

Buy to Let Mortgage Costs Index Q3 2016

Buy to Let Product Numbers

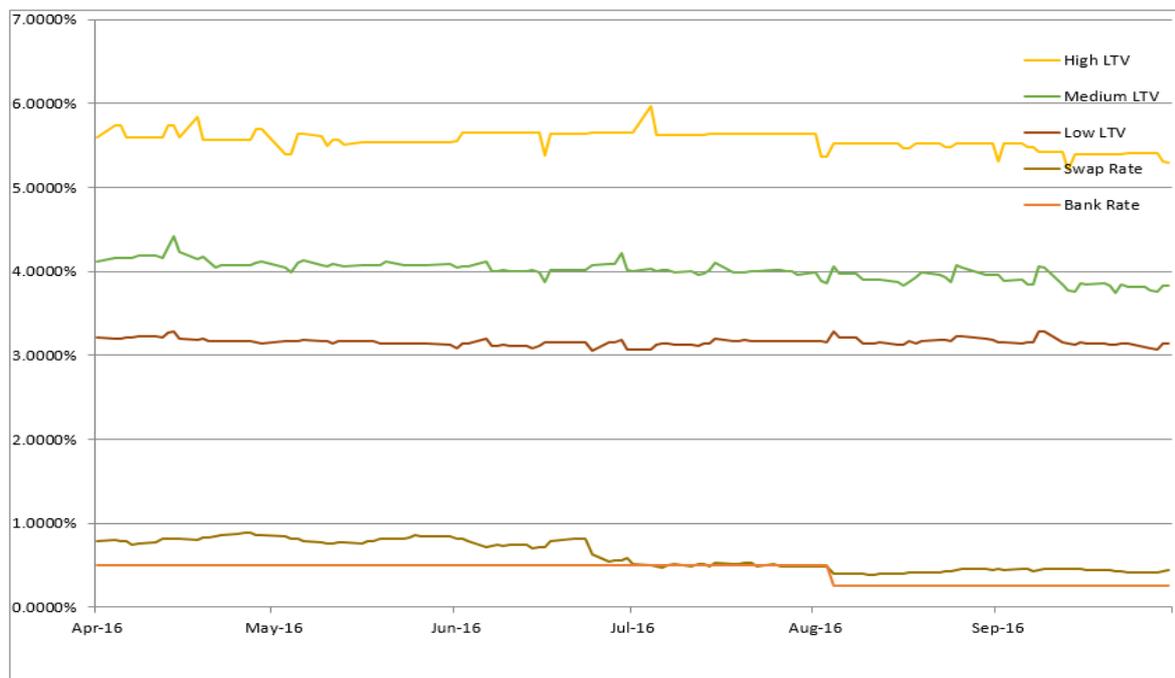
In Q3 2016 there was an average of 1,120 buy to let mortgage products from 33 active lenders on the market. Despite an initial increase in product numbers in July, these began to fall in the latter half of the month following the announcement of Theresa May's cabinet. This gradual reduction continued throughout August, with product numbers finally starting to climb again only once September was well underway. This continual reduction throughout the middle of Q3 has led to a modest decrease in average product numbers, quarter-on-quarter, despite finishing the period with a wider range than at the close of Q2.

Buy to Let Product Pricing

Interest Rate Overview

Following the aftermath of the Brexit result, interest rates made a brief recovery in mid-July with the formation of Theresa May's government and the reassurance that comes from knowing who exactly would lead the country in the coming negotiations. This was short-lived, however, and interest rates soon fell again amid speculation about a further drop in the Bank of England base rate – the first since 2009. This, of course, turned out to be entirely correct, quickly causing market rates to drop by roughly 0.1% across the board but, as with the post-referendum drop of last quarter, banks have been reluctant to pass this on to consumers, with swap rates falling well before seeing any change in two, three or five year fixed interest rates.

