Financial Conduct Authority

Call for Inputs on competition in the mortgage sector

October 2015

We are asking for comments on this Call for Inputs by 18 December 2015.

You can contact us by email (MortgagesCallForInputs@fca.org.uk) or by post:

Mortgages Call for Inputs
Strategy & Competition Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Email: MortgagesCallForInputs@fca.org.uk

We propose to make all responses to this Call for Inputs available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

You can download this Call for Inputs from our website: www.fca.org.uk. All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 706 0790 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.

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1.
Introduction

1.1 In our *Business Plan 2015/16*, we announced our intention to review whether there are any barriers to competition in the mortgage sector. We said we would start this in autumn 2015, with a view if appropriate to launching a market study in the first quarter of 2016.[1]

1.2 This Call for Inputs (CfI) forms the first stage of that work. It provides an opportunity for those with an interest in the sector to help us identify, in particular, potential areas where competition in the interests of consumers may not be working well and could be improved (or conversely if competition is working well).

1.3 We are seeking views, supported by evidence where possible, of areas in which competition issues may exist and merit further investigation.

1.4 In this document, we explain why we have decided to review competition in the mortgage sector.[2] We give examples of the types of issue that we are interested in, and highlight areas where stakeholders' views and intelligence are particularly welcome. We recognise that there has been a lot of recent change in this sector and therefore also welcome views on the appropriate timing and scope of any market study.

1.5 The information we receive during this process will help inform our decision as to the timing and scope of any subsequent market study in the mortgage sector and any other relevant FCA work. In particular, we would expect to launch any study with a more focussed scope relative to the breadth of this CfI.

Why a Call for Inputs on competition in the mortgage sector?

1.6 Mortgage credit plays a vital role in the UK economy, affects the lives of millions of consumers[3], and has far reaching effects into many areas, including housing. A mortgage is one of the largest financial transactions that consumers typically enter into in their lifetimes. Mortgages can offer not only a means to buy a house, but also to invest in property[4], or to access additional funds.[5]

1 Market studies are the principal way we investigate markets to see how well they are working for consumers. If we find that the markets we study could be made to work better, we have a range of powers to introduce appropriate remedies. We have the ability to conduct a market study under the Enterprise Act 2002 or FSMA (www.fca.org.uk/your-fca/documents/finalised-guidance/fg15-09). At this stage, no decision has been taken about the piece of legislation under which we would conduct any market study in the mortgage sector.

2 For the purposes of this CfI, 'mortgage sector' includes all loans secured against a property, whether by retail consumers or businesses. This extends beyond first charge residential mortgages, and includes regulated and unregulated loans.

3 The UK first charge residential mortgage market is valued at £1.3 trillion, and the number of mortgage owners roughly equals the number of outright owner occupiers, each around 7 million in England and Wales combined. The average first-time buyer borrowed over three times their income in 2015.

4 For example, buy to let mortgages currently account for some 15 percent of the total mortgage market in the UK: www.bankofengland.co.uk/pra/Documents/regulatorydata/mlar/2015/q1.pdf.

5 For instance, lifetime mortgages, which amount to £1.4 billion, are currently held by some 180,000 consumers in the UK: www.equityreleasecouncil.com/document-library/market-report-spring-2015/.

1.7 Mortgage lending also plays an important role in the financial services industry, as highlighted by the sub-prime crisis.[6] It represents a key component of many firms' business models and wider retail strategies, linking retail and wholesale lending and affecting the retail banking sector.

1.8 For all these reasons it is essential that this sector works well and delivers good outcomes for consumers. Competition plays a key role in this process. If it is functioning effectively, competition should lead to consumer benefits in the form of lower prices, better customer service, and more innovation.

1.9 The FCA has an operational objective to promote effective competition in the interests of consumers in financial services.[7] The review of barriers to competition in the mortgage sector announced in the FCA's Business Plan 2015/16 is informed by this objective, and gives us an opportunity to consider, in a holistic manner, the range of factors that might affect competition in this key sector.

1.10 Our decision to undertake this work has been informed by a number of factors, including:

- Questions about market dynamics[8], including in relation to specific market segments or groups of consumers;
- The fact that some issues might become more acute over time - for instance, in the event of changes to the economic environment such as interest rate rises;
- Recent regulatory changes, including our Mortgage Market Review (MMR), and our interest in assessing their impact on the market;[9] and
- The FCA's wider programme of work on mortgages, including the recently completed Advice and Distribution review[10] and the ongoing Responsible Lending review.[11]

1.11 In launching this CfI, we aim to engage with relevant stakeholders. Their views (including, in light of the recent changes in this sector, on the timing of this work) will ensure that we are well-informed when deciding on any future market study or further FCA work.[12]

Who will be interested in this Call for Inputs?

