THE INVESTOR'S GUIDE TO SPECIALIST PROPERTY FINANCE

EBOOKSERIES
PROPERTYFORUM.COM

Copyright © 2020 by Property Forum

All rights reserved. This book or any portion thereof
may not be reproduced or used in any manner whatsoever
without the express written permission of the publisher
except for the use of brief quotations in a book review.

Produced by www.propertyforum.com

71-75 Shelton Street
Covent Garden
London
WC2H 9JQ

View the full range of mindset and property ebooks at
www.propertyforum.com/education

CONTENTS

Introduction **4**

Buy-to-Let (BTL) **4**

Complex Buy-to-Let Mortgages **7**

Houses in Multiple Occupation (HMO) **9**

Bridging Finance **11**

Development Finance **15**

How to access specialist finance **16**

Frequently Asked Questions **19**

Summary: Which type of finance is most suited for my situation? **20**

INTRODUCTION

There are few people or small businesses in this world who can afford to buy any kind of property outright. What usually happens is that most of the money is borrowed from a financial institution and is paid back over a period of time with added interest. Financing for properties – whether commercial or residential - can come in a variety of forms; from everyday mortgages to specialist loans. Such finance can also be used to pay for renovation, bridge the gap between completing renovation work and selling the property, or even expanding your business. Here, we take you through the options available in the specialist lending market.

Buy-to-Let (BTL)

These are mortgages that are used by landlords or property developers of all sizes and experience, to fund the purchase and/or redevelopment of a property they intend to rent out. The rent charged to tenants is then used to pay the mortgage.

As they are more specialist mortgages, they tend to have a few differences from standard mortgages such as:

- Slightly higher interest rates
- Will usually need a larger deposit of at least 25%
- Additional fees
- Rental coverage calculations

Some Buy-to-Let mortgages are interest-only, but not all. BTL mortgages are not regulated by the Financial Conduct Authority (FCA), but in March 2016, a new class of BTL mortgage called a "Consumer Buy-to-Let", was created for rare cases where people have inadvertently needed to become landlords, for example, through inheriting a property they used to live in. These are regulated under HM Treasury rules which are similar to FCA mortgage regulations.

Buy-to-let mortgages – things to remember:

Your rental income from the property should more than cover your monthly mortgage payments. Remember, your property might not be rented out 100% of the time, so you need to include these barren months in your calculations. To account for this, lenders will check a 'rental coverage ratio' to be sure you have a cushion to cover vacant months and still be able to make the mortgage payments. This varies between lender but is usually at 125% - 145% meaning your rental income should be 125% - 145% of the mortgage payment. This is usually 'stress tested' at a 5% interest rate. This makes sure that if interest rates rise, your rental income has a significant enough buffer in it to cover the mortgage payments.

There are two ways in which this is validated; if the property is already rented then a calculation against this value can be made. A rental valuation figure confirmed by a lender instructed property surveyor can also be used if the property does not yet have paying tenants.

These rental coverage ratios are a result of regulations from the Prudential Regulation Authority, but, crucially, they apply to fixed mortgage terms of less than five years. If you are in a position to commit to a longer term fixed rate buy-to-let mortgage, lenders are not bound by these ratios. They will, of course, still require rental cover as mentioned – but it could be a more favourable 125% - 145% at the actual pay rate rather than a stressed interest rate, which means you could borrow more.

Another point worth noting is that should buying a property in a limited company be the appropriate structure for you, having sought appropriate tax advice from a tax professional then the rental cover ratio is usually at the lower end being 125%. This is due to the fact that mortgage interest can still be offset against profit in full unlike ownership in your own name where the mortgage interest relief rules differ and can result in higher tax bills thus requiring a higher buffer for lenders to be comfortable that the mortgage is affordable.

As many buy-to-let mortgages are interest-only, many borrowers intend to repay the capital by selling the property. But it's worth noting that if you're selling a rental property, you will have to pay Capital Gains Tax – this needs to be considered when planning your exit strategy and to ensure you make a profit.

BUY-TO-LET CASE STUDY:

The official definition of a consumer buy-to-let is "any buy-to-let contract in which the borrower has not entered 'wholly or predominantly' for business purposes".

