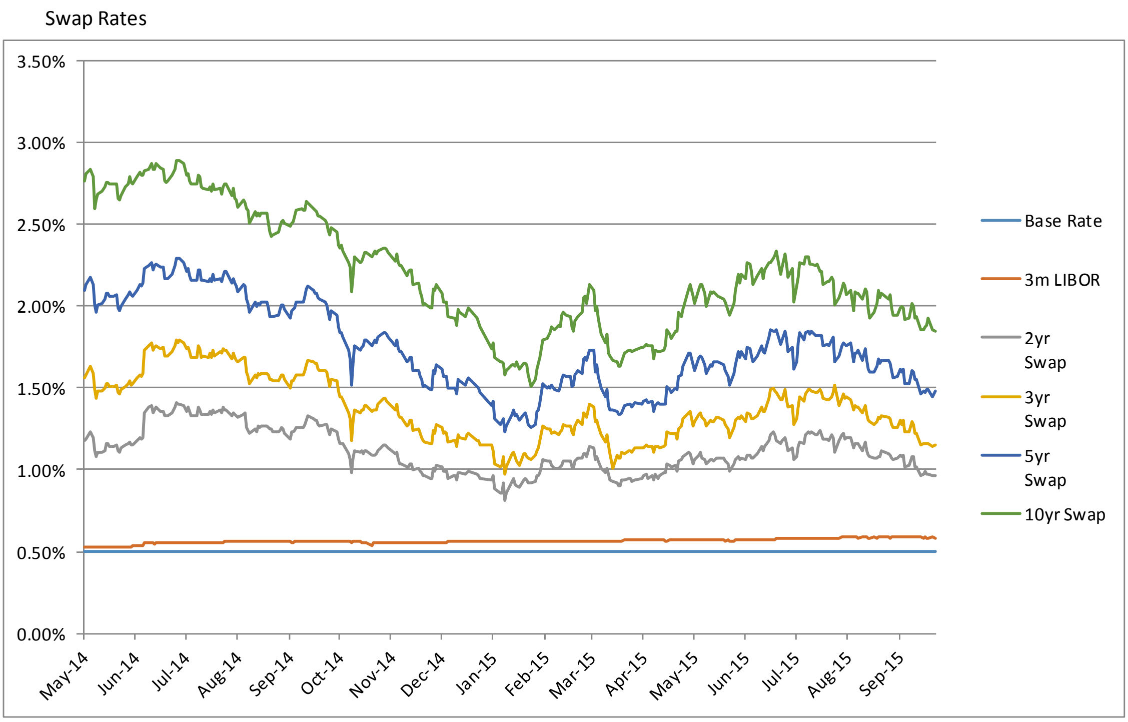
Buy to Let Mortgage Costs Index
Q3 2015

Buy to Let Product Numbers
In Q3 2015 there was an average of 952 buy to let mortgage products from 33 active lenders on the market – over 100 products more than the previous post-crash high in Q1 2015. This trend has continued into the first few days of October when the number of products has consistently exceeded 1060. It is interesting to observe that five years ago, as the BTL market started to recover, the market leading lender (The Mortgage Works) offered between 40% and 50% of the BTL mortgages available on the market. This proportion has now fallen to just 3.5% - although the actual market share of TMW by loan volume will be markedly higher than this as their products are "mass-market" BTL rather than niche.

Buy to Let Product Pricing

Interest Rate Overview
Money Market Swap Rates reversed the increases recorded in Q2 and are now at very similar levels to six months ago (and indeed not much different from the start of the year).



Summertime tends to be very quiet in terms of significant speeches by public figures – and certainly the Governor of the Bank of England has had only a few public speeches to make in the period.

