

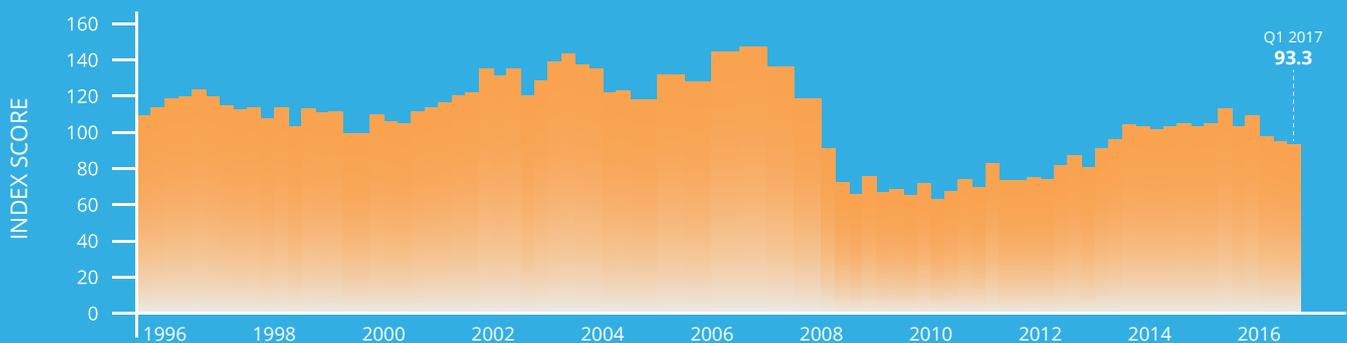
FACT INDEX

Q1 2017

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. 51% of respondents to this survey are from firms directly authorised under the FCA's mortgage regulations. 45% are from appointed representative firms.

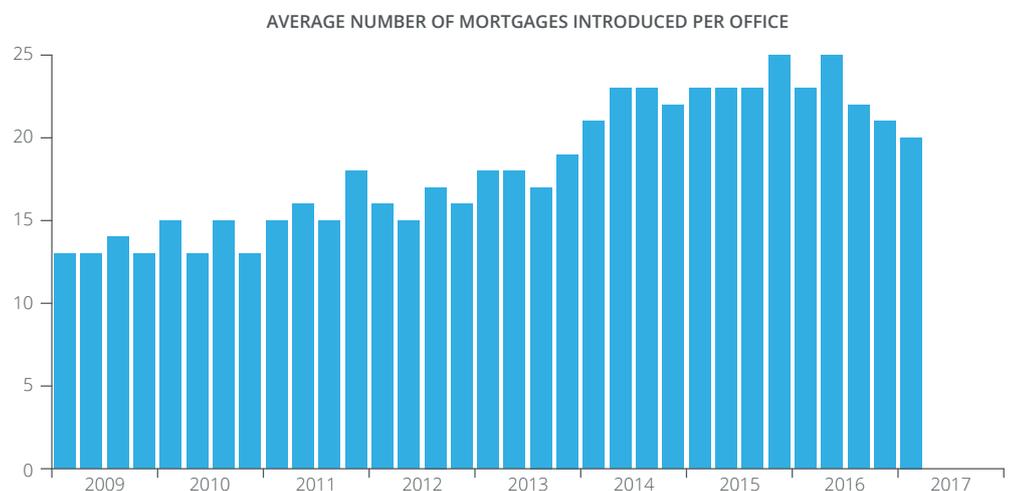
The FACT Index rating for Q1 2017 was 93.3, the third fall in succession, indicating that the Index is now on a downward trend, despite remaining at a relatively high level compared with the last eight years.



