

Buy to Let Mortgage Rates: The Real Costs

Q3 2013

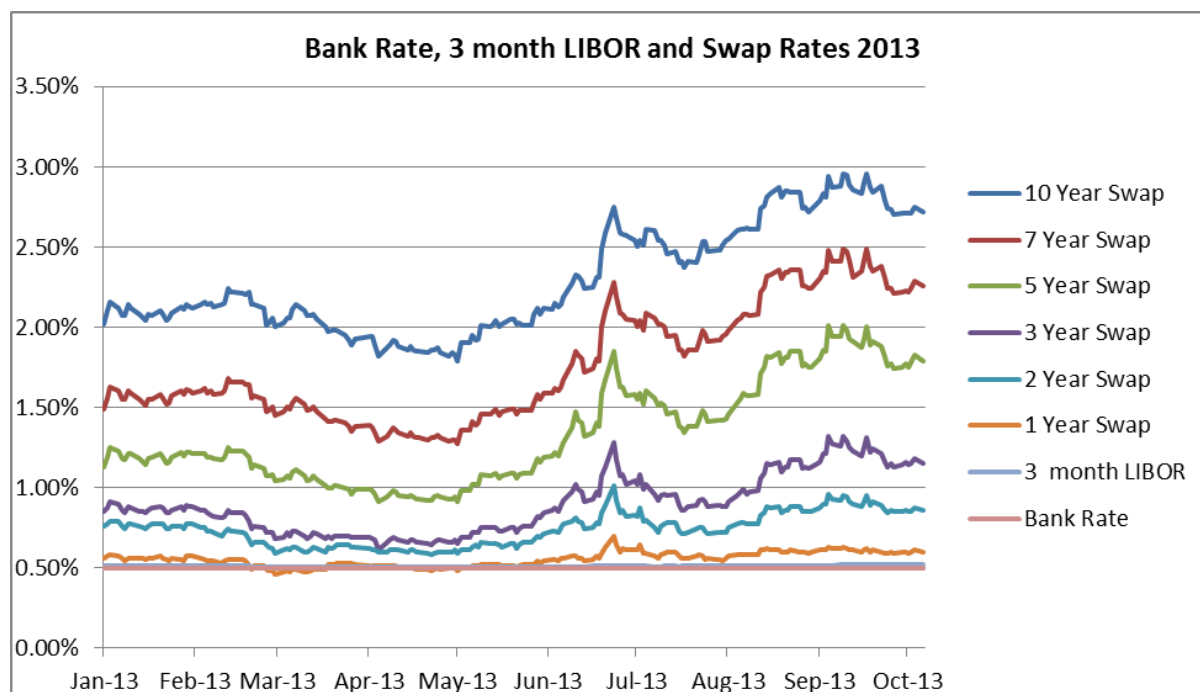
Buy to let product numbers

In Q3 2013 there was an average of 479 buy to let mortgage products from 28 active lenders on the market. This figure is 21 products up on the previous quarter thus confirming the healthy appetite for lenders to do business in this sector.

Buy to let product pricing

Bank Rate, LIBOR and Swaps

After interest swap rates bottomed out at the start of May, they rose rapidly for seven weeks on the back of comments made by Ben Bernanke and Sir Mervyn King, before correcting for a period of three weeks to mid-July. Since then they have risen again to levels above those seen in late June. At the long end (five and ten year swaps) the rates are now at a level that was last seen over two years ago and whilst there was a further minor correction during September / October the long term upward trend in swap rates is now firmly established.

