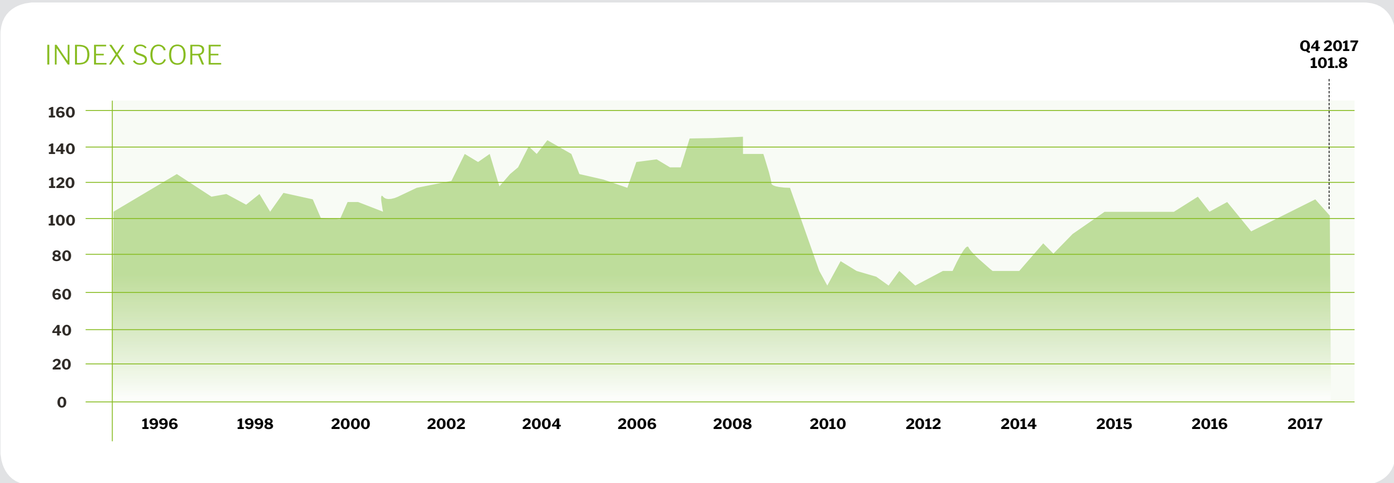
FACT INDEX

Q4 2017

The Financial Adviser 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.

This figure 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. 53% of respondents to this survey are from firms directly authorised under the FCA's mortgage regulations. 44% are from appointed representative firms.

The FACT Index rating for Q4 2017 was 101.8, slightly down on the previous quarter but maintaining a long-term upward trend since the financial crisis.

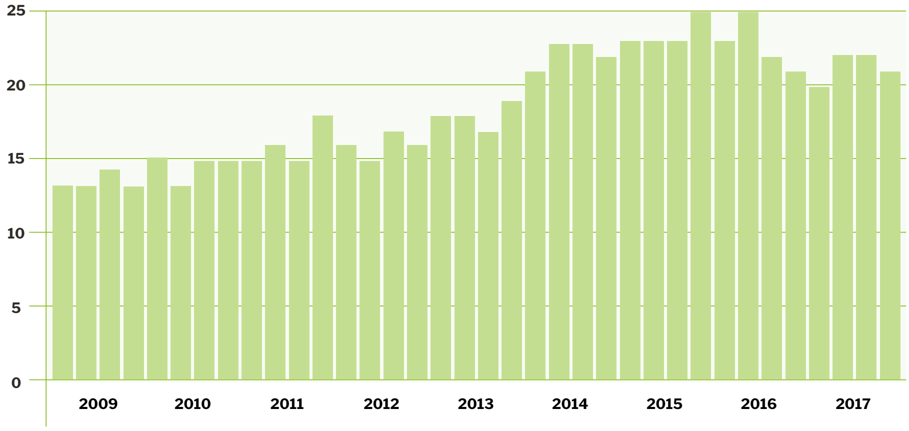


GENERAL MORTGAGE MARKET

MARKET OVERVIEW

The average number of mortgages introduced per advisers' office in Q4 2017 was 23, down 3% on Q3 2017 but up 9% on the previous year. This maintains the long-term upward trend in the number of mortgages dealt with per office, since 2010, but remains some way of the historical peak of 33.

