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**This newsletter focuses mainly on the findings from our review of mortgage processes that lead to advice. It also summarises other mortgage-related news and training.**

## Mortgage quality of advice processes

The findings of this review were disappointing. All mortgage firms should review the findings relevant to them and take any appropriate action.

Our review found only one third of the firms sampled had robust processes in place to provide customers with suitable advice.

We reviewed 252 firms of differing sizes through mystery shopping, visits and questionnaires between June and October last year. These results provide a baseline against which future improvement will be measured. Scope for improvement was found in all aspects of the advice process. Some of the poorer areas identified were the assessment of customer needs, including affordability; training and competence; overall systems and controls; and record keeping.

The results varied between different types of mortgage firms: small mortgage networks and advisers; large mortgage networks and advisers; and banks and building

societies. The key actions and more detailed findings for these types of firm are covered here.

## Small mortgage networks and advisers

The findings indicated that more than three quarters of firms in this sector generally did not have robust processes to give quality advice. Both the visit findings and mystery shopping identified instances where this lack of robust processes led to increased risk of unsuitable advice being given.

## Key actions

### *Quality of advisers*

- Ensure mortgage advisers are appropriately qualified. If advisers are not, stop them giving advice to clients with immediate effect and review a sample of business written by these advisers to ensure there is no consumer detriment.
- Review your T&C procedures. Ensure these are appropriate and are being properly used by your firm.

### *Assessment of customer needs*

- Check the processes you use to assess affordability. If these do not appropriately assess affordability, amend them and consider whether this has resulted in any unsuitable advice and consumer detriment, and the action you should take such as a past business review.

### *Recommendations including research*

- Check the processes you use to make recommendations. Make sure advisers carry out adequate research to support why a particular lender and product was recommended.
- Check advisers are able to evidence from the file why the product recommended is the most suitable.
- If an adviser recommends a switch from an existing lender to a new one, ensure existing products and penalties are properly considered.

### *Communications with customers*

- Provide customers with Initial Disclosure Documents that accurately reflect the level of service being provided and how the firm will be rewarded.

### *Management controls*

- Ensure your systems and controls provide you with management information so you can check whether your advisers are giving quality advice and are treating customers fairly.
- Your management information should allow you to identify trends in issues arising and their cause. Act on any issues you find.
- Focus your monitoring on the quality of the advice provided rather than just the completeness of the file.

## **Large mortgage networks and advisers**

The majority of these firms had robust processes in place. However, we identified instances where the processes had not been applied or followed, which lead to the risk of unsuitable

recommendations being made. This is an area for senior management of these larger firms to focus on.

### **Key actions**

#### *Assessment of customer needs*

- Check your processes that assess affordability and check they are being followed by your advisers. If the processes do not appropriately assess affordability or are not being followed, check whether this has resulted in unsuitable advice and any consumer detriment, consider what action you should take such as a past business review.

#### *Recommendations including research*

- Check your processes that lead to recommendations. Make sure advisers carry out adequate research and can support why a particular lender and product was recommended.
- Check that advisers are able to evidence from the file why the product recommended is the most suitable. If an adviser recommends a switch from an existing lender to a new one, ensure existing products and penalties are properly considered.

#### *Communications with customers*

- Provide customers with an Initial Disclosure Document at the correct point in the sales process.

#### *Management controls*

- Ensure your systems and controls provide you with management information so you can check whether your advisers are giving quality advice and are treating customers fairly.
- The information produced should allow you to identify trends in issues arising and their root cause. Act on any issues you find.
- Focus your monitoring on the quality of the advice provided rather than just the completeness of the file.

## Banks and building societies

Robust processes were in place within these firms. However, the mystery shopping and visit findings indicated that they may not be applied and followed consistently in all cases. This is an area for senior management of these larger firms to focus on.

### Key actions

#### *Assessment of customer needs*

- Check your processes that assess affordability. If the processes do not appropriately assess affordability, or are not being consistently applied, consider what action you should take to check whether this has resulted in any consumer detriment, such as a past business review.

