All About Buy To Let Finance

and How To Get It

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The contents are a general guide only and are not intended to be in substitution for professional advice. All readers are strongly advised to take advice from their solicitor, accountant and surveyor before proceeding with any property purchase.

Contents

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 over 70 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 is now a guest blogger for 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 Successful 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.ThePropertyTeacher.co.uk

He has also written for Property Investor News, Property Auction News and Hot Property Alert, and has been a guest blogger for Progressive Property and LandlordZONE.

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Please also visit Peter's YouTube Channel - The Property Teacher

And his Facebook page www.Facebook.com/PropertyTeacher

All About Buy to Let Finance And How to Get It

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 I'm going to start by answering a question I'm often asked… "Is it really possible to get started in property with no money?"

In most cases the answer is "no" but, as Dolf de Roos the New Zealand investor says, "It doesn't have to be your own money!" In other words a better question to ask would be, "Do I have to get started in property using *my* money?"

And the answer in most cases is, "No, other people's money will do fine!"

A little bit later I'm going to give you a quick overview of gearing and why it's actually much better to 'go into debt' and to buy your properties using other people's money.

Now, it's at the point where we start to talk about debt that potential property investors begin to face some stark choices.

Because, like it or not, unless they are cash rich, the only way 99% of investors are going to get started in property is by taking on some form of debt.

Let's face it, even a "relatively cheap" property is expensive in absolute terms, and is a big commitment. To buy even a "cheap" property usually means taking on a "relatively" large amount of debt, usually in the form of a mortgage.

Most of us are risk-averse to some extent with the result that most of us will be wary about taking on debt. However, to be successful in property we need to be able to push the boundaries of our comfort zones.

This does not have to be an overnight process and in any case it would not be wise to charge headlong into taking on debt. A little fear is a good thing if it helps us to keep some balance.

However, debt is inevitable and, generally speaking, the more debt you are prepared to take on, the further you are going to get.

The trouble with using other people's money is that debt makes us squeamish. From an early age we are told that debt is bad and should be avoided, and that is true, or at least partly true. There are certain types of debt that we should avoid at all costs but, like it or not, any experienced property investor will tell you that the most efficient way of investing is with the proper use of investment debt.

In property the sheer scale of the figures involved mean that only the super rich can afford to be seriously involved without some form of debt. If you want to build a sizeable and profitable property investment business the truth is that you will require some debt.

Of course, the debt we are talking about is “good debt” and not “bad debt”. ‘Good debt’ is debt that allows you to purchase assets (property being a prime example), assets being something that will enhance your financial standing either through capital appreciation, or by producing an income, or both.

Bad debt, on the other hand, is debt that buys depreciating or wasting assets. Consumer goods, televisions and cars being a prime example, and which add nothing to our financial well-being and which will cost us money.

There are different types of debt available to property investors and which type we use at any one time will depend upon our circumstances and needs.

The finance available to property investors can be broadly categorised under two main headings – conventional and non-conventional finance.

Although the use of non-conventional finance is an interesting topic most investors will, most times, use conventional finance.

Generally speaking conventional finance for property is provided by mainstream lenders such as banks, building societies and so on.

The first option that most investors will consider nowadays is buy to let finance. In fact, almost every would-be property investor would be advised to investigate buy to let first because:

*It is tailored to our needs

*It is generally cheaper than other types of “commercial” loan

*It is relatively easy to obtain, despite recent intervention by the Bank of England

Anyone who’s even just vaguely interested in property, and even those who aren’t, will have heard something about buy to let. And those of us who can remember what it was like trying to buy an investment property before buy to let was introduced will know what a significant affect it’s had.

Before I get into the nitty-gritty of detailing buy to let finance, I said earlier that I would explain why using finance, like buy to let finance, is so important for investors.

Why Borrowing to Buy Our Properties Makes Perfect Sense

The ‘secret’ every successful property investor knows is:

“Investing in property works better when you use someone else’s money”.

And they also know that borrowing the money you need is probably easier than you think.

Let's look at why "investing in property works better when you use someone else's money".

The reason is gearing, or leverage as it's often called (the American way of describing it) and this really is the star of the show.

If there is a key to success in property this is surely it. When you understand what happens you will see why buying property with other peoples' money is much more profitable than buying property with your own money. This is why, even if you do have enough money to buy a property outright for cash, it would still pay you not to use all your own money.

Let me prove it. Let me show you the amazing and powerful affect that it can have on the returns from your properties.

Gearing can be defined as *using borrowed money to increase the returns on your own money invested*.

There are two principle ways that gearing can boost our property returns.

*It can increase the return on our own money invested derived from the rent

*It can increase the return on our own money invested derived from capital growth

And this is best illustrated by looking at and comparing:

*The gross yield

*The return on our own capital invested

Let's look at a simple example.

Let's assume we buy a property for £100,000 and rent it out for £600 per month. To keep the maths simple we'll ignore fees and other costs, but even when they are calculated in, the principle is still the same.

Let's assume that we are cash-rich and buy the property using only our own money.

The return on money invested or the Cash-on-Cash return, from the rent, can be calculated like this:

Gross yield = rent/purchase price x 100

Gross yield = £ 7,200 (which is 12x £600)/100,000 x 100

Gross yield = 7.2%.

Because we have put in all the money, the Gross Yield is also the same as the "return on our own money invested" or the Cash-on-Cash return. So the return on our investment is 7.2%.

OK, that's much better than we'd get in the building society but let's now gear up by borrowing some money, and see what happens.