GENERAL MORTGAGE MARKET

MARKET OVERVIEW

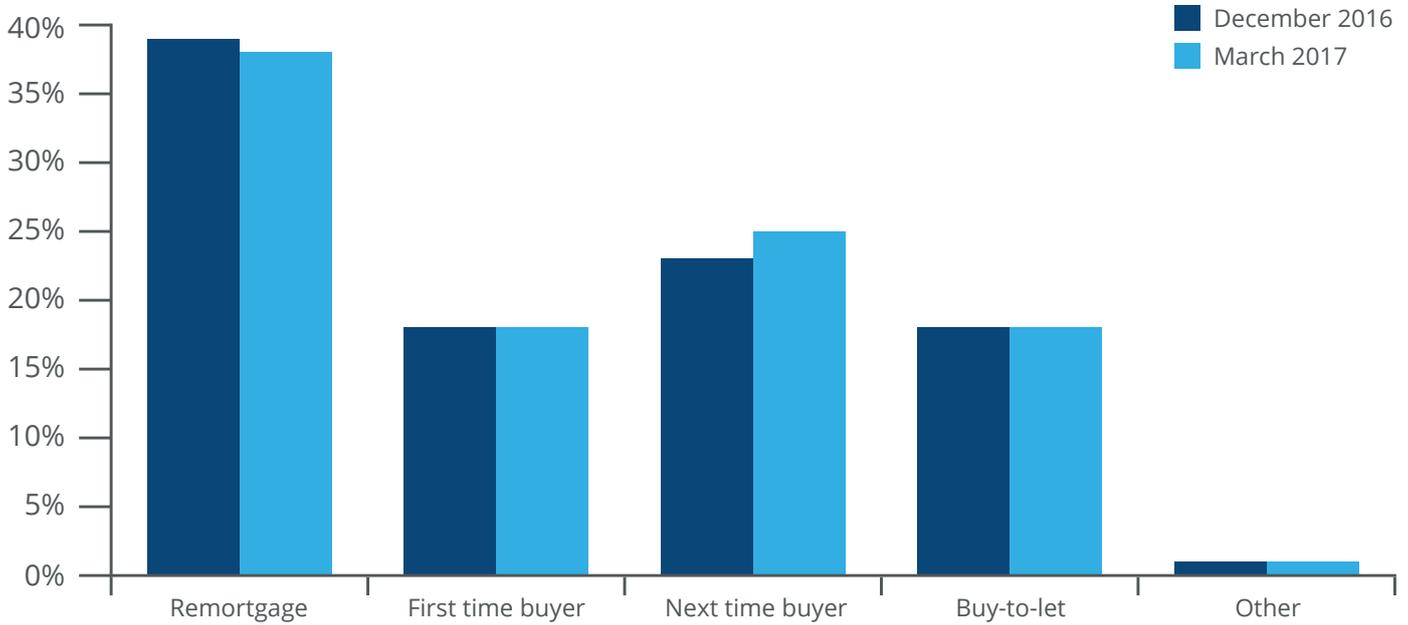
The average number of mortgages introduced per advisors' office in Q1 2017 was 20, down from 21 in the previous quarter and the third successive fall. Despite this sharp decline since Q2 2016, the number of mortgages introduced has held between 20-25 for almost four years, maintaining a slow recovery tracked from 2009, when the number reached a record low of 14.



BORROWER TYPES

Remortgaging remained the most common type of borrowing in the first quarter of 2017, despite a small decrease from 39% to 38%. A quarter (25%) of all mortgages handled in Q1 were next time buyers, whilst first time buying was unchanged at 18%, maintaining its long-term average, dating back to September 2013. Following a sharp decline in Q2 2016, buy-to-let borrowing has stabilised in the three quarters since and also represents 18% of all mortgages handled in Q1 2017.

