



# REMORTGAGING YOUR PROPERTY

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To help clarify technical terms and jargon, we have included an A-Z glossary, which is based on our understanding of taxation, regulation and legislation for the 2021/2022 tax year.

## INTRODUCTION

Whether you are looking at consolidating your debts, raising money for home improvements, looking for a better monthly payment than you currently have, or want to restructure the terms of your current loan, we trust you will find this guide valuable.

Remortgaging can help your financial health in many ways. In simple terms, remortgaging involves moving your current mortgage to a new arrangement, arranged either with your existing lender or with a new lender.

It is very similar to the home buying process. That said, as it is not something that you do every day so it is important to ensure you have a clear understanding of the process and your knowledge is up-to-date.

This guide will help to clarify the terminology, benefits, risks and associated costs of remortgaging your property.

## HERE TO HELP YOU

There are many questions you will need to ask yourself:

- Is it worth doing?
- How much will setting it up cost?
- Can I afford it?
- How will it impact my other borrowing?
- Can I change the type of mortgage?
- Can I go elsewhere or do I have to stay with my current lender?
- Will any employment changes affect this?

The remortgage market is complex. There are many different mortgages to choose from.

So it's good to know that, as your adviser, we are on hand to answer your questions. We will help you with the tricky process of not only getting a mortgage, but getting the right mortgage.

We take pride in offering a personal service that takes into account your individual circumstances. Your financial situation is unique, so we work hard to understand your goals and aspirations, and make financial recommendations based on a comprehensive and detailed analysis of your needs.

## OUR ROLE IS TO:

- Ensure you do not waste money unnecessarily by paying a higher monthly amount than you need to for your borrowings
- Save you time and effort by choosing the most appropriate solution
- Stop you missing out on the most cost effective way of arranging your loan.

This communication does not constitute advice and should not be taken as a recommendation to purchase any of the products or services mentioned. Before taking any decisions we suggest you seek professional advice.

**THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.**



# WHY REMORTGAGE?

Many borrowers choose to review their mortgage every few years in order to take advantage of the new rates on offer. Those that remain on the same deal for the full term of their loan could lose out by paying more money than they need to. They could also miss out on the chance to finish their mortgage term earlier than originally planned.

## THE CORE REASONS TO CONSIDER REMORTGAGING ARE:

### To avoid moving home

It can be more convenient and cost effective to enhance your existing property, rather than move home. This can be financed by remortgaging or a further advance.

### To not lose money unnecessarily

When you took out your current loan, there will have been features that made it competitive and attractive to you. It may be that your incentive period is coming to an end, or simply that the market has changed.

This could allow you to save money on your monthly repayments, or to repay your mortgage sooner. If your current lender doesn't offer better rates or greater flexibility on its other products, you may want to consider switching your mortgage to another lender. You may be better off doing so, even if this triggers early repayment charges payable to your existing lender, as this could still mean a net saving to you.

### To get a lump sum for a special cause

You may have a wedding or education fees to fund. If your property value has risen, you could release some of the equity to help towards this.

### To consolidate debts

Remortgaging can allow you to release some of the value you hold in your home and consolidate other debts that can attract higher rates of interest than that of your mortgage (e.g. credit cards).

Think carefully before securing other debts against your home. While debt consolidation often reduces the amount of repayments, making them more affordable, it will normally involve extending the term over which you repay the debt(s), which often results in you paying more for the debt in total.



## THE REMORTGAGE APPLICATION PROCESS

## REMORTGAGE OF AN EXISTING PROPERTY



**Borrowing check** – amount, affordability, loan-to-value, fees and costs budgeted for, applied for credit file, seek a decision in principle

**Clarify specifics** – capital raising, property enhancement, debt consolidation, better deal

**Mortgage recommended and application sent**

**Conveyancing** – instructed

**Mortgage underwritten** – validation checks on property, income & expenditure. More information may be required as a result to satisfy lending requirements

**Valuation instructed** – mortgage

**Mortgage offer obtained**

**Check of remortgage offer** – does protection match amount and term?

**Completion of legal contracts** – funds drawn down from lender



## BENEFIT FROM YOUR NEW BORROWING STRUCTURE

While this is a very structured process, please be aware that there are things that can delay progress that are outside of our control (e.g. property not valuing to the levels expected, further proof of income required by lenders).



