Mortgage Brief

The panel

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Our panel look at Government involvement in equity release and personal loans, plus direct players, Hips and threats to the packager market

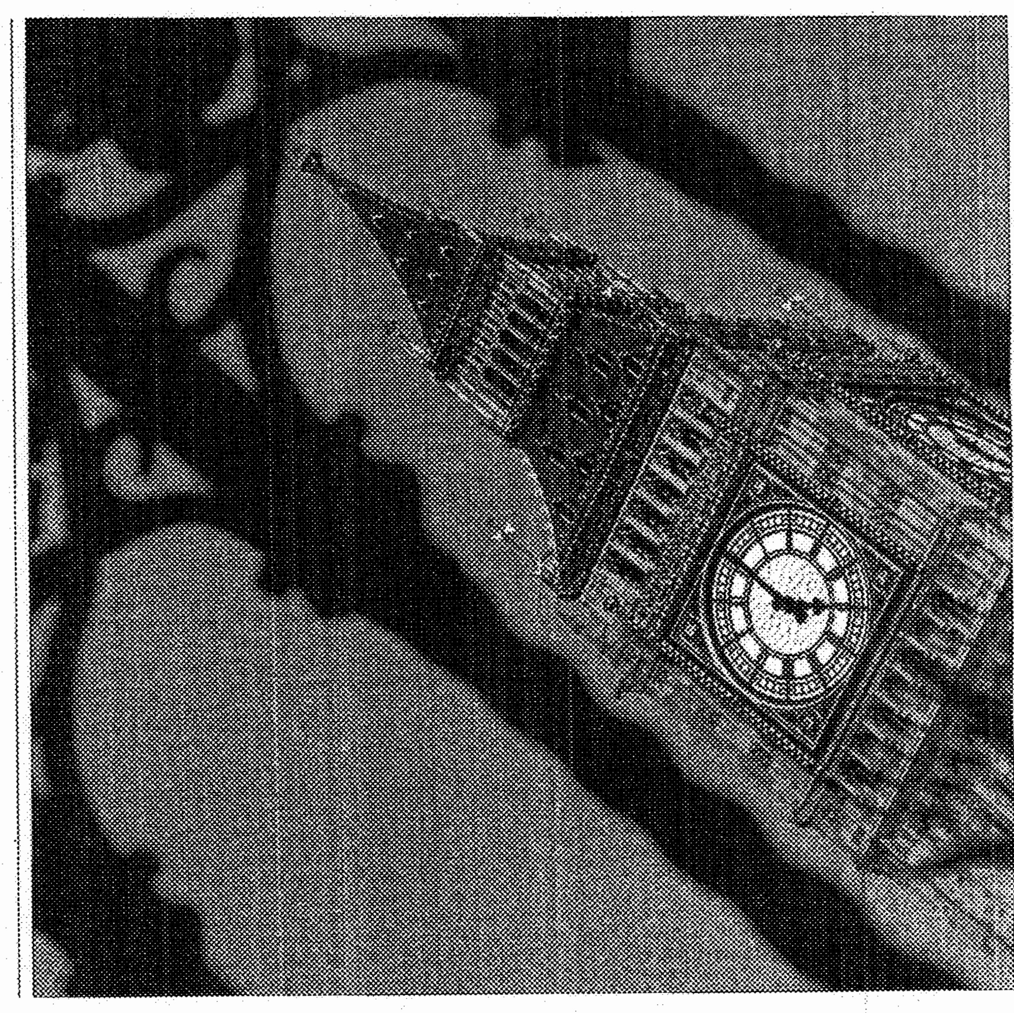
The state of things to come?

Does the equity-release market need a state-run scheme, as proposed by Which?, following the consumer body's swipe at the sector last month?

