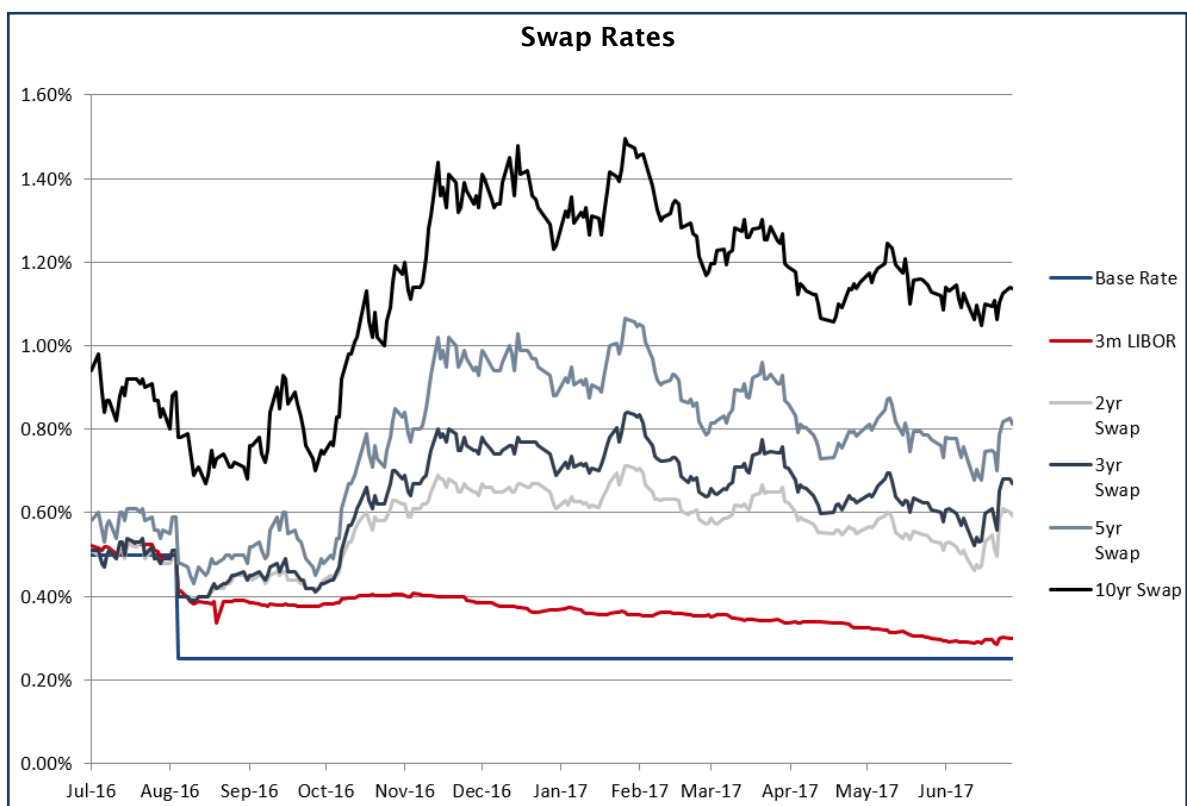


Buy to Let Mortgage Costs Index Q2 2017

Buy to Let Product Numbers

In Q2 2017 there was an average of 1,220 buy to let mortgage products from 36 active lenders on the market. Product numbers grew steadily across the quarter, rising by an average of 53 products from the previous quarter, but still did not quite reach the levels seen in Q4 2016.

