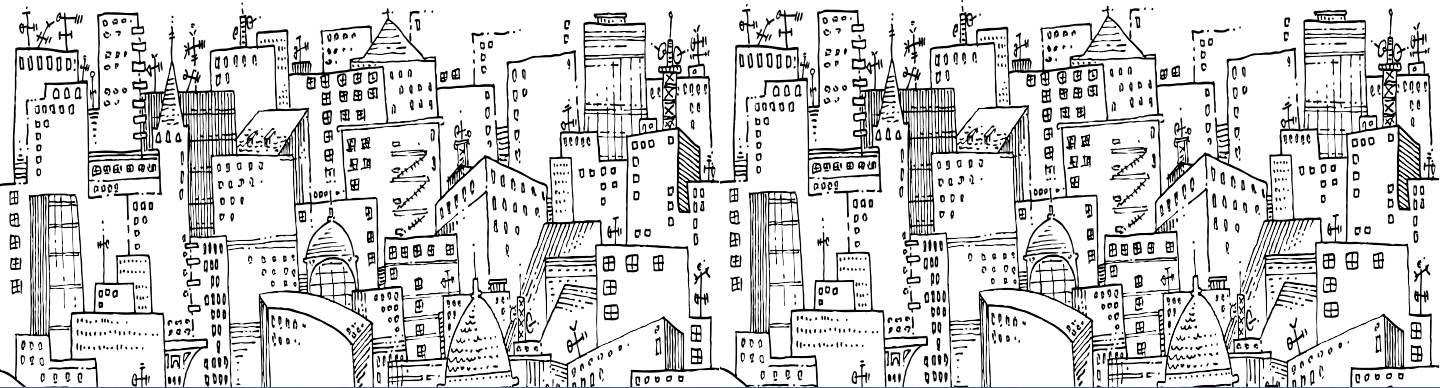


Adapt and thrive



Ian Hall and Rob Stanton

Regional Sales Managers

Agenda

- What changes have we seen recently?
 - Policy developments
 - Minimum affordability standards
 - Specialist underwriting for portfolio landlords
- Landlord strategies
 - Rent increases
 - Maximising attractiveness of your property
 - Houses in multiple occupation (HMOs)
 - Limited company structures
- Criteria highlights
- Let to buy
- Questions

What changes have we
seen recently?

Policy developments

Taxation

Stamp duty for second properties: Effective from April 2016, an additional 3% stamp duty is now charged on property purchased to rent over and above standard rates.

Buy-to-let mortgage interest tax relief: Currently, landlords are able to deduct all finance costs from their rental income, with profits taxed at the landlord's marginal rate.

Effective from April 2017 and phased over a four year period, tax relief for finance costs will be restricted to a basic rate tax credit.

Wear and tear: Landlords of furnished properties can deduct 10% of their rental income from taxable profits to account for wear and tear irrespective of actual expenditure.

Since April 2016, only the actual cost of replacing furnishings in the tax year of replacement will be allowable for deduction.

Regulation

PRA: Minimum underwriting standards introduced for buy-to-let mortgages, with a focus on affordability and portfolio landlords

Basel Committee: Consultation by the global standard setter for the prudential regulation of banks which proposes to increase the capital held against buy-to-let mortgages that have an LTV between 60-80%.

Minimum affordability standards

- We have seen a big increase in five year business
- Gross rentals seemed to come as a surprise to many brokers
- Less 'vanilla lending', significantly more specialist lending

Have you seen an increase in your client's asking for five year fixes?

Paragon's approach

		Minimum affordability standards			
		ICR		Reference interest rate	
		Single self-contained properties	Houses in multiple occupation and multi-unit properties	Fixed rate mortgage – initial term of five years or more	All other mortgage products
Customer tax status	Landlord operating in a limited company structure	125%	130%	Currently 4%, may vary with product charging rate	5.5% or product charging rate plus 2% if higher
	Individual landlord – basic rate taxpayer	125%	130%	Currently 4%, may vary with product charging rate	5.5% or product charging rate plus 2% if higher
	Individual landlord – higher or additional rate taxpayer	140%	130%	Currently 4%, may vary with product charging rate	5.5% or product charging rate plus 2% if higher

- Tailored approach - takes each landlord's individual circumstances into account to reflect
 - landlord tax status
 - property type; and
 - mortgage term

Specialist underwriting for portfolio landlords

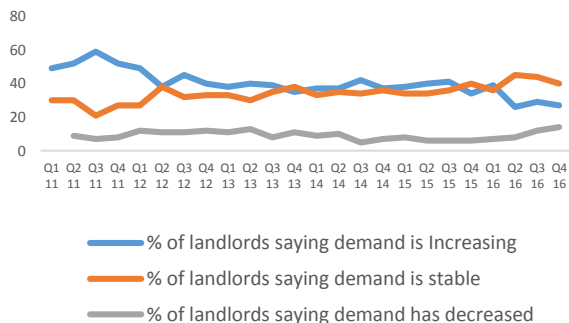
- Second stage of PRA changes to be applied from **30 September 2017**
- Portfolio landlords are defined as a professional landlord who has four or more mortgaged buy-to-let properties
- Lenders are expected to apply a specialist underwriting process in these cases, including requests for:
 - Accounts or tax returns / tax overviews / SA302's.
 - Business plan
 - Cash flow forecast
 - Bank statements
- We will continue to see a polarisation in the market - mainstream lenders against specialist lenders