But there are disagreements about what this means. That's why specialists, who deal with this sort of case all the time - rather than once every couple of months - are well placed to match borrowers who might be looking for their first buy-to-let mortgage, but who know they don't fall into the consumer restrictions with the most suitable lender.

A leading property finance broker achieved success for just such a case recently, with a couple who were hoping to invest some of their capital into a buy-to-let property in Scotland as part of their investment portfolio. They identified from the outset that this couple were making an investment decision and didn't fall into the accidental landlord category at all.

The couple had got in touch with a developer and were looking to purchase a property in Glasgow, they were both on good incomes and wanted to borrow £81,000.

The specialist broker not only succeeded in finding them a five-year fixed rate at 4.09 per cent, but the loan was completed within 23 working days from start to finish. This is the benefit of working with a specialist property finance broker.

Please visit www.propertyforum.com/property-finance to book a call with our recommended broker.

Complex Buy-to-Let Mortgages

Ideal for clients with circumstances a little more out of the ordinary, complex buy-to-let mortgages provide a means to borrow when circumstances are a little quirky. From Houses in Multiple Occupation (HMO), holiday lets and Multi Unit Freehold Blocks (MUFBs) to commercial and residential buildings, this type of finance can help clients in all manner of situations. The 'complexity' in a Complex Buy-to-Let mortgage comes from:

- Problems with the property. Anything that makes it hard to assess the validity of the rental income quoted by the

applicant, or whether the property can be consistently rented out in the long term, for example. This often applies to commercial or part-commercial properties.

- Concerns with the borrower. Borrowers could have poor credit or lack experience as a landlord, making it harder for lenders to have confidence in their business model. Other complexities include when the borrower is a group of individuals or a Special Purpose Vehicle (SPV) Company.

- Unusual requirements. Borrowers needing terms up to 30 years, short term interest-only mortgages and/or second charge buy-to-let mortgages.

- Bank's exposure limits. These are ways that high street lenders manage their risk by limiting how much lending they do to a particular geographical area, individual landlord or even a single property (such as flats in a block), meaning they can be less likely to lend.

- Mortgages for portfolio landlords – since regulation put in place by the PRA (Prudential Regulation Authority) in Sept 2017, landlords with four or more BTL properties are now viewed as 'portfolio landlords'. These landlords will be subject to more rigid underwriting and will also be required to provide extra proof of their affordability. There is a need for more consideration into the rent to loan calculation to reduce landlords losing money and the risk of not being able to afford their mortgage payments when their properties are vacant.

Houses in Multiple Occupation (HMO)

A House in Multiple Occupation is used to describe a residential property where at least 3 tenants live there (forming more than one household) and common areas - such as the kitchen and bathroom - are shared with other tenants. A "large" HMO is the same, but with at least 5 tenants living there. All large HMOs need a license from the local council. Student accommodation and house shares can fall into this category. Find out more, here… www.gov.uk/private-renting/houses-in-multiple-occupation.

Not every person or business is the same, and when applying for a mortgage, any unique circumstances can make it harder for the application to be accepted. Like Buy-to-Let mortgages, your application can be judged on how strong your business case is, and whether your rental income can cover the mortgage payments.

Like standard buy-to-let mortgages, lenders will usually ask for around 135% - 145% rental coverage, but some may offer 125%. Often the starting point is slightly higher as it is considered that the wear and tear and management of the property will be slightly higher.

Complex buy-to-let mortgages – things to remember:

- Often provided through specialist distributors or intermediaries
- For many of the situations in which a Complex Buy-to-Let mortgage is needed, experience as a landlord is helpful to open up the maximum number of lending options
- Specialist lenders less impacted by landlord exposure limits than the high street
- Up to 85% residential (although 75% is more common)
- Up to 75% commercial LTV

COMPLEX BUY-TO-LET MORTGAGE CASE STUDY:

Loan: Expat Complex Buy-to-Let mortgage for a HMO
Amount: £217,500
Completion: 8 weeks from customer application received

Mr L, an expat residing in Hong Kong owned a property through his Ltd company in the UK. At the time of purchase, the property value was estimated at £200,000. He had used a 12-month bridging loan to fund the acquisition, and planned to turn it into a rental investment by converting the property into a HMO (house in multiple occupation).

