OUTLOOK 2017

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COMMERCIAL BORROWING, WHAT TO EXPECT IN 2017

2016 will go down as the year when everything changed but actually nothing really did. A referendum in the UK and all change at The White House however the impact of these will not be felt until 2017.

With that in mind, what will 2017 bring for those looking to raise commercial finance?

Buy To Let

The changes to tax and interest allowances will start to be felt in earnest, however the biggest change may come from new PRA regulations which waste no time in coming into force, starting as they do on 1st January.

The new PRA regulations focus on stress testing affordability and bringing in more standardisation of testing affordability. From 1st January lenders will need to stress test using an interest rate of 5.5% regardless of current base or LIBOR.

Lenders will also need to take account of related costs such as maintenance, voids, ground rents and changes due to taxation.

If clients are considering purchasing investment property then advice over funding is more important than ever.

We also expect lenders to ratchet up their rental coverage ratios, so getting the right lender is going to be more key than ever.

Loan Renewals

There will be lots of borrowers who have three or five year loans maturing in 2017.

For these borrowers the same deals, loan to values and rental coverage ratios will not be available.

Borrowers with deals maturing need to be taking action well before loans expire to avoid the risk of panic or surprise that straight renewals may not be as easy as they thought when they took out the borrowing.

Short Term Property Finance

The changes to stress testing buy to lets may see more investors taking shorter term finance.

Loans of 12 months or under fall outside of the more stringent affordability tests. This could see borrowers using bridging and other short term finance to refine portfolios before seeking better long term solutions.

At the very worst it could provide time for investors to sell units at a time when more properties are expected to hit the market as the tax changes begin to bite.

Cost of Borrowing

With all the negatives going round you might expect the cost of finance to increase.

Changes to capital holding requirements in 2017 could provide lenders with good reason to nudge up margins however the indication at the moment is that margins may well reduce, there are some signs that margins may come down.

Nothing stays good forever though, there are reasons for those thinking of refinancing to do it earlier not later.

WHAT ELSE COULD HAPPEN?

Brexit

In or out, maybe even just shake it all about. The Brexit hokey-cokey will start to become real in 2017.

At the moment we don't even know whether we need a commons vote to trigger Article 50 so trying to second guess what Brexit may bring in 2017 is anyone's guess.

For lenders, most should continue to operate as they do at present. There are a few niche lenders who have more EU backing that may need to change but the vast majority are reporting business as usual. For now, no panic required.

What may be more interesting is what happens to Government backed schemes such as EFG. What Brexit will mean to state aid and whether that frees up state support for SME borrowing or tightens it remains to be seen. An interesting one to watch though.

The FCA

Whenever a regulator gets more resources you need to look at what is heading your way.

For commercial borrowers there are a few areas the FCA are starting to look at and appear to be 2017 projects for them.

There will be greater regulation of commercial credit brokers. For anyone referring clients to credit brokers then those brokers will need to be FCA regulated whether the borrowing they advise on is itself regulated or not. Be careful referring to non-regulated brokers as this could invalidate your PI and see claims head back toward you.

The FCA have also started to look at personal guarantees. Part of this is about ensuring anyone providing a PG is fully aware of their obligations and that lenders give guarantors more time and forbearance in the event of a PG being called upon.

There is also a change in continuous payment arrangements. Reading between the lines this is encouraging lenders to seek gradual reductions from distressed borrowers. Reading further between the lines this suggests that where a lender fails to adequately find a settlement with a distressed borrower they may struggle to enforce their security.

For clients who are in distress then talk to the lender with confidence, they would also benefit from reading the FCA guidance notes to lenders. Google it or search the FCA website.

Traditional vs Alternative Lenders

Where changes to capital requirements happen then the bigger your existing loan book the bigger the issue is for you.

For most traditional lenders who have a large loan book this will serve to keep already stringent criteria, well stringent.

We are seeing more new entrants into the commercial lending space. The more that regulation and capital rules change the greater the opportunity for the new player with less baggage.

Remember that whilst loan to values on residential borrowing are creeping up, the capital rules on SME borrowing are different so don't expect a raft of 80/85% commercial mortgage deals in 2017.

Valuers appear to be acting with some caution, valuations below expectation being pretty common. This is expected to drive up applications to alternative lenders, especially with unsecured loans up to £300k being available thereby providing access to sizeable borrowing without a reliance on property.

The Final Note

2017 will be interesting. If there is one piece of advice around commercial borrowing then it would be to act early and take advice from a specialist.

WHAT CLIENTS SAY

"..effective and knowledgeable in providing commercial property finance in ways that conventional lenders might not achieve. Definitely my 'go to guy' for commercial finance"

"...helped out in a real hour of need to push development further forward. His contacts with lenders made him the perfect aid to finding finance and his expert knowledge was very valued"

"..always quick to respond and give genuine and honest advice every time. I have no problem recommending him to my clients or other professionals on any aspect of commercial funding"

Lime Consultancy
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