

# Retirement Advantage

Our Over 55 Buy-to-Let Mortgages

For financial adviser use only – not for retail clients

# Agenda

- About us
- Market opportunity
- Definitions and regulation
- Products
- Referral opportunities

# About us

# Retirement Advantage, a Canada Life company



- Well-established company that can trace its roots back to 1852
- Over £2billion of funds under management
- In January 2018, we became part of the Canada Life Group (UK) Limited
- Canada Life is part of Great-West Lifeco with over 30 million customers worldwide and £760 billion in assets under administration
- Great-West Lifeco market capitalisation is £21.3bn – bigger than L&G or Standard Life\*
- Canada Life have strong financial ratings: Fitch AA; Moody's Aa3; Standard & Poors AA

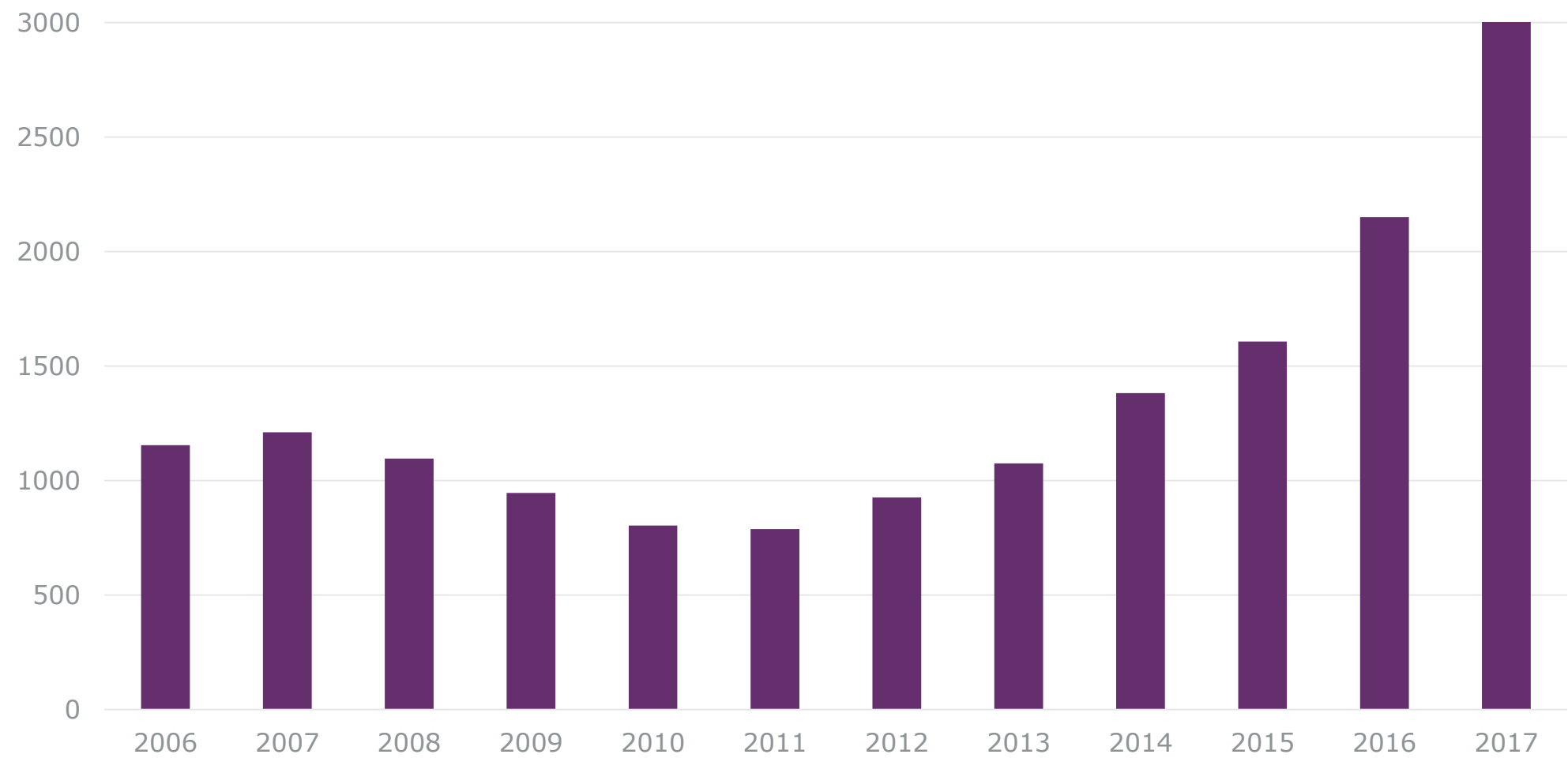


\*Source: Bloomberg 6<sup>th</sup> November 2017

# Market Opportunity

# Equity release market growth

2017: Market surpassed £3bn



Source: Equity Release Council, [www.equityreleasecouncil.com/news](http://www.equityreleasecouncil.com/news)