# A-Z MORTGAGE GLOSSARY

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## A-Z GLOSSARY AND GUIDE TO REMORTGAGING YOUR PROPERTY

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### ACCIDENT, SICKNESS AND UNEMPLOYMENT COVER

This is a yearly renewable cover that provides payment for a short period of time if accident, sickness or unemployment occurs. Often there is a deferred period after the point of claim (e.g. six weeks), and it is after this point that benefits are then paid. Benefits are normally only paid for periods of up to two years. Be aware that premiums will vary at renewal each year.

### AFFORDABILITY

At the moment it is easy to lull yourself into believing you can afford the mortgage you need - mortgage rates are at all-time lows and feel easily affordable. However, you need to ask yourself if you can afford your mortgage payments if interest rates rise and whether you can repay the capital if house prices fall.

Let's say you manage to find a mortgage with an interest rate of three percent, fixed for three years. That's a great rate. After three years you find interest rates have gone up and the best deal you can now get is six percent. That's an increase of three percentage points but, more frighteningly, your rate has increased by 100%. Will your net take home pay have increased at the same rate?

You should budget on the assumption that interest rates will rise during the term of your loan. So be sure you can afford your mortgage repayments when that happens, not just now.

### ANNUAL PERCENTAGE RATE OF CHARGE (APR)

This is the interest rate that takes into account the total charge for lending you the money each year. It includes the added costs of the loan (such as arrangement fees), as well as factoring in the frequency that interest is charged (daily, monthly, quarterly or annually). This results in a figure that shows the equivalent rate on an annual basis. While this is a good initial benchmark for comparison, it should not be looked at in isolation as the only way to choose your mortgage.

### BUILDINGS INSURANCE

This is insurance that protects the property, fixtures and fittings. It can protect against fire, flood, subsidence and accidental damage. A key point to note is that the amount of cover chosen is to cover the rebuilding cost of the property, which is often different to its market value. The amount you have to pay towards any claim is called an excess, and can vary depending on what is being covered (e.g. subsidence, fire).

### COMPLETION

The stage where your conveyancer arranges for the monies from your new lender to be paid to the previous mortgage lender or debtors, and completes the legal documentation.

### CONTENTS INSURANCE

This insurance protects items that can easily be removed from a property. Cover can be for risks such as fire, theft or accidental damage. The amount you have to pay towards any claim is called an excess, and can vary depending on the item covered and what it is being insured against (e.g. accidental damage, theft).

### CONVEYANCER

The job of a conveyancer (or solicitor) when remortgaging is to help:

- Carry out a search of local planning information for items that may impact the value (e.g. upcoming land developments, new roads)
- Confirm from the you whether you are aware of any material, structural or other defects to the property that the new lender should know about
- Obtain proof that the property legally belongs to you
- Research and confirm the property's legal boundaries
- Agree a drawdown & completion date to settle the previous loan(s).



Most lenders will be prepared to accept your choice of conveyancer, as most experienced solicitors will have acted for the lender in question before. However, it can be best to check beforehand.

### CREDIT REFERENCE AGENCIES

These agencies hold information on most UK adults. That data helps lenders assess the risk of lending to a specific person. There are a number of agencies in the UK, the main ones being Experian, Equifax, Callcredit and Checkmyfile. You can request a copy of your credit file from them, which is very worthwhile. You may be charged for this and some also have a monthly fee, so take care to check their terms and conditions.

### CREDIT SCORE

To help a lender assess your application, it is usual that they will use a form of scoring system to decide whether to accept your application. Different lenders give different levels of importance to your circumstances, and some set a higher pass mark than others

It is normally based on three core areas

- Public record information (e.g. the electoral roll),
- Credit account information (e.g. records of amounts of loans and your payment history), and
- Search information (e.g. the number of applications you have made for credit).