1.12 We invite views from all stakeholders with an interest in the workings of the mortgage sector. This includes:

- Consumer groups and individual consumers;
- Industry groups / trade bodies;

6 The sector has undergone significant changes since the sub-prime peak in 2006, not least because of a shift in the sector's risk appetite, due at least in part to changing regulation, such as international and domestic capital and conduct requirements (including the introduction in the UK last year of the Mortgage Market Review by the FCA and other action by the Bank of England).

7 Our competition mandate relates to the promotion of competition in financial services and can extend beyond our regulatory remit.

8 For example, there has been considerable interest in relation to issues such as increased product complexity, lack of comparability, the ability of certain types of consumers to switch and/or access deals, and low levels of entry and innovation in the market.

9 The scope and timing of this review has been informed by our commitment to conduct a post-implementation review of MMR and, more generally, the FCA interest in the impact of regulation on competition in financial services, including mortgage lending.

10 www.fca.org.uk/news/tr15-09-embedding-the-mortgage-market-review-advice-and-distribution

11 www.fca.org.uk/firms/financial-services-products/mortgages/responsible-lending-review

12 See paragraphs 1.13-1.14 for more details.

- Individual businesses, whether currently or previously active in the sector, or which have considered entering it, including:
  - Mortgage lenders (including peer-to-peer lenders and crowdfunders);
  - Firms involved in distributing mortgages, mortgage information, or mortgage advice directly or indirectly to customers (including brokers, operators of price comparison websites (PCWs) and mortgage sourcing systems[13]);
  - Individuals or firms which play a role in the mortgage supply chain, whether regulated or not (including mortgage packagers and third party administrators).
- Individuals or firms which do not directly participate in the mortgage supply chain, but have an interest in, or impact on, how it works, notably those in the housing sector (for example, builders, surveyors, valuation agents, estate agents, Local Authorities and property developers);
- Policy-makers and regulatory bodies;
- Mortgage industry experts and commentators;
- Academics; and
- Think tanks.

What would we like respondents to do?

We are seeking views, where possible supported by available evidence, on areas in which competition issues may exist and merit further investigation at this stage.

At the end of each section of this document, we highlight areas where we particularly welcome stakeholders' views and intelligence on potential competition concerns. For ease of reference, they are listed in full in Annex 1: Overview of Feedback Questions.

What will the FCA do next?

1.13 The information gathered through this CfI, together with that arising from the FCA's wider programme of work on mortgages, will inform our decisions on the scope and timing of any future market study. We may also consider using alternative FCA tools if appropriate.

13 Mortgage sourcing systems are platforms containing information on mortgage deals across a wide range of providers, used by brokers to access and source deals.

1.14 In prioritising issues for any such market study, we will bear in mind a range of considerations, including:

- The prospects for, and likely impact of, any intervention. This will be a combination of:
  - The potential impact of intervening to address the issue in question;
  - The scope to intervene effectively (considering, for instance, the role of other national and international regulators); and
  - The prospects for the intervention to have a wider impact (for example, through deterrence effects or clear read-across to other markets).
- How the issue in question fits in with any upcoming regulatory developments/ongoing activity at a domestic, EU or wider international level;
- Whether market changes or forces are anticipated in the future that might serve to address any issues identified;
- How a market study would affect the FCA's current portfolio of work, including any resource implications;
- Whether the issue might be better addressed by another form of FCA intervention (such as supervisory or enforcement action), or by another authority; and
- The likelihood of a successful outcome (in terms of being able to intervene to make the market work better for consumers).[14]

1.15 We will publish, in the first quarter of 2016, a Feedback Statement summarising our analysis of the responses received and setting out any further action.

14 For a full discussion of the market study prioritisation process, please refer to our guidance in FG 15/9 Market Studies and Market Investigation References. Available at: www.fca.org.uk/news/fg15-09-market-studies-and-market-investigation-references.

2.
Scope of our review

2.1 The mortgage sector, defined as the range of markets for the provision of loans secured against a property, encompasses both regulated and unregulated activities. It includes, for example, lifetime mortgages, shared ownership, buy-to-let, second charge mortgages and bridging loans.[15]

2.2 The provision of mortgage products is characterised by a number of complex vertical and horizontal relationships,[16] and is intrinsically linked with firms' funding models and wider retail strategies.

