# Your Beginners Buy to Let Mortgage Guide

The demand for rental property leads many people to consider being a landlord. Letting property is a way to generate month to month income while investing in your future. However, buying property is expensive, and a buy-to-let mortgage carries more conditions than a standard mortgage.

If you want to invest in property to let, it is vital you fully understand the process. Here is your beginners buy to let mortgage guide, aimed at helping you make informed decisions regarding the letting process.

## Consider your mortgage options

To obtain a buy to let mortgage, The majority of lenders require you to be a homeowner, so there is a strong chance you’ll already be familiar with the mortgage process. However, a buy to let mortgage is different from a standard mortgage, and you must inform the lender you intend to let property.

With a buy to let mortgage, you should be prepared to:

* Place a larger deposit than would be associated with a standard mortgage
* Face stricter scrutiny from the mortgage lender
* Indicate how the rental process will cover mortgage payments
* Pay a higher amount of stamp duty when purchasing your investment property

## Buy to let mortgage requires a more substantial deposit

One of the ways the Government helps first-time buyers step on to the property ladder is through offering assistance for the deposit. There are many saving schemes which make it easier for property buyers to save up a suitable mortgage, and many lenders are willing to offer mortgages with a minor deposit.

You will not experience this support in the buy to let sector. As a minimum, you should expect to pay a 25% deposit of the purchase price. However, if you are looking for the best mortgage offer, you should be prepared to offer as much as 40% of the property price as a deposit. There are some mortgages available with a 20% deposit, but these are rarely available, and when they are, they come with higher rates. As with standard mortgages, the larger the deposit you can provide, the more mortgages you will have access to.

## How much rent will you charge?

Given the sums of money involved with a buy to let mortgage and the serious nature of the investment, most people will carry out significant research before investing in property. To obtain your mortgage, you will likely have to provide an appraisal of how much rent you will charge your tenant.

Lenders consider Interest Cover Ratios, ICRs, to determine how much profit a landlord is likely to make. This is the ratio which the rental income must cover mortgage payments. While there is a requirement for the borrower to obtain a score of 125%, some lenders, notably High Street lenders, operate with an ICR of 145%.

To be able to predict how much rental income you will generate, you need to know which area you are likely to invest in, what sort of property you will buy, who you will let to, and what rental fee you will charge. You need to carry out a lot of research to provide this information, so make sure you undertake all necessary research and have a comprehensive business plan in place before you apply for a buy to let mortgage.

## Not all buy to let mortgages are the same

It is important to remember that buy to let mortgages are likely to be more expensive than a standard mortgage, but also, not all buy to let mortgages are the same. You should review your options and check out various lenders.

Specialist lenders often offer more generous calculations compared to High Street lenders. Some of these institutions work on affordability as opposed to rental income, which may be the preferred option for some investors.

While arrangement fees and even the percentage points associated with a buy to let mortgage are more expensive than a standard mortgage, there will be variation between mortgages, especially when you factor in your circumstances.

## Calculate what you expect the return to be

You must consider letting property as an investment, which means you must believe it will provide you with suitable performance. All landlords and investors should consider the expected rental yield for their property.

The yield is equal to the annual rent of the property, divided by the value, and the return is expressed as a percentage. A property worth £300,000 which carries a yearly rent of £24,000 (or £2,000 a month) will yield 8%. When you calculate this figure, remember it is only the gross yield.

## Don’t forget the costs associated with letting property and a buy to let mortgage

You also have expenses to consider when letting property. Landlords must account for mortgage repayments, letting agent fees, buildings insurance, and you’ll want to keep money aside for maintenance.

Following on from the above example, if you have costs of £1,200 a month, the profit per month is £800. Over the year, this results in a net yield of under 3%. There are ways you can improve your return, but always remember the full range of costs associated with letting property, as your mortgage provider will consider all these aspects.

## Higher stamp duty fee

When you buy to let, don’t forget there are many costs and fees which have to be paid at the time of purchase. Agent fees, conveyancing, mortgage fees all increase your outlay, but the most significant factor to remember is the additional stamp duty fee which must be paid by people purchasing additional property.

This equates to an extra 3% stamp duty.

Use the [SDLT calculator](https://www.tax.service.gov.uk/calculate-stamp-duty-land-tax/) to work out how much tax you’ll pay.

It is vital you budget for this charge when buying to let.

## Independent advice is vital when considering buy to let mortgages

When you consider the sums of money and the level of responsibility associated with buying to let, you must receive as much assistance and guidance as possible. There is a lot to be said for speaking to independent professionals, and gaining as much insight as you can.

Some mortgage advisers are tied to particular lenders, so their advice may be helpful, but not representative of all the options available to you. Speaking to a range of professionals will ensure you are fully prepared for the challenges facing you when buy to let.

There is no denying being a landlord is rewarding, but it is challenging, and it is a considerable investment, carrying a great deal of responsibility. It is vital you understand the requirements of a buy to let mortgage, and that you fully comply with all terms and conditions. If you are looking for guidance in finding the best buy to let mortgage for your needs, please contact Xpress Mortgages and we will be more than happy to assist you in the process.