This means that care is required to ensure you approach the most suitable lenders, as an application will be recorded as a search (even if unsuccessful) and can then influence other lenders' decisions.

- Check your credit file – the information isn't always accurate and you can ask the agency to correct any inaccuracies
- Make sure you're on the electoral register – lenders can be a bit suspicious of anyone not registered to vote
- Check your address is current on all your credit, bank and mobile phone accounts – you don't want to give the impression that you have more than one address
- If you have credit cards you don't use, close the accounts - having several credit cards can count against you
- If you've never had credit in the past, apply for a credit card so you can build a credit score

- Make sure you pay all your bills on time - being only a few days late can result in a default showing on your credit file
- Avoid using payday loans - it will make you look like someone who can't manage money.

### CRITICAL ILLNESS COVER

This is insurance that pays out when a defined medical event occurs. For example, following a heart attack, stroke, cancer or some other specifically defined critical illness.

Cover is for a set term, which may be equal to a mortgage term, for when children have grown up, until retirement or another life stage milestone. It may be worth considering having one policy for a set term to cover the mortgage, and another that will provide money to help provide for your different lifestyle if a serious illness happens.

Most people choose a lump sum to be paid out. There is the option of receiving it as set income over the term remaining, which is often a lower cost option.

### DEPOSIT

Lenders are no longer happy to take all the risk of buying your new home, and so do not lend 100% of the value of the property. If you are unable, in the future, to pay your mortgage, the lender needs reassurance that it can take your home and cover the loan by selling it.

Less risk taking means lower loan-to-value (LTV) ratios, and personal deposits need to be larger than in the recent past.

You will need typically 20% to access the most competitive interest rates on the market.

The source of the deposit may come from your current property, savings, inheritance or a gift. Be aware that deposit loans from family and friends can still not be accepted as a source of deposit by some lenders, or can influence how much they may lend you.



## DISCLOSURE

It is a legal requirement that you disclose your circumstances fully and accurately. Also, non-disclosure of credit commitments, missed payments, County Court Judgements (CCJs), accurate address history, and number of dependents will have a big impact on your application now and also on any future application for financial services (as evidence of this may be loaded onto fraud databases).

Disclosing any issues to a lender does not automatically mean the application will be declined - indeed many lenders have provision for this type of business.

You may wish to consider obtaining a credit report to identify any historical or current credit issues, as well as check your past address history.

## DRAWDOWN

During the completion stage, this is when funds are released from your lender to be used for the property purchase.

## EARLY REPAYMENT CHARGE

This is normally shown as a percentage of the loan but can also be a fixed fee. They apply if you repay your loan during any special incentive periods (e.g. discount). Some products extend that time beyond the initial period so be aware. Part payments can also sometimes trigger this, although most lenders allow a small percentage a year to be repaid without this happening.

## EQUITY

The difference between the value of your home and your outstanding mortgage is known as equity. You could use the equity in your home as your deposit for your new mortgage. Less risk-taking by lenders means lower LTV ratios, so the more equity the better. If you get into trouble making your mortgage repayments your lender needs to be sure it can cover the outstanding mortgage by taking your home and selling it. The lower the LTV the more chance your lender has of achieving this.

To get the best deals on interest rates you'll need around 20% equity. As a rule, the more equity you have, the lower your interest rate.

## FAMILY INCOME BENEFIT

This cover will pay out if death occurs, and provides an income per year for the term remaining on the policy. For example, for a 20 year term, where the claim occurred after five years, there would be 15 annual payments made in total.

The payments are not normally subject to income tax but may impact some state benefits.

## GUARANTOR

A guarantor doesn't have to be a parent but usually is. A guarantor takes on some of the risk of you being unable to meet your repayments. The lender will normally require your guarantors to offer their property as security against the guaranteed part of the mortgage.

Technically they become immediately liable to repay the outstanding loan if you are no longer able to make your payments. In reality what usually happens is an agreement is made between the lender and the guarantor, so they maintain payments until you are able to do so.

The amount of lenders willing to consider this for buy-to-lets is very limited.