Landlord strategies

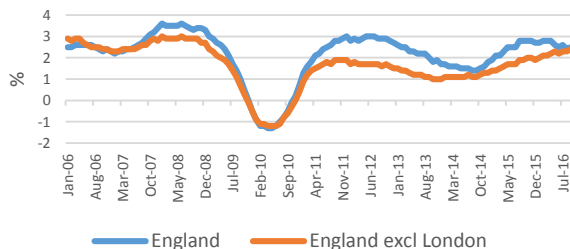
Rent increases

Tenant demand

- Landlords continue to report strong tenant demand for PRS property
- Market underpinned by population growth, limited house building and mortgage affordability constraints



Index of Private Housing Rental Prices:
% change over 12 months



Rental growth

- Rent increases usually follow inflation
- Required increase over the next four years to mitigate policy changes outstrips inflation
- Opportunity for sustained above inflation increases untested

Rent increases – worked example

Scenario:

- Higher rate tax payer
- £600pcm rent, loan amount £150,000
- Interest 3.5% (with an assumption that mortgage interest will not increase)

	Current	2017 / 2018	2018 / 2019	2019 / 2020	2020 / 2021
Rent	£600	£600	£600	£600	£600
Net Profit	£1,170	£908	£645	£383	£120

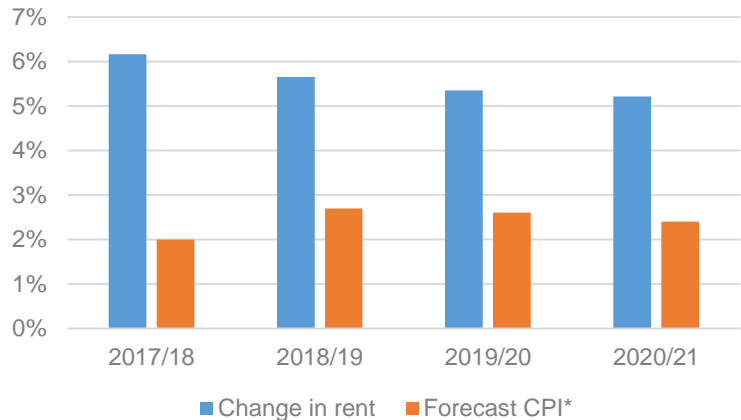
What would you have to increase your rent to in order to maintain your net profit?

Rent	£600	£637	£673	£709	£746
Net Profit	£1,170	£1,170	£1,171	£1,167	£1,171

Rent increase vs forecast CPI*

- Worked example (above) shows an increase in rent of more than **24%** over four years
- This would imply an annual rent increase significantly ahead of forecast CPI*
- As this may be difficult to achieve, it is important for landlords to consider complementary strategies

Worked example – rent increase vs forecast CPI*



* Bank of England, Inflation Report, February 2017

Maximising attractiveness of your property

- Keeping your property in tip top order to maximise rental income
- Select the right location
what is your driver - yield or capital appreciation?
- Value your existing tenants
- Letting the property quickly means less void periods

Houses in multiple occupation

Configuration 1:

3 bedroom terrace
Rented to one family at £600pcm
Higher rate tax payer
Loan amount £150,000, interest 3.5%
Full occupancy

	Rent (£600)
Net Profit	£1,170
2017 / 2018	£908
2018 / 2019	£645
2019 / 2020	£383
2020 / 2021	£120

Configuration 2:

4 bedroom terrace
Rented to four sharers at £75prpw / Avg £1,125pcm
Higher rate tax payer
Loan amount £150,000, interest 4%
45 weeks occupancy

	Rent (£1,125)
Net Profit	£4,500
2017 / 2018	£4,200
2018 / 2019	£3,900
2019 / 2020	£3,600
2020 / 2021	£3,300

Incorporation

- A lot of people are talking about it but not as many are taking the plunge
- The broker's job is to provide information about all of the options available and to encourage the customer to seek the right professional accountancy advice



Limited company lending

Key criteria

- ✓ Limited company must be registered in England, Wales or Scotland and set up for the principle purpose of buying and letting residential property. Paragon does not have to be the sole and exclusive lender
- ✓ Day one limited companies are acceptable
- ✓ Existing companies must not be trading in any other area, eg development
- ✓ At least 80% of the shares must be owned in the directors' individual names, and must not be a subsidiary of any other company. Any deposit monies must come from the directors own source of funds
- ✓ Personal guarantees will be required from all directors and we will underwrite them as per any normal mortgage application, eg income verification, bank statements etc
- ✓ All Paragon products are available for limited company applications. 80% products available via Paragon Premier
- ✓ Rental calculation set at 125% @ 5.5%

Let to buy

Does it still work?

- Many potential and current landlords are still keen to look at let to buys, but will they really keep them for more than three years?
- If they do want to retain them for more than three years, are there any alternatives to how this is structured?



This approach doesn't fit every client's needs. The right advice is key.

Criteria highlights

paragón mortgages


mortgage trust

Houses in multiple occupancy	✓	x
Single title multi-unit property ie several flats on one title – 20 unit maximum	✓	x
Single self-contained unit	✓	✓
Limited company lending	✓	x
Max aggregate borrowing	£5,000,000 within the Group, unlimited elsewhere	£1,000,000 or five properties within the Group
Maximum loan size per property	£2,000,000	£1,000,000
Minimum loan size	£30,000	£30,000
Minimum property value	£75,000	£75,000
Remortgage within six months of purchase	✓	✓
Maximum age at expiry of mortgages	80	80
New build houses and flats	Up to 75% LTV	Up to 80% LTV
Let to buy	✓	✓
Wide range of tenancy allowed including housing benefit	✓	✓
Online process	✓	✓
Consumer buy-to-let	x	✓



Questions?