

Limited company buy-to-let

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paragon

About us

What are we seeing in the market?

Discussing limited companies

Personal name vs limited companies

Simplicity of limited company buy-to-let

Complexity of limited company buy-to-let

Cons of a limited company buy-to-let

Limited company housekeeping

Let to buy

Incorporating with Paragon

Things to look out for

The future

Questions



Specialist
buy-to-let lender

Lending in the
buy-to-let market
for 20 years

Always allowed
lending to
limited companies



A lot of people are talking about incorporating, but not as many are taking the plunge



The brokers' job is to provide information about all of the options available and to encourage the customer to seek the right professional accountancy advice

What's the danger of discussing and not discussing?



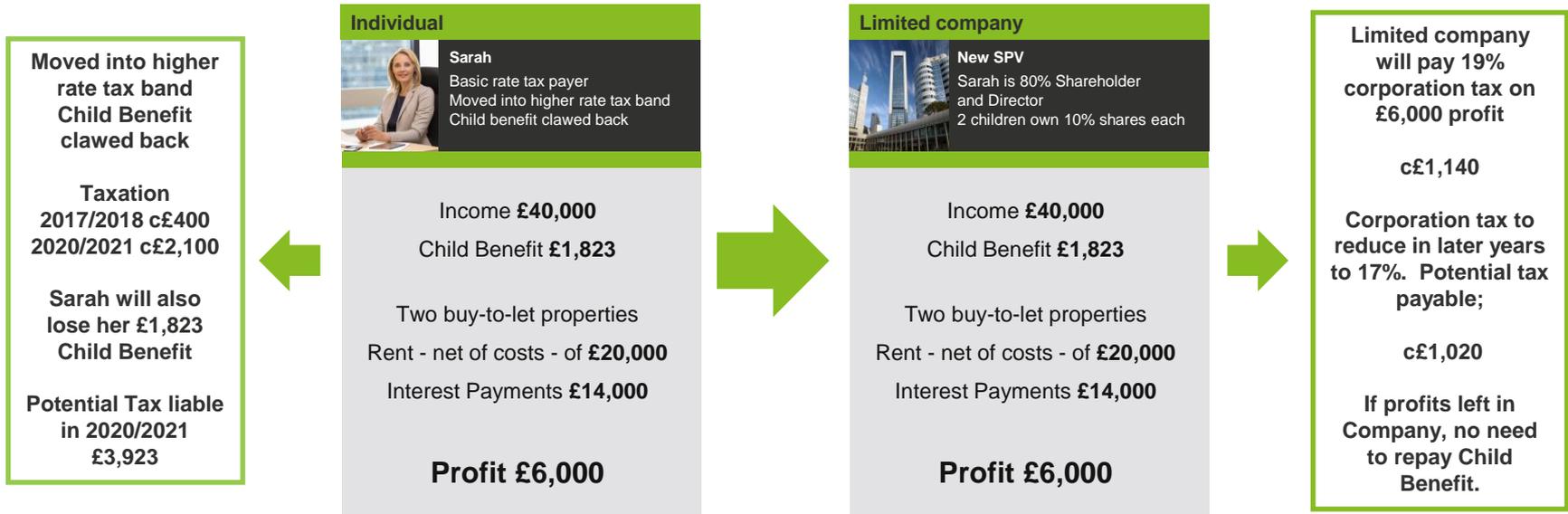
The right advice is key

- Bookkeeper
- Accountant
- Tax specialist



Protecting yourself

- Producing two Key Fact Illustrations (KFIs)
- Documenting in your reasons why letter – reference to professional advice



Example of a simple limited company application: This case study is the type of borrower/ enquiry that 18 months ago, may not have considered this structure when looking for finance.

- First time landlords looking to purchase their first property via a newly incorporated limited company following advice from their tax specialist
- The company has been incorporated for the sole purpose of buying and holding residential properties
- Two directors
- Each director will be holding 40% of the company shares each in their sole names (80% jointly)
- Remaining 20% of the company shares will be distributed to each of their children, meaning both will be holding 10% each
- Potential inheritance / estate planning between parents and children
- The deposit for the purchase will be funded by way of a directors loan

Outcome

- Acceptable to most lenders including Paragon
- Underwriting will be based on the applicants individual circumstances
- Proof of income / bank statements etc will be required

Example of a more complex limited company application:

- Applicant is a director of their communications firm (Comms 12345 Ltd) which has excess funds within the company and the applicant would like to re-invest the monies into property.
- Applicant set up a newly incorporated limited company for the sole purpose of buying and holding residential property.
- One director
- Shares of the company have been issued to applicants other company Comms 12345 Ltd (100%)
- Deposit for the purchase will be funded by way of a Inter-Company loan from Comms 12345 Ltd

Outcome

- More difficult to place
- Issues will be around the intercompany loan element and the way the company shares have been issued

What is your clients' end game?