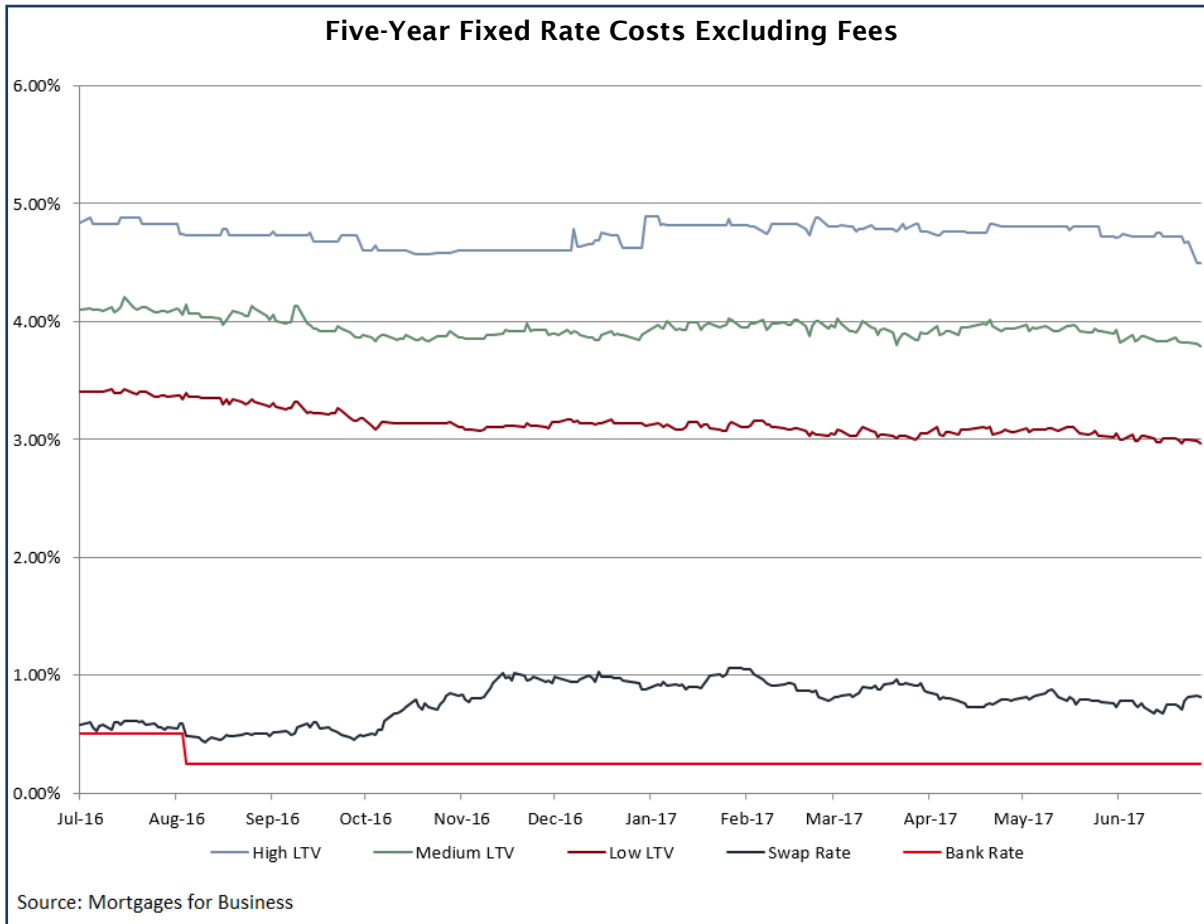
Buy to Let Product Pricing



Interest Rate Overview

Swap rates rose sharply twice in Q2, firstly ahead of the Monetary Policy Committee's meeting in May and again after the June meeting. As swap rates are typically based on predictions of the market average interest rates over a given period, it is unsurprising that the MPC meetings had such a strong effect – there has been much speculation of late that rising inflation will force the Bank of England to act sooner rather than later in increasing Bank Rate from its record low. Indeed, the June meeting saw a close decision from the Committee, holding Bank Rate at 0.25% by a vote of 5-3. This, along with subsequent statements from MPC members, has fuelled a rise in swaps in the latter half of the month, which had still not peaked at the time of writing.

