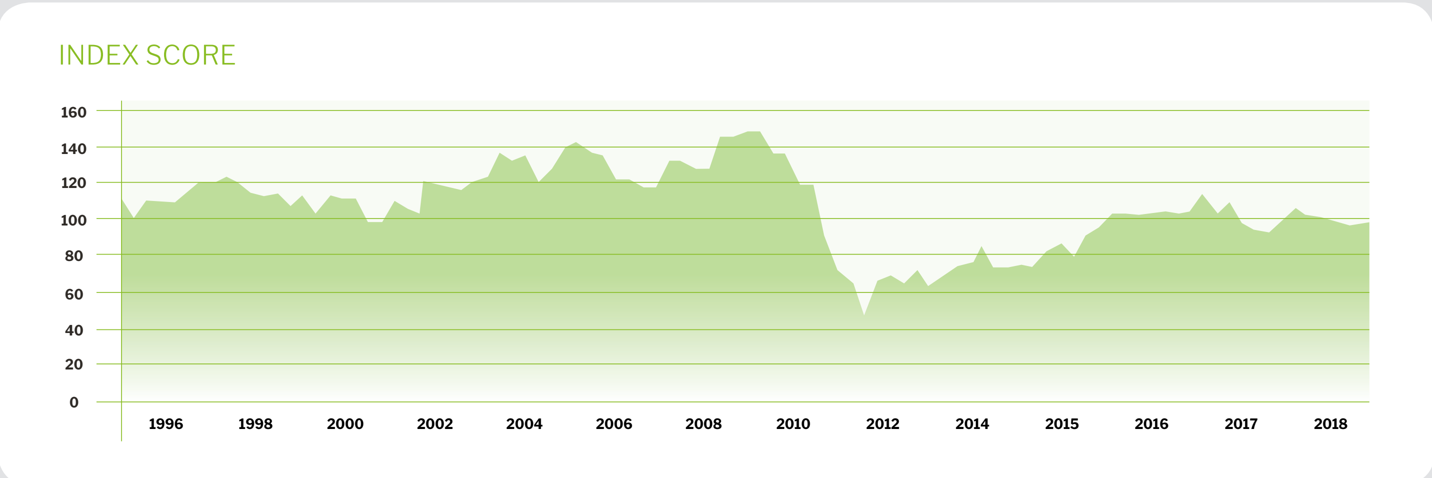
FACT INDEX

Q3 2018

The Financial Advisor Confidence Tracking (FACT) index has been tracking financial adviser sentiment since 1995 based on the number of mortgages introduced to borrowers over the previous quarter.

The index score is calculated as a percentage of a baseline figure and adjusted to account for the volume of business which advisers expect to complete over the following quarter. 54% of respondents to this survey are from directly authorised firms under the FCA's mortgage regulations. 43% are from appointed representative firms.

The FACT index rating for Q3 2018 was 102.0, up slightly on the previous quarter.



