

Unable to pay your Buy to Let Mortgage- what to do when the wheels fall off!

So, is the buy to let boom over? It certainly is not the same as last year. Those who like I began to rely on the ability to re-mortgage to solve our problems have now found that now property is not increasing in value and lenders are not lending, we are back to the basics of being a landlord. So how do we pay our mortgages if rents are not high enough, or if there are voids or poor paying tenants?

Gone is the big money from cash backs and re-mortgaging, we are left with the grinding problem of trying to balance our budget with only a tiny margin for profit. If I, whose portfolio is mainly HMO's, find it a struggle to balance the books,

relying purely on rents. How are those with only single lets doing?

I recently reviewed my single lets and those mortgages which are based on Libor my surplus on rent has been extinguished and I am having to subsidise the mortgage from other sources, Oh, I only wish I had changed all my borrowing over to base rate trackers, those properties are still making a surplus. The days of base rate plus 0.49% trackers for life have I believe long gone!

However, my HMO's where on average the rent is over twice the mortgage payments, give me comfort but I am having to refocus on the efficiency of the operation by ensuring rents are collected, voids are quickly filled and the properties are maintained and prepared to a good standard. With my HMO's I can squeeze a few thousand pounds surplus out of each property but it is tedious, laborious

work. How much easier was it to fill in an application form and have the property re-valued and release £50k to £100k!

Is the answer to let your suitable properties as HMO's? It is certainly worth considering. There is more involved in letting a property as a HMO but it is not that difficult than letting property as a whole, but unlike most of what is involved in being a landlord, for example eviction and abandonment, it is not on a need to know business. You have to understand what you are doing and also cope with the uncertainty of what is involved. What standards are required? What is the planning situation? No one can give a definite answer to those questions. So much depends on the Local Authorities for that area and even individual officers.

Providing your lender does not object you do not need anyone else permission to start letting a property as a HMO, though it is better to call it a shared house or multi let it seems to cause less opposition. A recent example of this is when a planning enforcement officer I had not met called at one of my properties.

The officer said he had received a complaint that I was operating a HMO. When I said it was a 'shared house' his reaction was that a shared house was ok and after a brief look around he went away. HMO's only exist at the acquiescence or apathy of your Local Authority and if the HMO has been in existence for over 10 years, four years if self contained, then it gets established use which means the planning department cannot close it down. If you're Authority chose to, they would say they are only, 'Applying the rules',

then operating a HMO could become impossible or uneconomic.

In the meantime, on average, you can increase the income from a property by over three times by letting it as a HMO.

Coming back to the problem of what do you do, should you be unable to pay the mortgage payments. The most important thing, nearly all the lenders say is that you must talk to them, do not ignore them, best speak before the direct debts start to bounce.

Lenders vary in the amount of support offered and degree of latitude given. The last thing most lenders want is to have to repossess your property. They realise that if they do in the current market they will not get a good price for the property. But like most things in property do not expect logic or

sense. Those of us who have bought repossessed properties will know that once things are in the re-possession stage, the people operating those departments are at the very best lacking in compassion or sense. As someone explained to me, how could you do such a job if you had compassion? Throwing people out of their homes is not the most sought after of careers.

It is, therefore, vitally important to enter into dialogue with your lender(s) as early as possible and provide them with a solution. They may agree to interest only, if it is a repayment mortgage, so, giving a reduction in payments. Your lender may be agreeable to a payment reduction or allow a payment holiday for say 3 to 12 months. There is little else a lender can do. You have take on the liability; it is down to you to see it through. In the long term property and rents will increase, you

can only do your very best in the meantime.

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Do not, if at all possible, default on a mortgage payment; even a missed payment will blight your credit record for at least six years, so only go to your lender as a last resort. Cancel holidays; sell the car, work longer, the current market situation is hopefully only temporary.

We should not forget the tenants in all this, though they are often the cause of the problem by not paying their rent. Much of the rent arrears problems are down to poor management. As soon as a tenant misses a payment act promptly. I issue a Section 8 notice as soon as a tenant becomes 7 days overdue, it shows you mean business. Should the property be repossessed then the tenant will be evicted, the law provides no protection for the tenant

in such circumstances. Again lenders vary in their approach in such circumstances. The more pragmatic will allow the tenancy to continue and receive the income. Some of the lenders realise that in the current market they are likely to recover their loan and the rent is a better substitute, but there is no consistence in behaviour between lenders.

The stark reality, which most people do not realise, is there is in effect an explosion in repossessions. The figures, though they show a doubling in repossession in the first part of 2008 hide the real truth. The actual repossessions would be very, very higher if it was not for investors offering rent backs or being prepared to buy properties from distressed sellers. It is also, not generally known, but investors who have run into problems. The lenders have not repossessed but have quietly sold

their portfolio to other investors, often taking a big hit. If all these were added to the repossession figures then things would be looking very bleak indeed.

Should you see no end to your situation then you may wish to consider compromise agreement or an individual Voluntary Agreement (IVA) as an alternative to going into bankruptcy. This is getting into the area where you should get specialist advice and contact a dept counselling organisation or the Citizens Advice Bureau. Remember, the most important thing to do is to talk to your lenders, do not ignore them and seek specialist advice.

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Many thanks

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