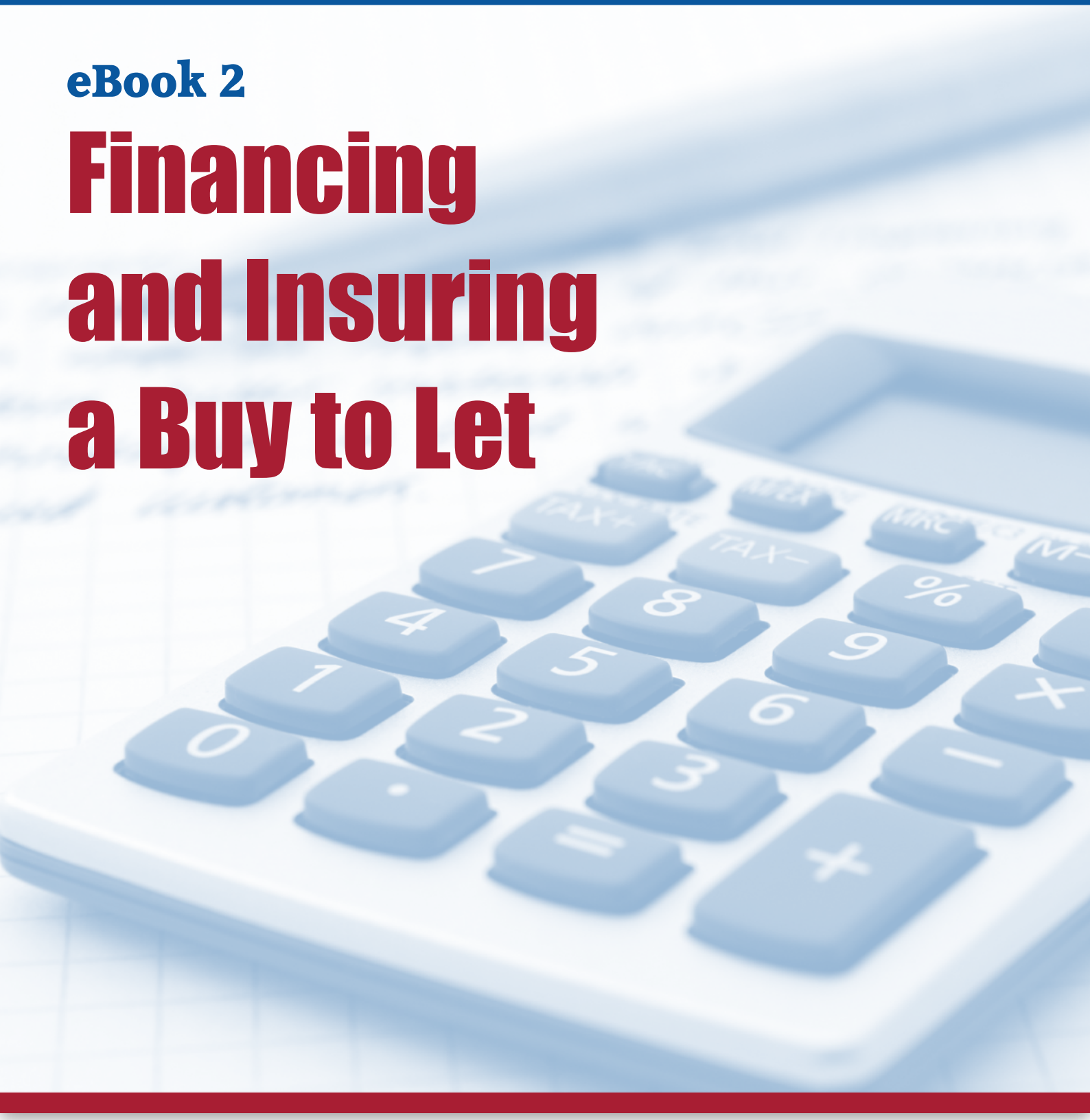
eBook 2

Financing and Insuring a Buy to Let



the BUY to L£T show

Property checklists.co.uk

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Financing and Insuring a Buy to Let

About this eBook

Thank you for downloading this eBook, which accompanies the second episode of the Buy to Let Show, the only programme which gives you all the information you need, whether you are thinking about buy to let for the first time, or are an existing investor and landlord.



The show was created with the support of Direct Line for Business and some of the top finance, legal, health and safety experts in the country as well as successful property investors and landlords.



Whether you are already investing or are thinking about buy to let, these eBooks and the show will make sure you are equipped with all the resources you need, as well as information about companies or organisations that can help you at every stage.

In the first ebook of this series, **Is Buy to Let a Wise Investment?**, we considered whether buy to let is still a viable investment and identified that the way you finance and protect your investment is vital.

In this book, we will explore the role of finance and insurance.

Financing and insuring a property you let is very different to organising a mortgage or cover for your own home.

Because you are not occupying the property yourself, both the lender and insurer will consider the policy/loan to be higher risk. From their point of view, the tenant is a relatively unknown quantity and the lender knows you may be relying on this person to pay rent on time so you can make your monthly mortgage payments.

For this reason, you will need specialist products and services to ensure you comply with your lender's rules and to ensure you are protected as a landlord.

