

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



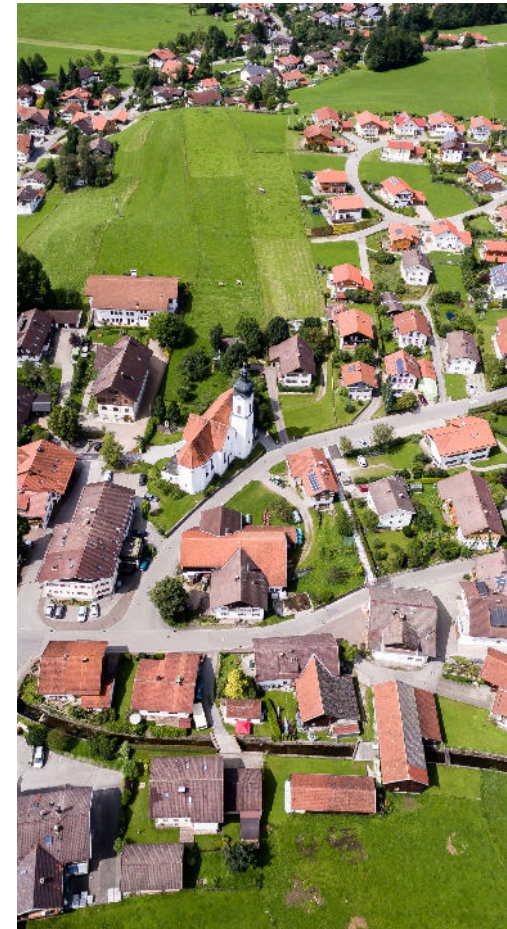
56%

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 on 5th April, there were **924** properties available for rent in Cardiff:

- Average monthly rent came in at £1,390 p/m
- Majority (423) were listed as costing between £1000-£2000 p/m, with 101 properties being listed as £2,000+p/m
- The most popular number of rooms per property were listed as:
 - 1) One bedrooms – 314 properties listed, with an average rent of £992 p/m
 - 2) Two bedrooms – 295 properties listed, with an average rent of £1,350 p/m
 - 3) Three bedroom – 117 properties listed, with an average rent of £1,927 p/m

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 Wales
- 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

Requires a loan of £845k however are currently only achieving £589k. 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	7.99%	7.99%	7.99%	7.99%
Pay Rate Less Deferred	7.99%	6.74%	7.99%	6.74%
Deferred Interest	-	1.25% (£26,706)	-	1.25% (£35,526)
Rolled Months of Interest	-	-	9m rolled (£48,000)	9m rolled (£47,889)
Product Fee Added to loan	2% (£12,015)	2% (£14,243)	2% (£16,020)	2% (£18,947)
Monthly Direct Debit	£4,000	£4,000	£5,333	£5,321
Gross Loan Repayable at redemption	£600,751 @ 45% LTV	£712,166 @ 53% LTV	£801,001 @ 59% LTV	£947,363 @ 70% LTV
Net Loan Day 1 advance	£588,736 Well below £895k...	£671,217 Getting better...	£736,981 Still short...	£845,000 Achieved!
Advantages	No interest payment due on redemption	Lower monthly cost	Payment-free during rolled months	Maximising leverage

Important:

Any advice should 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

- Landlord looking to **capital raise** as much as possible from two unlocked 'SVR-rate' properties in their portfolio to provide deposit for a new build flat in Cardiff
- They've been to another lender, but they 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
- Wants 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:**

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Buy-To-Let Guide

