paragon Mortgage Intermediary

INSIGHT REPORT

WINTER 2024

> **Although the stability seen returning to the market in recent months is yet to feed through and influence intermediary confidence, this edition of MIIR highlights how brokers and borrowers have adapted amidst the challenges of the past year. This means the sector is well positioned to respond to sustained demand for rented homes as the economic landscape improves.**

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Commercial Director – Mortgages

Mortgage business mix

Following increases recorded in the previous three editions of the Mortgage Intermediary Insight Report (MIIR), the average number of mortgages placed by each intermediary during the previous 12-month period has dropped by 14 – from 100 in the Summer MIIR to 86 in this wave.

Residential mortgages continue to make up the largest proportion of cases, accounting for more than half (49), followed by buy-to-let which contributed an average of 31 mortgages to each broker's annual business. The remaining seven mortgages were classed as 'Other', which include bridging finance and later-life lending.

Buy-to-let business

Analysing buy-to-let mortgages reveals that non-portfolio lending continues to contribute the largest share of cases placed by brokers, making up 34% on average. Limited company portfolio cases accounted for 29% following an increase of 5-percentage points since the Summer 2023 edition of MIIR. Limited company non-portfolio business also increased by 3-percentage points, from 12% to 15%, during the same period. Mortgages for portfolio landlords represented 20% of business, while trading companies accounted for the remaining 2%.

MORTGAGE BUSINESS MIX

Source: BVA BDRC

Buy-to-let

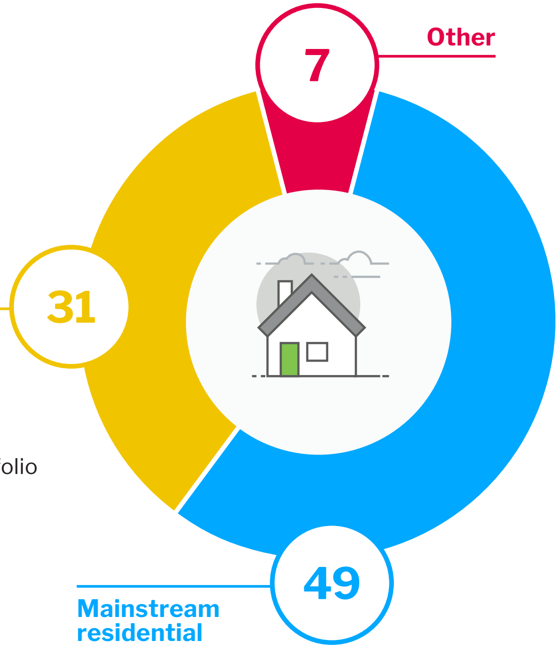
34% Non-portfolio

29% Limited company portfolio

20% Portfolio

15% Limited company non-portfolio

2% Trading companies



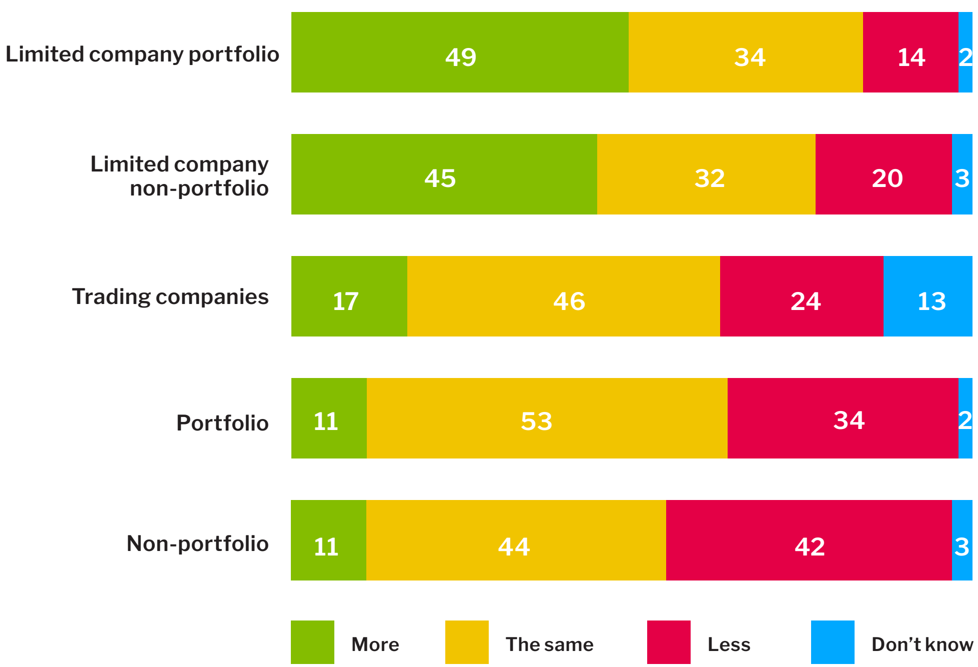
The rise in limited company buy-to-let lending

