

Becoming a landlord

We subscribe to the Council of Mortgage Lenders' (CML) Buy to Let Statement of Practice, and this leaflet is provided to help you better understand the risks associated with taking out a Buy to Let mortgage.

Your role as a landlord

Owning a Buy to Let property and becoming a landlord is a commercial transaction which carries an element of risk, and we think it's important that you understand and consider your responsibilities and obligations as a landlord, before you commit to a Buy to Let property and mortgage. We've highlighted some of the key points for consideration in this leaflet.

Buy to Let tax changes

Currently when you, as a landlord, pay tax on your rental profits, you can deduct the cost of mortgage interest and other finance costs before arriving at a taxable profit. However, from 2017/2018 the tax will be calculated based on turnover rather than profit. The deduction of mortgage interest (and finance costs) from your taxable profit will be gradually replaced with a tax relief allowance. This will be at the basic rate of tax and will partly offset the tax due on your rental profit. The amount of tax relief that applies will be phased in over four years from April 2017, as follows:

	2016/17	2017/18	2018/19	2019/20	2020/21
Mortgage interest* deduction	100%	75%	50%	25%	
Tax relief allowance on mortgage interest* (at the basic rate of tax)		25%	50%	75%	100%

*and other finance costs

Overall the amount of tax you pay depends on all of your sources of income, including rental profits, employment, pensions, etc.

These changes will mostly affect higher and additional rate tax payers, as they effectively reduce the rate of relief on interest costs from the marginal rate to the basic rate.

However, due to the changes above it's possible that you could move between tax bands and become a higher or additional rate tax payer.

This information should not be taken as tax advice, for more details on how this will affect your circumstances you should consult with an independent tax advisor and/or your financial advisor. You also have the option to contact your local tax office, or visit www.gov.uk for more information.

Shortfall in rental income and/or increased costs

You need to take into account how you'll pay your mortgage if there's a shortfall in rental income or if your outgoing costs increase, for example, due to interest rate increases or changes in maintenance costs. What if...

- > **The property is empty?** The property may require maintenance work and can't be let, or there could be void periods where the property is empty in-between tenants.
- > **The tenants are in arrears?** Some disputes may take several months to resolve, which could have a serious impact on your finances and could lead to the eviction of your tenant. For more information visit www.gov.uk/private-renting-evictions
- > **The rental income is lower than expected?** Market changes may mean there are occasions where you need to reduce rent, perhaps to attract prospective tenants.
- > **Interest rates increase?** An increase in interest rates could increase your monthly mortgage payment. For more information on how this could affect you, check your mortgage illustration.

- > **Maintenance costs increase?** This could be one-off emergency property repairs or ongoing maintenance charge increases – these scenarios can prove costly and may be unplanned additional costs.

In line with the terms and conditions of your mortgage you will need to cover your monthly mortgage payments. It may be beneficial having a savings plan in place or some contingency to ensure you can make your payments in case of a shortfall.

Affordability

As a lender we will assess the affordability of the mortgage based on the expected monthly income generated from letting the property to a tenant. The actual income generated may be different and changes in the rental market could influence this over time. You will remain responsible for meeting the costs of the mortgage and the additional costs associated with letting property for the duration of the ownership.

If you have an interest-only Buy to Let mortgage, you will also need to repay the total amount borrowed at the end of the term.

Your rental property may be repossessed if you don't keep up repayments on your Buy to Let mortgage, and we may appoint a receiver of rent. Any shortfall after the property is sold would remain your responsibility.

Landlord responsibilities

You must treat your tenant fairly and equally and, as a landlord, there are important legal and financial obligations you must meet, for example, you must only use your property as a rental let. We've listed some of the responsibilities that you should be aware of below, but it's also advisable to seek professional advice.

Tenancy agreements

For every tenancy you'll need a tenancy agreement – this is a legally binding contract between you and your tenant. 'Assured Shorthold Tenancies (Short Assured Tenancies in Scotland)' are the most common form of tenancy agreements and most landlords offer a minimum contract of six months. These are regulated by the Housing Act 1988 as amended. The tenancy should confirm:

- > The duration of the tenancy
- > The date the tenancy began
- > Details of the tenant, landlord and all parties involved
- > The deposit amount the tenant needs to pay and how this will be protected
- > The monthly rent amount, when it's due and how it will be paid
- > The length of notice both you (the landlord) and the tenant need to give to end the tenancy agreement
- > The tenant's obligations while renting the property, with exceptions that they are not liable for wear and tear.

Both you (as landlord) and your tenant must sign the agreement. For further information visit www.direct.gov.uk and read the 'private renting' pages.

Tenant deposits and references

To secure the property and protect it against minor damage, request a deposit (or bond) from your tenant before the start of their tenancy. You should also request references from previous landlords or current employers as a condition of the tenancy.

