Understanding debt advisory in the property sector - TAB U Podcast - S2 E11 - #TABUniversity

Podcasts

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Today TAB University host Katrina is joined by Nick Russell, sales director at TAB, and Matthew Davies, director of Opes Financial Partners.

This episode is on debt advisory. The top five questions we asked Matthew were:

1. What is debt advisory?
2. Does a debt advisor cover the whole market?
3. What’s the difference between a broker and a debt advisor?
4. How did you get into the specialist lending market?
5. How has the lending market changed in the last decade?

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1. What is debt advisory?

Matthew explains that while mortgage brokerage and debt advisory firms have different terminologies there are also a lot of crossovers. A mortgage broker is someone who does typically smaller mortgages of up to £5m to £10m, and above that, it would become a debt advisory business.

Matthew works with loans of £5m to £50m but there are other teams at Opes Financial Partners who work with £250k to £5m. Beyond £50m it becomes an investment bank or larger lending house territory.

Matthew explains that the UK has got an incredibly sophisticated network of lenders and infrastructure, which is supported domestically by UK banks and bridging lenders as well as international private equity houses and international lenders.

Opes Financial Partners has 128 lenders on its panel. This doesn't mean that every client will have access to every lender. Some are specialists in particular areas and it is the advisor's job to determine which lenders are best suited to the deal that is presented.

Clients are typically looking for the best rate, but also the delivery. Lenders such as TAB are able to provide access to funds quicker than some long-standing banks. Opes Financial Partners has over 11 years in the industry, meaning they can guide clients through rates, terms, conditions of the loan, and deliverability to find the best solution. Now more than ever, Matthew says, 80-85% of mortgages in the UK above £300,000 are done via brokers, because of relationships.

Matthew described the three important aspects of lending: pricing, speed and terms, saying you can generally only have two of the three - if you get a low rate then the terms will typically be quite rigid, for example.

2. Does a debt advisor cover the whole market?

Debt advisory doesn't just cover real estate. When you have an asset there is an individual or a corporate entity behind it, and a lender is assessing the asset and the individual/entity simultaneously.

For long term mortgages, the individuals are typically more important than the asset. In short term lending, the asset is key - there's not going to be a 25 year profile of the property going up in value.

Opes Financial Partners focuses on real estate, but they have funded private assets in aviation, marine, and overseas property. Whilst they wouldn't advise on a dam in Africa or a factory in China, there are companies that would. Debt exists everywhere, and Matthew appreciates that most people will have a loan and will need advice from mortgage brokers or debt advisors. The more niche spaces will be more adversely affected by their market conditions.

Matthew does quite a lot of lending abroad including in the south of France, Spain and the Caribbean.

He says cases that cross borders and cross currencies are rare but they do happen, as well as clients from quirky and interesting jurisdictions.

Being a debt advisor is all about building relationships using communication skills and generally being likeable. It's not a technical role, it's about dealing with people, and being accountable at all times as well as organising mortgages - arguably the biggest financial debt/investment people will have in their lives.

3. What's the difference between a broker and a debt advisor?

Matthew believes it's mostly just terminology and they're both doing the same thing. A debt advisor typically deals with larger loans.

It's similar to how in property terms, a flat is seen as cheaper than an apartment, or a loan is generally lower than a mortgage, or debt is considered more than £10m in mortgage terms.

Additionally, a debt advisor would charge you a lesser percentage of your fees because of the size of the transaction.

They are expected to provide advice on the full features of the loan, such as the facility agreements and all charges, as well as a guide on understanding the terminology. They can give an overview of what is happening in the market, but they don't provide tax advice.

4. How did you get into the specialist lending market?

Matthew remembers: I went skiing with a friend and his family, and also his dad's best friend, Steve Smith, came along. We got on quite well - I let him beat me at pool! I was on a gap year, waiting to go to university, but he offered me a job in his office. It was £10 an hour, cash in hand at first. I'd work 50 hours and was earning £500 a week at 18.

He continues: Although my dream was to do something more patriotic, like be in the Navy, I figured my skill sets didn't actually include the kind of active running around ability needed, but I was good at talking to people, I'm a communicator. I fell into this job and loved it. I joined a firm called Cobalt Capital and benefitted from exposure to people I'd never met before. I had a lot of fun and thrived in that community. I love dealing with the challenges and doing something different each day.

Matthew believes that people want to work with well established contacts, whose positive experiences and working relationships keep them coming back, and that consistency is key when valuing if an individual is hard working and trustworthy.

He compares lenders to ships, for example, Barclays Bank would be a huge boat with a huge market share. To change anything will take a long time to manoeuvre, whereas small lenders can zip in and change criteria easily.

Matthew started his journey with a CeMAP - certificate in mortgage advice and planning, which consists of three modules:

1. UK financial regulation
2. Mortgages

3. Assessment of mortgage advice and knowledge

This lasted 12 months, and requires a competency exam annually. The next stage takes six months as individuals are monitored as they work smaller cases. They then achieve competent advisor status - CAS.

He believes it's better to ask questions when unsure instead of rushing and making mistakes in an attempt to 'prove yourself'.

Matthew mentioned that most people would start off working in a simple mortgage broker role, and then might naturally develop into a specialist niche through networks and relationships, and following the direction they're interested in.

5. How has the lending market changed in the past decade?

Matthew notes that we've gone from people just going to their high street bank branch, dealing with the same bank manager that they have dealt with for their whole lives, to people using a more sophisticated, online market. There are a lot more lenders available, and more international money. A lot of banks have entered the market from overseas.

When he compares the UK real estate market to lending in France, Asia, or the Caribbean, he believes the UK and the USA are quite unique and have the most sophisticated mortgage markets in the world. There is more liquidity, based on how quickly you can sell an asset and also how many people can lend on it as well. You've got more lenders specialising in different areas. It makes it more challenging and rewarding for mortgage brokers, and better for the client who now has more choice.

He believes that the mortgage market is unique, compared to markets such as credit cards where everyone is simply looking for the best rate. When advising on mortgages they are selling confidence as well as a solution.

Matthew addressed that many people believe that the market will be going online. Whilst shopping online has been available for many years now in terms of Amazon, or grocery shopping, applying online for mortgages is completely different. Not only are you unsure about who will be viewing your application and information, but he believes it's more important to have a relationship with someone that delivers.

You can find Matthew and Opes Financial Partners at: https://www.opesfp.com/

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