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Landlords save with flat-fee mortgages

By Tanya Powley

Property investors and landlords can now choose from a growing range of mortgages with flat fees – after years of having to use buy-to-let products carrying expensive percentage-based fees. Some of these percentage fees have been as high as 3.5 per cent of the loan.

Competition in the buy-to-let mortgage market has increased in the past 12 months, with more lenders entering the market or increasing the maximum loan-to-value ratio they will allow. This has led to a growth in the number of products available to landlords, as well as a wider choice of fee options.

There are now 24 lenders offering a total of 450 buy-to-let deals, compared with 18 lenders offering 250 products a year ago, according to David Whittaker of Mortgages for Business, a buy-to-let broker.

While most buy-to-let rates last year came with a percentage-based fee, figures from the Landlord Centre – another specialist broker – show that the number of these products has fallen. It found that 50 per cent of deals have a percentage fee, 42 per cent come with a flat-fee, while 8 per cent have no arrangement fee at all.

"We are seeing a bigger variety of different fee options," says Andy Young, chief executive of the Landlord Centre.

Among the most competitively-priced flat-fee deals are a two-year tracker mortgage at 3.29 per cent from Godiva Mortgages, the intermediary arm of Coventry Building Society. This deal is available up to 65 per cent loan-to-value and comes with a fee of £1,249.

Meanwhile, Principality Building Society has a two-year tracker at 3.89 per cent for landlords with a deposit of 40 per cent or more. This rate comes with no arrangement fee.

Percentage fees are typically charged on mortgages with the lowest headline rates, but brokers say borrowers should calculate the total cost – interest charged plus arrangement fee – to ensure they are getting the cheapest deal for the size of loan they need. Total costs will vary depending on the size of the mortgage.

However, Nigel Bedford of Largemortgageloans.com says that, right now, the best flat-fee buy-to-let deals will work out cheapest for almost any loan amount.

"I have run comparisons between the best of both [percentage-fee and flat-fee] at varying loan amounts – and fixed fees always come out best, giving the lowest total cost over the term of the initial deal," he says. Bedford says this is true for mortgage amounts as low as £25,000.

For example, calculations by the Landlord Centre show that a landlord borrowing £200,000 would be better off opting for Leeds Building Society's two-year fix at 4.39 per cent with a flat fee of £800 rather than Northern Rock's two-year fix at 3.59 per cent with a 3.5 per cent fee.

Over that two-year period, the total cost of the Leeds deal would be £18,440, versus £21,856 for the Northern Rock product.

Bedford says he only recommends percentage-based deals if they are the only option – in cases where a landlord is ineligible for a cheaper mortgage, due to personal income, rental income or property type.

For certain loan sizes, though, a percentage-based fee can be more cost effective. For example, Accord Mortgages has a two-year fix at 4.19 per cent, available up to 75 per cent loan-to-value. It comes with the option of either a 0.75 per cent fee or a flat fee of £1,300. According to the Landlord Centre, the percentage fee option is cheaper for loan sizes of up to £173,333. For loans above this amount, the flat-fee option costs less, says Young.

Lenders crack down on 'consent-to-let'

Banks and building societies are cracking down on borrowers who rent out properties without seeking permission from their mortgage lender.

Clydesdale Bank has written to a number of customers that it suspects are letting their homes to warn that they may be in breach of their mortgage terms – and have to will be moved on to its standard variable rate of 4.59 per cent.

Lloyds Banking Group will also be contacting customers that it discovers are letting out their property without consent.

While most lenders will allow existing customers to let out their property on a short-term basis – known as "consent-to-let" – their terms and conditions have become stricter since the credit crisis.

For example, Northern Rock will not give consent-to-let if the customer's loan-to-value is above 70 per cent. Other lenders will charge higher interest rates. Yorkshire Building Society and its other mortgage brands – Chelsea Building Society and Barnsley Building Society – will increase the rate by 1 per cent if the loan -to-value is greater than 75 per cent. Otherwise the rate will remain the same.

Nationwide allows borrowers to rent out a property for six months.After that, it charges an additional 1.5 per cent interest and a £50 fee. Meanwhile, Coventry Building Society will increase rates by 1 per cent and allow consent-to-let for 12 months, after which it will transfer the deal onto a buy-to-let rate.

Halifax and Bank of Scotland require customers to take out a specific consent-to-let product, at a higher cost than a standard rate.

"Many existing customers do not tell their bank that they have moved out, so they do not have to pay a fee or have their rate increased," says Aaron Strutt of mortgage broker Trinity Financial.

But this can be risky. A spokeswoman for Yorkshire Building Society Group says it increases rates by 2 per cent for unauthorised letting.