

Q1 2019

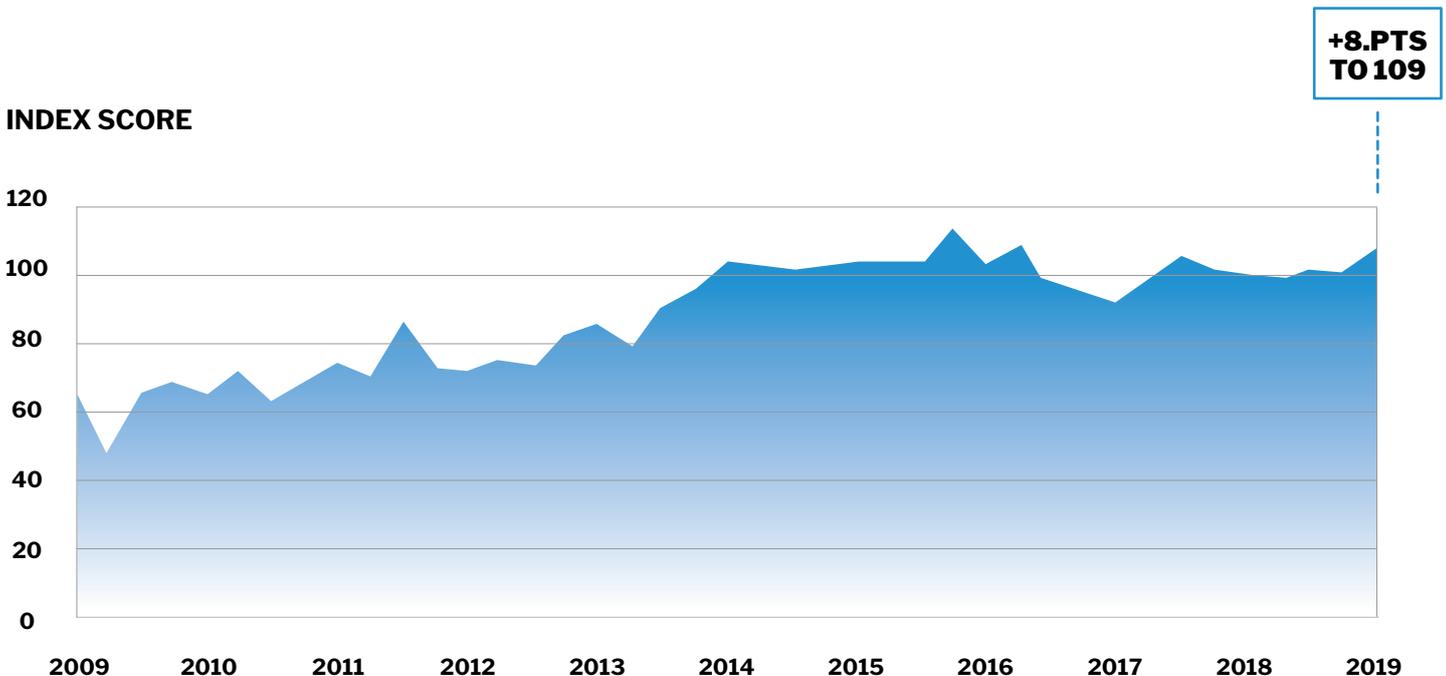
paragon

FACT INDEX

The Financial Adviser Confidence Tracking Index (FACT) has been tracking financial adviser sentiment since 1995 based on the number of mortgages introduced in the previous quarter. The index score is calculated as a percentage of a baseline figure and adjusted to account for the volume of business that advisers expect to complete over the following quarter.

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

The FACT index for Q1 2019 was 109, up 8 points compared to Q1 2018 and close to the post financial crisis high of 114 recorded in 2015.



MARKET OVERVIEW

Adviser confidence is being fuelled by strong application flows, with the average number of mortgages introduced per adviser's office during Q1 2019 reaching 24.5, up from 23 in Q4 2018 and 22.3 in Q1 2018.

Adviser productivity is also improving - rising 16% from an average of 7.6 mortgages processed per adviser in Q4 2018 to 8.8 mortgages in Q1 2019 - and reaching its highest level in the last five years.