2.3 Some of these relationships and activities, which are key to mortgage or house purchasing transactions, fall outside our traditional regulatory perimeter. These include (some) third party administrators, packagers, and surveyors.

2.4 We are interested in how these activities or relationships might affect competition, for instance by affecting entry, expansion, and/or the ability of consumers[17] to make effective mortgage choices.

> We welcome stakeholders' views on the range of factors that may affect competition in the provision of loans secured against a property, whether regulated or unregulated. These include the activities of, and relationships between, businesses within the mortgage supply chain (e.g. lenders, PCWs and brokers), providing input or services to it (e.g. mortgage sourcing systems, sources of funding), or in related sectors (e.g. valuation services, estate agents).[18]

15 References to the 'mortgage sector' in this document include the range of markets and different types of mortgage-related activities including intermediation, unless otherwise stated.

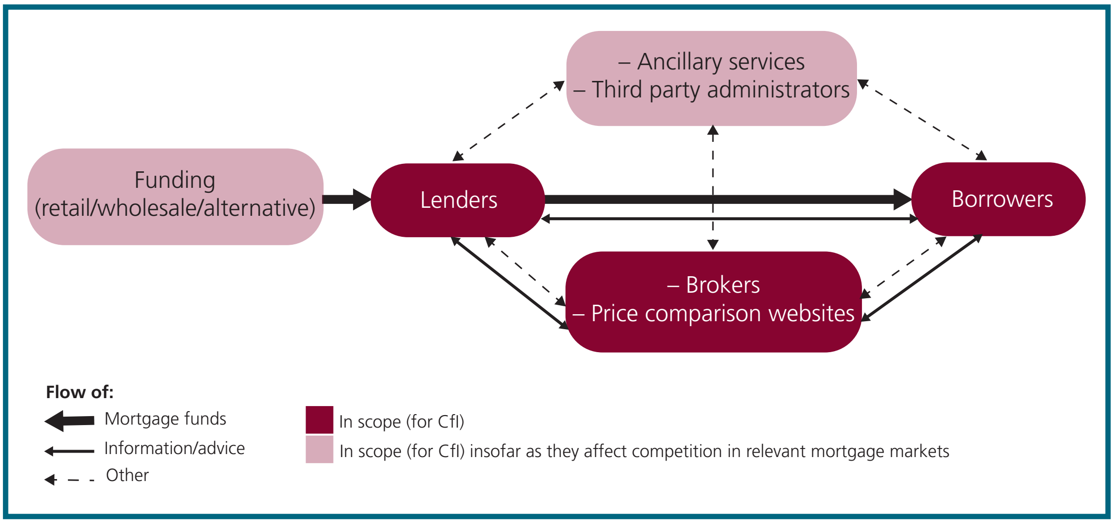
16 Vertical relationships involve undertakings in successive stages of the supply chain, for example between a supplier, manufacturer and distributor. Horizontal relationships involve undertakings operating at the same level(s) of the supply chain, for example, multiple distributors in the same market. We recognise that firms undertake these activities in a variety of ways. In some cases, for example, firms may be active at more than one level in the supply chain; in others, products or services may be supplied by specialist providers that do not undertake any other activities.

17 Where we refer to 'consumers' we mean any purchasers, or prospective purchasers, of mortgage products. This includes businesses (especially SMEs) securing a loan against a property.

18 As mentioned earlier, our competition mandate relates to the promotion of competition in financial services and can extend beyond our regulatory remit.

2.5 Figure 1 below summarises the areas that are within scope of this review.

Figure 1: Scope of this review



3.
Our approach to assessing competition in the mortgage sector

3.1 The purpose of this CfI is to gain a better understanding of how well competition is working in the mortgage sector. We are interested in whether any features of the sector may restrict, distort or otherwise affect competition, and how this may affect consumers.

3.2 Ineffective competition in the mortgage sector can lead to consumer detriment in different ways, including:

- Consumers may buy mortgage products or services which are inappropriate for their individual needs and circumstances. For example, consumers might take up mortgages with significant early repayment charges when they are likely to need to terminate their contract in a fixed rate period;
- Consumers may pay too much for the products or services they receive. This might take the form of high costs (including product fees or commission) or poor value in terms of service standards; and
- So-called 'missing markets', where there is a genuine consumer need that, for some reason, which may include regulatory barriers, nobody comes forward to supply. For instance, some (credit worthy) borrowers may be denied access to mortgage finance, or prevented from switching to products which better meet their needs and circumstances.