Beaumont: The Which? report was a very disappointing document and provided a one-sided, headline-grabbing view of the equity-release market. I do not think Which? did itself or anyone else any favours with this document, which failed to take a balanced and informed view of what is happening in the market.
The FSA is already regulating lifetime mortgages and is set to regulate home reversions and Ship has done a good job helping to raise standards in this sector. This is clearly an area of the market where consumers need professional financial advice and, if there was a good point to come out of the Which? report, it was just that.

Wright: The introduction of a state-run scheme may provide some consumer confidence but it will bring little comfort to those operating in the sector. I do not think the introduction of such a scheme would benefit the market as the less than favourable track record of the Government does not instil confidence. This is primarily because it will be limited in its ability to respond quickly to the demands of a growing market. Furthermore, product design and regulation do not necessarily go hand in hand.

Yousefi: I believe it is unrealistic to suggest that the equity-release market should be run by the state or any schemes sponsored by the Government. The real issue is that the sector needs more participation from lenders as well as a great deal of product innovation and competition. In any event, the equity-release market is still a niche segment of the mortgage market and needs to mature over the next five to seven years before one can judge its role in helping consumers with the difficult choice of financial planning in old age.
The quality of independent financial advice is paramount when it comes to seeking an equity-release mortgage and this needs to be enhanced by more advisors specialising in this marketplace in the coming years.



Should the personal loans sector be formally regulated by the Government?

Beaumont: Yes. I do not understand why the loans sector was left out of regulation the first time around, the sooner it is regulated the better. Not only will regulation help rid the industry of its cowboys but it will also create a level playing field and help improve the professional standing for those loan brokers who do want to continue operating in this sector. At the moment, the loan market is a regulatory mess. For example, the sale of mortgages is controlled by the Financial Services Act, but the sale of secured loans of less than £25,000 falls under the Consumer Credit Act and loans above £25,000 are not regulated at all. The CCA limit is set to rise which will further expose borrowers to an unregulated market.
Brokers who deal with secured loans also currently find themselves in a bizarre situation whereby the main loan product is unregulated but the sale of any associated insurances, such as payment protection insurance, is regulated. These types of anomalies need to be ironed out as quickly as possible.

Wright: Personal loans can be just as complex as regulated products and sometimes have even greater financial consequences if incorrectly set up. In many circumstances, personal loans are sold or bought as a sticking plaster to cover a wound which required serious attention. In these circumstances, comprehensive debt restructuring advice is required.
If personal loans are provided with no proper advice, then inherent financial problems may continue unresolved and can lead to further financial difficulties. The provision of personal loans should be done within the same regulatory infrastructure as regulated products.

Yousefi: The personal loan market does not need a radical overhaul or increased regulation. It is an area of personal finance which seems to work well

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as it stands. But, to increase consumer protection, steps should be taken by the few banks that do not share their data, to ensure that all lenders can make informed lending decisions. This will give a much better picture of the individual's financial situation, minimising the risk of lending money to people who will struggle with the repayments.
We need all lenders to be able to lend money with their eyes open.

Are direct players a serious threat to mortgage brokers? Can mortgages really be sold without any advice at all?

Beaumont: Yes. Of course they can and anyone who thinks that direct lenders are not a threat are not living in the real world. When brands such as Tesco and Sainsbury, which have such consumer power, come into the market there is inevitably a threat to intermediaries.
I believe that the lion's share of mortgages will continue to be sold via the advised route for some time to come because they remain a complex, high-value and low-frequency purchase where consumers appreciate some professional hand-holding. If direct players can teach intermediaries a lesson, it is about the importance of brand management.

