

Ten tips for distressed landlords

If you have a buy-to-let, make the most of all the perks and tax reliefs available in this difficult market

Ali Hussain

LANDLORDS coming to the end of cheap two-year fixes face payment shocks of almost £300 a month on a typical £150,000 mortgage, as house prices fall and lenders pull their competitive deals.

The number of buy-to-let mortgages shrunk by almost a third in a single day last week following the withdrawal of Bradford & Bingley, formerly the UK's biggest lender to landlords, from the market. UCB Home Loans and The Mortgage Works, both owned by Nationwide, followed suit. Nationwide said it was a temporary measure as they were inundated after B&B's demise. It expects to resume business for new customers within days.

Others lenders such as Woolwich, owned by Barclays, have increased rates by up to 0.5 percentage points.

Melanie Bien of Savills Private Finance said: "Landlords coming up to remortgage will find the mortgage market less welcoming than before . . . there is less choice, higher rates and tighter criteria."

Here we offer some tips to survive the buy-to-let mortgage meltdown.

SECURE A BETTER DEAL

1 If you took out a fix with a 15% deposit two years ago, the best deal would have been from The Mortgage Works at a rate of 4.89%. On a typical £150,000 mortgage, for a property valued at £176,000, your monthly payments on an interest-on-ly basis would be £611.

However, over the two years average property prices have fallen by around 4%, according to Nationwide. Someone coming to the end of the above deal would have a mortgage debt of £150,000 against a property valued at about £169,000, leaving them 11% equity for remortgaging.

However, there are currently no buy-to-let deals available with such a low deposit. You would need to raise at least £6,350 to get the minimum 15% deposit required.

If you managed to do this, NatWest offers a two-year fix at 6.89% with a £1,499 fee. An interest-only deal would cost £861 per month – a payment shock of £250.

If you are unable to find the additional deposit, you will be stuck on The Mortgage Works' standard variable rate of 7.24%, giving you a monthly payment of £905, or £294 more than you paid on the fix.

You could get a better deal with a larger deposit, say by releasing equity from the home you live in. If your home is worth £300,000 and you release £50,000 using a best buy two-year fix such as Principality's 5.99% deal with no fees, you would pay £249.58 a month. This assumes you have no other mortgage on this property.

By using the £50,000 as a further deposit on the buy-to-let mortgage, you would reduce your outstanding loan amount to £100,000, giving you a better loan to value ratio of 59%. This would give you access to some of best deals such as the Cheltenham & Gloucester (C&G) two-year fix at 5.74% with a 2% fee (£2,000). The monthly interest payments would be £478.33 per month.

FIND A MORE RELAXED LENDER

2 Most lenders require that you cover at least 120%-125% of mortgage interest payments with rental income. But some lenders will offer different methods of calculating this.

Richard Morea of broker London & Country said: "Lenders such as C&G, who can consider both earned and rental income [minus outgoings] in their calculations, offer a valuable alternative where rental income alone does not satisfy lenders."

If you have a property valued at £250,000 with a mortgage of £150,000, you could apply for a C&G two-year fix at 5.74%. This will cost you £717.50 a month in interest. If we assume rental income of £800, you would not qualify for the deal using a traditional calculation as 120% of mortgage payments would require income of £861.

If you had income of £60,000, a £150,000 mortgage on your own home, and another £100 per month outgoing on bills, then C&G would still lend the required amount for the deal. In fact, they would lend up to £211,000 on this basis, according to L&C.

RELIEF ON ENERGY EFFICIENCY

3 From the start of this month landlords have been required to present EPCs, the certificates which tell prospective tenants how energy efficient a property is. Though you may not be able to boost rents by having a more energy-efficient home, your property would be more attractive with a lower EPC rating.

You can get tax relief on up to £1,500 spent on energy efficiency measures such as loft and floor insulation. You can obtain an EPC for about £100 from an energy assessor (hcregister.com) or your letting agent. It will be valid for 10 years.

