

# Take the stress out of stress testing

Many portfolio landlords struggle to find lending solutions to meet their needs, due to stringent stress testing requirements of mainstream lenders.

This example explains how less restrictive stress testing, from non-bank lenders like Octopus, can help clients looking to incorporate a portfolio.

## Helping portfolio landlords

Some portfolio landlords are turning to specialist, non-bank lenders such as Octopus Property, that have the ability to assess each case on its own merits. Where appropriate, we can make Interest Coverage Ratio (ICR) calculations that help portfolio landlords get the buy-to-let funding they need.

Many landlord surveys demonstrate that there is a need in the market for simplified underwriting measures for portfolio landlords, which is where specialist lenders can help.

As a provider of buy-to-let loans, brokers and their portfolio landlord clients are key customers for us. We know that many landlords have a built a successful portfolio over a number of years.

They have likely been conservative when borrowing, with modest loan to value (LTV) ratios, been prudent with cash flow and have maintained properties for their customers. And they will be looking to work with a lender that is aligned with their approach.

## Managing portfolio incorporation

Since the introduction of tax changes within Section 24, with interest on loans now deducted from rental income, many landlords have been forced to seriously consider the future of their portfolio. Some have looked at the option of incorporating it, in order to gain the benefits of different tax treatments.

Incorporating a portfolio isn't suitable for everyone. But in cases where it is the most appropriate solution, it's frustrating for landlords who are being hindered by additional red tape making the process difficult to finance.

The following sets out an example of where Octopus Property would be able to offer a well-considered bespoke solution.

## Portfolio incorporation: case study

Meet Jess and Chris, portfolio landlords who own eight single let properties on the outskirts of London, with a combined value of £3,850,000. The blended yield of these properties is 4.7%, which produces a rental income of £180,950. They are geared at a 67% LTV of £2,579,500.

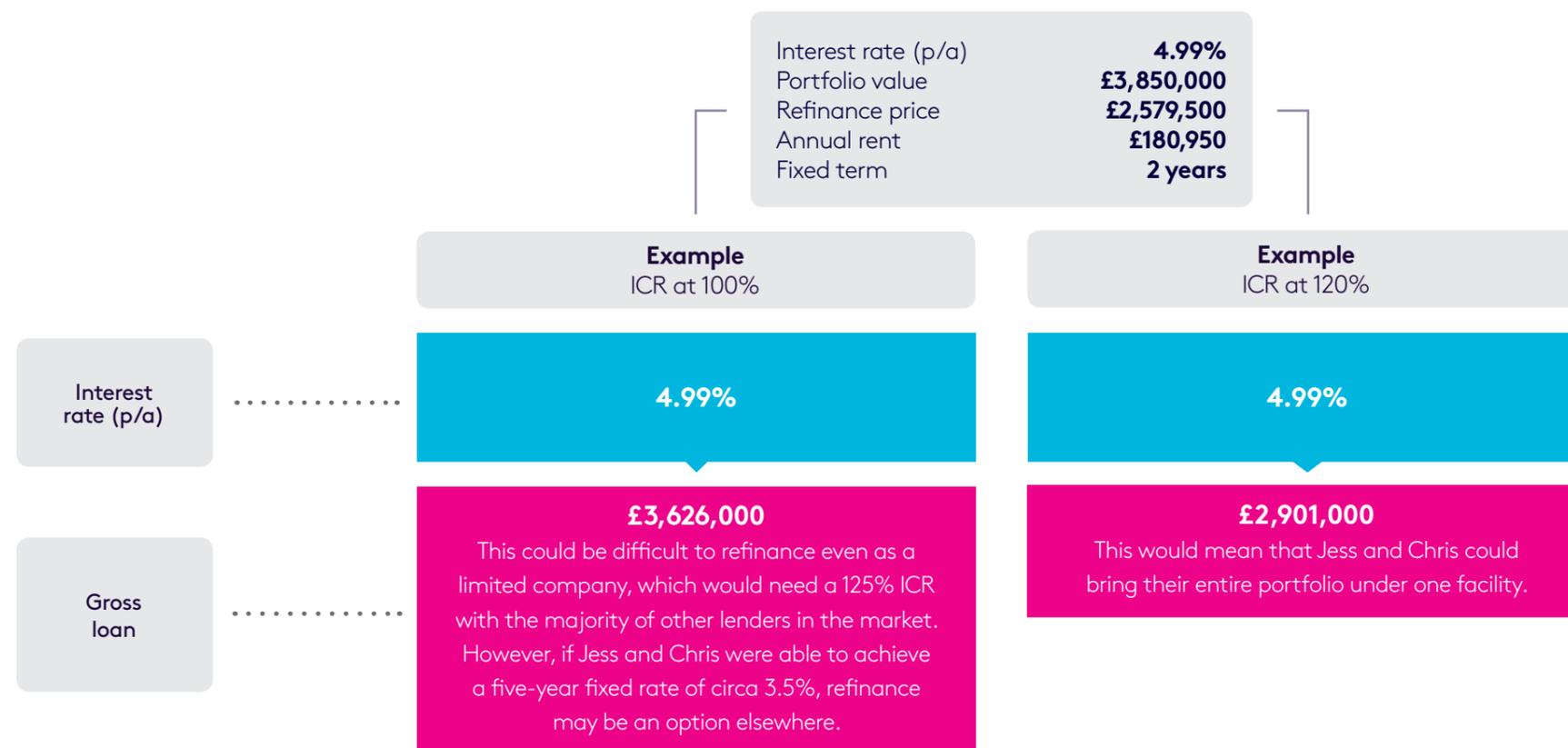
The properties are split over a number of different lenders. As part of the incorporating process, Jess and Chris are looking to refinance under one facility.

