

## Buy to Let Mortgage Costs Index Q1 2017

### Buy to Let Product Numbers

In Q1 2017 there was an average of 1,167 buy to let mortgage products from 36 active lenders on the market. There has been a trend throughout the quarter for increasing numbers of products, although by the end of the quarter there were still fewer products available than when product numbers peaked in Q4 2016.

### Buy to Let Product Pricing

#### Swap Rates

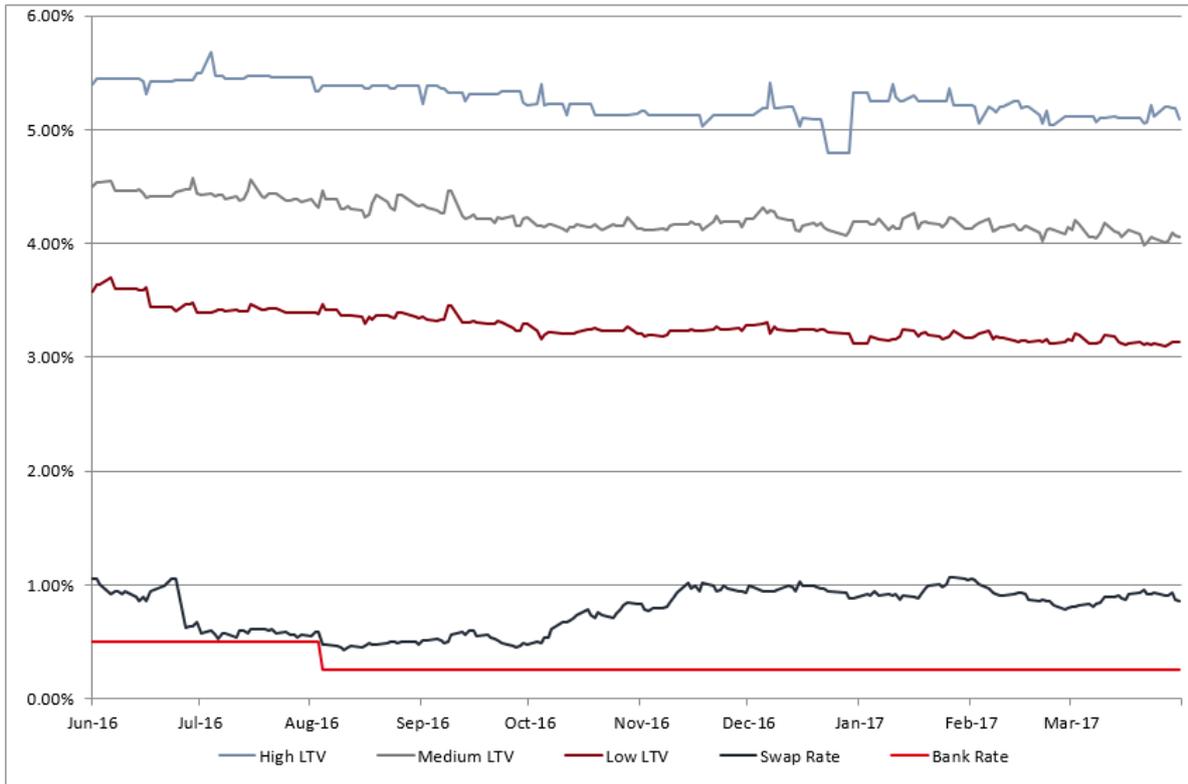


#### Interest Rate Overview

Q1 saw little real change in swap rates. Although there was a noticeable peak in late January, rates fell once more in early February, before finishing March in much the same state as before the spike. It is likely no coincidence that the date of the surge matches up closely with the Supreme Court's ruling that Parliament must hold a vote for the Government to trigger Article 50, with the subsequent drop arriving once it became apparent that this would prove no impediment. The Monetary Policy Committee continues to hold Bank Rate at its record low of 0.25%, which has allowed buy to let mortgage rates to remain low once again despite rising inflation. Although average fixed rates have remained largely unchanged throughout Q1, this does not tell the whole story, with a closer examination showing the high loan to value (LTV) fixes have gotten more expensive for five-year terms but have reduced in price for three or two-year terms. With PRA guidance on

affordability calculations in effect from January 1<sup>st</sup>, five (and ten) year fixed rates are unique in that they may still be stress tested at the pay rate. This effectively increases the amount that investors can borrow on a given rental income, increasing demand for such products from high LTV borrowers and allowing lenders to adjust their pricing accordingly. Repricing products in this fashion also serves to keep overall lending rates competitive and introduce greater choice for investors, while reducing the potential impact on lenders when interest rates finally rise.