Having already arranged Mr L's initial bridging loan, he reached out to his property finance broker after 6 months, having completed the renovation works quicker than expected. The value of the property after renovation was £290,000, achieving a rental income of £1,650pcm with a single family let – and he wanted to exit his bridge by remortgaging onto a £217,500 Buy-to-Let mortgage.

Being an expat and owning the property through a Ltd company made borrowing with a High Street lender difficult enough.
Making it even more complex; the property being an HMO, but yet to be granted a license, remortgaging within only 6 months of purchase and borrowing a higher amount due to the works carried out.

Although difficult for expats, Mr L knew from previously working with a specialist property broker that he could utilise their strong relationships to access a broad and varied panel of specialist Buy-to-Let and expat lenders…

…and that's exactly what happened. They were able to arrange a refinance out of the bridge, and onto a longer-term fixed BTL Mortgage. They agreed a product switch with the existing lender of the bridging loan and negotiated a reduced rate compared to their standard.
This resulted in the successful completion of a £217,500 BTL remortgage, 5-year fixed rate mortgage. From application to completion in just 8 weeks.

In just 8 weeks, the constraints of Mr L's 'non-vanilla' scenario were no longer a burden. He could successfully run his rental investment setup from the comfort of his home in Hong Kong, with the longevity and peace of mind of a 5-year fixed rate.

Please visit www.propertyforum.com/property-finance to book a call with our recommended broker.

Bridging Finance

Bridging loans are a unique type of property financing that help people bridge a financial gap. These loans are short term and interest-only, and can be agreed on relatively short notice when the applicant has a deadline to meet. They are often used to fix a broken property chain, to purchase a property at auction or buying an 'unmortgageable' property to undertake refurbishment work but they can be used for any legal purpose.

Bridging Loans are given on the value of a property, and your ability to pay the loan back – the 'exit strategy'. Your ability to repay interest still matters, but a borrower's 'affordability' is less important than the exit strategy. The reason for this is that the vast majority of bridging loans are made on a 'rolled up' interest basis with interest being added to the loan balance. This means a decision can be reached quickly and help you out in time-sensitive situations provided there is a big enough deposit or enough equity to allow the interest to be added to the loan balance.

Bridging finance – things to remember:

- Terms usually around 12 months to three years as a maximum and can be held for as little as days or weeks
- Can be a first charge mortgage or second charge on top of a conventional mortgage
- LTV usually up to 75%...
- …but 100% LTV can be secured with additional security

- No early repayment fees
- An ‘exit strategy’ is a key aspect of Bridging Loans

What is an exit strategy?

An exit strategy is your ability to pay off the loan. A bridging loan is usually redeemed through one of three ways:

- The sale of property
- Refinancing to a standard or buy-to-let mortgage
- Cash redemption from another source

The exit strategy is a vital part of any bridging loan application. A strong exit strategy helps make the application process fast and flexible - and can be more important than your credit history in some scenarios. For example, if the borrower’s exit strategy is the sale of a property then someone with a poor credit score could get a bridging loan if the lender believes the sale price is achievable in that time frame and is comfortable that the property is being marketed properly.

But, if their strategy was to get a mortgage, their credit rating could prevent the application going through, as getting the mortgage might be unachievable.

What are the different types of bridging loan?

You can broadly put bridging loans into two categories. “Regulated” loans are those on a property you (or members of your family) are living in or are going to live in. They are regulated

in the same way as a standard mortgage. “Unregulated” loans are useful for corporate entities, properties you aren’t going to live in, or individuals with unique circumstances that don’t fall into other categories.