Let's assume we borrow the maximum amount we can. Our buy to let lender will lend us 80% LTV meaning we can borrow £400,000 if we use the £100,000 as a deposit. So, we can purchase 5 small properties for £100,000 each, or one large property for £500,000.

To keep the example simple we'll ignore costs again for now, and we'll assume that we buy the 5 smaller properties, as real life experience suggests this will give the greater return.

We'll also assume that our lender will grant us five interest only loans at, say, 5.25%. I realise that some lenders have caps on the number of properties they'll lend on, or the amount they'll lend an individual borrower, but for now let's just explore the principle.

Let's see what happens to the return on our investment now – remember, that is the return on the money we put in.

We will have to put in £100,000 of our own money to pay the difference between the purchase prices and the mortgages. The rent we will receive is £36,000 (5 x £7,200) each year. However, we will need to pay the interest on the mortgages. We will have borrowed 5 times £80,000 which is £400,000.

Rent received	£36,000 a year
Less mortgage interest £400,000 x 5.25/100	£21,000 a year
Net profit	**£15,000 a year**

The return on our own money invested = 15,000/100,000 x 100

ROI = 15%.

So, by using borrowed funds, and by buying multiple properties, we are able to increase the return on our investment derived from the rent from 7.2% to 15%.

However, as I said earlier, the return from the rent is only one of the returns we can expect to enjoy from our property investing. The other principle return is capital appreciation. Let's see how gearing affects that.

Let's assume the value of the properties increase in line with long term growth trends in the UK. For the last 60 or so years the average rate of growth in UK property values has been around 8%, even accounting for the crash of 2007/2008.

As I say, this is an average. In some years values grow by more than 8%, in some years by less than 8%, and in some years values have fallen. However, taken as an average, including the years when values have fallen, UK property prices have grown at around 8%.

At the moment, depending on where you live or invest, it might be hard to imagine consistent future growth in property prices but we do know that the economy, and with it the property market, is cyclical and inflationary. There will always be periods of growth, and periods of contraction.

However, for those who remain pessimistic about the potential for future growth rates I'll compromise and adopt an average growth rate of 5%.

So if we purchase one £100,000 property for cash and it increases in value by 5% a year then the return on our money due to capital appreciation will be as follows:

Purchase price	£100,000
Value after one year	£105,000
Increase in value	**£ 5,000**

As we put £100,000 of our own money in the return from our own money invested is 5,000/100,000X100 =5%.

Let's compare again with what happens when we gear up. Now if, as before, we borrow to fund more purchases and use our money as the "deposit" then we can buy five £100,000 properties, assuming we can get mortgages with 80% LTV.

Purchase price	£500,000
Value after one year	£525,000
Increase in value	**£ 25,000**

As we put £100,000 of our own money in, the return on our own money invested will be:

25,000/100,000 x 100 = 25%

In other words, by gearing up, the return on our own money invested derived from capital appreciation jumps from 5% to 25%.

When we aggregate the returns from rent and capital appreciation we can see that the "non-geared return" on our own money is 12.2%, but our "geared return" is 40%.

In other words the return on our own money invested is **3¼ times higher**.

However, even returns on investment (on our own money) of 40% are unexceptional in property when we start to use gearing to its full potential.

Buy-to-Let Going Strong and Getting Stronger

As I said earlier, if you are thinking of investing in property the chances are you'll use buy to let finance.

Buy-to-let must surely be one of *the* financial success stories of our times.

Just think about this. Prior to 1996 there were no buy-to-let mortgages. According to the Halifax, the number of buy-to-let mortgages jumped from 275,000 at the end of 2002 to 408,300 by the end of 2003. By the end of 2005 there were 701,950 and now, as I write, it's estimated that there are over 1.5m buy to let mortgages.

In the meantime, the proportion of private rented accommodation has also increased.

According to the latest census (2011) the proportion of UK households renting has increased from 31% to 36% over the last 10 years. This includes social renters (council tenants and housing association tenants) but overall the proportion of social renters is falling meaning most of this increase will be in the private rented sector.

Putting these two trends together, despite well-publicised recent tax changes, buy-to-let should continue to flourish over the next few years. Providing care is taken to purchase the right property in the right area, ***this should provide a fantastic opportunity for private investors***.

Let's have a look at how buy-to-let has developed and why it is such an exciting opportunity.

What Is Buy-to-Let?

Before buy-to-let started in 1996 it was extremely difficult for private investors to raise finance on residential investment property, unless they were already high net-worth individuals, or were high-income earners, or both.

At that time any residential property loan, other than a standard mortgage loan to an owner-occupier, would be treated by the banks as a commercial loan.

This resulted in several serious negative consequences for prospective investors:

*No account was taken of the existing, or potential, rental income of the investment when calculating the loan amount. The only income taken into account was the borrowers existing income;

*Loan to Value Ratios (LTV's) were restricted. Typically, these could be 60% or even as little as 50% of the value of the property; and

*Interest on the loan was often charged at 2% or more above standard residential mortgage rates.

In addition, lenders were reluctant to lend on residential investments because existing landlord and tenant legislation ("The Rent Acts"), meant it was difficult, if not impossible, for a lender to get vacant possession if the loan went bad and the property had to be repossessed.

All in all, this made property investing a "minority interest" with generally only the "well-off", or property companies, able to participate.

Why Did Things Change?

There were two major changes on the "road" to buy-to-let:

*A change to the landlord and tenant law

*A desire by ARLA to promote its member's business

The first step towards buy-to-let, as we now know it, was that landlord and tenant law was changed to make letting easier and more financially attractive to private landlords.