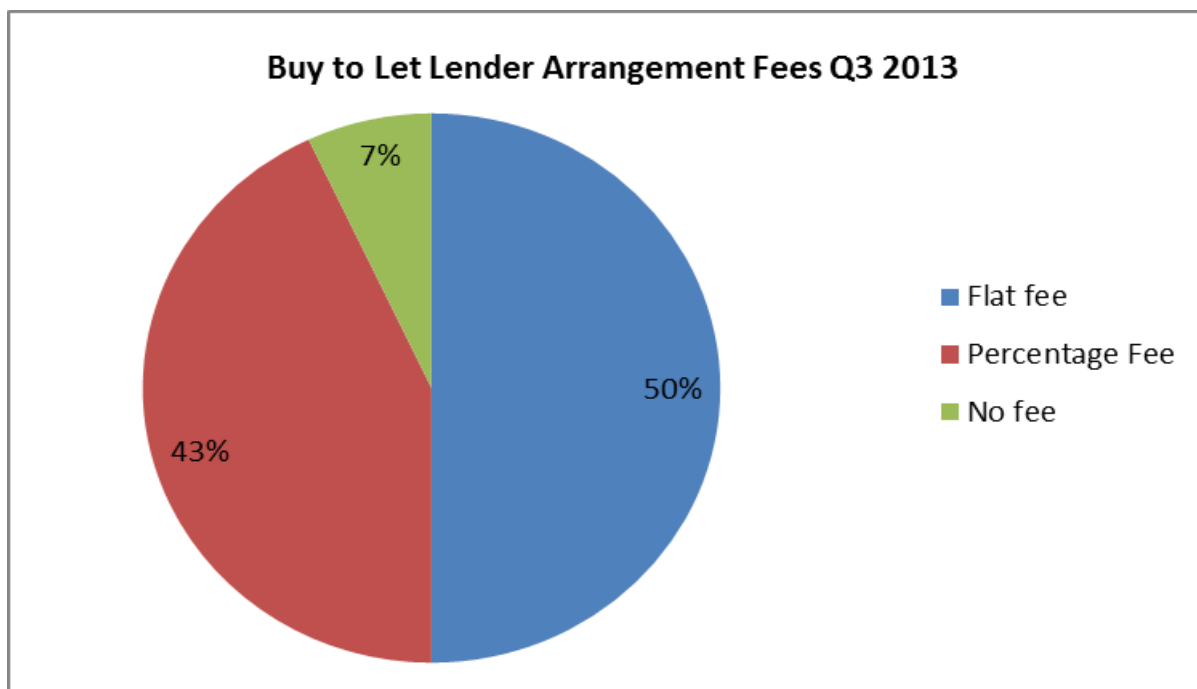


This rise in long term swap rates has had little effect on tracker products but has started to impact on three and five year fixed rate products which, since they bottomed out in May, have increased in cost by around 0.25% to an average of 5% for five year products and 5.25% for three year products. To date these increases have been nowhere near as large as the increases in the underlying swap rates which have risen by around 0.5% for three year swaps and 0.9% for five year swaps. Whilst this is a positive sign of increasing competition in the market and of the positive effects of the Funding for Lending Scheme, it is likely that ultimately there will be some “catch-up” in the cost of products.

For the first time in a long time a serious commentator (Andrew Sentance) has mooted an increase in UK Bank Rate – and at the same time we have just seen a reduction in Euro interest rates – so the position is as unclear as ever!

Lender arrangement fees and other costs

In Q3 2013 there was a small rise in the cost of lender arrangement fees, valuation fees and legal costs which added an average of 0.52% to the headline cost of a buy to let mortgage, up from 0.50% in Q2 2013.



For the second quarter in a row 7% of buy to let mortgage products had no lender arrangement fee. Half of all buy to let products available in Q3 2013 had a flat lender arrangement fee, down 3% on Q2 2013 which means that the number of products with percentage based fees (of between 1-3%), crept up to 43%.

The average cost of a flat lender arrangement fee was £1,511 down £2 on the previous quarter, a small but encouraging reduction in the investors' favour.

Methodology

In order to track buy to let interest rates, 12 "standard" product ranges have selected. These are two, three and five year fixed rate and discounted/tracker mortgage products at 65% and 75% loan to value. Life time tracker products have also been incorporated into the results for each of the above periods for the discount/tracker products.

Fees inclusive graphs

The total cost of the mortgage (including lender arrangement fees, valuation fees and legal fees) have been calculated over the period of the discount or fixed rate and this has been used to generate an annualised cost over that period. Calculations have been based on a "standard" mortgage of £150,000. NB this result can be markedly different from the APR measurement



legislated by the FCA; the APR fails to recognise the effect on borrowing costs of borrowers re-mortgaging once the period of the discount or fix have expired.

If individual mortgage products offered “free” arrangement fees, valuations or legal fees this has been recognised in the calculations of costs for those products.

By including these costs we have produced indices that more accurately reflect the costs of taking on a buy to let mortgage without distortions caused by the way that lenders have structured fees on their products to meet marketing requirements.

Costs have been calculated from our database of over 17,000 buy to let products held within our mortgage products sourcing system – Mortgage Flow. The results shown reflect the average cost calculated based on products available on each day since January 2008.