## HIGHER LENDING CHARGE

This was previously known as a mortgage indemnity guarantee (MIG). It is where high LTV lending happens and an insurance policy is taken out by the lender to protect itself - should you default and property values decline. This cost is passed on to you through this charge. Not all lenders charge this.

## INCOME PROTECTION

This provides income where you are ill or injured, and as a result your income through employment or your normal route stops. If Houseperson's cover is included, then it will pay out upon illness or injury, irrespective of any income stopping. It is designed to replace most of your net income.

Cover lasts for either a set term in whole years, or to a given age (typically your state retirement age).

The amount you pay is called the premium. It can either be guaranteed not to change, or it can be reviewable. Reviewable cover normally changes based on the claims experience of the life assurance company.



## INDEXATION OF BENEFIT

This is a feature that can be added to some insurance plans. This allows the amount of benefit and cover you have in place to increase during the term of the plan. Increases can be set amounts, or linked to inflation or national average earnings increases.

Normally increases happen at each anniversary. Premiums also increase to reflect the higher level of cover.

## INTEREST ONLY MORTGAGE

With an interest only mortgage, your payments to the lender cover only the interest on the loan (i.e. they do not repay any of the capital). The total amount of your debt does not reduce over time and the full amount of the loan still has to be repaid to the lender at the end of the term, so you will need to ensure you have that money ready.

So you can make this final payment, you can invest so that you generate enough capital to repay the loan at

the end of the term. If you choose to invest, some investment vehicles can have tax advantages and when you move or remortgage, your investment vehicle can usually be reallocated to the new mortgage.

However, there is no guarantee that your chosen investment vehicle will grow sufficiently to repay your loan (although you can usually top up your contributions to investments as you go along if this looks likely to be the case).

## LEGAL FEES

When you buy or remortgage a property there is legal work that needs to be done. You will often hear this called conveyancing. You will probably use a solicitor to do this work for you although you can use a licenced conveyancer.

Your legal bill will be the fees for the legal work plus other expenses that your solicitor has paid on your behalf, such as searches and Land Registry fees. You may see these additional expenses described as disbursements.

Some remortgage deals may include free conveyancing, otherwise expect to pay around £500 + VAT for the legal work plus the cost of disbursements.

## LETTING AGREEMENT – BUY-TO-LET

The type of tenancy agreement will influence the number of lenders who will consider lending to you. A six month assured shorthold tenancy agreement (AST) is acceptable to most providers. Your choice will narrow if you are considering to let to a local authority, a company or housing association.

## LIFE COVER

This is cover that pays out on death. Some plans pay upon earlier confirmation of a terminal illness where the prognosis is death within 12 months. It can pay out as a lump sum, or as income for a set period.

Cover can last for a set term called Term Assurance, or can last throughout life, called Whole of Life.

The amount of cover can remain the same or increase / decrease annually. Level term assurance stays the same throughout. Decreasing cover is sometimes used to cover a reducing debt, such as a repayment mortgage and usually assumes a given interest rate. Provided your mortgage rates don't exceed that rate, then the cover should reduce at around the same rate as the mortgage.

The amount you pay is called the premium. It can either be guaranteed not to change, or it can be reviewable. Reviewable cover normally changes based on the claims experience of the life assurance company.

## LOAN-TO-VALUE (LTV)

This is shown as a percentage rate, and is the amount of loan compared to the value of the property. The higher the loan-to-value (LTV) the lower the deposit required, but typically also the higher the rate of interest payable. See also 'Deposit'.

## MORTGAGE ARRANGEMENT FEES

Unless you choose a lender's standard variable rate mortgage you can expect to pay an arrangement fee for your mortgage. Arrangement fees vary wildly, and may be expressed as a fixed fee or as a percentage of the loan. This means it is difficult to give an accurate estimate but it is not unusual to pay something in the range of £500 – £2,000 or more.

You will usually have the choice of paying the arrangement fee up front or adding it to the loan. Adding it to the loan may ease your cash flow but will cost you more as you will pay more interest.