Before the Housing Act 1988 tenants had very strict rights to "security of tenure" (rights to occupy a property). This made it difficult for a landlord to evict even if the tenant misbehaved, went into rent arrears, or otherwise broke the terms of the tenancy. There were only restricted circumstances under which a landlord could take back possession of the property, and in any case this required a court hearing. Selling with vacant possession to release the full value of the property was rarely an option.

The amount of rent a landlord could charge was also limited, and despite being called a "Fair Rent", was often well below the true open market rental value.

The Housing Act 1988 introduced The Assured Shorthold Tenancy. This is a much more flexible arrangement which allows landlords to:

*Take possession of a property on giving a suitable notice period, usually two months;

*Charge a full market rent

The second major change occurred in the mid 1990's. ARLA, the Association of Residential Letting Agents, www.arla.co.uk, decided to encourage the private residential letting market for the benefit of its members. It hoped this could be achieved by teaming-up with various mortgage lenders, who agreed to make loans easier to obtain by private investors. In return, ARLA members agreed to maintain the value of the investment, against which the loan was secured, by organising high quality, professional property management.

And so the Buy-to-Let Scheme as we know it was born.

What's Different About Buy-to-Let Now?

The buy-to-let scheme was designed to address the problems we looked at earlier. The original lenders were now prepared to:

*Consider lending on residential investment property as a mainstream activity – the risks involved in a loan going bad were now reduced because vacant possession could be guaranteed under the provisions of the Housing Act. This meant the property could be sold at its full value if it had to be repossessed;

*Take the rental income into account – this meant that people in average or even low paid jobs could now potentially qualify as borrowers;

*Increase the LTV ratios. The early schemes were typically around 70-80%, meaning that a potential investor now had to find a smaller deposit from their own funds to get a foot on the property investment ladder; and

*Charge interest at rates nearer to normal residential mortgage rates, rather than commercial rates. That meant that investors were more easily able to finance purchases by way of the existing or anticipated rental income, without having to subsidise their investments from other sources.

Why Is Buy-to-Let So Popular?

Over the last few years several things have coincided to boost the market for private residential property investment:

*The performance of the stock market has been relatively poor over the last decade. Here's a fact you won't hear quoted very often. On January 1st 2000 the FTSE stood at just below 7,000. Today, as I write, more than 16 years later, it still stands at under 7,000.

*Other alternative investments are also performing badly. With UK base rate having been at ½% for over 7 years, before dropping to ¼%, and destined to stay low at least for the next few years, holding cash is very inefficient.

*A consequence of poor stock market performance and low returns (interest rates) on cash, plus other negative factors, means that private pension schemes have been performing poorly. To many people, property is now seen as a better performing alternative.

*Low interest rates allow effective “gearing” through borrowing.

*There has been an increase in (legitimate) migration into the UK from an expanded European Union, increasing demand for short-term, rented accommodation.

*Changing social trends have resulted in a large number of smaller households and a larger number of singles living alone. This trend is set to continue with the number of households in the UK predicted to increase from 21 million to 26 million by 2020. We are told that many of these extra households will want to rent and not buy.

*Unlike other European countries the population of the UK is still growing and is predicted to increase from 58.8 million in 1996 to around 70m in 2030, and these extra people will need housing.

Together these trends:

*Have increased the popularity of property as an investment;

*Suggest that the rental market in the UK has not peaked.

*Suggest that, in the absence of Government and political interference, there is scope for further expansion of buy-to-let investing.

Buy to let finance has revolutionised property investing in the UK and has made the prospect of the ownership of multiple properties accessible to many ordinary people.

All of this is excellent news for existing and prospective property investors.

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 Works, 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.

However, there are many other buy to let lenders and, as I write, over 1000 different buy to let loans available.

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. Northern Rock famously offered 110%.

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 existing customers who are 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 75%. Mortgage Trust, who are part of Paragon, have several 80% LTV products.

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 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 2.74%, up to 75%, with half a percent fee. If you don't fancy a tracker rate, there is a fixed option at 2.44%, and a fee of £1995.

The best headline rate offered by The Mortgage Works is 2.19% fixed for 2 years on a 65% LTV, with an arrangement fee of £1995, or a 2 year tracker, at 1.94% on 65% LTV.

Accord offer a five year fixed rate of 3.44% on a 75% LTV with a 0% fee.

Leeds Building Society has a two year fixed rate of 1.90% on a 60% LTV with a £1,999 arrangement fee.

Skipton Building Society has a 2.69% two year fixed rate with a LTV of 75% and a £1,995 fee.

Nottingham Building Society has a 2 year fixed rate of 4.99% on a 80% LTV with a £1,499 fee.

Santander has a 2 year fixed at 2.49% on a 75% LTV with a £1,995 fee but with a free valuation.

Mortgage Trust offer 2 years fixed with 80% LTV at 3.25% and 3.79%, and 5 years fixed with 80% LTV at 3.95% and 4.25%. They also have a 2 year tracker on a 75% LTV at 2.75% and 2 year trackers on 80% LTVs at 3.65% and 4.30%.

You'll find links to products provided by the 3 principle buy to let lenders in the Appendix at the back of this ebook, which will give you a flavour of what's available.

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 £1,995, 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, whichever 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.

And 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 up to age 70. 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 drawback of the smaller lenders is that they often have 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 £750,000 on 75% 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.

However, there is a big proviso to this which we'll look at now.

What Were the Recent Tax Changes Made to Buy to Let?

In the 2015 and 2016 budgets the taxation of Buy to let changed in 3 principle ways.

