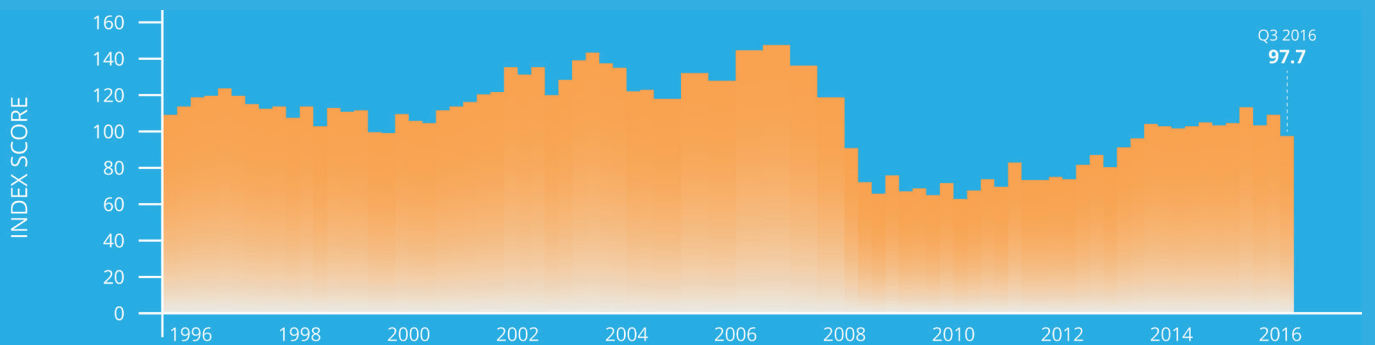


FACT INDEX

Q3 2016

The Financial Advisor Confidence Tracking (**FACT**) Index has been tracking financial advisor sentiment since 1995 based on the number of mortgages introduced to borrowers over the previous quarter. This figure is calculated as a percentage of a baseline figure, and adjusted to account for the volume of business which advisors expect to complete over the following quarter. The FACT Index rating for Q3 2016 was 97.7, a decrease on the previous quarter's figure of 109.1 although still at a relatively high level.

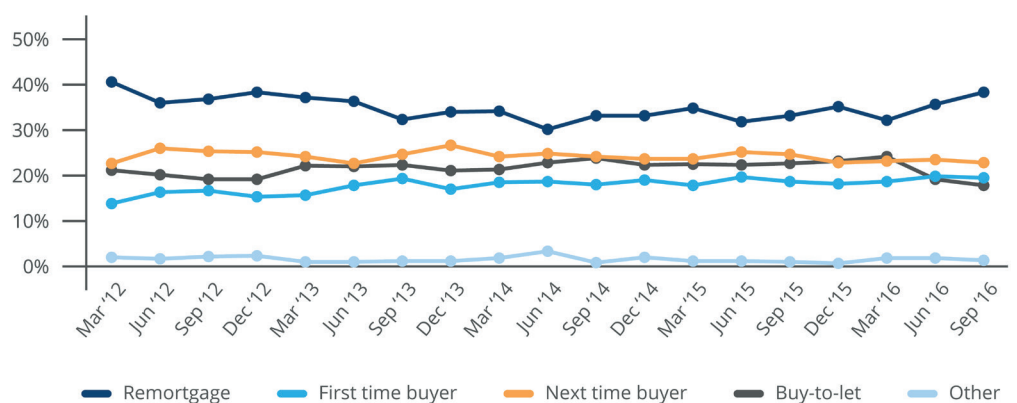


GENERAL MORTGAGE MARKET

BORROWER TYPES

Q3 has seen financial advisors report a slight increase in the percentage of owner occupier remortgage business (from 36% to 38%), with a corresponding decline in buy-to-let business from 19% to 18%. Remortgages remain the primary source of business for advisors and competition in the market has been boosted by the Bank of England's decision to further lower the base rate over the summer.