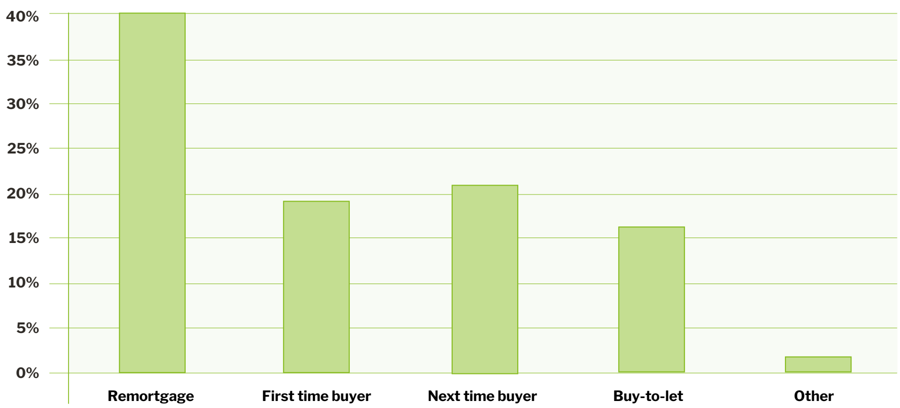
Average number of mortgages introduced per office



BORROWER TYPES

Remortgaging continues to be the most common type of borrowing, with a majority of 40% in Q4 2017. This represents an increase of 4% on the quarter and is the highest recorded majority since 2011. There was little fluctuation in all other borrower types, with buy-to-let borrowing stable again at 17% in Q4 2017. First time buyers returned to 18%, in line with Q1 and Q2 figures and appears to have levelled out following a modest upward trend.

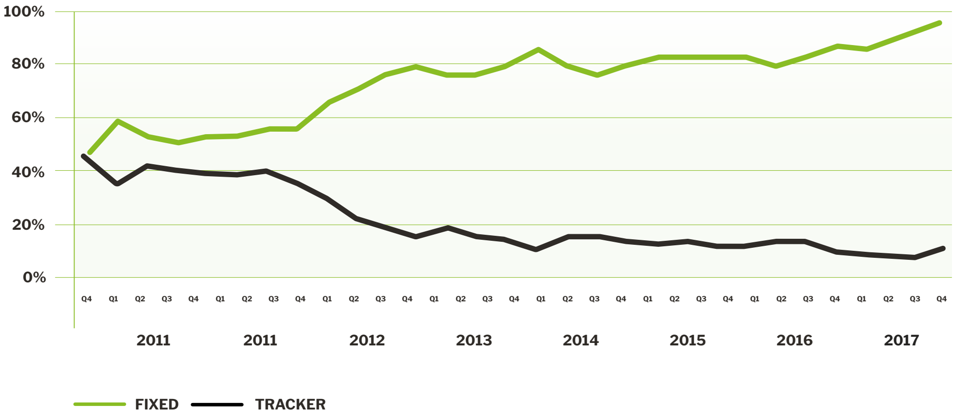
Borrower types - September 2017



MORTGAGE PRODUCTS

The overall preference for fixed rate mortgage products hit another all-time high in Q4 2017, the second record in successive quarters and third in 12 months, up 2% to 91% of all cases. The preference for tracker products reached another all-time low in Q4 2017, down to 7% from 9% in Q3.

