Exploring the limited company options

On the back of some well-publicised tax and regulatory changes across the buy-to-let sector in recent years, it's clear that awareness around limited company lending has risen greatly within the landlord and adviser community. Whilst the merits of adopting a limited company status will vary according to individual demands, aspirations and scenarios, many lenders have adapted - and continue to adapt - their propositions to service a huge growth in demand as this form of lending continues to attract a variety of landlords.

This has been particularly evident over the past five years. Between the beginning of 2016 and the end of 2020, it was reported by Hamptons that more companies were set up to hold buy-to-let properties than in the preceding 50 years combined. Companies set up to hold buy-to-let properties were even suggested to be the second most common company founded during 2020, with companies selling goods online or by mail order unsurprisingly landing the top spot. This meant that at the end of 2020 there were a total of 228,743 buy-to-let companies up and running, an all-time record.

These represent some incredible figures and whilst I don't have 2021 figures to hand, I can only imagine that this growth pattern is continuing, at pace. From a CHL perspective, we are certainly seeing heightened interest from landlords when it comes to limited company options and this will certainly remain an area of intense focus for us moving forward.

Now that we have set the scene for the exponential trajectory of limited company lending, let's outline some brief examples of how this works on a practical level and criteria which lenders may, or may not, accept.

The first is an inter-company loan. This is where a limited company, contractor or self-employed person is looking to purchase a buy-to-let property using funds which have been built up in their primary company. In order for prospective landlords to proceed, the first step is to set up a special purpose vehicle (SPV) for the buy-to-let purchase and then do an inter-company loan to use as a deposit.

Let's point out here that not every lender will accept an inter-company loan but many specialist lenders will. I can't speak for every one of them, but it's often the case that confirmation from the client's accountant – which outlines that the future trading of the company providing the loan won't be affected by releasing the funds - may be enough.

Another question to ask is – does the lender require a personal guarantee?

When buying property via an SPV, it's often assumed that the directors and shareholders are required to sign personal guarantees, but this doesn't always have to be the case. There are options available for those advisers who have clients who are – for whatever reason – not comfortable in signing a personal guarantee.

These are just two examples of what some lenders may or may not accept and these help underline just how important it is for intermediaries to get even closer to their specialist lending partners and understand how to successfully deliver limited company options for their clients.

Andy Valvona, National Account Manager, CHL Mortgages