Where short term (< 1 week) withdrawals of products have occurred, the results have been adjusted to eliminate anomalous peaks and troughs in the average rates shown. At any time when there were no products available from lenders in a given category this shows as an average cost of nil for the period.

The resultant interest rates for discount and tracker products have been compared to the daily 3 month sterling LIBOR cost generated by the British Bankers Association.

The resultant interest rates for fixed rate products have been compared to the sterling interest rate swap costs for the related period.

Headline rates graphs

These graphs follow the traditional method of tracking only the average headline rate of buy to let mortgage products over time which belies the true costs involved. This data has been produced to demonstrate the effects of set up costs.

In all graphs, at any time when there were no products available from lenders in a given category this shows as an average cost of nil for the period.

Understanding interest rate swaps

Interest rate swaps help companies, portfolio managers and banks to manage cash flows by fixing interest payments over time. An interest rate swap is a contract to exchange floating payments linked to an interest rate for fixed payments, and is generally used to manage exposure to fluctuations in interest rates.

In an interest rate swap transaction, the parties to the transaction exchange or “swap” two types of interest payments – one a fixed rate, the other a floating rate – over the lifetime of the deal. The swap rate is the cost of switching from a floating rate to a fixed rate. The floating rate is typically determined by the three-month London Interbank Offered Rate used as a benchmark for floating rate mortgages and loans.

Tables

- 1a-c 2 year discount and tracker rate (page 5)
- 2a-c 3 year discount and tracker rate (page 6)
- 3a-c 5 year discount and tracker rate (page 7)
- 4a-c 2 year fixed rate (page 8)



- 5a-c 3 year fixed rate (page 9)
- 6a-c 5 year fixed rate (page 10)
- 7 Effect of costs on buy to let mortgage rates (page 10)

NB: When looking at the following tables please note that the 3 month LIBOR has been only marginally above 0.5% throughout 2013 and so cannot be split from the line for Bank Rate.



