

Buy to Let Mortgage Costs Index Q2 2016

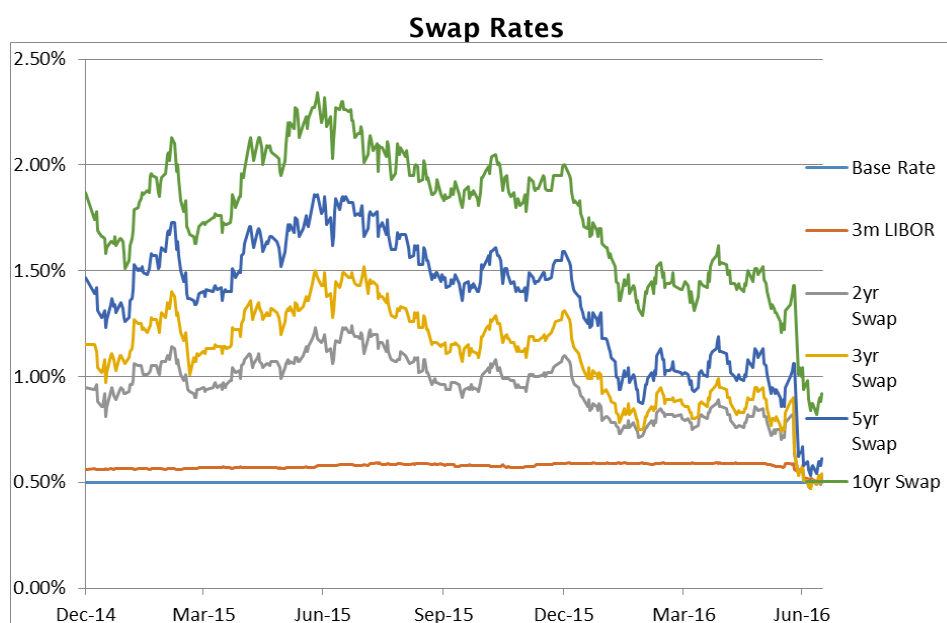
Buy to Let Product Numbers

In Q2 2016 there was an average of 1,149 buy to let mortgage products from 34 active lenders on the market. There have been increases in product numbers in all types of buy to let mortgages as lenders have attempted to increase market share in the inevitable quiet period that has followed the rush to beat the SDLT surcharge that came in on 1st April. It is too early to assess the continuing availability of products in the “post Brexit” era – but the number of buy to let products has risen by 20 in the first half of July. There has been no change in the number of lenders with buy to let products available in the period – and once again it is not yet possible to assess whether Brexit will impact their appetite to lend in the coming months.

Buy to Let Product Pricing

Interest Rate Overview

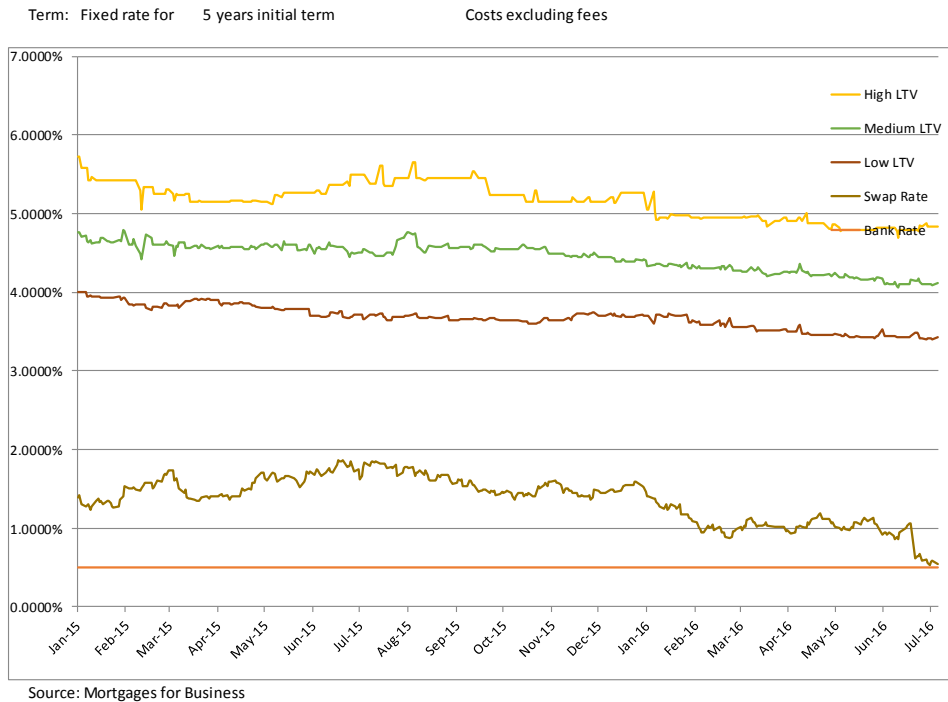
There was a modest drift downwards in interest rates of around 0.1% - 0.3% in the run up to the Brexit vote. In the immediate aftermath of the vote there have been reductions of around 0.5% in swap rates for 3 years and above (with the 10 year swap falling for the first time below 1%), with a reduction of 0.3% in the two year swap to just 0.5%.



