



Buy to Let Mortgage Costs Index

Q1 2014

Buy to Let Product Numbers

In Q1 2014 there was an average of 586 buy to let mortgage products from 27 active lenders on the market, up 65 products on the previous quarter. This average is now one third higher than the number of products in early 2008 just before the financial crash. More remarkably the total at the end of March of 644 is over 10x higher than the number at the nadir in May 2009.

Buy to Let Product Pricing

Interest Rate Overview

Two and three year money market swap rates have drifted higher over the quarter although five year rates have scarcely moved and ten year rates have actually declined. These factors have not been sufficient to dictate movement in the cost of buy to let mortgages where changes have been largely determined by competitive factors.

Product Ranges

Last quarter we commented on the increased importance of the 75% LTV range of buy to let mortgage products – this sector making up just under 45% of the total range of BTL mortgages available. This proportion has now increased by a further 1% - but more remarkably the average 75% loan to value mortgage is either no more expensive than, or actually cheaper than the average 65% LTV mortgage. Only five year fixed rate mortgages are cheaper at 65% than 75%. It is evident that the 75% LTV market is now where the competitive action is – although the full extent of this counter-intuitive pricing is only apparent once the full costs of arranging the mortgage are factored in. This has all happened in the space of the last nine months or so during which time the differential costs have moved from 75% LTV mortgages commanding a premium of up to 1.75% p.a. over 65% mortgages – to the current situation of there being no appreciable difference in average pricing.

Buy to Let Mortgage Products

The story of the last quarter is there is no story! There has been no discernible overall trend in product pricing on either fixed rate or tracker products.

Competition is likely to intensify further still during the course of 2014 and so far this has resulted in marginal increases in the cost of funds being offset by marginal reductions in lenders margins. We note that the Financial Conduct Authority has recently thrown its weight behind directing customers into medium term (five year) fixed rate mortgages for home-owners/buyers. This echoes our advice to investors – for the last nine months or so we have been asking our clients to consider five year fixed rate buy to let mortgages to protect them against the inevitable rise in Bank Rate.

The narrative with regard to the split of products sorted by their initial rate term is more interesting as the table demonstrates.

Product	Q1 2008	Q1 2009	2010	Q1 2011	Q1 2012	Q1 2013	Q1 2014
1 year	3%	4%	23%	19%	6%	2%	2%
2 year	43%	33%	53%	48%	57%	62%	59%
3 year	29%	41%	13%	14%	18%	18%	19%
5 year	13%	9%	5%	9%	12%	12%	14%
Loan term	12%	13%	6%	10%	7%	6%	6%



In Q1 2008 two year products accounted for 43% of the buy to let market. However, since 2012 when the market had recovered this figure had leapt to 57% and today stands at 59% of the market. So clearly, demand for shorter term BTL rates remains high. Borrowers like them because often the lower pay rate and stress test fit their cash flow and RTI cover requirements. Lenders like them because they are easy to shift and, because of the way lenders are funded, they are easier to price than five year rates. Brokers like them because it allows them to revisit their clients' borrowing requirement more often.

For five year BTL rates, it's a different story. There are roughly the same percentage of five year products today (14%) as there were in Q1 2008 at the peak of the market (13%). In Q1 2009, during the crash this had dropped to 9% of the market and had dropped further by Q1 2010 to just 5% of the market.

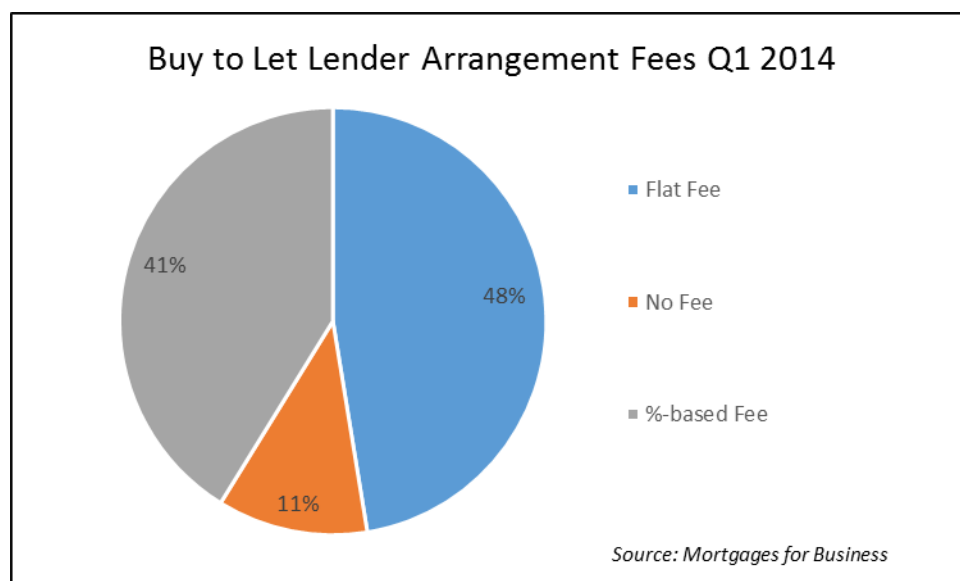
Going forward it will be interesting to see if lenders reduce the number of two year products and replace them with more five year rates, thus mirroring the FCA's prediction for the residential mortgage market post MMR. Obviously we will monitor this closely and maintain our longstanding advice to investors to consider taking out five year fixed rates.