Comparison of 2 year discount & tracker buy to let mortgage rates

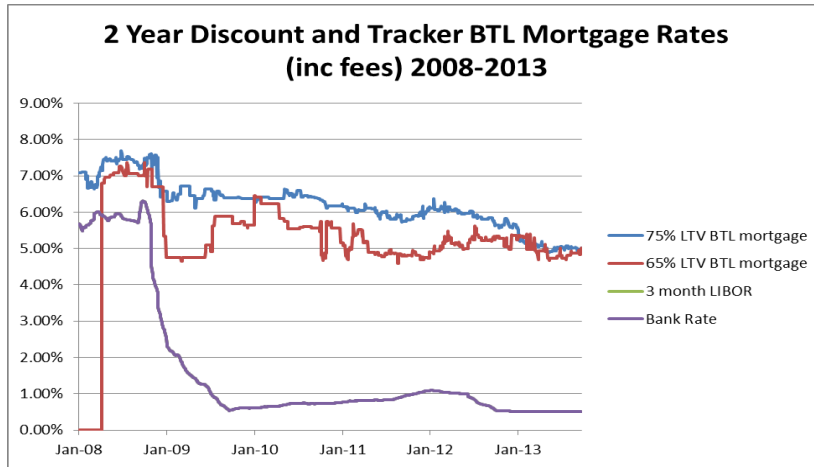


Table 1a

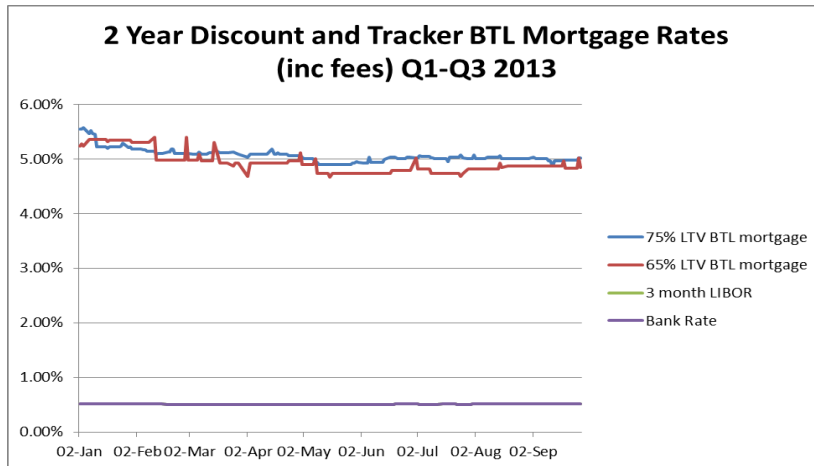


Table 1b

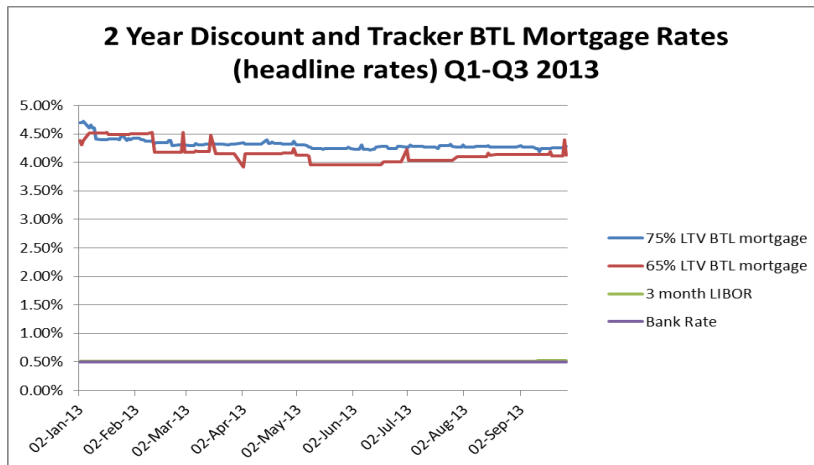


Table 1c



Comparison of 3 year discount & tracker buy to let mortgage rates

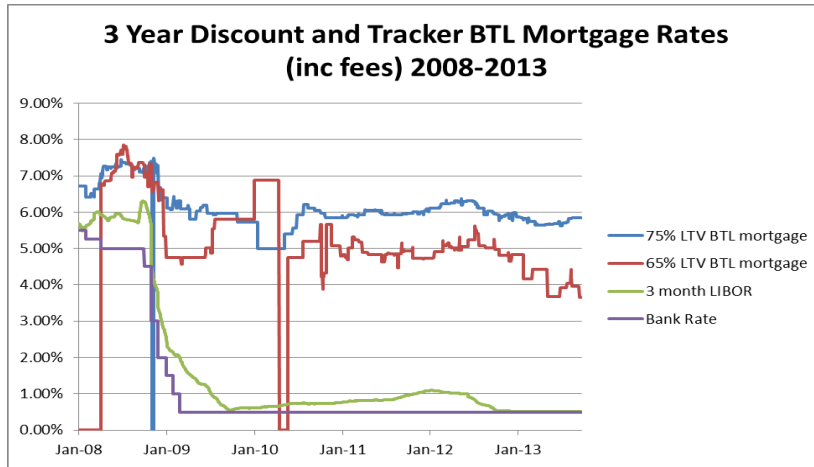


Table 2a

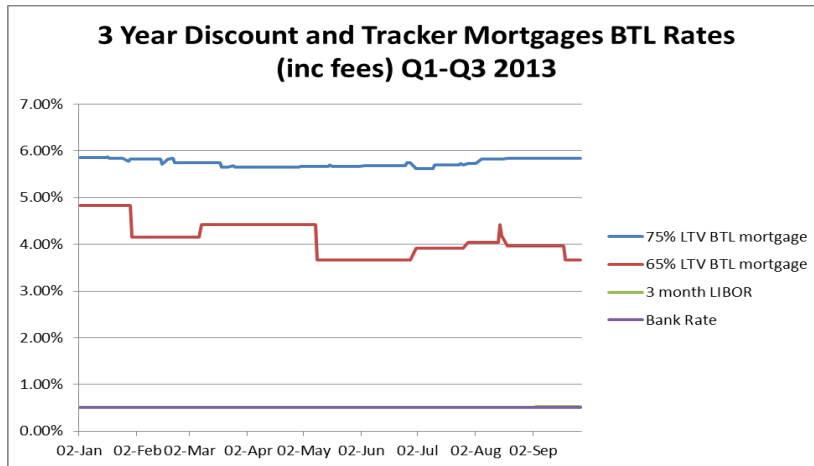


Table 2b