They have been trading as a partnership and the incorporation process could take 1-2 years before being able to become fully incorporated. Due to this, they only want a short-term mortgage. This then limits options to either bridging or a lender that can offer a shorter term.

The issue with this second option is that a two-year term with many lenders will likely default to a restrictive ICR of 145% cover on a rate of c5.5%. This could result in a gross loan of £2,268,965 which wouldn't clear the balance. Or if the landlord opts for bridging, this would likely result in an annual interest rate of c7%.

In this scenario, Octopus would offer the 4.99% rate. The following example illustrates how we could then be flexible on the interest cover ratio at either 100% or 120% rate, to achieve the refinance value Jess and Chris requires.

## Portfolio incorporation solution



A loan like this, completed at the rate of 4.99%, could remain fixed for two years. Any early repayment charges (ERCs) would only be applicable for 23 months. This means that the landlord would be able to exit back out to the market as a limited company with a wide choice of lenders available.

**Note:** This example is for illustration purposes only. The estimated Arrangement Fees for a buy-to-let loan are 1%, however actual charges experienced by a borrower might be higher or lower. The example assumes the costs for the borrower are the same, but actual costs may be different.



## Buy-to-let range

### Specialised solutions

Our buy-to-let range is focused on solutions for more unconventional cases. Borrowers include portfolio landlords, first-time buyers, foreign nationals, expats, and investors in semi-commercial properties.

We're a specialist lender and these are specialist products, which can be tailored to individual situations and circumstances. With five core offerings, the process is streamlined, making it more convenient for brokers to work with us.

### Deferred interest

The interest rate charged on some of our products reflects the risk and increased complexity of the loan. That includes more extensive underwriting, while still maintaining fast turnaround times.

Therefore, we have designed some products to allow the customer to defer some of the interest until redemption. This can also help keep monthly costs as low as possible, which in turn frees up cash flow for our customers.

## Octopus Property, a property company with a difference

Property finance can be improved and we think we know how. It needs to be fast, because you haven't got time to lose. It needs to be flexible, because every borrower's needs are different. And it needs to be reliable, because you can't afford to be let down.

Our commitment to brokers and clients is straightforward: to make quick decisions and stick by them, to offer loans at every stage of the property life cycle, and to provide unconventional solutions for unconventional needs.

We're award winning, but not complacent. An innovator in our field, with over £3bn lent to date. And we comprehensively cover the commercial, residential and property development sectors.

Our loans typically range from £150,000 to £50 million, and with access to multiple credit lines we can provide bespoke, customer focused finance to borrowers throughout the UK. Since 2008, our team has grown to over 70 professionals, who ensure your property finance experience is simple and easy.

Get **indicative terms** by filling in a quick enquiry, we will aim to respond within 4 hours.

[Submit a quick enquiry](#)

For an **agreement in principle** submit a full enquiry.

Our credit team will review and aim to respond within 24 hours.

[Submit an individual enquiry](#)

[or a company enquiry](#)



## Ready to get in touch

Call our Business Development Managers on **0800 294 6850** or email [sales@octopusproperty.com](mailto:sales@octopusproperty.com)

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