

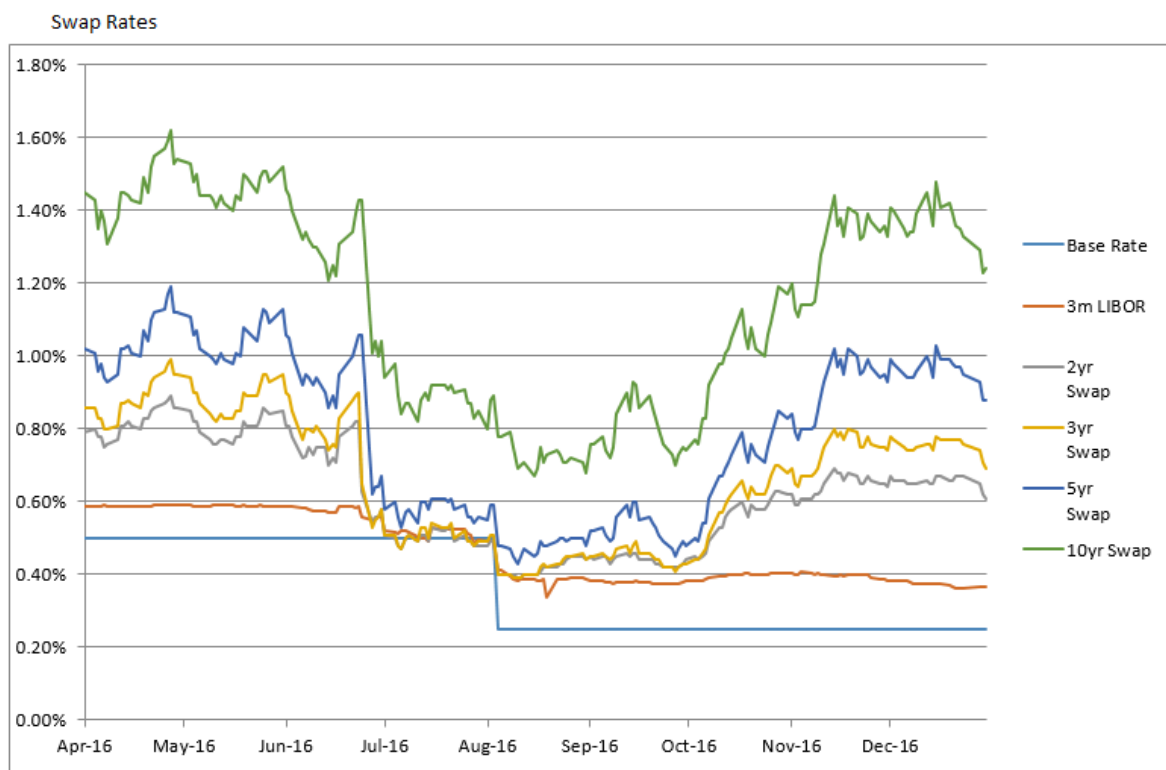
Buy to Let Mortgage Costs Index Q4 2016

Buy to Let Product Numbers

In Q4 2016 there was an average of 1,238 buy to let mortgage products from 35 active lenders on the market. Product numbers rose gradually across most of the quarter, but the rate of growth slowed throughout with product numbers finally beginning to decrease in December as market activity dropped before Christmas.

