

MORTGAGE INTRODUCER –QUESTIONS FROM HELL MAY 2009-BILL WARREN

The phrase “green shoots” has been somewhat maligned over the last few weeks as politicians, journalists and others have expressed usually a personal view that they believe that there are some “green shoots of recovery” showing above the doom and gloom across the UK. In the mortgage market could this be true? In the last two weeks or so at least two major lenders have increased LTVs with competitive interest rates. Either their treasury functions are incredibly high risk takers or very astute, I suspect the latter having secured deals that support the now almost impossibly high LTVs plus decent rates that will generate good quality business, so perhaps we are truly on the up again. Any increases will be slow to filter through but the sense of returning confidence and more importantly income flow however slow will be very welcome to the intermediary market, a massive over statement!

Many words have been written about a variety of announcements and speeches made by the chief executive, the chairman and executives of the FSA in recent weeks on a range of subjects all inked by either concerns about management and controls of financial services firms, the economic environment or by criminal and/or fraudulent activities. The chief executive Hector Sants has set out his views on his and the FSA’s regulatory philosophy and supervisory approach, upsetting many by reminding firms and individuals to be very afraid of the FSA. Whilst criticised by many for using these words, the frustration relating to firms seemingly not listening to the FSA, following the rules and guidance no doubt were a key driver in making this comment. This alongside the Chairman’s longer-term views on financial services regulation in particular in a pan European environment has given many industry professionals much to digest in the last month or so. This period of time has been distinguished by the challenges thrown up by the continual speculation attached to the RDR situation alongside the above views and implications. Which in an unstable market where survival is the single most important activity and thought process makes it very difficult to generate clarity of thought and foresight. Whilst those still surviving will undoubtedly have constructive and incisive views as to where the market should and could go in the future, the difficulty is being able to step back and both think and assess objectively the issues.

Q1. My firm, a mortgage and insurance broking business of long standing, has to date managed to survive although the daily survival test remains for my business partners and me. We have a loyal group of clients whom we would hate to let down. As part of our “risk and doom” deliberations as we have called them we have often tried to assess what would happen to our clients if we did cease trading. Like many we read of firms stopping trading or being closed down, but rarely do we hear what happens to their clients. Do the FSA step in if they are closing a firm down and advise the clients where to go or what to do? There must be orphaned lender customers where the lender has ceased operating, where do they go for advice especially if they think they have been badly advised? Can you answer these questions?

A1. A very good question which is not easy to answer as you have raised a number of issues which in certain ways have no clear answers but I will try to briefly address them. Taking each of questions as they come I will try and briefly respond. Taking the situation where a firm is closed down, usually by the regulator first. It is likely that the FSA will have been carrying out a client review or have asked the firm to commission one in many situations, so in all probability those clients contacted by either the firm themselves, the FSA or another "skilled person" type situation will know what the problems are and how they can obtain redress perhaps via the Financial Ombudsman Service or the Financial Services Compensation Scheme. There can also be the scenario where the firm ceases trading perhaps anticipating problems where the clients have no idea there may be a problem with the quality of advice they have received for example. The firm closes and there is no-one to tell them what was wrong or the issues involved which might impact them, those clients are in effect in no-mans land, abandoned you might say. Should the FSA do more it is probably outside their remit and capability? Orphaned lender customers are likely to be slightly more fortunate as they will probably have been sold en bloc to another lender or similar body who will have more of a vested interest in assisting them.

Q2. The sourcing systems are slowly copying the Home Buyer System and providing brokers with access to direct to lender products. Is this a sign that when the Financial Services Authority announces it's review of the mortgage market it will become a requirement to advise the mortgage client from the real whole of market range of products?

A2. I would personally be very surprised if that wasn't the result, as it seems logical and fair to clients. Those brokers and individuals using the Home Buyer System must have I guess had a slightly less difficult time in recent months with TCF if nothing else!

Q3. Hector Sants the FSA Chief Executive has made it clear that he expects the owners of firms, boards of directors, non-executive directors and senior managers within firms right across the financial services industry to improve their attitude to business risks and the controls needed within firms. There has been quite a lot talked about non-executive directors and their role within businesses. Do you its fair to point the finger at these non-executives in the current environment?

A3. There is little doubt that because of all the well documented difficulties we are experiencing that the role of NEDs has become a talking point, probably in many peoples eyes as they are seen as a cost rather than adding value. I think it is fair to highlight their role, as they exist mainly to act as a brake, a sounding board, and most of all a challenge to management/business owners in the pursuit of strategies and business goals that need to be robust. I guess in certain firms the NED's will not always have been kept in the picture and therefore able to fulfil their legal function. I believe that a NED with a good breadth of experience and knowledge can be worth their weight in gold to firms especially the small to medium size firms.