



Mortgages for Business

Q4 2017



Buy to Let Mortgage Costs

Buy to Let Mortgage Costs Index Q4 2017

Interest rate patterns

Effects of swaps on fixed rates

How fees & charges add to the total cost



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Underlying costs

Bank Rate & Swaps

During the first nine months of 2017 a pattern emerged where swap rates rose rapidly to a peak every few months before declining steadily over the ensuing weeks. However, in Q4 rates remained elevated coinciding with the hike in Bank Rate on 2nd November from 0.25% to 0.50%.

By the end of Q4, shorter term swaps (two, three and five-year) were higher than at the start of 2017, whereas 10-year term swap rates finish the year at roughly the same level as January, despite a series of peaks and troughs in between.

Fixed rate buy to let mortgages

Fixed rate mortgage products are typically based on the current swap rate of the same term, with the addition of the lender's operating

margin.

Since July 2016 lenders' margins have been squashed across all fixed rate buy to let mortgage products. This was particularly noticeable on five year products in early November when swaps rose but average pricing reduced.

Whilst the rise in swaps was connected to the hike in Bank Rate (from 0.25% to 0.50%), it is unclear exactly why lenders would choose to reduce their already diminished margins.

We speculate they chose this path in light of increased market competition as lenders vied for customers in order to fulfil their fast-approaching, end of year lending targets.

Five year fixed rate products have increased in popularity with borrowers for a number of reasons:

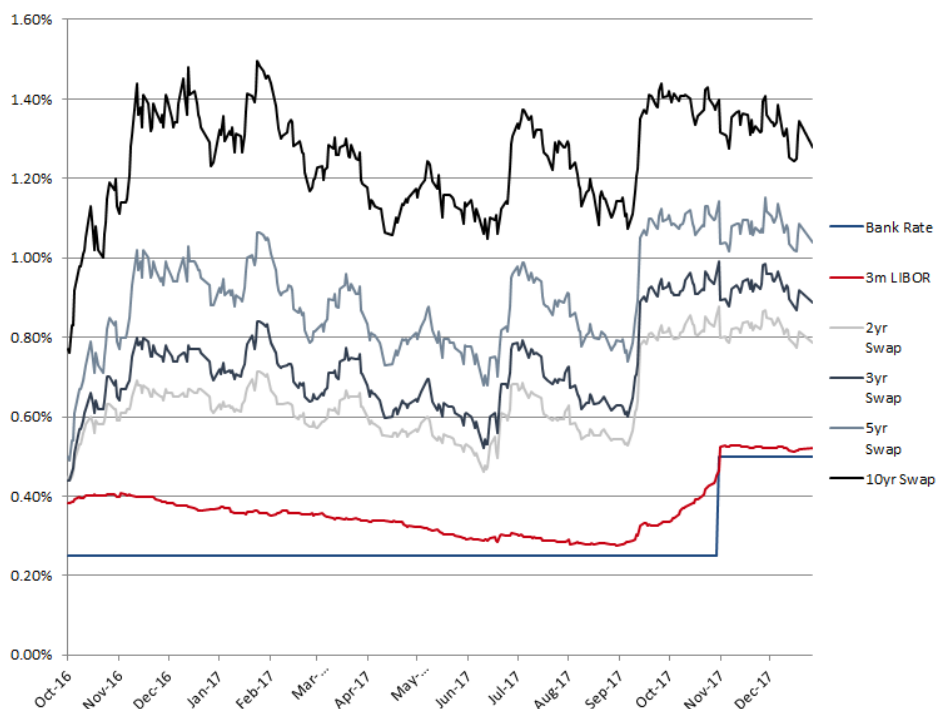
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- Market uncertainty – five year fixed rates protect borrowers against shorter term rises in interest rates.
- Stricter affordability guidelines, introduced by the Prudential Regulation Authority have resulted in landlords recognising that they can borrow more on a five year

fixed rate than on shorter term products.

Excluding fees, the margins over swap rates declined by around 0.4 percentage point between Q1 and Q4 of 2017, (see table overleaf—Q1 figures shown in brackets).

Swap Rates, Bank Rate & 3 Month LIBOR



BTL Fixed Rate Margins Over Swaps

Terms	High LTV	Medium LTV	Low LTV
5 Years	3.3% ↓ (3.9%)	2.7% ↓ (3.0%)	1.9% ↓ (2.2%)
3 Years	3.3% ↓ (3.6%)	2.6% = (2.6%)	1.6% ↓ (2.0%)
2 Years	3.2% ↓ (3.5%)	2.3% = (2.3%)	1.6% ↓ (1.7%)

Tracker rate buy to let mortgages

Buy to let mortgage tracker rates changed very little in Q4.