Meet the experts from this show



KATE FAULKNER, PROPERTYCHECKLISTS.CO.UK

01652 641 722 *enquiries@designsonproperty.co.uk*

Kate Faulkner is widely regarded as one of the UK's leading independent property experts. She divides her time between consumer education and consulting with the renting and letting/property investment sector, from high street agents to government departments. She has written several property books, including the Which? Essential Property Guides, and is regularly featured on TV and radio as an expert property market commentator.



CHRISTINA DIMITROV, DIRECT LINE FOR BUSINESS

0345 303 1763

Christina is the business manager at Direct Line for Business, where her focus is on improving the customer proposition. With a background in strategy consulting and e-commerce, she has spent five years working in consumer insurance across different products.



CARRIE ALLISTON, HUNTERS

01904 756100 *carrie.alliston@hunters.com*

Carrie has worked for Hunters since 2003 where she started her career as a Lettings Negotiator in the busy Leeds city centre office. Progressing through the ranks to her current position, Carrie has a wealth of knowledge and understanding of the lettings market. Her goal is for every Hunters branch to have a successful lettings team who are considered the best and No 1 in their market place - a team who works closely with landlords and tenants and truly understand their needs.



RUPERT SWETMAN, WHICH?

0800 1977220 *Submit call-back form*

Rupert Swetman is Head of Mortgages for Which? Mortgage Advisers. Rupert started his career in mortgages as a mortgage broker over 10 years ago, initially specialising in Buy to Let mortgages. Rupert now looks after more than 75 advisers who all give independent, impartial mortgage advice and, as a team, arrange thousands of buy to let mortgages for consumers each year.



TIM BISHOP, BONALLACK & BISHOP

01722 422300 *enquiries@bishopslaw.com*

Tim Bishop is Senior Partner of solicitors Bonallack and Bishop. In addition to providing a full range of legal services to private and business clients, the firm has a specialist and highly experienced team providing expert legal and tax advice for buy to let landlords and property investors nationwide. Tim is also a property investor and developer in his own right.

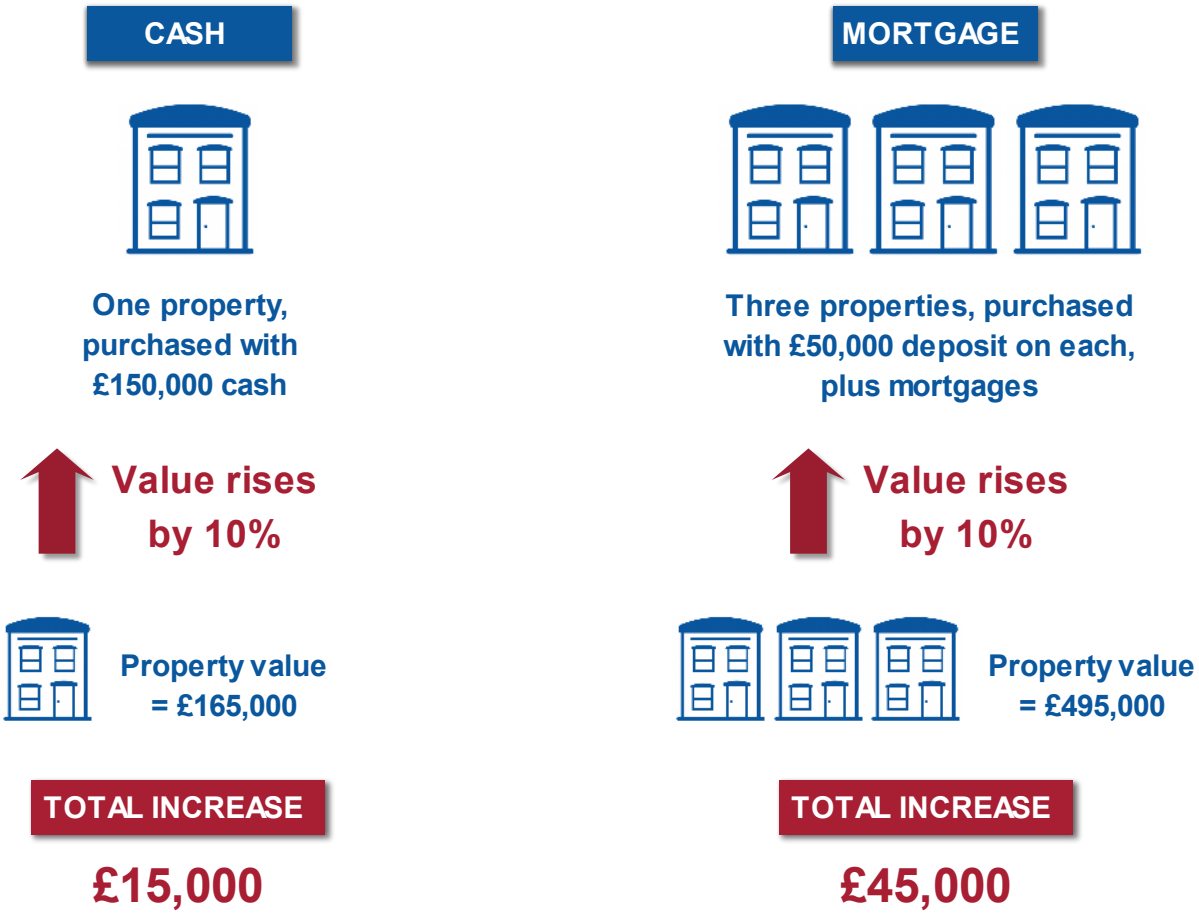
Financing a buy to let property

There are various ways you can fund a buy-to-let property, such as:

1. 100% cash
2. Interest-only mortgage – where none of the capital borrowed is paid off over the mortgage term
3. Repayment mortgage – where both the interest and money borrowed are paid off.