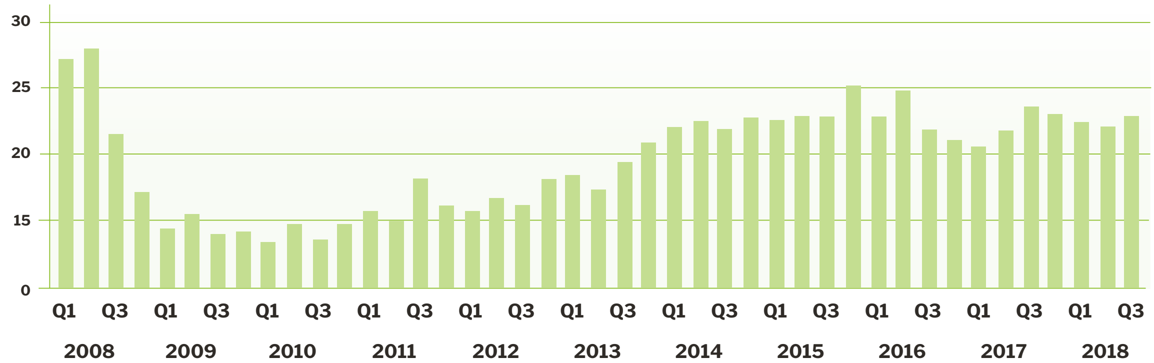
GENERAL MORTGAGE MARKET

MARKET OVERVIEW

FAST FACT:
22.8
Average number of mortgages introduced per office

The average number of mortgages introduced per adviser's office in Q3 2018 was 22.8, a slight increase compared with the previous quarter.

Average number of mortgages introduced per office



BORROWER TYPES

FAST FACT:
19%
Proportion of mortgage applications from first-time buyers

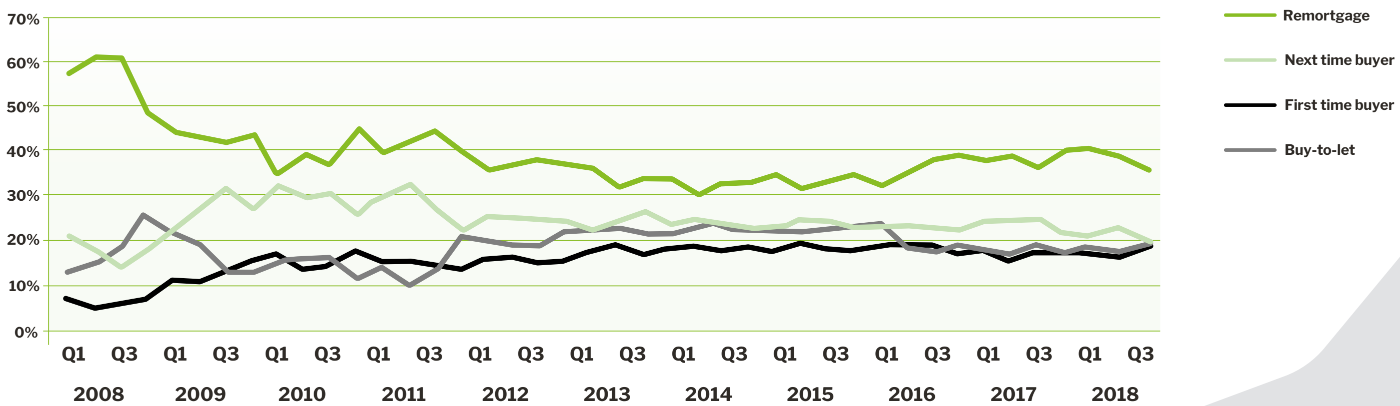
Remortgaging continued to take the lion's share of intermediaries' business, accounting for 37% of all mortgage applications.

Encouragingly, the proportion of first time buyer applications climbed substantially, up from 17% of the total in Q2 to 19% in Q3.

In contrast, only 20% of applications were from next-time buyers, a drop from 23% last quarter and 25% a year ago.

This means the proportion of business from home movers is now at its lowest point since the financial crisis in 2009. While Brexit and general economic uncertainty surrounding the UK's EU exit may be one reason why potential movers are choosing to stay put, a lack of suitable property, stretched affordability and significant moving costs all seem to be playing a part.