The increase in the Bank Rate has had a delayed reaction on the tracker costs with the changes being seen in late November through to December.

Unsurprisingly, the most discernible change was seen in the high loan to value category with an increase from 4.3% to 4.4% in early December 2017.

Medium LTV trackers remained largely unchanged overall and the low LTV group, which has always been the most susceptible to changes, plateaued at the end of December at an average 3.8%.

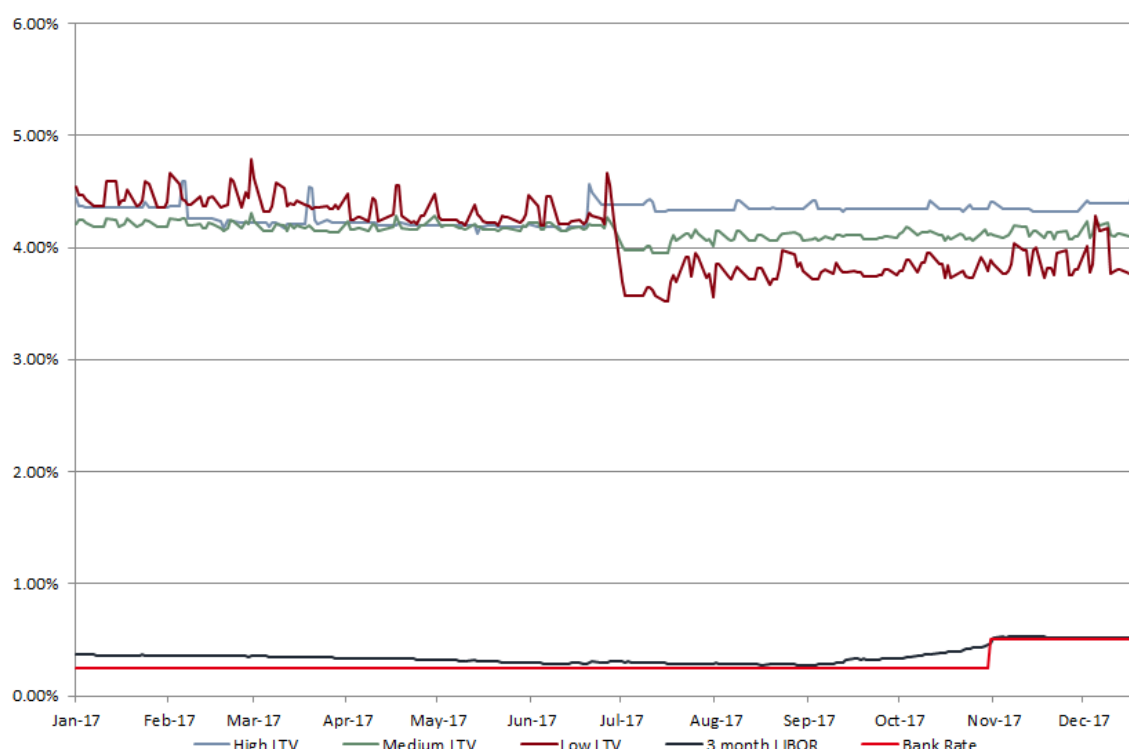
Conclusion

Free from the race to meet end of year targets, it is unlikely that lenders will be looking to reduce rates again any time soon. If anything, they will be planning ways to make up for lost margins.

And as the likelihood of another rise in Bank Rate draws ever closer, if landlords are in the market for a fixed rate, now might be the time to secure it.



Tracker Rate Buy to Let Mortgages—Excluding Costs



Fees & charges

Effect of fees & charges

In Q4 2017 lender arrangement fees, valuation fees and legal costs added an average of 0.58% onto the headline cost of a buy to let mortgage.

This is largely unchanged when compared to Q3, which had already seen a decrease due to competitive market forces. The only difference was a slight decrease in the low loan to value category from an average of 0.54% to 0.53%.