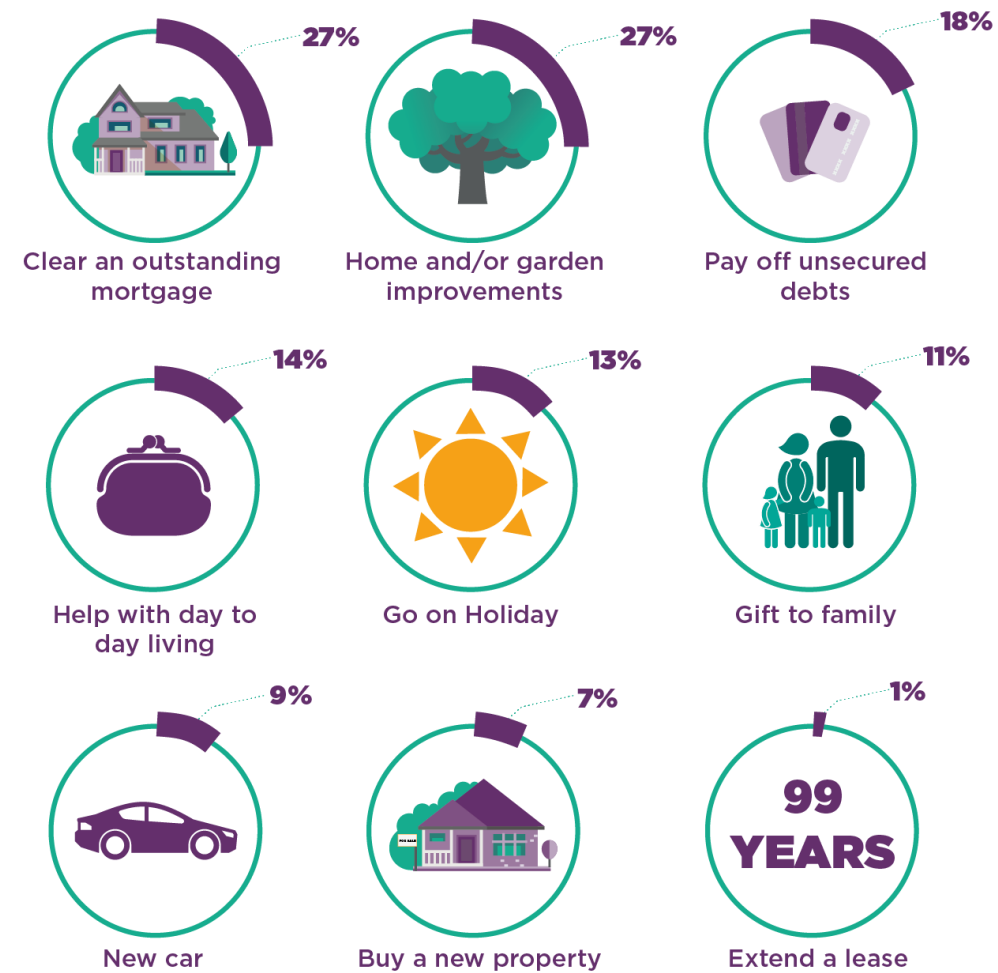
# Increase in over 55s accessing property wealth

- Increasing life expectancy
- Paying for care
- Changing attitudes to inheritance
- Limited opportunities to downsize
- Inadequate pension savings
- Helping children and grandchildren
- Repaying interest-only mortgage debt



# Reasons for loan

- Can be used for the same reasons that equity release is used



**Source:** Retirement Advantage, H1 2017: Reasons for loan given in initial advance applications



# Buy-to-Let market

- Over 1.75 million buy-to-let landlords in the UK
- 52% of those landlords are age 55+
  - This equates to 2,457,000 properties
- Average buy-to-let landlord owns 2.7 properties
- 50% of landlords buy property in cash, so don't have mortgage debt to clear first
- Reason for buy to let:
  - 30% - income the property generates
  - 40% - invested solely for capital appreciation

