

Changes in the activity



FACT INDEX

Q4 2018

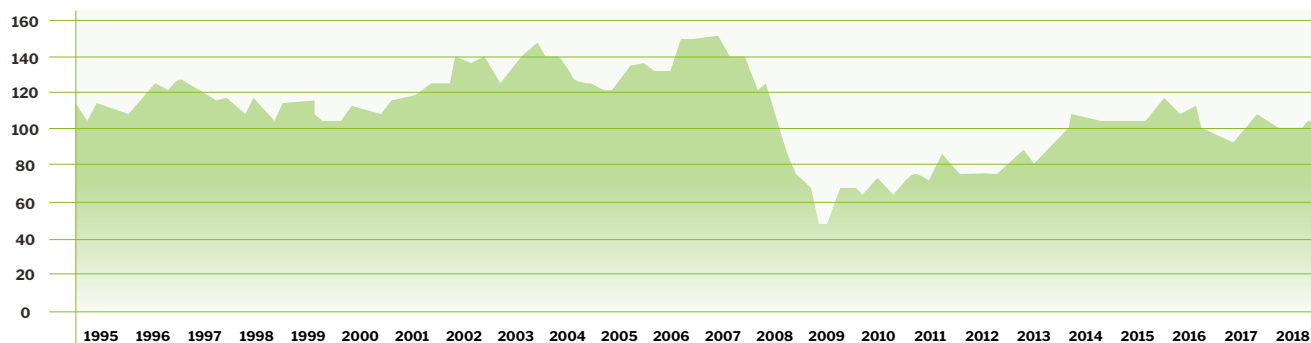
The Financial Advisor Confidence Tracking (FACT) index has been tracking financial adviser sentiment since 1995 based on the number of mortgages introduced to borrowers over the previous quarter.

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 and 42% are from appointed representative firms.

The FACT index rating for Q4 2018 was 101.0, showing little change over the last 12 months.

INDEX SCORE



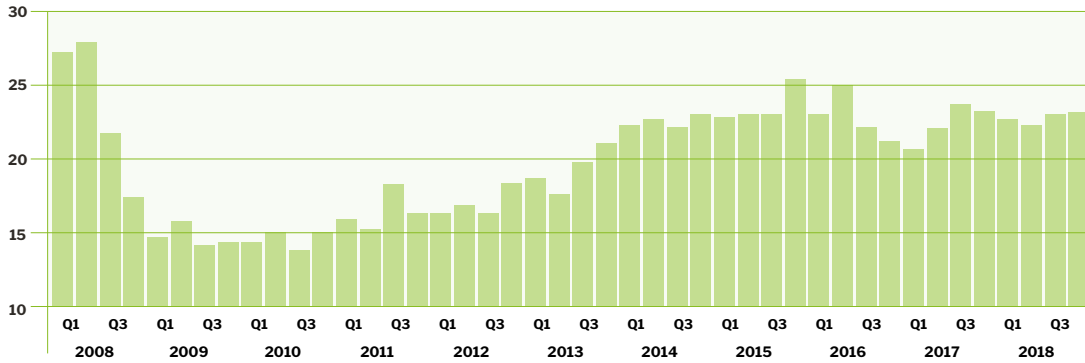
GENERAL MORTGAGE MARKET

MARKET OVERVIEW

The average number of mortgages introduced per adviser's office in Q4 2018 was 23, a slight increase compared with the previous quarter.