BORROWER TYPES 2001 - 2016

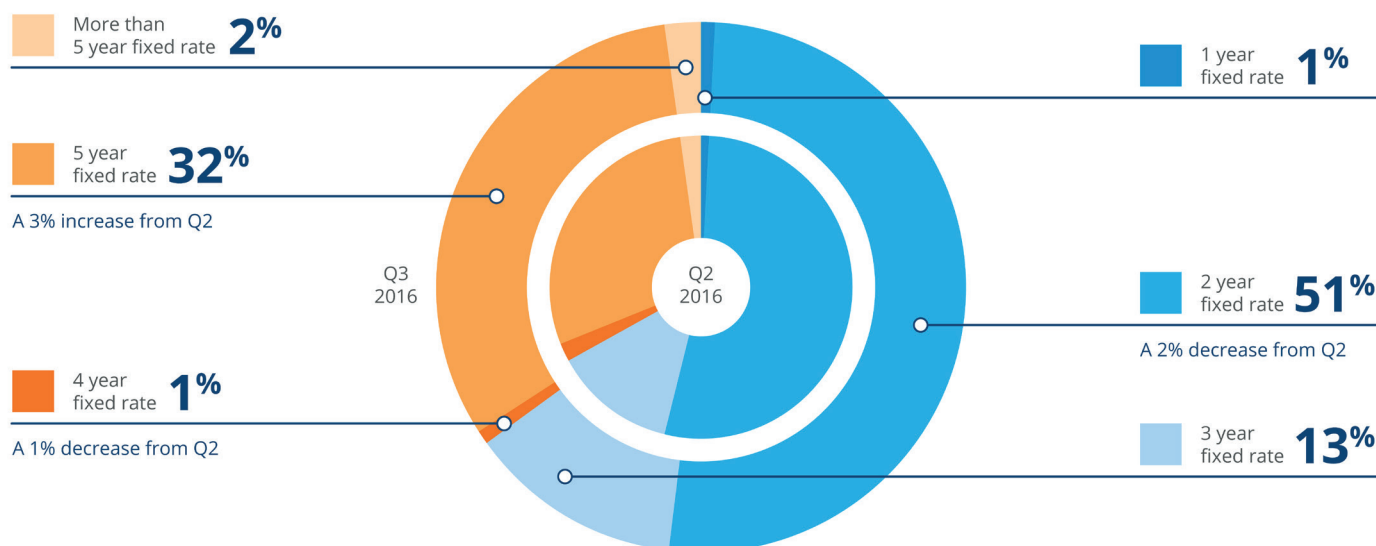


MORTGAGE PRODUCTS

As with previous quarters, fixed rate products remain by far the most popular, accounting for 81% of mortgages, a slight decline on last quarter's figure of 84%. Perhaps reflecting the low interest rate environment, there has been a small increase in the volume of standard variable rate products, from 2% to 3%. There has also been a modest increase in the proportion of tracker products, from 13% to 15%.

Two year deals remain the most popular fixed rate products in Q3 2016, accounting for 51% of fixed rate products (down from 53% in the previous quarter). Five year fixes continue to grow in popularity however and accounted for 32% of mortgage business in Q3, up from 29% in the previous quarter, reflecting lower interest rates, increased affordability and borrowers looking for predictable finances over the longer-term.

FIXED RATE TERMS (PERCENTAGE OF CASES)



BUY-TO-LET MORTGAGE MARKET

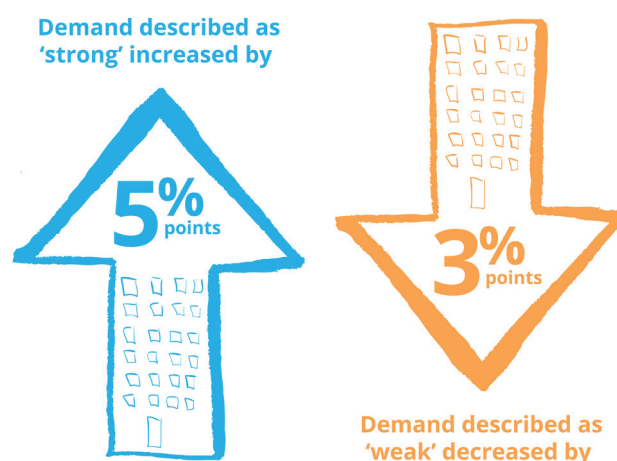
LANDLORD DEMAND

After several quarters in which demand for buy-to-let mortgages has been on a downward trajectory, Q3 2016 has seen some recovery in sentiment. Despite this, reported demand remains low following recent legislative interventions into the buy-to-let market.

