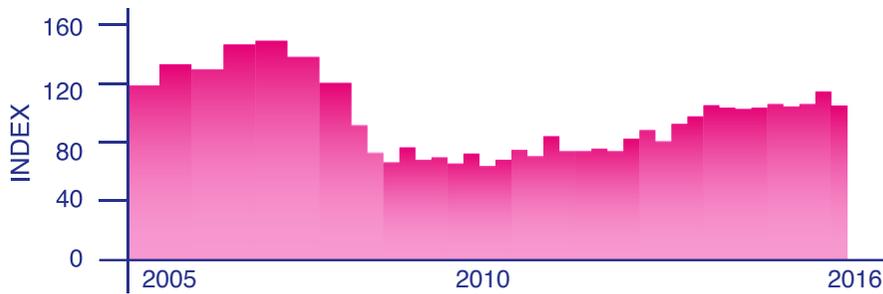


GENERAL MORTGAGE MARKET

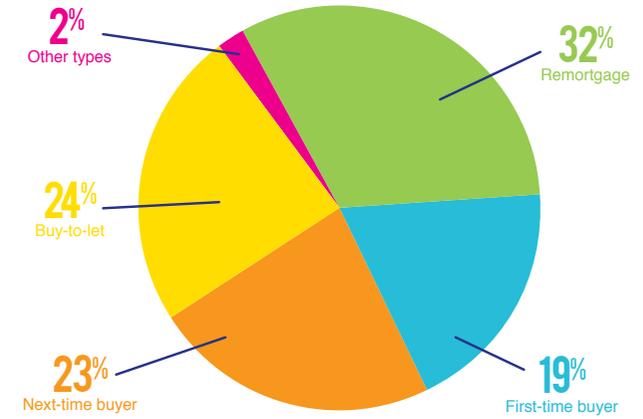
FACT index

The FACT Index has been tracking sentiment among financial advisors since 1995 based on the average number of mortgages being introduced over the previous quarter, and expectations for the coming quarter. The FACT Index rating for Q1 2016 is 103.3, a ten point decrease on Q4 2015's figure of 113.5. This figure is however, in line with longer term averages throughout 2014/5.



Borrower types

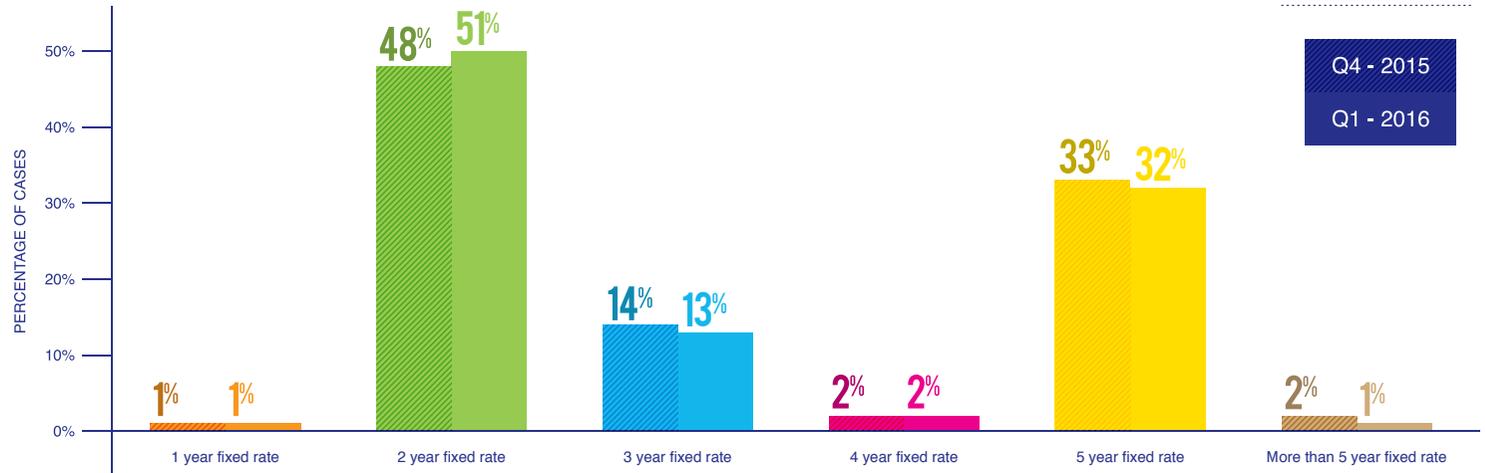
Borrower types have remained largely unchanged in Q1 2016 from the previous quarter. Remortgages remain the strongest business line, though have decreased as an overall proportion of business from 35% in Q4 2015, to 32%. Compensating for this, Q1 2016 has seen modest increases in first-time, next-time and buy-to-let mortgages.



Mortgage products

In Q1 2016 fixed rate products accounted for 84% of all mortgage cases, meaning fixed rate products remain by far the most popular. There has been a slight decline in the number of tracker mortgages being introduced from 14% in the previous quarter to 13% now.