3.3 Consumer detriment can take the form of financial costs but there can also be significant non-financial impacts on consumers, such as distress or inconvenience.[19]

3.4 When analysing the causes of consumer detriment, we will consider a range of issues, including:

- **Demand side behaviour,** focusing on whether consumers can effectively access, assess and act on information about mortgage products and services;
- **Supply (firm) side behaviour,** including:
  - how firms reflect consumer behaviours and biases in their pricing and product design decisions;
  - whether any businesses have market power in all or segments of the sector;
  - whether there is any evidence of, or scope for, co-ordinated behaviour; and

19 See Cost Benefit Analysis contained in 'Mortgage Market Review: Responsible Lending' (Annexes 1 and 2). Available at: www.fca.org.uk/static/documents/consultation-papers/fsa-cp10-16.pdf.

- the nature and impact of vertical relationships (including potential conflicts of interest).

3.5 **Market features,** particularly in relation to the impact of the regulatory regime[20] (including specific changes introduced following the MMR), and barriers to entry and expansion or innovation.

3.6 In Chapter 4, we outline how each of these three types of issues might affect competition, providing examples of behaviours or features of particular interest from a competition viewpoint. We also list, for each type of issue, those topics where we would particularly welcome stakeholders' views, supported by evidence where possible. The full list of questions is also included in Annex 1: Overview of Feedback Questions.

3.7 We invite stakeholders to provide views and evidence on any of the behaviours or features that might affect competition in the mortgage sector, including, but not limited to, the specific questions we have set out. We also welcome comments on the extent to which these concerns might be affected by the future economic environment and/or changes to the regulatory framework, and on how this should inform the scope and timing of a market study or any further FCA work.

20 In some areas there are links between our responsibilities and those of other regulatory authorities, including the Bank of England and Prudential Regulation Authority. Where this is the case, we will also take into account the objectives of, and requirements imposed by, these authorities.

4. Competition issues that may merit further consideration

4.1 The remainder of this document sets out some examples of issues that may raise competition concerns, if responses or other intelligence indicate that they are borne out. Each section also includes some specific questions which we would like you to consider.

4.2 As mentioned previously, these examples are intended to help you understand the issues we are interested in, and to support discussion with stakeholders during the CfI period. They provide an illustration of the types of issues that may arise in the sector, rather than an indication of intent in relation to the scope of any future market study.

4.3 In line with the approach set out in Chapter 3, this chapter is divided into:

- Demand side behaviour
- Supply side (firm) behaviour
- Market features

Demand side behaviour

In this section we consider potential competition issues which may arise as a result of how consumers access, assess and/or act on information about mortgage products or services. Although many of these issues apply to the sector as a whole, some may be more relevant for specific consumer groups, sector segments and/or activities within the sector.

4.4 The choices made by consumers can play a significant role in making competition work well. Informed and active consumers are more able to identify and select appropriate products or services for their needs. In doing so, they place competitive pressure on lenders, intermediaries and other parties in the supply chain, driving them to compete on price, quality and/or level of customer service. This can also drive innovation, resulting in new products or services which offer added value to consumers, or fulfil specific needs.

4.5 To exercise **effective choice,** consumers need to be able to:

- **Access** complete, relevant and accurate information about mortgage products and services;
- Use the information that they gather to **assess**, in an informed manner, those products and services and whether they are likely to meet their individual needs, circumstances and preferences; and
- **Act** to purchase the service or product they have identified as being the best fit (or choose not to purchase, if that is in their best interest).

4.6 The three components of the consumer journey are intrinsically linked. For instance, accessing and assessing information frequently occurs together, and in an iterative manner. However, for ease of reference, we discuss the main challenges associated with each of the stages in the section where we consider them to be most relevant.

4.7 Even when supported by advice, consumers may still have difficulties in making effective choices, for a variety of reasons. These can be related to financial capability[21], the absence of (some) relevant information or difficulties in finding it, the real or perceived costs of switching product or provider, and behavioural biases.[22] Product comparison can be especially difficult if the product design is complex, for example, if the cost of the product comprises monthly repayments and product fees (which may or may not depend on the consumer's future behaviour). These difficulties can be made worse if consumers are primarily focused on other aspects of the house-buying, purchase or investment process linked to the mortgage, rather than the mortgage product itself.

4.8 The remainder of this section explores some of these issues, providing examples and outlining some specific issues where we would particularly welcome your views.

Access to complete, relevant and accurate product information

4.9 Complete, relevant and accurate information means information about the range of products available and all their relevant characteristics. In the mortgage sector, this can pose a particular challenge for consumers, given the vast range of products[23], and the many characteristics on which information needs to be gathered.

