



Mortgages
for Business

Keystone
Property Finance

Special Purpose Vehicles

Beware the bandwagon and proceed with
caution

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The emergence of BTL Ltd company lending

Driven by two events:

For landlords:

- 8th July 2015:
George Osborne's announcement to progressively restrict tax relief on mortgage interest and other finance costs to the basic rate of tax (20%) starting 6th April 2017 (to 5th April 2021)

For lenders:

- 28th September 2016:
PRA announces SS13/16 and PS 28/16 for Underwriting standards for buy-to-let mortgage contracts
 - Change of stress tests on or before 2nd January 2017
 - Implementation of new underwriting for portfolio landlords post 30th September 2017

Which led to a significant uplift in landlords changing how they buy further BTL properties in 2016 and going forward.

BTL Ltd Company Lending

We then asked...

What percentage of BTL purchases that you have financed in the last 6 months have been in a Ltd Co?

<10%

<25%

<50%

>50%

BTL Ltd Company Activity

Comments & surveys of brokers at recent shows...

Mortgage & Protection Senate 2 Sep 2016

Major network: Ltd Co BTL activity is negligible

Leading broker: We will implement a strategy in time for Apr '17

FSE London 14 Sep 2016

180 Brokers:

- < 10% - 67%
- < 25% - 20%
- < 50% - 14%
- > 50% - 9%

MBE London 13 Oct 2016

120 Brokers:

- < 10% - 84%
- < 25% - 10%
- < 50% - 5%
- > 50% - 1%

TSLE January 2017

4 events – circa 350 Brokers:

- < 10% - 85%
- < 25% - 12%
- < 50% - 2%
- > 50% - 1%

BTL Ltd Company Activity

Comments & surveys of landlords at recent shows...

Property Investor Show 7 Oct 2016

85-90 landlords:

- No properties held in a Ltd Co!

HMO Landlord Forum, Manchester 12 Oct 2016

45 landlords:

- 12 had 1+ properties in a Ltd Co (27%)

BTL Landlords High Wycombe 27 Oct 2016

55 landlords

- 20 held 1+ properties in a Ltd Co (36%)

Premier Property Club – Knightsbridge 15th Jan 2017

74 landlords

- 24 held 1+ properties in a Ltd Co (32%)

Keystone: Ltd Company Activity

Year	Pipeline	Offered	Completed
Q4 2015	20%	21%	17%
Q4 2016	72%	60%	27%

Informal feedback from 2 established Ltd Co BTL lenders:

- Paragon - more than half of purchase applications under Paragon brand are now in corporate structures
- KRBS - applications in Ltd Co increases by more than twofold in 2016

Yet the BoE will only start to collect Ltd Co data from lenders from Q3 2017.

BTL Lending: Lenders & Products

Year	Lenders (average)	Products (average)
2014	28 (6 offering Ltd Co)	762 (79 for Ltd Co)
2015	33 (10 offering Ltd Co)	914 (99 for Ltd Co)
2016	37 (14 offering Ltd Co)	1,238 (198 for Ltd Co)
Current position March 2017	37 (15 offering Ltd Co)	1,202 (244 for Ltd Co)