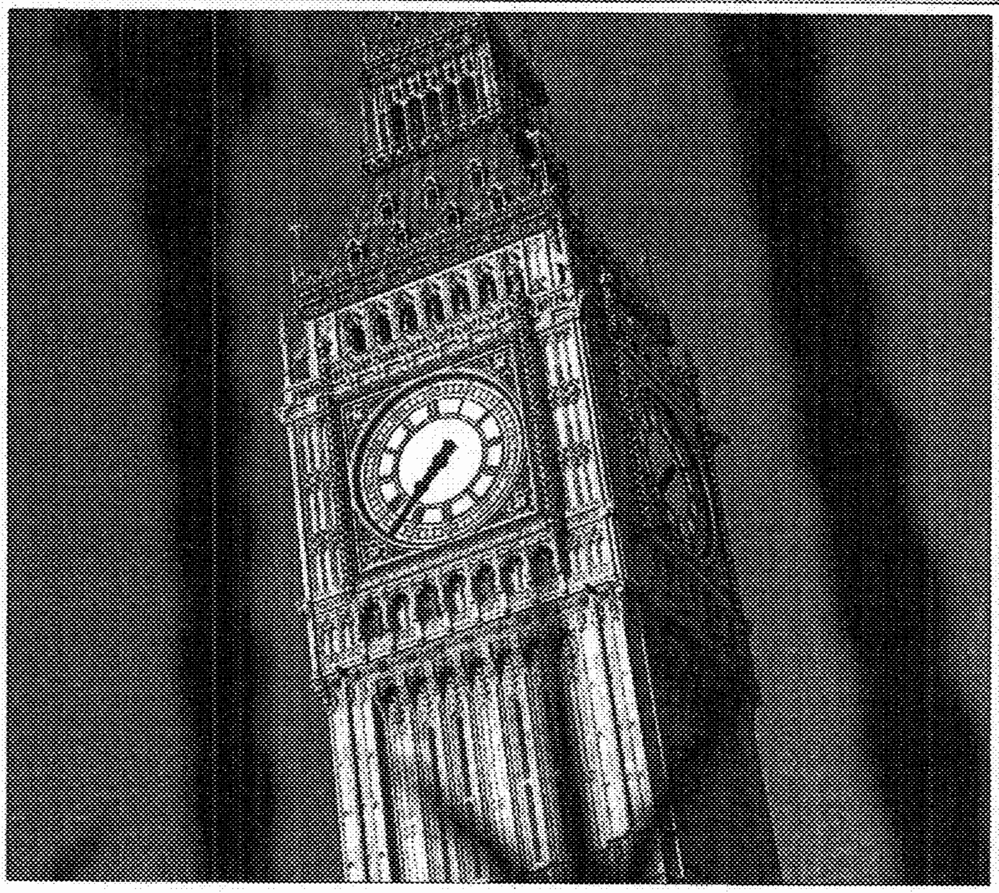
Wright: Direct providers of any product concentrate on a high quantity of sales, with the suitability of the product to the consumer's needs being less important. Consumers should be able to choose to buy without taking advice but the ease in which complex financial products can be sold in this way is a cause for concern. Future miss-buying will do nothing to strengthen the reputation of the financial services industry. It is hard for those of us who are prepared to be held accountable for our actions to understand the apparent lack of regulation applied to those who are not.

Yousefi: I do not believe that direct players are a major threat to mortgage brokers. Brokers have a valuable role to play in providing quality financial advice to the consumer as well as surveying the whole market for the most appropriate and suitable product to meet their clients' needs. Mortgages can be sold without advice where the consumer is comfortable with limited information and has shopped around and knows exactly what type of product they want and what their approach to risk is.
In other words, they may have already elected that they are on a tight budget and they want a short-term fixed rate and are shopping around either through lenders direct or through a broker for the best two-year fixed-rate mortgage.
In this instance, if the customer is an experienced mortgage holder (looking to move house or refinancing for a better deal), there are circumstances where they do not need any advice at all.

Which of the new lenders coming into the market this year are likely to make the biggest impact?

Beaumont: A difficult question to answer because they have not yet announced what their launch strategies will be. I have no doubt that they will make a lot of noise in the media, but to what extent they will make a real impact on the market is a different issue. Not only is launching a new lender into an oversupplied and flat mortgage market an extremely difficult task but existing lenders are also not going to sit about and let them steal market share from under their noses. It is going to be a tough battle and I would put my money on the established players as long as they continue to invest heavily into product design, innovation and technology and do not become complacent.