4.10 FCA-commissioned research indicates that consumers use a variety of methods to gather information about mortgage products and services.[24] There is no set consumer journey and consumers may access information at multiple points, and use available sources in a differing order depending on their needs, preferences and circumstances.

4.11 Information about mortgage products is regularly published in the national press (in particular for first charge residential loans), as well as being accessible online. Consumers can also access information about specific products or deals directly from providers (using telephone, internet, or the branch network), or seek advice from an intermediary to help them search, or they can use other means of gathering information.

21 Financial capability is likely to be of particular relevance in the mortgage sector, given the uncertainty and complexity inherent in the mortgage purchasing decision.

22 Our 2013 Occasional Paper *'Applying behavioural economics at the Financial Conduct Authority'* highlights a number of features of the retail financial services market which may be particularly difficult for consumers, and which may lead to biases or poor decisions: www.fca.org.uk/static/documents/occasional-papers/occasional-paper-1.pdf

23 In August 2015, there were more than 4,000 mortgage products directly available to consumers from lenders, of which just over 1,000 were buy-to-let (this is the highest number since April 2008). See Moneyfacts, Treasury Report, August 2015.

24 See *Understanding consumer expectations of the mortgage sales process* (ESRO 2015): www.fca.org.uk/your-fca/documents/research/understanding-consumer-expectations-of-the-mortgage-sales-process-esro

4.12 The discussion below of the limitations and biases that may apply when consumers access and assess information draws on specific examples from PCWs, best-buy tables, and advisers. The examples are illustrative of the type of issues we are interested in across all different types of channels; they do not necessarily indicate more pronounced or prevailing concerns.

Use of information gathering / comparison tools

4.13 Notwithstanding the role of advisers, PCWs and best-buy tables are an important source of information about mainstream mortgage products. These tools can play a valuable role in reducing search costs, and quickly provide consumers with significant volumes of basic information about products. At the same time, consumers may be heavily influenced by the information provided without considering its limitations.

4.14 Our recent research indicates that consumers may focus on headline interest rates or fail to consider other information which is relevant to their assessment of mortgage products. In particular, they may not fully understand the limitations of the information provided.[25]

4.15 Regardless of whether or not consumers subsequently receive advice, there is a risk that they are unduly influenced in their later interactions and decisions by the information gathered, or perceptions formed, at an early stage of the process. There is also a risk that some consumers, especially those with more unusual personal circumstances, struggle to access information that is relevant to their needs.

Restrictions in service or product offerings

4.16 The mortgages supply chain is characterised by complex vertical and horizontal relationships.[26] Mortgage advisers might have access to only a limited number of products and providers,[27] and may receive a range of incentives for making product recommendations. Lenders also only tend to advise on their own mortgage range, and are obliged to turn consumers away if they do not have an appropriate product.

4.17 Although information on the scope of products available may be disclosed to consumers, it is unclear whether they fully understand the impact that any limitations may have on the price or service.[28]

Additional challenges for specific consumer segments and/or those with non-mainstream needs

4.18 Certain types of consumers may encounter additional challenges in accessing information, for instance if they have limited access to some distribution or information channels. Similarly, consumers with less common needs may find mainstream information sources lacking in relevant information.

4.19 Some types of mortgages, such as lifetime mortgages or mortgages for self-built properties, are offered by far fewer providers than mainstream first charge residential mortgages and tend to be targeted at niche groups. In some cases, the decision whether to buy may involve the consumer considering alternative non-mortgage solutions (for instance, they could choose to downsize, rather than enter into a lifetime mortgage). They may also require the consumer to consider more complex aspects and risks (such as those associated with building your own house).

25 Limitations include presenting limited product ranges or sections of the market, weighting specific criteria in ways that are not transparent, or failing to display relevant information about eligibility criteria. See i) FCA's Occasional Paper 1, 'Applying behavioural economics at the Financial Conduct Authority': www.fca.org.uk/static/documents/occasional-papers/occasional-paper-1.pdf, and ii) *Understanding Consumer Expectations of the Mortgage Sales Process*: www.fca.org.uk/your-fca/documents/research/understanding-consumer-expectations-of-the-mortgage-sales-process-esro.

26 See Figure 1 above.

27 This may be by choice, or as a result of other barriers, such as the inability to gain a place on lenders' panels.

28 The impact on price and quality might arise because of the limitations of information or as a result of potential conflicts of interest.

