



Mortgages  
for Business

# Buy to Let Mortgages for Limited Companies

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Mortgages for Business

# The emergence of BTL Ltd company lending



Driven by two events:

## First Event.

8<sup>th</sup> 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 6<sup>th</sup> April 2017 (to 5<sup>th</sup> April 2021)

**NB:** 31 January 2018 deadline for submitting self-assessment tax returns for the year 2016/17

Call **0345 345 6788**

# The emergence of BTL Ltd company lending

| BEFORE (Up to tax year 2016/17):  | AFTER (From tax year 2020/21):   |
|---|--|
| Rental income: £15,000 pa   | Rental income: £15,000 pa  |
| Assuming average mortgage interest rate of 3.49%:<br>£7,852.50 pa   | Assuming average mortgage interest rate of 3.49%:<br>£7,852.50 pa                  |
| Taxable profit calculation:<br>$£15,000 - £7,852.50 = £7,147.50$  | Taxable profit calculation:<br>$£15,000 \times 40\% = £6,000$                      |
|   | Mortgage interest relief at basic rate tax:<br>$20\% \times £7,852.50 = £1,570.50$ |
| Tax due (at the landlord's highest margin rate as a higher rate taxpayer): $£7,147.50 \times 40\% = £2,859$ | Tax due: $£6,000 - £1,570.50 = £4,429.50$  |
| Net profit calculation:<br>$£7,147.50 - £2,859 = \mathbf{£4,288.50}$  | Net profit calculation:<br>$£15,000 - £7,852.50 - £4,429.50 = \mathbf{£2,718}$     |

**NB:** Do remember, this is a very basic example which only takes into the mortgage interest. It doesn't include any other income you may earn, any other finance related costs, or any non-finance related costs.

# The emergence of BTL Ltd company lending

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| Taxable profit calculation: £15,000 - £7,852.50 =<br>£7,147.50    | Taxable profit calculation: £15,000 - £7,852.50 =<br>£7,147.50      |
| Corporation tax due (20%): £7,147.50 × 20% = £1,429.50            | Corporation tax due (20%): £7,147.50 × 17% = £1,215.08              |
| Net profit calculation:<br>£7,147.50 - £1,429.50 = <b>£5,718</b>  | Net profit calculation:<br>£7,147.50 - £1,215.08 = <b>£5,935.42</b> |

**NB:** Please seek professional tax advice before making any decisions about your borrowing strategy.

# The emergence of BTL Ltd company lending



## Second Event.

March 2016:

PRA announces SS13/16 and PS 28/16 for Underwriting standards for buy-to-let mortgage contracts

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# Pros & Cons of a Ltd Co

## Pros

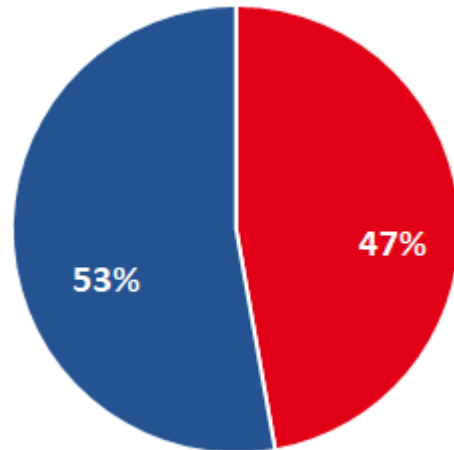
- Corporation Tax NOT Income Tax
- Interest relief remains a fully allowable expense
- Ltd Companies can borrow more
- Lots of product choice (300+ products available)

## Cons

- Exit strategies may be more expensive than CGT

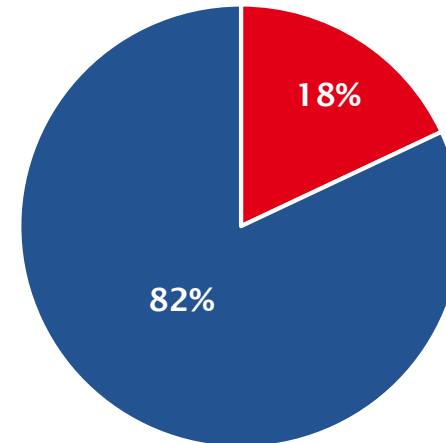
# BTL Ltd Company Lending

Q4 2017 by Number of Cases



- Ltd Co BTL completions
- Individual BTL completions

H1 2015 by Number of Cases



- Ltd Co BTL completions
- Individual BTL completions

# BTL Lending: Lenders & Products

| Year | Lenders<br>(by end of year) | Products<br>(average)     |
|------|-----------------------------|---------------------------|
| 2014 | 28<br>(6 offering Ltd Co)   | 762<br>(79 for Ltd Co)    |
| 2015 | 33<br>(12 offering Ltd Co)  | 882<br>(123 for Ltd Co)   |
| 2016 | 35<br>(14 offering Ltd Co)  | 1,129<br>(169 for Ltd Co) |
| 2017 | 36<br>(16 offering Ltd Co)  | 1,219<br>(273 for Ltd Co) |