## MORTGAGE TYPES

| TYPE OF MORTGAGE INTEREST OPTION    | DESCRIPTION  | ADVANTAGES   | DISADVANTAGES  |
|-------------------------------------|--|--|--|
| <b>Standard Variable Rate (SVR)</b> | Your monthly repayments rise and fall in line with changes in your lender's standard variable rate of interest, not necessarily linked to the Bank of England base rate.   | The lender does not usually charge an arrangement fee.<br><br>There are usually no penalties if you redeem the mortgage – often called early redemption penalties. | You have no certainty over monthly repayments.<br><br>Initial monthly repayments will be more expensive than other options with an incentivised rate for an initial period.  |
| <b>Discounted Rate</b>              | Your lender gives you a discount against its SVR for a set period of time. It will normally revert to SVR after the initial period.  | Repayments are lower than an SVR mortgage.   | You have no certainty over monthly repayments.<br><br>The lender will usually charge a one-off arrangement fee.<br><br>There are usually early redemption penalties should you wish to redeem the mortgage during a period set by the lender.  |
| <b>Fixed Rate</b>                   | The interest rate is fixed by the lender for a set period. It will normally revert to SVR after the initial period.  | Your monthly repayments stay the same even when interest rates rise.<br><br>You can budget knowing what your monthly repayments will be.                           | Your monthly repayments stay the same even when interest rates lower.<br><br>The lender will usually charge a one-off arrangement fee.<br><br>There are usually early redemption penalties should you wish to redeem the mortgage during a period set by the lender.                                     |
| <b>Base Rate Tracker</b>            | During a set period the interest rate tracks the Bank of England's base rate. The interest rate is expressed as base rate + x%.<br><br>The monthly repayments change every time the Bank of England changes interest rates.<br><br>Some are 'Stepped Trackers' where the margin between base rate and SVR changes at the mortgage anniversary. | You benefit immediately from any reduction in interest rates by the Bank of England. Usually repayments are lower than an SVR mortgage.                            | You have no certainty over monthly repayments.<br><br>You suffer immediately from any increase in interest rates.<br><br>The lender will usually charge a one-off arrangement fee.<br><br>There are early redemption penalties should you wish to redeem the mortgage during a period set by the lender. |





| TYPE OF MORTGAGE INTEREST OPTION | DESCRIPTION  | ADVANTAGES  | DISADVANTAGES  |
|----------------------------------|--|---|--|
| <b>Current Account</b>           | <p>A single account from which you run your day-to-day finances and your mortgage.</p> <p>It is like a current account with a large overdraft facility secured against your property.</p>  | <p>The lender calculates interest on the current debit balance.</p> <p>There are no fixed monthly repayments; you can overpay, underpay or take payment holidays as long as the debt is within your agreed borrowing limit.</p> <p>Your savings effectively earn interest at the mortgage rate.</p> <p>You effectively have a credit facility where you only pay interest at the mortgage rate.</p> | <p>The lender will usually charge a one-off arrangement fee.</p> <p>The flexible repayment nature means you need self-discipline to ensure you repay the mortgage by the end of the term.</p> <p>If you are not a higher rate tax payer or have substantial savings, you may be better off with a more traditional option that has a lower interest rate.</p> <p>Also, other interest options sometimes allow overpayments and offer better rates.</p> |
| <b>Offset</b>                    | <p>A similar idea to the current account mortgage but without a single account.</p> <p>Essentially, your mortgage debt is notionally reduced by the balance in your savings account; you pay interest on this notionally reduced debt.</p> | <p>You pay interest on a lower balance than with a traditional mortgage.</p> <p>You can usually overpay, underpay or take payment holidays as long as the debt is within your agreed borrowing limit.</p> <p>Your savings, effectively earn interest at the mortgage rate.</p>  | <p>The lender will usually charge a one-off arrangement fee.</p> <p>The flexible repayment nature means you need self-discipline to ensure you repay the mortgage by the end of the term.</p> <p>If you are not a higher rate tax payer or have substantial savings, you may be better off with a more traditional option that has a lower interest rate.</p> <p>Also, other interest options sometimes allow overpayments and offer better rates.</p> |
| <b>Cashback</b>                  | <p>A mortgage that pays you an up front cash lump sum of either a fixed amount or a percentage of the mortgage advance.</p>  | <p>Can be useful for first time buyers who may be on a tight budget and could use the cashback for home furnishings.</p>  | <p>There are redemption penalties should you wish to redeem the mortgage during a period set by the lender. The rate is often SVR or very close to it.</p>   |



