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newsletter

Financial Services Authority

Mortgage Market Review

As we publish our Discussion Paper – *Mortgage Market Review* – here we outline the changes we are considering making to the mortgage market. For more details, read the full paper on our website: www.fsa.gov.uk

Will this affect you – directly or indirectly?

Our proposed reforms of the mortgage market take a robust and interventionist approach to constrain irresponsible high-risk lending and borrowing, without restricting flexibility or access for consumers. So we are aiming our *Mortgage Market Review* at everyone involved in this market – consumers, consumer groups, investors, intermediaries, lenders and trade bodies – all of whom we hope will engage actively in this debate.

The proposals could mean major changes for some firms. So they will be of direct interest to you if your firm is a:

- building society;
- mortgage lender;
- financial adviser;
- mortgage arranger; and/or
- mortgage administrator.

Why is this important?

The mortgage market has worked well for many people over the years and the vast majority of mortgage borrowers will come through this recession meeting their mortgage payments and keeping their homes. But it has been a cause of major economic distress for others and our existing regulatory framework has proved to be ineffective in constraining particularly risky lending and borrowing.

We recognise that our current regime needs to be reformed and aligned with our revised regulatory philosophy. So we are inviting discussion on our proposals to move to a mortgage market that works better for consumers and that is sustainable for all participants.

And why is this important to *your firm*?

Your firm could be directly affected by the proposals we are making, for example, to:

- ban self-certification and require income verification for all mortgages;
- make lenders ultimately responsible for affordability assessments;
- prescribe the affordability assessments which lenders must make;
- require affordability of interest-only mortgages to be assessed on a capital repayment basis;
- prohibit loans being made to consumers who have low borrowing capacity;
- prohibit loans that are a mix of high-risk characteristics;
- strengthen our arrears rules and ban some of the existing unfair charging practices;
- extend our Approved Persons regime;
- reform our approach to disclosure by focusing on early disclosure of key service information rather than the prescription of the form of that information; and
- extend our regulation to second-charge lending and buy-to-let (this will be a decision for the government).

What do you need to do next?

Respond to the Discussion Paper – that will help inform our thinking.

We want to stimulate a wide-ranging debate, so we hope that everyone in the market will engage actively in this debate by reading the full paper and responding to it.

You can also join us at a roadshow for an outline of our current thinking and the opportunity to give your firm's views (see page 4 for details on how to register).

What will the FSA do next?

We need your responses to the Discussion Paper by 30 January 2010.

We expect to issue a Feedback Statement in March 2010 setting out your feedback and our responses to it. Then we may follow that with a Consultation Paper (or papers), considering the best timetable for implementing our proposals. We intend to move quickly to consult where possible and where the proposals are supported.

What's the background to this?

Homeownership and mortgage credit play a vital role in individual lives, in the financial system and in the macro-economy. Residential mortgage debt in the UK amounts to around £1.23trillion, accounting for approximately 70% of all credit extended by lenders in the UK.

Many households benefited from the benign economic environment and readily available cheap credit that emerged from the growth of global liquidity and fall in real risk-free interest rates. A lot of people now own their own homes (many of them outright) when previous generations would never have been able to do so. They will consider that they have been well served by the mortgage market in the UK.

However, the abundance of liquidity in the UK mortgage market led to financial innovation and increasing levels of risk being taken on by banks through relaxing credit standards and lending to individuals who had previously been excluded from the mortgage market. Cheap credit meant that consumers were willing to take on ever increasing amounts of debt. Many of those consumers exposed themselves to high levels of debt relative to their disposable income and are experiencing financial difficulties as a result. The number of arrears and repossessions has been continuing to increase during this period and is forecast to continue rising over the next year.

Some of the drivers of the market growth are outside the FSA's regulatory scope. Monetary and fiscal policy will remain part of the background against which we and firms operate. Regulation alone will therefore be unable to resolve the problems in the UK mortgage market, cannot reverse the impact of the downturn and can only go so far in ensuring that the unsustainable and destabilising boom in the property market is not repeated in the next upswing.

But our approach in this review, in tandem with our more intensive and integrated approach to supervision, will help us make earlier and better judgements about the risks that firms and consumers face and mitigate them as part of outcomes-based regulation.

Want to find out more?

Come to one of our roadshows, which we're holding around the country (see below).

The wider macroeconomic background has been a key factor in the growth of the UK mortgage market. So for more on the background to this review, see both our *2009 Financial Risk Outlook* and *The Turner Review*, which discuss the origins of the crisis. These are the focus of renewed attention given the very recent publication of the feedback on *The Turner Review* Discussion Paper, which forms an important backdrop to our discussion on the options for reform.

Roadshow

Mortgage market review consultation roadshow for regulated firms

As we review the mortgage market, these roadshows will give you an outline of our current thinking and the opportunity to give your firm's views.

Who should attend?

These are open to all regulated firms, but will of most interest to intermediaries, lenders, networks and administrators.

What's the format?

There will be a presentation and discussion, with the opportunity to offer feedback.

Where and when?

See the Events section of our website to find out more.

How can I get the full paper?

You can download the full Discussion Paper from:

www.fsa.gov.uk/pages/Library/Policy/DP/2009/09_03.shtml

Or you can order hard copies of the paper:

Phone our helpline on **0845 608 2372**, quoting reference **DP09/3**

Copies are available at **£20** each. Please allow five working days for delivery.

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