

MORTGAGE INTRODUCER –QUESTIONS FROM HELL DECEMBER 2009-BILL WARREN

As we move very rapidly towards 2010 the need to fight for survival remains key for most businesses. That said many visitors to Expo in early November seemed both cautiously optimistic and naturally glad to have survived 2009, but genuinely believed that there were real signs of the worst being over in the mortgage industry. That much abused description “green shoots” springs to mind, but most economic commentators remain rightly cautious when there are still well respected mortgage firms ceasing to trade having survived what seemed to be the worst period. Despite this drag affect many firms report increased levels of business, including a quote from one firm we have gone from zero to doing some business! Should we be optimistic as we prepare to enter 2010? Yes is almost certainly the answer with more funds becoming available, and more lenders seemingly on the horizon if the press are to be believed. With the divesting process for the RBS and Lloyds Banking Groups seemingly about to commence in theory the increase in the numbers of lenders should increase competition and start to make the intermediaries role even more important than it is at present to ensure clients/consumers get the most appropriate advice to suit their circumstances. Lets all hope this optimism continues to expand as 2010 gets closer, and perhaps many firms can enjoy a more relaxing Christmas.

Against this aura of positive expectations the mortgage market review and the new financial services bill are gathering a head of steam, which could put a temporary brake on the improvements in the general market situation. The uncertainties generated by the Mortgage Market Review will exist for a few months yet, although words spoken by senior representatives of the Financial Services Authority have given hope that common sense will prevail. This may be fine and

encouraging but the bottom line remains that what is written tends to be the detail that firms and individuals have to interpret and implement, as applying the thoughts and interpretations of the senior directors of the FSA is both difficult and risky. One major concern for many including the two main mortgage trade bodies, as I understand it, is that the data used by the FSA does not reflect what the market believes to be accurate. This applies to the “income verification” issue for example; the FSA state that 45% of loans provided in 2006/7 had no income verification. The worry is that fast track cases will have been included many of which did require income details, is just one of the stories being discussed. The real question is were the right questions being asked to gather the data decisions are being made on? No one questions that the “self cert” arena was abused by some and ignored by others, but the market itself has largely addressed this so banning self cert now is again after the horse has bolted, should the regulator have been doing more with lenders before the problems arose perhaps?

One proposal that I find difficult to imagine in practice is the redefining of the scope of service to sit comfortably with the RDR, between independent and restricted advice. How many advisers will want the words “restricted advice” on their business cards not many I would suggest. I hope the FSA receive a mountain of responses on this issue from firms feeding back on the MMR, nothing is set in stone yet so lets give the FSA a lot of reading! The FSA are through the Mortgage Market Review seeking to change our society’s approach to home ownership and borrowing money, which in the context of consumer money management a good thing, however the fundamental freedom of choice and personal ambitions are being very seriously eroded by these proposals, do the British public know, I doubt it but they will care in due course!

Q1. The Financial Services Bill seems to be increasing the powers given to the FSA, which must be right in certain

respects but given their failure to use their existing power it seems effectively what will they gain and more importantly what will we the mortgage intermediary market lose?

A2. Within the confines of this section of Mortgage Introducer it will be difficult to give you a full answer but here goes with some key issues!

The Bill proposes enabling the FSA to be more fleet of foot by increasing their power to cancel or vary firms' part IV permissions, suspend them or close the firm down.

At a high level the FSA's regulatory objectives are being changed to include the protection of the UK's financial stability and a greater focus on consumer protection. When things were going so wrong in 2007/8 the FSA were often criticised for not acting when in fact their hands were tied behind their backs often. Now they will be able to act faster and improve the public's understanding of financial services. The bill also gives the FSA more powers relating to the control and management of those people holding controlled functions within firms. This especially relates to those operating without the required controlled function permission, they will be able to ban them, fine them, suspend them for a longer period or limit their activities (and the firms) much more easily. Result is expected to be a more effective regulator!

Q2. The FSA, the Bank of England and the Treasury were all criticised for being slow to act when initially the newer sub prime lenders were collapsing in 2007/8 in particular. Who do you think will hold the real power or should hold the power to actually do something practical to prevent the domino effect?

A2. The short answer to your question is that I believe the FSA should and will have increased powers shortly to control the lenders, especially those that are labelled non bank lenders. They will be required to more stringently assess business models, which I assume they already are. They have been considering placing asset limits on specific lenders or certain

types of lenders and have recently proposed increased capital requirements for non-banks. They could even limit the funding available to certain banks as happens in other countries although such a step would probably result in the lender closing. Now it's about stability and quality hopefully the domino effect wont come into the equation.

Q3.Do you think the proposed ultimate responsibility for affordability resting with the lender as proposed within the MMR will have an adverse effect on intermediaries?

A3.As now some lenders will I believe still need intermediaries to reach their business targets and consumers will still want what they perceive intermediaries to provide "honest and independent advice"-possibly with independent not as the FSA would define it. Consumers want fair and objective treatment and many believe only brokers can provide that service.