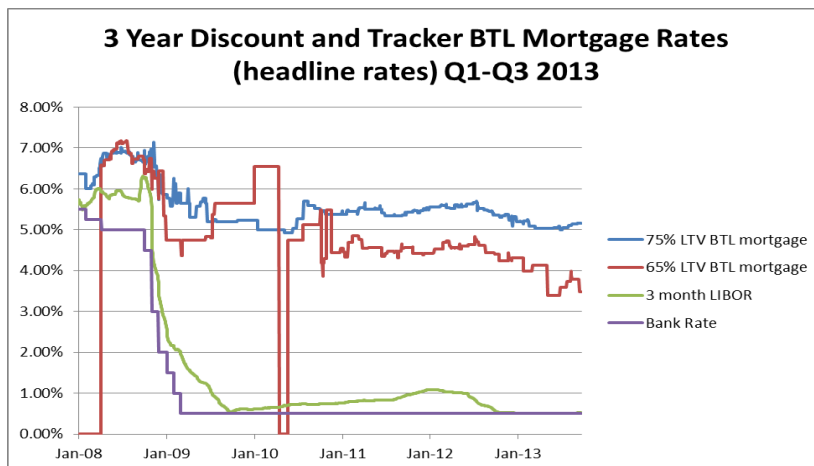


Table 2 c



Comparison of 5 year discount & tracker buy to let mortgage rates

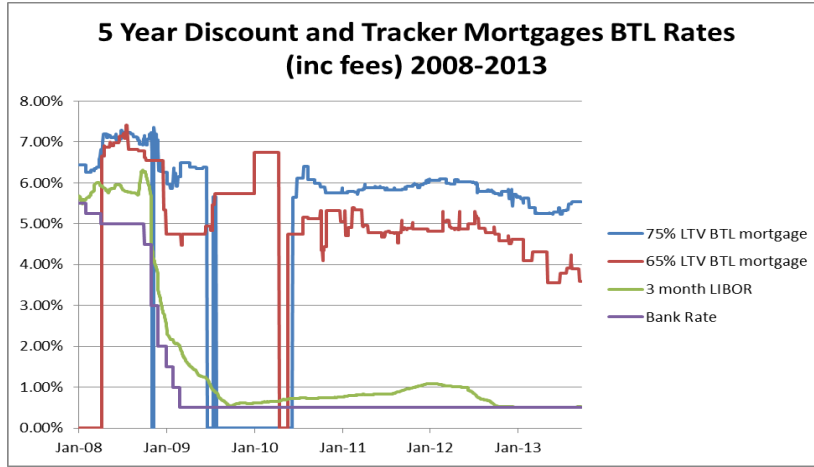


Table 3a

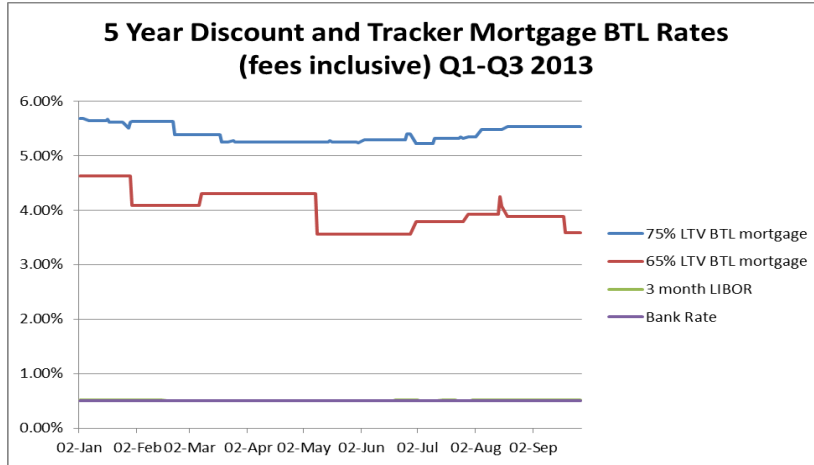


Table 3b

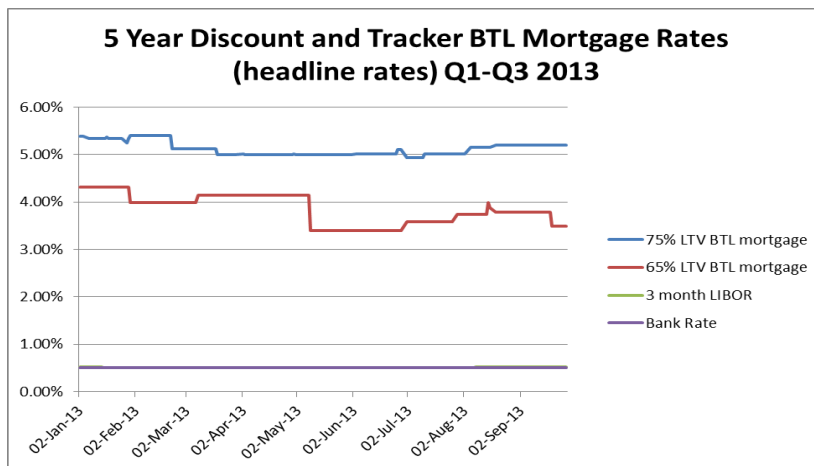


Table 3c

Comparison of 2 year fixed rate buy to let mortgages

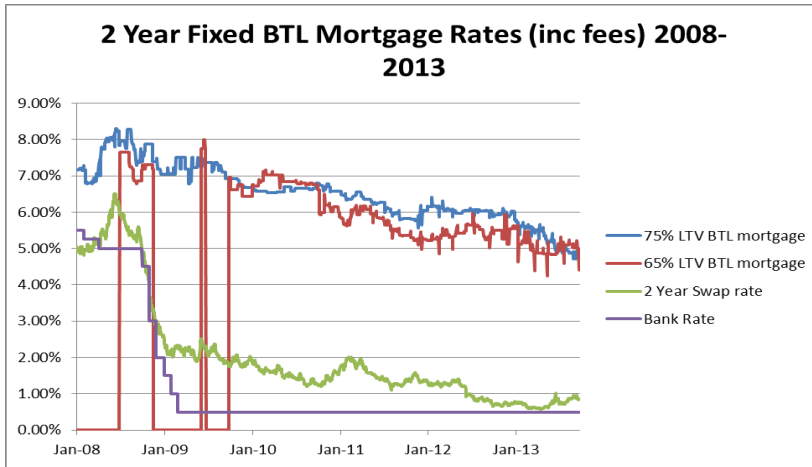


Table 4a