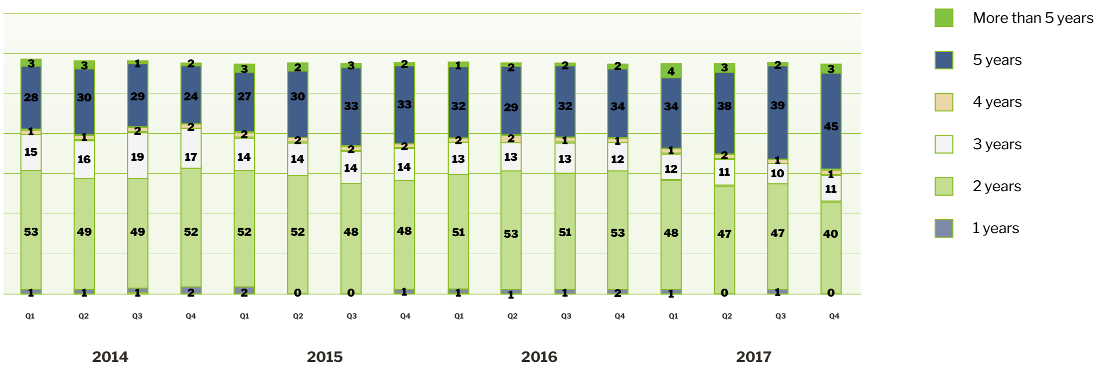
Preference for interest types



INITITAL TERM

The preference for longer-term mortgage products has overtaken two-year deals for the first time, with 48% of cases reported at five years or more in Q4 2017. Two-year terms, which has been the overwhelming preference over the last five years, made up 40% of fixed and tracker cases in Q4 2017, down 7% on the previous quarter and 14% on its peak, achieved in Q3 2013 and Q3 2014.

Distribution of mortgage cases by initial term

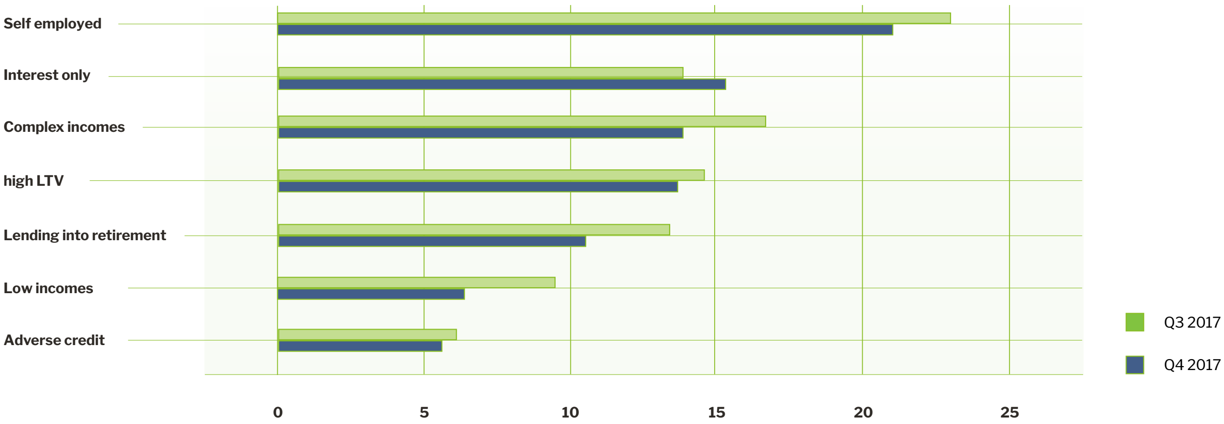


CUSTOMER TYPES

Demand for specialist mortgages is being driven by a diverse set of customer types, principally the self-employed. Asked for the proportion of their business represented by a range of customer types typically classed as more difficult to lend to in Q4 2017, intermediaries said that self-employed was the most common type of customer, at 21% of all specialist cases.

This is followed by interest only customers (15%), complex income (14%), high loan-to-value (LTV 14%), lending into retirement (11%), and low income (7%), with just 6% of all specialist business made up of customers with adverse credit.

