EXETER FINANCE

Insight

Issue 1- May 2016

In this issue

OUR FIRST DEAL

John and Karen Allen

Contents

6

Our first deal

8

Q&A's with Rebecca Dury, Partner at Ashfords LLP

Why we started Exeter Finance

At the end of May 2013, I left Arbuthnot and thought I was going to have a rest. Little did I know at the time that I would be starting a finance business within a year. Now two years later we have our first employees, a number of investors and have approved and completed over 60 loans in excess of £12 million.

Exeter Finance grew from an idea to serve the local market and to provide a quick response to clients who needed funds in circumstances where there was little or no risk in terms of loan to value but for whatever reason the clearing banks were too slow.

The market changed in the recession and the banks have not recovered to the standard that they were at before then. Although the High Street banks will always have their place, they simply cannot act as quickly as we can, nor can they make a decision on a loan at a local level.

At Exeter Finance Ltd, we have the advantage that I can jump in the car, meet the client, see the security and make a decision based on my experience that day. We can also add value to those clients looking at property development.

Our very first loan was based on an enquiry late on a Thursday afternoon. I met the clients Friday morning and we issued the facility letter that day and the loan was drawn down on the following Monday. You can read more about our first client on page six. No High Street bank would do that with a new client.

The first funds we used were our own and we also raised funds from five founding shareholder investors to 'bank roll' us. Since then we have agreed a line of credit with a listed UK bank who are supporting us as we grow. We are also raising money from private investors (more about that is on page four) so that we have a mix of funds to draw on. All of our legal work is carried out by two firms of leading solicitors in the South West who write our facility letters and take the charge on the property that we are lending on.

Our ambition is to keep growing. The loan book is now at over £6 million with loans of £2 million in the pipeline with funding in place. I can see us getting to £10 million of loan balances in 2016. It is important to us that we always lend on property that we have seen and clients that we have met.

We are not mortgage lenders and do not lend on someone's main home. Loans are always over £26,000 with a maximum limit of £1 million at present.

If you would like to find out more about a property loan or how to be one of our bond investors please get in touch with me by telephone or email.

Peter Keech

The mini bond issue

We need money to be able to lend to borrowers on an ongoing basis. Money we raise from investors in bonds is only used to lend; we do not use this to cover our overheads. Exeter Finance has been profitable since formation.

Here are some important facts about the bond:

- The bond issue is only open to certified sophisticated or high net worth investors as defined by the Financial and Services Markets Act 2000. To qualify as a bond investor you must meet either the criteria of assets of more than £250,000 above the value of your home or an income of above £100,000 per annum. You will also qualify if you are a limited company or using your own pension fund.
- We pay bond holders interest at 6.5% per annum with interest paid on the 1st January and the 1st July.
- The term of the bond is 12 months plus six months rolling notice either side; effectively a minimum of 18 months.
- The bonds are issued from £50,000 upwards to a maximum of £250,000.
- Bond investors can be an individual, a limited company or from a pension fund.
- The bond is essentially an unsecured loan to Exeter Finance Ltd.
- We have already raised £1.8 million using bonds and are looking to raise a further £2 million.
- All of our loans are secured on property and do not exceed 70% of loan to value. We always use solicitors to perfect our title on the security.
- In the past two years we have lent over £12 million in loans, many of which have completed the loan cycle and been repaid.
- None of our current or past loans have been in default. We charge all clients at least 1% per month interest plus arrangement and exit fees.
- The management team have a depth of banking and financial experience in lending money and taking security.
- We are also funded by Shawbrook Bank Plc who have a debenture and conduct regular three month audits on our loan files.

If you want to find out more please contact Peter Keech or David Kirk. We will agree the sum you want to invest with us and then we will issue you with a loan note document (prepared by Ashfords Solicitors) for you to sign and return. There are no costs or fees deducted from your loan to us.

Helping business owners make the most of their pensions

Patrick Day of Day Cooper Day

With traditional pension plans in decline, a growing number of business owners are taking advantage of the benefits that Small Self-Administered Schemes ("SSASs") have to offer.

SSASs are pension schemes designed for owners and directors of a business. They are the older brother of the more widely known SIPPs and have additional flexibilities that make them attractive for entrepreneurs. One key feature of SSASs is that they can lend up to 50% of their net asset value to companies controlled by the scheme members.

Any company can set up SSASs for any of its employees but typically membership is limited to shareholders or directors of the business as they are not usually appropriate for employees.

SSASs, inline with all UK pension funds, receive tax relief on contributions to the fund, investments grow tax-free and from the age of 55 any member can take 25% of the fund as a tax free amount with unrestricted access to the balance subject to income tax. Once established, most SSAS members choose to consolidate existing personal or company pension savings into the SSAS to better manage their pension assets.

