

MORTGAGE INTRODUCER –QUESTIONS FROM HELL AUGUST 2009-BILL WARREN

As the intermediary mortgage industry digests more communications from the FSA about the future and possible changes to the regulation of mortgages and financial advice generally, the majority of the lending fraternity, politicians and regulators will be going on holiday. A luxury many intermediaries can no longer afford. Lets hope we can expect a lull in the somewhat lengthy and detailed discussion, policy and even some interesting speeches for a few weeks.

The biggest single issue in recent weeks has been the possible restrictions in loan to value percentages and perhaps more importantly the potential regulation of affordability by the FSA. A recent Association of Mortgage Intermediaries (AMI) survey indicated many mortgage brokers favoured lenders taking full responsibility for the assessment of affordability in all cases. Personally I found this very worrying, as this would undermine the very existence of mortgage, and perhaps any other financial advisers, allowing the product provider to have total control, which of course would suit them perfectly. Clients still use an intermediary in a higher percentage of cases as they believe in and expect an objective across the market review and assessment of their personal needs. To abdicate responsibility for the advice given, whether it's relating to mortgage affordability or any other related assessment, could be the thin end of the wedge for intermediaries, especially in the mortgage market. Granted PII cover is not cheap, but I think its important not to let the actions of the few and by that I mean those who have either committed fraud by over stating mortgage applicants income or similar to drive the whole industry's future as the regulators as you would expect react as they must do. We the industry must stand firm and find and demonstrate an acceptable level of responsibility thus avoiding for example a return to simplistic income multipliers, and prevent turning the clock back 30 plus years. MCOB gives the means to do this currently so why change for the sake of a few. Off the soapbox and on to the questions received!

Q1. The direct to lender product and advice issue has had so much air and media space that its in danger of being side lined or ignored. Why do so many fear the lender direct products and how would you advise clients to address it? We are a small firm with five advisers and it has done us a lot of damage in the short term.

A1. There remains still a basic fear of charging fees to clients for the research and advice provided where the end result is recommending a direct to lender product. My advice has been and remains embrace the issue rather than fight it, yes it has and does make life very difficult but is systematic of the current market and however much we moan it wont go away. It has worked to our advantage for several years for well-known reasons, when lenders needed volumes. Find a good sourcing system e.g. Home Buyer System who have led the way in addressing this issue for months with their cost effective HB Lite variation of their excellent sourcing and compliance monitoring system. By being realistic about the fees charged and totally open with clients the barriers will come down, clients expect to pay a solicitor or an accountant for advice received so why not their broker.

Q2. We have recently applied to the FSA for interim authorisation to undertake Sale and Rent Back (SRB) business and put in place PII cover before doing anything else, the FSA have likened SRB to MCOB so this seemed to be a given as part of the FSA's threshold conditions. I was amazed to learn from the FSA that it wasn't required for SRB business, which seems very risky and is also annoying as it is not cheap. Why is it not required?

A2. Like you I had assumed that as firms applying had to comply with the FSA's threshold conditions, PII cover would be, as it is for all other regulated activities. I have not been able to establish why it's not required but I assume there is a very good reason. However from the consumer protection position I do find it a surprising omission, especially given the SRB arena is described as high risk, hence the speed with which it has been regulated after pressure from the OFT and Politicians. I can understand your annoyance at the cost, but at least when it comes to full authorisation in June 2010 (only 10 months away!!) you will be in a stronger position.

Q3. The FSA and others have had a lot to say about brokers and lenders allowing borrowers to obtain much larger loans than they can afford recently. What should be done to stop the FSA imposing probably totally unrealistic new rules preventing brokers from treating clients as individuals? Is this an infringement of their human rights? As an AMI board member what are AMI doing about it?

A3. As you will see from my comments above I also feel strongly about this issue and the principle behind it. I am not sure I am qualified to answer your question re human rights but as that legislation seems to cover so much it's a reasonable assumption. Your question about what AMI is doing should be addressed to AMI, but you will see action no doubt.