Average proportion of business by customer type

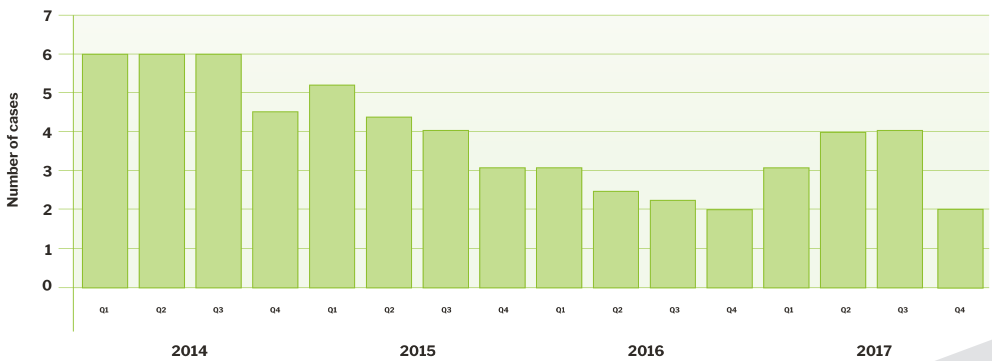


FORECAST

On average, mortgage advisers expect to do 2.4% more mortgage business in Q4 2017, with the expected number of cases in the next three months stable at four, maintaining the reversal of a two-year downward trend between 2014-2016.

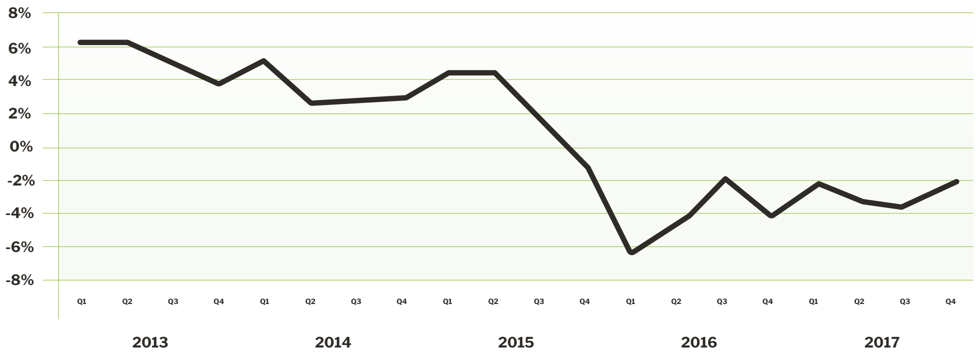
Half (50%) of brokers said that, compared with the last 12 months, they expect buy-to-let business to stay the same in the next 12 months. On average, mortgage advisers expect to do 3% less buy-to-let mortgage business in that period. This is the same as Q2 2017 but remains comfortably higher than the historic low of 6% seen in Q1 2016.

Expected change in mortgage business in next 3 months



FORECAST CONTINUED...

Average expected change in Buy-to-let mortgage business in next 12 months

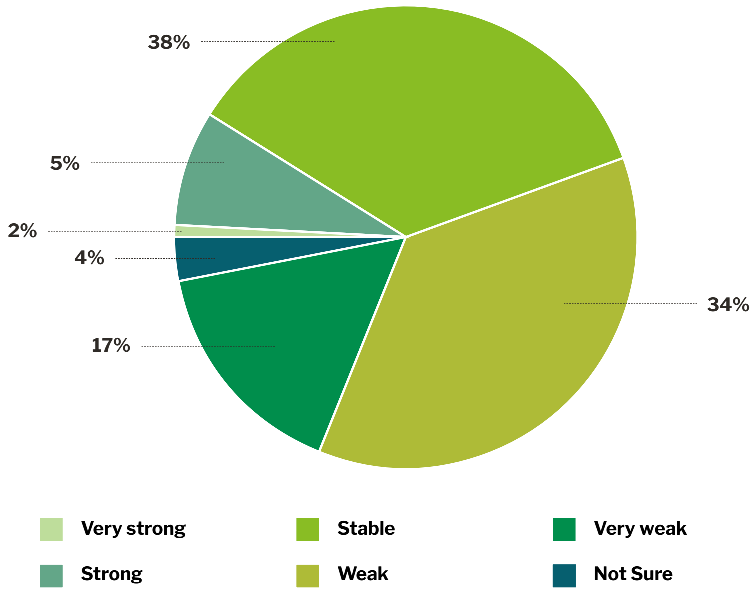


BUY-TO-LET MORTGAGE MARKET

LANDLORD DEMAND

7% of mortgage advisers described landlord demand as 'strong' or 'very strong' in Q4 2017, down from 9% in the previous quarter and still considerably lower than highs of 35-45% between 2013-2016. Meanwhile, the proportion of advisers describing landlord demand as 'weak' or 'very weak' also reduced by 2% to 51%, a third successive reduction. However, this remains close to the highest ever recorded figure following a steep decline in strength since September 2015, when just 10% said the same.

