SAMMON
MORTGAGES

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SAMMON MORTGAGES NEWSLETTER

Welcome to the June 2016 Sammon Mortgages Newsletter. What can investment portfolio clients do now in preparation for the Buy-to-Let underwriting and taxation changes?

The good news is that there is currently a wide range of competitive Buy-to-Let products on the market. Several lenders are offering portfolio landlord deals, particularly if you have fewer than ten properties in total. Whatever your portfolio size, the mortgage broker is still best-placed to work out which lenders' products fit the spread of debt and respective rental yields across the properties. Non-standard situations can also be negotiated on an individual basis, which could help clients who have strong personal income and want to bridge a gap on a weaker rent-yielding property.

Nonetheless, change is afoot and landlords need to plan ahead. Until now, mortgage interest could be fully offset for tax purposes so it was practical to keep mortgage debt high. However, between 2017 and 2020 the higher rate tax relief will be gradually closed down to 20% and many landlords could face an annual loss.

Furthermore, in a bid to curb the growth of the market, The Prudential Regulation Authority (PRA) at the Bank of England, in their CP11/16 document, has outlined three main changes to the underwriting of all Buy-to-Let mortgages:

1. All costs, including the imminent taxation, must now be accounted for when reviewing the affordability of a mortgage application.
2. The rental coverage calculation must be 'stress-tested' at an additional 2% over the actual pay rate or 5.5%, unless it's a 5-year fixed deal which will have a lower cover requirement.
3. Anyone with 4 properties or more will now be considered 'portfolio landlords' and will be subject to specialist underwriting processes as documented by the lender.

Whilst lenders will be able to price products to minimise the impact of the rental calculation changes, some landlords will struggle to remortgage in a few years as their rental income simply won't cover. The National Landlords Association expects 500,000 investment properties to be sold off in the next 12 months. So what ideas could help those who want to continue expanding their business?

1. You could diversify to include properties outside of London and South East which have higher rent-to-value yields.
2. Consider using 2nd charge loans to capital raise instead of remortgaging the whole debt if you already are on a particularly good rate. Precise mortgages, for example, take a merged rental calculation across the debt for 2nd charge loans. For a £495 arrangement fee you can take your borrowing up to 70% of the property value at a 2-year fixed rate of 6.85% (reverting to BBR + 5.95) or a lifetime tracker at Bank Base Rate + 5.95% on just the new borrowing, leaving your original mortgage undisturbed.
3. Use the next few years until you need to remortgage to increase rents but remain competitive by actively improving the properties.
4. Make sure you are working with a good agent to ensure you attract the best tenants and rents.
5. Use an independent mortgage broker who has the expertise to get you the best possible choices for your needs.

Finally, please involve a tax advisor. Many outlets suggest you wrap new purchases in a limited company however there are other significant implications to this move. **For information about mortgage rates currently available to you, please call us on 0844 879 4522 or email** info@sammon-mortgages.co.uk**. Rates can be withdrawn at any time but are right at the time of publication.**