BORROWER TYPES 2016 - 2017

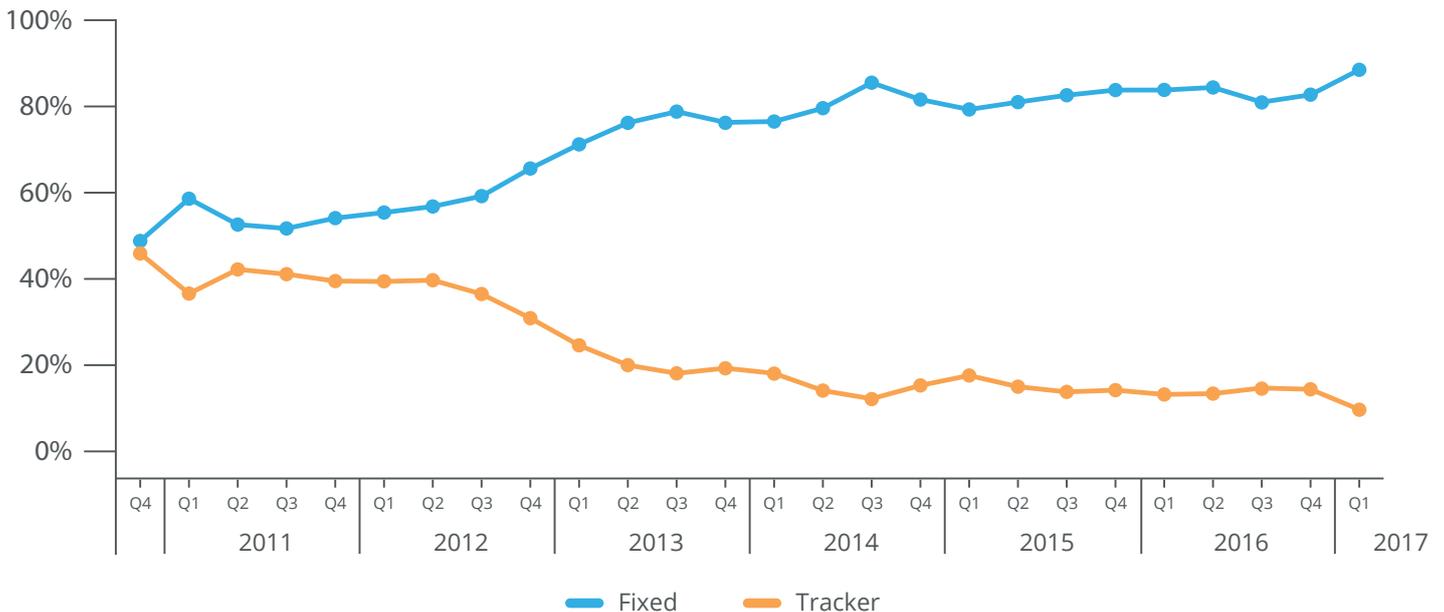


MORTGAGE PRODUCTS

The proportion of fixed rate products substantially increased again in Q1 2017 to reach 89% of all mortgages handled, a record high since the Index began tracking product types in 1996. The increasing popularity of fixed rate mortgages has come largely at the expense of tracker products, which declined to 10% in Q1, its record low.

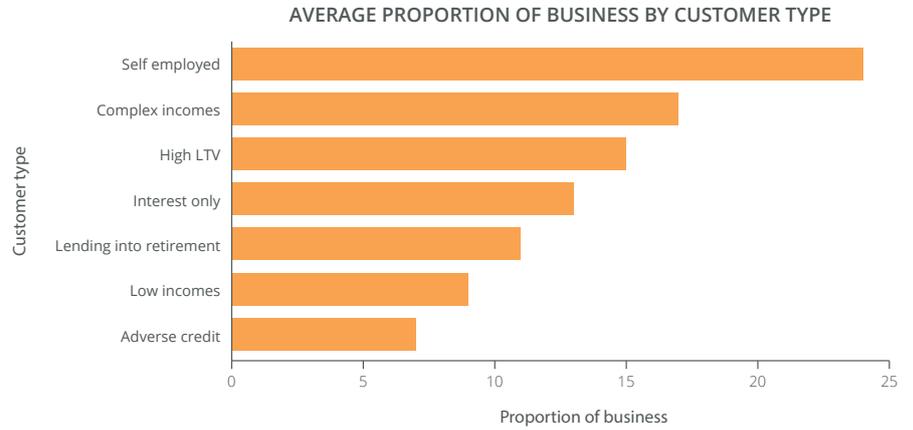
Two year fixed rates are still the most popular product, despite declining to 48% in Q1 2017 from 53% three months earlier. The most notable shift in Q1 was another increase in popularity of five year fixes, up 3% to 34% of all mortgages.