I think it is fair to say that his only contribution to the debate about timing of changes in interest rates came in a speech entitled "Three Truths for Finance" in which he said:

> *"The longer you are a central banker, the more careful you become in your forecasts. 'Irreducible uncertainty' and 'multiple equilibria' are occupational hazards; so if you must predict the future, you are tempted to hedge heavily and must modify constantly."*

So maybe we should not expect too much more meaningful "forward guidance" from him!

This caution was less evident in a speech given by the Chief Economist at the Bank, Andy Haldane, entitled "How low can you go?" in which he raised the possibility that there could be further loosening of monetary policy before we see any rise in interest rates:

> *"While the UK's recovery remains on track, there are straws in the wind to suggest slowing growth into the second half of the year."*

Here he was alluding to *"softening employment"* and surveys suggesting slowing output growth. He also said:

> *"Were the downside risks I have discussed to materialise, there could be a need to loosen rather than tighten the monetary reins as a next step to support UK growth and return inflation to target."*

The recent announcement that inflation has turned negative again and that "core" inflation is only c. 1% does indeed add weight to the view that increases in Bank Rate may well be some way in the future.

Against this, the average weekly earnings data for August showed that private sector earnings are growing at something approaching 4% p.a. and now amount to just under £500 per week. After the period in 2010-2012 when private sector earnings were effectively static but there was no comparable restraint in public sector earnings, we can see that for the first time in more than five years private sector earnings are now almost as high as public sector earnings.

Since it is private sector earnings that provide most of the inflationary "push" to costs, there would have to be a considerable improvement in productivity to prevent this feeding through into prices eventually. And this of course would lead to interest rate rises.

So strong arguments both ways but the balance seems to have tilted towards there being no increase in Bank Rate for quite a few months yet. I have to admit that this represents a change in my previous view on interest rates (that we could expect an increase in 2015) but in the words attributed to the economist John Maynard Keynes:

> *"When the facts change, I change my mind. What do you do, sir?"*

Buy to Let Mortgage Products by Initial Term

Buy to Let Mortgage Products						
Product	**Q2 2014**	**Q3 2014**	**Q4 2014**	**Q1 2015**	**Q2 2015**	**Q3 2015**
1 year	1%	1%	1%	1%	1%	1%
2 year	57%	54%	52%	49%	46%	43%
3 year	19%	17%	19%	18%	18%	22%
5 year	15%	19%	18%	22%	24%	23%
Loan term	8%	9%	10%	10%	11%	11%

The absolute numbers of products available in each category are still rising, although the market share of two year products continues to decline, mostly to benefit of longer term products.

Buy to Let Mortgage Charges

The overall trend of the last three years has continued as charges have continued to have a declining impact on total costs. There is now even a trend downwards to be seen in the High LTV category where costs had risen during 2014.

Effect of Charges on Buy to Let Mortgages				
	Low LTV	**Medium LTV**	**High LTV**	**Average**
2013 Q1	0.62%	0.70%	0.71%	0.67%
2013 Q2	0.59%	0.64%	0.77%	0.64%
2013 Q3	0.58%	0.65%	0.73%	0.64%
2013 Q4	0.56%	0.61%	0.75%	0.61%
2014 Q1	0.54%	0.59%	0.75%	0.60%
2014 Q2	0.50%	0.59%	0.76%	0.58%
2014 Q3	0.41%	0.56%	0.84%	0.54%
2014 Q4	0.39%	0.53%	0.90%	0.52%
2015 Q1	0.39%	0.53%	0.84%	0.51%
2015 Q2	0.39%	0.54%	0.77%	0.52%
2015 Q3	0.38%	0.50%	0.67%	0.48%

Lender Arrangement Fees

The proportion of products with no fees has risen as lenders to find way to compete without reducing rates. Accordingly, the proportion of flat and percentage based fees fell slightly.

	Buy to Let Mortgage Charges					
Fee type	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
Flat fee	50%	54%	53%	51%	47%	46%
No fee	11%	12%	15%	15%	13%	17%
%-based fee	39%	34%	32%	34%	40%	37%

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