WEALTH MANAGEMENT ALERT

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Buy-to-let investors need to think ahead

Let's face it, the climate for people with buy-to-let investments could be better. The number of buy-to-let mortgage available has dropped 85% in a year (and 40% in a single month, according to moneysupermarket.com). That drop has been partly created by lenders simply withdrawing from the buy-to-let market, but mostly because a number of lenders have disappeared completely from the UK lending scene. These include many non-high street specialist lenders, some of which were funded by American banks and they have packed their bags and returned across the water with their tails between their legs.

The loans that remain available cost more to fix and to service, and are harder to win in the first place, with lenders demanding lower loan-to-value maximums and higher rental cover. What's more, residential property values are generally accepted as falling, with no indication as to when they'll begin to pick up again.

The problems that landlords face will vary according to when they bought their properties, who they borrowed from, and how heavily geared they are. In general, those who invested more than four years ago, borrowing low loan-to-values from mainstream lenders will doubtless find they can re-arrange funding from the small number of options that remain. Most buy-to-let loans are interest only, with investors hoping to make a capital gain on resale rather than paying off the loan.

Tighter lending criteria could lead to forced sale

Most others will face a stark choice when they come to the end of their fixed rate deal. Take the example of someone who borrowed 85% loan-to-value on a two year fixed rate deal from a lender no longer in business. The lender's mortgage book may well have been bought by another lender, whose lending criteria are likely to be different, for instance lending only up to 80% loan-to-value and requiring rental income to cover off 120% of interest. It the investor cannot meet these criteria, the new lender could ask them to take their loan elsewhere. However, they may not be able to find a new deal, in which case the lender could force them to sell the property, almost certainly at a loss. Indeed they could find themselves in negative equity, unable to repay the loan fully with the proceeds of the forced sale.

Forward planning can help minimise losses

Any clients you have with a portfolio of buy-to-let properties should be taking a long hard look at their options and will need some guidance to do that. And how much better would it be to raise this in advance with clients, to give then time to plan instead of receiving that panicked telephone call when the problem arises?

Buy-to-let property should be considered an integral part of investment planning. Investors struggling to find a new deal should look at their other assets – they may discover that they are able to find funding elsewhere. The most straightforward option could be to sell other investments, making a part capital repayment on their buy-to-let loan, and thereby reducing the loan-to-value, bringing them within the lending criteria of the remaining lenders. However, before selling any asset they should consider the tax implications and any penalties they may incur.

In recent years, we have got used to thinking of property as a capital growth investment. The last year has highlighted the dangers of this. Yet in the past, people generally invested in property for the steady income it can produce. It is worth reminding clients of this. For instance, those relying on their property portfolio to supplement their retirement income could consider making regular capital repayments, so that over time the property becomes an income-producing investment.

The mortgage surgeries we run for our accountancy practices partners are proving to be an excellent way to bring these and other mortgage issues to clients' attention, so that they have time to consider the action they can take before being pressurised into a snap decision by their lender. If you are interested in organising a mortgage surgery in conjunction with LighthouseCarrwood, without cost or obligation, please contact Mark Dallas, Managing Director, on 07899 981607 Mark.Dallas@lighthousegroup.plc.uk.

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