

MORTGAGE UPDATE HMO FINANCE

By **Stuart Yardley**
Trafalgar Square Financial Planning Consultants

As the market has changed, we have seen an increase in demand for HMO finance and the number of lenders offering products for these types of properties.

When looking at HMO finance, each lender has their own criteria and the financing options are very much driven by four key factors:

- **Is this already a licensed HMO, or are you turning it into a licensed HMO?**
- **Landlord's experience**
- **Valuation/purchase price**
- **Number of bedrooms**

EXISTING HMO OR CREATING AN HMO?

When you are considering purchasing an HMO, there are a few key questions that relate to how they can be financed for the initial purchase.

With the additional HMO regulation that came in last year, all properties with five or more bedrooms require licensing.

This means that if you are purchasing a property to turn into a licensed HMO, you will need the works completed and license applied for, before an HMO lender will lend. Therefore, investors need to purchase with either cash or bridging finance, complete the conversion, apply for the license, and only once this has been done can you apply for an HMO mortgage.

The exception to this would be if you are purchasing an HMO that is already licensed, for which specialist mortgage finance can be considered from day one.

For smaller HMOs, for example a three-bedroom/two-reception house where you plan to use one of the receptions as a bedroom to create a four-bed HMO, we can look at HMO mortgage finance from day one, even for a first-time landlord. This is assuming there are no other specialist licensing requirements in the area.

If you are converting a house into a licensed HMO, there are a few different bridging options you can consider, from the specialist bridging lenders to the banks. Precise Mortgages also have an option where they will consider a bridge to HMO lending option.



LANDLORD'S EXPERIENCE

The majority of HMO lending options do require you to already have landlord's experience. The typical criteria for an HMO up to seven/eight bedrooms is that you have lettings experience for a minimum of 12 months. There is an exception to this with Kent Reliance, who are happy to consider HMO finance for any existing property owner.

The mainstream HMO lenders will generally look at HMOs up to seven/eight bedrooms, but typically with a standard layout, so one kitchen and a communal living area.

As HMOs increase in complexity, such as larger HMOs or properties with self-contained units, the level of experience required increases as the lending moves towards commercial finance.

PURCHASE PRICE/VALUATION

Most HMO lender options require a minimum valuation of £100,000, but this is slowly improving. There are now options available for HMO finance with a minimum valuation of just under £67,000. Kent have taken the lead in this market with the minimum loan being reduced recently to £50,000.

NUMBER OF BEDROOMS

Many of the mainstream lenders will consider an HMO up to seven/eight bedrooms, that is essentially still a standard house, ie it contains one kitchen and a communal living area.

As a rule, for larger HMOs or properties with multiple kitchens or self-contained units, you are looking at the more specialist HMO and commercial lenders. For these larger HMOs, required experience will be – and this varies depending on the lender – between 12 months' HMO experience of a similar sized property, or three years' lettings experience.

HMO LENDERS

As I mentioned earlier, there is a wide range of lenders within this specialist market, from high-street lenders to specialist HMO lenders and commercial banks. So I thought I would look at a few lender examples from each sector.

Leeds Building Society

Leeds Building Society are one of the high-street lenders who have a range of products for investors looking to finance an HMO property. They have improved their criteria recently and now have a range of products for HMOs up to six bedrooms, and a new range for larger HMOs up to eight bedrooms.

Key criteria for HMOs:

- Maximum portfolio size of ten properties, irrespective of lender
- Available for properties in England, Scotland and Wales
- First applicant must be a residential homeowner and an experienced landlord
- Maximum of eight lettable bedrooms
- Minimum valuation is £100,000 or £250,000 in London
- Lending available up to 75% of the purchase price or valuation

Products include:

SMALL HMOs UP TO SIX BEDROOMS ...

- 75% loan to value/purchase price**
 - 2.59% 2-year fixed - £999 arrangement fee
- 70% loan to value/purchase price**
 - 2.39% 2-year fixed - £999 arrangement fee
 - 2.79% 5-year fixed - £999 arrangement fee

LARGE HMOs OVER SIX BEDROOMS

- 75% loan to value/purchase price**
 - 3.84% 2-year fixed - £1,999 arrangement fee
- 70% loan to value/purchase price**
 - 3.69% 2-year fixed - £999 arrangement fee
 - 3.84% 5-year fixed - £1,999 arrangement fee



KentReliance

Kent Reliance have a full range of products available for multi-let/HMO properties that have up to eight bedrooms. They are a great option for investors who are new to this specialist area and looking for a standard HMO to add to their portfolio. Properties must be set out as a standard house and have a maximum of one kitchen and communal living area.