49% of intermediaries anticipate a rise in portfolio landlord limited company business in the next year.

During the next 12 months, just under half (49%) of intermediaries expect to see an increase in buy-to-let mortgages written to portfolio landlords utilising limited company structures, unchanged from the Summer edition of MIIR. Additionally, 45% of brokers foresee growth in limited company business written to non-portfolio landlords with fewer than four mortgaged buy-to-let properties, a figure that has increased by 6-percentage points since our previous report.

INTERMEDIARY FORECASTS FOR CHANGE IN VOLUME OF BUY-TO-LET BUSINESS IN THE NEXT 12 MONTHS (%)

Source: BVA BDRC

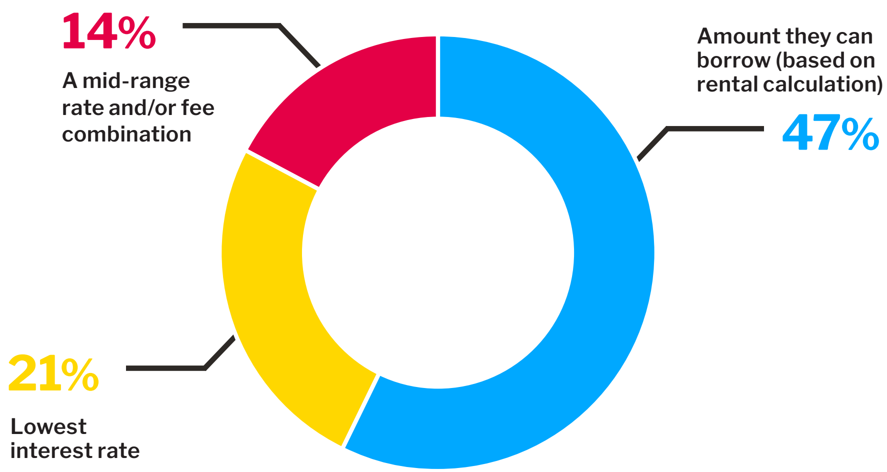


The product features landlords prioritise

The amount that landlords can borrow was identified by brokers as the top priority for their buy-to-let clients, chosen by just under half (47%). Securing the lowest interest rate was the second most important consideration, selected by 21% of brokers, followed by finding a product that offered a combination of a mid-range rate and fee.

INTERMEDIARIES' VIEW OF LANDLORD PRODUCT PRIORITIES

Source: BVA BDRC



OTHERS	
Lowest fees	9%
Lenders who provide product transfers	3%
Flexible underwriting	3%
No early redemption charges	2%
Other	2%

The mortgage intermediary outlook

Despite falling from the levels reported in the Summer edition of MIIR, intermediary confidence in four different aspects of business – the mortgage industry, the intermediary sector, their own firm, and buy-to-let business – is generally higher than it was during the same period a year ago. This is particularly true of brokers' views of the mortgage industry, where the net confidence score of -5% from a year ago has increased to +40% this Winter, driven by seven in ten intermediaries exhibiting some degree of optimism towards it.

