

This article has been reproduced from the September 2017 issue of Property Investor News™. To receive a sample copy go to: www.property-investor-news.com or contact us on 020 8736 0044

BTL Lending Changes



Simon Allen, of Searchlight Finance, comments

The anticipated second part of the PRA (part of Bank of England) changes are now with us and all lenders will be implementing this from 30th September. As a reminder, the PRA recommended various changes to lenders in two stages.

The first part in January was tougher affordability as the lenders had to assess an applicant's tax liabilities when deciding how much to lend. This increased the rental cover rate for assessing buy to let mortgages from 125% on a 5% rate to 145% cover at 5.5%. There were two exceptions 5-year fixes and borrowing within a limited company.

The second part was for each lender to have a separate policy for portfolio landlords and we have been eagerly awaiting the lenders interpretation of the guidelines as they were quite vague.

Portfolio landlords

A portfolio landlord is anyone who owns personally or within a limited company four or more mortgaged properties (excluding your main residence). Historically, a lot of lenders just looked at the property they were being asked to lend on. Now it's the whole portfolio they must assess.

Many lenders are already set up to do this, but others are behind or don't want to be in this market. If you have obtained finance from the high street or a challenger bank then a lot of this information will already have been provided, so there won't be too much additional work for you.

Over the last few months lenders have had to decide on a Yes or No in dealing with a portfolio landlord. Now if you still want to know more get a cup of sweet tea, settle back and read on.

Apart from the odd exception most lenders have been behind locked doors wondering when their competitors will launch their offering. Over the last few weeks more have published the details but there are many lenders who are still hiding. It's not too difficult though to work what is needed.



What will a lender need?

A combination of the following:

1. Asset & Liability Profile
2. Business Plan
3. Portfolio Schedule rental cover
4. Cashflow Forecast
5. Proof of Income
6. Personal Expenditure
7. Bank Statements

So next time you go to the shops, get some extra ink and paper, a book on spreadsheet formulas and find a darkened room, as if you are not used to this there is now a lot of work to do. The good news is once you've done it you just need to update it on a regular basis.

Let's go through each one to see how lenders and brokers who understand this market will help you

Statements of Assets & Liabilities

Not too much of an issue as all my clients provide me with this within the fact find document. It's a breakdown of what you own and what you owe with a total.

Most lenders are producing their own templates to help you and the information can be gathered quite easily. What will be important (and more on this later) is accurate balances and values, especially of the property(s) that you own.

Business Plan

I've read and produced hundreds of these over the years and take it from me no lender wants to read a 20-page document. The valuable information is on just a couple of pages and usually as soon as it's done it's out of date. Again, lenders have produced their own templates of 2-4 pages to help, although the content does vary.

- ♦ Your background in property and experience to date
- ♦ How you operate - type of properties you buy, who you let to, do you do flips, buy and hold, developments, HMO's etc.
- ♦ Investment Strategy - additional income, retire planning, capital appreciation

- ◆ Your background team - letting agents, solicitor, accountants, property management, broker
- ◆ Void periods, evictions, court action. How you managed them and how you will avoid them in future
- ◆ Tenant profile e.g. professionals, working, students LHA, serviced accommodation, holiday lets
- ◆ Future strategy - is it capital growth, a certain yield, conversions, how many will you buy/sell? What areas are you looking at? What is good or bad about the location you are buying in?
- ◆ How much money do you want to borrow over the next 12-18 months and what is it for? Where will your deposits come from?
- ◆ List all companies you are involved with by ownership or directors along with any inter-company liabilities
- ◆ Any restructuring plans for business including incorporation/partnership and when you will do it.

Portfolio Schedule

Again, lenders are helpful as they all have their own templates although they all require different information and whilst most of you will have your own version it now must be on a spread sheet with one property per line.

Key information is owner, full postal address, date of purchase, original purchase price, current value, if mortgaged who to, monthly mortgage payment, lender's interest rate, type of product (fixed, variable, tracker and expiry date of product) monthly rent, is it an HMO, number of beds, is it currently let, start date of tenancy, type of tenancy i.e. fixed term or periodic, are you looking to increase the rent and if yes what date and proposed rent, do you use a rental agent and monthly expenditure on the property.

Now before you reach for your tranquillisers, not all of this will be needed by every lender. This is taken from four lenders templates so it's best to have an idea of the answers.

Now the interesting part: what will the lenders do with all this data? Some are going to key all the information into new software which as well as doing calculations on LTV and rental cover will also from various sources check the outstanding mortgage amount, value and market rent. This document will be a major part of the process.

Some lenders will want to see the rental calculation covering all the mortgaged properties and will want to see an average

LTV across the portfolio. I've seen this as low as 65% and up to 80%.

Cashflow Forecast

Yes, there is a template for this as well and at your year-end or when doing your tax returns you will have all this information. Most lenders want the last 12 months and the current 12 months. I suggest you work off your year-end figures and then capture this information monthly.

Income – rental income, personal money used as deposits, funds received from mortgage companies, any grants

Expenditure – purchase cost, mortgage interest, tax owed, letting agent's fees, legal and professional fees (Valuation, accountancy, broker), service charge and ground rent, insurance, maintenance and repairs, home improvements, council tax, utility bills, advertising & marketing, cleaning, gardening, travelling, office costs, etc.

“ Not all lenders will want everything outlined above and you will probably have most of this information already to hand ”

Proof of Income

This is needed for a three-year period. They must be either annual accounts, if you operate as a limited company, or a tax year calculation (SA302), tax year overview and the actual return.

Try and get your current tax return completed within six months otherwise the previous year will be out of date.

The lender will use this information to cross reference to your portfolio schedules and rent received in your bank statements. If you own ten properties in your personal name then some lenders will be looking for this number on the tax return and each rental payment showing on your personal bank statements.

Personal Expenditure

There is another template for this and it is straightforward to do or you can use a budget planner if you have one.

Bank statements

Last three months to include your monthly

expenditure, mortgage payments both residential and BTL, plus receipt of any income including rent.

Which lenders are interested in portfolio landlords?

One of the first lenders who said 'it's business as usual' was Shawbrook back in January. They and other specialist lenders such as Aldermore, Kent Reliance, Precise and Paragon have announced their offerings and will all be very supportive in assisting landlords grow their portfolios.

Aldermore is very clear with its requirement for a business plan and portfolio schedule if you have up to 10 mortgaged Buy to Let properties with them. Over 10 then a cashflow forecast and Statement of Asset & Liabilities are also needed and they will meet you to discuss your needs. Kent Reliance require all four documents and other lenders like Fleet also say it's business as usual with no additional information needed.

Two of the biggest lenders in the personal market, The Mortgage Works and BM Solutions, will be in the market although BM won't deal with any landlord who has more than 10 properties.

The future

Not all lenders have publicly announced what they will be doing so I'm sure that once the new rules are in, lenders will tweak their requirements over the forthcoming year.

I can see new products developed by some of the more landlord friendly lenders and more lenders coming into the Limited Company BTL market. There will be two clear routes for finance based on the properties you own and more experienced lenders with the right information can only be good for the market.

I must stress that not all lenders will want everything outlined above and you will probably have most of this information already to hand. Yes, more work initially will be needed and I strongly recommend that if you are looking for a mortgage from October you speak to an experienced BTL broker now so they can prepare you for what is needed.

At Searchlight we have been doing this type of mortgage for many a year, and cashflow forecasts and business plans for our clients are very common. If you want to see the documents that lenders require then I'd be happy to email them to you. **PIN**