

Buy to Let Mortgage Costs Index Q1 2016

Buy to Let Product Numbers

In Q1 2016 there was an average of 1,000 buy to let mortgage products from 34 active lenders on the market. There has been a small decrease of 68 in the products count which would appear to have arisen due to a small degree of product rationalisation by mainstream buy to let mortgage lenders as they have sought to focus on completing the maximum possible number of mortgages for buy to let purchasers prior to the imposition of the 3% Stamp Duty Land Tax surcharge on 1st April 2016.

Buy to Let Product Pricing

Limited Company Mortgages

There has been a further increase in competition for limited company mortgages as the average number of lenders active in this space has increased from eleven to twelve – thus reinforcing the competition in what is now a key sector of the market.

A simple comparison of all buy to let mortgages currently on the market reveals the following average “headline” rates:

Average Buy to Let Mortgage Rates				
	Trackers	Fixed Rates		
		2 years	3 years	5 years
Individuals	4.29%	3.10%	3.67%	3.84%
SPV Ltd Co's	4.42%	4.44%	4.30%	4.67%

Whilst there has been a slight narrowing of the differential cost (between average headline rates of mortgages for individuals and those for limited companies) for trackers from 0.32% at the start of the year to 0.13% now, there has been virtually no change in the differential for fixed rate mortgages where limited company mortgages cost on average over 0.75% more.

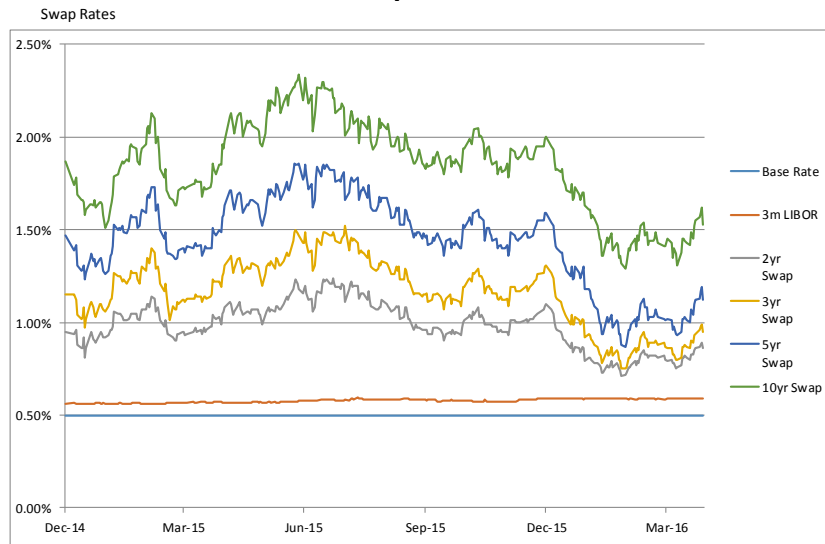
Generally speaking lenders that offer mortgages to SPV limited companies are charging only a modest premium of up to 0.25% for these borrowers compared with products available for individuals and several lenders no longer charge any premium. The significantly higher average cost of limited company mortgages comes about due to the fact that some of the “vanilla buy to let” lenders have some extremely cheap mortgages available for individual borrowers who meet tight criteria. Since there is some extra expertise and work involved in lending to limited companies, these lenders are not (currently) geared up to lend to companies – and thus there are few “bargain basement” buy to let mortgages for limited companies. This is most pronounced in the market for two year fixed rate products where only two lenders currently offer mortgages to limited companies – compared with 25 lenders offering mortgages to individuals.

Interest Rate Overview

The first quarter of 2016 saw a significant reduction in the cost of money – but with only around a third of this being passed on to borrowers in the form of reduced buy to let mortgage rates. So, for example, whereas five year swap rates fell by around 50 Bps, five year fixed rate mortgages fell by around 15 Bps – and this pattern was evident across all terms of mortgages.