No1 – from 2017, and this will be phased in, a buy to let investor (paying the higher rate of tax) will be unable to offset all buy to let interest against tax – offsetting will be limited to basic rate tax only. The provisions are somewhat complex but a consequence could be that investors who currently pay basic rates of income tax might be pushed into higher rate tax bands.

No 2. A 3% stamp duty levy has been imposed on all buy to let properties sold/purchased for £40,000 or more. So if a buy to let property would previously have attracted 1% Stamp Duty Land Tax, it'll now attract 4% SDLT, and so on.

No 3. Capital Gains Tax was reduced on all investment assets other than property.

What Difference do These Recent Tax Changes Make?

Put simply, the received wisdom is that all new buy to let properties should be purchased into a Limited Company.

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?")

Should I Transfer My Existing Properties into a Limited Company?

There are 2 main problems with transferring properties you already own into a limited company:

Firstly, you might crystalise a gain for Capital Gains Tax if values have increased since you bought it/them. Even if the limited company pays you No money, HMRC will still look at it that there has been a deemed disposal, and will tax you as if money has changed hands.

Also, your existing mortgage lender will want you to remortgage from your name to the Limited Company, and this might not be on such good terms.

So why should we consider moving our properties into a limited company?

Let me answer that, by also answering

Why Should I Hold My New (and existing) Properties in a Limited Company?

Because, put simply, at the current time (and this could change) limited companies can still offset all mortgage interest against rent when calculating profit for tax purposes.

However, there are pros and cons in using a limited company.

Other than the interest issue (big pro) corporation tax is currently 20% and due to drop to 17%, so is less than income tax and Capital Gains Tax (big pro).

So your limited company will pay less tax, leaving more money, potentially, to be reinvested.

BUT, and this is a big but, when you take money out of your limited company you will pay tax (most likely income tax) (big con) unless you take the money as a loan to you (and can show HMRC a genuine intention to repay it, and that you're paying your company commercial rates of interest) (big pro).

Will Buy to Let Lenders Lend to Limited Companies?

Many will, and because investors are now buying direct into limited companies for the reasons I've just given, in future I expect many more lenders to lend to limited companies.

For example, BM Solutions, Paragon, Aldermore, Fleet Mortgages (who have an 80% LTV company product), Precise, Keystone and many others lend to limited companies.

Does My Limited Company Need to Have Been Trading / Have 3 Year's Accounts?

No. If your property company (special purpose vehicle) hasn't been trading and has no track record or accounts, the lender will look at you, and ask you to provide a director's guarantee.

If you already have a non-property related company with a track record and accounts, should you buy through that instead? No. Most lenders would prefer you have a company specifically for property even with no accounts and track record, than lend to a non-property related company which does have accounts and a track record. Don't try mixing your non-property related business activities with property in the same entity.

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 at least 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.

Things are now changing and the Bank of England is encouraging all lenders to look at "affordability", in other words, check that the borrower has sufficient income to service the loan if interest rates (and mortgage rates) were to increase significantly, or if there were prolonged void periods when the property is empty.

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 or even a mobile phone 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 lender's 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 committed 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 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 headline mortgage 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 1.94% 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 3.5%. 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.

Frustratingly, different lenders and different valuers will have their own interpretation of what is habitable. Some require only a "working" bathroom and kitchen and will accept properties requiring a lot of work, others won't accept properties requiring even very little work.

It can seem a bit of a lottery and you might not know until you put in your application how the property will be viewed.

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 (for existing borrowers), Mortgage Trust, Fleet, Saffron and others.

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 of the end value and is on a 3 year fixed rate of 4.99%

The other, which is potentially much more interesting to us, has an 80% LTV of the end value at 5.39% on a Standard Variable Rate.

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?

In simple terms, the prevailing tax situation is, if you buy a property using buy to let finance you can offset 75% of the interest (as at 2017) against the rent when calculating tax due (for individuals).

This is going to change. At the 2015 budget it was announced that from 2017 (individual) investors would not be able to offset all mortgage interest. The ability to off-set is being phased out and from April 6th 2020 there will be no off-setting mortgage interest.

In the meantime, and, talking of tax, if you are cash-rich and buy a property for cash, and then look to refinance it, you may receive mixed advice about whether you can off-set mortgage interest in these circumstances.

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, subject to off-setting being phased out by April 2020.

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, there is a view that you cannot off-set the interest against the rent for tax purposes.

However, whether you can or whether you can't seems to come down to intent. If you always intended to take out finance after buying for cash, HMRC will (usually) accept that was your intention and allow you to off-set the interest.

I have done this many times and have never had a problem.

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, but most will require the borrower to own a property (for example, their principle private residence).

Some lenders offer preferential terms to more experienced landlords, for example The Mortgage Works will offer an 80% loan to value mortgage to an existing customer, 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 let 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 then FSA, now FCA, 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 (non-regulated), 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.

There are other reasons why investors prefer interest only (notwithstanding the upcoming changes in tax relief on interest):

*They are better for cash-flow

*There is a presumption that investors will regularly refinance to pull out available equity, and use that equity to reinvest in other properties. So it makes no sense to pay down a loan only to then pay the bank fees (remortgaging fees) to borrow that money back out again.

*Over the period of the mortgage term, the effects of increases in the capital value of the property (received wisdom – values in the UK double on average every 7-10 years), and the effect of inflation devaluing the loan amount outstanding in real monetary terms, means there is little financial incentive to pay down the loan amount. At the end of 20 years the amount outstanding, when seen in real terms and compared to the value of the property, will be largely inconsequential (the ideal, not a guarantee).

