



Is there a place for Day 1 Remortgages?



In a volatile market, landlords could be forgiven for struggling to keep pace with the variety of mortgage products available. Amongst the heat and noise, the Day 1 Remortgage can be overlooked, but these types of remortgages are, in fact, growing in popularity. Used wisely, they can help landlords maximise their assets.

As a buy-to-let lender, we are one of the few lenders to offer these remortgages.

What is a Day 1 Remortgage?

A Day 1 Remortgage raises capital on a property after its purchase. This could be the day after purchase. But properties are rarely refinanced that fast.

Much depends on how quickly the property is registered with the Land Registry, and currently, there are long delays with registering titles. Most lenders require the title to be registered for at least six months or even 12 months before refinancing will be considered. At Landbay, we are happy to lend within this six-month window.

Who takes out a Day 1 Remortgage

Many borrowers buy uninhabitable properties at auction. Some are savvy

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landlords who keep a close eye on properties coming to market that they might have been eyeing up for a while.

Remortgage properties are purchased with cash or using bridging or development finance. Once the purchase is complete, the buyer can then remortgage. These borrowers look for a lender who will allow them to exit that original cash purchase or bridging loan as early as possible.

As a buy-to-let lender, we will only lend on habitable properties. Usually, this is once the house or flat has been renovated and is fit to let, but sometimes it can be just before, ensuring that the property is ready to let by the time the valuer goes out.

As an example, a landlord buys a property at £100,000. Over the next two months, they carry out work to the property, which increases its value to £125,000. They then apply for a BTL remortgage.

At Landbay, we usually lend £125,000 as the work has improved the property value. But we would ensure that the applicant has some of their resources tied into the property and that the works are commensurate with the uplift in its value.

Planning is everything

To make the most of Day 1 Remortgages and avoid unnecessary risks, the broker and client need to carefully plan together. Brokers will advise their clients that they need an exit plan to withdraw invested capital.

The lender needs to understand the initial purchase price. They will want to ensure that the sale is not unethical (for example, a distressed vendor sale), which would preclude many lenders from lending. This is the position we would take at Landbay.

If the property is in poor order, uninhabitable or lettable, the client should have a plan for how long work might take, the cost, and their target final valuation. This information is crucial for the broker and lender to create an exit plan.

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Many lenders will only lend on a percentage of refurbishment costs. Landbay takes a more flexible view, as many landlords buying this type of property will have the skills to do the refurbishment work themselves.

Advantages

A Day 1 Remortgage allows the client to build a portfolio of refurbished properties in perfect order. This type of property should attract good-quality, reliable tenants. Only minimal maintenance is needed because work has been completed at the outset. This sort of remortgage also allows the client to recycle the money they withdraw into investing in other, similar property purchases.

Flexibility and high loan-to-value

Last month (March), we launched new five-year fixed rate products at 80% loan-to-value for both standard properties and small houses in multiple occupation, alongside a raft of further rate reductions. These can be used for remortgaging, including Day 1 Remortgaging.

This is good news for landlords looking to raise even more capital, as well as those carrying out further improvements, making investments, or consolidating debt. The new 80% LTV five-year product for standard properties is available at 6.39% and comes with no product fees. The HMO version is available at 6.59% and comes with no product fees.

Conclusion

Day 1 remortgaging continues to be popular with professional landlords, particularly. At Landbay, around 80% of this business comes from limited companies.

If a carefully planned exit plan is in place, Day 1 Remortgages can be integral to expanding a BTL portfolio.