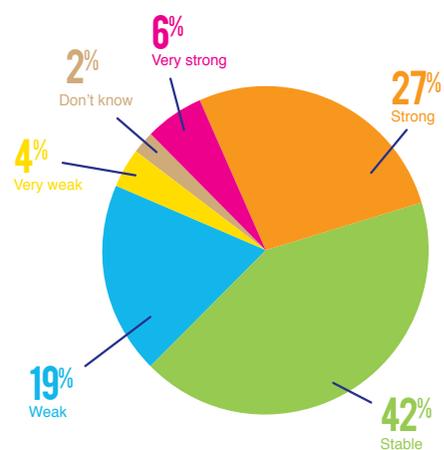
Of the fixed rate mortgages secured in the previous three months, the distribution by length of term remains more or less unchanged. Two year fixes have grown even more popular and accounted for 51% of new fixed-rate mortgages, up from 48% over the previous two quarters. Five year fixes remain second choice for borrowers, and accounted for 32% of new fixed-rate mortgages, down slightly on the previous quarter's figure of 33%.



BUY-TO-LET MORTGAGE MARKET

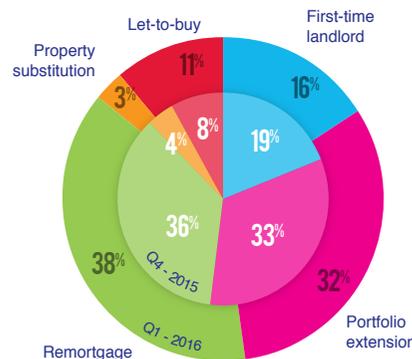
Landlord demand

In common with the previous quarter, Q1 2016 has seen a decline in overall levels of landlord demand. Those describing current levels of landlord demand as 'strong' or 'very strong' are down from 35% overall in Q4 2015, to 33% currently. Likewise those describing demand as 'stable' have also seen a small decline from 44% to 42%. There has been a corresponding increase in those describing demand as 'weak' or 'very weak' from 16% in Q4 2015 to 23% currently, reflecting the ongoing impact of government interventions in the buy-to-let market. That said, a majority (75%), report demand as stable or growing.



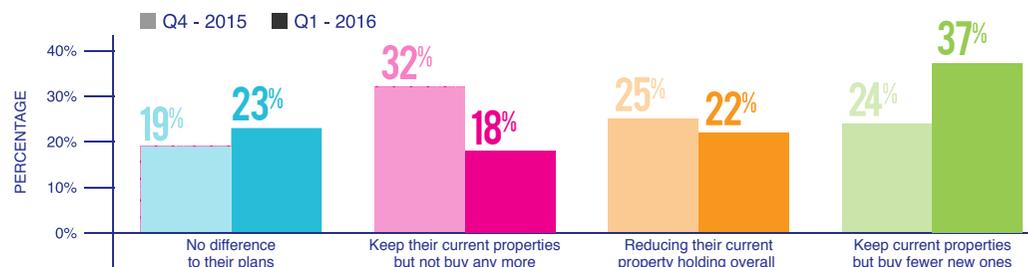
Reasons for obtaining buy-to-let mortgages

Remortgaging remains the most popular reason for obtaining buy-to-let finance in Q1 2016, with 38% of respondents giving it as their reason for obtaining a buy-to-let mortgage, up from 36% in the previous quarter. Volumes of first-time landlords are down from 19% in previous quarters, to 16% now, while those seeking finance for portfolio extension have also declined from 33% to 32%. Reflecting the implementation of the Mortgage Credit Directive (MCD), those seeking finance for 'let-to-buy' have increased, from 8% to 11%.



Impact of tax relief changes

The impact of tax relief changes announced by the government in 2015 continue to be felt in the buy-to-let market. Awareness of the impact has been growing – see our Q1 2016 [PRS Trends](#) report – and this awareness seems to be driving a degree of change in landlord intentions, not necessarily the change we might expect however. The volume of respondents claiming landlords will maintain their current portfolio, but not seek to expand it for example, has nearly halved since Q4 2015 from 32% to 18% now. There has been a corresponding increase in those saying landlords will keep their current properties, and buy fewer new ones, from 24% to 37% and also in those saying the tax relief changes will make no difference to landlord plans, from 19% to 23%. This would seem to indicate that, although government policy is impacting buy-to-let in the short-term, the market is responding less negatively to the changes than might be expected.



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 specialist 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. Paragon has most recently established a banking subsidiary, Paragon Bank.

Paragon has £11.2 billion of loan assets under management. Since being established in 1985, it is the only specialist lender to maintain an independent position within the UK mortgage market.

The Group is a member of the Council of Mortgage Lenders, the Intermediary Mortgage Lenders Association, the National Landlords Association and the Association of Residential Letting Agents Lender Panel.