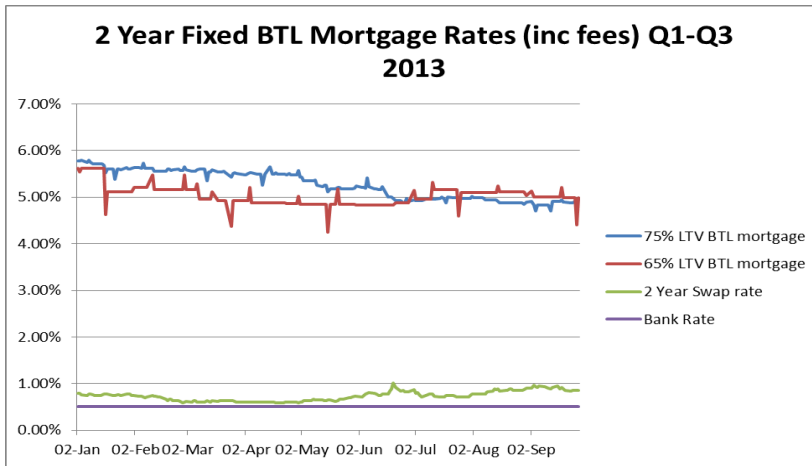


Table 4b

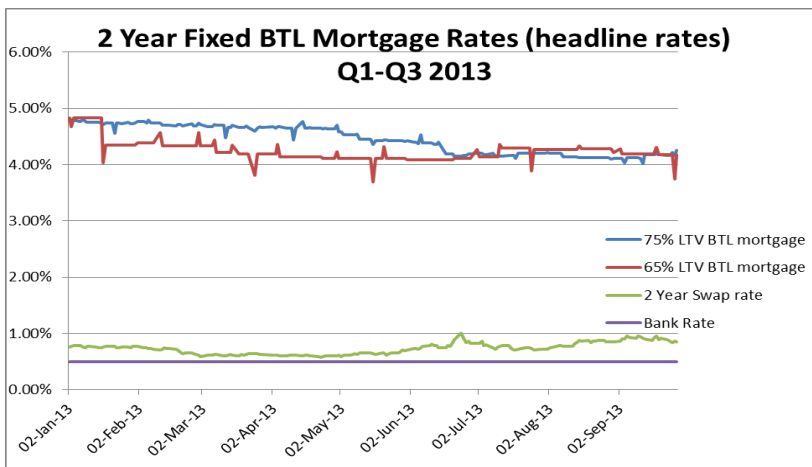


Table 4c

Comparison of 3 year fixed rate buy to let mortgages

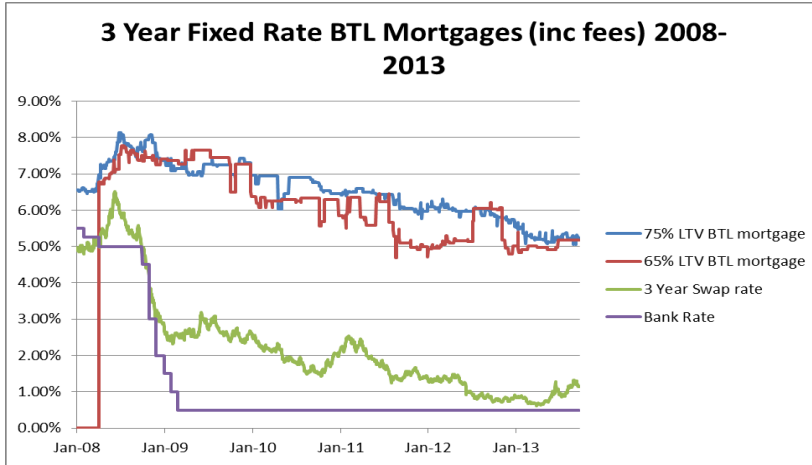


Table 5a

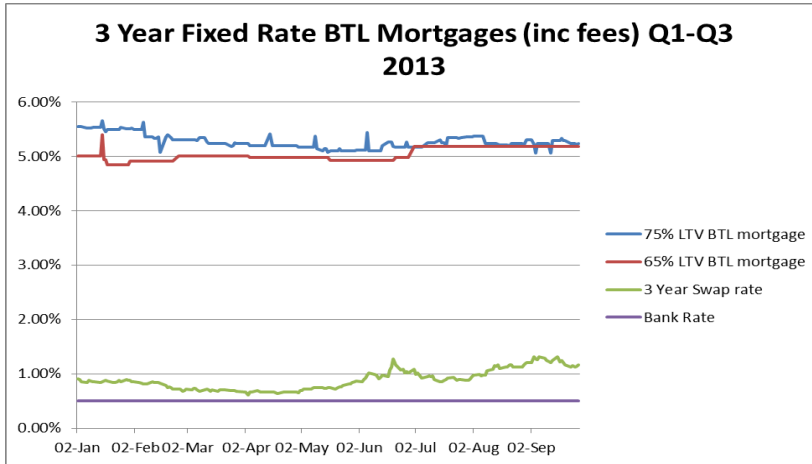


Table 5b

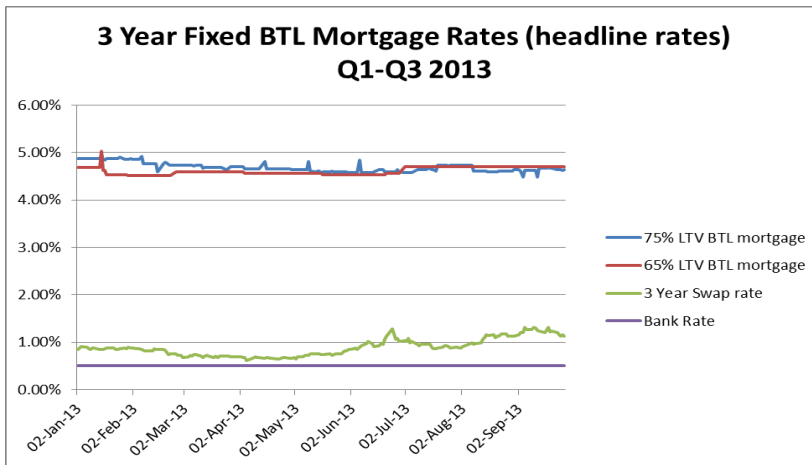


Table 5c

Comparison of 5 year fixed rate buy to let mortgages

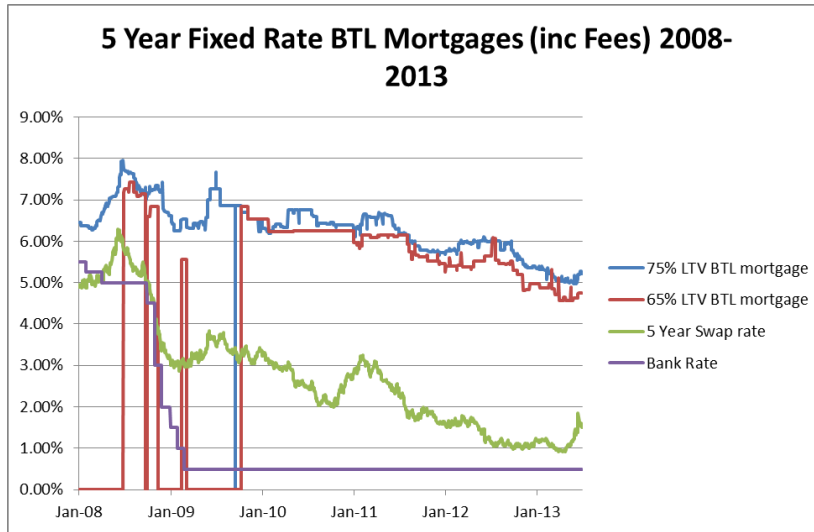


Table 5a