Cash or mortgage?

Your main choice is whether to finance your property investment with cash or a mortgage. Take a look at the image below, which illustrates the difference between investing £150,000 in one property and the same amount spread across three properties.



This concept is called ‘gearing’ or ‘leveraging’ and, when done correctly, is one of the reasons why people are successful when investing in property.

You will need to consider the mortgage costs, and the additional costs of purchasing multiple properties but, before you decide to invest with cash long-term, it is a good idea to discuss your options with an experienced buy to let finance expert.



Check your credit rating

Your credit score or rating is important as can affect your application for a mortgage. As repeated applications for credit (including a mortgage) can negatively affect your credit score, it's sensible to begin by checking your credit score. If it is not as high as you'd like, you can then investigate and either correct any inaccuracies or work to improve your rating.

You can check for free via:

1. **Experian**,
2. Equifax (via **Clearscore**) and
3. Callcredit (via **Noddle**).

You can also pay for a full report, which contains information about all your credit accounts, overdrafts and details of anyone with whom you have taken out joint credit.

Factors which lower your credit score include:

- Moving house frequently (more than every three years)
- Not being on the electoral register
- Repeated applications for credit, such as mortgages, loans, credit cards and mobile phone contracts
- Being self-employed
- Late bill payments, on anything from mobile phone accounts to credit cards
- Not being married

Typical lending criteria for buy to let mortgages

The lending criteria for buy to let mortgages is different from a loan for a property you plan to live in, and is likely to be based on potential rental income. To establish this, lenders may check with local lettings agents, research prices online or visit the property in person.

- You are likely to need a deposit of 25% or more
- Lenders are likely to expect rental income to be 125% or more of the monthly mortgage payment
- Some lenders look at the costs of running the let
- Lending rates tend to be slightly higher than those for homeowners
- Fees vary from a few hundred to several thousand pounds or a percentage of the loan
- Some companies require you to be over 25; others won't lend to those over 75
- Some lenders restrict the value of properties they will lend on; restrictions can apply from £60,000.
- It is possible that lenders will check your personal circumstances too, including your salary

Check what protection you have when financing your investment

Since March 2016, due to changes in European financing laws, buy to let mortgages that are required to release equity from your own home have been regulated by the Financial Conduct Authority.

However, it is worth being aware that, generally, buy to let mortgages – even if you purchase just one property – are not regulated by the Financial Conduct Authority as they are considered 'business' or 'commercial' lending. This means it's vital to get professional advice from an expert.

EXPERT TIP

When you're looking at buy to let, speaking to a broker can help you get the best mortgage deals. A good broker will have an overview of the whole mortgage market, and understand which products are right for your circumstances. I'd also recommend looking for a broker with expert knowledge in buy to let, as they'll know which lenders might be the best fit for you.

RUPERT SWETMAN
mortgageadvisers.which.co.uk



Checklist: Choosing a mortgage broker

Which? Mortgage Advisers

It is essential to secure good quality financial advice, based on clear property investment objectives, regardless of whether you want to buy one property or build up a large portfolio. A good mortgage broker will help you navigate your way through a huge number of options and find a deal that's right for you. In fact, many buy-to-let mortgage products are only available through brokers. This guide, created with Which? Mortgage Advisers, offers advice on how to find the right mortgage broker for you.

- [ ] Before you contact a broker, check they are authorised and regulated by the Financial Conduct Authority.
- [ ] Choose a whole-of-market broker, who can recommend any mortgage and inform you if there are better deals that are only available directly from lenders.
- [ ] Many brokers offer a free initial consultation, so shop around to find the best one for your individual needs.
- [ ] Check what they charge. Some brokers charge a flat fee, while others will charge you a percentage of the amount you are borrowing.
- [ ] Ensure that your adviser is CeMAP or CII qualified and highly trained.
- [ ] Ask your broker if they have experience working with different types of buyers, such as:
    - First-time buyers
    - Buy-to-let investors
    - People buying leasehold properties
    - Self-employed buyers
    - People with a bad credit history
    - Company directors
    - Buyers who are over 60 years old or retired
- [ ] Check your broker is experienced in dealing with your type of property purchase.
- [ ] And do they have other specialist knowledge of:
    - New-build
    - Self-build (buying land and building)
    - Major renovation projects
    - Listed and period properties
    - Buy-to-let



Image: Petr Kratochvil

- [ ] An estimated 25-30% of sales fall through after an offer has been accepted, so ask your broker how they will ensure your mortgage progresses quickly.

- [ ] Find out how your broker works with conveyancers, and what processes they have in place. This is a crucial relationship when buying and selling property or remortgaging, especially when working to short deadlines.

- [ ] If you have a specific deadline you require a property to be purchased by, (such as a new-build or to secure a discount), ask your broker how they can help you get it over the line quickly.

