

Mortgage brokers



Improving the way you give advice: Fact-finding and suitability

This factsheet is for you if:

- you are a mortgage adviser

This is the second in our series of factsheets on the processes you go through before giving your clients mortgage advice.

This factsheet focuses on the type of information you should collect to decide whether the mortgage you recommend is suitable for your clients. It sits alongside our previous factsheet on assessing affordability, which is available on our website:

www.fsa.gov.uk/smallfirms/resources/factsheets/pdfs/affordability.pdf

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Introduction

When assessing whether the mortgage you recommend is suitable for a client, you need to decide whether the product meets the client's needs and circumstances. You should not just rely on what the client tells you they want – you need to gather information about your client's circumstances and their preferences and discuss this information with them to understand what would be best for them. This will allow you to make an informed recommendation.

A product will be suitable if you have reasonable grounds to conclude that:

- The client can afford it over the repayment term.
- It is appropriate to the client's needs and circumstances.
- It is the most suitable of those you have available to you within the scope of service you provide to the client. But you cannot recommend the 'least worst' product if you do not have access to a product that is appropriate to the client's needs and circumstances.

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Good practice

To help you improve your suitability process, we have outlined some examples of good practice found in our visits to firms.

Remortgaging and charges

The adviser ensured the remortgage was in the best interest of the client and considered whether the client would gain financially by remortgaging before making a recommendation. He took into account all associated costs, such as legal fees, the broker's own fee and any early repayment charges. If the client

did not gain financially and there were no other overriding considerations, the adviser recommended the client to stay with their existing lender.

Before recommending a remortgage away from the client's existing lender, the adviser got full details of the current mortgage to see if there was an early repayment charge.

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If there was, the adviser considered the amount of the charge and the end date to see whether he should recommend to the client to delay the remortgage.

Collecting information

The firm ensured that all advisers completed a full and thorough fact-find. Advisers ensured their fact-finds were up-to-date when dealing with new business for repeat customers, in case the client's circumstances had changed.

Clients were asked about any plans that might affect their mortgage to ensure that if they planned to make overpayments or move there were no restrictions that reduced the product's suitability.

Lending into retirement

When advising clients who planned to work beyond the age of 65 and who were reliant on work income to pay their mortgage, the adviser discussed these plans with the client to establish how likely the client would be able to continue his line of work.

The adviser looked at whether a reduction in the mortgage term, rather than continuing the mortgage into retirement, would be more appropriate for the client.

Meeting the lender's criteria

In order to get an accurate picture of their client's history, some advisers asked their clients to get their own credit report. This ensured the client's credit history met the lender's criteria, and meant fewer applications were declined.

The adviser asked the client why he wished to borrow more money and recorded this on the fact-find. They did this to make sure the client met the lender's criteria as some lenders

will allow remortgages for certain purposes such as for home improvement but not for paying off debts.

Interest-only

The adviser demonstrated that a client planning to convert from an interest-only to a repayment mortgage would be able to afford the higher payments in the future.

The adviser considered and did a 'sense check' of the repayment strategy and recorded it. If the client intended to convert to a repayment mortgage at a future date the adviser established and recorded any relevant changes in circumstances, such as a promotion.

Subprime

The adviser had enough evidence of the client's credit history to show why he recommended a subprime product and could show why the client would not have been eligible for a prime product.

The adviser made sure that he recommended the products of a prime lender if the client only had minor credit problems that met prime lenders' criteria.

Self-certification

The adviser asked clients who could not find proof of their income why this was case. He also demonstrated how this would affect their choice of products by showing them the sourcing results for both full-status products and self-certification products and gave them every opportunity to provide proof.

If the adviser recommended a self-certification product, the adviser had enough evidence to show why this was appropriate compared with a full-status product.

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Summary

We have seen the best practice at firms that carry out adequate research to support why they recommend a particular lender and product and record this on their files.

A lot of this is common sense – if a client says that speed of completion is very important advisers should find out if it is really the most important aspect to avoid unnecessary restriction of the client's choice.

Key to this is a thorough fact-find. You can rely on what a client tells you provided it seems plausible. If you have done

your fact-find well and discussed your clients' circumstances fully you should be well placed to judge whether the information is satisfactory.

In each case ask yourselves, what was it about the client's circumstances that caused you to make a certain recommendation. If you give your client a suitability letter, you should outline the reasons in it.

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