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.

At the time of writing, there are well over 1000 different BTL loan products 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 on 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 some (but not all) 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. Some lenders will only deal with intermediaries (brokers) and NOT direct with the borrower.

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.

And try to use a broker who is also an investor themselves.

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.

Bu, 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 FCA and the Financial Ombudsman whereas buy to let loans are currently ‘un-regulated’ (but that could change) 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:

*Flat 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 leaseholder's 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.

What about the Tax Changes (Section 24)?

In July 2015 the then Chancellor George Osborne announced that the ability of landlord/investors to off-set mortgage interest against rent when calculating income tax would be phased out, so that by 2020 no interest can be off-set against rent (although there will be a 20% credit).

The effects of this are somewhat complex and although it would be logical to assume this will affect higher rate tax payers the most, there is the possibility that some lower rate tax payers will be pushed into the higher tax bracket.

HOWEVER, at the time of writing these provisions only apply to landlord/investors who own properties in their own name.

Currently, limited companies CAN off-set all mortgage interest (and interest on other loans) when calculating profit for Corporation Tax purposes.

For this reason many investors are now buying into limited companies.

And some existing investors are exploring the possibility of transferring their properties from their name to a limited company, although this is not straightforward – as the limited company is a separate entity, HMRC will deem there to have been a transaction and Capital Gains Tax and/or Stamp Duty Land Tax could become payable.

A limited company used for the purposes of holding investment (buy to let) properties is known as a Special Purpose Vehicle.

What is an SPV and why do we need one?

Browsing a UK property forum, I stumbled upon a post in which an anxious investor was asking for recommendations on lenders that would lend to an SPV. Whilst I understand what they were trying to say, I had the urge to comment that their question was, in fact, the wrong question.

The question they should have asked was: "Do you know or can you recommend a lender who will lend to a limited company, or LLP, or partnership…", or whatever the entity might have been.

The reality is that there is a lot of misunderstanding surrounding SPVs or Special Purpose Vehicles with many struggling to understand what an SPV actually is - and how we use it. What's more, there is also a lot of confusion around using limited companies to buy properties and how to raise finance for limited companies.

If you're wondering why I've mentioned limited companies, you might not realise that whilst they may sound like separate topics, they are really just part and parcel of the same subject. So, over the coming weeks, I'm going to touch on all of these to help clarify the situation.

For now, let's start with the basics and look at what a Special Purpose Vehicle (or SPV) is. Or rather, what it is not.

Some people consider a SPV to actually be a separate entity in its own right.

This is where the confusion begins as an SPV is just a generic name for any entity that you choose for a particular purpose.

So, an SPV could be a limited company; an SPV could be an LLP; or an SPV could be a partnership – or even sole tradership. It doesn't really matter which, as an SPV is really just stating that there is an entity that has been used for a specific purpose.

Following George Osborne's decision back in 2015 to withdraw the ability to offset mortgage interest against rents when calculating income tax, more and more property investors have been buying their properties using limited companies. The reason for this is that if they buy into a limited company, they can offset all of the mortgage interest against rents when calculating corporation tax instead. And, assuming things don't change with the budget in the future (or there's a change of government that results in even stronger attacks on the private rental market), then this is a great way for investors to get around Osborne's stumbling block.

The reason I am mentioning this is because limited companies can be SPVs. The ability to offset all of the mortgage interest against rents when calculating corporation tax is a big plus for limited companies, and is probably the main reason why this entity has become so popular since the change in Section 24. However, this might not be the only reason why you might decide on a limited company for your property business.

For example, consider the scenario where by you team up with a JV partner. To keep things simple, let’s say the JV partner is going to put in all of the money in and you're going to put in all of the time and effort. It might be a 50/50 arrangement and one way of setting this up could a limited company with a 50/50 share split. In this instance, this limited company will become an SPV - or special purpose vehicle. If you’re wondering what the special purpose is, it’s quite simply to establish a JV with your joint venture partner.

As you can see, an SPV is not a particular type of entity or a particular type of limited company, but instead "a purpose".

When would you use an SPV for property investing?

Having taken a look at what an SPV is in my last blog post – and having established that it is not a specific type of entity but rather a vehicle that’s used for a specific purpose to help you achieve your goals – it’s now time to think about when we would use an SPV.

As a quick recap, an SPV could be a limited company, partnership, LLP or any other type of entity – and as such, there are probably hundreds of reasons why you would want to use one for property investing.

But to give an example, it might be that you decide to use an SPV if you are going to team up with a joint venture partner. Regardless of the structure you use (maybe you are putting in the time and them the money, or vice versa), you would both get together and consider what you both want to get out of the agreement. You would consider whether the best route to take would be to set up a limited company, LLP or straightforward partnership, as well as the terms to ensure you both felt safe and protected within the agreement.

Another reason why you may decide to use an SPV might be to get around the changes to Section 24. Since this change, many property investors are buying properties into a limited company to enable them to offset all of the mortgage interest against rents when calculating corporation tax following their inability to offset it against rents when calculating income tax.

With this in mind, let’s think about finance for limited companies and what the banks are going to consider when you make an application. Essentially, they are going to look at the SPV you are using and will consider whether they want to lend to that particular type of entity.

Regardless of whether you are using a limited company, an LLP or any other entity, there are no hard and fast rules as to whether they will lend to one entity over another. Instead, what they will be looking at is you and your joint venture partner.

Often, I’m asked if it’s advisable to set up a new SPV every time an investor buys a property. A mortgage broker or an accountant may have a different view, but in my opinion, the answer would depend upon if you are buying the properties in your name – and your name alone.