SSASs have the widest investment flexibility of any UK pension funds but typical investments can take advantage of this flexibility and would include commercial property, loans to companies controlled by the members and investment in private companies.

Investing in shares

When celebrated local chef Michael Caines MBE was looking for a new hotel and restaurant venture, he offered his contacts within the local Devon community the opportunity to invest in the purchase, renovation and operation of the new venue called Lympstone Manor. A number of the potential investors had existing pension savings that they wanted to invest into the new project.

Investment of pension monies into a project such as this is entirely permitted within pension scheme rules but many pension providers have their own restrictions, which go beyond the restrictions imposed by H M Revenue and Customs. A number of the investors had the proposal turned down due to these provider imposed restrictions.

We established SSASs for three investors in Lympstone Manor, consolidating existing pension arrangements, and the fundraising was successfully completed in July 2015.

Working capital

Another good example of this was when a Devon business that had been trading for over 40 years had its overdraft facility slashed by their bank and they looked for an alternative and sustainable source of finance.

Due to the seasonal nature of their business, funds to purchase stock were required in the off season with the vast majority of income for sales being received some 6-8 months later creating a cash flow requirement each year for stock purchase.

The directors of the business had existing pension savings invested mainly in commercial property and we were approached for a solution to give a cash injection into the business.

Exeter Finance were able to provide the pension trustees with a loan secured against the commercial properties that they owned and the pension trustees could then lend this money on to the company providing the cash flow for it to purchase stock.

The speed in which we were able to implement the plan allowed the company to meet its obligations and due to the strong performance this year the loan was repaid from sales earlier than anticipated. If a solution could not have been found and put in place within a strict time scale, the results for the company could have been disastrous – something that clearly did not trouble their local friendly bank when the overdraft was cut.

Borrowing from the director's own pension scheme to fund business expansion, stock purchases or simply just for cash flow is very popular amongst our clients with around 70% of Day Cooper Day Clients having a loan to their own company.

Day Cooper Day is the fastest growing provider of SSASs in the UK. Founded by three directors in March 2013, the company now has a staff of 10 and provides SSASs across the UK from their base in London, with a particular focus on the South West, South East and the North East. The directors have over 40 years experience of running SSASs with a focus on providing clear, straightforward and cost effective solutions within the restrictions imposed by HM Revenue and Customs. Fixed fees rather than a percentage of assets are charged for running the scheme and these would typically be circa £1,200 per annum. A full fee schedule is published online at www.daycooperday.com.

For further information please contact Patrick Day on **Patrick@daycooperday.com** or telephone **0203 542 8489.**

Our first deal

Our ability to act quickly and agree the terms on a loan locally is a key reason for our success.

Our very first loan was to John and Karen Allen. John had been known to us for many years and was a well-known Exeter residential mortgage broker.

John had agreed to buy the Loft Club in Exeter (a closed community building) after the agent had a number of interested buyers and had gone to sealed bids. John had arranged commercial finance from a bank for the purchase. However a few days before the expected purchase date the lender had become nervous about the state of the property following a survey as the building was painted with graffiti – in fact local community approved art and not vandalism that was meant to be there.

As we are local, we could visit the property and inspect it ourselves. It was clear that John was making a very good purchase and it was a safe lend for us as he was only borrowing 50% of the purchase price. There were already a number of community centres in the area that were not being used, so it was likely that John would get planning for a change of use to housing.

We agreed terms with John and completed the loan in two working days. John and Karen have since gained planning permission on the building to convert it into four flats and following a second site visit, we advanced him further funds to allow him to complete the redevelopment of the Loft Club.

John said, "You don't expect the bank that have agreed a loan to move the goal posts at the eleventh hour. It was lucky that I knew that David had just started Exeter Finance Ltd with Peter Keech. We met Peter on the Friday morning at Exeter Services after a telephone conversation and we drew the loan the following Monday. From experience, I can tell you that is fast!"

All four flats are now finished and John will move the finance from us to a standard buy to let mortgage so that we can then use that money to lend again.

"...it was the first time for a long time I had talked to someone in lending who understood what I was trying to achieve"

Kevin Jones & Tidebank Ltd

The first customer we were recommended to help by a broker was Kevin Jones. Kevin had been building industrial units for some years and had a built a number of the smaller industrial units at the Olympic Park in Portland, near Weymouth in Dorset, and also around Southampton.

Kevin would buy the land and build out the units on the speculative basis that he could sell them. When we first met him he was near completion of three industrial units in Portland all with interest from buyers.