|                                 |   |  |  |
|---------------------------------|---|--|--|
| <b>Capped</b>                   | <p>The rate will not rise above a certain level for a set period.</p>   | <p>Offers similar security to the fixed rate.</p> <p>Initial rates are usually competitive.</p>  | <p>The lender will usually charge a one-off arrangement fee.</p> <p>There are early redemption penalties should you wish to redeem the mortgage during a period set by the lender.</p> <p>Rates are often higher than a fixed rate, and caps are normally only two or three years.</p>   |
| <b>Droplock / Switch to fix</b> | <p>A discount or tracker mortgage, which has an option to switch to a fixed rate at any point within the initial discount or tracker period without paying any early repayment charges.</p>   | <p>Benefits from base rates when they are low, with the option to switch to the protection of a fixed rate should interest rates look set to rise significantly.</p>     | <p>There can be an arrangement fee when this is exercised.</p> <p>There may not be a fixed rate product available at the time the borrower wishes to switch.</p>   |
| <b>LIBOR</b>                    | <p>Linked to the London Inter-Bank Offered Rate. This is the rate commercial banks lend to each other, and set every day for different periods.</p> <p>(whereas Bank of England would change at most once a month).</p> <p>Most popular is the three month LIBOR. It is set for a three month period, and when this expires it is set for another three months. So in a year it will change potentially four times.</p> | <p>Historically LIBOR can be slightly lower than Bank of England base rate.</p>  | <p>You have no certainty over monthly repayments.</p> <p>You suffer immediately from any increase in LIBOR rates, and there is no guarantee that it will not be higher than Bank base rate.</p> <p>The lender will usually charge a one-off arrangement fee.</p> <p>There are early redemption penalties should you wish to redeem the mortgage during a period set by the lender.</p> |
| <b>Foreign Currency</b>         | <p>A mortgage that is not in the same currency as your main income. This means it applies to UK property and not only to properties abroad.</p>   | <p>If currency exchange rates move in your favour, then the value of your debt can decrease. This can impact it more than interest and repayments in the short term.</p> | <p>Changes in the exchange rate may increase the Sterling equivalent of your debt and repayments, even if interest rates remain the same.</p> <p>Good practice suggests factoring in at least a 20% change in currency values.</p>   |



## OFFER

Obtaining a legal mortgage offer is the positive result of your new lender finishing their assessment (underwriting) process of you and the property. A mortgage offer is normally required by your conveyancer before moving to the next stage. Please note, that although extremely rare in reality, a lender reserves the right to withdraw your offer at any point prior to completion.

## ONE-OFF COSTS

When you remortgage you can incur certain one-off costs that can add up to a significant amount of money. These include legal fees, valuation/survey fees, and mortgage arrangement fees (see other sections for details).

## PERSONAL INCOME

For buy-to-let remortgages, most lenders will first look at the rental income, yield and property value to assess your application. They are also likely to look at your personal income and expenditure to satisfy themselves that mortgage payments can be met in the event of a rental void.

For both residential and buy-to-let, in order to assess whether you loan is affordable, lenders will look at your current and predicted expenditure. This is of course reliant on your income. Lenders will assess your income looking at areas such as:

- Source - (employed, self-employed, investments, dividends)
- Frequency of payment
- Consistency
- Gross and net levels of income
- Bonuses – some lenders do not include this as income as it is not guaranteed. Others may only allow a percentage of bonuses to be included in assessing your affordability
- Time in your current role.

Different lenders place different emphasis on these criteria when assessing you, and so using the expertise of a mortgage adviser is vital to ensure you approach the right lenders.