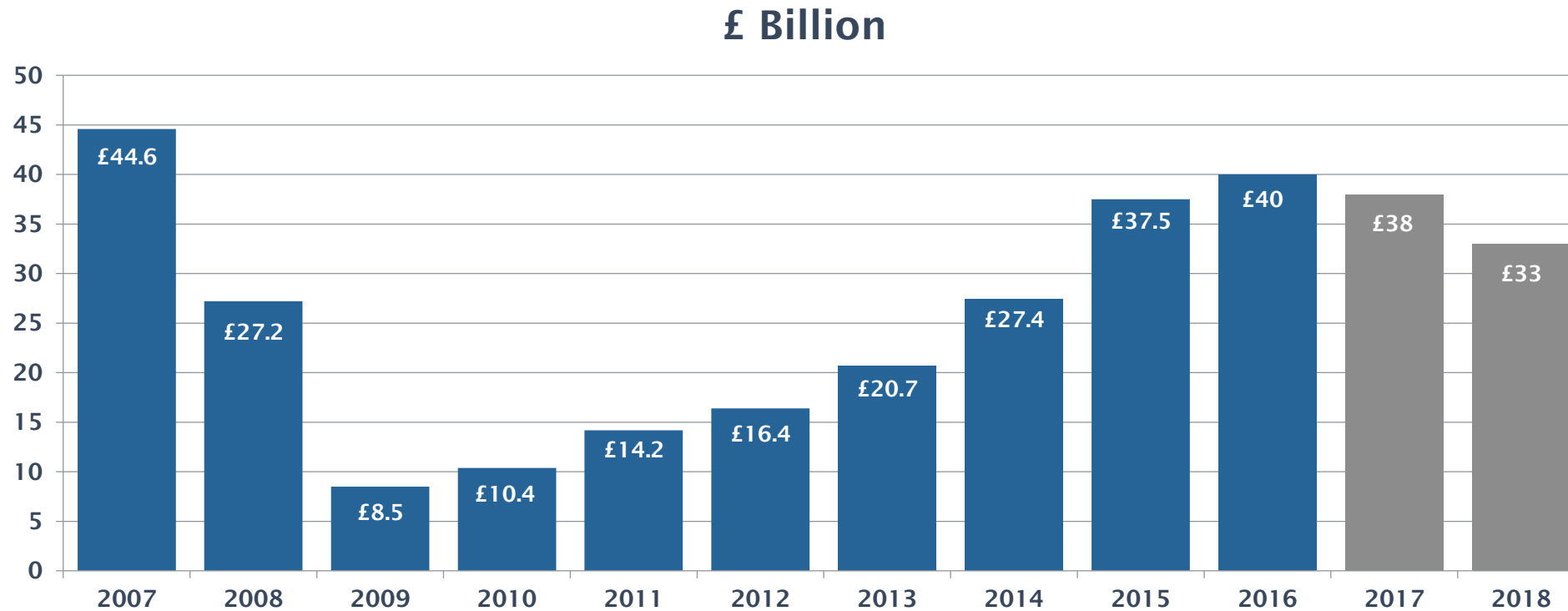
Security Overview: SPV Ltd Co Lending

Security	Lenders
First Charge & PGs	Foundation Home Loans, Kent Reliance, Axis Bank, Norwich & Peterborough, Keystone Property Finance, Precise
First Charge, PGs Fixed & Floating	Aldermore Bank, Fleet Mortgages, Paragon Mortgages, Market Harborough & Vida Homeloans
First Charge, PGs Fixed & Floating Debenture	Metro Bank, Shawbrook Bank, State Bank of India & InterBay

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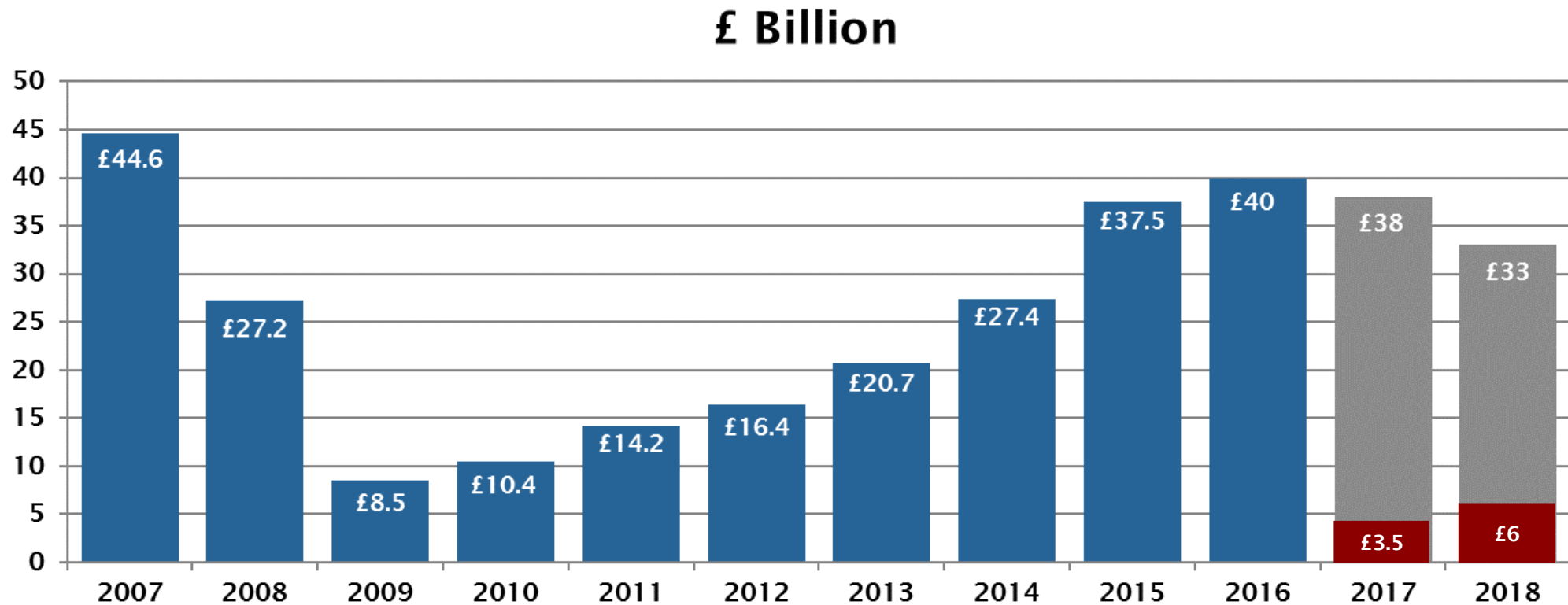
BTL lending