FAST FACT:
23
 average number
 of mortgages
 introduced per
 office

Average number of mortgages introduced per office



BORROWER TYPES

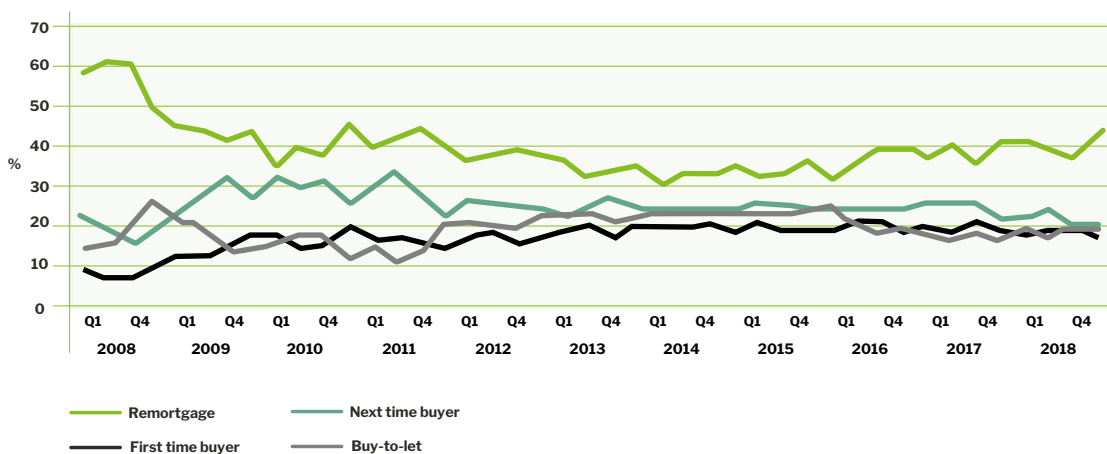
Home owner remortgaging dominated intermediary business in the final quarter of 2018, jumping from 37% in Q3 to 43% of mortgage applications in Q4.

FAST FACT:
1 in 5
 mortgages
 taken out by
 home movers

First time buyer applications fell from 19% to 16% of intermediary business, buy-to-let dropped to 18% and home mover applications were flat at 20% of the total.

Home mover mortgages are now at their lowest level as a proportion of intermediary business since 2008 and, interestingly, over one third (36%) of intermediaries say stamp duty is a significant deterrent for those looking to move up the housing ladder and on to their second property.

Borrower types



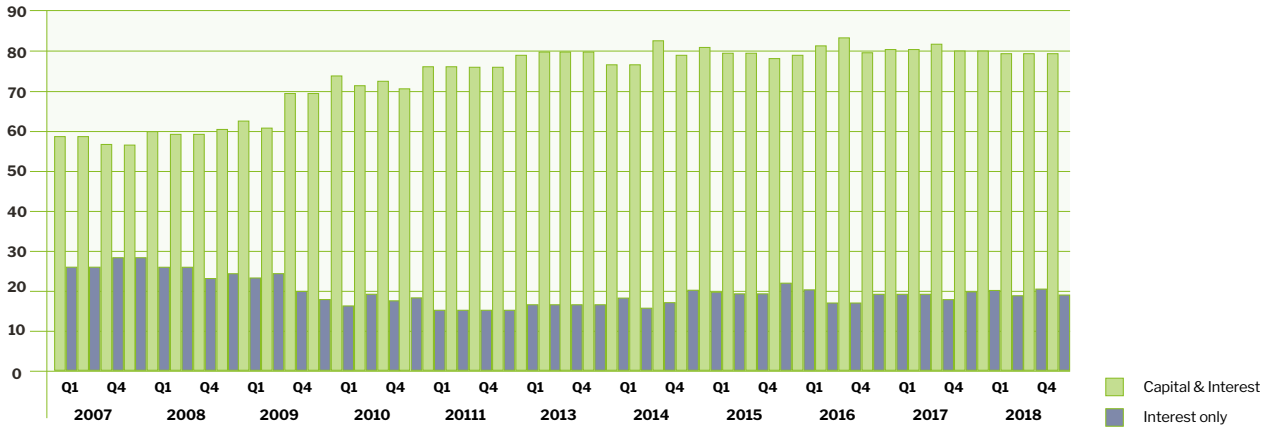
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MORTGAGE REPAYMENT STRATEGIES

In terms of different mortgage types, home owners continue to show a strong preference for traditional repayment mortgages. Repayment mortgages regained popularity at the end of the last decade and have held steady at around eight out of ten applications since the beginning of 2013.