In my previous review I ducked the issue of the prospective impact of the Brexit vote on the buy to let mortgage market on the grounds that nobody really knew what it would be. With the benefit of hindsight I suppose the impact was predictable – some lenders have put up their prices, and some lenders have reduced them! But overall there has been very little impact on average rates as in general lenders have (so far) retained any reduction in Swap and LIBOR rates – in part doubtless to cover increases in the cost of funds to them and in anticipation of less favourable returns from securitisation of mortgages.

This inertia within the market is exemplified by the market for five year fixed rate mortgage where prices drifted down in the quarter more or less in line with the reduction in in 5 year swap rates. However there has been virtually no reduction as yet subsequent to the dramatic reduction of around 0.5% in swap rates that occurred after the Brexit vote.

5 Year Fixed Rate Costs including Fees



Conclusion

Q2 2016 was really a quarter when there has been little overall movement in the market. This was down to two factors which caused lenders for the most part to just “sit on their hands”. On the one hand there was the need to allow the buy to let market settle down after the rush of activity in the first quarter that had been caused by the impending SDLT surcharge, and then also everybody was awaiting the result of the Brexit vote and the uncertainty that that would generate.

Buy to Let Mortgage Products by Initial Term

| Buy to Let Mortgage Products | | | | | | |
|------------------------------|---------|---------|---------|---------|---------|---------|
| Product | Q1 2015 | Q2 2015 | Q3 2015 | Q4 2015 | Q1 2016 | Q2 2016 |
| 1 year | 1% | 1% | 1% | 1% | 1% | 1% |
| 2 year | 49% | 46% | 43% | 43% | 44% | 45% |
| 3 year | 18% | 18% | 22% | 20% | 20% | 18% |
| 5 year | 22% | 24% | 23% | 24% | 23% | 24% |
| Loan term | 10% | 11% | 11% | 12% | 12% | 12% |

The continuing low level of general interest rates and some stunningly attractive “headline” rates have ensured that 2 year discount and fixed rate mortgages are remain market “favourites” with two different lenders currently offering two year fixed rate mortgages with headline interest rates of 1.64% and 1.65% respectively for a two year fix. It will be

interesting to see whether the current extraordinarily low swap rates will encourage more lenders to produce some cheaper five year fixed rate products where currently the cheapest rate is 2.79%.

Buy to Let Mortgage Charges

There has been a slight increase in the overall impact of charges which is a further reflection of lenders attempting to increase their overall margins without having to increase “headline” interest rate figures.

| 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% |
| 2016 Q2 | 0.44% | 0.51% | 0.70% | 0.51% |

This need to increase overall margins is reflected in the slight reduction in the number of zero fee products and by increases in the typical level of charges on products carrying both a flat rate fee and a percentage based fee.

| Buy to Let Mortgage Charges | | | | | | |
|-----------------------------|-----|-----|-----|-----|-----|-----|
| Flat fee | 51% | 47% | 46% | 42% | 45% | 48% |
| No fee | 15% | 13% | 17% | 18% | 16% | 15% |
| %-based fee | 34% | 40% | 37% | 40% | 39% | 37% |
| Flat fee | 51% | 47% | 46% | 42% | 45% | 48% |

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