Key criteria for Kent Reliance:

- Range of products available up to 85% loan to valuation/purchase price
- £50,000 minimum loan if the loan to value =< 75% or a minimum loan of £100,000 if the loan to value is >75%
- Must be a residential homeowner or existing BTL landlord
- First time landlords - maximum loan to value is 80%
- Lending available in personal names or limited company
- Up to eight bedrooms acceptable
- No minimum income – self-employed must have a two-year trading history and employed three months in their current employment
- Lending available in England and Wales only

65% loan to value/purchase price

- 3.19% 2-year fixed – 1.5% arrangement fee added
- 3.59% 5-year fixed – 2% arrangement fee added

75% loan to value/purchase price

- 3.39% 2-year fixed – 1.5% arrangement fee added
- 3.79% 5-year fixed – 2% arrangement fee added

80% loan to value/purchase price

- 3.69% 2-year fixed – 1.5% arrangement fee added
- 4.39% 5-year fixed – 2% arrangement fee added

85% loan to value/purchase price

- 4.59% 2-year fixed – 2.5% arrangement fee added
- 5.29% 5-year fixed – 2.5% arrangement fee added



Precise Mortgages have a full range of products available for multi-let/HMO properties that have up to eight bedrooms. They are a great option for investors who have existing BTL experience and are looking to either move into this area or refinance an existing property.

Key criteria for Precise Mortgages:

- Range of products available up to 80% loan to valuation/purchase price
- £100,000 minimum purchase price/valuation, or £250,000 in London
- Must be an existing landlord with a minimum of one BTL held and let for 12 months
- Lending available in personal names or limited company
- Up to eight bedrooms acceptable
- No minimum income – self-employed must have a one-year trading history and employed three months in their current employment, with 12 months' continuous employment
- Maximum of one kitchen in the property
- Lending available in England, Wales and Scotland (some postcode restrictions)

INTEREST RATES AVAILABLE INCLUDE:

75% loan to value/purchase price

- 2.79% 2-year fixed – £995 arrangement fee added
- 3.69% 5-year fixed – 1.5% arrangement fee added

80% loan to value/purchase price

- 3.49% 2-year fixed – 1.5% arrangement fee added
- 3.84% 5-year fixed – 1.5% arrangement fee added

Precise are another good lending option for the investor who is looking to finance a simple HMO and enter this specialist market.



Paragon Mortgages are an established lender who have a full range of HMO products for the experienced landlord who have a minimum of three years' experience. They will however consider larger HMOs and properties that do have a non-standard layout, such as multiple kitchens or self-contained units.

Key criteria for Paragon Mortgages:

- Range of products available up to 80% loan to valuation/purchase price
- £100,000 minimum purchase price/valuation for up to ten rooms
- £150,000 minimum purchase price/valuation for up to 20 rooms
- Must be an existing landlord with three years' lettings experience
- Lending available in personal names or limited company
- Up to eight bedrooms acceptable
- Minimum £25,000 provable income required
- Self-employed/company directors must have two years' trading history
- Employed applicants must be in permanent non-probationary employment

INTEREST RATES AVAILABLE INCLUDE:

75% loan to value/purchase price

- 3.20% 2-year fixed – 1% arrangement fee added
- 3.60% 2-year fixed – no arrangement fee added
- 3.75% 5-year fixed – 0.5% arrangement fee added

80% loan to value/purchase price

- 3.99% 2-year fixed – 0.25% arrangement fee added
- 3.50% 5-year fixed – 2% arrangement fee added

Paragon are a good lender for the experienced landlord who is looking to add a larger HMO to their portfolio or refinance an existing property.

We then move onto the commercial lenders such as Shawbrook Bank, Aldermore Bank, Interbay, Cambridge and Counties.

The commercial banks will all consider HMO finance for experienced landlords, and they will be able to assist when you are looking at financing large HMOs or properties with a complex set up. They will also consider properties that contain a commercial element.

As you can see, there are many options available for when you are looking to finance an HMO, and I would recommend speaking to myself or your broker to discuss your individual circumstances.

As always, I am available to chat if you require any advice on a BTL or residential mortgage, or commercial, bridging or development finance. I work with investors throughout the country with property investment opportunities, from those buying their very first BTL property to experienced landlords, so please give me a call or send me an email.

T: **0208 870 8787** M: **07973 172 444**
E: **stuart@trafalgarsq.co.uk**
W: **www.trafalgarsq.co.uk**