- [ ] Ask your broker how they review which mortgage is right for you, including how they assess the following circumstances:
    - Your age
    - The deposit you have
    - Your monthly budget
    - Your income and expenditure
    - Your credit history
    - Your case specifics, ie, you are buying to let, if you are self-employed etc
    - The specific property you are buying
    - The intended use of the property you are buying, ie buy-to-let, HMO, student house
    - Your short-term domestic and career plans
    - Your longer-term domestic and career plans
    - Your timescales
    - Your ideal repayment type, ie interest only or capital and interest
    - Your financial situation
    - Your attitude towards risk
    - How long you need to repay the mortgage
    - The interest rate
    - Repayment penalties.

- [ ] Find out what happens if you need to complain about your broker. Is there an independent, free system for you to use? If the broker is FCA registered, you will be able to use Financial Ombudsman Service (FOS).



Call Rupert Swetman at Which? on 0800 1977220



Visit the website at mortgageadvisers.which.co.uk

Information you will need to provide to your mortgage broker

The broker will complete a form called a 'mortgage fact find' on your behalf. This is a legal requirement and it can run to eight or more pages, so can be quite time-consuming. It is important to provide comprehensive and accurate information, so your mortgage adviser can give appropriate advice. Having all the information ready will save time at your appointment and avoid delaying your application.

Some lenders restrict the number of buy-to-let mortgages you are allowed to have with them, so letting the broker know about other properties you let or indeed how many you would like to accumulate over time can influence the lender(s) they recommend.

Be prepared to provide the following information:

Personal information

- Is it a single or a joint application?
- Your nationality – or both, if it's joint
- Date of birth
- Marital status and if you have any dependents
- Current and previous addresses
- Employment status and history or three years of verified self-employed income

About your finances

- Highlight the amounts of any outstanding unsecured or secured loans
- Do you have insurance, such as accident, sickness/critical illness or unemployment cover?
- Do you have an endowment policy to mature? If so, how much and by when?
- Have you ever been refused a loan, a mortgage, any form of credit or been bankrupt or had an IVA?

Information on any current mortgages

- Information on any current mortgages
- Current lender, account roll number, term remaining
- Repayment method and type, level of interest rate
- Amount of loan left to pay
- Any early redemption penalties
- How many investment properties do you have already?
- What is their estimated current value and monthly rental income?

About the new mortgage

- Do you need a 'let to buy' mortgage to fund moving out of your existing home and letting it or
- Do you need a 'buy to let' mortgage to purchase a new buy to let property?
- Is the property leasehold or freehold?
- What is the estimated value of the property/ies you want to invest in?
- How much deposit do you have?
- What will the rental income be versus the cost of the mortgage? (needs to be at least 25% more)

Future earnings

They will then ask about your future earnings and finances to 'sense check' whether you will be able to afford the mortgage payments on your buy to let property into the future, in case of:

- The property being empty without a tenant
- Tenants staying without paying rent
- Rises in future interest rates
- Market rent reductions
- Damage caused that needs to be rectified to let the property legally.

They will also ask about your future earnings and finances to learn if you can cover the mortgage payments if:

- Interest rates rise
- If the property is left empty
- If your tenants stop paying rent
- If you need to carry out urgent repairs.

Questions to ask your mortgage broker

Mortgage broker services can help you access buy-to-let mortgages from a comprehensive panel of providers. These are some questions you should ask your mortgage broker, to help them compare different mortgage offers to make sure they are right for your circumstances:



Will this mortgage apply to all properties or are there restrictions?



What are all the fees associated - now and long term - with this mortgage? eg booking and/or admin fees, survey costs, redemption penalties, broker fees



How long will the mortgage take to organise?



What are the payments on interest-only versus repayment?



How long is the mortgage term, eg 25 years?



What is the interest rate and what type of rate is it? Is it fixed or variable?



What are the pros of this mortgage? For example, the interest rate may be fixed for two years so you can guarantee your monthly payments.



What are the cons of this mortgage? For example, the rate returns to the standard variable rate after two years.



At the end of the mortgage term, will the lender still lend at your age? Some lenders don't lend to anyone over 75.



Can I take this mortgage to another property?



What happens to the mortgage if I change my circumstances, such as become self-employed or retire?



What will be the initial mortgage payment and the ongoing amount?



What happens if I can't pay the mortgage?



Do I have the ability to overpay the mortgage? Are any costs involved?



What recourse do I have if I am unhappy with the advice given?

Checklist: Financing a buy to let

As we have learned, financing a buy-to-let is very different to getting a mortgage on a home you intend to live in, so it is important to find a mortgage broker with experience in this field. London mortgage broker Coreco have created this checklist to help you understand the steps you need to take to finance a buy-to-let investment.

- ☐ If you have an existing BTL or a BTL portfolio, make sure you know:
  - Current capital values
  - Current rental value
  - Outstanding mortgage details
  - Income versus costs
- ☐ Be clear about your investment objectives eg for a pension, financial freedom, additional income.
- ☐ Search for professional brokers who have the right qualifications and have access to thousands of different products from a wide variety of lenders, both on the high street or exclusive to brokers.
- ☐ Check your broker is experienced with buy-to-let portfolio finance, e.g. has case studies or a specialist.
- ☐ Visit your chosen mortgage broker to discuss your portfolio, this isn't an internet job!
- ☐ Work out the cost of the mortgage over the lifetime of borrowing.
- ☐ Don't forget to factor in the 3% stamp duty payable on buy-to-let properties.
- ☐ Know what implications there are when interest rates change.
- ☐ Understand the costs of re-mortgaging or selling the property for example, is there an early repayment charge, is the mortgage portable?
- ☐ Have an "emergency pot" equivalent to three months' mortgage payments to cover for any void periods or unexpected expenses.
- ☐ Take appropriate tax advice from a suitably qualified accountant.
- ☐ Your property may be repossessed if you do not keep up repayments on your mortgage. A fee of up to 1% of the mortgage amount may be charged depending on individual circumstances. A typical fee is £495.

