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Understanding Buy-to-Let Mortgages

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If the landlord game is a numbers game, then one of the most important numbers to keep track of is your mortgage. Mortgage interest is one of the largest expenses most landlords ever have to suffer, and having a flexible mortgage arrangement can be the difference between staying afloat during difficult times and being forced to sell up. So what do you need to know about buy-to-let mortgages and what's available for landlords at the moment?

Basic Principles of Buy-to-Let

Just like the mortgage on your residential property, a buy-to-let mortgage is a form of guaranteed loan. Your lender will offer you, say, £250,000 to be repaid with interest over a fixed term. If you're unable to pay, your bank may be able to repossess your property – your guarantee – as a means of recovering the money they have lost.

Buy-to-Let vs Residential Mortgages

Generally, there is an important contractual difference between buy-to-let mortgages and residential mortgages. If you tell your bank you're planning to live in your property but in fact let it out, you're likely to be committing fraud. On top of this, buy-to-let mortgages generally require a higher deposit (usually a minimum of 25%) and their interest rates often differ compared to residential mortgages.

Fixed, Tracker and Variable

Just like residential mortgages, most buy-to-let mortgages come in three forms: fixed, tracker and variable. The most secure is generally considered to be a fixed mortgage, which will charge you a fixed percentage of interest for a short period. After this, your mortgage will usually default to a variable rate mortgage and the rates may be significantly higher.

Trackers and variable rate mortgages will both change according to the Bank of England base rate. Variable rate mortgages can usually move anywhere and you need to be sure you're on top of the economic environment to ensure your costs don't spiral. Trackers will move too, but are usually bound to within one or two per cent of the base rate, and may have a fixed minimum or maximum amount.

Choosing a Mortgage Lender

Different lenders have different rules and regulations concerning what they allow and what they don't. It is common for mortgage lenders to let a maximum of 60% loan-to-value, and your required 'deposit' will be 40% of the value of a property. HSBC are the big name amongst a group of smaller lenders who are nudging 65%, but this could only be available to some customers.

Equally, you may find that lenders impose other conditions on your borrowing. Some will require a certain income, usually over £25k per year, and some may require you to be full owners of your first home before borrowing more to purchase a buy-to-let property. It's certainly worth shopping around to get a feel for what is available.

Early Repayment Charges

One crucial thing to check is whether your bank will permit you to repay early. For many landlords a quick sale to cash in on the equity on a renovated property is an essential part of their business plan, and having the flexibility to sell up when you need to is key. If your mortgage will not allow early repayments, you could find yourself paying a lot more interest than you need to in the long run.

If you find yourself in this situation, it's best to run some quick checks on your figures. It's very often cheaper to suffer an early repayment charge rather than continue paying out for the remainder of your mortgage, but it's also possible to offset the interest and fees by putting your cash into a high-interest savings account.

Set-Up and Re-Mortgage Fees

Two final areas where you could be hit are on initial sign on and re-mortgage fees. Most lenders will charge around £1000 to set up a mortgage contract with you, and you may also find yourself paying some fees on completion. One thing to watch out for is a re-mortgage fee, which applies especially to those initially drawn towards cheap short-term fixed mortgages. Normally, a bank will charge you for an early exit, but sometimes these costs can be covered by other lenders. It's definitely a case of reading up on the terms and conditions!

When it comes to buy-to-let mortgages, you can usually take plenty of time to consider the various options available and think about your decision. Never be pressured by early or limited offer deals, and remember that even a buy-to-let mortgage is a long-term deal so you need to be sure you're working with the right lender for you.