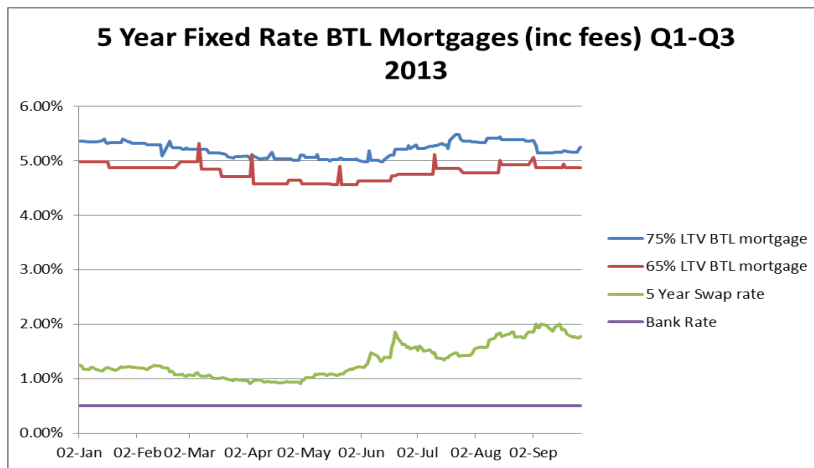


Table 6b

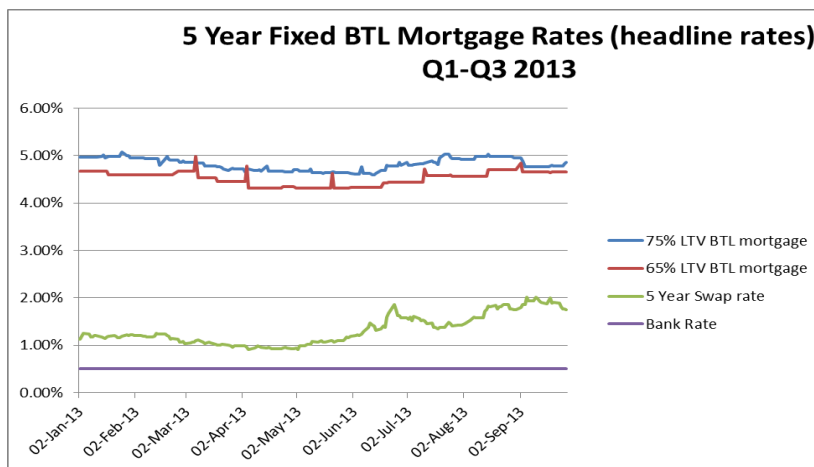


Table 6c



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%	0.83%	0.99%	0.97%	0.34%	0.54%	0.38%	0.67%	0.21%	0.29%	0.25%	0.39%	
Max	2.02%	1.64%	1.93%	1.45%	0.81%	0.96%	0.78%	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	0.78%	0.75%	0.79%	0.82%	0.28%	0.65%	0.42%	0.59%	0.17%	0.28%	0.27%	0.38%	0.51%
Combined	0.73%	0.83%	0.99%	0.97%	0.34%	0.54%	0.38%	0.67%	0.21%	0.29%	0.25%	0.39%	0.54%
2013 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													

Table 7

For more information please contact:

Jenny Barrett
 Head of Marketing
 Tel: 01732 471615

Email: jennyb@mortgagesforbusiness.co.uk

Simon Whittaker
 Finance Director
 Tel: 01732 471622

Email: simonw@mortgagesforbusiness.co.uk