FAST FACT:
24.5
average number
of mortgages
introduced
per office

AVERAGE NUMBER OF MORTGAGES INTRODUCED PER OFFICE



BORROWER TYPES

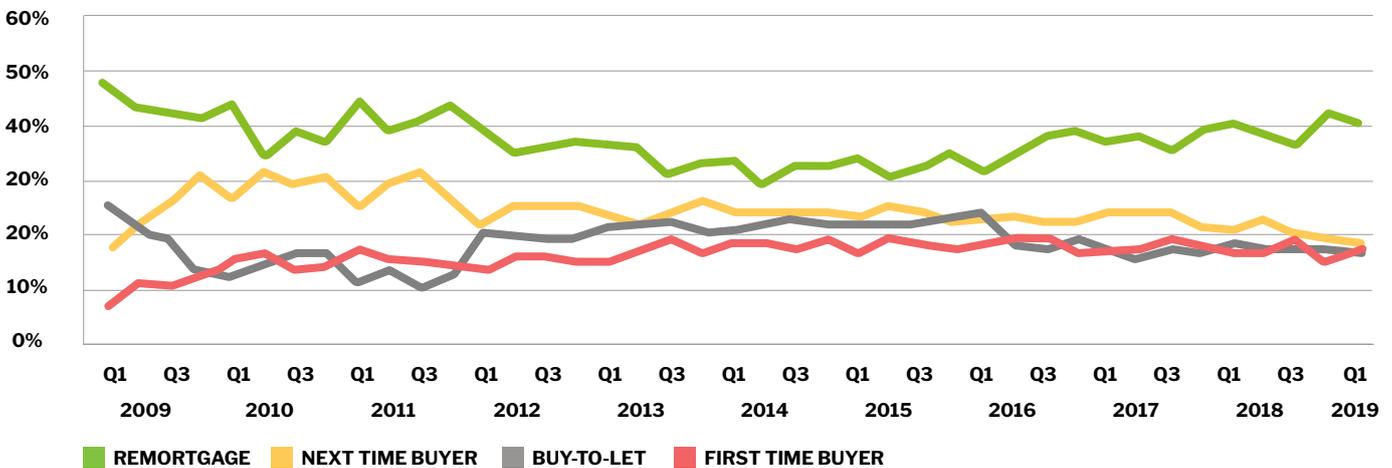
Remortgaging continued to dominate intermediary business, having climbed steadily from around 30% of mortgage cases five years ago to over 40% of business in Q1 2019.

While first-time buyers increased to 18% of business, next-time buyers recorded another quarter-on-quarter drop, falling to 19% of mortgage applications - close to the lowest level ever.

Buy-to-let business also fell, representing 17% of intermediary business in the first quarter.

FAST FACT:
4 in 10
mortgage
customers
are looking to
remortgage

BORROWER TYPES



MORTGAGE REPAYMENT STRATEGIES

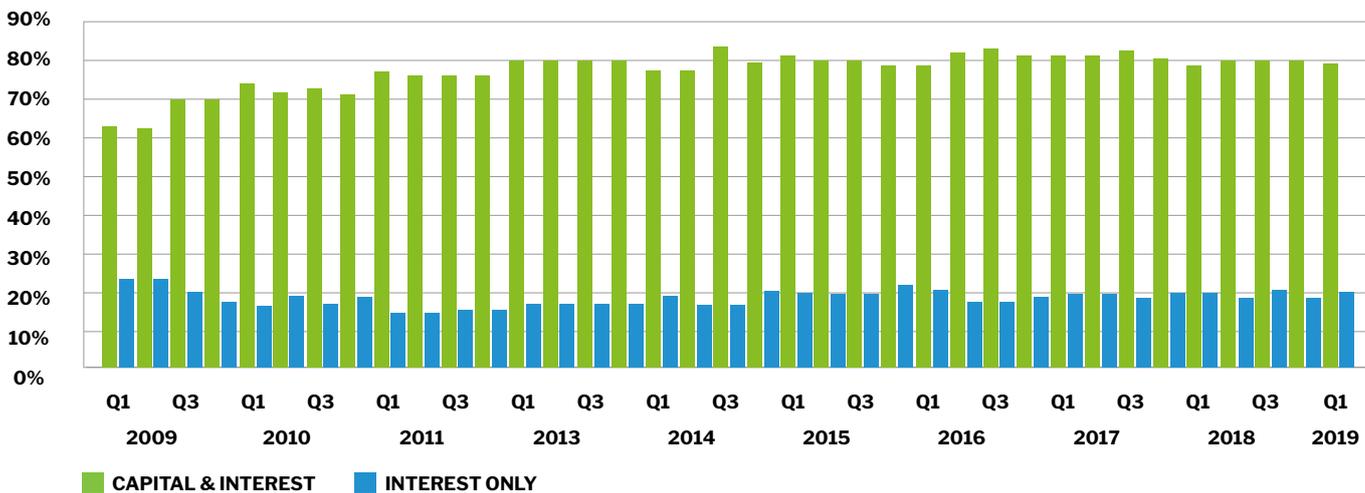
Repayment mortgages continue to dominate the market, with almost eight out of ten (79%) customers opting for a capital and interest repayment product.