Call Coreco on 020 7220 5100

Visit the website at corecogroup.co.uk

Checklist: How to secure the right mortgage

Mortgage Advice Bureau

Securing the right mortgage is vital as you may be in breach of contract if your lender is not fully aware of your plans to let out the property. We have created this checklist with Mortgage Advice Bureau to help you.

- [ ] Find out how a lender will view your ability to pay a mortgage by checking your credit score.
- [ ] What can you afford to spend on a property? Work out what you can borrow with your broker.
- [ ] Find out what mortgage rate and fees will apply. Visit a broker who advises on all mortgages, not just the ones they secure commission on.
- [ ] Get the value of the property you can afford in writing from your broker to illustrate to agents that you are a credible buyer.
- [ ] Find a property to make an offer on and calculate costs of work required eg damp, subsidence.
- [ ] Ask your broker if your mortgage deal is still available, confirm any changes (eg a new job or a baby) and supply your identity details (passport/driving licence).
- [ ] When an offer is accepted, the broker will work with your legal company to progress the application.
- [ ] Discuss with your broker the difference between a 'mortgage valuation' and an independent survey.
- [ ] Organise – or ask your mortgage broker to secure – buildings insurance prior to exchange.
- [ ] Bank your deposit with your legal company a few days before exchange and speak to them about making a will to protect your purchase, especially if buying with a friend or partner.
- [ ] After exchange, your broker and legal company will liaise to organise transfer of funds to the seller.
- [ ] On completion day, monies should be transferred, normally by 1pm.
- [ ] Have a back-up plan in case you can't take possession on completion day.
- [ ] File mortgage paperwork, including terms and conditions, the valuation and your survey.
- [ ] Advise your broker/lender in writing if planning to carry out major works.
- [ ] Talk to your broker at least once a year to check you still have the right deal.
- [ ] Your property may be repossessed if you do not keep up repayments on your mortgage.
- [ ] There will be a fee for mortgage advice. The actual amount you pay will depend upon your circumstances. The fee is up to 1%, but a typical fee is 0.3% of the amount borrowed.

Call Mortgage Advice Bureau on 0800 085 0118

Visit the website at mortgageadvicebureau.com

Checklist: How to organise HMO finance

Brooklands Commercial Finance

If you have decided to let rooms, whether to students or otherwise, your property will probably become a house in multiple occupation (HMO), and extra rules and regulations will apply. Securing finance for an HMO is also slightly different, so we have created this checklist with Brooklands Commercial Finance to help you.

☐ Definition

Your property is probably an HMO if:

- Three or more unrelated people live there, as at least two separate households – for example, three single people with their own rooms or two couples each sharing a room
- The people living there share basic amenities – for example a kitchen and/or a bathroom

☐ Types of HMO

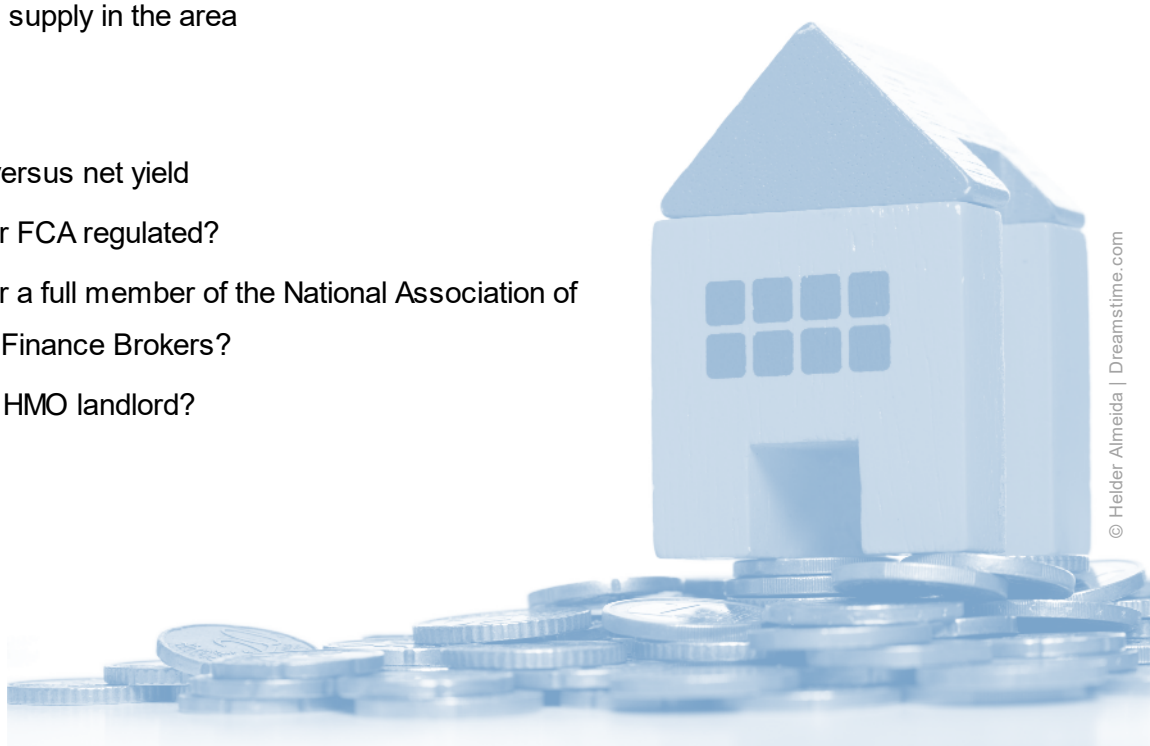
- A house split into separate bedsits
- A shared house or flat, where the sharers are not members of the same family
- A hostel
- A bed and breakfast that is not just for holidays
- Shared accommodation for students