**£47 billion available to older homeowners through our Over 55 Buy-to-Let Options**

**Source:** HMRC: [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/556629/Table13-9.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/556629/Table13-9.pdf);  
UK Finance: [www.cml.org.uk/documents/the-profile-of-uk-private-landlords/the-profile-of-uk-private-landlords-20170118.pdf](http://www.cml.org.uk/documents/the-profile-of-uk-private-landlords/the-profile-of-uk-private-landlords-20170118.pdf);  
National Landlords Association (NLA): NLA Quarterly Landlord Panel – Q3 2017 (856 respondents)

# Changes in regulatory landscape

- Change in regulatory and fiscal environment
  - 3% stamp duty land tax surcharge on purchases
  - Higher rate tax relief on mortgage payments is being phased out
    - By 2020, “average” higher-rate taxpayer landlord will make £850 less profit by 2020
  - 7% interest rate stress-tests for affordability, with interest coverage ratio rising from 125% to 145% in the past 2 years
  - Landlords with 4+ buy-to-let properties see whole portfolio reviewed, even if only securing finance on 1 property
  - Banning of upfront letting fees for tenants
- This means landlords are reviewing the options for their portfolios
  - 40% of landlords are invested solely for capital appreciation so are less likely to sell

**Source:** National Landlords Association (NLA): NLA Quarterly Landlord Panel – Q3 2017 (856 respondents)

# Case study 1: To fund long term care



## Scenario:

- Maria moved out of her primary residence in 2013
- Moved into long term care
- Let property under a 12 month AST
- Needs to raise capital but does not want to sell her property
- Traditional lenders will not lend

Full case study available at [retirementadvantage.com](https://retirementadvantage.com)

# Case study 1: To fund long term care

## Solution:

- Property is worth £450,000 so she can raise up to £153,000\* through an Over 55 Buy-to-Let Lifestyle Mortgage
- Able to keep hold of her income generating family home
- No affordability checks or minimum income requirements
- Can afford to pay for her care and still pass on her family home to her children
- Owns an asset which produces in the region of 4% yield (£18,000 per year annually)
- May still benefit from future capital gains on the asset (subject to the impact of interest rolling up)
- Still has the flexibility to sell the property and release the remaining equity in the future
- Peace of mind as refinance not required during her lifetime

\*Any cash released from the property and not spent at the time of Maria's death is chargeable asset for IHT purposes

## Case study 2: Gifting an early inheritance

### Scenario:

- James and Sophia have 2 grandchildren
- Want to help them onto the property ladder
- Property has increased in value from £120,000 in 1992, to £550,000 in 2017



Full case study available at [retirementadvantage.com](https://retirementadvantage.com)

# Case study 2: Gifting an early inheritance

## Options:

	Sell the property	Take out an Over 55 Buy-to-Let Mortgage
Original purchase price	£120,000	£120,000
Current property value	£550,000	£550,000
Capital gain	£430,000	No CGT crystallised
Capital gains tax (CGT) liability*	£430,000 x 28% = £120,400	No CGT
Refinanced mortgage amount	£0	£148,500
Tax liability	£120,400	£0
Net income from property	£0	£550,000 @ 4% = £22,000**

\*For simplicity, the CGT calculations assume the following:

- No stamp duty, purchase or sale costs
- No enhancement expenditure
- No CGT reliefs are available

If property is not sold during the individual's lifetime, the value of the property will be rebased for CGT purposes on death so inherent capital gain is eliminated. This could enable a gift of the property by whomever inherits to be made tax efficiently.

\*\*Subject to the customers' marginal rate of income tax

## Case study 2: Gifting an early inheritance

### Solution:

- Able to keep hold of their income generating buy-to-let property
- No affordability checks or minimum income requirements
- Avoided crystallising a capital gains tax liability of £120,400
- Made a gift to each of their two grandchildren of £74,000 to get on the property ladder
- Still own an asset which produces in the region of 4% yield (£22,000 per year annually) and they avoided additional selling fees.
- Ability for them or their grandchildren to make payments of up to 10% of the original loan balance each year without paying an early repayment charge, which will reduce the amount of interest that rolls up
- An indefinite term, so they won't have to refinance before the last surviving borrower dies

## Case study 3: To generate additional income



### Scenario:

- Ben took out a £100k mainstream buy-to-let mortgage
- The property increased in value from £180,000 in 2000 to £600,000 in 2017
- Traditional lenders will not lend
- Ben wants to stop making interest payments on the mortgage to supplement his income
- Thinks selling is his only option

Full case study available at [retirementadvantage.com](https://retirementadvantage.com)