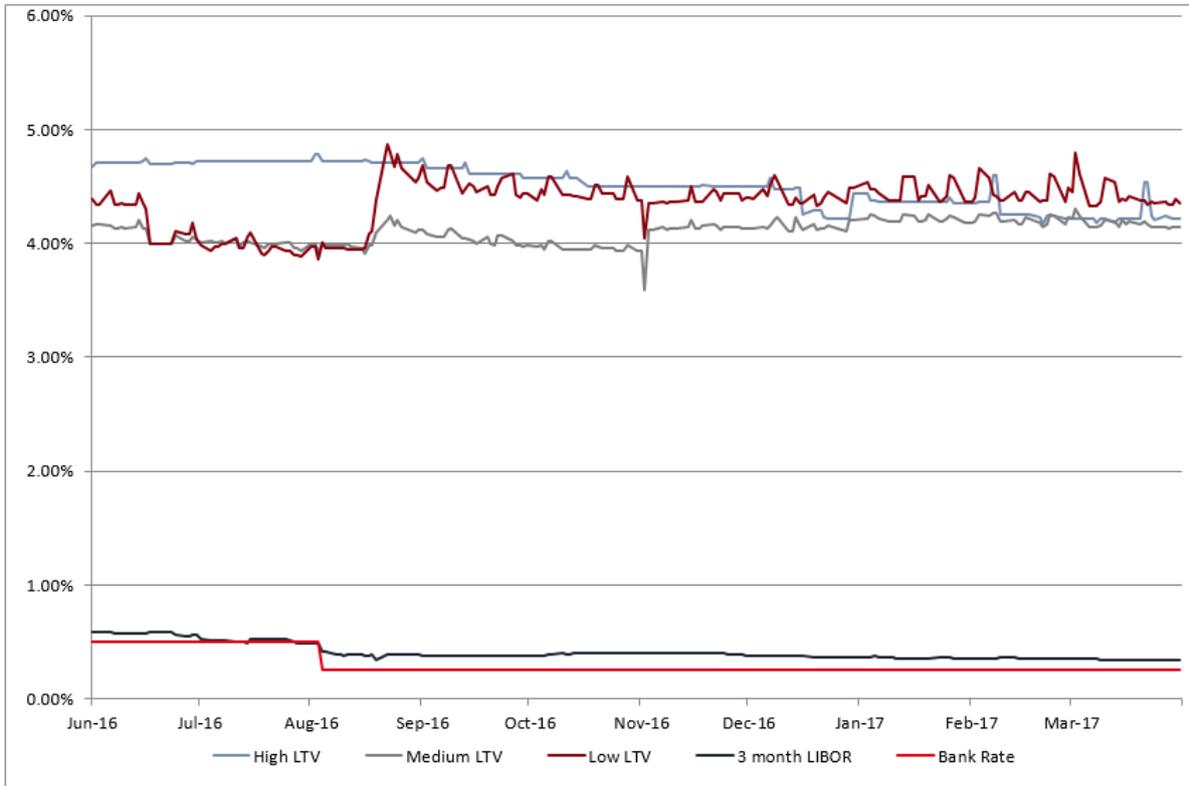
### Overall Fixed Rate Costs including Fees



Source: Mortgages for Business

Low and medium LTV trackers have held at similar pricing to what we saw in Q4, but we saw a further reduction in headline rates for high LTV tracker products. Although partially offset by an increase in fees at high LTV, this has led to a quarter in which the low LTV products had the highest average pricing. As in Q4, this is the result of specialist lending products with flexible criteria, which are typically offered only on variable rates and at low to medium LTV. There are very few low LTV tracker products aimed at the prime market, with these borrowers instead being served chiefly by fixed rate alternatives.

### Tracker Costs excluding Fees



Source: Mortgages for Business

### Conclusion

Rates in Q1 2017 have again shown little movement except at high LTV. By rebalancing pricing at high LTV, lenders have chosen to capitalise on demand for five-year fixes while offering strong alternatives to borrowers who prefer a variable rate or short-term fix.

## Buy to Let Mortgage Charges

### Effect of Charges of Buy to Let Mortgages

The effect of fees on BTL mortgage pricing increased across the board in Q1, with an especially sharp increase at high LTV. The average effect of charges on the cost of a mortgage is now 0.64%, which is the highest it has been since Q2 2015.

### 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%
2017 Q1	0.58%	0.65%	0.81%	0.64%

### Lender Arrangement Fees

There has been a further shift towards percentage-based fees, which have now become more common than flat fees at 44% of all products. Alongside an increase in the average flat fee and a reduction in fee-free products, lenders have been using increased fees, of whatever type, to maintain and even improve on record low headline rates.

### Buy to Let Mortgage Charges

Fee type	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
No fee	16%	15%	14%	16%	15%
%-based fee	39%	37%	39%	41%	44%
Flat fee	45%	48%	47%	43%	41%
Average flat fee rate	£1,556	£1,474	£1,462	£1,397	£1,446

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