Kevin needed funds to complete the development and to purchase some industrial land at Coxbridge in Farnham, Surrey which had planning for five industrial units.

We met Kevin on site and could see the Portland units were near completion and that he was an experienced developer. We lent him the funds after carrying out a full valuation of the units.

Kevin then came to us for funding of the five units at Coxbridge and we helped him with stage payments to build out the units. He had agreed the sale of four of the units plus the letting of the fifth to HSS Hire before he had even finished them.

Kevin said "It was good to meet Peter and it was the first time for a long time I had talked to someone in lending who understood what I was trying to achieve. I liked the way the decision to lend was made locally after coming to see me and there was no delay. I have now used Exeter Finance three times and would not hesitate to recommend them".

The theory

The reality

Q&A

with Rebecca Dury,
Partner at Ashfords LLP

"the easiest security for individual borrowers to provide is over property. For a company, it is typical to take a debenture, which is a wider ranging security over all company assets"

How long have you worked at Ashfords LLP?

I began my legal career at Pinsent Masons and qualified as a solicitor in 2005. I moved from the Midlands to Exeter in 2008 and joined Ashfords' Banking team. I have also done a secondment whilst at Pinsents with the Corporate and Commercial team of an international bank.

What do you do?

I act for a variety of banks, lenders and borrowers on a range of financing transactions, including syndicated and bilateral financings, acquisition finance, property and development finance, general financings, restructurings and refinancings, asset finance and invoice discounting.

How does a typical loan process work?

A typical loan process starts with a borrower approaching a lender for a loan facility and completing various application forms, including asset and liability statements - this is particularly important because a lender will typically want to be a secured creditor. The easiest security for individual borrowers to provide is over property. For a company, it is typical to take a debenture, which is a wider ranging security over all company assets.

At the outset, the borrower and the lender agree the commercial terms to the deal, including the amount of money to be lent, the rate of interest to be paid and the repayment term, as well as the item to be offered as security and whether any guarantees are to be given by third parties. When these terms are agreed, Ashfords LLP will produce the loan facility agreement and any supporting security or guarantee documents. Ashfords will usually be instructed to undertake due diligence on the property or other assets the subject of security. It is important to establish that the borrower has good title in case the lender needs to take possession of the sale.

Once the documents are produced and in an agreed form, both parties will sign them and, once the due diligence is also complete, the funds can then be drawn down and lent, and the security put in place.

How does Shawbrook Bank fit into the lending process?

Shawbrook Bank PLC are utilised by Exeter Finance Limited to provide partial funding for some of the deals it enters into - they provide flexible funding.

What is the fastest loan and security you have completed?

I have assisted with a wide range of transactions, which range in timescale due to their nature.

I think the fastest loan and security arrangements that I have put in place took only two days.

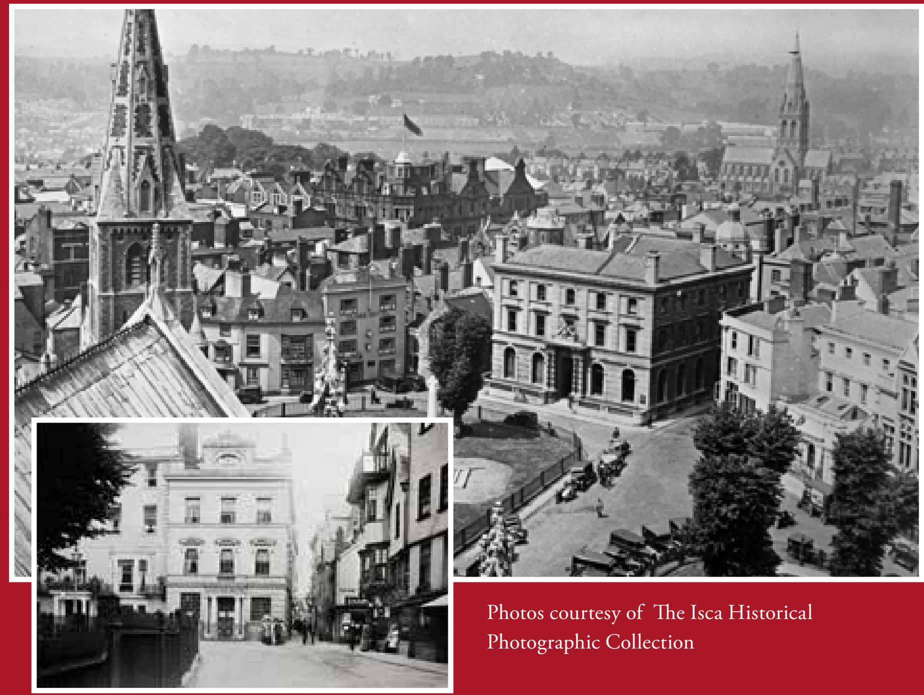
To ensure a transaction proceeds quickly and smoothly, it is vital that the borrower provides all information to the lender at the outset of the transaction, to ensure all commercial terms are agreed prior to documentation being prepared and to have signatories for the documentation on standby to be available for signing.

