

How will the Mortgage Credit Directive affect landlords?

Thanks to changes within the EU, UK landlords are set to encounter new regulations when obtaining buy-to-let mortgages from March 21st.

by Paul Welch, Mar 29 2016, 15:10 BST

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What difference will the mortgage credit directive make to UK landlords?

Things are changing in the world of buy-to-let mortgages. The days of them being unregulated by the Financial Conduct Authority (FCA) are numbered, as there are changes coming into play on 21st March 2016.

This is because of new European Union (EU) rules, which will separate borrowers into two broad categories, namely consumer landlords and professionals looking to make a living from their buy-to-let portfolios.

Originally, these new laws were not going to be introduced in the UK. However, they are now going to make up part of what has been coined the **Mortgage Credit Directive (MCD)**; a scheme that targets the regulation of loans that have homeowners' properties put down as security.

Consumer vs professional landlords

Under the current rules, **buy-to-let mortgages** are treated in a different way to the more mainstream residential property mortgages. This is largely because landlords are usually seen as being business people and therefore deemed to require less supervision over their borrowing. On the other hand, anyone who has a normal mortgage (i.e. not a buy-to-let) on their property is deemed a consumer, and stricter rules, regulations and affordability checks apply so that lenders can make certain they can afford the property that they are interested in purchasing.

As a general rule of thumb, a professional landlord will be someone who is either already renting out property as their main business or has the intention of obtaining a buy-to-let mortgage in order to do so. If dealing within the property market is what you consider to be your main job, then you would be seen as a professional landlord by lenders and would need to declare yourself as such under the new rulings.

Consumer landlords are those who never purposefully bought the property with a view to let it out, hence the term 'accidental landlords'. Accidental landlords are often those who have been left property as part of an inheritance or are simply unable to sell at the time and, therefore, decide to rent the property out.

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Short bio

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What will the changes mean for UK landlords?

The changes that are coming in at the end of March and what they will mean for each individual landlord, will largely depend upon what category they fall into. Those looking to obtain buy-to-let mortgages as consumers may have a tougher time finding the right loan to suit their needs, as there may well be fewer products on the market once the new rulings come into play.

Good news for professional landlords

Professional landlords, especially those at the higher end of the property spectrum, are unlikely to experience much of a change in how they obtain their money and run their businesses. Brokers are already saying that they will operate in much the same way as they do now, so the differences and disruption should be kept to a minimum. After all, many lenders are already providing things such as the key facts document that will be required from 21st March, anyway.

While there may be an air of caution surrounding those who wish to obtain a consumer buy-to-let mortgage, for those who treat the property market as a business, finding funding for their portfolio shouldn't prove to be too much of an issue.

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