Buy to Let Mortgage Charges

Whilst there has been little overall change in the cost of arrangement fees, this masks an increase in costs applied to lower LTV mortgages and a reduction in the charges levied on the higher LTV products.

We can only conclude from all of this that lenders are competing strongly within the 75% LTV sector – but are taking the opportunity to increase significantly their margins on the lower LTV products in order to recoup some of their lost margin.

The spread of fee types between products (flat fees, percentage-based fees and no fees), also remained fairly constant as did the average cost of a flat fee which now stands at £1,498.





Effect of Costs on Buy to Let Mortgage Rates

	2 Yr Disc 65% LTV	2 Yr Disc 75% LTV	2 Yr Fix 65% LTV	2 Yr Fix 75% LTV	3 Yr Disc 65% LTV	3 Yr Disc 75% LTV	3 Yr Fix 65% LTV	3 Yr Fix 75% LTV	5 Yr Disc 65% LTV	5 Yr Disc 75% LTV	5 Yr Fix 65% LTV	5 Yr Fix 75% LTV	Total
2008-2013													
Average	0.73%	0.82%	0.97%	0.95%	0.34%	0.55%	0.40%	0.66%	0.21%	0.29%	0.25%	0.39%	
Max	2.02%	1.64%	1.93%	1.45%	0.81%	0.96%	0.97%	1.00%	0.49%	0.50%	0.55%	0.67%	
Min	0.13%	0.10%	0.27%	0.52%	0.03%	0.15%	0.12%	0.18%	0.05%	0.04%	0.06%	0.16%	
Yearly Averages													
2008	0.44%	0.56%	1.02%	0.96%	0.40%	0.42%	0.38%	0.47%	0.11%	0.20%	0.32%	0.34%	0.47%
2009	0.35%	0.80%	1.35%	1.01%	0.16%	0.55%	0.21%	0.53%	0.10%	0.16%	0.22%	0.49%	0.50%
2010	1.10%	1.01%	1.44%	1.00%	0.27%	0.51%	0.43%	0.91%	0.20%	0.36%	0.27%	0.37%	0.66%
2011	0.68%	0.91%	0.83%	1.00%	0.34%	0.52%	0.45%	0.73%	0.26%	0.37%	0.20%	0.40%	0.56%
2012	0.79%	0.91%	0.74%	1.01%	0.49%	0.61%	0.40%	0.75%	0.31%	0.33%	0.24%	0.38%	0.58%
2013	0.76%	0.74%	0.79%	0.79%	0.28%	0.66%	0.43%	0.58%	0.17%	0.29%	0.27%	0.38%	0.51%
2014	0.72%	0.66%	0.79%	0.65%	0.42%	0.63%	0.71%	0.53%	0.28%	0.29%	0.24%	0.38%	0.53%
Combined	0.73%	0.82%	0.97%	0.95%	0.34%	0.55%	0.40%	0.66%	0.21%	0.29%	0.25%	0.39%	0.54%
2013/4 Quarterly Averages													
2013 Q1	0.82%	0.80%	0.78%	0.89%	0.31%	0.63%	0.38%	0.60%	0.19%	0.26%	0.29%	0.36%	0.53%
2013 Q2	0.78%	0.72%	0.74%	0.81%	0.28%	0.63%	0.41%	0.54%	0.17%	0.27%	0.27%	0.38%	0.50%
2013 Q3	0.72%	0.74%	0.83%	0.76%	0.25%	0.68%	0.48%	0.61%	0.15%	0.32%	0.25%	0.41%	0.52%
2013 Q4	0.73%	0.71%	0.81%	0.69%	0.28%	0.69%	0.47%	0.56%	0.19%	0.32%	0.26%	0.37%	0.51%
2014 Q1	0.82%	0.66%	0.79%	0.65%	0.42%	0.63%	0.71%	0.53%	0.28%	0.29%	0.24%	0.38%	0.53%

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