Factsheet 3

Buy-to-let mortgages for limited companies

Provestor.

The Property Accountants

Provestor.

Buy-to-let mortgages for limited companies

You'll need a specific type of mortgage for your company, but the range is wide and competitive

Taking out a mortgage is a key decision for investment properties and one that will likely dictate how you set your rent and the level of profit you'll be taking away. You need to ensure you're getting the best possible deal. The fees associated with buying property can quickly add up, but one thing you shouldn't skimp on is a mortgage broker as buy-to-let mortgages can be more complicated than standard residential ones. You're unlikely to find the best deal from a mainstream lender, especially if you're self-employed or have a complex income. Mortgage advice, from a specialist broker, can be an invaluable service.

You'll need a broker to go into the nitty-gritty of your financial details, and they are experts in this. But to get you started, we've broken down the critical points to give you a quick overview of limited company mortgages.

The differences between personal and limited company mortgages

There are two ways you can purchase buy-to-let property, either as a private individual or through a limited company. Personal buy-to-lets are typically more straightforward and most high street lenders now offer competitive mortgages.

However, you'd be missing out on the tax opportunities that come with working through a limited company.

In practice, there's not much difference between personal mortgages and limited company mortgages. For limited company mortgages, a lender will take a personal guarantee from the company director (much as they would for a personal mortgage) and look into your job, income, credit history, etc. Ensuring that even if the company ceases trading, you could still meet your obligations repaying the debt.

You'll probably find that a limited company mortgage attracts higher arrangement fees because there's more to understand when evaluating both the company and the director. You may need a bigger deposit, and you may pay a slightly higher rate of interest. While all this might sound like a limited company isn't worth it, remember that you'll potentially be making a tax saving for years to come as you rent out the property. Limited companies also provide bonuses in the application process, which we'll discuss later.

Limited company mortgage costs and availability

While limited company mortgages are more restricted, competition is seeing a boom in new deals. There are thousands of options out there, from big household names to boutique specialists. Picking the right product could make a substantial financial difference over the term of your loan.

This is where a good mortgage broker comes into their own. They know the market and will be able to work with lenders to secure the deal that best suits you. They'll also take care of a lot of the painful admin – leaving you to focus on buying the property. A good broker will be able to help you with recommendations for everything from insurance to good

solicitors in the field. It's worthwhile seeking a broker who has knowledge and experience of arranging mortgages for limited companies.

Does the age of a company impact its ability to borrow money?

It's a common misconception that a company needs to have been trading for a certain number of years to get a mortgage. Your limited company can be a few days old, or still in its formation when you apply for your mortgage. Remember the lenders' main focus is you, the director, and your ability to make the payments rather than the company.

Rental cover requirements – the numbers

For a long time, buy-to-let lenders have used roughly the same calculation to determine the maximum borrowing available to individuals and limited companies. When making a buy-to-let loan, the rent of that property must cover at least 125% of the mortgage payment (when the interest rate is at least 5%).

As of 2017, new guidelines have changed how mortgage lenders should assess potential loans for personal buy-to-let mortgages. Now the rent must cover at least 145% of the mortgage payment when the interest rate is at least 5.5%.

This change is due to alterations to mortgage interest relief, which has made it more likely that landlords acquiring buy-to-let property personally will pay more tax. In response, mortgage lenders have tightened up their exposure to ensure responsible lending.

The good news for borrowers through a limited company is that these changes might not apply; dependent on your lender and their criteria. This means you are likely to be able to borrow more through a limited company than if you take on a buy-to-let mortgage personally.

Repayment or interest-only mortgages

As well as deciding on the right mortgage deal, you'll need to choose between either a repayment or interest only mortgage. With an interest-only mortgage, only the interest on the loan is being paid back each month. At the end of the term, you'd need to pay the money back. With a repayment mortgage, you'll be paying a monthly fee to cover both the interest and the capital of the loan. At the end of the term, you'll have paid everything off.

Repayment mortgages

Pros

- Typically a low-risk option, at the end of the mortgage term you'll own 100% of your property outright and won't need to worry about paying anything back
- You'll be able to negotiate a higher borrowing amount
- Any fluctuation in house prices won't impact your ability to repay
- You don't have to worry about repaying a large sum at the end of the term

Cons

- Your monthly payments will be higher, potentially creating difficulty should your property be empty for some time

- Your profits will be lower which will impact you if you require them as a source of income

Interest only mortgages

Pros

- Lower monthly payments, meaning it's easier to pay if a property is empty and you have more cash available for growing your portfolio or building a safety net
- At the end of the term, you could sell the property for more than you paid, making enough profit to repay the mortgage and walk away with some profit. Remember, every lender is different and has their own criteria for interest only mortgages. Many lenders will want to see evidence of how you intend to repay the loan at the end of the term outside of the end sale of the property (i.e. through savings, a pension lump sum or the sale of another property)
- With some mortgages, you could still pay the mortgage off by making lump-sum payments when you're able to afford it

Cons

- You'll still owe 100% of the money you borrowed at the end of the term
- Housing prices fluctuate, you may end up selling your property for less than you owe which could leave you exposed
- You pay more in interest over the term as you're not reducing the capital

To decide which mortgage option is right for you, you need to have a clear aim with your investments. Is leaving the property as inheritance important to you? Or are you more focused on having a safety net and an accessible monthly profit? Once again, talking your personal circumstances and goals over with a mortgage broker is a great place to start.

Portfolio landlord rules

The rental cover changes in 2017 have also introduced new requirements for portfolio landlords (anyone with four or more mortgaged properties, including those within a limited company). When applying for a mortgage, these landlords need to pull together documentation so the lender can undertake a full analysis of the entire portfolio. The idea is that they're not just looking at the new mortgage in isolation, they're assessing it in the context of your whole rental business. This could mean that your application process takes longer.

While each lender can decide what they want to see, this will usually include:

- Your property portfolio accounts
- Your tenancy agreements
- Historical and future predicted cashflow
- Income and expenses
- Bank statements
- Your business plan

We've designed Provestor to reduce tedious data entry and help you easily capture every aspect of your business. Our software lets you see your expenses, income and available cash at a glance and in real-time; so you can plan ahead and make fast, informed decisions.

You can easily keep clear records of your tax payments and bank statements all in one place within the software. So when you come to apply for that next mortgage, it's as simple as just downloading and forwarding the PDFs. Plus, our qualified accountants are on hand to sign and certify records for your lender.

Provestor.

The Property Accountants

Our factsheets do not offer investment, tax or financial advice and nothing in them should be construed as advice. Our factsheets provide information and education for investors who can make their decisions without advice. If you are unsure of any investment decision you should seek a professional financial advisor.

www.provestor.co.uk

Telephone: 0330 223 4275

Email: support@provestor.co.uk

Provestor Accounts Ltd

1 Derwent Business Centre

Clarke Street

Derby

DE1 2BU

Registered in England and Wales 10510713