#### *Recommendations including research*

- Check your processes that lead to recommendations. Make sure advisers carry out adequate research and can support why a particular lender and product was recommended. Check that advisers are able to evidence from the file why the product recommended is the most suitable. If an adviser recommends a switch from an existing lender to a new one, ensure existing products and penalties are properly considered.

#### *Communications with customers*

- Provide customers with an Initial Disclosure Document at the correct point in the sales process.

## Further information

For the press release, good and poor practice guides and case studies see the mortgage web pages.

[http://www.fsa.gov.uk/pages/Doing/small\\_firms/mortgage/practice/advice/index.shtml](http://www.fsa.gov.uk/pages/Doing/small_firms/mortgage/practice/advice/index.shtml)

## Be prepared: regulation of home reversions

From 6 April we start regulating home reversion plans. If you intend to be involved in this market you should: apply for authorisation (if not already authorised by us); or apply to vary your permission as soon as possible.

To help, we have produced frequently asked questions and information on how to vary your permission.

Frequently asked questions:

[http://www.fsa.gov.uk/pages/Doing/How/faqs/home\\_faqs/index.shtml](http://www.fsa.gov.uk/pages/Doing/How/faqs/home_faqs/index.shtml)

Application for variation of permission:

<http://www.fsa.gov.uk/Pages/Doing/Regulated/Notify/Permissions/home/index.shtml>

## Mortgage exit administration fees

We have published a press release and a Statement of Good Practice, which aims to stop borrowers from being surprised by unexpected increases in their mortgage exit administration fees.

Press release:

<http://www.fsa.gov.uk/pages/Library/Communication/PR/2007/012.shtml>

Statement of good practice:

[http://www.fsa.gov.uk/pubs/other/meaf\\_goodpractice.pdf](http://www.fsa.gov.uk/pubs/other/meaf_goodpractice.pdf)

## Training and workshops

### Mortgage FSA roadshows – 27 & 28 February

In February the FSA will be visiting Leeds and Leicester as part of its national series of roadshows for small firms. The roadshow lasts 3 hours, is free of charge, and consists of a number of presentations by FSA staff on key regulatory issues. These include: principle-based regulation such as Treating Customers Fairly; mortgage quality of advice processes; sub prime and self cert. There is also a presentation from a member of the Financial Ombudsman Service. Book here.

**Dates:**

27 February 1.30-4.30 Leeds

28 February 1.30-4.30 Leicester

[http://www.fsa.gov.uk/Pages/Doing/small\\_firms/mortgage/help/roadshows/index.shtml](http://www.fsa.gov.uk/Pages/Doing/small_firms/mortgage/help/roadshows/index.shtml)

### Workshop: Treating Customer Fairly

These workshops are designed to help small firms implement Treating Customer Fairly in their work place. The sessions are 2 hours and cost £50. Book here.

**Dates:**

28 February 1.30-4.30 Leeds

1 March 1.30-4.30 Leicester

[http://www.fsa.gov.uk/Pages/Doing/small\\_firms/general/form.shtml](http://www.fsa.gov.uk/Pages/Doing/small_firms/general/form.shtml)

### Workshop: Mortgage intermediaries – is your sales process compliant?

This workshop, incorporating our recent mortgage findings, is designed to provide practical help to firms enabling them to understand and comply with our mortgage sales process requirements.

**Dates:**

19 February London

13 March Birmingham

15 March Bristol

22 March Glasgow

4 April Leeds

Book here.

[http://www.fsa.gov.uk/Pages/Doing/Events/workshops/mi\\_compliant.shtml](http://www.fsa.gov.uk/Pages/Doing/Events/workshops/mi_compliant.shtml)

If you have any feedback on this edition of the newsletter, please email your comments to: [smallfirmscommunications@fsa.gov.uk](mailto:smallfirmscommunications@fsa.gov.uk)