Wright: There are no new lenders head and shoulders above the rest but what I can predict is that the lenders which offer competitive rates alone may secure short-term market share but not long-term intermediary support unless they have also built robust systems to cope with fluctuating business levels. Entering the market with exceptional products that cause an influx of business that can not be processed efficiently will only generate huge frustration. A successful impact on the market-place will best be measured by consistently high levels of business and this will only be achieved if competitive products are matched by efficient service levels.



Yousefi: It is difficult to predict as there are at least half-a-dozen new entrants that are likely to enter the specialist sector of the UK residential mortgage market in the second half of this year. I would suggest that Oakwood, who recruited Michael Bolton and his team from Birmingham Midshires, will probably make an impact with innovative technology and quality service standards backed up by excellent marketing and PR campaigns. But the big issue is whether you are able to make a positive return as a new lender in the first couple of years of entering the market, given the start-up costs and associated marketing costs needed to challenge the established players.

Are Home Information Packs likely to go the same way as residential property Sipps and be scrapped, given the delays in implementing a timetable?

Beaumont: My instinct says no, because I do not think the Government will want the ignominy of being seen to do a double U-turn. But this does not mean it will not happen. If there are delays to the timetable, it will push a launch perilously close to the next general election and that may be seen as a greater risk for Gordon Brown, who has never been willing to give this initiative his whole-hearted public support.
I think the next few months will be critical in judging the Government's intent. The Council of Mortgage Lenders has recently issued a hard-hitting report in which it calls for a more detailed timetable.
The Government has to respond. How it responds will give some strong clues as to whether Hips are likely to happen or not.

Wright: It is impossible to say whether the Hips' initiative will be scrapped but based on previous events it is hard not to be pessimistic. It is disconcerting that the introduction of such an initiative still carries many unanswered questions and timescales are being stretched to the limit. This brings further tension and concerns to the industry and forces the design of new procedures and systems under increasing pressure. There are still many concerns being expressed by the likes of solicitors and estate agents and it would appear that the practicalities have not been thought through, hence the concerns being highlighted.

Yousefi: It is interesting to note that the lending industry and the Association of Mortgage Intermediaries have begun to question the framework of Hips in detail in the past few weeks and are now seeking greater clarity from the Office of the Deputy Prime Minister prior to the commencement of the dry run on January 1 2007. It is a distinct possibility that if the dry run is fraught with difficulties, the introduction of Hips will be postponed or indeed scrapped at some stage in the next 12 months.

Can the mortgage packager market cope with so many associations and trade bodies or should they merge to form one group?

Beaumont: The word "association" is really a misnomer when used in relation to recent developments in the packager market. In the world of financial services the term "association" is usually taken to mean a trade body that campaigns for, and represents, the interests of the sector.
The various packager groups which are being formed at the moment are really collectives, working together to generate greater bargaining power and pool ideas. There is nothing wrong with that and if there are benefits to be gained, it does not matter how many groups emerge.
But it still leaves a question as to whether packagers need a representative trade body. My view is that the Association of Mortgage Intermediaries is the right forum for this. Its role is to represent intermediaries whether they are individual firms or packagers, and it has proven itself to be competent at the job.
Why go through the trauma of trying to reinvent the wheel?

Wright: The industry is overloaded with associations and trade bodies. It is beneficial to have more than one association as this breeds healthy competition.
Merging to form one group would be anti-competitive and dilute the value and power that these associations can have. I would favour the mortgage market having less associations and trade bodies but not so few that choice becomes limited.

Yousefi: The mortgage packager market has been much more resilient than many people anticipated around the time of the introduction of mortgage regulation. Given the expansion of a number of lenders in specialist sectors and the ambition of a number of new lenders coming into the market, it can be argued that the top 20-30 packagers in the UK are likely to be more prosperous over the next 12-18 months than they have been in the last year or so. It is not unrealistic to expect at least two trade bodies to act as viable lobby groups for this important segment of the marketplace.