☐ Location

- Determine target market
- Transport, buses, trains, commuter route
- Close to a university or hospital
- Demand and supply in the area

☐ Finance

- Gross yield versus net yield
- Is your broker FCA regulated?
- Is your broker a full member of the National Association of Commercial Finance Brokers?
- Experienced HMO landlord?



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☐ Valuation

- Bricks and mortar value – where a property is valued in accordance with its neighbouring properties
- Investment value – where a property is valued on its investment value or a multiple of its income

☐ Is the borrower going to be a limited company or an individual?

Call Brooklands Commercial Finance on 034 5548 8002

Visit the website at brooklandscf.co.uk

EXPERT TIP

Lenders view buy to let mortgages as a slightly higher risk. They will require a bigger deposit and will pay attention to rental income as opposed to affordability. There will be various 'stress tests' which look at things like whether the rent will cover the mortgage payments and by what margin.



RUPERT SWETMAN
mortgageadvisers.which.co.uk

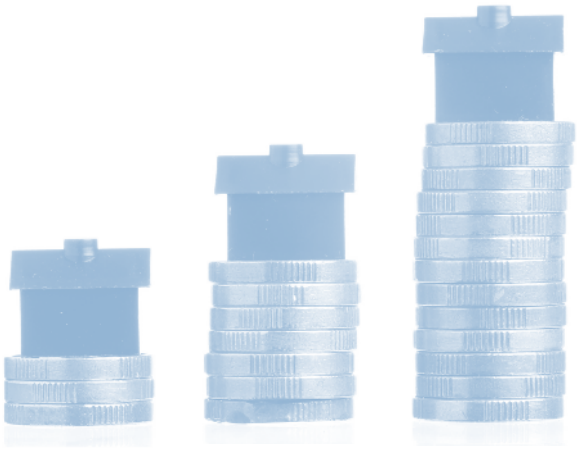
Checklist: Oganising refurbishment finance

Brooklands Commercial Finance

You may decide to purchase a property to refurbish, which can enable you to purchase at a lower price and add value. However, because a property needs to be habitable before you can get a mortgage on it, this can present problems, and specialist finance may be required. We have created this checklist with Brooklands Commercial Finance to help you understand the steps you need to take to organise refurbishment finance.

☐ The benefits of refurbishing property are:

- Boosts total profits
- Increased value of the property – capital growth
- Cuts down long-term maintenance costs
- Increased rental income
- Attracts higher quality tenants
- Secures tenants quicker



© Rolandm | Dreamstime.com

☐ In order for a property to be deemed suitable for mortgage purposes, it needs to be habitable, wind and water tight and be fully functional (kitchens and bathrooms). Refurbishment finance is a popular option, and is often used to bridge a funding gap until a conventional buy to let mortgage is available or the property is sold.

☐ Refurbishment of properties can be classified into light refurbishment and heavy refurbishment. The former would include new bathrooms and kitchens, electrics, plumbing, plastering and decorating. The latter would include works that require planning consent and also change of use, for example, offices to flats and public houses to Houses in Multiple Occupation (HMOs).

☐ Is the mortgage broker FCA regulated?

☐ Is the mortgage broker a full member of the National Association of Commercial Finance Brokers?

☐ Check with the broker what experience they have in sourcing such finance.

☐ Ensure you understand any planning and building control requirements.

☐ Will you oversee the refurbishment or use a project manager?

☐ Take up references on all the trades' people that will be involved.

☐ Calculate the refurbishment costs, breaking down the labour and material costs.

☐ Know the time frame for the refurbishment work.

- [ ] Ensure you know the broker's and lender's fees, including, arrangement and exit fees and interest rates on money drawn down.
- [ ] Calculate your total costs, including, purchase price, stamp duty, legal costs, finance charges and refurbishment costs.
- [ ] Evaluate what the Gross Development Value (GDV) will be.
- [ ] Establish how much you will be able to re-mortgage for, and hence, how much of your money will be left in.
- [ ] Is the borrower going to be a limited company or an individual?

Call Brooklands Commercial Finance on 034 5548 8002

Visit the website at brooklandscf.co.uk

EXPERT TIP

You need to tell your insurance company if you carry out works which alter the structure of your rental property. It is also important to let your insurer know if your property is unoccupied for more than 30 days.



CHRISTINA DIMITROV
directlineforbusiness.co.uk

Comparing properties

Before you make any offers, you must thoroughly research the property from an investment point of view, calculating how you will make money from the property and what work is required to bring it up to standard.