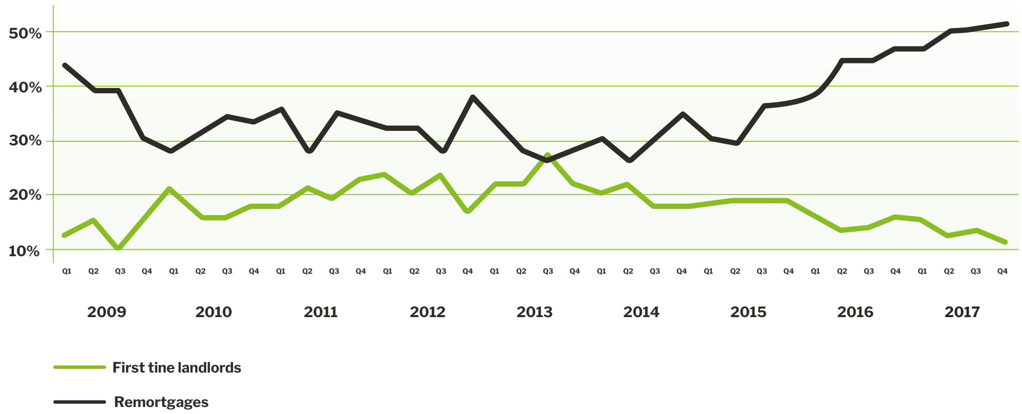
Current level of landlord demand



REASONS FOR OBTAINING BUY-TO-LET MORTGAGES

Remortgaging continues to drive the buy-to-let market, with the proportion of buy-to-let mortgages for remortgages back up to 52% in Q4 2017, continuing a steep rise in remortgaging, up from 28% following the 2008 financial crisis. The number of mortgages for first time landlords decreased again in Q4 2017, down to 12%, the lowest recorded figure since 2008.

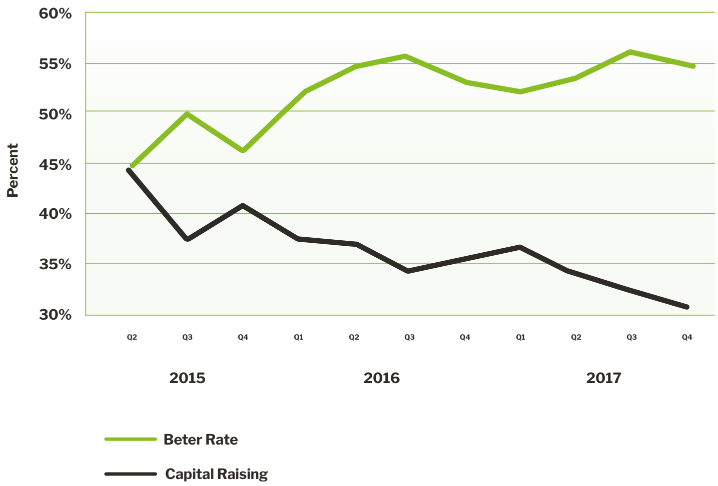
Remortgages Vs. first time landloards



PURPOSE OF BUY-TO-LET REMORTGAGE

Despite a marginal decline in Q4 2017, the principal reason for obtaining a buy-to-let remortgage is still for a better interest rate, making up 55% of all cases. 35% of landlords, the lowest figure recorded, used a buy-to-let remortgage to raise capital in the same period, as the disparity widens between the two reasons that were level at 45% just two years ago.

Reason for obtaining buy-to-let remortgage



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

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 UK Finance, the Intermediary Mortgage Lenders Association (IMLA), National Landlords 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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