Interest only mortgages, the next most popular choice, accounted for two out of ten cases (20%), with other repayment types comprising less than one in a hundred cases (0.7%).

Since 2014, the proportion of capital and interest repayment mortgages compared with interest only mortgages has been relatively stable at around 80% and 20% respectively.

FAST FACT:
2 out of 10 mortgage customers select an interest only product

MORTGAGE REPAYMENT STRATEGIES



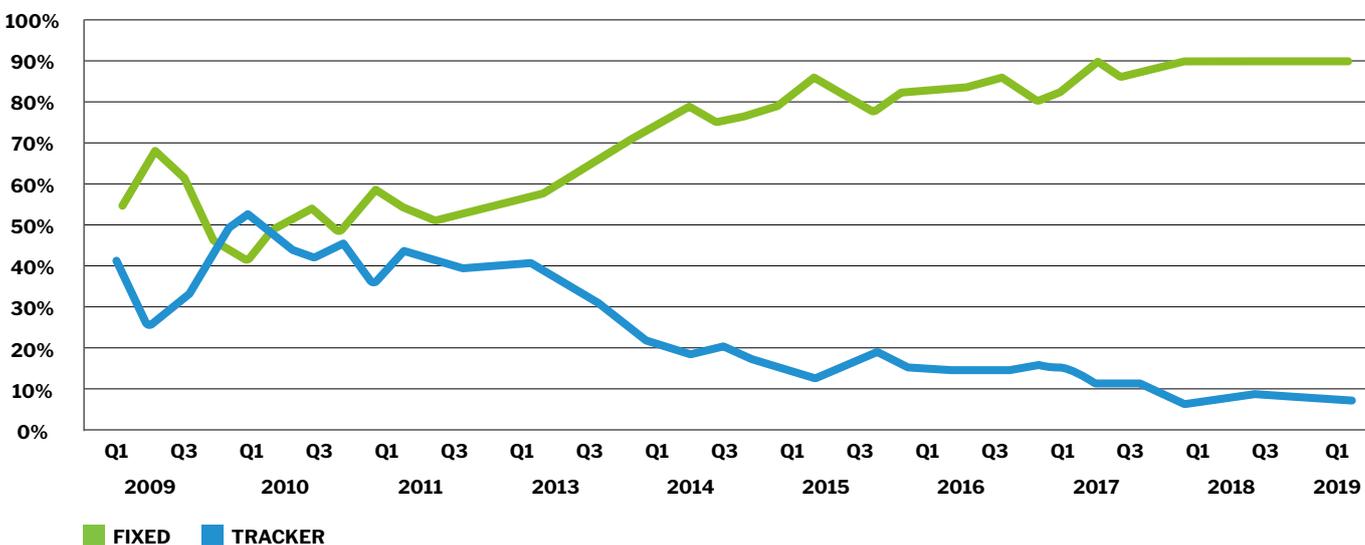
MORTGAGE INTEREST RATE TYPE

Customers continue to display a strong preference for fixed rate mortgages, with nine out of ten customers opting for a fixed rate product.

Fixed rate mortgages have gained consistently in popularity since 2010, following the Bank of England Base Rate cut in 2009. This ushered in an era of sustained, low interest rates, reducing the financial logic for choosing a variable rate tracker.