Deposit protection schemes

Since April 2007 landlords are legally obliged to protect tenant deposits. To do this you must pay into a Tenancy Deposit Scheme (TDP). There are two types to consider:

- > **Insurance-based** – this is where the landlord or letting agent holds the tenant's deposit and pays a fee to insure it.
- > **Custodial** – this is a free scheme for landlords and letting agents which simply holds the tenant's deposit in a bank account and returns it to them at the end of their tenancy, such as the Deposit Protection Service.

Both schemes guarantee the tenant will receive their deposit back at the end of their tenancy (provided they have met the terms of their tenancy agreement). As the landlord you must return the deposit to your tenant no later than 10 days after they've moved out of the rental property.

Legal obligations

You have a legal responsibility to maintain your property inside and out, ensuring that it (and, if furnished, any contents supplied) complies with recommended safety standards. If your property is leasehold you should ensure that you adhere to reasonable requests from the freeholder or managing agent and that ground rent is paid.

To familiarise yourself with the law in detail you can view the Landlord and Tenant Act 1985 at www.legislation.gov.uk for further information.

Selective licensing

You will need to check whether the property is subject to a selective license, and if it is, you will need to notify us. If a Local Authority has licensed a designated area you may be affected and will need a licence to privately rent your property. Visit www.rla.org.uk and search for selective licensing for more information.

Protecting your investment

Your tenant is responsible for insuring their own possessions throughout their tenancy, however, as a landlord you will still need your own insurance.

In line with the terms and conditions of the mortgage you must ensure there is buildings cover in place at completion and throughout the term of the mortgage. In addition to this specialist landlord insurance could also provide you with:

- > **Legal cover** – to help with disputes/complicated tenancies
- > **Rent guarantee cover** – to protect you if the unexpected happens (and letting your property is impossible) and against a tenant failing to pay rent
- > **Landlord liability cover** – to protect you from a compensation claim caused by any defect in your property
- > **Landlord contents insurance** – to cover your fixtures and fittings such as: carpets, flooring, kitchens, bathrooms, white goods, light fittings and curtains. If you're letting a furnished property you'll need a policy that covers your furniture too
- > **Landlord boiler cover** – saving the expense of replacing a new boiler and covering safety certification
- > **Landlord emergency cover** – covers the cost of contractors' emergency call out, labour, parts and materials following an insured event, for example, broken central heating, gas/electricity or burst pipes/drainage. This may also cover security risks to the property including broken windows or doors.

Ending a tenancy/notice period

When a tenancy agreement ends, or if you wish to terminate an agreement, you have a legal right as landlord to take possession of your property – provided that you've given your tenant two months' notice to leave the property. If the tenant hasn't vacated the property after this time, you will need to start the eviction process through the courts. As landlord, you can't legally remove a tenant from your property without an eviction order.

We recommend that you seek legal advice as quickly as possible if you have any queries regarding disputes.

Keeping your investment in retirement

If you're extending your Buy To Let mortgage past your retirement age there are some additional factors to consider:

Retirement income - your income is likely to be less than when you were working and your tax status may have changed, so:

- > Will a Buy to Let investment still be profitable for you?
- > Could there be additional outgoings in retirement that you'll have to pay?

Retirement planning - the value of your property could decrease over time, which could have an impact if you are planning to sell the property. In addition, your rental income could go down, which would affect you if you were dependent on it as a source of retirement income.

- > What would this mean for your retirement income?
- > Do you have other sources of retirement income, for example private pensions or savings that could supplement this?

Maintaining a property - as we know, the older we get, the more likely we are to suffer from ill health:

- > Will you be able to continue to physically maintain a property and manage tenants?
- > Who could manage the property for you if you weren't able to?

Estate planning - a Buy to Let investment is an asset which should be taken into account when planning your estate. We recommend that you consult with a legal advisor, who will help you consider whether you need to make a will or update your existing will, and whether there are inheritance tax implications associated with your property.

Further information

You can find further advice and support from the following websites:

- > Government guidance – www.gov.uk/renting-out-a-property
- > The Landlord Act/Landlord and Tenant Act 1985 – www.legislation.gov.uk
- > NLA National Landlords Association – www.landlords.org.uk
- > RLA Residential Landlords Association – www.rla.org.uk/
- > ARLA Association of Residential Letting Agents – www.arla.co.uk/
- > Information on tenancy agreements and fire and safety regulations (if property furnished) – consumer protection act 1987 – www.informedlandlords.com

YOUR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

Coventry Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority (firm reference number 150892 www.fca.org.uk).

Mortgages are subject to acceptance in accordance with our lending criteria. The information in this leaflet is provided for your information only and should not be taken as advice. Legally binding terms and conditions can be found in the mortgage application declaration, the terms and conditions of your mortgage offer and in our mortgage terms and conditions. For further information please visit us in branch or call us.

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