There are lots of different ways to profit from property. From a professional investor's perspective, the more ways you can find to make money out of one property, the better chance you have of investment success.

Three ways to make money from property before it is let

1. **Buy below market value in exchange for a quick deal**
2. **Buy a property that is not mortgageable initially and can therefore only be sold to a cash buyer**
3. **Increase a property's value by adding space, changing its layout or carrying out repairs.**

Critical to your calculations is to work out how much money you will need to spend on the property so it can be legally let. This can run into tens of thousands of pounds very quickly if electrics need updating and a new boiler or central heating system is required.

If it takes two to three months to carry out necessary upgrades, this means you will have to cover the costs of several months' mortgage payments, utilities and even council tax, depending on the local authority's rules, without any rent coming in. Be sure to factor all of this into your initial budget, as it is all additional investment capital.

EXPERT TIP



It's really important to have a survey done so you can budget for any work required to bring your property up to standard. Before you let, take into account the age of the property and think about what's going to be required in future, such as rewiring and guttering.

CARRIE ALLISTON
hunters.com

Property comparison chart

Complete the table on the next two pages to compare different properties but remember, if you need help, the buy-to-let experts at your letting agent will be able to help.

EXAMPLE	PROPERTY 1	PROPERTY 2	PROPERTY 3
Address	Address	Address	Address
15 Main Street, Anytown			
Value	Value	Value	Value
£150,000			
PURCHASE COSTS	**PURCHASE COSTS**	**PURCHASE COSTS**	**PURCHASE COSTS**
Deposit	Deposit	Deposit	Deposit
£37,500			
Legal fees	Legal fees	Legal fees	Legal fees
£1,000			
Stamp duty*	Stamp duty*	Stamp duty*	Stamp duty*
£5,000			
**Assuming it is a second home*	**Assuming it is a second home*	**Assuming it is a second home*	**Assuming it is a second home*
Mortgage costs	Mortgage costs	Mortgage costs	Mortgage costs
£1,000			
Survey fees	Survey fees	Survey fees	Survey fees
£300			
Sub-total	**Sub-total**	**Sub-total**	**Sub-total**
£44,800			
PREPARING FOR RENT	**PREPARING FOR RENT**	**PREPARING FOR RENT**	**PREPARING FOR RENT**
Gas/electric safety certificates	Gas/electric safety certificates	Gas/electric safety certificates	Gas/electric safety certificates
£300			
Renovation/repair	Renovation/repair	Renovation/repair	Renovation/repair
£2,000			
Sub-total	**Sub-total**	**Sub-total**	**Sub-total**
£2,300			

EXAMPLE	PROPERTY 1	PROPERTY 2	PROPERTY 3
COSTS UNTIL RENTED	**COSTS UNTIL RENTED**	**COSTS UNTIL RENTED**	**COSTS UNTIL RENTED**
Mortgage	Mortgage	Mortgage	Mortgage
£1,200			
Council tax	Council tax	Council tax	Council tax
£375			
Utilities	Utilities	Utilities	Utilities
£150			
Service charges/ ground rent	Service charges/ ground rent	Service charges/ ground rent	Service charges/ ground rent
£0			
Sub-total	**Sub-total**	**Sub-total**	**Sub-total**
£1,725			
SUM INVESTED	**SUM INVESTED**	**SUM INVESTED**	**SUM INVESTED**
Total sum invested	**Total sum invested**	**Total sum invested**	**Total sum invested**
£44,800			
Sub-total of costs minus deposit	**Sub-total of costs minus deposit**	**Sub-total of costs minus deposit**	**Sub-total of costs minus deposit**
£11.325			
ONGOING ANNUAL RUNNING COSTS	**ONGOING ANNUAL RUNNING COSTS**	**ONGOING ANNUAL RUNNING COSTS**	**ONGOING ANNUAL RUNNING COSTS**
Mortgage @3%	Mortgage @3%	Mortgage @3%	Mortgage @3%
£3,375			
Agent's fees	Agent's fees	Agent's fees	Agent's fees
£900			
Gas/electric safety certificate	Gas/electric safety certificate	Gas/electric safety certificate	Gas/electric safety certificate
£300			
Maintenance	Maintenance	Maintenance	Maintenance
£500			
Landlord insurance	Landlord insurance	Landlord insurance	Landlord insurance
£300			
Void periods*	Void periods	Void periods	Void periods
£288			
**Estimate two weeks per year*	**Estimate two weeks per year*	**Estimate two weeks per year*	**Estimate two weeks per year*
Sub-total	**Sub-total**	**Sub-total**	**Sub-total**
£5,663			

Landlord insurance

Ordinary home insurance won't cover you as a landlord, as you have tenants who are your paying customers. Specialist landlord insurance will help cover your commercial interests. For instance, if you have to rehouse your tenants because the property is uninhabitable due to fire or flood.

Other risks insurers have to consider is if the property is empty for a month or more if you struggle to find a tenant, or have to carry out repairs to let the property legally and safely.



BUILDINGS COVER

This covers your property's structure, as well as fixtures and fittings such as kitchens and bathrooms. Some policies will even cover your boiler should it break down.



CONTENTS COVER

This is for freestanding items left in the property owned by the landlord but used by the tenant, such as any appliances or freestanding furniture, as long as it meets safety standards.