4.20 As a result, complete, accurate and relevant information for non-mainstream first charge mortgages may be less easily accessible. This may result in consumers accessing incomplete information, or focusing on specific providers at too early a stage of the product assessment. They may also experience difficulty in identifying providers who are potentially capable of meeting their needs, or be prevented from shopping around.

Ability to assess information

4.21 Mortgage choice is complex and requires consumers to assess a complicated set of variables and circumstances. Some of the complexity arises from the uncertain environment in which a consumer makes the mortgage purchase decision, including lack of certainty about (but need to factor in) changes to personal circumstances or the wider macroeconomic outlook. But complexity may also arise as a result of product design (for instance, in the form of multi-levelled fees and charges).

4.22 Consumers with lower levels of financial capability, literacy or numeracy may find it particularly challenging to interpret key information, understand product features, or evaluate costs (especially the impact of those accruing in the future).

4.23 As previously mentioned, for competition to work effectively, consumers need to be able to make **informed assessments** of available products and services and whether they are likely to meet their individual needs, circumstances and preferences. We outline below some of the challenges faced by consumers in the mortgage sector when assessing information.

Transparency of fees and charges

4.24 Mortgage charging structures can be complex and vary across providers and product types. Although our rules require providers to display a clear APR,[29] mortgage transactions are often characterised by a wide range of different types of fees of varying sizes.

4.25 Some fees and charges are set at the outset of a transaction, such as arrangement fees, booking costs, or administration fees. Further charges may be built into the mortgage contract as conditional on future events or actions (for instance, early redemption charges). Providers may also offer particular incentives, such as cashback, to persuade customers to take out particular products. Other lenders or advisers are prepared to waive or reduce fees if another product or service is purchased, or may offer discounts on ancillary services linked to the house-buying process (for instance, reduced valuation or survey fees).

4.26 The nature of mortgage pricing structures and how information is presented can pose particular challenges for consumers trying to compare products, especially as there is currently no consistent terminology to describe fees and charges.[30] Mortgage products do not have a single and simple price, although consumers who focus on the headline rate may consider them to be comparable.[31]

4.27 We are interested in how consumers consider information about the different characteristics of mortgage products and, more specifically, how they factor fees and charges into their decision-making process.

29 The rules also set restrictions as to how this needs to be calculated and promoted. See FCA Handbook, Mortgage and Home Credit Conduct Source Book, MCOB 3 and 10: www.handbook.fca.org.uk/handbook/MCOB/

30 At the time of writing, Which? and the Council of Mortgage Lenders were working on a joint proposal to introduce a common taxonomy for mortgage fees and charges (www.cml.org.uk/policy/policy-updates/all/transparency-of-mortgage-fees-and-charges/).

31 Consumers who participated in our research on advice and distribution told us that they believed that 'all lenders charged fees' and that there was 'no point' in shopping around on this factor as they were 'all the same'. They also did not consider fees to represent value for money and were not clear on exactly what certain fees were for. See ESRO research 'Understanding Consumer Expectations of the Mortgage Sales Process: www.fca.org.uk/your-fca/documents/research/understanding-consumer-expectations-of-the-mortgage-sales-process-esro

Consumer behaviours

4.28 Many consumers, when purchasing a mortgage, are typically focused on the end result to be achieved (for example, owning a property or obtaining credit to pay for other assets). As a result, they may have less engagement with the features, terms and conditions of the mortgage itself.[32]

4.29 Although consumers switching mortgage products were most focused on securing a 'good deal', our research provided anecdotal evidence of all types of mortgage borrowers exhibiting certain behaviours:

- Focusing on headline rates rather than other features;
- Focusing heavily on initial monthly repayments without considering longer term implications and risks;
- Expressing concerns about 'being locked in' to longer term fixed rates and 'missing out on better deals'; and
- Making assumptions that a similar range of products and rates will be available to them in the future, and/or that their personal and financial circumstances will have significantly improved by the time they seek their next product.[33]

4.30 These behaviours can affect consumers' ability to make informed assessments, and can lead to them making choices which meet their perceived preferences, but are potentially incompatible with longer term needs or circumstances.

4.31 We are interested to find out more about whether, and how, these biases may affect consumers. We are also interested in how they impact the behaviour of others in the mortgage supply chain, for example how intermediaries consider the future availability or price of products at the end of the consumer's initial deal. We would also like to know more about how specific biases are considered, and mitigated (or exploited) in firms' business models, or product or service design.