Q3 2016 has seen those describing demand as being 'very strong' decline from 1% to 0% but there has also been a decline in those describing demand as 'very weak', from 15% to 12% and an increase in those describing demand as 'strong', from 4% to 9%.

So, while there is a long way to go before demand recovers to levels seen prior to the introduction of higher stamp duty rates on buy-to-let purchases in April 2016, the latest data does show a modest improvement in sentiment.

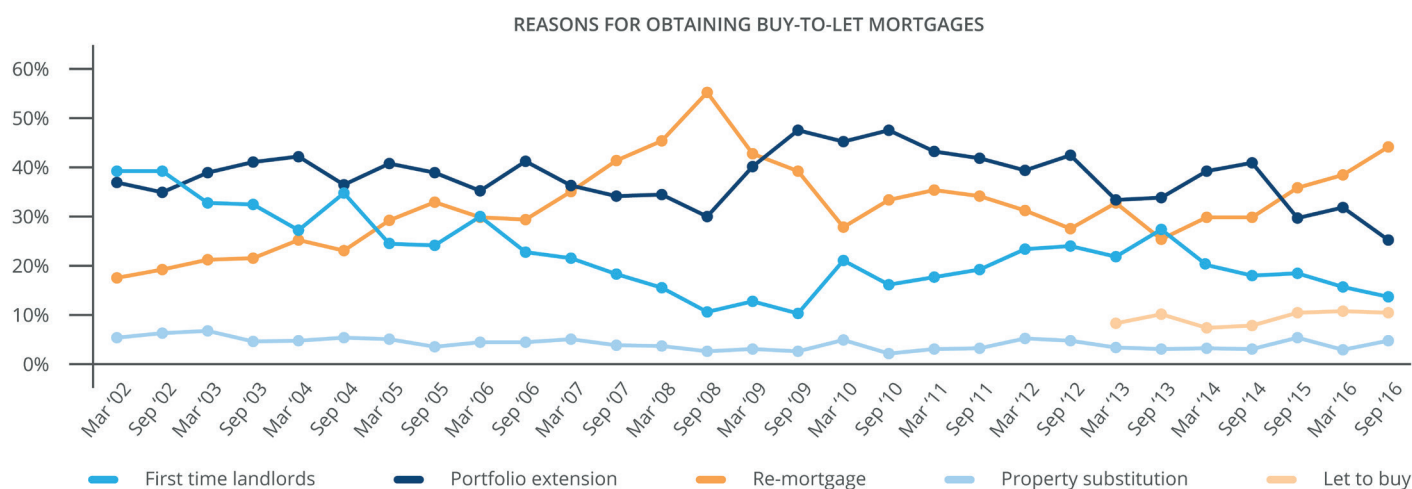
LANDLORD DEMAND



REASONS FOR OBTAINING BUY-TO-LET MORTGAGES

There has been very little change in the motivations for seeking buy-to-let finance over the previous quarter. Remortgaging remains the most popular reason for obtaining buy-to-let finance, accounting for nearly half (44%) of buy-to-let business. This figure is unchanged since the previous quarter, but higher than the same period last year, when it stood at 36%. This trend is underlined by the latest data from the Council of Mortgage Lenders (CML) which reveals there were 35,900 buy-to-let remortgages in the last quarter, compared to 14,700 buy-to-let purchases.

