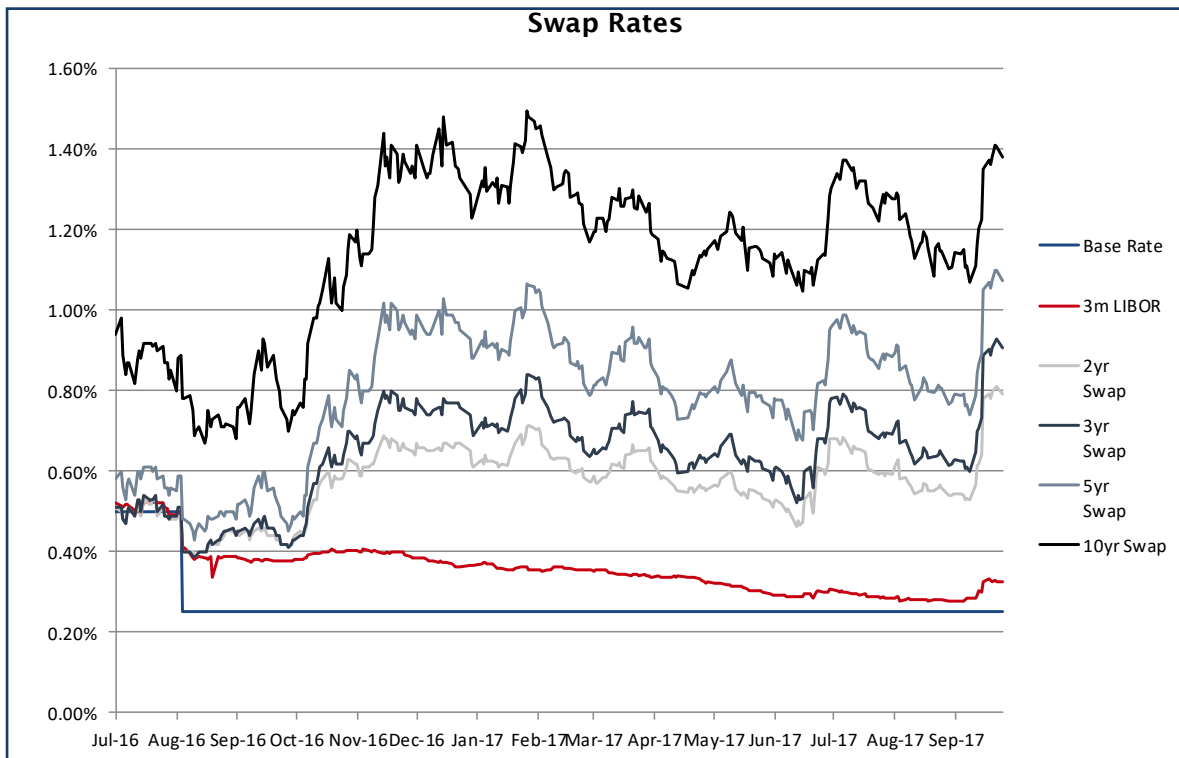


Buy to Let Mortgage Costs Index Q3 2017

Buy to Let Product Pricing

Swap Rates



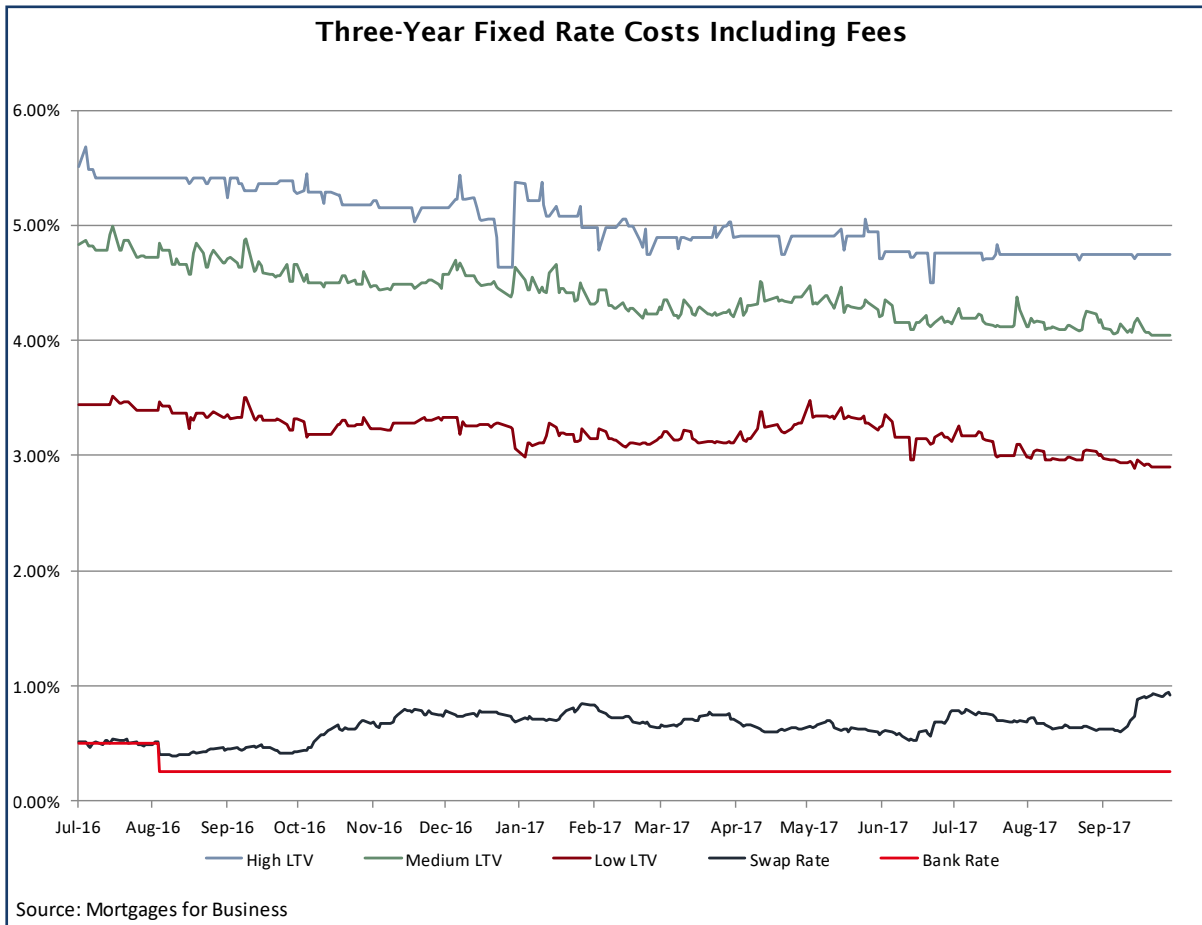
Interest Rate Overview

Interest rate swaps have established a pattern in 2017 of rising rapidly to a peak every two months or so before declining steadily over the ensuing weeks. Right on cue in mid-September there was a surge in swap rates amidst speculation that **this time** the Governor is serious about an increase in Bank Rate in early November (there is no meeting of the Monetary Policy Committee in October). This time there **is** a difference, swap rates have now stayed at the newly elevated levels without declining for some weeks. Expectations of a rise in Bank Rate will have been increased following the release of preliminary data for Q3 GDP growth that has come in with growth of 0.4% compared with a market consensus forecast of 0.3%.

Short term (two and three year) swap rates are now higher than at the start of the year whereas longer term rates are now similar to those at the start of the year.

Three Year Fixed Rate Costs Including Fees			
Terms	High LTV	Medium LTV	Low LTV
5 years	3.4% (-0.6%)	2.6% (-0.5%)	1.8% (-0.4%)
3 years	3.3% (-0.4%)	2.6% (-0.5%)	1.6% (-0.5%)
2 years	3.1% (-0.4%)	2.2% (-0.3%)	1.5% (-0.3%)

Buy to let mortgage rates have drifted lower in the quarter – maintaining the reduction that started in Q3 2008 so that fixed rates are now around one half the levels of nine years ago.