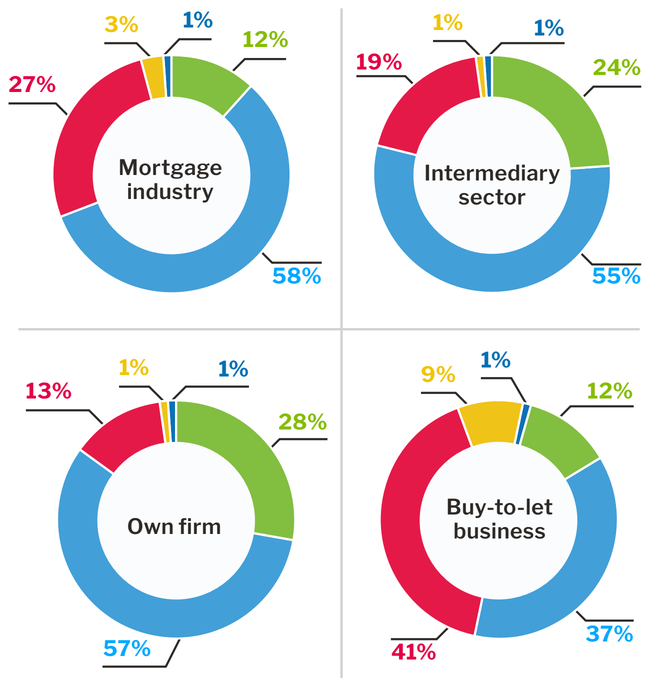
This wave, brokers were most confident about the prospects for their own firms, evident in a +72% net confidence score. This was primarily influenced by the largest proportion, 57%, of survey respondents saying that they are fairly confident about the future of their own firms and a further 28% stating they are very confident. A lower proportion expressed an element of pessimism, with 13% not very confident and just 1% selecting not confident at all.

INTERMEDIARY CONFIDENCE LEVELS

Source: BVA BDRC

Please note: Where percentages don't total 100 it is due to rounding.

- Very confident
- Fairly confident
- Not very confident
- Not at all confident
- Don't know



Net confidence (%)		
	Winter 2023	Winter 2024
Mortgage industry	-5	40
Intermediary sector	33	59
Own firm	73	72
Buy-to-let business	-11	0

The outlook amongst brokers for the intermediary sector was also positive in the majority of cases, with 55% fairly confident and 24% very confident. The proportion of intermediaries feeling positive about the future of BTL business was equal to that feeling negative, with a 10-percentage point decrease in the proportion selecting fairly confident since the last MIIR.

To help understand some of the factors that could be helping to shape their view of the sector, intermediaries were asked to think about the types of borrowing that will drive business over the next 6-12 months as well as any potential threats.

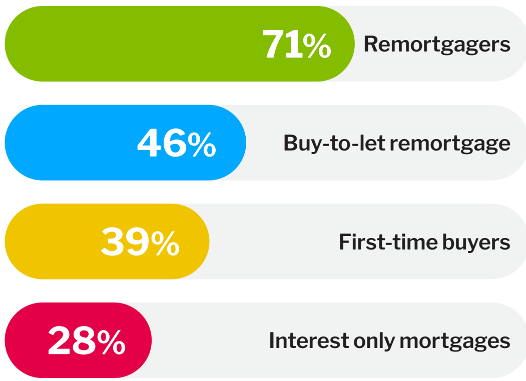
The borrowing that will drive business

After a 7-percentage point reduction since the Summer edition of MIIR, 71% of intermediaries said that they expect borrowers remortgaging to be a key source of business during the next 6-12 months, making it the most popular choice. This was followed by buy-to-let landlords remortgaging, which was selected by 46% of brokers, up from 43% in the Summer.

First-time buyers, selected by 39% of intermediaries, and those opting for interest-only mortgages, chosen by 28%, were also anticipated to be significant drivers of business throughout the next six months to a year.

ANTICIPATED DRIVERS OF BUSINESS

Source: BVA BDRC



Home movers	23%
Later life lending	18%
Adverse credit/Sub prime	18%
Buy-to-let purchase	17%
Bridging loans	15%
Second charge mortgages	12%
Development finance	9%
Green mortgages	5%
Flexible mortgages	5%
Offset mortgages	5%

Two year fixed rate mortgages to dominate

Since the last MIIR, the proportion of intermediaries who expect 2-year fixes to be the most popular product over the next 6-12 months has increased from 68% to 76%. At the same time, there has been a decline in the proportion who think product switches and 5-year fixed rate mortgages will be popular amongst borrowers.

While the expectation of strong levels of remortgage business helps to explain the prominence of product switches, the improving economic environment could be influencing brokers to anticipate borrowers to want to fix for shorter terms, expecting rates to be lower when their two-year fix reaches maturity.

