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Lenders target buy-to-let landlords

By Tanya Powley

Landlords have an increasing number of cheap mortgage options as more lenders look to target the rapidly growing private rental sector. But they will still need a sizeable deposit and choice remains limited for those with smaller deposits.

The expanding number of lenders offering buy-to-let mortgages comes as a new forecast suggests that, despite support for home ownership through the government's Help to Buy scheme, the number of renters will continue to rise.

According to Savills, the estate agent, the UK's private rented sector could grow by a further one million households over the next five years. In the 10 years to 2011 the sector grew by two million, with the biggest growth occurring since 2007 – partly because mortgage finance generally became harder to obtain after the credit crunch.

Last week, NatWest became the latest lender to make its buy-to-let mortgage range more competitive. It now offers one of the cheapest two-year trackers and has significantly eased its rental income criteria.

"We are seeing a shift in the buy-to-let mortgage market, with more lenders realising that there are good margins to be made here," said Nigel Bedford of Largemortgageloans.com, the mortgage broker.

This has resulted in nearly all of the best deals being offered by lenders who would not typically be considered buy-to-let specialists. For example, NatWest has the best-buy deal at 2.69 per cent, with a £1,995 fee, for borrowers with deposits – or equity – of 40 per cent or more.

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According to Mr Bedford, seven other lenders offer rates below 3 per cent with reasonable flat fees: Accord Mortgages, Hinckley & Rugby Building Society, HSBC, Coventry Building Society, Abbey, Teachers Building Society and Virgin Money.

"The buy-to-let specialists – TMW, BM Solutions, Leeds Building Society, Precise, Aldermore, Mortgage Trust, Paragon and Platform – are all more expensive on rate, fee or both," said Mr Bedford.

Buy-to-let mortgages (80-85% LTV)

Lender name	Rate	Type	Details	Term	Rev rate	Arrangement fee
The Mortgage Works	4.14%	Fixed		2 year period to 31/12/2015	4.99% (SVR)	2.5% added to loan – (Min £595)
Clydesdale	4.19%	Fixed		2 year period to 31/12/2015	5.35% (SVR)	£1,999 due on completion. – (If fee is added to the loan the total borrowing must not exceed the maximum LTV for the product type)
Aldermore Mortgages	4.48%	Fixed		2 year term	5.73% (SVR+0.75)	2.5% added to loan. (Completion and electronic fees can be added to the loan (excl form LTV – incl in affordability))

Kent Reliance Banking Services	4.59%	Discounted	SVR – 1.99%.	2 year term	6.58% (SVR)	2.5% added to loan
Kent Reliance Banking Services	4.69%	Fixed		2 year term	6.58% (SVR)	2.5% added to loan
Precise Mortgages	4.70%	Discounted	Libor + 4.18%	2 year term	5.50% (Libor+4.98)	2% added to loan
Leeds Building Society	4.79%	Fixed		2 year period to 31/12/2015	5.99% (SVR)	£800 added to loan (no arrangement fee on loans over £500,000)

Source: Mortgages for Business

According to buy-to-let specialist broker Mortgages for Business, buy-to-let rates have been falling in recent months. In July, the average two-year tracker cost 4.03 per cent; today it is 3.90 per cent.

A big change by NatWest has been the introduction of a more attractive rental calculation. Previously, it demanded that rental income covered 125 per cent of the mortgage payments at a rate of 7 per cent – one of the highest calculations in the market. It is now basing decisions on a more normal 125 per cent at 5.25 per cent.

For a landlord seeking a £300,000 mortgage, the lender would previously have required monthly rent of £2,188. Under the new regime, it would require £1,641, says Mr Bedford.

However, while the choice of mortgages is widening for landlords, most of the best deals are focused on landlords with big deposits of 25 per cent or more.

David Whittaker of Mortgages for Business said there are currently only eight lenders that offer buy-to-let mortgages at 80 per cent loan-to-value. Only one – Kent Reliance – has a mortgage product for landlords with just a 15 per cent deposit. It offers a rate of 4.89 per cent with a 2.5 per cent fee.

Criteria on these products remain strict. “For the most part, 80 per cent loan-to-value only really works for high-yielding, low-value properties,” said Mr Whittaker.

According to Mr Bedford, at this level the maximum loan is more often capped by the lender’s rental income calculation than the loan-to-value ratio. “Clydesdale has both the best deal and most generous rental calculation at 80 per cent loan-to-value: 4.19 per cent fixed for two years with a £1,999 fee and the minimum rent needed calculated at 125 per cent of the 4.19 per cent pay rate,” he said.

Others tend to use a nominal 5 per cent interest rate, irrespective of the actual mortgage rate paid. “In practice, it remains tricky getting a buy-to-let mortgage above 75 per cent loan-to-value,” said Mr Bedford.

Private route for £1m-plus loans

Landlords looking to borrow over £1m have less choice of mortgage products, with private banks likely to be the best option.

But mortgage brokers are reporting a pick-up in the number of enquiries for £1m-plus buy-to-let mortgages, usually to purchase prime central London properties.

According to Mr Bedford, there are seven retail lenders who will consider loans over £1m, but this falls to just three for those wanting to borrow more than £2m: Kent Reliance, Shawbrook and Bank of China.

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“We have been receiving more large buy-to-let enquiries and they can often be difficult to place,” said Aaron Strutt of Trinity Financial, the mortgage broker.

Adrian Anderson of Anderson Harris believes private banks tend to offer the best deals for million-pound plus deals. “They do not have strict rental calculations as they look more closely at the borrower than would normally be the case with a standard buy-to-let via a high-street lender,” he said.

Anderson Harris recently arranged a £1m-plus buy-to-let mortgage with a private bank at 2 per cent over three-month sterling Libor.

However, Mr Strutt points out that a landlord’s options shrink further if they are not keen to move their existing banking relationship or they do not want to transfer assets as part of any deal with the private bank.

According to Mr Bedford, rates of about 3.5 per cent are available from private banks without the need to transfer assets.

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