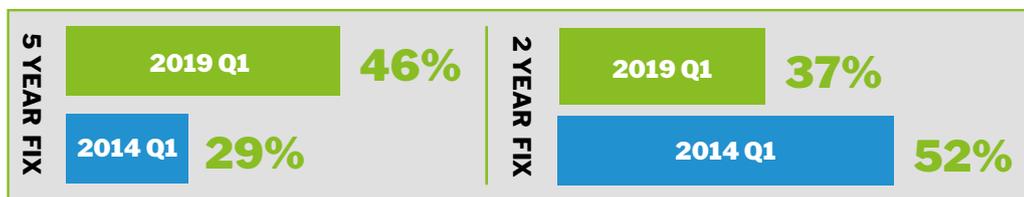
FAST FACT:
90% of mortgage applications are for fixed rate products

MORTGAGE INTEREST RATE TYPE



FEATURED SUBJECT: WHY ARE FIVE YEAR FIXED RATE MORTGAGES SO POPULAR?

Alongside the growing preference for fixed rate mortgages, an increasing proportion of customers are also opting for products with a longer term, initial fixed rate period.



More mortgage customers **(46%)** chose a **five year, initial fixed rate period** in Q1 2019 than ever before.



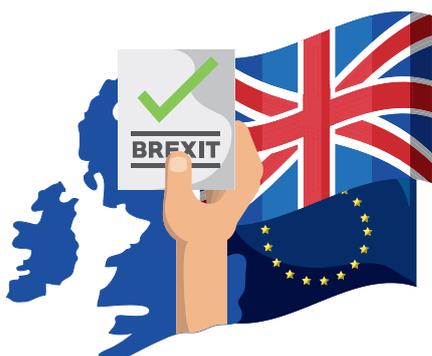
9 out of **10** mortgage intermediaries **(90%)** point to today's low interest rates coupled with concern over future rate rises as the key factor driving popularity of the five year fix.



23% of mortgage intermediaries believe the trend towards longer term fixed rate products is positive, giving customers **stability and certainty of payments in an uncertain economic climate.**



19% of intermediaries feel the trend could be negative, **reducing customers' flexibility to move house and extending the remortgage cycle for intermediaries.**



Intermediaries do not foresee any immediate catalyst to disrupt the popularity of the five year fix. A more stable economic climate post-Brexit was the factor quoted as most likely to lead to an interest rate rise and reduce attractiveness **(56% of intermediaries).**



MORTGAGE MARKET FORECAST

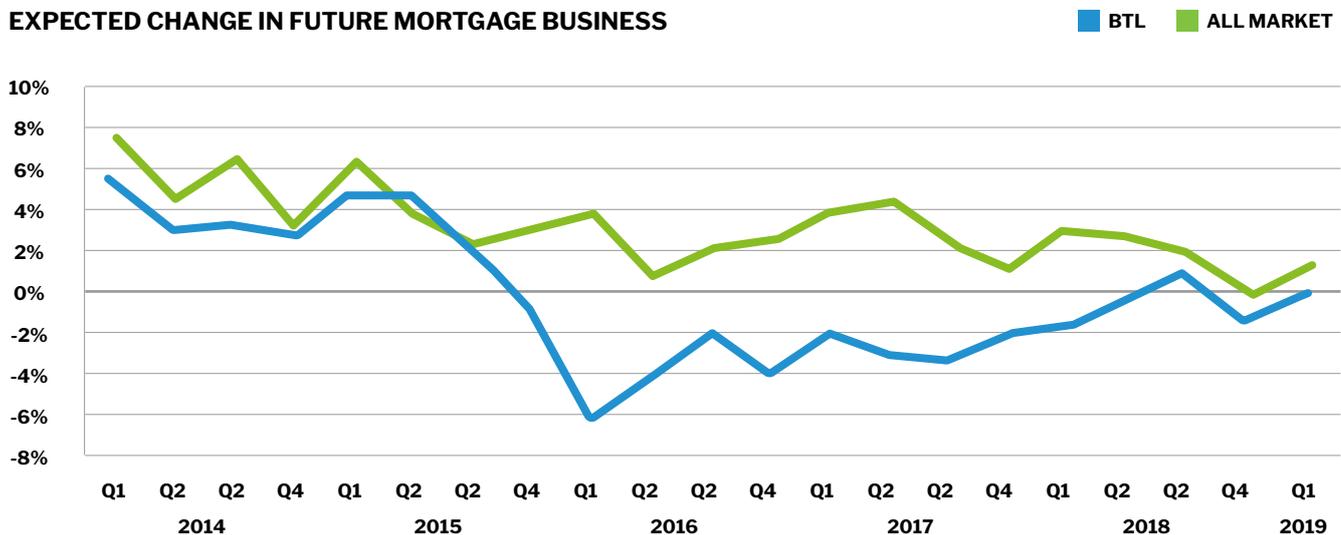
Looking ahead, mortgage intermediaries expect a subdued market in Q2 2019.