- Regulated by the Financial Conduct Authority
- Secured by first legal charges against property that is currently or will be occupied by the borrower or their close family
- Borrower or family occupy at least 40% of the property

Unregulated residential bridging include:

- First charge loan on a commercial property
- First charge loan on a property being used as an investment
- Second charge loan on the borrower’s home that is over £25,000 and for business purposes

Benefits of bridging:

- Great for when you need money quickly
- Can be used in a variety of ways
- Typically, an ‘asset based lend’ which means that a large part of the lending decision is based on the property value not income, client experience, and general commercial underwriting you expect from a term loan

Typical scenarios for when bridging finance can add value:

- Broken property chains. When a buyer pulls out, your offer on your next home and the deposit can be put in jeopardy. A bridging loan can tide you over until your

home is back on the market and under offer once again

- Buying a second property before selling the first
- Auctions. Usually, once an offer is accepted at an auction and a 10% deposit has been paid, there is a 28-day period to complete the purchase.
- Short lease. It could also be used if, for example, you wanted to buy a property with a short lease. You could use the bridging loan to buy the property, then add value by extending the lease. This would provide a valid exit strategy
- Refurbishment projects. You can refurbish a property before full capital is available
- Development exit – where a client is repaying a development loan to allow more time to sell the property/units

BRIDGING CASE STUDY:

Loan amount: £1,006,520
Rate: 0.95% a month
Overall LTV: 50%

A situation that is seen all the time where bridging loans really come into their own is where the borrower needs the money fast. This is often the case in property development – even where the developer is not building from the ground up but is refurbishing an existing property for resale or to let.

Here's a recent example of for a developer who found himself in what could have turned into a very expensive predicament.
Having taken out a short-term loan with one lender to develop six properties, the works had taken longer than initially expected and the term of the loan he'd agreed was about to run out – in a fortnight. Worse, the bridging lender he had originally borrowed from were planning to charge him huge penalty fees that would likely wipe

out his profit, given that he estimated he needed the loan for another three months minimum.

To extend his existing loan wasn't an option either – the lender wanted to charge him extension fees on top of the penalty fees. But on terms similar to the original loan, the commercials stacked up, the exit was evidenced, and profits would be made.

This can be a real problem for developers. Specialist property finance brokers often see clients who have a loan that wasn't necessarily a great fit for their project requirements. Developments have a habit of throwing curveballs into the mix but that shouldn't mean the whole thing falls through.

The specialist finance broker he then went to was able to refinance the loan with another lender who could see the value in the deal within the two weeks he needed so he didn't have to pay any of the additional fees.

Please visit www.propertyforum.com/property-finance to book a call with our recommended broker.

Development Finance

Development finance is a loan used for the development or refurbishment of residential, commercial or mixed-use properties. It is usually specifically for experienced builders and developers, so that they can raise the funds needed for their project. Specialist development finance lenders will take the future value of the property – known as the Gros Development Value (GDV) - into consideration when agreeing a loan.

How does development finance work?

Unlike other forms of finance, the development finance lender will consider the value of the completed property into account, not the current value.

It is usually funded in "tranches" that you draw down upon when you hit agreed milestones in the development project.

When would you use it?

Development finance can be used to fund all sorts of projects, including office refurbishments, converting residential space into commercial property (and vice versa), or to help fund a planning application on a piece of land or property.

It can cover everything from a single unit project to larger multi-unit schemes.

Development finance – things to remember:

- Lenders fund a percentage of the purchase cost and facilities, then development finance is put in place to provide up to 100% of the construction costs, professional fees and interest
- Borrowers usually need appropriate and relevant experience as developers or landlords and expertise
- Facilities are provided in line with the project
- Terms stretch from six to 24 months or longer in some cases

How to access specialist finance

Where can you apply for specialist finance?

You can apply for specialist finance through a specialist intermediary or master broker. Visit www.propertyforum.com/property-finance to find out recommendation. It is imperative

to choose an advisor who has a solid reputation and one who has had years of experience dealing with the specialist lenders who offer the products listed in this guide. It's more than likely that these products are not available on the high street, and lenders will be one's you are not familiar with – so navigating the market with a specialist is advisable.

What to expect from your specialist broker

A specialist broker is an expert in these less well known finance products. They will be able to shine a light on the often-impenetrable world of specialist finance and advise you on the ideal solution for your particular needs. They will then support you by introducing you to the best lenders, and with putting the best 'business case' and application together.

Project information - what information might you need to prepare?