Role of mortgage advice

4.32 Since April 2014, our rules have required most 'interactive sales'[34] to be conducted on a fully advised basis. Intermediaries are playing an increasingly important role in many consumer journeys and purchasing decisions, with over two thirds of mortgages now sold on an intermediated basis.[35]

4.33 Advisers can play a valuable role in the mortgage transaction, and are required to ensure that any product they recommend is appropriate in light of a consumer's needs and circumstances. However, recent FCA thematic work[36] identified some concerns about the quality and suitability of advice provided by some firms, and about some advisers acting in ways which appeared to compound consumer biases and errors.[37]

32 See '*Mortgage Market Review: Responsible Lending*'. Available at: www.fca.org.uk/static/documents/consultation-papers/fsa-cp10-16.pdf (s6 'Disclosure and changing consumer behaviour').

33 In this respect, it is important to take into account that many consumers (especially those entering the market since 2009) have had little or no experience of volatile interest rates resulting in substantive price changes.

34 Firms can sell on an execution only basis provided certain conditions are met. See FCA Handbook, Mortgage and Home Credit Conduct Source Book, MCOB 4.8A: www.handbook.fca.org.uk/handbook/MCOB/4/8A.html.

35 Source: Council of Mortgage Lenders (CML).

36 FCA (2015), TR 15/9: '*Embedding the Mortgage Market Review: Advice and Distribution*': www.fca.org.uk/news/tr15-09-embedding-the-mortgage-market-review-advice-and-distribution.

37 Although a very small percentage of advice was demonstrably unsuitable for consumers, many advisers were failing to take reasonable steps to adequately assess needs and circumstances, resulting in a high percentage of 'unclear' recommendations. Advisers, on occasions, seemed to be 'order-taking' based on the customer's initial instructions, rather than exploring their needs and circumstances.

4.34 Advisers may also display some similar practices or behaviours to those referred to in paragraphs 4.13-4.15 in relation to information gathering/comparison tools. For example, advisers may offer limited product ranges, or weight their recommendations towards certain products in a way which is not transparent to the end consumer. These practices and behaviours may also be influenced by the use of mortgage sourcing systems.[38]

Ability to act on information to make effective mortgage choices

4.35 Once consumers gather information and identify products likely to meet their needs, they need to be able to act on their assessment. Making an 'effective mortgage choice' does not necessarily mean selecting or accessing the cheapest product, but one which is appropriate in light of the consumer's wider needs, circumstances and preferences.

4.36 Consumers may not consider switching to a more suitable product as a result of inertia.[39] Even when switching is considered, consumers may not go ahead if the perceived costs of switching, whether financial or 'hassle' costs, outweigh the perceived benefits.[40] Switching might also be hindered if consumers are unable to access the selected products.

Switching costs

4.37 Switching, whether to a new provider or to a different product by the same provider, has costs associated with it. These may be financial or otherwise. In the mortgage market, switching costs consist mainly of redemption charges (such as early repayment charges), and transaction costs (such as fees associated with re-mortgaging with a new lender and the hassle of applying for a new loan).

4.38 Switching costs can pose a barrier for consumers to switching to more suitable products by their own provider or other firms in the market. This has an impact not only on those consumers who are unable to switch but also more widely, lessening the competitive pressure on firms to provide lower prices and/or better quality more generally. It is the credible threat of switching, rather than switching itself, that drives competitive firm behaviour in the interests of consumers.

Inability to access products

4.39 A firm's risk appetite and its related lending strategy will shape its willingness to serve different types of consumers. This means that certain products will only be available to some types of consumers, but not to others, who will therefore be limited in their ability to switch.

4.40 Firms' lending strategies are influenced, amongst other factors, by the regulatory environment in which they operate.[41] Since the MMR, providers have been required to perform strengthened affordability checks on potential borrowers. As a result, some consumers who previously had access to credit are no longer able to access the same types of products or loans, or borrow to the same level. However, aware of the risk that existing customers might have less ability to transact as a result, our rules do provide lenders with flexibility for particular transactions involving existing customers.

38 Mortgage sourcing systems are platforms containing information on mortgage deals across a range of providers, used by brokers to access and source deals.

39 By 'inertia' we mean that a consumer does not even consider switching, for example because the consumer has grown comfortable with the provider and there has been no trigger to consider switching. Inertia can be a barrier to switching even the absence of significant switching costs. See also: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2463575

40 Although driven to some extent by actual costs and benefits, consumer perceptions are the main drivers of consumers' willingness to switch.