Borrower types



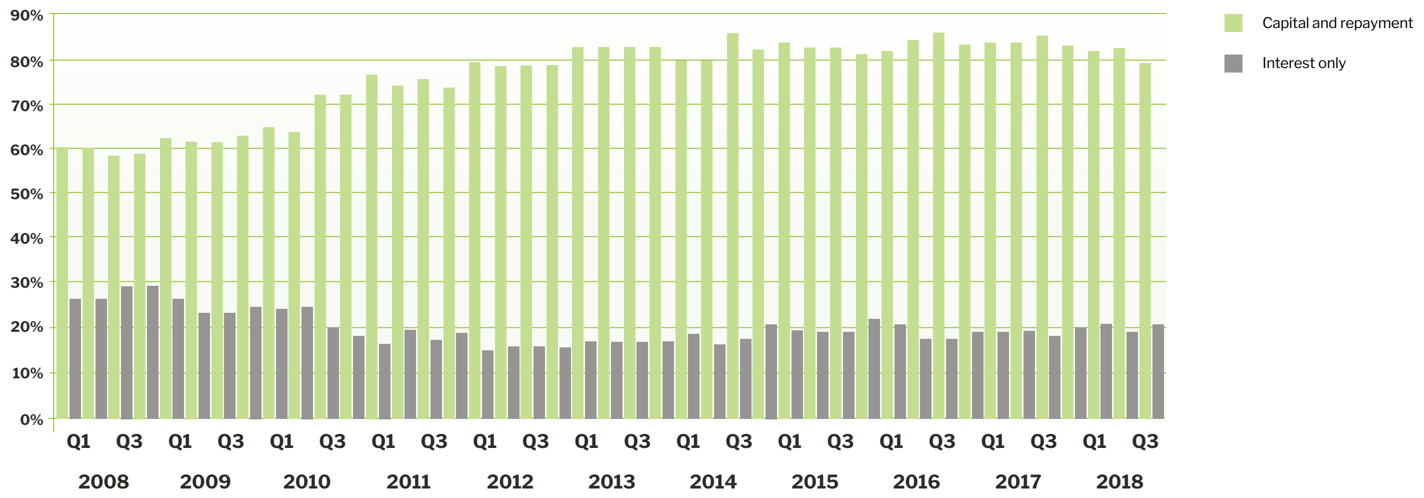
MORTGAGE REPAYMENT STRATEGIES

Another interesting shift over the last decade has been the move back to traditional repayment mortgages. At the end of 2007, 57% of applications were for repayment mortgages, with the remainder interest only. Today, eight out of ten customers (79%) select a repayment mortgage.

FAST FACT:

8 out of 10
Number of mortgage customers who select a repayment product

Mortgage repayment strategies



MORTGAGE INTEREST RATE TYPE

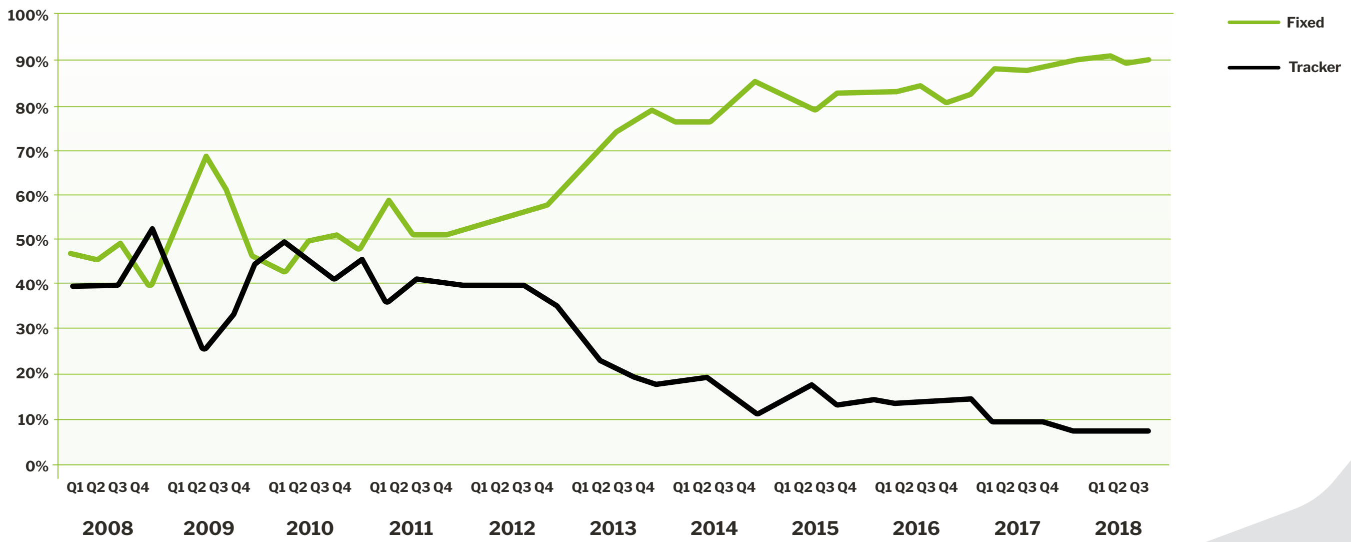
An overwhelming nine out of ten mortgage applications are for fixed rate products, with less than one in ten customers opting for a tracker.

