

Making affordability clearer

We're here to support you and your Buy to Let clients, making sure that together we meet their needs.

So we've created this guide to help you understand and explain our affordability criteria.

What's inside

- Interest Cover Ratio (ICR) and Stress Rates overview
- Rental Calculation explained
- Hints and tips



Our Stress Rates and Interest Cover Ratios (ICR)

To reflect the different taxable income levels of landlords, we apply the following rental checks:

Tax rate	Stress rate	Interest Cover Ratio
20% or less	5.50%	125%
40% or more		145%

Exceptions apply:

4.99% stress rate	<ul style="list-style-type: none"> A fixed rate product that has a term of 5 or more years A remortgage up to and including 65% LTV without capital raising
170% ICR	<ul style="list-style-type: none"> Applications for Houses in Multiple Occupation (HMO) regardless of tax status

- For remortgage applications without capital raising and fixed rate product terms of 5 or more years, the higher of stress rate or product pay rate (product pay rate + 0.50% for variable products) will apply.
- For all other applications, the higher of stress rate or product pay rate + 2% will apply.
- For Further Advance applications where the existing product is ending within 3 months, the higher of follow on rate + 2% or 5.50% will be used to stress the existing loan.
- For existing customers switching products, no rental assessment will apply.
- For portfolio landlord applications, an aggregate rental calculation applies (please refer to the lending criteria for details).

How we work out the maximum borrowing

There are two calculations commonly used in BTL. Here are a few examples.

1. How much can be borrowed?

Annual Rent £10,000	÷	Stress Rate 5.50%	÷	ICR 125%	=	Max Loan £145,454
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2. How much rent is needed?

Loan Required £150,000	×	Stress Rate 5.50%	×	ICR 125%	=	Minimum Annual Rent £10,313 (£860 Per Month)
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These calculators are available online at themortgageworks.co.uk/calculators

125% Interest Cover Ratio (ICR)

125% can be used for landlords who, on completion of the new TMW mortgage:

- Can evidence that they're a lower rate tax payer (gross income of £45k or less in England/Wales or £43k or less in Scotland) **and**
- Have three or less rental properties in their portfolio, with or without a mortgage, including any TMW applications in progress

For joint applications, each applicant will need to meet this criteria - i.e. own three or less rental properties each.

Purchase and Let to Buy applications:

- To work out your client's tax band post completion, 75% of the proposed gross rental income will be added to their current gross income.

Which income proofs do I need to send?

To help confirm a landlord's existing tax status, we'll need the following:

Landlord Type	Income Type	Proof
Experienced Landlord	Self Employed	Tax Calculation & Tax Year Overview
	Employed/Retired	
First Time Landlord	Self Employed	Latest Payslip/Pension Statement
	Employed/Retired	
	No Taxable Income	3 Months Bank Statements

For applications with a 145% ICR or higher:

- Proof of income isn't usually required but if needed, we'll ask you to send this to us.

Hints & Tips

1. For clients who meet the **145% ICR, the maximum portfolio limits haven't changed.** See our website for more details.

But, if your client has an **ICR between 125% and 145% the maximum number of rental properties is three.** These include any applications in progress with TMW, applications under individual names, mortgage free properties and properties mortgaged with other lenders. This limit doesn't apply to any properties that are owned by limited companies or partnerships.

2. If your client's credit file shows **more mortgages than properties**, we may need further information to confirm that their portfolio has no more than three properties. This should be in the form of a mortgage statement.
3. If your client is a **higher rate tax payer** or a **145% ICR applies**, we don't need to see proof of income to confirm their tax status.
4. If your client is an **existing customer switching products**, no rental assessment applies.
5. If your client is making a **joint purchase application**, we'll take 75% of the rental income, allocate half of this between applicants and then add it to their other income sources. For example - if the new property has an annual rental income of £10,000, we'll take 75% of this and allocate £3,750 to each applicant ($75\% \text{ of } £10,000 = £7,500$, $£7,500 / 2 = £3,750$).

For help, advice or more information contact our Dedicated Broker Support team using Broker Chat

9.30am - 6pm (Mondays)

9am - 6pm (Tuesday - Friday)

themortgageworks.co.uk/brokerchat

the mortgage works 

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