## PRIVATE MEDICAL INSURANCE

This is insurance that pays the hospital or Doctor for your treatment. It can include treatment in a private ward, or being seen earlier in an NHS ward. Some plans also allow you to claim if you are not able to be seen by the NHS within a set period. Other plans may charge a little more and don't have any link to NHS waiting times.

You are either medically checked and underwritten at outset (so you know what you're covered for and what you won't be), or have no medical checking at outset (but conditions that occurred two years before taking out the cover are not covered, and often there is no cover for a reoccurrence within five years after taking out the plan).

Premiums are usually reviewable annually.

## PROPERTY TYPE

Some properties such as flats over commercial properties, studio flats and ex-local authority premises can be viewed as having reduced future attractiveness and as such some lenders may not operate in that market. This may restrict your lending options.

Listed buildings (e.g. Grade 1, Grade 2) may have restrictions on how you can maintain or alter the property as well as buildings near to it (e.g. garage). Some unlisted properties can also be subject to similar restrictions (e.g. in an area of outstanding natural beauty).

If you remortgage, you maybe tempted to extend the end repayment date in order to lower your monthly payments. However this means that the amount you repay overall increases over time.

## RENTAL YIELDS - BUY-TO-LET

What may be a suitable return for you, may not be seen the same way by a lender.

Typically minimum rental yields are formulaic and driven by two things:

1. The rate used to calculate the mortgage payment
2. A percentage over-ride to allow for any rental void or increases in short term interest rates which might impact your personal finances (these range between 100 – 130%).



## RENTAL VOIDS – BUY-TO-LET

You need to ensure you have enough personal income and resources to maintain payments if your property becomes vacant. This is because your monthly payments to the lender will continue irrespective of your rental situation.

## RENT GUARANTEE INSURANCE – BUY-TO-LET

A tenant that falls into arrears can jeopardise your ability to meet your mortgage repayments. If you fall into arrears with your mortgage repayments you risk losing your property. Rent guarantee insurance covers you if tenants default on their rent and protects your ability to pay your mortgage. Some also cover any associated legal costs.

## REPAYMENT MORTGAGE

With a repayment mortgage your monthly repayments cover both capital and interest on the loan.

As the term continues, the amount outstanding on the loan reduces so the full amount of the loan will have been repaid at the end of the term as long as you have maintained payments.

No other repayment vehicle is needed and it avoids the risk of investing (e.g. in the stock market).

If you remortgage, you may be tempted to extend the end repayment date in order to lower your monthly payments. However this means that the amount you repay overall increases over time.

## RISKS – FOR ALL PROPERTY OWNERS

As with all investments, the value of a property can go down as well as up. Future housing or commercial development nearby, transport links and route changes can all impact value. Past performance is not a guide for the future. If your mortgage loan exceeds the property value, you will have negative equity. Also factor in the costs of selling, such as using an estate agency, into your net value.

Unforeseen structural problems could prove expensive, so budgeting for regular maintenance is crucial, as is having the right level of buildings insurance.

Interest rate rises can also impact your repayments, and while you may be protected in the short term (e.g. fixed rate), you will be exposed to a different market at the end of any initial period.

The biggest risk to you is being able to maintain payments if your income is effected in any way. This may be through redundancy, accident, illness or death. As your adviser we will be able to reassure and advise you about what would happen in your individual circumstance so that you do not lose the family home.

## RISKS – BUY-TO-LET

Rental income from buy-to-let properties can vary: if the market is saturated with rental properties, your annual income may remain static or even fall. The condition of your property will also impact your rental levels. You need to build leeway into the rent to allow for periods when the property might be empty between lets (it takes on average four weeks to let a property), and to cover maintenance costs. You should also bear in mind the possibility of rent control being introduced by the Government, which may cap your rental income. If interest rates were to rise more than a corresponding increase in rental, then that could impact your ability to pay your mortgage.

The more cautious investor might prefer to borrow less. You should aim for a rental income of between 1.3 and 1.5 times the monthly mortgage payments.