Across the general mortgage market, advisers anticipate a 1.5% increase in mortgage business in Q2 2019 over Q1 - a very modest pick-up for the beginning of the traditionally strong, spring-summer period compared with previous years.

The outlook for buy-to-let is similarly restrained, with the good news that after several years of decline, intermediaries now anticipate a more stable outlook.

FAST FACT:
Stable outlook for buy-to-let mortgage market

EXPECTED CHANGE IN FUTURE MORTGAGE BUSINESS



BUY-TO-LET MORTGAGE MARKET

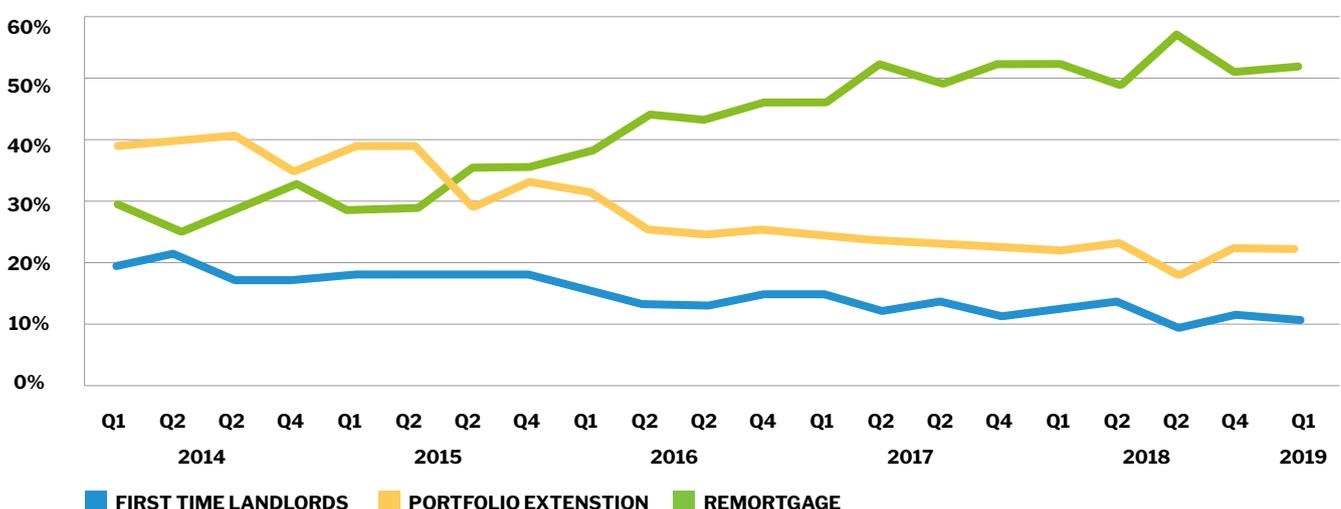
Remortgaging remains the main reason for landlords to obtain a buy-to-let mortgage, climbing from 30% of buy-to-let business five years ago to over half (52%) of all business in Q1 2019.

Meanwhile, the proportion of buy-to-let mortgages for first-time landlords and for portfolio expansion has almost halved, falling from around 20% to 11% and from 40% to 23% of mortgage applications respectively over this time frame.

For landlords choosing to remortgage, the overwhelming majority (62%) are doing so to obtain a better interest rate rather to release funds for portfolio expansion as was the case five years previously.

FAST FACT:
1 in 10 buy-to-let mortgage applications come from first-time landlords

REMORTGAGE VS FIRST TIME LANDLORDS



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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