

INSIGHT BRIEFS OCTOBER 2021

FINHAWK MORTGAGES LTD

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Specialist mortgages and your holiday let

If you're in the market for a holiday let and need a specialist mortgage, what should you be aware of?

When might you need a specialist mortgage? The clue is in the name – if your situation is different from the normal criteria of a traditional mortgage, then a specialist product could be the answer. This especially applies to people in the market for a holiday let.

When do you need a specialist mortgage?

A specialist mortgage could apply if you're buying a high value home or already have a home and want a second charge mortgage in order to carry out renovations. They could also suit those who are self-employed, looking for a holiday or buy-to-let (BTL) property or people who do not meet the standard criteria for a mortgage. Whatever the reason, seek financial advice from an expert in the specialist mortgage field to find the best deal for your situation.

Holiday lets

When it comes to a mortgage for a property you intend to use as a holiday let, your regular income is considered in terms of the loan value, regardless of the amount you estimate might come in from the eventual rental. This is to ensure you can afford the mortgage payments during times when rents are not coming in, or when you are using the property. Although staying there yourself is one of the advantages of a holiday let, you can't live there on a permanent basis as it would affect the terms of the mortgage.

Some specialist mortgage products for holiday lets offer a maximum loan-to-value (LTV) of a certain amount for the mortgage. So, if your holiday let costs £200,000, and the LTV from the specialist product is 70%, then you will be able to get a loan of £140,000 from your lender and your deposit would need to be £60,000.

Lenders have their own criteria, which could include the following:

- Applicants need to be over the age of 21 and in stable employment.
- Your main income should not come from another rental or investment.
- Borrowers will need to prove their income exceeds a certain amount annually.
- A minimum deposit (usually around 25% of the property value).
- Rental projection from a holiday letting agent may be required, covering off-peak seasonal periods and high-demand times of year.
- The rental property itself must meet certain criteria (for example, being located within the UK and functioning as a single-family dwelling).

Holiday let vs buy-to-let

You might think that there is little difference between a holiday let mortgage and a buy-to-let mortgage (BTL), but there are a few. A BTL mortgage will contain different conditions and requirements, such as the need for an assured shorthold tenancy being in place (AST).

Using a BTL property as a holiday letting – without informing your lender – is a breach of the agreement and could undermine your mortgage contract and credit rating. The main difference between the two types of mortgages is how the loan size is calculated, and the estimates of rent the properties will receive. A holiday let will tend to bring in less rental income due to its seasonal nature.

Furnished holiday lets come with tax advantages that BTL properties do not. They are treated as a business, which means you can claim capital gains tax relief on any profits. Owners can also claim capital allowances to cover the cost of furnishings and furniture, and equipment such as refrigerators and washing machines.

There are more allowable expenses for a holiday let, compared to a BTL, including:

- ✓ letting agents' fees
- ✓ accountants' fees and certain legal fees
- ✓ mortgage interest
- ✓ building and contents insurance
- ✓ maintenance and repairs to the property
- ✓ utility bills, council tax, ground rents and service charges.

Speak to a financial adviser to work out what's best for your situation if you are looking for a specialist mortgage.

Some specialist mortgages are not regulated by the Financial Conduct Authority.

YOUR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE

Get the best out of your BTL mortgage

Many fixed mortgage deals will be approaching the end of their term this October, so it's a good idea to review your buy-to-let mortgage.

With interest rates still at low levels and demand for rental properties increasing around the country, investing in a buy-to-let (BTL) is a popular choice for many.

Buy to let basics

A BTL mortgage is a specific type of product for those who want to buy a property with the intention of renting it. Because of this, there are different terms and rules around a BTL mortgage (compared to a regular mortgage for a property the buyer intends to live in.)

- With a BTL mortgage, the anticipated rental income is taken into account when the lender calculates how much you can borrow.
- A BTL mortgage could suit investors with enough equity to put down a deposit of at least 20% of the value of the property (but some lenders could require up to 40%).
- Your credit record is closely scrutinised with a BTL mortgage, as with a regular mortgage application.

Interest rates for BTL mortgages are usually higher than a regular mortgage.



Things to remember

If you have a BTL mortgage already and its fixed interest rate term is coming to an end, you may be thinking about switching products or providers to gain a better deal. Here are some other things to look out for:

- Examine all of your options into the type of product to suit your investment going forward. A financial adviser is best placed to help you with this.
- Don't forget to research any fees and charges around changing your product too, as these could be higher than you expect.
- When changing products, you may be asked about your property's rental income history in order to assure any new lenders that you are able to keep up with mortgage payments.
- Show that you have sufficient savings to cover any gaps in rental periods when your property could be unoccupied.
- For your own peace of mind, having a cushion of savings available to cover any essential repairs is important.

If you are looking to remortgage your BTL property or are thinking about transferring your mortgage to a different provider, our advisers can help you find a product that best suits you.

Some buy to let mortgages are/is not regulated by the Financial Conduct Authority.



YOUR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE

Unlocking the value in your home

The number of people using equity release schemes fell last year as older homeowners grew more cautious.

Older homeowners seemed to be more reluctant to release cash from their homes in 2020, according to the Equity Release Council. Data from the trade body shows drawdowns from lifetime mortgages fell by 21% last year and 10% fewer plans were agreed than in 2019.

This drop suggests the coronavirus pandemic affected the equity release market in 2020, with activity slipping to a four-year low between April and June. Yet the end of the year was a different story – a backlog of cases meant it was unusually busy, with 11,566 new equity release plans agreed between October and December.

What is equity release?

Equity release enables homeowners who are aged 55 and over to access some of the money tied up in their homes. You can take the money as a lump sum or in several smaller amounts. Many people choose this option to supplement their retirement income, make home improvements or help children or grandchildren get onto the property ladder.

The most common way to release equity from your home is through a lifetime mortgage, which allows you to take out a loan secured on your property, provided it's your main residence. You can ring-fence some of the property value as inheritance for your family and you can choose to make repayments or let the interest roll up. The mortgage amount, including any interest, is paid back when you die or move into long-term care.

Alternatively, you can take out a home reversion plan, which enables you to sell all or part of your home for a lump sum or regular payments. You can continue living

there rent-free until you die, but you'll have to pay to maintain and insure it. You can ring-fence some of the property for later use. At the end of the plan, the property is sold and the proceeds are shared according to the remaining proportions of ownership.

Is equity release falling out of favour?

In 2020, £3.89 billion of equity was released from property, compared with £3.92 billion in 2019 and £3.94 billion in 2018, according to the Equity Release Council (5). These figures suggest people are biding their time before unlocking wealth from their homes, according to David Burrowes, the trade body's chairman (6).

Yet interest rates for lifetime mortgages are now falling, which could encourage people to take the next step. The average equity release interest rate fell to around 4% during the last three months of 2020, with the lowest rates now at around 2.3% (7). This rate is less than many of those available on 10-year fixed-rate mortgages, but higher than a lot of products with shorter fixed periods (8).

Is equity release right for you?

Deciding to release funds from your home isn't a decision to take lightly. While equity release means you have money to spend now instead of leaving it tied up in your property, it can be a complicated process. Remember that equity release often doesn't pay you the full market value for your home and it will also reduce the amount of inheritance your loved ones could receive. It's important to talk to a financial adviser who can help you decide whether the process is appropriate for you.

A Lifetime mortgage is a loan secured against your home. A Lifetime mortgage may affect your entitlement to state benefits, and it will reduce the value of your estate.