If you're creating a buy to let portfolio and are planning to keep a lot of the properties, then I wouldn't see why you would want to split those properties between different entities. If you are accumulating properties, you may as well just have the one entity if they are all going to be in your name – or maybe in the name of a life partner or significant other.

Having said this, if you are instead thinking of doing multiple deals with multiple JV partners, then it would make sense to ring fence each of these deals; set up an SPV and put each property that you do with that JV partner into a particular SPV which has been created for that specific purpose.

Nevertheless, it is worth sitting down with your accountant and assessing the tax implications of your decision, because each entity will have a different implication – and if you want to change the entity further down the road, it might not only be complicated, but potentially very costly too.

How to raise (buy to let) finance for your SPV (limited company)

Over the last few weeks I've been looking into Special Purpose Vehicles and when to use them, which now leads us to consider how to raise finance for our limited companies – in particular, for buy to let properties.

As such, let's begin by thinking about what an SPV is in the eyes of the bank. Quite simply, the SPV is going to be a limited company (or perhaps an LLP or partnership – depending on your circumstances), which has been set up purely for the purpose of owning the buy to let property.

So, thinking in these terms, what the bank will want to see is a limited company that will only be used for this function. To give an example, if you are an IT Project Manager and have an existing limited company that you use for your IT services, you would be advised to set up a separate entity for buying and holding your properties.

The reason behind this is that the bank would prefer you to keep your activities separate. From their perspective, they will be wary of what could happen to your existing business; they will be wary of how many debtors you've got, whether you clients are paying on time, whether you owe money through that business and if there are any other liabilities attached to it. And whilst they could, (and would) do a check on the business, for the bank it makes sense to keep things as simple as possible.

Essentially, the bank will have two concerns. Firstly, that you can pay the interest on the loan, and secondly, if you ever get into financial trouble and they had to repossess, that could they take the property back off you without a problem.

When assessing your application, what the bank will look at is YOU. As a new limited company, they will be unable to look back over the last three years of company accounts, etc., so instead, they will look at your individual circumstances. They will consider your SA302 or Personal Tax Account (PTA); will look at your personal bank statements, income, and whether you own a home.

Most lenders will typically want applicants to have a minimum income per year of at least £25,000 – but there are ways and means of getting around this if you don't fall into this wage bracket. (For example, you could make a joint application on a mortgage with a JV partner; set up an SPV and split the shares as agreed).

Despite the general consensus that it's hard to get buy to let finance for a limited company, it really isn't very difficult at all. I've been buying my buy to let properties through a limited company for over 20 years now, and I am yet to have a problem. What's more there are plenty of lenders out there that will lend through limited companies and this number is only going to grow.

Off the top of my head I can think of half a dozen or more… Paragon, Shawbrook, Aldermore, Precise, Fleet Mortgages, Kent Reliance, etc., and with The Mortgage Works jumping on the band wagon too from November 2017, you can be more or less assured that their competitors will follow.

Let's also consider the trend from recent years. In 2012, there were only about 30 products for limited companies. By the beginning of 2017, there were around 200 products; and by mid last year, 312 mortgage products. As such, in 2018, there must surely be 400 or 500 products out there for investors that want to buy their buy to lets through limited companies. There are plenty of both lenders and products so with a good broker, finding and obtaining the right finance shouldn't be a problem.

As a final thought, if you're concerned that the rates are now more expensive than before, I would look at it like this. They are only marginally greater – in fact, if the truth be told they are not much higher than for a normal individual who's taking on a buy to let in their own name) – and as more lenders come into the market for limited companies, this is likely to improve. But for the time being, whatever you lose on paying extra interest, you should gain back on tax anyway.

New Tougher Rules for Buy to Let introduced in 2017

The Bank of England has an arm called the Prudential Regulation Authority (PRA) that regulates lenders. They've brought in new rules that lenders must follow, on the face of it to avoid the risky lending that contributed to the credit crunch, financial crisis and property crash in 2007. These new rules are tougher new requirements for buy-to-let borrowers and these came into effect mainly in 2017.

There are two elements to the new regulations:

*Firstly, since January 2017 banks have been expected to apply stricter and tougher rental cover tests:

*And secondly, since September 2017 there have been new, 'tougher rules' around "Portfolio landlord" lending.

We'll look at these in the following two sections.

The Rules and Regs on Stress Testing Mortgages and Rent Cover Requirements

Let's first have a look at what the rules on stress testing and rental cover mean.
The rent cover must be at least 125% of the mortgage payment assuming a notional interest rate of at least 5.5%.
In other words, if the interest paid were calculated at 5.5% on a loan, the rent received for the property must be at least 125% of the interest paid.
Confused? Let me show how this works using an example.
Let's assume you buy a buy to let property (probably up north) for £100,000.
You are going to buy it using a 75% LTV buy to let product, interest only, at 2.29%.
So you will borrow £75,000 (75% of £100,000).
You will pay £1,717.50 in interest a year or £143.12 per month (£75,000 x 2.29/100).

But before the bank will lend you the money they will ***stress test*** it using the 125% and 5.5%.
This is how they will look at it.

First, they will work out what the interest on the loan will be at 5.5%.

So £75,000 (as before) x 5.5/100 is £4,125 per annum

Which is £343.75 per month.

Now the bank will take that notional rental figure and multiply it by 125%

Mathematically that simply means multiplying by 1.25

So £343.75 x 1.25 = £429.69

So, in order for the bank to advance you the full £75,000 the rent needs to be at least £429.69 per month (125% of £343.75 per month).