# BTL Lending: Pricing

|            | Limited Company |          | Entire Market |          |
|------------|-----------------|----------|---------------|----------|
|            | No.             | Av. Cost | No.           | Av. Cost |
| Variable   | 113             | 4.6% ↑   | 248           | 3.5% ↓   |
| 2 year fix | 92              | 3.9% ↑   | 383           | 2.8% ↔   |
| 3 year fix | 32              | 4.0% ↑   | 173           | 3.1% ↓   |
| 5 year fix | 101             | 4.2% ↑   | 383           | 3.4% ↓   |
| Total      | 347             | 4.2% ↑   | 1,204         | 3.2% ↔   |

# Security Overview: Ltd Co Lending

| Security           | Lenders   |
|--------------------|---|
| First Charge & PGs | Axis Bank, Foundation Home Loans, Kent Reliance, Keystone, Landbay, N&P, Paragon, Vida, Precise & The Family Building Society |

# Security Overview: Ltd Co Lending

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| First Charge, PGs Fixed & Floating | Aldermore, Fleet, Shawbrook Bank, Vida & State Bank of India  |

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| First Charge, PGs<br>Fixed & Floating<br>Debenture | Octopus & Metro Bank  |

# Common misconceptions

- SPVs are different to limited companies  
Not true.
- A Ltd Co needs 2 years' books to get a BTL mortgage  
Not if it's an SPV limited company
- Ltd Co BTL mortgages are really expensive  
Not true. Most lenders offer the same rates to both individuals & Ltd Co's
- I can simply transfer the BTL property I already own into my company  
You can't do this. The company will need to purchase the property.

# SPV or Trading Ltd Co?

- A **trading limited company** is a legal structure set up to run a business. The company takes responsibility in its own right for everything it does and its finances are separate from your personal ones. Owners of a private limited company are legally responsible for its debts only to the extent of the amount of capital they have invested, unless they have signed a PG. As the “trading” suggests, these companies are active trading vehicles.
- A **Special Purpose Vehicle** (SPV) limited company is a non-trading company that exists solely for buying, selling and letting property.

## Current Product Availability:

304 - SPV Ltd Co

131 - Trading Ltd Co

# Setting up an SPV Ltd Co

## Need to set up an SPV?

- Ask your accountant or go online – <https://www.gov.uk/limited-company-formation/register-your-company>
- Register online for £12 (usually takes around 24 hours)
- Register by post for £40 (usually takes between 8 and 10 days)

## Want to know if your existing company meets the SPV criteria?

- SIC code for letting property
- No sign of any revenue through the company of anything other than letting to property

# Acceptable deposits

## **Savings**

You will need to show a build-up of savings (providing 3 months' bank statements)

## **Directors' loans**

Company accounts and/or bank statements to show the director has funds available

## **Gifted deposits**

Usually need to be from parents – proof of funds will be requested

## **Inter-company loans**

Some will insist on the parent company paying dividends to the director then the director loaning to the subsidiary company, others will lend as long as the directors are the same on both companies and the directors are shareholders of the parent company



# Acceptable deposits

## **Sale of property**

Where this occurs the lender will request either bank statements showing funds going into the account or a completion statement from the solicitors.

## **Shares**

The lender will want to see the contract note for the shares and potentially the funds in the account once the shares are sold.

## **Inheritance**

This form of deposit is accepted by many lenders as long as they receive a letter from the solicitor confirming details.

# Best Buys (Correct at: 23/01/2018)

| Rate                  | LTV | Description  | Lender Fee | APR  | RTI             | ERCs |
|-----------------------|-----|--|------------|------|-----------------|------|
| 2.69%<br>discounted   | 75% | Discounted at 2.69% =<br>LIBOR + 2.16 for 2 years<br>reverting to 5.50% (LIBOR +<br>4.97%) | 2%         | 5.4% | 125% @<br>5.5%  | Yes  |
| 3.49%<br>5 year fixed | 75% | Fixed at 3.49% for 5 years<br>reverting to 5.50% (LIBOR +<br>4.97%)                        | 2%         | 5.1% | 125% @<br>3.49% | Yes  |
| 3.25%<br>3 year fixed | 70% | Fixed at 3.25% for 3 years<br>reverting to 5.35% (LIBOR +<br>4.95%)                        | 1%         | 5.1% | 125% @<br>5.5%  | Yes  |
| 3.69%<br>5 year fixed | 65% | Fixed at 3.69% for 5 years<br>(to 30/04/2023) reverting<br>to 5.43% (LIBOR + 4.90%)        | 2%         | 5.2% | 125% @<br>3.69% | Yes  |

# Thank you



Any questions?

If you have any questions relating to this presentation or a business enquiry, in the first instance, please email:

[enquiry@mortgagesforbusiness.co.uk](mailto:enquiry@mortgagesforbusiness.co.uk)

OR

Call **0345 345 6788** Visit [www.mortgagesforbusiness.co.uk](http://www.mortgagesforbusiness.co.uk)

**THANK YOU FOR YOUR TIME**