

BUY TO LET AS AN INVESTMENT PROPOSITION – RISK WARNINGS

Buying to let can be a serious proposition for some people. Potential borrowers should understand that the letting of property is a complicated business and it is important to get appropriate advice.

We are able to arrange the mortgage but cannot give advice on buying to let as a business proposition. Nothing in this leaflet should be taken to indicate that buying to let is a suitable business proposition for any particular person. Before entering this market you are advised to consult your own independent professional advisers generally and in particular on the following matters.

1. Acquisition and Disposal Costs

- These include stamp duty, conveyancing costs and agent's fees.
- There is also the cost of furniture and fittings.

2. Mortgage Loan Repayment

- A **Repayment** mortgage is the only way to guarantee repayment of the loan at the end of the mortgage term and is the most cost effective method over the full term of the mortgage.
- If you intend to set up the mortgage on an **Interest Only** basis, this means that the monthly payments are only repaying the interest on the money you have borrowed; at the end of the term you will be required to repay the full value of the loan. In this case you should have a clear strategy for the repayment of the loan at outset. If you do not have sufficient funds to repay the outstanding balance at the end of the term the lender has the right to repossess and sell your property.
- **Early Repayment Charges.** The recommended mortgage may have early repayment penalties which could be payable should you wish to switch or repay the mortgage in full during the initial period. Please refer to the Key Facts Illustration to ensure you are aware of any penalties on early repayment.

3. Management of the Property

- It is recommended that all applicants let the property through a member of the Association of Residential Letting Agents (ARLA). These agents may provide practical assistance with selecting a property in a suitable locality, advising on rents, location of tenants and general property management.
- The services of managing agents would cost from 10% to around 15% of annual rents excluding VAT. Very often this is taken up-front for the full term of the rental contract and can impact on cash flow.
- It is also possible to insure against loss of rent and to cover related legal costs, which could be around 5% of annual rents.

- Provision should be made for water rates, property insurance, maintenance and sundry expenses.

4. Political and Economic Factors

- Applicants should bear in mind the possibility that rent control for Assured Tenancies could be introduced.
- There could be a fall in the value of the property – past performance is not necessarily a guide to the future and the value could go down as well as up. In the future, this could mean that your mortgage loan exceeds the property's current market value, i.e. you could be in a 'negative equity' situation.
- There could be a decrease in rental income due to adverse economic conditions or as a result of a substantial increase in the supply of rented accommodation in a particular area. Rents will also be affected by the location and condition of the property.
- Interest rates could increase on any mortgage taken to acquire the property without a corresponding increase in rental income to cover the interest.

5. Business and Investment Factors

- There could be difficulties with tenants in breach of tenancy agreements, including failure to pay rent and in obtaining possession under the relevant legislation.
- There may be periods of rental void when the property is not tenanted and so no rent is receivable.
- Investing in a single property can result in a lack of spread which should not usually be contemplated where the applicant does not already have a good spread of investments in his or her overall investment portfolio.
- The lower the sum borrowed the more the rental income is likely to exceed the expenses and outgoings.
- It will not normally be in the applicant's interest to realise, cancel or surrender any existing investment in order to purchase a property to let.

6. Tax

- The disposal of the property may be subject to capital gains tax under current legislation.
- The rental income will be liable to income tax; it may be possible to offset the loan interest against some of the rental income when calculating the taxable income.
- Appropriate advice should be obtained from the applicant's accountant on the taxation of letting a property.

7. Buy To Let Mortgages and Your Rights

- The FCA has been responsible for regulating most mortgage sales from 1ST January 2013.
- You should note that we are arranging a "Buy-to-Let" mortgage for you. It is very important to understand that very few Buy-to-Let mortgages are regulated by the FCA.
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