Buy to Let Mortgage Costs Index
Q4 2014

Buy to Let Product Numbers

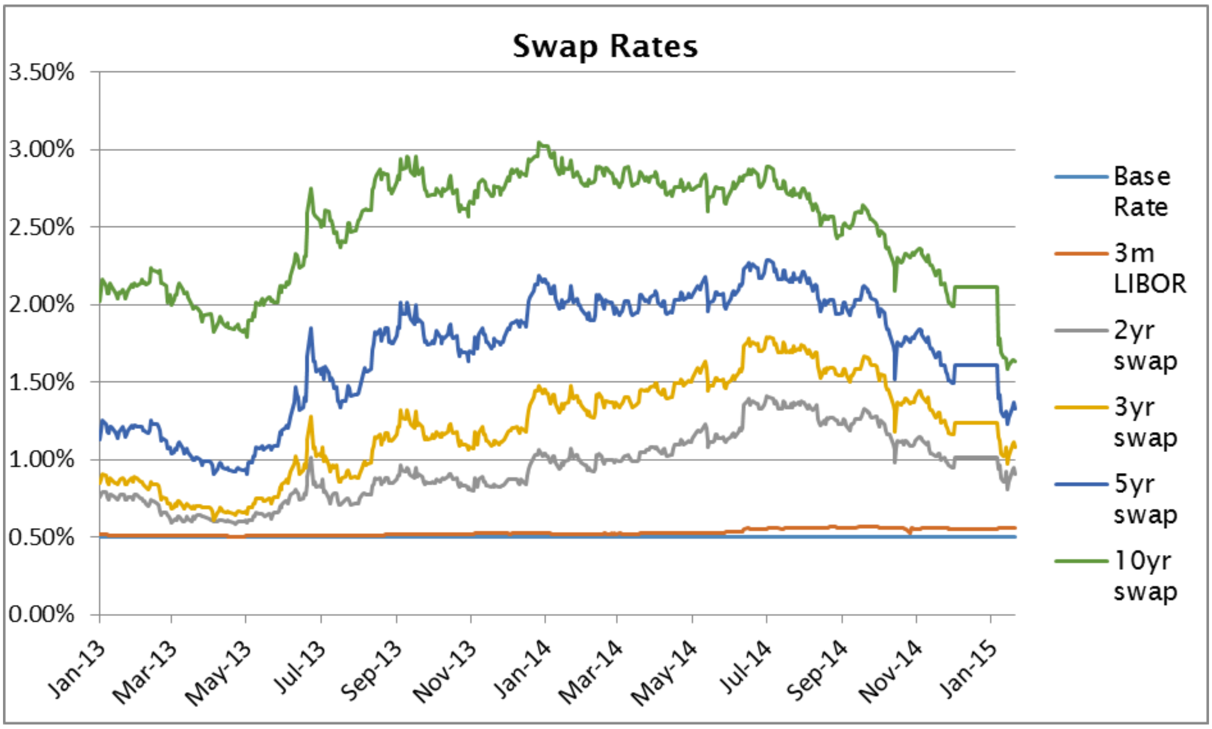
In Q4 2014 there was an average of 817 buy to let mortgage (BTL) products from 29 active lenders on the market, up 110 products on the previous quarter. The quarter has seen the launch of Fleet Mortgages (by a team that is largely ex-CHL Mortgages) as well as most lenders increasing their product ranges.

The increase of around one half in the number of BTL products during the course of 2014 has no doubt been in response to the dramatic increase in demand for BTL mortgages with gross lending rising from £16.4bn in 2012, to £20.7bn in 2013 and £26.5bn in 2014 (our estimate – CML has yet to publish final figures). Whilst we expect a further increase in 2015, the break-neck pace of increase over the past two years is unlikely to be maintained; nevertheless with increasing demand and improving availability of BTL mortgages with new market entrants in 2015, we expect lending to increase to £28bn in 2015.