FAST FACT:
8 out of 10
mortgage
customers select
a repayment
product

Preference for interest types



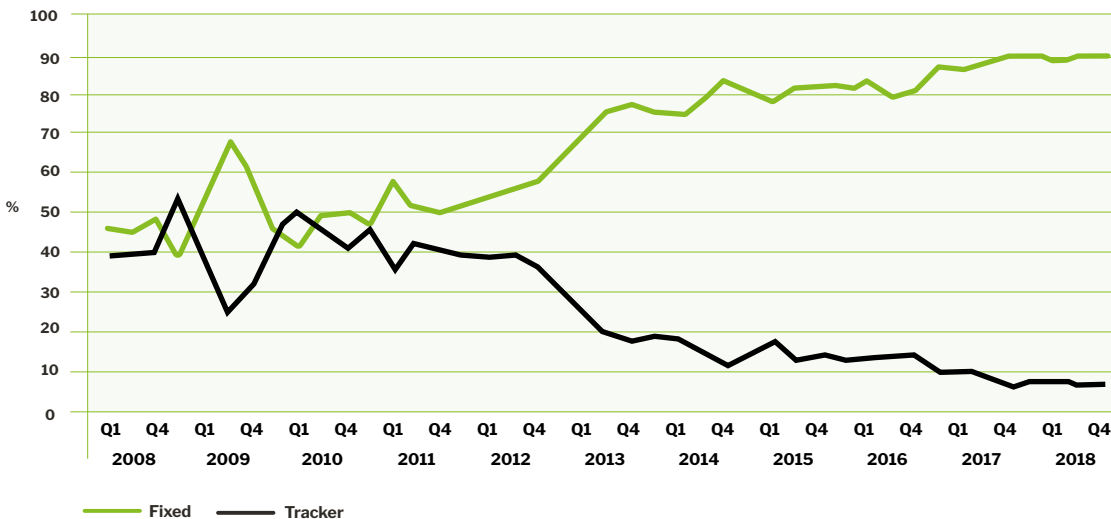
MORTGAGE INTEREST RATE TYPE

Fixed rate mortgages have also gained favour, increasing from 50% to 90% of mortgage business over the last decade.

At the beginning of 2009, the proportion of fixed rate and variable tracker applications was 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
mortgage customers
opt for a fixed
rate product

