

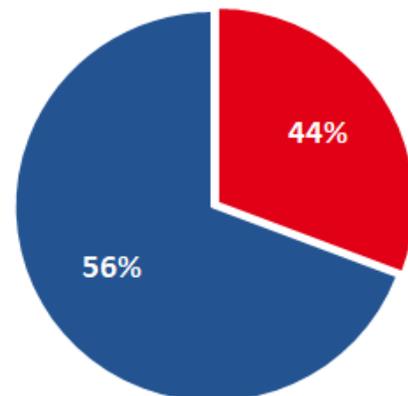
Lenders & Products

Buy to Let Mortgage Lenders: Q4 2017

Lenders

The number of lenders offering products to landlords borrowing via limited company structures grew by one in Q4 2017 when to the delight of the market, The Mortgage Works (TMW) began accepting applications from landlords using SPV limited companies.

16 of the 36 lenders tracked in this index now offer products to limited companies.



- Lenders offering products to Ltd Co borrowers
- Lenders with no Ltd Co products

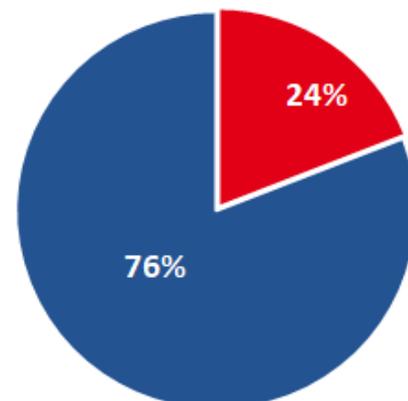
Buy to Let Mortgage Products: Q4 2017

Products

The total number of buy to let mortgages dipped slightly in Q4 to an average of 1,204 products, down 19 products on the previous quarter. The proportion of these products available to limited companies rose to 24% (284 products) from 21% in Q3.

Since 2015, the use of limited companies as borrowing vehicles for buy to let property has grown rapidly for two main reasons.

- The incremental loss of higher rate tax relief on finance costs for landlords borrowing personally, has increased the appeal of borrowing via a corporate structure.
- Stricter affordability guidelines imposed by the Prudential Regulation Authority on personal borrowing for higher rate tax payers, have pushed landlords towards using limited companies.



- Products available to Ltd Co borrowers
- Products available to individuals

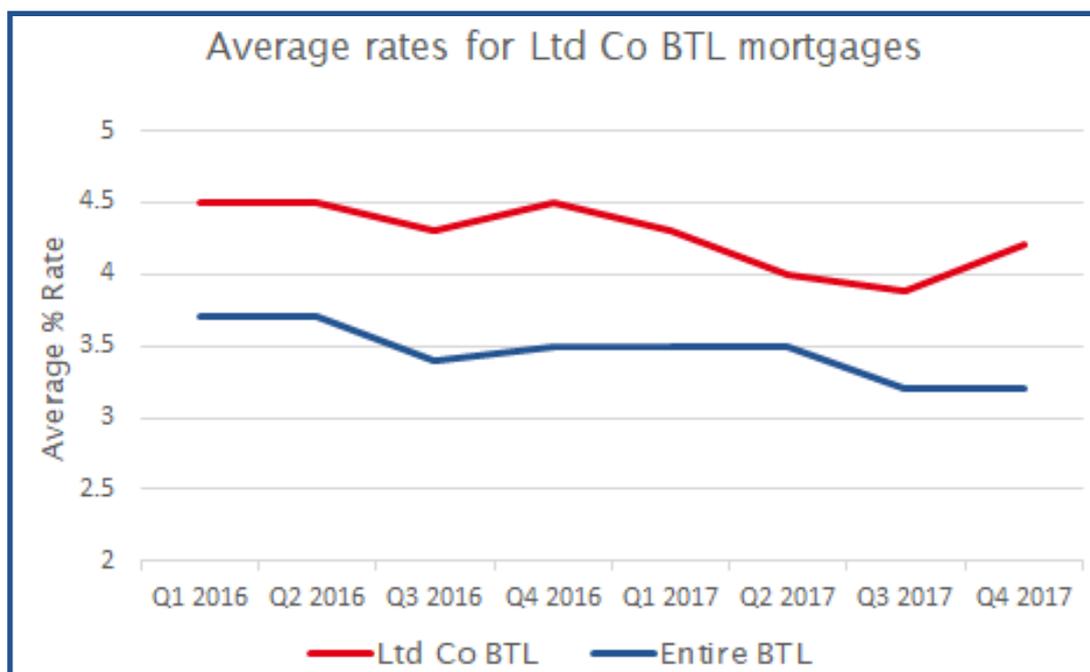
Whilst product availability to limited companies has also risen, the growth rate has been less steep than previously. This is because many of the "mainstream" lenders which have expanded their product ranges, continue to exclude corporate borrowers.