# Case study 3: To generate additional income

## Options:

	Take out a mainstream Buy-to-Let mortgage	Take out an Over 55 Buy-to-Let Mortgage
Current property value	£600,000	£600,000
Rental income (at 4%)	£24,000	£24,000
Mortgage balance	£156,000	£156,000
Interest payable per annum*	£7,800	£0 (interest rolls up)
Net income (subject to tax) per annum	£16,200	£24,000**

\*Assumption: Existing mortgage at 5% interest rate

\*\*If the loan is repaid before death, rolled up interest will become tax deductible in the year which the loan is repaid- tax advice should be sought at this point

# Case study 3: To generate additional income

## Solution:

- Retained ownership of his property whilst generating additional income
- Avoided crystallising a capital gains tax liability of £117,600\*
- Avoided any additional selling fees
- Increased his gross retirement income by £7,800 per year (£650 per month)
- Still owns an asset which produces in the region of 4% yield (£24,000 per year annually)
- May still benefit from future capital gains on the asset (subject to the impact of interest rolling up)

\*For simplicity, the CGT calculations assume the following:

- No stamp duty, purchase or sale costs
- No enhancement expenditure
- No CGT reliefs are available

If property is not sold during the individual's lifetime, the value of the property will be rebased for CGT purposes on death so inherent capital gain is eliminated. This could enable a gift of the property by whomever inherits to be made tax efficiently.

# Definitions and regulation

# Our Over 55 Buy-to-Let Options

- **Buy-to-Let (BTL)**
  - Not regulated by the FCA
- **Consumer Buy-to-Let (CBTL)**
  - Regulated by the FCA
  - Property was not purchased with the intention of letting it out
  - Advisers must be registered for CBTL with the FCA
- Our Over 55 buy-to-let mortgage meets the FCA requirements for consumer buy-to-let mortgages
- Customer doesn't benefit from the protection of the FCA conduct rules or the Financial Services Compensation Scheme (FSCS)
- Not covered by all the Equity Release Council product standards as it is not secured on the borrowers' main residence. However the No Negative Equity Guarantee does apply

# Our Over 55 Buy-to-Let Options

Getting started:

- Advisers **must be registered for CBTL** with the FCA
- Advisers **must have passed an appropriate examination in Equity Release** as prescribed by the FCA
- Advisers **may need to change the initial disclosure** you make to your customers

# Products

# Our Over 55 Buy-to-Let Options

	Lifestyle	Voluntary Select
Monthly interest rate (MER)	6.26%	6.45%
Annual interest rate (AER)	6.44%	6.64%

Age	LTV
55	9%
56	10%
57	11%
58	12%
59	13%
60	14%
61	15%
62	16%
63	17%

Age	LTV
64	18%
65	19%
66	20%
67	21%
68	22%
69	23%
70	24%
71	25%
72	26%

Age	LTV
73	27%
74	28%
75	29%
76	30%
77	31%
78	32%
79	33%
80 - 90	34%

# Our Over 55 Buy-to-Let Options: Overview

- ✓ **No affordability** checks
  - ✓ **No minimum income** requirements
  - ✓ **No payments** required
  - ✓ **Open ended term**, so no refinancing at a later date
  - ✓ **Fixed interest rate** for life
  - ✓ **Free valuations**
- 
- Can choose **interest roll-up** or **10% capital and interest payment** option
  - Must be let as a single residence on an **Assured Shorthold Tenancy (AST)** of not more than 12 months duration. AST will be approved by our solicitors.
  - **Property Portfolio Schedule** required at application – only reviewed if multiple Landlord Option mortgages held with us



# Our Over 55 Buy-to-Let Options: Criteria

- Can't be used for purchases
- No limited (Ltd) or limited liability partnership (LLP) companies or partnerships
- No Houses in Multiple Occupation (HMO)
- ASTs must prohibit assigning, underletting, sub-letting or parting with possession of the Property
- The following tenancies are not permitted:
  - Housing Association; Companies; University; Students ; Council; Family and related persons; DSS tenants; Tenants without the Right to Rent; Tenants with diplomatic immunity.
- Any deposit paid by the tenant must be protected in a Government authorised tenancy deposit scheme
- Solicitors will require further documents prior to completion eg. proof of tenancy deposits, gas and electricity safety certificates

# Referral Opportunities

# Referral relationships

- We require advisers who recommend this product to have passed an appropriate examination in Equity Release as prescribed by the FCA
- Shortage of qualified ER advisers
- Use innovative product to set up referral relationships
  - Wealth managers, mortgage brokers and accountants
- Target new customer segment
  - Different customer type
  - Different lead generation
- Broaden your toolkit

# Thank you. Any questions?

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