At the beginning of 2009, the proportion of fixed rate and variable tracker applications were broadly equal. However, with sustained low interest rates reducing the financial logic for choosing a tracker, trackers have largely fallen out of fashion.

FAST FACT:

9 out of 10
Proportion of mortgage customers who opt for a fixed rate product

Mortgage interest rate type



INITIAL TERM

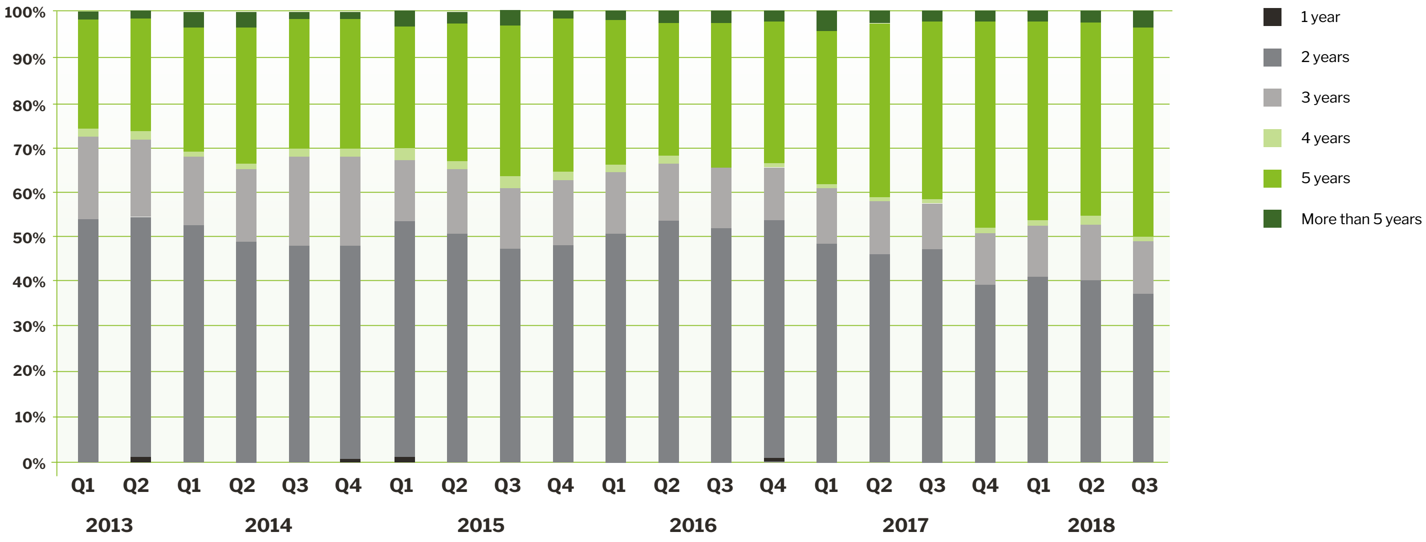
The figures also reveal a continuing preference among customers for a longer initial fixed rate period.

