

# Meet Victoria Gotts

## Product Development Manager at Leeds Building Society.

Our buy to let (BTL) expert gives her thoughts on future opportunities in the market and what challenges you as brokers may face this year.



### Explain your role in a nutshell.

To identify, research and develop new products and propositions that support the Society's vision, with specific accountability for buy to let.

### How long have you worked in the industry?

14 years

### What did you want to be growing up?

A nurse (despite having an acute aversion to blood!)

### Where do you foresee the future opportunities in the buy to let market since the Prudential Regulatory Authority (PRA) announced their changes?

The PRA and interest tax relief changes are likely to result in greater emphasis being placed by investors on the type and location of investment property, with the incentive to invest driven by either high rental yields or future capital appreciation. This will make occupancy type and location increasingly important to long-term profitability.

I therefore think that the opportunity for brokers is to revisit clients with existing BTL portfolios to discuss making the appropriate changes to their portfolios now, whether that be to remortgage, re-evaluate the location, structure and/or property types within their portfolios, in order to ensure that they remain profitable when the tax changes have been fully applied in 2020-2021.



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## What challenges could brokers face with their buy to let clients this year?

The impact of the recent tax and regulatory changes, combined with Brexit and the resultant economic uncertainty is evident across landlord sentiment, with landlord confidence falling to an all-time low. Just under half of landlords still do not fully understand the impact of the changes to their lettings businesses, as a result landlords will increasingly be looking to their brokers for reassurance and guidance on how the changes will impact their portfolios, and what action they may need to be considering now in order to safeguard profitability long term<sup>1</sup>.

## What do you think will be the biggest impact on landlords following the recent changes?

I think the biggest impact on landlords will undoubtedly be diminishing returns. The changes will impact the purchase market more greatly, with existing investment property likely to be sheltered by the growth in property value. The split in remortgage activity is therefore expected to increase further and account for over 64% of all BTL activity in 2017<sup>2</sup>, as landlords seek to restructure existing debt in order to benefit from low mortgage interest rates.

## If you were head of the FCA for the day, what would you change about regulation in the buy to let industry?

The BTL market has recently been the subject of unprecedented policy and regulatory change. These changes will ultimately safeguard the market and investor longevity, by ensuring the private rental sector remains robust and allowing it to continue to support a balanced housing market. However, the sector now needs time to fully understand the cumulative impact of these changes, therefore if I was the head of the FCA or PRA for the day I would make no further changes until the most recent changes are fully embed in 2020-2021 and the full impact understood.

## What makes Leeds Building Society's buy to let proposition different from other lenders?

Our Interest Coverage Ratio (ICR) is 140%, with much of the market using an ICR of 145%<sup>3</sup>. Recognising that the BTL market is largely remortgage based (currently 62%<sup>4</sup>), we have applied the flexibilities granted within the PRA guidelines and applied a lower stress rate of 5% for remortgage borrowers where there is no additional borrowing. We have also removed our minimum income requirement\* and minimised documentation requirements, whilst introducing a dedicated BTL mortgage underwriting team to ensure a smooth application journey from enquiry to offer and completion.

\*although proof of income is still required



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Data correct at time of publication

<sup>1</sup>BDRC Landlords Panel Q4 2016

<sup>2</sup><https://www.cml.org.uk/news/news-and-views/market-commentary-2017-and-2018-forecasts/>

<sup>3</sup><http://www.telegraph.co.uk/personal-banking/mortgages/lenders-must-tighten-rules-for-buy-to-let-by-january-1-says-bank/>

<sup>4</sup><https://www.cml.org.uk/industry-data/>