ANTICIPATED PRODUCT POPULARITY

Source: BVA BDRC

76% 2-year fixed

51% Product switches

39% 5-year fixed

Interest-only mortgages	29%
Base-rate tracker	19%
Bridging loans	16%
Further advances	16%
Second charge mortgages	14%
3-year fixed	13%
Green mortgages	11%
Discounted SVR mortgages	8%
Offset mortgages	7%
1-year fixed	5%
Greater than 5-year fixed	3%
Other	2%

Focusing on fixed rate mortgages, intermediaries were asked whether they expect to see more or less demand for fixed rate products over two, three, five and 10-year terms. The results add further evidence of the belief that borrowers will seek to lock in rates for shorter periods.

During the next year, 58% of intermediaries expect to see more two-year fixed rate mortgages written for portfolio landlords, increasing to 62% for amateur landlords.

Comparing this to brokers' expectation of demand for five-year fixed rate mortgages, where the majority foresee decreases over the next year – 46% amongst amateur landlords and 41% for professionals – highlights an anticipated shift towards fixing rates for shorter periods, likely driven by an expectation that rates will be lower in two years' time as the economic outlook improves.

Future threats to business

Asked to think about future threats to business, intermediaries responded similarly to the previous two editions of MIIR, reflecting continued economic instability and its impact on the market.

Interest rate changes, selected by 61%, continued to be the most prominent threat to business, while a slowing housing market (56%), UK economic recession (53%) and the cost-of-living crisis (51%) all retained their place amongst the risks to business most commonly identified by intermediaries. The order has changed since the Summer, however, due to an 8-percentage point rise in the proportion selecting the cost-of-living crisis and a 2-percentage point upturn in those choosing a slowing housing market.

POTENTIAL FUTURE BUSINESS THREATS

Source: BVA BDRC

61% Interest rate changes

56% Slowing housing market

53% UK economy turning down / recession

Cost-of-living crisis	51%
Tax regulation changes	33%
Automated mortgage switching / re-mortgage systems	29%
Regulation of the BTL market	28%
Online brokers	25%
Lenders improving their direct mortgage offering / service	23%
EPC regulation	21%
Tighter regulation of broker activity	18%
Unemployment	18%

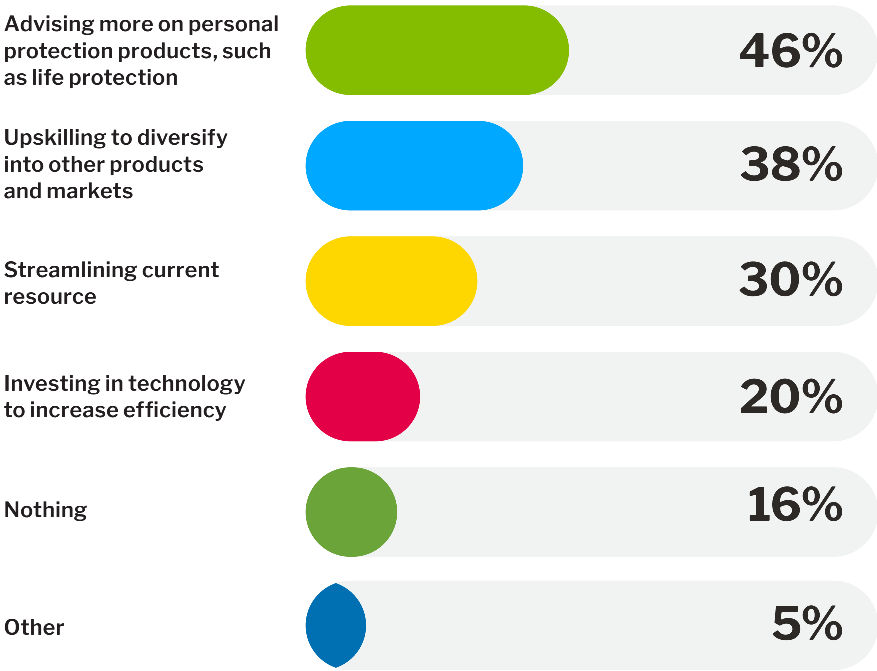
Adapting to market conditions

Asked how they are adapting to market conditions and their approach to mitigating any perceived threats to business, the most common response amongst intermediaries was providing advice on a greater number of personal protection products, chosen by 46%.

Similarly, 38% are upskilling to diversify into other products or markets, while 3 in 10 said that they are streamlining current resource. Linked to this, two in 10 are investing in technology to increase efficiency.