The popularity of mortgages with an initial five year fixed rate overtook two year deals for the first time in Q4 2017 and today make up 46% of all applications.

Since the end of 2016, two year fixed rate mortgages have fallen from 52% to 38% of all applications.

FAST FACT:
5 Years
Most popular initial mortgage term

Distribution of mortgage cases by initial term



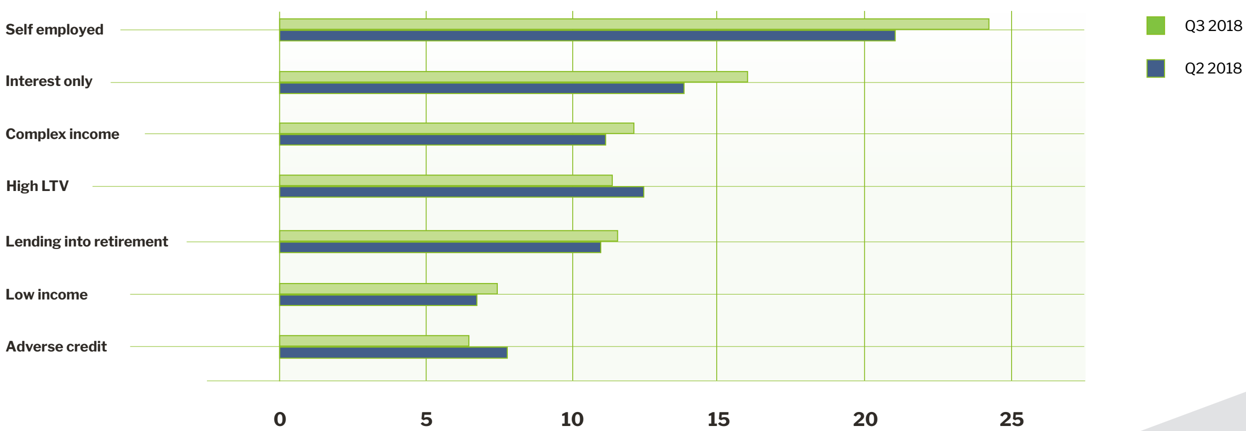
SPECIALIST CUSTOMER TYPES

Demand for specialist mortgages is driven by a diverse range of customer requirements.

According to intermediaries, the highest demand for specialist mortgages comes from self-employed customers, who represented almost one quarter (23%) of all specialist cases in Q3 2018.

FAST FACT:
23%
Self-employed as a percentage of specialist mortgage cases

Average proportion of business by customer type



FUTURE DEMAND FROM SPECIALIST SEGMENTS

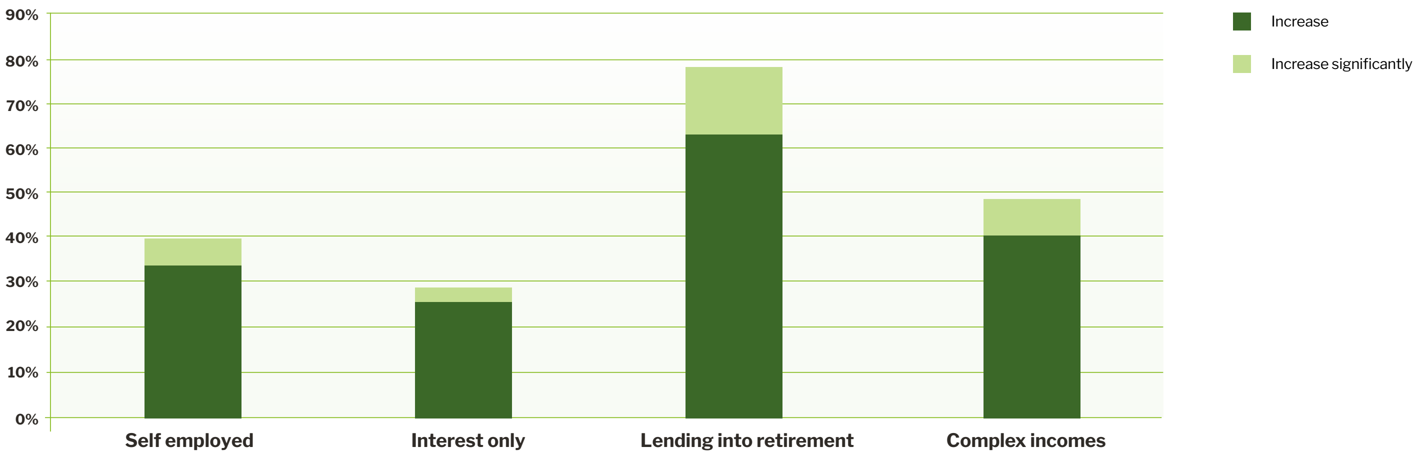
FAST FACT:
78%
Proportion of mortgage advisers who expect demand for lending into retirement to increase