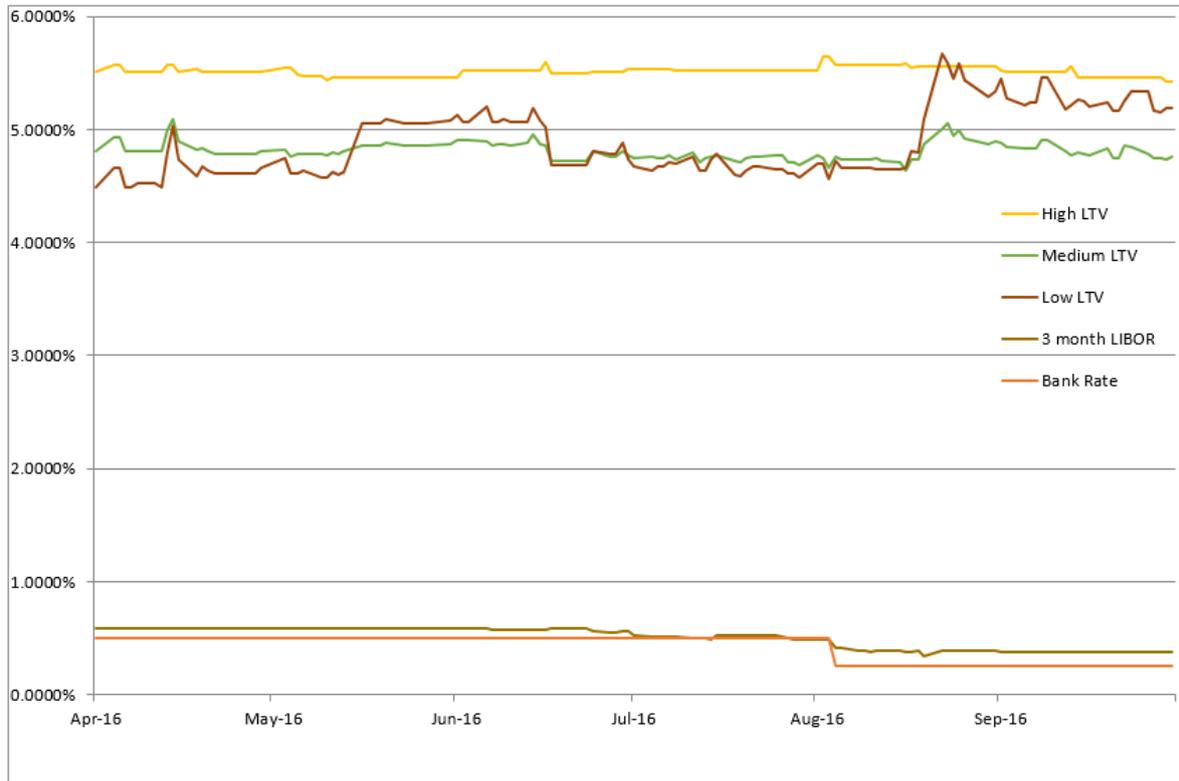
2 Year Fixed Rate Costs including Fees



Source: Mortgages for Business

Meanwhile, far from the stability in fixed interest rates, tracker interest rates have changed markedly since Bank Rate fell in August. While high loan to value (LTV) products mirrored the inertia of the fixed rate market, medium LTV offerings were quickly revised upwards to compensate and low LTV interest rates have soared, briefly becoming even more expensive than high LTV counterparts as lenders refocused on higher performing high LTV products.

Tracker Costs including Fees



Source: Mortgages for Business

Conclusion

Q3 2016 continued the trend set in Q2, whereby lenders hold off on making any bold moves while they wait to learn more about the new government's intentions and the pending Supervisory Statement 13/16, issued by the Prudential Regulation Authority. Perhaps ironically, the general lack of firm information about the future and the fear of significant changes to come has led to a period that is best defined by lenders doing their utmost to preserve the status quo and safeguard their margins in the wake of August's lowering Bank Rate. With suggestions from Downing Street that a change is due in monetary policy and the growing possibility of a "hard Brexit" looming over the economy, it will be interesting to see whether this trend will continue in Q4 or if the stalemate will be broken at last.

Buy to Let Mortgage Products by Initial Term

Buy to Let Mortgage Products						
Product	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
1 year	1%	1%	1%	1%	1%	1%
2 year	46%	43%	43%	44%	45%	45%
3 year	18%	22%	20%	20%	18%	17%
5 year	24%	23%	24%	23%	24%	25%
Loan term	11%	11%	12%	12%	12%	12%

Two year discounted and fixed rate mortgages remain dominant in the buy to let market, with last quarter's exceptional headline rates continuing uninterrupted in Q3. Meanwhile, the market for three year products has shrunk further, with consumers gravitating towards attractive five year fixes, some headline rates having dropped below 2.5%.

Buy to Let Mortgage Charges

Effect of Charges on Buy to Let Mortgages				
	Low LTV	Medium LTV	High LTV	Average
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	0.67%	0.72%	0.91%	0.72%
2014 Q2	0.62%	0.72%	0.91%	0.71%
2014 Q3	0.51%	0.68%	0.99%	0.66%
2014 Q4	0.50%	0.66%	1.05%	0.64%
2015 Q1	0.51%	0.67%	0.96%	0.65%
2015 Q2	0.52%	0.68%	0.83%	0.65%
2015 Q3	0.51%	0.64%	0.82%	0.62%
2015 Q4	0.52%	0.65%	0.80%	0.63%
2016 Q1	0.53%	0.61%	0.75%	0.60%
2016 Q2	0.54%	0.61%	0.75%	0.60%
2016 Q3	0.55%	0.63%	0.77%	0.62%

Lenders continue to use arrangement fees as a way to maintain profits in an environment of falling interest rates, with the effects of fees on mortgage rates climbing at all LTVs, but Q3 sees a shift from the flat fees popular in Q2 to a more percentage-based approach.

Buy to Let Mortgage Charges						
Fee type	Q3 2014	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
No fee	13%	17%	18%	16%	15%	14%
%-based fee	40%	37%	40%	39%	37%	39%
Flat fee	47%	46%	42%	45%	48%	47%

Commentary by:

Simon Whittaker
Finance Director
Tel: 01732 731622
simonw@mortgagesforbusiness.co.uk

Graeme Wright
Data Analyst
Tel: 01732 731636
graemew@mortgagesforbusiness.co.uk