PREFERENCE FOR INTEREST TYPES



CUSTOMER TYPES

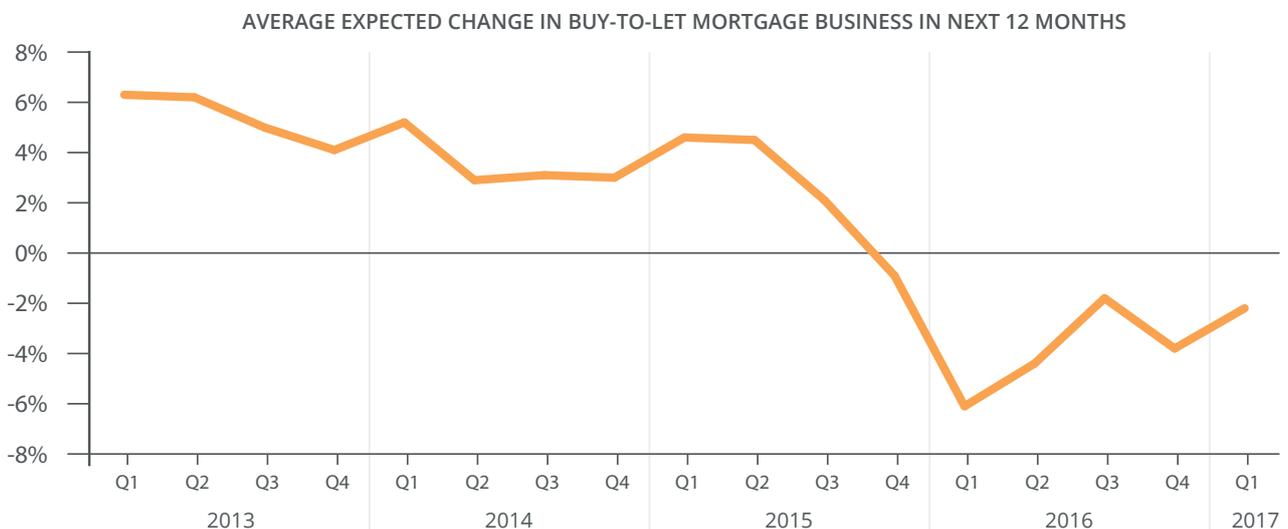
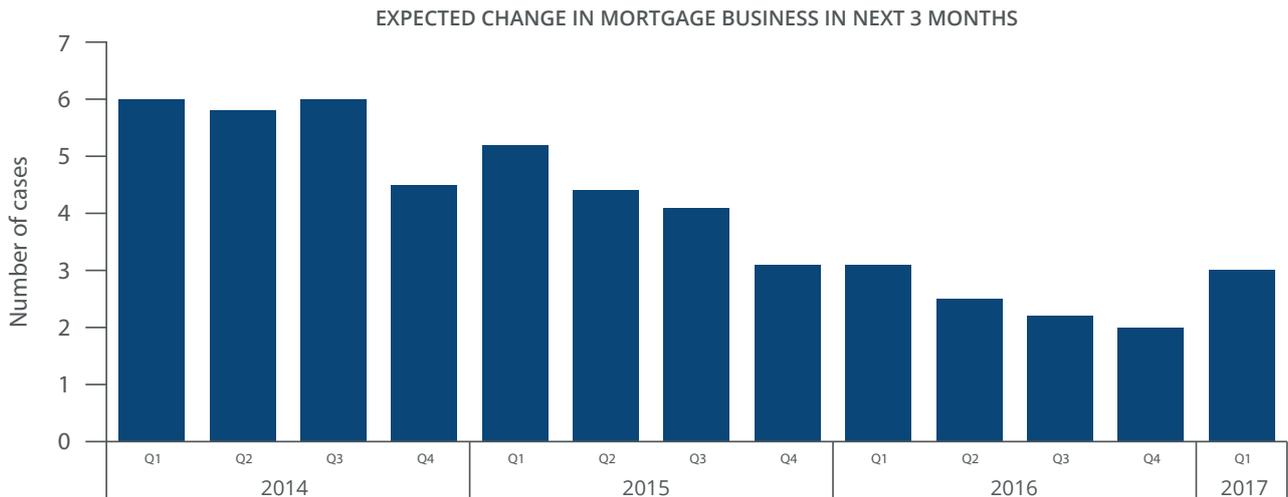
There was an increase in both self-employed (24%) and complex income (17%) customers in Q1 2017, indicating a higher demand for specialist mortgage products and wider availability of products that meet the demands of under-served segments in the mortgage market. Other customer types were largely unchanged in Q1 2017: high LTV (15%), interest only (13%), lending into retirement (11%), low income (9%), adverse credit (7%).



FORECAST

For the first time since Q1 2015, the expected change in business over the next three months increased in Q1 2017, to three cases, reversing consecutive reductions in each of the previous seven quarters.

