



Association of Mortgage Intermediaries' response to FCA MS16/2 Mortgage Market Study – Terms of Reference (ToR)

This response is submitted on behalf of the Association of Mortgage Intermediaries (AMI). AMI is the trade association representing over 80% of UK mortgage intermediaries.

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

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

Response

We are pleased that the study appears to have more specifically focussed its attention since the feedback statement in May 2016. We support the restriction of scope to FSMA and decision to focus on the first charge residential market.

However we believe the study omits a fundamental section of the market. Although there is a small mention that internal product switching will be included in the scope of the study, the data cited in section 2.7 excludes this potentially significant proportion of the market.

Current market estimates put the annual gross lending figure for product transfers between £80 billion and £100 billion. This is more than a third of the entire residential mortgage market and it is unchecked and unrecorded. While some lenders have chosen to put borrowers through the advice process at remortgage, others have not. The former triggers a revaluation of the property which in turn can affect loan-to-value. This affects rate, affordability and ultimately how much the borrower repays over the lifetime of the loan. In addition, customers who may have become vulnerable cannot be easily identified in a non-advised sale. This risks such customers not being given adequate information or protection and risks poor outcomes.

With the level of intermediation being one of the areas of focus in the study, any conclusions drawn without taking into account the complete market will be misleading considering our estimates indicate that approximately 85% of product transfers are transacted direct with lenders (and on an execution-only basis). As the ToR cites, it wishes to establish the impact of MMR on the market and behaviour. We consider that if this is excluded then there is a significant risk of incorrect observations and conclusions being drawn.

Consumers must undoubtedly be allowed to choose a product transfer and there is room in the market for advised and execution-only remortgages. However, the impact of consumers' long term financial well-being must be considered, and it needs to be clear to consumers whether they are protected by advice or not.

We hope that this study will size and assess the extent of product switching, and the proportion that is advised, and whether this might harm consumers in a rising rate environment when the length of the initial term has a greater impact.

We also welcome that the study will look at the issues facing consumers and advisers with the ingress of technology-based comparison tools and the potential for “virtual” advice. We look forward to joining discussions on the boundaries of what constitutes regulated advice, the opportunities to use technology to inform consumers on options, whilst ensuring that any conflicts of interest on ownership and accuracy of information are effectively managed.

We consider that whilst the search tools are a good start point, as not all criteria and fields are absolute, they remain flawed so they are not the only tool used in the research process. The fact that lenders will move outside some criteria on some occasions when other factors are comfortably met makes it difficult to model in large systems, but meets many consumers’ needs when serviced by an effective brokerage. Due to the unique nature of mortgage lending with its complexities set by capital, liquidity, risk and return requirements, we are sure that we can add colour to the discussions.

We have other areas for debate but would like to cover these in bipartite meetings.