Property & Mortgages

Mortgage providers relax criteria on buy-to-let loans

FEBRUARY 11, 2011

Better mortgage deals are being offered to buy-to-let investors, with one lender now providing mortgages of up to 85 per cent of a property's value – the highest loan to value available to landlords since the credit crunch.

The move comes as more high street lenders look to enter the buy-to-let market, which could see competition in the sector increase and provide more choice for property investors.

Kensington Mortgages, which is owned by Investec, the South African bank, on Monday became the first lender since the downturn to increase its loan to value on buy-to-let loans to 85 per cent. Last week, Paragon, a buy-to-let lender, launched a range of products aimed at smaller-scale landlords looking to expand their portfolios.

Yorkshire Building Society said this week that it was considering offering buy-to-let mortgages this year. Santander has also expressed an interest in entering the market for non-professional landlords.

"Following our merger with Chelsea Building Society, we have an existing buy-to-let mortgage book," explains a spokeswoman for Yorkshire Building Society. "We are currently working on the possibility of pursuing new lending in this area."

This has been welcomed as a positive move for a market that was badly hit by the credit crunch, with lenders pulling out of the sector and the number of products for landlords plummeting.

Now the availability of finance for buy-to-let properties is improving – at a time when the prospects for buy-to-let investment look increasingly attractive. With rents rising sharply over the past year on the back of growing demand, experts believe this could be a good time to invest for the long term.

But there are still very few options for buy-to-let investors with a deposit of 20 per cent or less. According to Nigel Bedford of Largemortgageloans.com, only three lenders –The Mortgage Works (TMW), Clydesdale Bank and Kensington – offer up to 80 per cent of a property's value.

Kensington is only offering one product at 85 per cent loan to value: a two-year fixed-rate mortgage at 5.99 per cent, with a 2.50 per cent fee. It has relaxed its rental cover requirement – the annual rent as a percentage of annual interest repayments – from 125 per cent to 120 per cent.

"It has to be a welcome addition to the current range of buy-to-let products on the market and opens up options for those keen to invest without making such a big capital outlay required of many lenders," says David Hollingworth of London & Country, the mortgage brokers.

However, mortgage brokers warned that the new deal would not be suitable for all buy-to-let investors.

In order for an investor to borrow the full 85 per cent, a property would have to yield in excess of 6.1 per cent, Bedford says. Rental properties in London are unlikely to achieve a yield as high as this. However, experts say landlords with properties in cities such as Nottingham, Liverpool and Manchester, where yields can be 6-9 per cent, will find the deal very attractive.

Landlords will also need to watch out for the high reversion rate at the end of the mortgage period, says Melanie Bien of Private Finance. Under Kensington's terms, borrowers will move on to a variable rate of 5 per cent over Libor –the rate at which banks lend to each other – which would currently give a rate of 5.75 per cent.