What is it like working with Exeter Finance?

We've now worked with Exeter Finance Limited on in excess of 60 transactions, and each matter is different - we tend to be involved in the lending process at a very early stage, working with the borrower's solicitors to progress matters to completion as quickly as possible, and we very much enjoy working with Peter, David and Emily.

The Exeter Bank

One of our aims when starting Exeter Finance was to create a local 'bank' in Exeter that would make local decisions, and perhaps one day be able to call itself a bank and to take deposits and lend money in Exeter.



Photos courtesy of The Isca Historical Photographic Collection

That ambition is still some way off because the cost of obtaining a banking licence and the regulatory compliance involved means that we would have to be a reasonably large business to justify the costs involved.

In the past there have been a few smaller banks in Exeter including The Exeter Bank set up in the Cathedral Close in 1769. This was in the building that is now the Café Bar at The Royal Clarence Hotel. The bank was set up by four founding partners – it was not a subsidiary of another bank. In fact at the time there was no other bank in Exeter.

The Exeter Bank then issued its own bank notes in 1791 in £5 and £10 denominations. These were effectively loan notes – the depositor gave in gold or silver to that value in exchange for a paper note. The holder of the note could then go into the bank at any time and ask for the value back in gold or silver.

The Exeter Bank grew and opened a branch in Exmouth in 1896 and then one in Budleigh Salterton.

There were a number of private banks in Exeter and over time they were consolidated and taken over with The Exeter Bank merging with another local private bank in 1901. The bank then moved to a single building called the City Bank building (now Jack Wills clothes store) opposite the west main entrance to the Exeter Cathedral.

This merged bank became part of the National Provincial Bank in 1918 and eventually Nat West Bank.

Who knows, but maybe one day Exeter will have its own bank again.

Chris Hall joins Exeter Finance

We are delighted to announce that Chris Hall has joined the board of Exeter Finance. Chris, an initial investor who now has shareholding will act as Director of Credit and Risk.

Chris has over 30 years of experience in the property industry and has worked with Peter on many transactions whilst he was at Credit Lyonnais and Artbuthnot Latham.

Qualifying with a BSc degree and being a Fellow of the Royal Institute of Chartered Surveyors, he started his career in London's West End. Chris progressed from running his own business advising banks, building societies and other financial institutions to owning his own property investment and development companies in the West Country based in Plymouth.

Chris is well respected in the South West region and having sold one business became a Regional Director of a multiple surveying and estate agency business covering Southampton to Liskeard. His role also included advising on corporate acquisitions.

Chris comments, 'Exeter Finance is an exciting opportunity for me to be actively involved in the property and finance arena working alongside a very experienced Banking team. I am looking forward to help bring the Board's aspirations to reality. The longstanding friendship with Peter over two decades establishes trust so it is a great challenge to balance our property skills alongside David dealing with the corporate governance. The volume of new business has exceeded our expectations and we are looking to establish a balanced lending book predominantly throughout the South West.'

Outside of the business environment, Chris has an active interest in most sports, family life being married with two children and he is also a boating enthusiast.

How should I organise my affairs to pay the least tax?

David Kirk director of Exeter Finance Ltd and a partner in Kirk Hills Chartered Accountants talks about the best way to save tax if you are in business.

Income

One of the hardest taxes to reduce is tax on salary taken under PAYE. This is the government's biggest tax raiser and the rules are all very tight as a consequence to stop any leakage. If you are an employee the only areas you can look at to save tax are taking a reduced salary to pay into a pension or being careful about the company car you have to drive. There are other minor tax reliefs but they are very small.

If you are a shareholder as well as an employee then the options increase because money taken from a limited company as dividends is not subject at all to National Insurance ("NI"). The rate of NI in 2015/16 is 13.8% for employers and then another 12% for employees (although the latter cost stops at a certain level of income) so combined saving of 25.8% can be saved.

The other way to reduce tax on income is to move assets (including private company shares) into your spouse's name or other adult family members bearing in mind that income tax is payable from 20%, up to 45% for income over £150,000 per annum.

