Title:
How To Get 100% Finance on Residential Buy-To-Lets.

Word Count:
551

Summary:
Lenders have moved away from straight gifted deposits of late. This article offers a solution though...

Keywords:
1oo% finance, gifted deposits, low deposits, low money down, refinance, remortgage

Article Body:

Looking to maximise on Developer Discounts without the lenders ‘down-valuing’ your property? Geoff Morris, of Property Horizons, discusses some interesting ways in which to maximise on these legitimate gifted deposits, with Suzanna Grey, an Independent Financial Advisor at Beacon Financial Limited

Purchasing buy to let property without needing a deposit: How to deal with builder deposits

There are some very attractive deals available to property investors in the new build arena. Essentially the builder gifts the 15% deposit required to the purchaser. These deals are negotiated on the basis that a number of properties will be sold and are normally accessed through property clubs. This appears too good to be true, you own an investment property without having to commit a capital sum to the purchase, allowing you to capitalise on the increase in value with minimal risk.

The lenders however have their concerns about financing a buy-to-let property which the purchaser has no capital tied up in. They view this as a higher risk on the basis that the new owner will not lose personal capital should things go wrong. Subsequently there are many lenders in the buy-to-let market who are withdrawing from this type of deal. They refuse to lend on property that is not yet a year old, will only offer 75% loan-to-value and decline to accept builder or vendor deposits, effectively down-valuing the property by applying the gifted deposit as a discount on the purchase price.

Purchasers therefore had to discover an alternative solution. This was to back-to-back a remortgage on the full value of the property with the mortgage used to purchase the property. Again the lenders were wary, many now include a clause restricting the value allowable on a remortgage to: the valuation or purchase price whichever is lower, if the remortgage occurs within 6 months of the purchase. This is a clause we are accustomed to seeing when purchasing a property which historically was not included in a remortgage.

There are still some lenders who are prepared to remortgage these properties but choice is limited. However this should not inhibit investors from proceeding as the option is still available.

It is possible to only have to meet 10% of the purchase price initially which then will be returned upon completion of the remortgage. This allows the capital withdrawn to be used again to purchase the next property ensuring that the portfolio can grow without additional capital injection from the investor.

There are some alternative ways to finance this type of deal, commercial lending known as bridging finance will lend on value not purchase price but only to 70% of the value of the property and it is an expensive solution.

It is possible to wait 6 months before remortgaging however this ties up deposit funds for that period stifling the growth of your portfolio.

Therefore the initial solution remains the most convenient, it allows the property to be purchased essentially simply for the cost of the legal work and the mortgage fees. Securing a brand new property that conforms to current regulations which should be easy to tenant.

As the cash flow required for deposits is the main issue that will limit the size of a portfolio and the rate at which it grows, it is easy to see why this scenario is so attractive to investors.