Meanwhile, mortgage advisors expect to do 2% less buy-to-let mortgage business in the coming year. This, however, is an improvement on the previous quarter and, following the largest ever decline seen in Q1 2016, the average now appears to be on a modest upward trend. 45% of intermediaries say they expect buy-to-let business to remain the same in the next 12 months.



BUY-TO-LET MORTGAGE MARKET

REASONS FOR OBTAINING BUY-TO-LET MORTGAGES

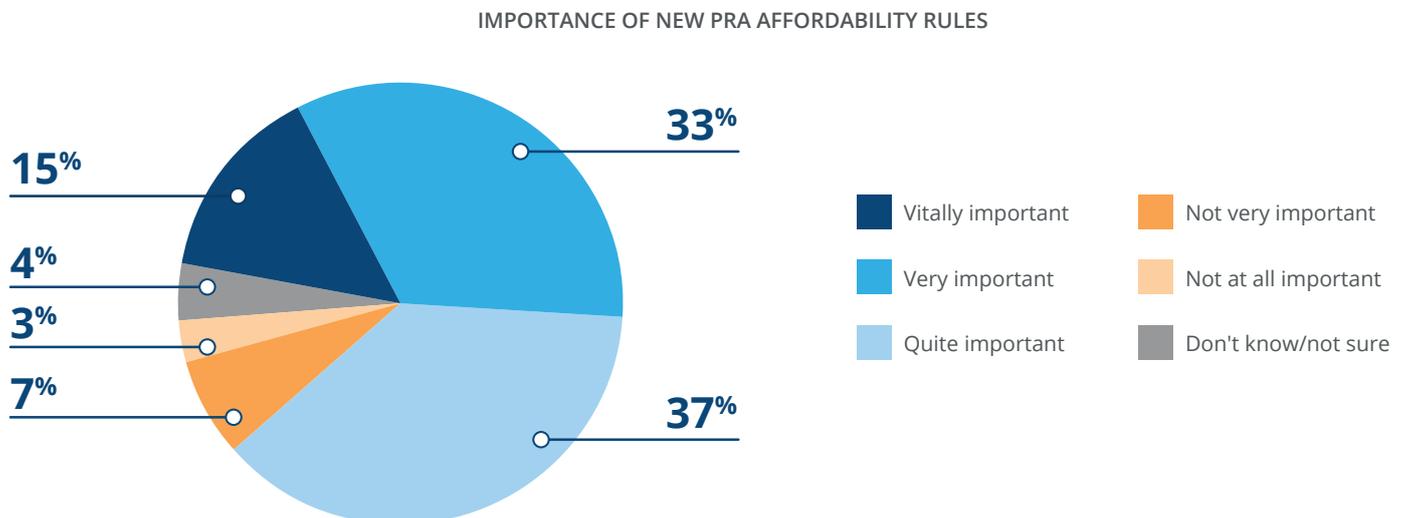
Remortgaging is still the principal reason for landlords obtaining buy-to-let finance, stable on the previous three months and accounting for almost half (47%) of all buy-to-let business. The steep upward trend in remortgaging since Q4 2013 has been matched by a long-term decline of first time landlords, which eased again in Q1 2017 to 15%, down from 27% three years ago.



IMPORTANCE OF NEW PRA AFFORDABILITY RULES

The Prudential Regulation Authority (PRA) published its final Supervisory Statement in September 2016, introducing new minimum underwriting standards for buy-to-let mortgages. Lenders will now be required to take into account how landlords will be impacted by the forthcoming tax changes and also tailor their underwriting approach to distinguish between those landlords with small portfolios (no more than three properties) and large-scale, professional landlords with more significant and complex portfolios.

In Q1 2017, more advisors said that the new affordability rules had been important in estimating the expected change in their level of buy-to-let mortgage business in the next 12 months – up from 80% in Q4 2016.



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 lender of buy-to-let mortgages to landlords and residential property investors in the UK, a loan servicing provider for third party clients and an active acquirer of loan assets and portfolios. In 2014, the Group established a banking subsidiary, Paragon Bank and has since diversified lending into new markets including asset finance, car finance and residential property development.

Established in 1985, Paragon is the only specialist lender to maintain an independent position within the UK mortgage market.



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