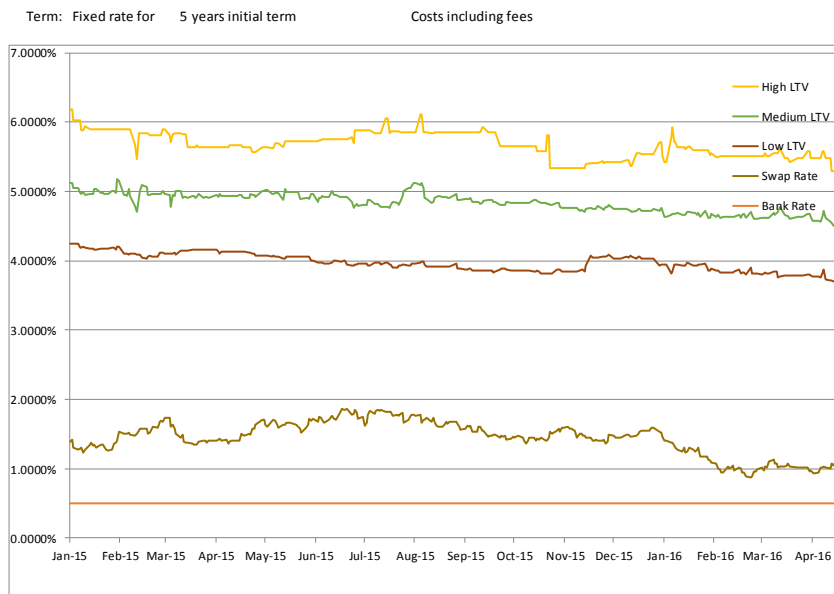
This increase in average margins for lenders was an almost inevitable consequence of the surge in buy to let mortgage business created by deadline of 31st March for the avoidance of the new SDLT surcharge. To put it simply, lenders did not need to cut rates to get in the business!

Swap Rates



However, since the end of the quarter, swap rates have rebounded to some degree and mortgage rates have continued down. This is the “flip side” of the position in the first quarter – after the surge in business to beat the deadline, there is now a dearth of new business and lenders have cut rates in order to attract an increased share of the market.

5 Year Fixed Rate Costs including Fees



Source: Mortgages for Business

Conclusion

I have deliberately avoided mentioning Brexit so far – the plain truth is that nobody knows what the real impact of Brexit would be on either the housing market or the financial markets. I shall avoid adding to the stacks of opinionated but unsound analysis on this matter. Looking at our graphs of average loan costs compared with money market rates (the graph for five year fixed rate products is above) it is apparent that that there has been some widening of lenders margins in the last three quarters – but just possibly that has now started to reverse.

Finally, I see that Moody's has just predicted that interest rates will only rise very gradually over the coming years and that "When monetary policy eventually tightens, policy rates may not return to the average levels seen before the financial crisis". Based on the quality of their analysis (and that of the other credit reference agencies) before the Crash I am sorely tempted to advise you to expect an imminent and sharp increase in rates. But actually I believe they have got this right – there is no reason to expect significant change for some time yet.

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	Q4 2015	Q1 2016
1 year	1%	1%	1%	1%	1%	1%	1%	1%
2 year	57%	54%	52%	49%	46%	43%	43%	44%
3 year	19%	17%	19%	18%	18%	22%	20%	20%
5 year	15%	19%	18%	22%	24%	23%	24%	23%
Loan term	8%	9%	10%	10%	11%	11%	12%	12%

The continuing low level of general interest rates and some stunningly attractive "headline" rates have ensured that two year discount and fixed rate mortgages are currently market "favourites".

Buy to Let Mortgage Charges

The overall trend of the last three years has now ceased as the impact of charges on total costs has stabilised across all loan to value bandings.

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%
2015 Q4	0.40%	0.50%	0.62%	0.48%
2016 Q1	0.41%	0.48%	0.67%	0.48%

This stabilisation is also reflected in the structure of lenders charges where there has been little significant change in the past year except in Q4 of 2015 when there was a brief reduction in the number of flat fee products.

	Buy to Let Mortgage Charges							
Fee type	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Flat	50%	54%	53%	51%	47%	46%	42%	45%
No fee	11%	12%	15%	15%	13%	17%	18%	16%
%-based	39%	34%	32%	34%	40%	37%	40%	39%

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