Looking to the future, intermediaries expect that the biggest increase in demand for specialist mortgages will come from customers looking for mortgage products that enable lending into retirement. In total, 78% of intermediaries pointed to this as an area of expected future growth.

However, according to almost two thirds (65%) of those surveyed, the range of products available to customers looking for lending into retirement will need to be further enhanced if growth is to be achieved.

Intermediaries highlight four areas for attention: maximum age limits; types of income accepted; availability of interest only products and repayment strategies.

Expected change in demand from specialist customer segments



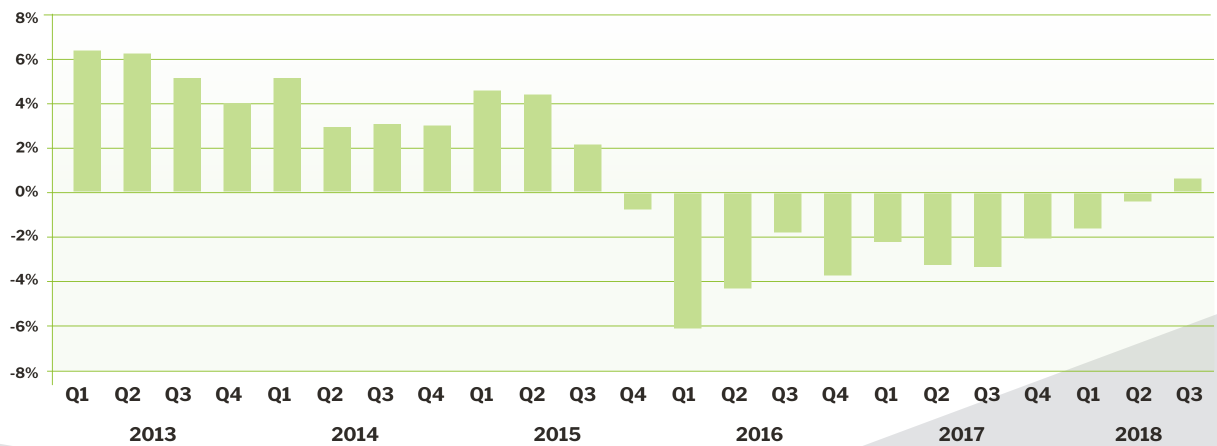
MORTGAGE MARKET FORECAST

FAST FACT:
1st time in 3 years
Intermediaries have forecast an increase in buy-to-let business for next 12 months

On average, mortgage advisers expect to do 2% more mortgage business in Q4 2018 than they did in Q3, in line with historic seasonal changes at this time of year.

Although expectations for buy-to-let are more modest, intermediaries expect a year on year increase in buy-to-let business over the next twelve months for the first time in three years.

Expected change in buy-to-let business in the next twelve months



BUY-TO-LET MORTGAGE MARKET

FAST FACT:

57%

Proproportion of landlord business represented by remortgaging

REASONS FOR OBTAINING BUY-TO-LET MORTGAGES

In the buy-to-let market, intermediaries report that remortgaging has increased sharply, up from 49% in Q2 to an all-time high of 57%.