Mortgage interest rate type



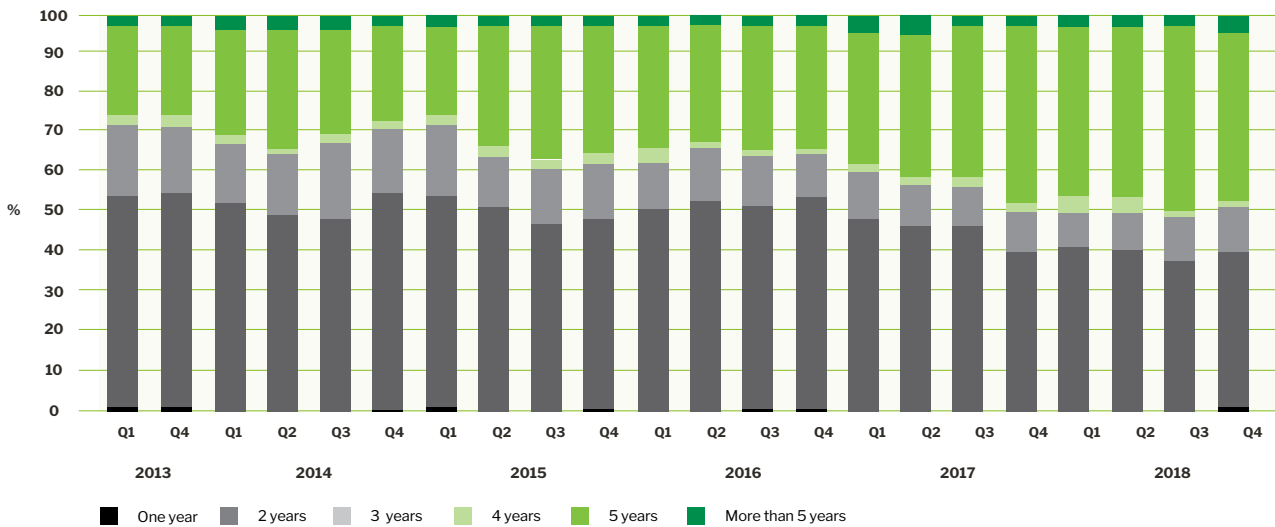
INITIAL TERM

This quarter's results show a slight decline in the proportion of customers choosing an initial fixed rate term of five years, down from 46% to 43%.

However, long term fixed rate products continue to dominate. The shift towards long term products began in Q2 2016 and since then, intermediaries report that five year fixed rate mortgages have increased from 29% to 42% of applications, while two year products have fallen from 53% to 39%.

FAST FACT:
5 years is the most popular initial mortgage term

Distribution of mortgage cases by initial term



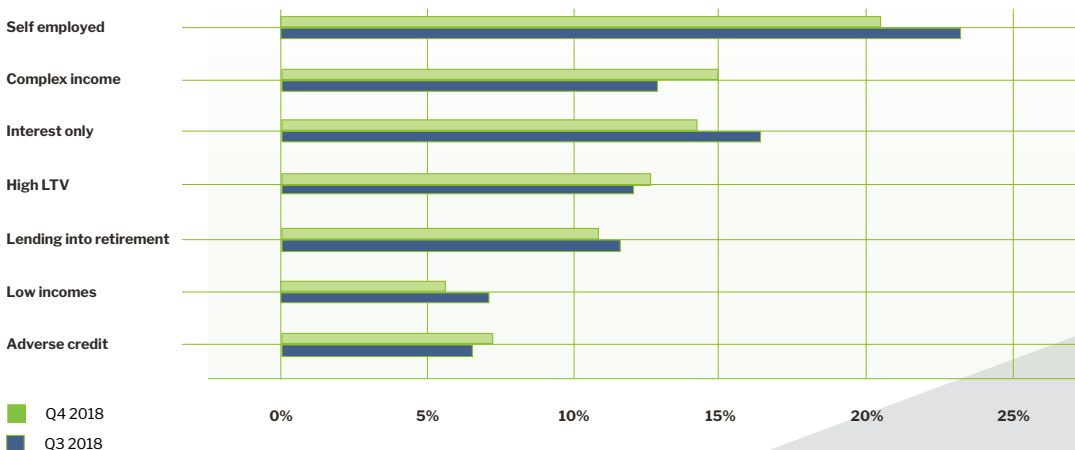
SPECIALIST CUSTOMER TYPES

The most significant source of demand for specialist mortgages continues to come from self-employed customers, comprising two out of ten (21%) specialist cases in the final quarter of 2018.

The quarter also recorded an increase in the proportion of specialist mortgage applications from customers with complex incomes, up from 13% to 15% of the total. For these customers, salary income is supplemented or even completely overtaken by investment income, pension income or income from rental properties.