- Longevity – a limited company can last longer than any individual landlord

Is it for the short term?

- Losing Capital Gains Tax relief - £11,700 – 2018/2019
- Sale within limited company – 19%

Do they need the income?

- Taking monies out of the limited company can be costly

Extra costs

- Finance costs / accountants cost

NB. This and many more scenario's will be taken into account when the accountant/tax specialist reviews the clients' circumstances

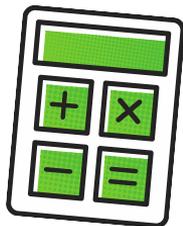
- Accept day one trading limited companies
- Limited company must be set up as an Specific Purpose Vehicle (SPV) for buying and holding residential investment property – and must continue to be its principle activity
- At least 80% of the shares must be owned in a maximum of four directors' own individual names.
- Full personal guarantees must be available from all the Directors on a joint and several basis and we will underwrite them as per any normal mortgage application eg income verification, bank statements etc
- Limited company must be registered in England, Wales or Scotland
- In addition, we also reserve the right to request full personal guarantees from significant shareholders
- For limited company applications, there is no longer a requirement for us to be the only secured lender for that limited company
- Property sales between corporate entities that are part of the same group or have common Directors are not 'normally' acceptable
- We do not ask additional security in the form of a floating charge.

Rental calculation

We don't load the rental calculation for a higher rate tax payer

Single self-contained units: 125% @ 5.5% reference rate or 4% (if 5 year fixed) – (reference rate of 5.5% of product charging plus %)

HMOs/multi-unit blocks: 130% @ 5.5% reference rate or 4% (if 5 year fixed) – (reference rate of 5.5% of product charging plus %)



Purchase

- Limited company and individual name are both legal entities in their own right
- Stamp duty
- Capital Gains Tax disposal from individual name



Deposit

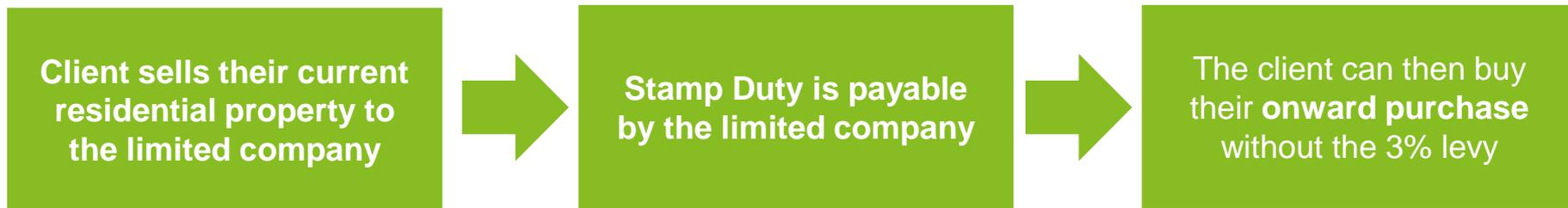
- Directors loans
- Shares

- Standard Industrial Classification (SIC) Code

Section L	Real estate activities
68100	Buying and selling of own real estate
68201	Renting and operating of Housing Association real estate
68202	Letting and operating of conference and exhibition centres
68209	Other letting and operating of own or leased real estate
68310	Real estate agencies
68320	Management of real estate on a fee or contract basis

- Limited company bank accountant
- You'll need an accountant

- 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.

What about existing customer's stuck in their ERC's?

Scenario: Client took a five year fix a year ago and is tied into Paragon for another four years

- Incorporate retaining the same rate
- Admin fee
- Legal purchase behind the scenes



This wouldn't affect the ability for a broker to do a retention, as we offer simple straightforward retention deals.

- There can be hidden costs and restrictions with some lenders limited company criteria
- Are your clients happy with a floating charge or debenture (we don't ask for either if purely set up as a Special Purpose Vehicle - SPV)
- Some lenders will insist on separate solicitors, one for the lender and one for the applicant
- For personal guarantees (PG's) the borrower will need to seek independent legal advice to this – some lenders will allow someone from the same firm to act for them, though others may insist on another firm
- Product switches/further advances – will the lender you choose have these facilities?

Historically, rates were at a significant premium

- Example (taken at end of March 2017, based on a **£100,000** loan @ **75%**)
- **2.29%** 2 year fixed @ **75%** LTV – completion fee of **£995** (individual name)
- **2.99%** 2 year fixed @ **75%** LTV – completion fee of **£500** (limited company name)

New Entrants

- Challenger banks
- The bigger banks

Will rates become the new vanilla lending?

- Increased competition will help
- Still more risk for lenders

Any questions?