Pricing

Products	Limited Company		Entire Market	
	No.	Av. Cost	No.	Av. Cost
Variable	113	4.6% ↑	248	3.5% ↓
2 Year Fix	92	3.9% ↑	383	2.8% ↔
3 Year Fix	32	4.0% ↑	173	3.1% ↓
5 Year Fix	101	4.2% ↑	383	3.4% ↓
Total	347	4.2% ↑	1,204	3.2% ↔

Additional 5-year fixed rates push up pricing

Overall, pricing of rates remained static quarter-on-quarter (see graph below); however, there was an increase in the number of five year fixed rates available to both individuals and limited companies. These additional products have pushed up the average total because five year fixed rates are typically higher in price than their shorter-term counterparts. The very cheapest rates on the market are available from lenders which only lend to individuals. This somewhat distorts the overall picture. NB: the totals in the table above include 1-year, 4-year and 10-year rates.



Ltd Company BTL Mortgage Transactions

As a proportion of all buy to let mortgage transactions

Case count and value

Completions

Nearly half of all buy to let borrowing is made by limited companies

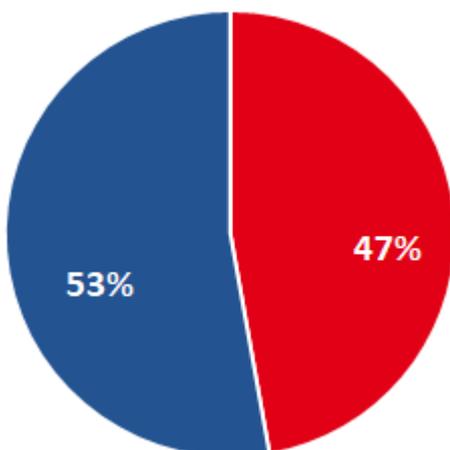
The total value of borrowing, i.e. completed buy to let mortgage cases by landlords using limited companies, grew steadily throughout 2017. By Q4 2017, limited companies accounted for 49% of all completions compared to 31% in Q4 2016.

Similarly, when viewed by case count, 47% of all buy to let completions in Q4 were for landlords using limited companies, a slight dip when compared to the previous quarter which stood at 48%, but higher than the 30% reported in Q4 2016.

Applications

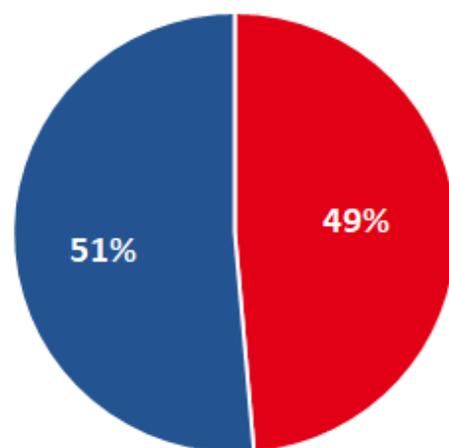
The number of applications followed a similar pattern to completions although the total value declined slightly.

Q4 2017 by Number of Cases



- Ltd Co BTL completions
- Individual BTL completions

Q4 2017 by Value £m



- Ltd Co BTL completions
- Individual BTL completions

Purchase vs Remortgage Transactions

"Purchases account for nearly three-quarters of completions made by limited companies"

Completions

For a number of years, remortgage activity throughout the buy to let sector has almost always outstripped purchases. In Q4, buy to let completions processed by Mortgages for Business also reflected this trend: Remortgages accounted for 52% of all completions and purchases accounting for the remaining 48%.

However, the situation reverses when looking only at limited company buy to let completions: In Q4, 72% of all completed mortgages for limited companies were for landlords purchasing property. This figure includes both additional property acquisitions and landlords selling property they already own personally into their limited company. (All transfers of properties from individuals to limited companies must be treated as a new purchase, and as such will not qualify as a remortgage.)

Remortgaging accounts for fewer transactions because of the relatively short period of time in which limited companies have been growing in popularity. We would expect remortgage activity to grow as Early Repayment Charge periods expire, allowing landlords to refinance without penalty.

Applications

As expected, applications follow a similar pattern to completions with a greater proportion of purchase applications being received. More than two thirds of limited company applications were for purchases with the remaining 27% for remortgages.

In conclusion, this rapid growth in limited company transactions (both completions and applications in progress) represents a sea-change in landlord behaviour. Prior to July 2015, when former Chancellor of the Exchequer, George Osborne announced changes to income tax relief on mortgage interest, only 21% of transactions were made by landlords using limited companies. Stricter affordability testing guidelines for lenders assessing personal buy to let mortgage applications has contributed further to the migration by landlords to limited company borrowing vehicles.

Although overall buy to let lending is likely to contract in 2018, we expect landlords to continue to switch to limited companies as borrowing vehicles for buy to let, particularly when expanding their portfolios, and that lending to limited companies will continue to increase.

Definitions

Completions: Buy to let mortgage applications that have been formally offered and drawn down. This includes remortgages.

Applications: Full buy to let mortgage applications that have been submitted to the lender but not yet completed, i.e. in progress.

Case count: The number of buy to let mortgages being transacted via Mortgages for Business, i.e. application and/or completion.

Value: The loan amount, i.e. the amount being borrowed.

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