paragon

Q4 2020

FACT INDEX

In our final Financial Advisor Confidence Tracker index of what was an extraordinary year, we asked brokers to give us an indication of the current mortgage marketmarket, as well as assess how things may develop.

As the year drew to a close, we saw a similar picture to the last quarter but opinions appeared to change somewhat. The strong demand intermediaries reported in Q3 was still there but future expectations started to flatten a little. This influenced business volume expectations over the next 12 months, which are slightly less positive than they were during the year high of quarter three. Reassuringly however, financial advisor confidence seems to have recovered when compared to the outlook seen in the Spring, when the market and wider economy was plagued by uncertainty.

A range of factors determine this demand and any resulting confidence.

Of course, Covid-19 remains an important consideration. The commencement of a nationwide vaccination programme offered a ray of hope, but this has been tempered somewhat with the emergence of a new strain of the virus and a return to tighter restrictions.

Consistent with the previous quarter, the Stamp Duty Land Tax break appears to be having a significant influence on the industry. Whilst the industry has benefitted from the extra business the break has provided, it now needs to ensure that transactions complete before the deadline. We have also looked beyond the end of the scheme to gain insight into brokers' plans once the market stimulus is removed on 31 March 2021.

Moray Hulme – Director of Mortgage Sales

Broker profile

For our Q4 2020 survey we interviewed **219** intermediaries.

Companies Directly Authorised under the FCA's mortgage regulations made up **48%** of this number with the remaining **52%** being Appointed Representatives.

Number of mortgages

The average number of mortgages dealt with per firm in Q4 2020 remained consistent with Q3 levels at **46**

The average number of mortgages dealt with per adviser was **11** slightly down from **12** in Q3.

Interest only mortgages make up **86%** of BTL lending, with **capital repayments** accounting for **13%**.

Product type

Reflecting the current period of economic uncertainty, when looking at all cases, **Fixed Rate** mortgages were overwhelmingly popular compared to **Tracker Rates**, with **93%** of customers choosing the former and **4%** the latter.

Discounted Rate products were selected by **2%** of customers and Standard Variable Rate were the least popular option, chosen by 1% of people.

There is a slight drop from **61%** in **Q3** to **58%** in Q4 in the number of landlords financing buy-to-let properties through **5 year fixed term rate** mortgages.

4 year fixed term rate products were chosen by **1%** of investors, **3%** opted for 3 year fixed term rate mortgages and **37%** selected 2 year products, making them the second most popular choice.

No landlords borrowed through **1 year fixed term rate** mortgages.

Borrower types

Buy-to-let accounted for **31%** of borrowing, up from 28% in Q3.

This quarter the proportion of all mortgages written that are residential has dropped to **66%** from 69% in **Q3**.

The remaining **3%** of cases introduced were categorised as '**Other**', which includes Commercial & Bridging, ER / Lifetime, Product Transfer or Second Charge products.

When comparing Q4 2020 borrowing with the same period in 2019 we see that buy-to-let was lower at **29%** but residential accounted for the same proportion at **66%**

Buy-to-let

The buy-to-let mortgage market has seen a slight increase in purchases, from 46% in Q3 to **47%** in **Q4.**

The remaining **53%** can be attributed to remorgaging.

Of those remortgaging, **53%** did so for a **better rate of interest, 33%** were raising capital and **6%** **operated in a limited company structure that could not be accommodated by their current lender.**

Current levels of demand for buy-to-let mortgages is up on the same period last year, with **44%** reporting it as '**strong**' at present, compared to **29%** in 2019. This represents a small decrease on the **48%** who saw strong demand in **Q3** but still more positive than the low levels seen earlier in the year.

This current demand is reflected in intermediaries' outlook with **41%** expecting to see **more buy-to-let mortgage business** over the next 12 months. This is down from **49%** in **Q3**, but is a more optimistic forecast than that provided in **Q4 2019** where **38%** of intermediaries anticipated more business over the course of the next year.

19% of brokers think they will see **less business** during the next 12 months and **3% don't know**.

Government changes

59% of buy-to-let brokers think that demand will be negatively impacted when the Stamp Duty break ends on 31 March 2021.

This impact is more evident amongst firms with four or more advisors where **64%** foresee a downturn in business compared to 55% in companies with a single advisor.

There is a small proportion, **11%** who think they may see a higher volume of cases after the end of the Stamp Duty break.

Brokers indicated that they would turn their attention to buy-to-let remortgage business once the Stamp Duty holiday ends;

50% of brokers have identified the **remortgaging of five-year fixed rate deals** as an opportunity after 31 March.

Focusing on clients' needs for short term finance will be the priority for **16%** of advisors while **13%** plan to **diversify into holiday lets**.

Please note: Some percentages may not total 100 due to rounding.

Thanks to broker participation, £219 was donated to Macmillan.

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