Case Study

Rodney Dangerfield is looking to rent out his two-bed London flat. He wants to remortgage to a buy-to-let. His current repayment mortgage is £215k (with no ERCs) and his flat is valued at £260k. He has checked with letting agents and expects to get £250-£260 per week in rent. What needs to be considered before renting his property? What products are available and what sort of mortgage payment will he be making?

"As Rodney is looking to convert his existing residential property to a buy-to-let and purchase a new property for himself, the remortgage would be assessed on a let-to-buy basis.

Although Rodney has ascertained the value of his existing property, this value will need to be verified by the valuer. Rodney can either choose to approach his existing lender to see if they would consider a remortgage to a buy-to-let basis or approach a specialist buy-to-let lender to take on the property.

There are a number of considerations that Rodney will need to look into before he goes ahead. One of them being that he will need to inform his buy-to-let lender of the property that he wishes to purchase so that they can be assured his income alone will be sufficient to cover the residential mortgage and that he will not be reliant on the income generated from the buy-to-let property to help fund it.

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Mortgage Trust specialises in fully flexible buy-to-let mortgages, currently it has a rate of 4.9 per cent, reverting to 6.37 per cent (LIBOR 4.62 plus 1.75). This product also carries a £699 arrangement fee which can be added to the loan. Applicants need to be able to show a 12-month payment history and be earning a minimum of £25,000.

The maximum he could borrow on a BTL basis would be 85 per cent LTV, in this case £221,000. If Rodney did decide to take the maximum percentage on the property, he would need to receive £1,128 per month (based on 4.9 per cent pay rate with Mortgage Trust, on 125 per cent rental calculation."