

## Case Study

Harry Aniceed is looking to purchase a two-bedroom flat to rent out. It will be his first buy-to-let purchase. The property is on the market for £180k and he has a 10 per cent deposit available. He and his partner's yearly earnings equal £70k and he already has a £215k mortgage on his own residential property. Firstly, is this deposit enough to secure him some of the better deals in the marketplace and secondly, what should his considerations be when purchasing this buy-to-let?

"Historically buy-to-let lenders were only prepared to lend up to a maximum of 85 per cent of the property purchase price or valuation (in this case £153,000). This was largely because of the risks involved with lenders issuing vast sums of money to borrowers who would not be using the purchase as their main residential property. The buy-to-let market however has continued to grow – figures from the CML show that lenders have advanced over £9.9 billion in new buy-to-let mortgages in the first half of 2005.

There are some lenders who have taken a fresh approach to how they assess buy-to-let cases and are prepared to consider loans over 85 per cent LTV with Preferred being one of them. It currently has a product that enables prospective borrowers to take up to 90 per cent LTV (this is an exclusive product available through AToM). Borrowers who are purchasing can make use of a two-year stepped discounted deal which tracks LIBOR plus 2.39 per cent (year one discount of 1.50 per cent then year two discount of 0.5 per cent). Rental income will need to be 120 per cent of the initial pay rate, i.e. 5.47 per cent. The maximum loan on this product is £250k and borrowers will need to prove they earn a minimum of £10k.



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MIG is charged at 6 per cent from 75 per cent LTV and the product also carries the following early repayment charges: 5 per cent/5 per cent/4 per cent.

If Harry wishes to try to secure a better deal then he will have to see if he can raise a further £9,000 to reduce his LTV from 90 per cent to 85 per cent. He may wish to do this by capital raising on his existing property (assuming he has the equity available) but if he does then he will need to speak to his partner to get their consent before going ahead as it is not clear if the buy-to-let purchase will be in joint names.

Buying any property as an investment should not be taken lightly as, like any borrowing, if interest rates rise and payments increase then it will not seem so attractive; hence landlords need to consider more than just the potential rental yield and not enter this market for short-term gains. For example, they should ensure their monthly outgoings can be covered even when the property is in-between tenants. Whether or not buy-to-lets are a good investment remains a matter of opinion; however, factors such as location, debt serviceability and rental attraction should still be key considerations for any potential buy-to-let investor."