

MORTGAGE FIND

Buy to Let Information Sheet & Terms of business

If ever there was a way to make money easily or a way to lose it easily, then letting property is the way.

Letting property is of course not new, it has been going on for thousands of years. But now, due to the improved availability of loan finance, buying property to let is open to most people. Additionally the performance of other more conventional types of investment has been somewhat volatile and alternatives are being sought.

However, care has to be taken that a flood of new landlords will not outstrip the demand from tenants. There are many considerations when investing in Buy to Let and we hope to be able to help.

The Main Issues

It is vital that you should be clear at outset of your objectives. The three most common reasons for investing in a property to let are:

- To produce capital growth
- To produce an income stream
- To combine income with growth

To produce capital growth or to combine income with growth

In our opinion, any property purchase which has, as part of the rationale, an important element of capital growth requires very special skills and knowledge. These are the skills of a property developer or a speculator rather than those of a landlord.

If the income stream produced out of a property represents a poor return on capital it may have to be supported by growth in value of the property, in order to produce an acceptable return. This is not unreasonable and in certain parts of the country this is a very important part of the decision to buy.

Local knowledge is absolutely vital if capital growth is your objective. There are many questions that you need to have a clear view on –

- Am I buying at value for money?
- Is it over or under-priced?
- What are the risks to negative equity if prices reduce?

How long you intend to hold the property is an important issue too. Is it for a quick turn or are you prepared for a long hold through times of price fluctuation (including negative equity). Remember that if the rental cover does not produce a good return you will still be liable for any mortgage commitments on the property.

Gearing your capital can help the situation considerably. For example, if you buy outright with no loans, then a 5%

increase in capital value gives you naturally enough a 5% return on your capital. However, if you can get away with a 15% deposit only and borrow 85%, and if the rent covers the cost of borrowing, then a 5% increase in the value of the property represents a 33% increase in your investment. (5% / 15% is 33%).

To produce an income stream

If it is done correctly, Buy-to-Let will produce a regular stream of income, which should not fluctuate greatly and should produce an excellent return on capital. It need not present a great risk to achieve this and certainly not one any greater, in fact usually much less, than alternative investments in stock markets and unit trusts.

There are a number of issues that a landlord has to handle on a simple operational day to day basis, which if properly considered will make the difference between an acceptable return and an excellent return.

- Occupancy
- Tenancy Agreements
- Building Maintenance
- Property Insurance
- Finance

Occupancy

If income is your aim then naturally maintaining your level of occupancy of tenants is the key factor. In terms of risk, occupancy is the most important to mitigate. Having your property empty for long periods of time can be damaging in several ways. The areas to address in mitigating occupancy problems are:

- decent locations
- decent conditions
- decent letting agents (if used)

Decent locations should mean that there will be a queue of tenants wanting your property. Nobody likes to live in a bad area if they can avoid it. Better locations mitigate the risk of demographic changes in the area, which can lead to the area worsening and thereby the reducing the willingness of tenants to rent. They also mitigate the risk of capital depreciation for similar reasons.

However, if the location is largely an area of private ownership then capital appreciation, along market trends is not an unreasonable expectation. Therefore, relying purely on the type and price of accommodation can be misleading. For example a three bedroomed terrace at a low price in a bad area can represent a poorer proposition than a two bedroomed terrace at a higher price in a better area. There is always the chance of course that the better area may attract a higher rent.

There is no doubt that starting with a good standard of property and decoration will encourage responsible tenancy. Again, nobody wants to live in a low standard of accommodation and indeed will appreciate that if they spoil it then their tenancy agreement is unlikely to be renewed. Additionally, an initial commitment by you to putting things right will lead to less costs, and fewer maintenance call outs in the future. This means happier tenants and happier landlords.

Advice on Buy to Let Mortgages is not regulated by the Financial Services Authority

If you are not going to organise tenants yourself and would like to hand responsibility on, then a recognised Letting Agent is advisable. They should be able to fill vacancies quickly and maximise occupancy. They should also take a lot of problems away from you by being the first contact for problem calls from tenants.

Letting Agents are not regulated by statute. However members of the Association of Residential Letting Agents (ARLA) or some of the larger chains of estate agents will offer a sound professional service which should result in you not concerning yourself too often with events.

You should expect them to find tenants, organise tenancy agreements, hold deposit bonds for them, collect rents, organise registration of utilities and Council Tax, visit the property regularly (at least 6 monthly) and pay the rent on to you. Charges of 10–15% for this service are normal.

Our terms of business

Our aim, as independent mortgage advisors is to provide a high quality client focused service. We appreciate and understand that your buy to let mortgage may be one of the largest financial commitment you will undertake. Our role is to help you understand how a mortgage works and how control of the repayments is essential for prudent money management.

We will seek to reduce the financial burden and where possible allow you to redeem your mortgage earlier. In addition, we seek to provide adequate protection for you and your family.

Throughout our association with you we are committed to giving the highest standard of service and customer care both before, during, and after your mortgage completes.

We will review the market place to identify the most suitable mortgage product for you.

We will charge you a fee of **£195** for each application we make on your behalf and, in the event that you voluntarily decide to buy any form of insurance, then we may receive commissions from the insurance companies. Any fees must be paid to this Company and not to the consultant.

If you ask us to arrange insurances for you and request us to do so, we will tell you the amount of commission we receive.

For arranging a mortgage, our company may receive fees. These commissions and payments will be in addition to any fee you pay us to arrange your mortgage.

Confidentiality/Security

We will treat all your personal information as private and confidential (even when you are no longer a customer) except where we are permitted by Law or where disclosure is made at your request or with your consent in relation to arranging your mortgage. You have the right of access under the Data Protection Act 1998 to your personal records held on our files.

Data Protection Act

Information about you "Your Data" (including 'sensitive data' as defined in the Data Protection Act 1998) will be put onto the Mortgage Find Ltd database/manual records

and held, processed, disclosed and used by us and our third party product providers in servicing our/their relationship with you, including verification and money laundering checks. By signing the terms of business receipt you agree to that storage, use and disclosure.

We like to keep clients informed of products and services we offer which may be of interest to them. You have a choice of whether you want to receive such material from us. If you do not give us this permission (see the Declaration below), we will not issue unsolicited material. We will not undertake any other form of unsolicited contact with you.

.Our aim is to provide you with a first class professional and confidential service. However, should a complaint arise, we have internal procedures for handling complaints fairly and speedily and in the first instance therefore you should contact ourselves.

This Letter relates solely to Buy to Let Mortgages and related matters and not to residential mortgages covered by the Financial Services Authority.

All loans are subject to a satisfactory appraisal of status and financial standing and are only available to persons aged 18 or over.

By returning this copy duly signed, I/We

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confirm that **I/We** accept all of its terms and that **I/We** agree to Mark Thomas Mortgage Services Ltd acting for **me/us** as Independent Mortgage Advisers for our Buy to let Mortgage. **We agree to pay Mark Thomas Mortgage Services Ltd £195 for each Buy-to-Let mortgage application they make on our behalf.**

If you wish to be contacted for marketing purposes and to be reminded of key dates on your mortgage, please tick this box.

Signature

Date

Signature.....

Date

This Letter solely relates to Buy to Let mortgage business.

February 2004

**Mortgage Find is a trading name of Mark Thomas Mortgage Services Ltd
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