HOW INTERMEDIARIES ARE ADAPTING TO MARKET CONDITIONS

Source: BVA BDRC



Amongst broker comments there was a large emphasis on providing great service and building relationships to retain existing clients. There were also examples of intermediaries being proactive in enhancing their industry knowledge to benefit clients and increase opportunities to diversify.

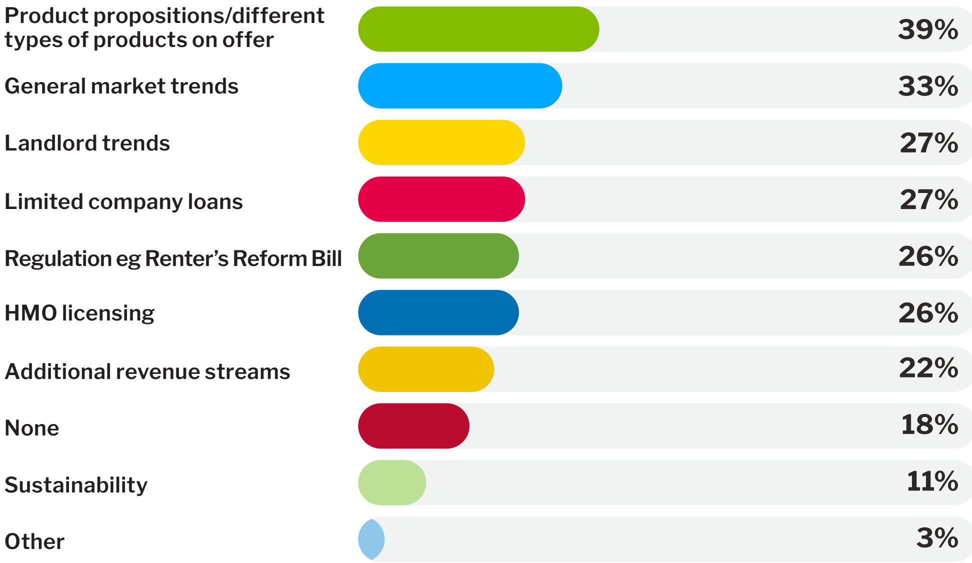
> Personally, I try to provide excellent customer service so clients will come back to me.

> Great customer service spreads reputation and therefore we will be fine.

> Increased use of technology to streamline business so more time can be spent with clients.

WHICH AREAS OF INFORMATION ARE MOST VALUABLE TO HELP DIVERSIFY THE BUSINESS?

Source: BVA BDRC



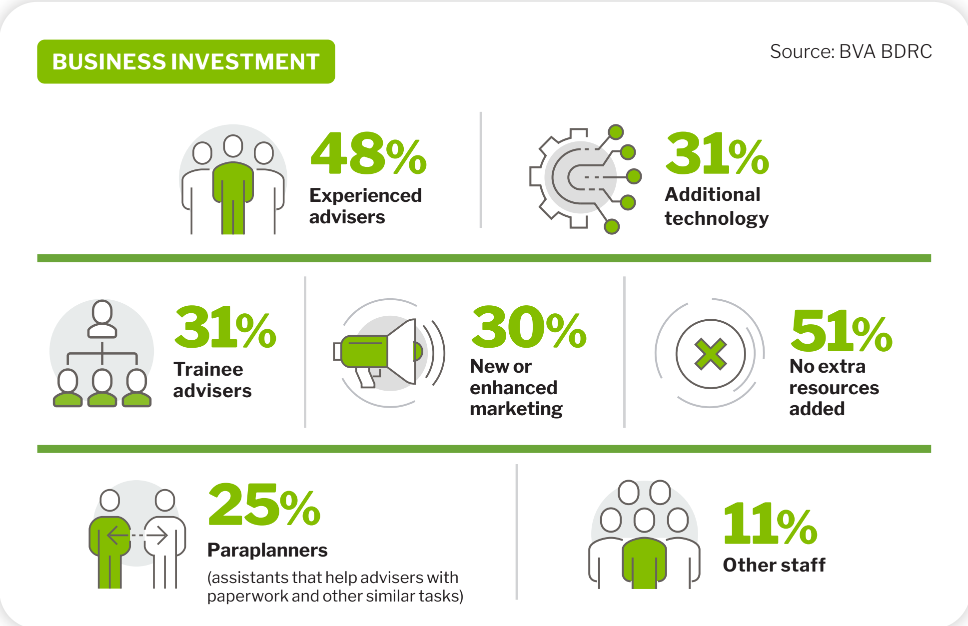
The intermediary firms' resourcing intentions

Asked what direction their business is moving in at the moment, just over half of firms (51%) have no plans to grow their resource. Almost four in 10 (38%) firms are set to expand, either through increasing employee numbers or investing in marketing or technology. A substantially smaller proportion, 7%, have plans to reduce their size, while the remaining 4% is made up of those that don't know their firm's resource plans.

