, at least, didn't work out as well as they hoped.

Any old property won't do, but sadly many investors just end up buying the house around the corner because, "It's 'handy to manage'", or, "We got it at 5% off the asking price", or, "It's a nice house in a nice area" or, " I haven't seen it but it was so cheap, what could possibly go wrong?"

I'm sure you get the idea but the point is that unless you know what you are trying to achieve, have the right strategy to achieve what you are trying to achieve, and buy using property investment fundamentals, you will always be at risk of making a very costly mistake.

Believe me, I've seen it happen far too many times. Many investors ignore or don't understand these basic truths and principles and, far from being financially free in property, end up stressed and struggling to make it all work.

Third, many investors are tempted to hand over responsibility for their investing to third parties who, naturally, don't care as much about the outcome as the investor themselves.

For example, I've never fully understood the appeal of firms that sell new-build properties at an apparent substantial discount, only to find the property doesn't perform as it should because the figures were over-inflated from the start.

Another thing which winds me up are those agents who offer so called "below market value" deals on 'distressed property' and who charge several thousand pounds for finding you a terraced property which you could easily have found yourself, if you'd just known how and where to look.

This is even more noxious when the properties are advertised as 'cash-flow' positive when, by using just a little common sense, one can quickly see just from looking at the brief details on the advert, that they haven't accounted for all the costs!

If you know how to find bargain property yourself, you don't need to pay out finder's fees, or put yourself at risk of buying a so called 'cash-flow positive' property which will eat into your finances.

Ending up with a poor property and paying someone else a finder's fee for your troubles is a nightmare situation you'll want to avoid, but one which some investors find themselves in unnecessarily.

And I haven't even got into the point that many people think that buying a buy to let investment is like buying their own home. It isn't! Buying an investment isn't anything like buying your own home, but many investors treat them both the same. Big mistake. Perhaps being a nation of home owners makes us a bit complacent and makes us think we know more than we do? After all, a little bit of knowledge is a dangerous thing, especially when it comes to spending large amounts of money on investment properties.

There is a fundamental truth about property investing which I discovered in my role as a consultant. It explains why some investors make it, while the majority don't. And it's this: "Anyone can buy a property, but not everyone buys the properties that are right for them".

In my opinion, that is the difference between success and failure, or the difference between doing okay and doing very well indeed.

Do you think successful investors buy "the house next door", just because it happens to be the house next door? Do you think they buy a property just because it looked cheap?

Do you think they'd buy a property just because they could get a discount from the developer?

No, of course they don't. They know exactly which properties they need to buy to attain their goals; they have a system to find those properties; and they take the necessary steps to acquire them at the right price and on the right terms.

Anything less than that and they won't buy. It's as simple as that.

Unlike the unsuccessful majority, they don't just happen to stumble into deals. Successful property investors know their strategy, they have a plan, and they take actions that are consistent with their plan. It's not down to luck that they are successful. They have planned for success.

The good news is I'm going to show you how you can put together your own portfolio, and how you can easily avoid all of these mistakes so that you can buy the properties that are right for you.

Having built my own property portfolio from scratch, and starting with virtually none of my own money, I've constructed my very own 'course in a book', all in one easy-to-absorb volume (although it is big – 178 pages of A4), so that you can have all the information you need at your fingertips.

I've called it ***The Successful Property Investor's Strategy Workshop*** and in it I tell the story of how I built my portfolio and I'll show you exactly how *you* can do the same.

It's not rocket science. Anyone can do this, but you have to go about it the right way. Indeed, you can copy my model, if you want.

I have to say that when I am spending my money on property, especially when I'm committing myself to borrow large sums from the bank as well, I like to be sure that I am buying the right property. After all, even a "cheap" property investment is a massive financial commitment.

That's why I'll show you everything I did, right and wrong. I've even included real-life examples of actual properties I've bought, so you can see how it all works in practice so that you can do the same. It took me years of trial and error to learn all of this so let me save you time, and money, and help you to reduce your risk, by sharing with you my over 30 years of experience in property.

Now let me say that I'm not making myself out to be a paragon of property investing. I've been at the bottom, and I know what it's like. Ironically, when I started out as an investor I was broke and barely employed - I was working part time as a consultant doing the dross jobs my peers didn't want to do, and I was paid a pittance for my troubles. That's why I literally had to start with no money of my own.

I now have property with a combined value of over £4.5m. Not bad considering I started with nothing, other than the house I live in. But I know from personal experience that taking the theory and applying it in practice is not that easy if you aren't sure how to get started.

Now that I've created *The Successful Property Investor's Strategy Workshop* I can help you do exactly that, I will help you to plan for success and put the theory into practice.

I know that the information in the *Successful Property Investors Strategy Workshop* is of immense value to all property investors. All I'm ever interested in is value-for-money, and that applies whether I'm buying (especially property), but also whether I'm selling. That's why *The Successful Property Investor's Strategy Workshop* comes with a 30 day guarantee. If, for whatever reason you're not happy with it, just email me and I'll give you a full, no quibble refund, with 'no questions asked'. So you can read and enjoy your copy completely risk-free.

So if you'd like to know more about how I put together my property portfolio, and how you can do the same, please go to www.ThePropertyTeacher.co.uk/PSStrat for full details, including the special bonus I have for you.

A Special Bonus For You as a 'Thank You' From Me

As a 'thank you' from me for reading this special report, I've put together a special bonus for you.

You'll receive a free copy of "***Everything You Wanted to Know About Buy to Let Finance But Didn't Know Who to Ask***". This is a transcript PLUS an audio file of an interview I conducted with one of the UK's top experts on buy to let finance, in which he covers many of issues around buy to let and gives his top tips for successfully raising the finance you need. I was literally picking his brains for over an hour. I have considered selling this as a product in its own right for £29.97 because it contains so much information, but when you order your copy of *The Successful Property Investor's Strategy Workshop* you can have it for free.

So please go to www.ThePropertyTeacher.co.uk/PSStrat now to claim your copy of *The Successful Property Investor's Strategy Workshop*, and to download your bonus copy of *Everything You Wanted to Know About Buy to Let Finance But Didn't Know Who to Ask.*

Here's to successful property investing

Peter Jones

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