

How new PRA changes will affect landlords

Whether you're a landlord, a mortgage broker, or just have an interest in the Buy-to-Let market, this short guide gives you the need to know information about the planned Prudential Regulation Authority changes.

The new standards will be applied by 30 September 2017. Here's a summary of how they'll affect Buy-to-Let mortgage applications.



Portfolio Landlords

Will be landlords with 4 or more mortgaged Buy-to-Let properties

4+

TOP TIP: It's the number of individual properties, not the number of mortgages. So, for example, if a landlord has 4 separate properties on one mortgage they will still be classified as a portfolio landlord.

Specialist Underwriting

Portfolio landlords may need to provide more information



Lenders will need to apply a specialist underwriting approach and may choose to evaluate:

- The landlord's portfolio and experience
- Assets and liabilities, including future tax implications and outstanding mortgage balances
- The landlord's business plan
- Cash flow statements for the landlord's properties

TOP TIP: Lenders will need to check landlords' information, for example, by using credit bureau data to verify the total number of mortgaged properties.

Existing PRA rules will still apply, which means the Interest Coverage Ratio is key to determining affordability for every application.

However Buy-to-Let landlords who use personal income will face further affordability checks under the new standards.

Affordability Assessment

Similar to residential mortgage applications, personal income and expenditure will be assessed

This will include tax liability, living costs and essential expenditure, ongoing credit commitments and any other financial commitments.



Continuous credit commitments which lenders must take into account:

- Loans
- Credit cards
- Vehicle finance
- Mortgages on other properties

TOP TIP: To calculate how future tax liability could affect personal income, landlords should speak to their lender, or broker, who may be able to help. However, landlords should only seek tax advice from their accountant or a qualified tax adviser.



Rental Income Checks

Lenders will need to evaluate rental income if used as part of personal income

- Rental income will need to be validated by comparing typical rents in the area and local rental demand
- Future expected rental income will need to be checked by using existing rental agreements, valuation tools, or an independent valuer

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For advice landlords should contact their mortgage lender or broker.

IF YOU FAIL TO KEEP UP WITH PAYMENTS ON YOUR MORTGAGE A 'RECEIVER OF RENT' MAY BE APPOINTED AND/OR YOUR RENTAL PROPERTY MAY BE REPOSSESSED.

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