- Purchase price of property/property value if already owned
- Rental figures
- Current level of debt/debt provider
- Purpose of loan
- Development appraisal if you are carrying out work to the property
- Tenancy information
- Planning details

Your situation - background checks and your financial situation

You can apply for specialist finance through a specialist

- Credit history
- Bank accounts
- Address/location
- Other – credit issues, quirks with the property, tenanted, HMOs etc.
- Limited company/SPV details – belongs below
- SA302 (tax calculation) – belongs below
- Portfolio information/other property info

Thing to ask yourself to improve your chances of a successful application

When taking any form of loan, there are a number of aspects to consider - the main one being whether you can afford it. For mortgages that are secured on your property, failure to keep up repayments could lead to the property being repossessed.

Consider the following when applying for a loan:

- Have you checked your credit file?
- Can you afford to repay it in a timely manner?
- Is your business model sound?
- Additional costs of owning a property, such as insurance and maintenance.

Frequently Asked Questions

Q: ***I saw rates at below 2% advertised online, can I borrow at these rates?***

A: Specialist finance comes with specialist rates. You will not usually get the same rates as a high street lender, and "from" rates are usually reserved for low loan-to-value ratios.

Q: ***Should I talk to my Bank?***

A: High street banks will not have the same products as a specialist lender. They specialise in finance that is for unique situations and for people who would not be able to borrow from a high street bank. This could be for a number of reasons, such as poor credit history or not having a product to suit their situation.

Q: ***What is the process – how long will it take?***

A: Each situation is different, and the application time and process differ for each product.

A straightforward bridging loan application can complete in less than a week, and a complicated development finance loan application or commercial loan secured on a number of properties that all need to be valued is likely to take several weeks or months. A specialist finance distributor or master broker will be able to advise you based on your specific circumstances.

Summary: Which type of finance is most suited for my situation?

Of the specialist finance discussed in this guide, see if your situation matches any of the scenarios below, then book a call with a specialist broker to find out how they can help.

BTL finance:

- Landlords
- Property Developers
- Companies

Complex BTL finance:

Any of the above with:

- Divided properties, such as house in multiple occupancy (e.g. such as a house share, student accommodation or a house that has been split into flats)
- Residential and commercial properties – or a mixture of the two.
- Mixed properties such as flats over shops, flats with shops, flats over or near restaurants or late-night stores (due to noise levels)
- Buildings with leisure uses, such as pubs, where a tenant would live in the property

Bridging Finance:

- To bridge the gap in house purchases
- Mortgage delays

- Light / Heavy refurbishment projects where the security may not currently be mortgageable
- Purchasing property undervalue to sell on for a profit
- Downsizing, upsizing or relocation
- Auction purchase
- Exit from development finance
- Lease extensions
- Obtaining planning permission
- Development projects a house that has been split into flats)

Development Finance:

- Office refurbishments
- Converting residential space into commercial property
- To help fund a planning application on a piece of land or property

Property Forum works with a highly recommended, specialist property finance broker in the UK. If you would like personal advice or further information on any of the finance products covered in this ebook, please click the link below and fill in our form to be introduced to our recommend broker. www.propertyforum.com/property-finance

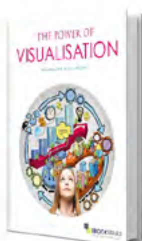
DISCLAIMER:

The finance product information contained in this document has been provided by Vantage Finance Ltd which is authorised and regulated by the Financial Conduct Authority. Your home may be repossessed if you do not keep repayments on your mortgage or loan. Property Forum does not accept any responsibility or liability for the accuracy of the information contained within this document.

OTHER EBOOKS IN THE SERIES

MAKE THE MOST OF OUR FREE EBOOKS, GUIDES & TEMPLATES

POSITIVITY FOR BUSINESS SUCCESS



THE POWER OF VISUALISATION

THE LAW OF ATTRACTION

THE INVESTOR'S GUIDE TO HMOS

THE INVESTOR'S GUIDE TO PASSIVE INCOME

THE INVESTOR'S GUIDE TO HOLIDAY LETS

THE INVESTOR'S GUIDE TO RENT TO RENT

THE INVESTOR'S GUIDE SERVICED ACCOMODATIONS

THE INVESTOR'S GUIDE TO LEASE OPTIONS

EBOOKSERIES
PROPERTYFORUM.COM