Of those with plans to expand, just under half (48%) will look to recruit experienced advisers. Broker comments suggest that this, the most common method of bolstering capacity, is seemingly driven by a mixture of diversification into more complex markets and a desire for staff who can quickly embed into the business with fewer training needs.

Enhancing marketing was selected by 30% of those who indicated that their firm is increasing resource, with a similar proportion, 31%, investing in additional technology.

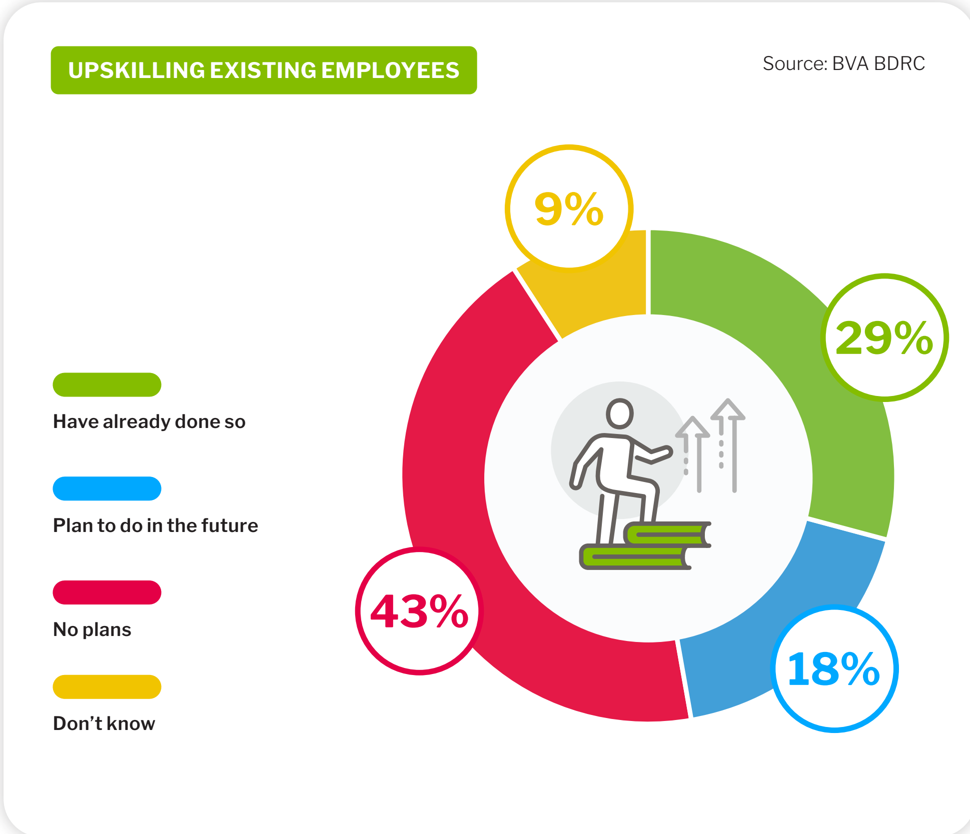
Trainee advisers who can support a firms' long-term growth aspirations and paraplanners to assist advisers with administrative tasks, are targets for 31% and 25% of expanding firms, respectively.



Reflecting reports of increasing shortages in the UK labour market, intermediaries deem it to be more difficult to recruit both experienced and trainee advisers, as well as paraplanners, compared to the previous edition of MIIR and the same period in 2023.

Only 5% of brokers report that hiring experienced advisers is very easy, increasing to 19% amongst those who feel it is fairly easy. However, at around one third each, substantially larger proportions deem experienced adviser recruitment to be fairly difficult (33%) or very difficult (31%), resulting in the lowest net ease score of -39%, a difference of 30-percentage points since the MIIR published in Summer 2022.

To circumvent any recruitment obstacles, some firms are instead focusing on upskilling existing employees, with just under half already having done so or planning to in future.



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