Buy to Let Product Pricing

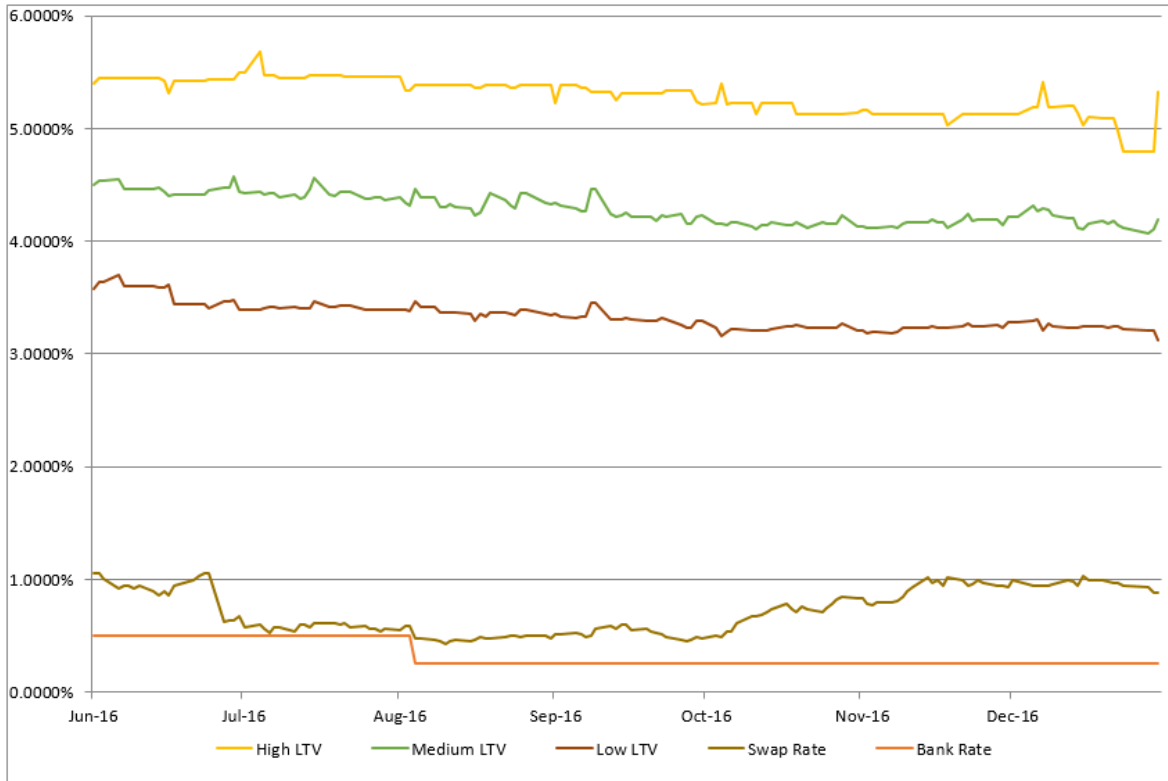
Swap Rates



Interest Rate Overview

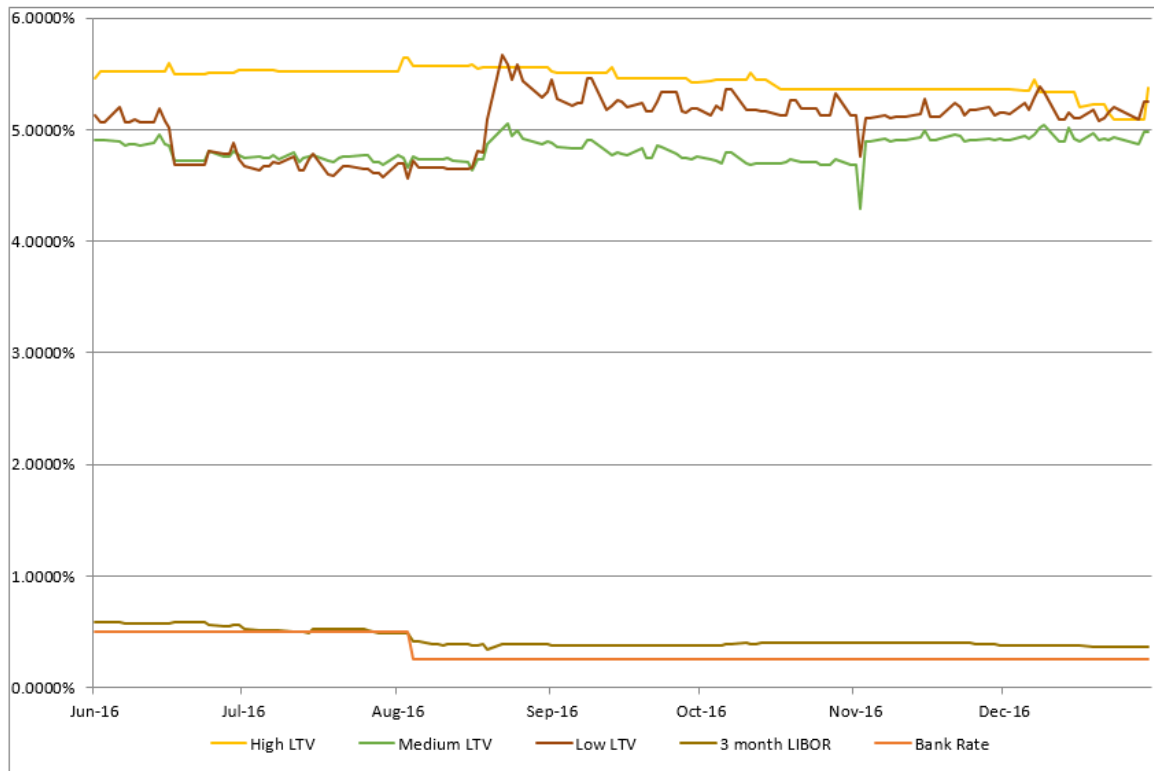
Returning business confidence saw swap rates make a strong recovery in Q4, reaching similar levels to those seen ahead of the EU Referendum. Longer term swap rates rose the most, with 10, 5 and 3 year swaps each peaking at approximately twice what they were at the beginning of October. However, Bank Rate has maintained its record low of 0.25%, allowing buy to let mortgage interest rates to remain largely unaffected – as yet. Towards the end of December there was a noticeable, temporary drop in average rates for high loan to value (LTV), fixed rate products. This coincided with a sharp drop in product availability as a number of products were withdrawn in preparation for fresh offerings in the New Year.