FAST FACT:
15% of specialist mortgage customers have complex incomes

Average proportion of business by customer type



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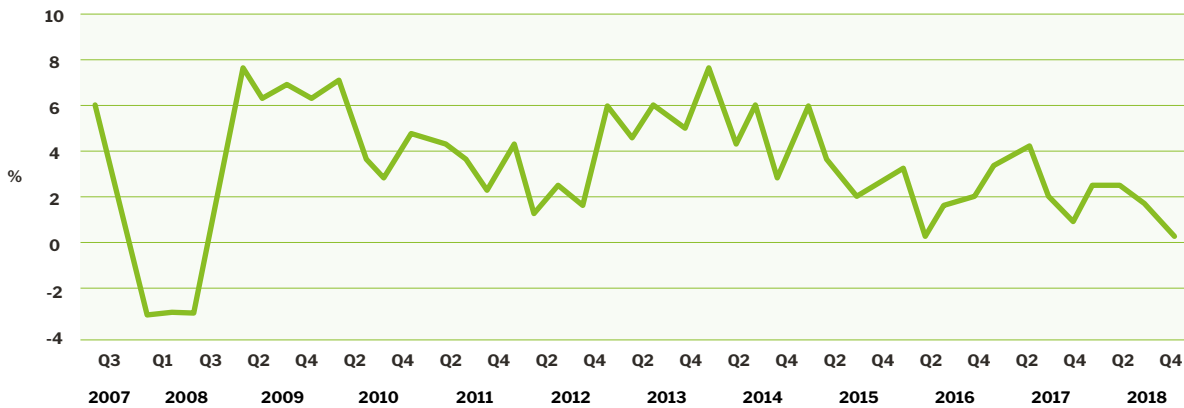
MORTGAGE MARKET FORECAST

Significantly, mortgage advisers were downbeat about forecast business levels for the first quarter of 2019.

On average, advisers expected business levels to be flat when compared with Q4 2018, with Brexit uncertainty appearing to weigh heavily on market sentiment. Interestingly, the only time advisers felt more anxious about the future was at the onset of the global financial crisis back in 2008.

FAST FACT:
+0.1%
expected increase
in business in
Q1 2019

Expected change in mortgage business in the next three months



Advisers point to a 'Brexit brake' effect in the last six months of 2018, with 57% reporting a negative impact on demand for property, 56% highlighting downward pressure on house prices and 45% saying Brexit uncertainty had reduced availability of property for sale.

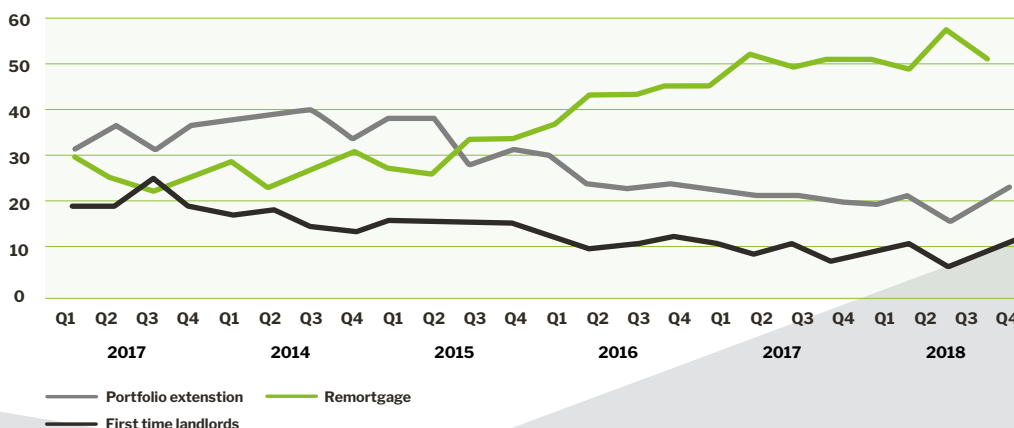
Advisers also felt these trends were likely to intensify in the first part 2019 as final negotiations move centre stage. It will be interesting to see if the 'Brexit brake' is replaced with a 'Brexit bounce' as the eventual outcome comes into focus.

BUY-TO-LET MORTGAGE MARKET

Advisers were also relatively gloomy about the outlook for buy-to-let, with business levels in this segment expected to fall by around 1.5% over the next 12 months. Although remortgaging continued to dominate buy-to-let business in the final quarter of 2018, intermediaries also reported an encouraging uptick in first-time landlord business, up from 10% to 12% of landlord applications, as well as an increase in mortgages for portfolio expansion, up from 19% to 23% of the total.

FAST FACT:
1 in 4
landlord mortgage
applications are
for portfolio
expansion

Remortgage vs first time landlords



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Q4 2018

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 Associations (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 manages over 450,000 customer accounts.

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