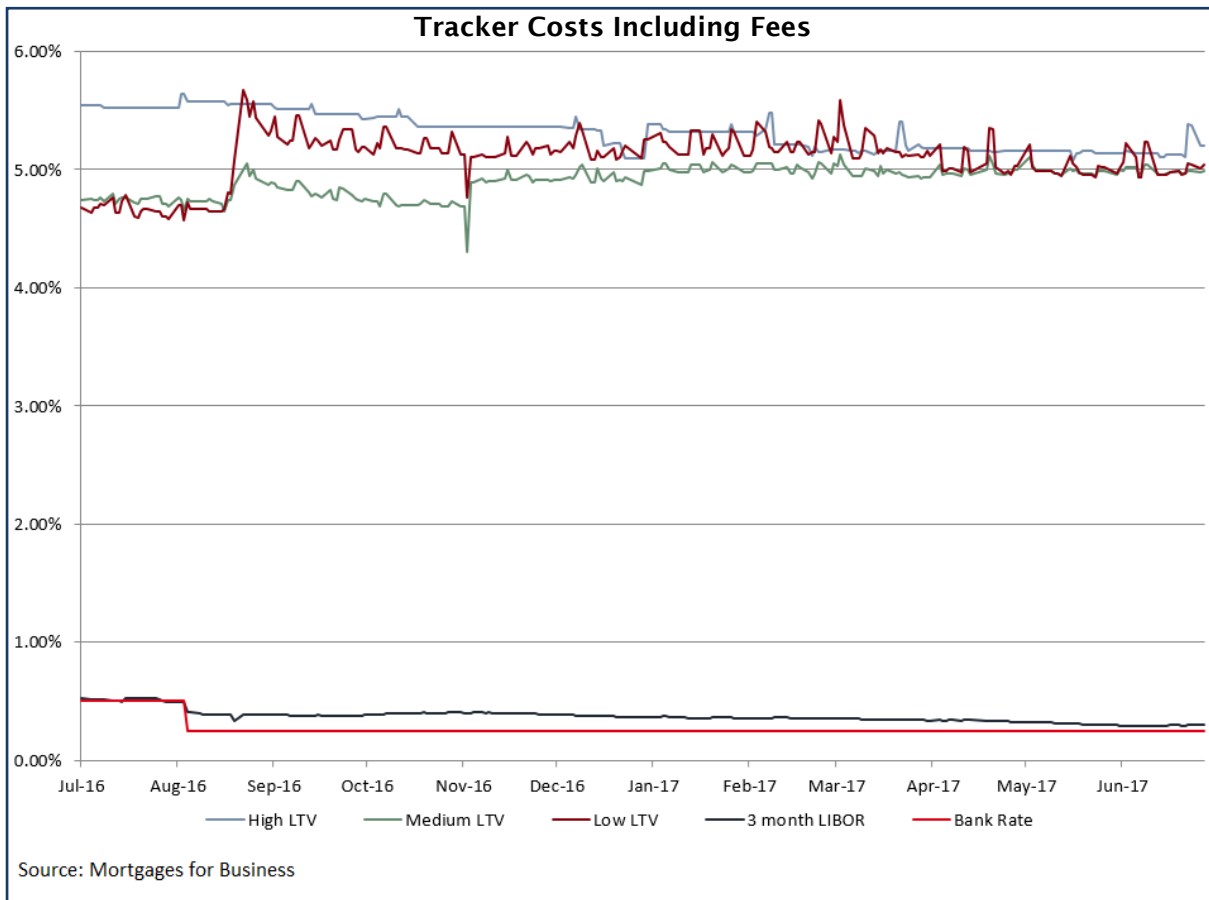
By comparison, the recent general election had little discernable impact on swap rates, which barely registered its passing.



Buy to let fixed rates showed little overall change across Q2, having reached historic lows. What movement there was came in the high loan-to-value market, which saw reductions in average rates fixed for three or five years. Three-year, high LTV fixed rates fell abruptly by 0.13% in late May, while five-year equivalents fell by 0.25% across the latter half of June.

Fixed rate mortgage products are typically based on the current swap rate of the same term, plus an operating margin for the lender. Looking at the difference between buy to let fixed rates and swap rates for this quarter (below), we can see that high loan-to-value products, particularly with longer initial terms, have the highest margin. This explains why these products saw the greatest rate cuts.

Q2 BTL fixed rate margins over SWAPs	High LTV	Medium LTV	Low LTV
5 year terms	4.0%	3.1%	2.2%
3 year terms	3.7%	3.1%	2.1%
2 year terms	3.5%	2.5%	1.8%



Low LTV buy to let variable rates saw an abrupt decrease at the start of April, with headline rates falling by approximately 0.22%. This brought headline rates in line with those of high LTV products, which have been lower in recent quarters due to the preponderance of specialist lending products among buy to let variable rates with low LTV caps.