Source: CML 2007-2016 | MFB/Keystone predictions 2017-2018

BTL lending

Ltd Co estimate for 2017/2018...



Source: CML 2007-2016 | MFB/Keystone predictions 2017-2018 | MFB/Keystone predictions on Ltd Co lending 2017-2018

Pros & Cons of a Ltd company

Pros

- Corporation Tax NOT Income Tax – CT now 20% reducing to 17% in April 2020
- Interest relief remains a fully allowable expense
- Ltd Companies not subject to the new ICR/stress test changes so landlords will be able to borrow more
- Lots of product choice (240+ products available) & same rates as for personal borrowers offered by most lenders

Cons

- Exit strategies may be more expensive than CGT

A landlords portfolio... Virtual or real?

	Portfolio Spreadsheet	TR 2014/2015	TR 2015/2016
No. of properties	22	16	16
Value	£8,450,000	-	-
Debt	£5,150,000 (61%)	-	-
Income	£447,850	£336,450	£345,650
Loan Interest	£211,150	£204,345	£209,750
Other costs	-	£23,476	£27,982
Wear and tear allowance	-	£33,645	0
Profit in year	-	£74,984	£107,918
BF losses	-	£163,420	£88,436
Profit on SA302	-	0	£19,482

Compliance questions to consider

- What is the acceptable level of discrepancy on revenue?
- How will lenders react?
- Will there be a common standard?
- Will landlords 'under declare' ownership to avoid being seen as a 'portfolio landlord'?

Compliance questions to consider

Reportable event under Proceeds of Crime

OR

Landlord makes use of Tax Amnesty in Perpetuity from 21st September 2016
(or else penalties up to 100% of tax due, fines to £20,000 and up to 2 years in jail).

Tax advisers face penalties in relation to defeated 'abusive scheme'

- Offshore schemes (effective from 1st January 2017) – penalty up to tax evaded
- Onshore schemes (effective after Royal Assent to Finance Bill 2017) – penalty up to net fees received
- Name and shame advisers!

HMRC is taking action

A landlord and property developer has been sentenced to two years in prison for tax evasion of £281,000 after an investigation by HM Revenue and Customs.

- HMRC found that the landlord had not submitted tax returns for several years and had not declared rental income
- He is a director of a property development firm, Chantry Estates
- He owned 17 properties and had an income of c£100,000pa
- He was sentenced to 2 years in jail, suspended for 2 years and fined £200k on top of the £281k tax he has already repaid
- He was also given 200 hours of community service and a 6 month curfew between 8pm – 5am

Who's going to pay for this additional work?

Current position:

- Vanilla BTL lenders – 35 - 55bp
- Complex BTL lenders – 50 - 85bp
- Specialist banks – 75 - 100bp

75%
20%
5%

Percentage of
2016 market

Future position:

- Vanilla (personal) BTL lenders – 35 - 55bp
- Portfolio lenders / complex BTL lenders – 50 - 100bp
- Specialist banks – 75 - 100bp

60%
30%
10%

Percentage of
2018 market

At what point will lenders and brokers recognise this shift and make the appropriate arrangements?

Thank you

Any questions?

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THANK YOU FOR YOUR TIME