

Buy to Let Funding and The Credit Crunch - What it Means For You

Lenders are starting to focus distribution through their key partner relationships and are therefore not releasing products to the general market. Increasingly lenders will focus on the quality of the brokers and their clients with whom they transact, with lenders becoming risk adverse to brokers without a strong track record. Just because products are less widely available, it doesn't mean there isn't much from which to choose. Whereas we were 'tracking' some 700 products in our Bluesky sourcing system in September, there is still good coverage within the 490 products that we believe now deliver choice, competitive pricing and good service. We continue to offer our exclusive Keystone products that offer funding for Buy to Let properties above commercial premises. However even our leading product finance with some lenders is limited so we have introduced a booking fee system on these products to avoid speculative transaction lessening the funding pool available for clients.

Early 2008 is likely to see the cost of borrowing beginning to soften. December 2007 saw the first drop in Bank Base Rate in two years and it seems likely this downward trend will continue, as early as February. Lowering inflation, slowing manufacturing, steadying house price growth and a reduction in business confidence all point to further rate reductions in the first six months of the year. The Council of Mortgage Lenders believe variable rate mortgages will become increasingly popular in 2008 based on consumer expectations of further drops in interest rates, and this has been seen in new applications from the back end of 2007.

SWAP rates, the rate at which banks lend each other money and the basis of fixed rate mortgages have also begun to ease. In 2007 SWAP rates increased significantly due to concerns in global finance markets leading to fixed rate borrowing becoming more expensive. In early 2008 these rates have begun to reduce meaning if lenders reprice accordingly we could begin to see some cheaper fixed rates becoming available.

Tightening lending criteria is likely to see lenders placing ever greater scrutiny on the valuation process. We expect new builds in city centres to be viewed with some trepidation by lenders, and it is essential investors consider comparables in the area before accepting the developers' valuation.

Securisation, the process many lenders use to source their mortgage funding, is also liable to change the make up of the lenders in the market. We are likely to see 'on balance sheet' based lenders (banks and building societies who use their own retail funds to provide mortgages) becoming more dominant. This is because 'off balance' sheet lenders who source finance from the money markets will find funds harder and potentially more expensive to secure. The change in the lender make up is again due to the 'credit crunch' and nervousness in the financial markets. This could mean in the coming year we offer you products from lenders you haven't previously used or have not even heard their name. This should not concern you because we regularly meet lenders and review their lending practices and procedures to ensure our customers continue to receive the service to which they have become accustomed.

The key message for early 2008 is can your broker continue to offer the finance options you need in the current climate?

About the Author

Sarah Maple on buy to let mortgages. Research sources: <http://www.mortgagesforbusiness.co.uk>, [buy to let mortgage](#) brokers in the UK

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