Since high LTV products typically have higher associated fees (the current effect being equivalent to a 0.81% increase in rates versus 0.59% at low LTV), this brought the cost of low LTV tracker products back below their high LTV counterparts.

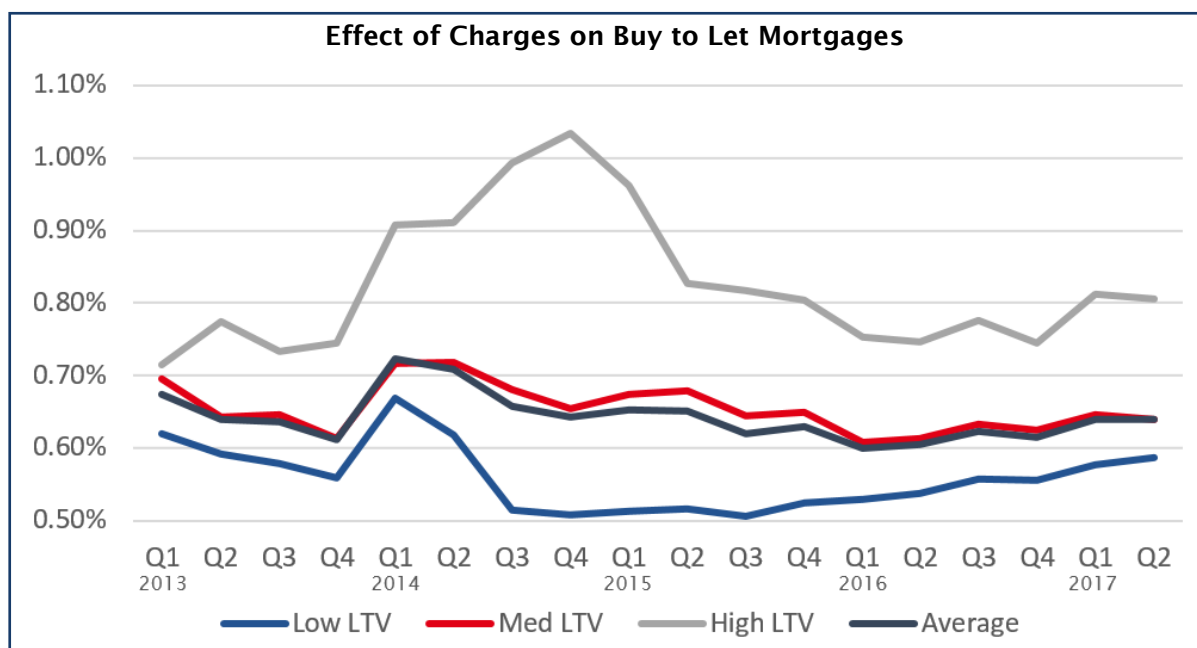
Conclusion

With rates now as low as seems likely, there has been little further movement among most product types. Lenders are now choosing to compete in areas where rates are highest, cutting rates for high LTVs and specialist lending solutions.

Buy to Let Mortgage Charges

Effect of Charges of Buy to Let Mortgages

The effect of charges on buy to let mortgages was essentially static this quarter. There was a minute (0.01%) increase in the average fee charged for a low LTV product and an identical decrease in the average fee at medium LTV. There were otherwise no changes.



Lender Arrangement Fees

Although the effect of fees remained largely unchanged in Q2, the average value of a flat arrangement fee fell to £1,370, the lowest it has been in some time. Meanwhile, percentage-based fees continue to gain popularity, now included in 48% of buy to let mortgage products. There has been a corresponding decrease in the availability of fee-free products, which now make up just 11% of the market.

Buy to Let Mortgage Charges					
Fee type	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
No fee	15%	14%	16%	15%	11%
%-based fee	37%	39%	41%	44%	48%
Flat fee	48%	47%	43%	41%	41%
Average flat fee rate	£1,474	£1,462	£1,397	£1,446	£1,370

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