Buy to Let Product Pricing

Interest Rate Overview

Swap rates resumed the declines that had been evident for most of Q3 2014 – and this continued into early January 2015. Our view is that the swaps market has finally caught up with the reality of what the Governor of the Bank of England has said over the past year, and that is that interest rates may increase but they will remain low in comparison with the last few decades for some years to come. Consequently longer term swap rates are now extremely attractive as shown by the graph below (please note - we have been unable to source swap rates from mid-December 2014 to early January 2015 – but the trends are obvious).



Source: FT.com

Product Ranges – fixed and tracker products
For the first time in a while it is our view that lender's products are failing to keep up with reductions in medium/long term swap rates and that the lenders have consequently been increasing their margins on fixed term buy to let mortgages. This has been particularly evident in high loan to value (LTV) products where prices have continued to hold up despite significant reductions in the underlying swap rates. This is all in marked contrast to the residential mortgage market where the Bank of England "Trends in Lending" report in October 2014 indicated that margins on 75% LTV products have been maintained but that margins on high LTV products had declined.

Despite this, low and medium LTV fixed rate mortgages represent extraordinary value for money compared with equivalent tracker products as is evident from the following table of costs (including fees):

	2 Year Products		3 Year Products		5 Year Products	
LTV Band	Fixed Rate	Trackers	Fixed Rate	Trackers	Fixed Rate	Trackers
High LTV	5.8%	5.8%	**6.3%**	5.7%	6.0%	5.6%
Medium LTV	4.4%	4.7%	5.0%	5.0%	5.0%	4.7%
Low LTV	3.5%	4.0%	4.1%	4.6%	4.2%	4.5%

Thus it is cheaper to take out low and medium LTV fixed rate mortgages than the equivalent tracker products – even though the latter will expose the borrower to the virtual certainty of interest rate rises over the life of the product! Even the high LTV products have the fixed rate products only marginally more expensive than the trackers – certainly the reduced cost of the trackers is inadequate to compensate for the likely increase in cost of trackers when rates rise.

These results confirm our belief that fixed rate products are offering far better value (in relation to money market rates) than tracker products – undoubtedly at anything below 75% LTV.

Conclusion
It continues to be our opinion that fixed rate mortgages at two, three and five years are offering considerably better value than trackers.

It is unclear whether the steady increase in the cost of high LTV mortgages compared with those at 75% LTV and below is due to the lenders making a conscious decision to increase margin here due to concerns over inflating property values, or whether this is a short term "blip" that will smooth out as more lenders enter the market and competition intensifies.

Buy to Let Mortgage Products by Initial Term

Buy to Let Mortgage Products			
Product	Q2 2014	Q3 2014	Q4 2014
1 year	1%	1%	1%
2 year	57%	54%	52%
3 year	19%	17%	19%
5 year	15%	19%	18%
Loan term	8%	9%	10%

The split of products sorted by their initial rate term is largely unchanged quarter-on-quarter; but with a further increase in the number of five year fixed rate products and the virtual demise of the one year product which had represented 14% of the products as recently as 2011.

Buy to Let Mortgage Charges

Once again the effect of product charges on the true cost of borrowing has reduced on low and medium LTV mortgages but has increased further on the high LTV (80% and 85% LTV) mortgages.

This has contributed to the previous observation that the margin on high LTV mortgages has been held up whilst other mortgages have become noticeably cheaper over the period.

Effect of Charges on Buy to Let Mortgage Products				
Quarter	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	0.54%	0.59%	0.75%	0.60%
2014 Q2	0.50%	0.59%	0.76%	0.58%
2014 Q3	0.41%	0.56%	0.84%	0.54%
2014 Q4	0.39%	0.53%	0.88%	0.52%

There has been a further incremental movement away from percentage based fees with an increase in fee free mortgage products in the last quarter. This undoubtedly is in response to the increasingly competitive market for buy to let mortgages.

Buy to Let Mortgage Charges			
Fee type	Q2 2014	Q3 2014	Q4 2014
Flat fee	50%	54%	53%
No fee	11%	12%	15%
% based fee	39%	34%	32%

For more information please contact:

Jenny Barrett, Head of Marketing
Tel: 01732 471615
Email: jennyb@mortgagesforbusiness.co.uk

Simon Whittaker, Finance Director
Tel: 01732 471622
Email: simonw@mortgagesforbusiness.co.uk