Remortgaging

Wealthy borrowers use home loans to bet on stock market

One homeowner uses a £2m mortgage to bet on bitcoin

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Wealthy homeowners are borrowing against their property to invest in bonds, equities, alternative investments or commercial property as the low cost of debt creates opportunities for "mortgage arbitrage".

Interest rates of less than 2 per cent on two- and five-year fixed-rate home loans are tempting high-income, mortgage-free homeowners to raise money against their property in the hope they can profit from higher rates of return elsewhere.

Simon Gammon, director at mortgage broker Knight Frank Finance, said the arbitrage had emerged as a trend among financially sophisticated clients as mortgage rates fell.

"We're a specialist lender at the top end but we're seeing up to a dozen of these deals a month," he said. "This is something that has come about because of the current environment of low rates."

Mark Pattanshetti, mortgage manager at broker Largemortgageloans.com, said the number of borrowers taking out loans to fund investments had risen by about 50 per cent since 2009. "Borrowers have realised the cost of debt is cheap and it isn't going to get much cheaper," he said.

For debt-free homeowners, remortgaging during the years of booming house prices was often a means of raising cash to carry out home improvements or expand a buy-to-let portfolio. But slowing house price growth and a regulatory and tax crackdown on landlords have made these options less attractive.

Hugh Wade-Jones, group managing director of mortgage broker Enness, said: "It's accepted that property is no longer going to be the all-conquering investment, doubling every 10 years, so people are looking elsewhere for returns."

Borrowers with housing equity are putting money into everything from bonds and private equity and commercial property, brokers said. For some, the latter had become more attractive than buy-to-let as the top rate of stamp duty on commercial property is 5 per cent, compared with a top rate of 15 per cent on higher-priced residential rental properties, following the introduction in April 2016 of a 3 per cent stamp duty surcharge on buy-to-let.

David Adams, managing director of John Taylor, a Mayfair-based estate agent, said investors were borrowing against London residential properties to fund investment in commercial and mixed use developments from Southampton to Birmingham at returns of 6 to 7 per cent. "Wealthy investors are no longer chasing capital gain. There is a switch to yield," he said.

Growing numbers are prepared to risk using their primary residence as collateral, but some are prepared to gamble on extremely volatile assets. One broker said a mortgage-free homeowner with a house valued at £10m had taken out a fixed-rate loan of just under £2m to buy bitcoin, the crypto currency that has seen huge volatility in recent months. Others have invested in classic cars or fine wine. One former banker took out a £500,000 mortgage, not for investment purposes, but to provide a fund for routine spending and other eventualities.

Mr Gammon said the practice typically appealed to those with investment experience. "People who have not needed to borrow have looked at the rates available — and we've now got five-year fixed rates from 1.65 per cent — and said if I can't make 1.65 per cent or more from my money, then I don't know what I'm doing."

Buy-to-let landlords are also taking advantage of low mortgage rates, using an equity-rich portfolio to raise money to invest in stocks and shares or alternative assets, Mr Pattanshetti said. Facing tightened regulatory constraints on the rental sector, they were adopting the tactic as an alternative to realising a capital gain that would be triggered either by selling properties or moving them into a corporate ownership structure for tax purposes.

There is nothing in mortgage regulation to prevent someone raising a loan on a mortgage-free property for personal investments, as long as the lender assesses that the loan is affordable and not being used, for instance, to prop up a business generating income for its repayment.

Lenders, however, may choose to apply criteria that restrict the use of capital raised through a mortgage, although private banks are typically more relaxed about non-property investments than high street banks. For bigger mortgages, lenders will also moderate risk by insisting that the size of the loan does not exceed 60 per cent of the property's value.

Unlike gains on a principal private residence, any gains on investments would be subject to capital gains tax (CGT). A wealthy homeowner may therefore seek to transfer borrowed funds to a spouse who has not used his or her annual CGT allowance. If the investment is designed to provide a stream of income, there could be a case for a transfer to a spouse who pays the basic rate of income tax, advisers said.

Nimesh Shah, a tax adviser at accountants Blick Rothenberg, said that if a homeowner took out a loan to invest in commercial property — and this was specified as the purpose of the loan — residential mortgage interest could potentially be offset against the commercial rental income.

The Financial Conduct Authority, which regulates mortgage lenders, declined to comment on individuals borrowing against their house for personal investments.