

# Specialist BTL Mortgages

## Overcoming BTL challenges in 2024

Learning Objectives:

- **OUTLINE** the challenges facing UK property investors
- **OFFER** a unique approach to specialist buy-to-let mortgages
- **PRESENT** tools that investors can use to assist with affordability

## Our latest research reveals

### Challenges facing investors

Between 23rd and 26th January 2024, MFS commissioned an independent survey of UK property investors. Here, investors acknowledged their biggest challenges for the upcoming year:



**46%**

are concerned that the result of the upcoming general election could have a negative impact on their investments



**56%**

revealed they were worried about the amount and complexity of regulation



**56%**

said increasing regulation is deterring them from investing in more property



According to [Home.co.uk](https://www.home.co.uk) on 5<sup>th</sup> April, there were **2,464** properties available for rent in Birmingham:

- Average monthly rent came in at £1,641 p/m
- Majority (1,116) were listed as costing between £1000-£2000 p/m, with 512 properties being listed as £2,000+ p/m
- The most popular number of rooms per property were listed as:
  - 1) Two bedrooms – 676 properties listed, with an average rent of £1,507 p/m
  - 2) One bedrooms – 504 properties listed, with an average rent of £991 p/m
  - 3) Three bedroom – 386 properties listed, with an average rent of £1,892 p/m

## Challenges in the market

1. Higher rates mean landlords **struggle with leverage**, facing challenges in raising capital for future investments to expand portfolios.
2. Mainstream lenders stress test deals on 2- or 3-year fixed rates - **pushing landlords to lock themselves into a 5-year rate** to achieve the required loan size.
3. Our survey showed 43% of investors find it **challenging to remain up-to-date on property market** news. A further 46% **seek analysis or opinion** on specialist property websites to help guide their investment decisions, showing a demand for educational articles.

**Case scenario: Buy-To-Let**

**Property Value:** £1.35m

**Wants Loan-To-Value:** 70%

**Expected Rent:** £5k pcm

**Initial Enquiry**

- UK national purchasing a vacant property in Birmingham
- Has a 30% deposit and looking to reach the maximum loan possible

**The Complexity**

- Currently only being offered 43% LTV based on ICR requirements due to 140% ICR
- No tenants currently in place and concerned about repaying the loan for the first few months, especially as the property is large so there may be less tenants looking for this kind of property
- Needs light refurb to ensure best the rent is achievable

**MFS Solution**

- Our ICR sits at 125% for their tier level
- Furthermore, we could rollup 9 months interest, offering the landlord breathing space to complete the refurbishment and find tenants before they would be required to start paying their monthly interest
- We also could defer the interest by 1.25%, which would increase their gross LTV to 70%





# Working with higher rates

## COST BREAKDOWN: Roll and deferred interest

This requires a loan of **£895k** however, they are currently only achieving £505k. See how our tools below can help us solve this.

	Option 1 Baseline - no Boost	Option 2 Deferred Interest	Option 3 Rolled Interest	Option 4 Rolled & Deferred
Product Rate	9.59%	9.59%	9.59%	9.59%
Pay Rate Less deferred	9.59%	7.59%	9.59%	7.59%
Deferred Interest	-	2% (£25,360)	-	2% (£40,500)
Rolled Months of Interest	-	-	9m rolled (£59,183)	9m rolled (£57,637)
Product Fee <small>Added to loan</small>	1.9% (£9,771)	1.9% (£12,046)	1.9% (£15,634)	1.9% (£19,238)
Monthly Direct Debit	£4,110	£4,010	£6,576	£6,404
Gross Loan <small>Repayable at redemption</small>	£514,273 @ 38% LTV	£634,011 @ 47% LTV	£822,837 @ 61% LTV	£1,012,500 @ 75% LTV
Net Loan <small>Day 1 advance</small>	<b>£504,502</b>	<b>£596,604</b>	<b>£748,021</b>	<b>£895,125</b>
	Well below £ 895k...	Getting better...	Still short...	Achieved!
Advantages	No interest payment due on redemption	Lower monthly cost	Payment-free during rolled months	Maximising leverage

### Important:

Please consider that rolled and/or deferred interest, along with the product fee, are added to the loan and the borrower must be in position to pay at redemption. Exit/repayment strategy must always be considered, viable, and validated by the underwriter. The net loan advanced excludes any capitalised rolled/deferred interest and product fee.

**Case scenario: Buy-To-Let**

**Property Value:** £600k

**Wants loan of:** £450k

**Loan-To-Value:** 75%

**Initial Enquiry**

- The Landlord was looking to **capital raise** as much as possible from two unlocked 'SVR-rate' properties in their portfolio, to provide a deposit for a new build flat in Birmingham
- They have been to another lender, but could only offer 60% LTV and the ICR of 145% due to being a high taxpayer, and therefore were unable to lend the necessary funds

**The Complexity**

- Foreign national based in Pakistan
- The property is located within a high-rise building
- They want shorter term fix – max capital raise, then refinance wider portfolio in 2-3 years' time

**MFS Solution**

- MFS can leverage more for clients, with ICR from only 125% across the board, and no background portfolio stress
- We can lend to foreign nationals, as long as not in sanctioned or blacklisted country
- Can do multiple properties on one loan **AND** do the new build purchase on a higher LTV than most





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your fast, bespoke loan:**

 [www.mfsuk.com](http://www.mfsuk.com)

 +44 (0)20 7060 5678

 [info@mfsbtl.com](mailto:info@mfsbtl.com)

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Buy-To-Let Guide