Many people are put off buying-to-let by the thought that they will have to spend a lot of time fixing problems such as broken washing machines or dealing with tenants who default on payments. A good agent can take care of everything, from finding tenants and checking references, to managing an inventory and dealing with unexpected problems like burst pipes (although there is of course a cost for this).

We recommend that those landlords intending to use a letting agent use a member of the Association of Residential Letting Agents (ARLA) or a similar reputable trade body. These agents may provide practical assistance with general property management. Their services typically cost from 10% to 15% of annual rents excluding VAT, which is often taken up front for the full term and so can impact your cash flow initially.

Agents can also advise on tenancy agreements. Most lenders require you to have a six-month, assured shorthold tenancy agreement with your tenants. You may also find it more difficult to arrange finance if you are planning on letting to students, or for more irregular tenancy periods, such as holiday lets or company lets. You may also have difficulties if you are planning on letting to a DSS tenant.



## SELF-EMPLOYED

It is more difficult to get a remortgage if you are self-employed, when compared with employees. Self-employed people often have more erratic incomes and find it more difficult to prove their incomes.

In the past, self-employed people got round the problem of proving income by using self-certification mortgages, where you would state your income and a lender would take it on trust. However, too many people took out mortgages they couldn't afford and these loans are no longer allowed.

All lenders will want to see proof of your income, often looking to see a track record over three years or more. That way it can take an average figure and smooth out any spikes.

Proof can take the form of accounts and tax returns, and the SA302 supplied by the HMRC.

Please remember that income means profit not turnover - if you've legitimately suppressed your profits to minimise income tax, this will work against you when applying for a mortgage.

The number of lenders also gets limited if your self-employment is based on being a professional landlord. This is because some lenders see this as a higher risk, as your income is related to the very thing you are mortgaging.

Self-employed mortgages are a bit of a minefield and you really need access to expert knowledge and contacts. We can help you.

## TAX IMPLICATIONS – BUY-TO-LET

The UK Government in 2015 announced a new way that tax relief on mortgage interest payments and expenses will be treated for buy-to-let investors. From 6 April 2020, tax relief for finance costs will be restricted to the basic rate of income tax, currently 20%. Relief will be given as a reduction in tax liability instead of a reduction to taxable rental income.

The disposal of a buy-to-let property may be subject to capital gains taxation. You should seek professional specialist tax advice about this.

## TENANTS – BUY-TO-LET

Not all lenders will allow students or DSS tenants, so consider carefully the type of occupant you wish to

attract, as it may limit the number of lenders willing to lend to you. Be aware that there could be difficulties with tenants who breach agreements impacting upon time and legal fees, as well as income.

## VALUATION AND SURVEY FEES

Before a lender will grant you a mortgage it will insist on a valuation to prove the property is worth what you're paying for it. The size of the valuation fee will vary by lender and property value but for a property costing £200,000 expect to pay around £200 (source: Halifax Building Society January 2018).

The basic valuation is for the lender's benefit so that it feels comfortable lending against the property. If your property is rented out, then a rental assessment will also be required.

You may feel you want to add a survey to the valuation that gives you a report on the general condition of the property. Costs vary but for a valuation and survey on a house costing £200,000 expect to pay around £445 (source: Halifax Building Society January 2018).

If you are buying an older property or one in a general state of disrepair you may choose a full structural survey.

This is a thorough survey that examines the structural condition of the property and gives you advice on repairs. Depending on the property expect to pay between £500 and £1,000.

Obtaining comparable examples in the same area and for similar property will help you obtain a benchmark.

For buy-to-let remortgages, your valuation will also need to include rental expectations as compared to a normal mortgage residential valuation.

## WAIVER OF PREMIUM

This is a feature that can be added to some insurance plans. Should you become disabled, or seriously ill and unable to pay the premiums of a plan, this cover can pay your premiums for you.

There is normally a period before this benefit starts where you need to continue paying premiums (a deferred period). Once the deferred period has passed, you will have your premiums paid for you.

**THINK CAREFULLY BEFORE SECURING OTHER DEBTS AGAINST YOUR HOME. YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.**