

Case Study

Stephanie Arnold is a recent graduate looking to buy her first property in Sheffield. Her salary is £18k pa and she is looking at a three-bedroom property valued at £85k. She has a £10k deposit and would like to rent out two of

the bedrooms for £65 per week. There is also the possibility Stephanie could continue to live at home with her parents and rent out all three

rooms. She currently banks with HSBC who offer a graduate mortgage but what are her other options? Her parents are willing to act as guarantors.

"If we apply typical income multiples to this case (i.e. 3.25 times Stephanie's salary) this gives scope of borrowing of up to approximately £59,500 but ideally a 4.7 times income is required to yield £75,000 borrowing capacity. In this scenario a lender would have to be willing to assess Stephanie's ability to service the loan on an affordability basis.

Lenders such as Intelligent Finance, Standard Life Bank and more recently The Mortgage Business (TMB) all look at whether the applicant has the capacity to service a loan once they have taken an overview of their income and outgoings as opposed to applying strict income multiples. This is the route that AToM would initially suggest but there are also other lenders such as Scottish Widows, Royal Bank of Scotland and NatWest that offer graduate mortgages and it may be worth comparing their products to those offered by HSBC.

If Stephanie did decide to continue living at her parents' property and rent her new purchase out then AToM would need to source a buy-to-let lender to assist her. As most buy-to-let lenders require a 15 per cent deposit, Stephanie would need to either save up an extra



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£2,750 or ask her parents to help contribute as a gift to avoid complications. AToM has access to some market-leading rates, for example, Mortgage Trust's 5.39 per cent fixed to 31 August 2007, £499 arrangement fee, no extended ERCs and rental calculation based on 125 per cent of initial pay rate.

If Stephanie were to rent out each bedroom at £65 per week the total rental income she would receive would equate to about £780 each month which would more than cover what she would need to pay out for her mortgage. But this would be multiple occupation and restrict potential lenders among other issues.

However if she were to rent out two rooms while being a live-in landlord she would need to enquire of the proposed lender as to the acceptability of the proposition. It would probably be best conducted under the 'rent-a-room initiative' which allows rent of up to £4,250 per annum without affecting Stephanie's tax position. Given the proposal she would need to seek professional advice as the threshold will be exceeded; she would also need to ensure that she follows and adopts correct procedures to prevent creating a binding tenancy."