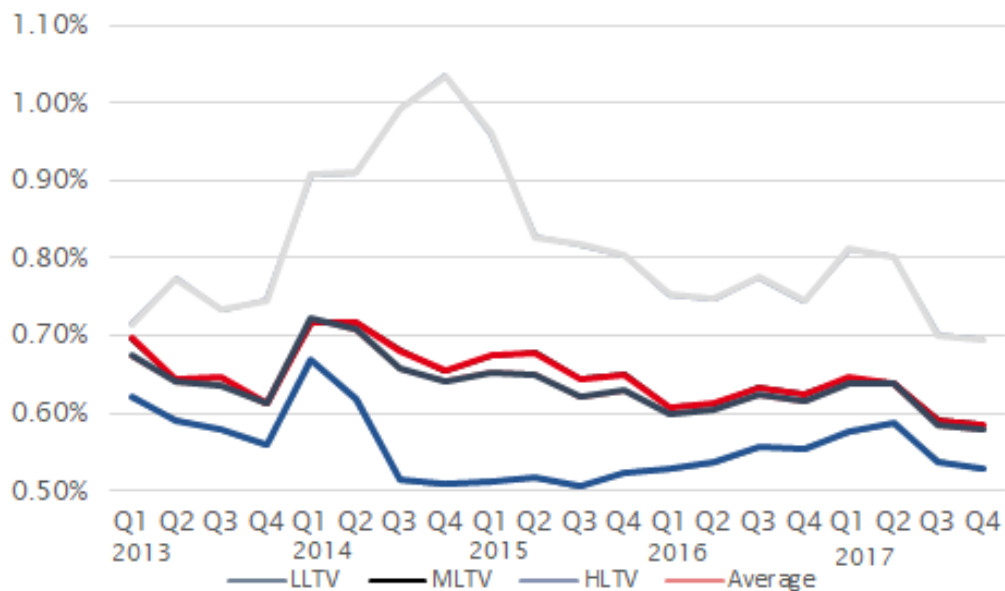
Lender arrangement fees

To the detriment of percentage-based fees, the proportion fee-free buy to let mortgage products rose to 16% from 14% in the previous quarter, probably as part of an incentive programme designed to meet end of year targets.

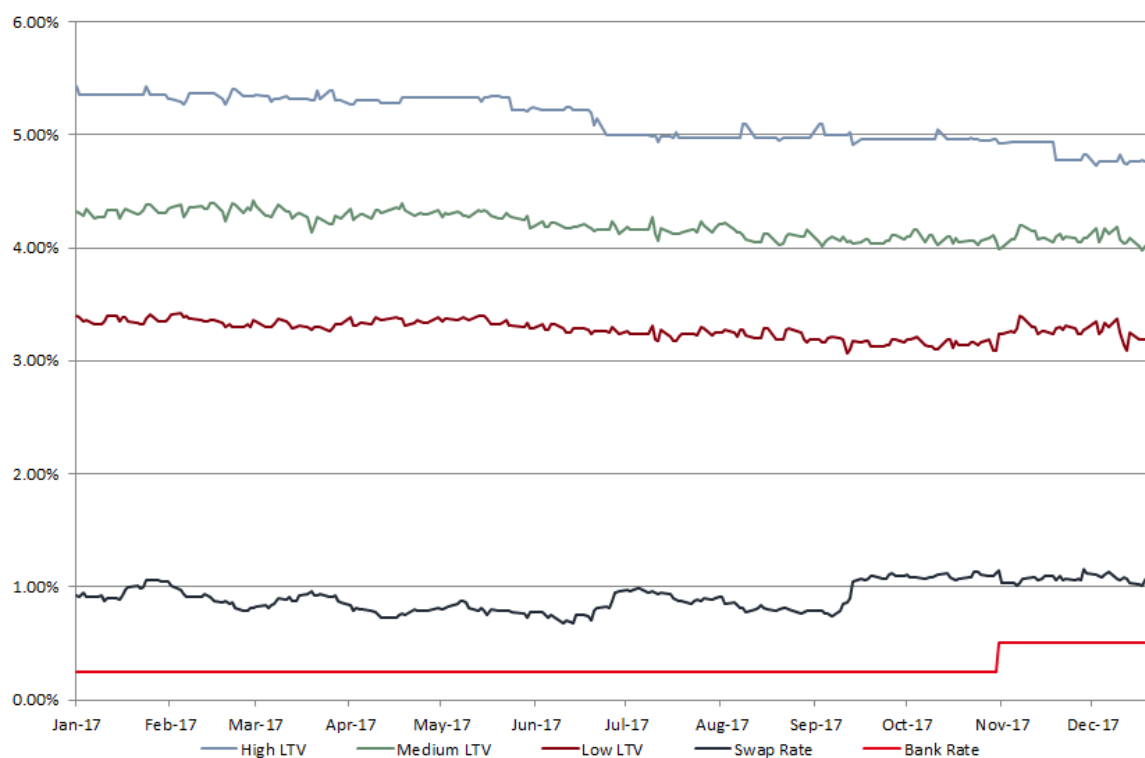
The average flat fee increased marginally in price but remains less than £1,500.

