The rise, fall and rise of the two-year BTL fix

Taking a step back in time for a moment, throughout the mortgage market, the two-year fixed rate product largely reigned supreme.

This is also true in the buy-to-let marketplace as landlords took advantage of cheaper, shorter-term products as competition in this area was largely unrelenting for long periods.

Back in 2016 – some 20 years after the launch of the BTL mortgage in the UK market - two-year fixed deals accounted for just under 68.5% of market share, while five-year deals sat at just over 23%. However, Following the introduction of stricter lending criteria on shorter fixed-term buy-to-let mortgage deals by the Prudential Regulation Authority (PRA), landlords found it far more difficult to access such product types.

By Q1 2017, five-year deals were suggested to account for just under 50% of market share, rising to 56% in the second quarter of the year. Around this time, landlords took the opportunity to review existing portfolios and make further investments ahead of a potential Bank of England base rate rise. By Q3 2017, the market share for five-year fixed deals increased to over 61% then rose further to 66% in Q4 following the Bank's base rate rise of 0.25% in November of that year.

According to data from Commercial Trust Limited at that time which was an almost complete role reversal by Q1 2018, when five-year deals were reported to account for just under 67% of market share compared to 28% for two-year fixed rate products. Inevitably, the next few years continued to see the five-year fix fast become the go-to option for landlords as they benefited from some historically low rates.

Fast forward past the well-documented events of Q3/Q4 2022 to March 2023 and data from Moneyfacts saw a total number of 2,400 buy-to-let mortgages on the market, meaning choice has returned to a level not seen since August 2022.

However, with rents rising, some lenders are reducing their stress rates and deals are starting to fit on the shorter product terms, especially in higher yielding areas outside of London. To further support those landlords looking for shorter term products, here at Foundation Home Loans, we have chosen to improve our ICR stress test for shorter term rates, simplifying it to either a pay rate plus 2% or a fixed 8%, whichever is the higher. Our stress test on five-year products is unchanged – calculated at pay rate.

Utilising the new stress test calculation should open up new maximum loans for a number of borrowers wanting shorter term products and from the feedback we're seeing from our intermediary partners.