NEGOTIATE ON THE RENT

4 Rental income is increasing as more people put off buying a property. Rents were 9.3% up in June this year compared with June 2007, according to figures from mortgage provider Paragon. However, many landlords are failing to take advantage of this.

Steve Bolton of Platinum Partners Group (PPG), an adviser, suggests you "price-test" your rental income every 12 months. He said: "If your property is always rented in record time, with no price objections, this is a sign you may be able to increase rents."

ALTER YOUR TARGET MARKET

5 You could convert a living room into another bedroom and so boost your rental income.

Doing this would cost you around £2,000, including new furniture, according to **Sarah Walker, a buy-to-let investor who also works for PPG**. However, you could get an additional £100 a week in rent depending on where the property is located. On this basis, you would have covered the cost of conversion in around five months.

You may need to obtain a house in multiple occupation licence from your local authority, which lasts for up to five years. Fees range from £300 to £1,100, according to consumer watchdog Which?

GET THE RIGHT TAX RELIEF

6 You can claim tax relief on a number of expenses including let-ting-agent fees and insurance. You can also deduct costs involved in maintenance such as replacing a leaking pipe. However, "improvements", such as upgrading a kitchen cannot be deducted.

You can claim for furnishings although there are two ways of doing this. Option one is to claim wear and tear at 10% of the total rental income you receive. The alternative is to claim the cost of replacing old items minus any money you receive from selling the old items.

GO FOR INTEREST ONLY

7 Buy-to-let borrowers get tax relief on their mortgage interest payments. To maximise the tax break, it is advisable to go for an interest-only rather than a repayment loan.

Mortgage payments will also be lower. If you have a two-year fixed mortgage of £150,000 at 5.99%, you would pay £748.75 per month with interest-only payments but £965.54 on a repayment basis.

For tax purposes, you can offset all of the interest-only payments against the rental. So if the rental income is £1,100 per month, you would only be liable for tax on £1,100 minus £748.75 or £351.25 –£140 as a higher-rate taxpayer.

With the repayment deal, you can offset the interest part of the payment but not the capital. It means that for the first few years, when most of the repayments go on interest, you will be tax exempt for a similar amount in the same way as with an interest-only deal.

However, you will have higher monthly repayments.

As you pay off more of the capital, and less of the repayments count as interest payments, the more the tax benefits diminish.

BEWARE THE TAXMAN

8 The taxman has warned it will crack down on landlords who claim tax relief on interest and capital payments on a buy-to-let mortgage.

Powers coming into effect next April will give tax officials the right to turn up and inspect landlords' records in their home, according to accountants Grant Thornton. You can find out what proportion of your mortgage repayments relate to interest payments by asking your lender for a statement.

SHOP AROUND FOR INSURANCE

9 Kate Faulkner of the property advice website designsonproperty.co.uk suggests you take out rent-protection cover. This will cover any short-falls in rent if an occupant is unable to pay.

Rates can vary widely. A three-bedroom terrace in Leeds would cost £144 a year with Endsleigh but £263 with Zurich, according to comparison firm Moneysupermarket. Belvoir, though, offers this for £99 a year.

CUT OUT THE MIDDLEMAN

10 The cost of using an agent for full management of your portfolio is about 12% (or 15% in London) of your rental income, Faulkner said, so you could manage it yourself.

The disadvantage is you will not have the same advertising exposure. You won't be listed on property website Rightmove, for example. You will also have to ensure you comply with regulations. You will need a gas safety certificate if there is gas and a Corgi-registered engineer must provide this. Costs vary from £35 to £100.

Copyright 2008 Times Newspapers Ltd.

This service is provided on Times Newspapers' [standard Terms and Conditions](#). Please read our [Privacy Policy](#). To inquire about a licence to reproduce material from Times Online, The Times or The Sunday Times, click [here](#). This website is published by a member of the News International Group. News International Limited, 1 Virginia St, London E98 1XY, is the holding company for the News International group and is registered in England No 81701. VAT number GB 243 8054 69.