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Effect of Fees & Charges on Buy to Let Mortgages

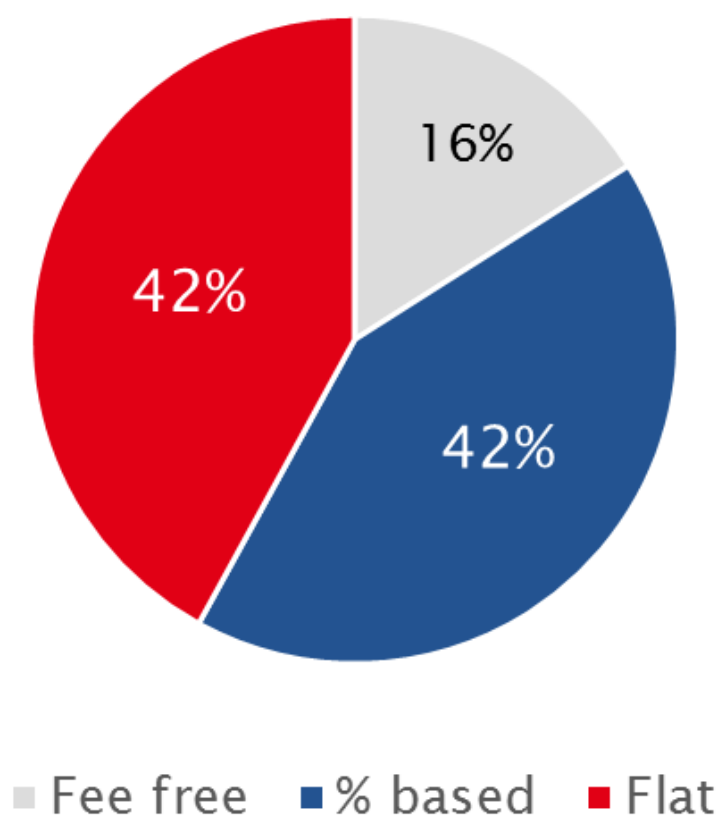


5 Year Fixed Rate Buy to Let Mortgages—Including Costs

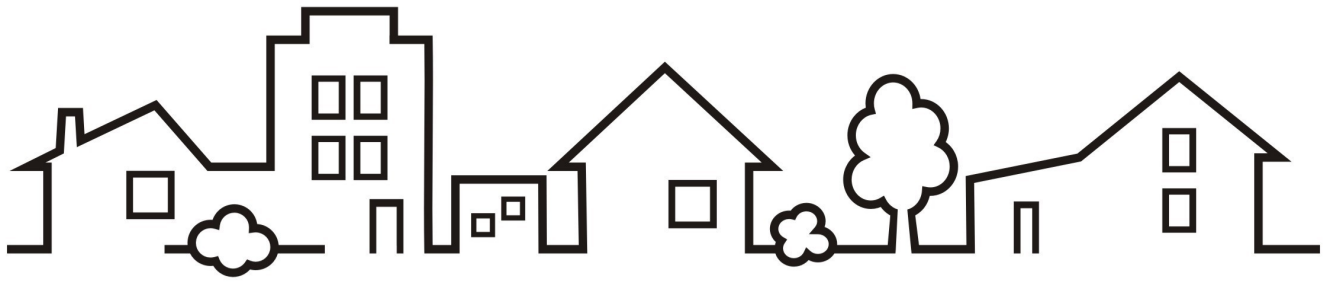


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Lender Arrangement fees on Buy to Let Mortgage Products in Q4 2017



Lender Arrangement Fees on BTL Mortgages				
Fee Type	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Fee-free	15%	11%	14%	16%
%-based	44%	48%	44%	42%
Flat	41%	41%	42%	42%
Av. Flat	£1,397	£1,446	£1,370	£1,423



Further Research

We publish a variety of papers designed to help landlords, businesses and home-buyers make informed property investment decisions.

For more information

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To discuss both the current and previous results of the Buy to Let Mortgage Costs Index, in the first instance, please contact:

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