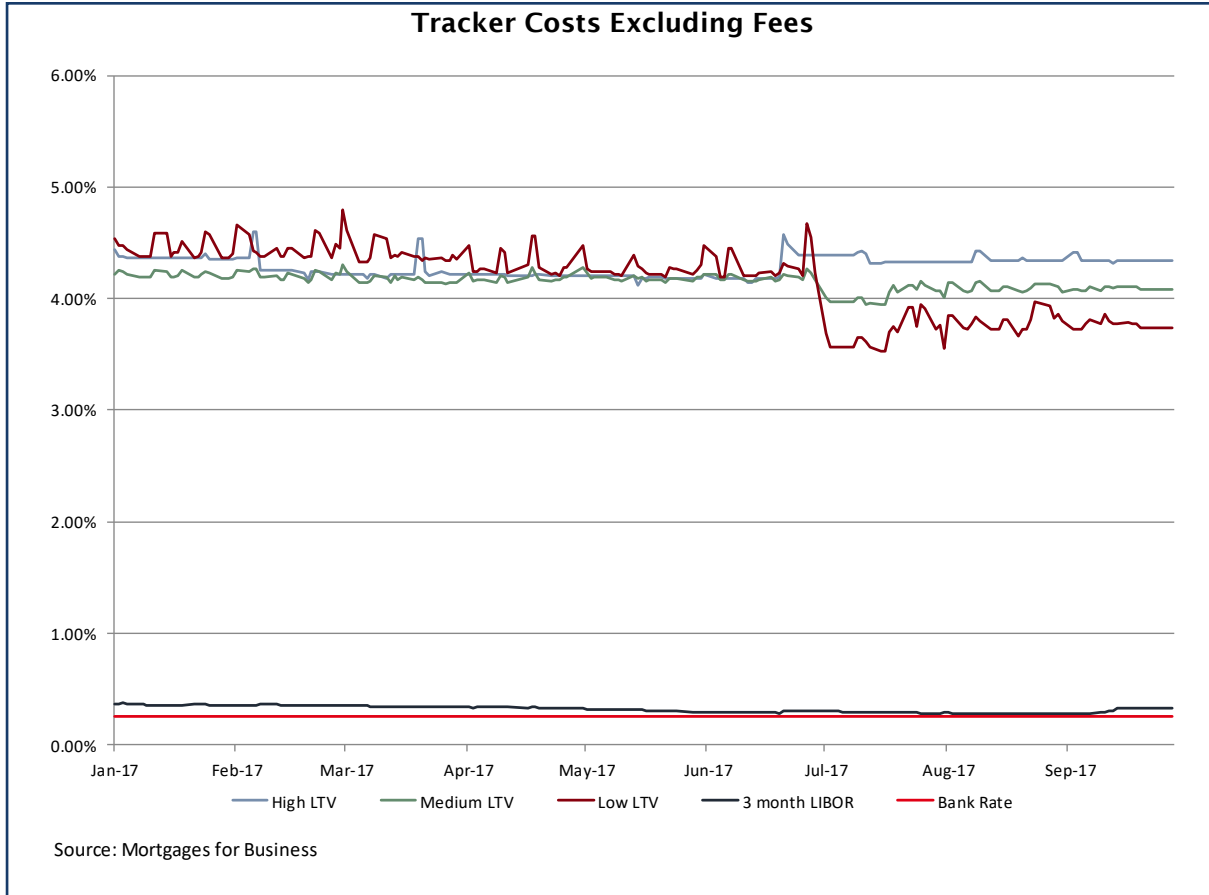
The last 15 months have seen a compression in the lenders' margins across all categories of buy to let mortgage products. This is most pronounced in three-year fixed rate products where the average margin between the cost to the borrower and the underlying swap rates has declined from around 4% to around 3%. Whilst increasing competition between lenders will have forced them to absorb some degree of margin compression, the current margins are not sustainable and we are already seeing lenders start to increase some of their prices in October.

Excluding fees, the margins over swap rates have declined by around 0.5% between Q2 and September.

It appears that we may finally have reached the low point for buy to let interest rates for fixed rate products as margins have been compressed and we face the prospect of an increase in Bank Rate on 2nd November 2017.

By contrast, lenders have maintained margins on tracker products. Most lenders price their **tracker** products against LIBOR, but for **discounted trackers** there is a mixture of Bank Rate, LIBOR and lender's Standard Variable Rate. LIBOR rates will have already discounted the likelihood of an increase in Bank Rate but it is likely that many lenders which use SVR will be increasing this if there is an increase in Bank Rate.