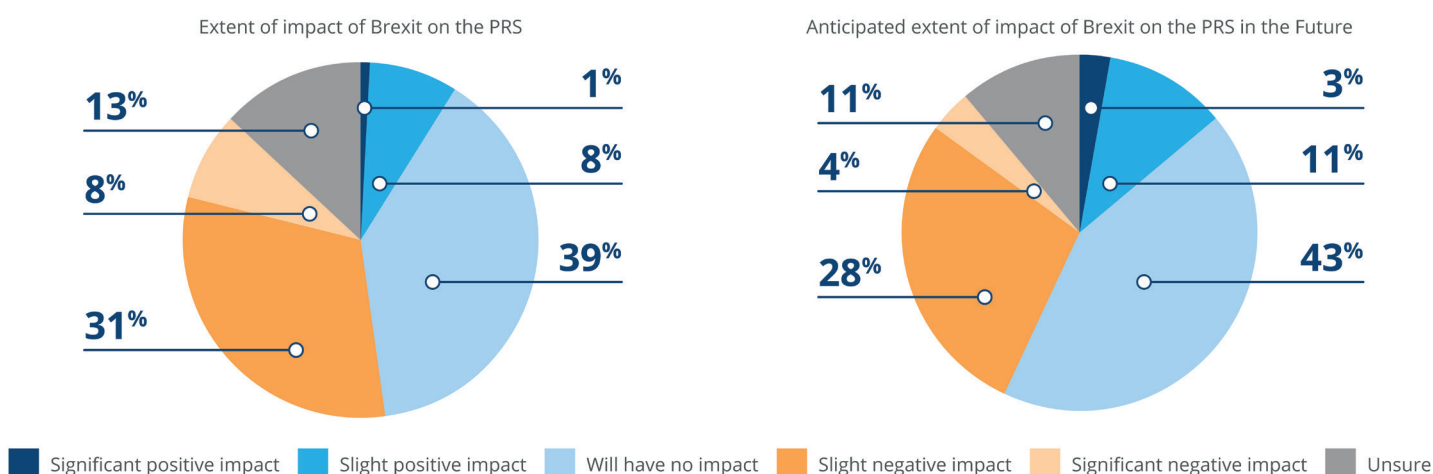
Financial advisors also report a slight decrease in the proportion of buy-to-let finance being sought for property purchases, from 26% to 25%, down from 30% this time last year. The growing disparity between remortgage and purchase activity indicates that uncertainty remains in the buy-to-let market, and could lead to a squeeze on the supply of properties to the private rented sector (PRS).



IMPACT OF BREXIT ON THE PRIVATE RENTED SECTOR

Britain's vote to leave the EU caused short term turbulence in the economy and financial markets, and the longer-term implications of the result remain unknown. With the initial shock of Brexit having subsided and a new government now in place, financial advisors have expressed mixed sentiment about what the implications of Brexit might be for the Private Rented Sector (PRS). More than half (52%) of respondents believe that the vote to leave the EU will have a negative impact on the PRS, compared to just 9% who believe the impact will be positive. Looking to the future, sentiment is marginally more positive, with 14% anticipating Brexit will have a long-term positive impact on the PRS, compared to 32% who feel the impact will be negative.

IMPACT OF BREXIT



ABOUT FACT

Established in 1995, Paragon's quarterly Financial Adviser 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 MORTGAGES

Paragon is a leading independent specialist provider of mortgages to residential property investors in the UK private rented sector (PRS) through our specialist brands Paragon Mortgages and Mortgage Trust. We are proud to be members of the Council of Mortgage Lenders (CML), the Intermediary Mortgage Lenders Association, the Association of Residential Letting Agents' lenders panel and the National Landlords Association. We are members of the Treasury's Home Finance Forum.

Paragon has significant experience of the buy-to-let sector. We launched our first buy-to-let mortgages in 1995 and have increasingly focused our business on professional landlords with experience in purchasing and letting residential rental property. This focus is reflected in the excellent performance of the Group's buy-to-let mortgage assets and our reputation as a leading voice in the sector. The Paragon Group overall has £12.7 billion of total assets under management and more than 40,000 landlord customers who are mainly professional landlords with larger portfolios.



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