PUBLIC LIABILITY

One of your risks you should cover yourself for is tenants, or even their guests or neighbours, making a claim against you if there is an accident in the property. For instance, if a pipe bursts and damages a neighbour's property, they could claim against you, leaving you with hefty legal costs and compensation to pay. Public liability insurance covers you against this.



OPTIONAL EXTRAS

- Legal expenses
- Rent guarantee
- Malicious damage by tenant

These all help mitigate against the additional risks of being a landlord and can save you thousands of pounds if somebody makes a claim against you, if the tenant stops paying rent or causes deliberate damage to your property.



LIFE INSURANCE

Some lenders will require you to have life insurance, which means the whole mortgage or your share of it is paid off in the event of your death, so seek terms from your mortgage broker. This is important to understand if you are investing in property, especially if you are buying with a business partner or spouse as you should consider protecting the other person from being forced to sell the property should anything happen to you.

Checklist: Insuring a buy-to-let



Specialist landlord insurance is essential when running a buy-to-let. When you let a property, you are seen as someone running a business and there are additional risks faced by a landlord, such as malicious damage by tenants, tenants not paying rent and void periods. Direct Line for Business have created this checklist to help ensure you are properly covered.

- [ ] Check what type of buildings and contents cover are required.

NOTE

If you're insuring a flat it may be that you need only contents insurance and public liability as the freeholder typically insures the building but you should always check this before you take out any policies.

- [ ] Know what type of tenant you're letting to e.g. professional, student.
- [ ] Check the type of let e.g. short or long term let.
- [ ] Know the approximate age and type of build (e.g. brick) of the property you want to insure.
- [ ] Know the cost of rebuilding your property(ies). **Note** this is not the same as the market value.
- [ ] Work out what you need to insure in the property e.g. fixtures and fittings and other contents such as washing machines, free-standing fridge freezers etc.
- [ ] Check whether the buildings cover includes boiler cover as standard, to pay to repair or replace a broken down boiler.
- [ ] Understand the cost/benefit of insuring for non-payment of rent by the tenant.
- [ ] Make sure public liability insurance (sometimes also known as Property Owners' Liability insurance) is included.
- [ ] Consider if you need cover for malicious damage and theft by tenants.
- [ ] Check how long the property is covered for if left empty (i.e. no tenants) and if there are any conditions or limits that may apply.
- [ ] Check whether alternative accommodation cover is included, to rehouse your tenants if the property becomes uninhabitable because of, say, a fire or flood.

- [ ] Compare insurance cost to the level of cover.
- [ ] Check if it is more advantageous to have multi property insurance rather than individual policies.
- [ ] Make sure your property complies with the policy requirements.
- [ ] Check whether your floors are built of concrete, timber or both.

Call Christina Dimitrov at Direct Line on 0345 303 1763

For more information, search Direct Line Landlord Knowledge Centre at directlineforbusiness.co.uk

EXPERT TIP

When you purchase landlord insurance you are insuring your investment and protecting your income. A good landlord insurer may provide cover for your rental income in case your tenant cannot pay. They may even pay for the eviction process, which can be costly, stressful and time-consuming, so take a good look at all the elements the insurer provides.



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Summary of the 10 key steps to financing and insuring a buy-to-let property

As we have discussed, financing and insuring a property you plan to let out is very different to purchasing a home for your own family. To recap, here are the 10 steps you will need to take:

1 Check your credit

Make sure your credit score is as good as it can be, as this will help to reassure lenders you are a trustworthy borrower.

2 Choose who you want to work with

Make sure you choose a specialist mortgage broker who has access to a comprehensive range of mortgage products and who knows how to finance all different types of buy-to-let property.

3 Secure an agreement in principle or similar

To secure a bargain or make a quick purchase, you are advised to apply for finance before making any offers on a property.

4 Ensure your broker keeps you up to date with new finance

Many lenders review their mortgage products regularly, so a better rate or more suitable product may become available. Work closely with your broker to ensure you are kept informed.

5 Finalise your financing

Once you have your finance organised, it's a matter of finding properties, then your broker should handle the application for you. You should also give your mortgage advisor/legal company permission in writing to liaise directly.

6 Valuing a property and its income potential

Before finalising any offer, obtain a detailed survey and asking your surveyor to check the property's suitability for letting.

7 The mortgage offer, or decline

Although it can take weeks for your full application to be officially accepted or declined, the lender will usually confirm this to your broker as soon as possible. A survey confirms whether the purchase price is acceptable. It should then be possible to move to exchange and completion.

8 Insurance

Get an insurance quote sorted early so you can proceed as soon as you exchange.

9 Completion

After exchange, your broker and legal company should do most of the work to make sure the property completes on time.

10 Preparing the property

Do all you can to let the property quickly. A property that is empty for 30 days or more may not be fully covered by your insurance and you should inform your insurance company before and after any work is being carried out.

Our expert solicitor recommends

- **Get the insurance sorted out at an early stage, before exhange**
- **Use a specialist broker, who really understands the buy to let market**
- **If you need to serve a notice, take legal advice to make sure you're going in the right direction**

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Where next?

There are six eBooks in this series, which accompany the six episodes of the Buy to Let Show. They are:

1. **Is Buy to Let a Wise Investment?**
2. **Financing and Insuring a Buy to Let**
3. **How to Choose a Buy to Let**
4. **Letting a Property Legally and Safely**
5. **Dealing with Tenancy Problems**
6. **How to Plan an Exit from Buy to Let**

View the shows



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