Overall Fixed Rate Costs including Fees



Source: Mortgages for Business

Tracker Costs including Fees



Source: Mortgages for Business

Low LTV tracker rates have remained comparatively expensive this quarter, occupying a middle ground between high LTV trackers and medium LTV trackers, which did not see the same spike in average rates near the end of August and have remained cheaper ever since. This inversion has been caused by a number of low LTV, higher interest rate products for borrowers who do not meet mainstream lending criteria, such as those with adverse credit records or living abroad. While some of these products are available at medium LTV, the smaller range of low LTV products causes a greater inflation to the average price, and the very highest rates on the market are for products available only to 60% LTV or below.

Temporarily in December we once again saw low LTV products average the highest rates of all trackers, although, unlike in Q3, this was not entirely the result of a rise in rates. Instead it was aided by a drop in high LTV tracker rates similar to that seen among fixed rate products.

Conclusion

Rates in Q4 2016 showed little overall movement, having crept up only slightly from those in Q3. With swap rates beginning to climb, we are unlikely to see any further reduction in pricing but lenders will also want to keep their products competitive as regulatory and tax relief changes affect demand. We therefore expect that Q1 2017 will look very similar to Q4 2016, showing a slight upward trend in headline rates.

Buy to Let Mortgage Products by Initial Term

Buy to Let Mortgage Products						
Product	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
1 year	1%	1%	1%	1%	1%	1%
2 year	43%	43%	44%	45%	45%	44%
3 year	22%	20%	20%	18%	17%	17%
5 year	23%	24%	23%	24%	25%	27%
Loan term	11%	12%	12%	12%	12%	11%

Q4 shows buy to let lenders continuing to move towards five year fixed rates, which now make up 27% of all products, up from a quarter of all buy to let products in Q3. This increased offering could be due to growing demand for such products by landlords. Evidence for this suggestion can be found in the results of the [November 2016 Property Investor Survey](#) in which 34% of respondents said they preferred these longer term products, up from only 21% of survey respondents in May 2016, before the EU Referendum.

Buy to Let Mortgage Charges

Effect of Charges of Buy to Let Mortgages

In a reversal of Q3, lenders have once again reduced their average fees, especially at high LTV, but the lack of movement at medium LTV has led to little observable difference overall.

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	0.67%	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	0.51%	0.65%	1.03%	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	0.56%	0.63%	0.78%	0.62%
2016 Q4	0.55%	0.63%	0.74%	0.62%

Lender Arrangement Fees

There has been a further shift towards percentage-based fees, as well as a rise in fee-free products. Products with flat fees now account for 43% of the market, down from 47% the previous quarter. In terms of pricing, the average flat fee continued to go down and now stands at £1,397, having peaked at £1,556 at the beginning of the year.

Buy to Let Mortgage Charges

Fee type	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
No fee	17%	18%	16%	15%	14%	16%
%-based fee	37%	40%	39%	37%	39%	41%
Flat fee	46%	42%	45%	48%	47%	43%
Average flat fee rate	£1,495	£1,520	£1,556	£1,474	£1,462	£1,397

Commentary by:

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

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