BUT, and this is a big but, not all banks use 125%. Some are using 145%. So let's see what difference that will make.

Again, they will work out what the interest on the loan will be at 5.5%.

So £75,000 (as before) x 5.5/100 is £4,125 per annum

Which is £343.75 per month.

Now the bank will take that notional rental figure and multiply it by 145%

Mathematically that simply means multiplying by 1.45

So £343.75 x 1.45 = £498.44

So, in order for the bank to advance you the full £75,000 the rent needs to be at least £498.44 per month (145% of £343.75 per month).

Let me cover some of the FAQs which usually arise after explaining how this works.

1/. Why are the banks doing this?

In theory to make sure that when interest rates go up, as they will, that you will still be able to afford your buy to let mortgage. The stress test imputes a 5.5% interest (although the banks can choose their own rate and so this will vary) plus a buffer of 125% or 145%, meaning the bank can compare the rent to the likely amount of the mortgage plus the other costs of ownership.

2/. What if the property isn't let and you don't know the rent?

At the time the valuer values the property for the mortgage they will give the ban their opinion of the likely rental value, and that is the figure the bank will use

3/. What is the rent paid, or the estimated rental value, IS LESS than the stress test figure?

If the stress test figure is greater than the rent, it doesn't mean the bank WON'T lend to you. Usually they will scale back the amount they will lend until the figures work and the stress test figure on the lower amount matches the actual (or estimated) rental.

4/. How can I know what notional interest rate, and what % mark-up a bank will use when doing a stress test?

Hopefully you be using a good (or great) broker and they will look into all this for you.

But if you want to do your own research first most lenders will show their stress test requirements on their websites.

5/. Do all banks apply a stress test?

It's a little confusing but banks tend to do their own thing. Some banks stress test at 125% and some at 145%, and dare I say that some banks might turn a blind eye to the whole process. If you want to know what will happen when you apply for a loan please see answer to question 3.

6/. Do banks stress test all property loans?

No they don't, at least not in this way. This way of stress testing buy to let loans DOESN'T apply to

*Mortgages for limited companies
*Bridging lending
*Commercial or semi-commercial property
*Holiday lets
*Any loans with a fixed term of five years or longer

7/. What difference does this make to us as property investors?

The main effect is that we won't be able to borrow as much, or put another way, get as much leverage for lower-yielding properties.

In other words, more expensive properties will be harder to finance because the rent, as a proportion of value or sale price, will be too low to support the higher figures once the 125% or 145% is applied. This puts a limit on how much can be borrowed against more expensive properties.

So it will be harder to get 75% LTV loans on more expensive property. The practical effect is you may only get 65%, or 60%or 50%, or maybe no loan at all.

So the converse of this is that lower LTVs will mean having to pay larger deposits.

If your LTV is reduced significantly I'd strongly advice you to consider whether you are targeting the right properties (if your goal is income).

The Rules and Regs on Loans to Portfolio Landlords

Since 2017 the banks have been encouraged to apply new procedures when processing applications from what are known as 'portfolio landlords'.

So what is a 'portfolio landlord'?

The definition of "portfolio landlord" is someone who owns 4 or more mortgaged properties.

By the way it doesn't make any difference if these properties are owned in your name or a limited company. So, for example, if you own 2 in your name but 2 more in a limited company (of which you are a director/shareholder) YOU are deemed to own 4 and are a portfolio landlord.

If you own 1 in your name and 3 in a limited company you are deemed to own 4. If you have 3 in your name and 1 in a limited company, you are deemed to own 4. I'm sure you get the idea.

For tax purposes you and your limited company are treated as separate and distinct. But not for the purposes of mortgage lending.

If you are a 'portfolio landlord' lenders are being encouraged to look at your portfolio as a whole when deciding if they should lend to you on a specific individual property. Basically you need to make a case for the new loan in the context of your entire "rental business", not just the property you're buying.

Tying this back to stress testing, for example, The Mortgage Works (Nationwide) will stress test your whole portfolio at 145% with a notional interest rate of 4.5% if you have between 4 and 10 properties, but will stress test at 145% and 5.5% if you have 11properties or more.

Every lender can decide what they want to see in order to decide whether your portfolio and rental property business can sustain another property (loan), but Prudential Regulation Authority (PRA) at the Bank of England suggest they request and consider:

- Property portfolio spreadsheet
- Cashflow forecast spreadsheet
- Income and expenditure spreadsheet
- Business plan
- Three months' bank statements
- SA302s and tax overviews from HMRC
- Tenancy agreements for all properties

Written like that, that can look like a daunting list.

But if you think about it you should probably have that information available for yourself anyway so that you can run your business.

Also, your mortgage will have a lot of this information anyway, although he or she might have to come back to you to update it when you make an application, if they can't fill in the gaps themselves.

And, not every lender will want ALL of this information.

Having said that, when the PRA first mooted this, many banks said, "Well we're already asking for this information anyway".

So, for many portfolio landlords, the practical effect may well be limited, because your lender may well have asked for this information anyway as a sensible part of their due diligence.

But, in some instances it could mean slower applications and a longer period of time until draw-down if it means that a lender is now asking for additional information (over and above that which they would have asked for previously).

There's also the possibility of more loans being declined because there's more that a lender could decide they don't like about your business. But chances are if you get a decline, you would probably have had a decline before anyway, but the bank might have attached it to a different 'excuse'.

BUT it's yet another measure that will deter amateur landlords...which could mean greater opportunity for investors who are serious.