If your spouse happens to be non-resident and based, for example, in Monaco (easy to get to and a nice climate) then there is no income tax at all on those dividends. This is why you will see a number of high net worth entrepreneurs (who can afford the flights) working in the UK during the week and flying back home somewhere at the weekend where the other half and children live.

Recent changes in the 2015 budget mean that a comparison needs to be made of the best way to take dividends as there are new dividend tax rates at 7.5%, 32.5 % and 38.1%.

Capital Gains Tax ("CGT")

This is a tax levied on the gain on sale of assets. The rules are a bit more complicated and some assets are not taxed at all.

One of the best assets not subject to CGT is your main home or primary residence. I think this is why you see a number of skilled builders moving a rung at a time up the property ladder. Another class of assets not taxed are chattels such as classic cars. Some assets are also taxed at different rates as well, so for example certain qualifying business assets may only be 10% CGT whilst other assets are taxed at 18% or 28% (the latter for higher rate taxpayers).

Business assets that qualify for Entrepreneurs Relief and are only taxed at the 10% rate include shares in a trading business (where you own more than 5% and are a director or working employee), property such as farmland where you have traded and goodwill in an un-incorporated business.

There is a lifetime allowance of £10 million at the 10% rate. Above that you will pay tax at 18% or 28%. The alternative of course is to emigrate before the asset sale and move to a low tax country although you may have to be there for five plus years to prove to the UK tax authorities that you should not pay the tax in the UK. I have helped a number of clients consider emigration, but more than half decide not to go in the end for various reasons, including leaving behind family and friends and the restrictions on coming back.

Lastly, a very good way of getting your money out of a limited company is when it has stopped trading to use a Members Voluntary Liquidation. This means shareholders can usually take the funds out as capital at just 10% tax. I do think this option will end soon.

Inheritance Tax ("IHT")

This is probably one of the easiest taxes to avoid with planning. There is no tax at all on the estate left to a surviving spouse.

Then the next £650,000 of a husband and wife's estate are tax free and now up to £1 million if £350,000 of this is in the family home. Then the estate is taxed at a flat rate of 40% however much is left.

However, qualifying business assets are IHT tax free and there is no upper limit. This is why so many wealthy families have invested in qualifying assets such as hotels or farm land. I believe that this is one of the reasons why the price of farmland has increased in the last ten years. I know a number of families who have spent £25 million plus on working farm land.

Unfortunately, investing in buy to let or commercial property does not count as business assets for IHT (unless the premises are used by a trading business and in certain circumstances only).

Another easy way to avoid IHT is to give the assets away when you are alive and survive seven clear years from the date of the gift. Obviously gifting the assets away comes with problems as you cannot get them back. Careful consideration needs to be given to how much you need to keep to live on and gifting assets to any newly married children (pre-nuptial arrangements may be needed here).

Conclusion

I have covered a lot in this article and only the basics. Tax is unfortunately a complicated area.

You should take good quality independent tax advice before re-organising your tax affairs and be honest and open with what you want to achieve with your advisers.

If I was asked what the perfect life cycle of a business would be, I would say someone who starts off small to test the market, becomes a limited company as they start making profits, takes out what they need to live on in dividends but never more than the profits so that assets are accumulating in the business. Make a regular pension contribution as you will not notice the payments going out but over time they will grow.

Sell your business when someone wants to buy it and not necessarily when you want to sell although this can be hard. Only pay the 10% capital gains tax but if enough money is involved consider your country of residence on the sale.

Give away enough to your family when you are alive (but not too much).

Finally, always take advice before a transaction and not after. This is the best advice I can give you.

What we do

Here is a brief summary of what we will lend on and the usual terms.

We provide loans for:

BRIDGING FINANCE TO PURCHASE PROPERTY

DEVELOPMENT FINANCE

SHORT TERM BUSINESS LOANS

AUCTION FINANCE

WE LEND TO INDIVIDUALS, PARTNERSHIPS, LIMITED COMPANIES AND PENSIONS FUNDS

"We will act quickly and give you an in principal decision once we have met you"

Here are some of our key terms:

- We always take security by way of a legal charge on property and may take a second charge if needed or a personal guarantee if lending to a limited company.
- Loans are charged from 1% interest per month. This may sound expensive but we are only lending short term - typically for 12 months so the cost is proportionate.
- We can act very quickly. For example if you are the winning bidder on a property at auction speed of completion is very important.
- We pay brokers introductory commission for the right deals.
- We always wish to meet the client and visit the property we are taking as security.
- We will act quickly and give you an in principal decision once we have met you.
- We are non-regulated so cannot lend on your main home.
- We make a decision about your loan at a local level in Exeter.

EXETER FINANCE

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