Accordingly, we can probably expect to see an increase in the “headline” rates for these products even though there will be no change in the basic product (i.e. a product described as Bank Rate plus 4% will cost 4.5% rather than 4.25% if Bank rate is increased to 0.5%).



N.B. 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.

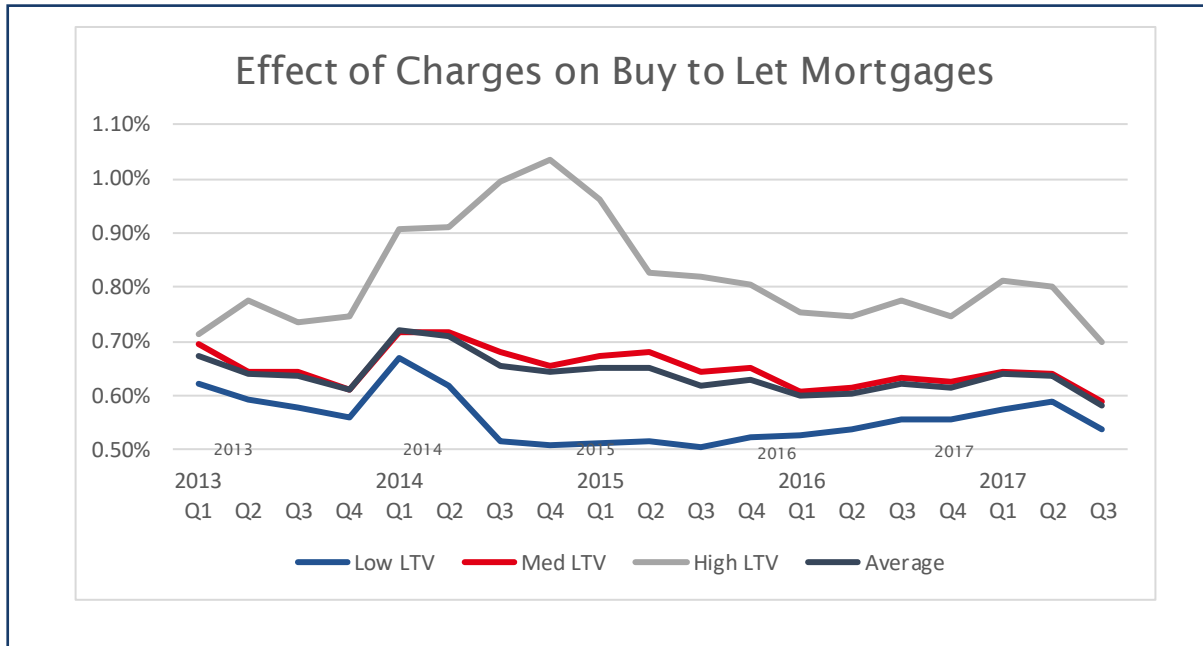
Conclusion

If you want the security of having a fixed rate mortgage, all the indications are that the nine-year long fall in mortgage costs has come to an end and we can probably expect to see re-pricing upwards in the near future.

Buy to Let Mortgage Charges

Effect of Charges of Buy to Let Mortgages

The effect of charges on the total cost of buy to let mortgages reduces by 0.05% - 0.10% in this quarter as competitive pressures caused lenders to reduce the average fees on new mortgage products.



Lender Arrangement Fees

The reduction in average fees noted above was caused primarily by an increase in the number of “fees free” product that rose from under 11% to over 14% of the total available products. At the same time, the average fee for flat fee mortgage product increased only marginally and are effectively still at their lowest levels since Q3 2014.

Buy to Let Mortgage Charges					
Fee type	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
No fee	14%	16%	15%	11%	14%
%-based fee	39%	41%	44%	48%	44%
Flat fee	47%	43%	41%	41%	42%
Av. flat fee	£1,426	£1,397	£1,446	£1,370	£1,384

Commentary by:

Simon Whittaker, Finance Director

Tel: 01732 731622

simonw@mortgagesforbusiness.co.uk