



THE FUTURE OF MORTGAGE REGULATION

CONSULTATION PAPER

The Association of Mortgage Intermediaries (AMI) is the trade association representing over 75% of UK mortgage intermediaries. Over 70% of all mortgage transactions are originated by the mortgage intermediary community, including 58% of regulated contracts.

Intermediaries active in this market act on behalf of the consumer in selecting an appropriate lender and product from within their panel to meet the individual consumer's mortgage requirements. Our members also provide access to associated protection products.

Our members are authorised by the Financial Services Authority (FSA) to carry out mortgage and insurance mediation activities. Firms range from sole-traders through to national firms and networks with thousands of advisers.

INTRODUCTION

As part of his wider review, Lord Adair Turner, Chairman FSA announced that in September a discussion paper will be launched, focussing on the regulation of the mortgage market, specifically the possible amendments to the Mortgage Conduct of Business Sourcebook (MCOB).

While revisions have been made to both ICOBS and COBS over the past two years, its counterpart MCOB has remained relatively unchanged. September's paper will provide a starting point for detailed discussion to take place on the future regulation of the mortgage market. The industry must be under no illusion of the profound affect this will have on the landscape of the future.

The current regulatory regime has both strengths and weaknesses and it is important that any reform to a regulatory regime "flexes" to meet these new conditions while maintaining core standards and a consistent approach.

This paper aims to set the scene for this significant regulatory shift, providing an analysis of the market and provoking discussion for areas of improvement. We wish to engage with our members, in a debate around the current and future regulatory structure of the mortgage market, in order to provide a unified and cohesive view to FSA.

This paper is accompanied by a questionnaire, designed to facilitate the exchanging of views between AMI and the intermediary market. These thoughts and views will be fed into a wider reflective piece on the future of mortgage regulation. Firms can access the questionnaire via the following link:

http://www.surveymonkey.com/s.aspx?sm=wYHKVBT62inaUlaF4GaB8w_3d_3d

We have also set out our initial thoughts in a summary document, designed to provide reflection and act as an aid for the completion of the associated questionnaire. This can be found via the following link:

<http://www.a-m-i.org.uk/news/The-Future-of-Mortgage-Regulation-Summary.pdf>

BACKGROUND

Statutory regulation was introduced in the first charge mortgage market on 31st October 2004. Since that date, the FSA have been the market's "lead regulator".

Over this time, the sector has seen rapid growth and then dramatic recession. The credit crunch in turn, will have a measurable impact on consumer attitudes to debt and the housing market for the next decade, and this has, and will continue to affect the lending policies of mortgage providers and the business models of intermediary firms.

On March 18th The Turner Review was published. Lord Adair Turner, Chairman, FSA, was asked by Alistair Darling, Chancellor of the Exchequer, to review the causes of the financial crisis and provide recommendations on the changes in the regulatory and supervisory approach required to create a more robust banking system for the future. In this review, and its associated Discussion Paper, Lord Turner stepped back from making specific recommendations of change within the mortgage market.

This wider analysis did however provide a snap shot of FSA's thinking into the possible policy responses to address the main issues, as seen by the FSA, within the mortgage market.

- Whether FSA should play a role in direct product regulation - FSA challenges the philosophy that regulation would stifle innovation, by commenting on how effective market discipline has been in controlling excessive risk taking to date.
- Whether to regulate Maximum Loan to Value ratios (LTV) or Loan to Income (LTI) Ratios – The report outlines both the pro's and con's to this approach – Commenting that the number of 100% mortgages almost doubled between 2005 and 2009.
- The idea has also been floated to vary LTV or LTI limits throughout the cycle. For example maximum LTV's would be reduced when property prices were rising rapidly and conversely increased when property prices fell.
- The FSA regulation of the second charge and buy to let market.

FSA will now review regulation within the mortgage market, and in September this year plan to release a Paper to this effect. This will include thoughts on how FSA's approach should evolve to reflect current market conditions and its effect on UK regulation.

In anticipation, on 12th May FSA held a Mortgage Sector Conference which represented an ideal opportunity for firms to engage directly with FSA on the future of their industry. The conference gathered regulatory, lender, intermediary and consumer views and while there were no specific recommendations made, FSA acknowledged the economic and regulatory importance the mortgage market and its practitioners played on the overall economy.

THE MORTGAGE MARKET

In 2008 Net mortgage lending totalled at around £38 billion, with gross lending reaching £256.4 billion. The expectations for gross lending over 2009 are £145 billion. Net lending is predicted to range from +£20 billion to -£20 billion.

The number of mortgage transactions dropped by 47% in April 2009 compared to February 2008. The number of remortgages dropped 58% compared with the same period¹.

There were 9,400 loans to first-time buyers in April 2009 - a 7% monthly increase - but significantly less than the 17,400 provided in February 2008². Tight lending criteria remain a barrier to most first-time buyers.

First-time buyers typically held a deposit of 25% in February, which whilst representing a new record, still remains a level out of reach to most buyers. The number of loans to first time buyers in April 2009 was down 48% compared with February 2008 and the typical amount borrowed represented around 2.95 times their income.

We would expect demand for remortgaging to remain muted as lenders standard variable rates continue to be attractive compared to new mortgage pricing, and house price falls continue to erode equity levels, excluding many borrowers from the best remortgaging deals available.

This once thriving mortgage market has now and AMI are keen to see how the impact of current Government policy works through the mortgage market. If it provides the stimulus that politicians suggest, the market may be spared the worst crash since the 1980s. If not, and the wider economy suffers the expected downturn, we believe the housing market's fate will be worse than that suffered in the 1980's

CONCLUSION

It would be simplistic to believe the economic problems, now so widely analysed, could be addressed with more regulation and certainly this is a concern for AMI and its members. Nevertheless it remains that good regulation not excessive regulation is a necessary condition for the preservation of financial stability.

AMI is concerned that the high profile failures in other sectors, and of other business models, will have a measurable impact on the regulation of the mortgage market. We believe it is essential that regulatory interventions are both well timed and conducted only in light of a full understanding of their long-term impact on the market. Few things undermine market confidence faster than regulatory changes being driven by political expediency.

It is vital that we develop our proposals, as an industry, on the future of the mortgage market and mortgage regulation. FSA will already be formulating their internal view of the market, and the regulatory structure necessary to manage it. We therefore only have a short window of opportunity to engage fully and provide appropriate input to FSA.

¹ Source – Council of Mortgage Lenders

² Source – Council of Mortgage Lenders

Member firms are invited to provide their views through the pre-prepared. Alternatively members can visit AMI's website at www.a-m-i.org.uk.

Closing date for all responses will be the Monday 8th June. If any firm wishes to provide views in addition, or instead of answering the questionnaire, these can be e-mailed to info@a-m-i.org.uk.