How I Bought £2m of Buy to Let Property in 4 Short Years Using Buy to Let Finance

When I started back in year 2000 I bought £2m of property in 4 years, and that was with starting from scratch and using none of my own money.

"Why did you use none of your own money", you may ask, "Is that even possible?" Well, yes, it is possible, I did it. And I did because I had just been made redundant, and I had no savings.

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 £5m. Not bad considering I started with nothing, other than the house I live in.

But I'm not saying any of this to boast. I just happened to stumble across a system for buying investment and buy to let property that works, a system that has been used probably by every successful property investor.

And I'm going to share that system with you.

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 do 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 getting help and advice first.
In my experience, when things do go wrong it's often because of one or more of the following three things.

Firstly, many people think that buying a buy to let investment is like buying their own home.

It isn't!
Buying an investment property 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 and 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 so it's easy to manage? 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 have strict buying criteria based on investing fundamentals, and which fit the system I discovered, and which I am going to share with you.

They know exactly which properties they need to buy to attain their goals; they know how 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. And I will show you how you can plan for YOUR property success.

Secondly, 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.

Unless you are clear on why you want to buy, the most likely outcome is you won’t get the results you hope for.

Third, 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.

And as we’ve already seen, buying any old property is a sure way to fail.

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, they end up stressed and wondering why they can’t make it work.

The good news is I'm going to show you how you can use the system I discovered to put together your own cash-flowing portfolio, and avoid all of these mistakes.

And if, like me, you are starting with little or none of your own money, you can still do this!

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. That’s why I’ll show you everything I did, right and wrong.

Everything I did right, so you can do the same.

And everything I did wrong, so you can save time and money and avoid the mistakes and pitfalls.

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 the system (the best part of 4 years, with many sleepless nights and much wasted time and money) so let me save you from all of that by sharing my experience with you.

The Successful Property Investor's Strategy Workshop is available as an eBook to download now and to read on your Mac, PC, ipad or tablet, for only £29.97.

Or it's available in Hard-copy, as a manual in a 4-ring binder, for just £49.97 inc p&p.

If you're serious about property you'll find this small investment to be invaluable.

So to order your copy now, please go to

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PLUS! Order Now And You'll Receive These Valuable FREE Bonuses as A Special Gift From Me

As a 'thank you' from me for buying, ***The Successful Property Investor's Strategy Workshop*** I've put together two special bonuses for you, each of which are worth at least £49.97, and which I know you'll find extremely helpful.

Special FREE Bonus Number One

"How to Always Get The BEST Finance For Your Property Deals" – top tips from a top UK mortgage broker.

First, you'll receive a free copy of ***"How to Always Get The BEST Finance For Your Property Deals".***

This an MP3 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 ALL of the finance you need.

I have considered selling this as a **product in its own right for £49.97** because it contains so much great information but, when you order your copy of ***The Successful Property Investor's Strategy Workshop***, you will receive it as **FREE gift from me**.

Special FREE Bonus Number Two

"Your 'Must Know' Answers to the Top 14 Most Common Property FAQs" – Audio file download

An audio file download, **value £49.97**, containing the 14 top Property FAQs, with 'must know' tips and information, based on the questions YOU ask me.
Whenever I meet and talk to fellow investors, **the same questions always come up**, time and again, including:

****Where will I find the best property deals?***
****What if my strategy doesn't work where I live?***
****Where should I be buying, and how do I find my properties?***
****Should I buy at auction?***
****How much should I gear up, and how much borrowing is safe?***

Should I still be using interest only mortgages, especially if tax relief on interest is to be limited?
How do I structure my property business, and own or hold my properties?
What if the market crashes in the future?
What is the most tax efficient way to own property?

And many more.

In fact, I cover, and answer in detail, the top 14 questions I am always asked. You'll receive this Audio Download as a **FREE SPECIAL BONUS** when you order your copy of ***The Successful Property Investor's Strategy Workshop.***

So to order your copy of ***The Successful Property Investor's Strategy Workshop***, and to start building your own property portfolio, please click here now:

www.thepropertyteacher.co.uk/the-successful-property-investors-strategy-workshop/

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.

So, naturally, there's a full 60-day no-quibble money-back guarantee of complete satisfaction (which I trust you won't need, but it's there anyway), so there's really nothing for you to lose when you order your copy.

If for any reason you're not happy with your copy just email me if you order the eBook version, or return the manual if you order the hard-copy version, within 60 days of receipt, and I'll give you a full, no questions asked, refund.

PLUS, you can keep the FREE bonuses as a 'Thank you' from me for trying it. So you can order, read and enjoy your copy completely risk-free.

I hope you have enjoyed All About Buy to Let Finance and How to Get It. By following a system and a plan, all things are possible, and property investing is no exception. I hope it has given you a few ideas and insights and I look forward to hearing all about your future property success.

Here's to successful property investing.

Peter Jones

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PS Don't forget, for your copy of my best selling eBook ***The Successful Property Investor's Strategy Workshop,*** PLUS the special bonuses including the audio file of my interview with one of the UK's top buy to let finance Experts**,** please go to www.thepropertyteacher.co.uk/the-successful-property-investors-strategy-workshop/

Useful Links

Paragon Mortgages:

For their product range for individuals please click here:

https://www.paragonbank.co.uk/intermediary/mortgages/buy-to-letFor their product range

B M Solutions:

For their full range of products please click here:

http://www.bmsolutions.co.uk/products/buytolet/

The Mortgage Works (TMW):

For their full range of products please click here:

http://www.themortgageworks.co.uk/products