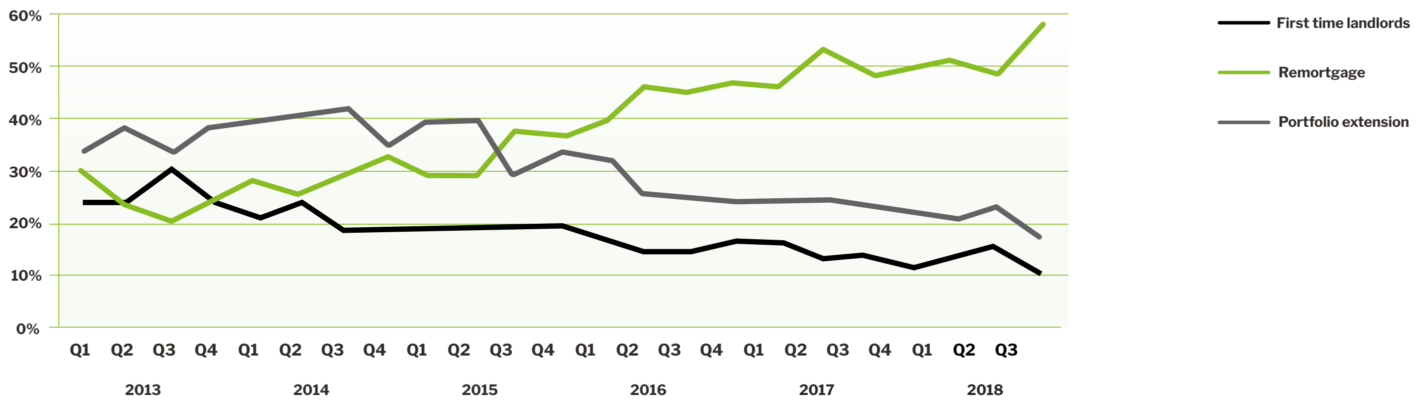
The proportion of landlords remortgaging first outstripped those seeking funds for portfolio expansion back in 2015 following announcement of landlord tax changes in the Summer Budget.

Since then, remortgaging has continued to rise almost inexorably and today six out of ten intermediaries say the main reason landlords are remortgaging is to secure a better interest rate.

It would therefore appear that landlords view remortgaging as a key part of their strategy to lower costs and help mitigate the impact of higher taxation.

The proportion of first-time landlords business fell to 10% and landlords looking for mortgages for portfolio expansion was down from 23% to 19% of the total.

Proportion of landlord business represented by remortgaging



ABOUT FACT

Established in 1995, Paragon's quarterly Financial Advisor Confidence Tracking Index (FACT) highlights intermediaries' general views on the performance of the mortgage market and on developing trends. Our FACT index summary report provides a snapshot of the survey's key findings.

ABOUT PARAGON

Paragon is a leading provider of buy-to-let mortgages for landlords with property portfolios, both big and small, through its portfolio and non-portfolio range.

Paragon lends to private individuals and limited companies and has mortgages suitable for single, self-contained properties, as well as HMOs and multi-unit blocks. Paragon can accommodate higher aggregate lending limits and more complex letting arrangements including local authority leases and corporate leases along with standard ASTs.

Paragon introduced its first product aimed at the professional property investor in 1995 and is a member of the UK Finance, the Intermediary Mortgage Lenders Association (IMLA), National Landlord Association (NLA) and the Association of Residential Letting Agents (ARLA).

Paragon Bank PLC a subsidiary of the Paragon Banking Group PLC which is a FTSE 250 company based in Solihull in the West Midlands. Established in 1985, Paragon Banking Group PLC has over £12 billion of assets under management and has serviced over 1.5 million customer accounts.

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