41 See also page 21.

4.41 There is also anecdotal evidence, subject to much media interest, that some types of consumers are becoming unfairly trapped and unable to access more suitable deals. We are keen to ascertain how prevalent this problem is, and the extent to which the regulatory regime, the way in which it has been interpreted by firms, or other factors have played a role.

Feedback request

4.42 We are interested in how consumer behaviours impact competition in the mortgage sector. More specially, we would welcome evidence on:

Q1: The main factors considered by consumers when choosing a mortgage product, how this varies across different types of borrowers and product type, and the elements of the mortgage decision that consumers find most difficult.

Q2: The extent to which consumers choose mortgages that are less suitable than other products available to them, and whether certain mistakes are more prevalent amongst some consumer groups.

Q3: The different providers of information and advice typically considered by (different types of) consumers, and how they are used.

Q4: Whether existing information and advice channels cater for the needs of different types of consumers. If not, which types of consumers face particular challenges.

Q5: Re-mortgaging patterns, in particular:

a. The main prompts for re-mortgaging;

b. The main factors that consumers consider in deciding whether and when to re-mortgage and whether to do so with their current lender; and

c. The nature and relevance of different barriers to re-mortgaging. The extent to which the (perceived or real) costs of switching prevent consumers from accessing better deals.

Q6: The relevance of different behavioural biases as a barrier to the effective assessment of information, and the extent to which advice or additional information mitigate these.

Q7: The extent to which some types of consumers may be unable to access more appropriate (types of) mortgage products and may be unduly trapped.

Supply side (firm) behaviour

In this section we discuss a range of potential competition issues arising from the way firms behave in the market, including how they interact with consumers and with each other.

We are interested in whether:

- firms design products in a way that may inhibit competition;
- firms may have market power (and abuse it);
- firms may be able to coordinate their actions; and
- relationships between firms hinder effective competition.

In analysing these issues, we are aware that certain types of firm behaviour may apply to the sector as a whole, while others may be limited to sub-sectors or segments (which could be defined in geographical, temporal or product terms).

Reactions from firms to consumer characteristics and behaviours

4.43 Business strategies may take into account consumers' characteristics or behaviours, and may fail to address, or may even amplify, any potential limitations in consumers' ability to make effective product choices, or particular behavioural biases.

4.44 For example, if consumers over-focus on the level of monthly repayments, firms may choose to increase the complexity and opacity of fees and charges, so that they rank highly when compared on the narrow basis of monthly repayments. Similarly, if firms increase consumers' search and switching costs, they will affect consumer behaviour by increasing the barriers for consumers to shop around and move to another product, thereby affecting competition.[42]

Market power

4.45 Market power exists when one or more firms, acting independently, are able to set higher prices, or offer poorer quality, than would be the case in a competitive environment.

4.46 Firms are more likely to exert market power if competitive constraints on their behaviour are weak on the demand and/or the supply side. For example, on the demand side consumers may not respond by switching in the face of uncompetitive offerings, and on the supply side there may be limited, or no, actual or potential competitors.

4.47 We would like to better understand the scope for firms to exercise market power, in all or some segments of the mortgage sector, potentially resulting in poor outcomes for consumers.

Coordination between firms

4.48 Coordination between firms generally means that firms interact with each other with the aim of increasing or protecting profits. At its most extreme, this can be in the form of explicit agreements aimed at fixing prices, sharing markets or allocating consumers. But coordination can also take

42 See section on switching costs above.

place when firms are able to anticipate, and follow, other firms' behaviour (known as 'tacit' coordination). As with market power, coordinated behaviour can affect the sector as a whole, or be limited to certain sub-sectors.

4.49 Coordination can reduce competitive tension between firms. We are keen to gain a better understanding of whether features of the sector, or of sub-sectors, facilitate explicit or tacit coordination between firms, and whether there is any evidence of coordination occurring.[43]

4.50 As in any market we study, we are interested not only in whether there are any specific collusive arrangements made by firms, but also in whether the characteristics that facilitate tacit coordination are present.[44] We would welcome insights on whether, and if so how, firms gather information about changes in products or prices by rivals. We would particularly welcome evidence on any instances of significant price changes (either interest rates or fees) by several firms around the same time, without an obvious corresponding change in costs.

Vertical and horizontal relationships

4.51 As mentioned previously, the mortgage market is characterised by complex and varied relationships between different players in the market.

4.52 Firms interact in markets in a variety of ways. A 'vertical' relationship may exist between firms active at different levels in the supply chain[45], for example between lenders, mortgage packagers and brokers. Other relationships may be 'horizontal', that is, between firms active at the same level of the supply chain, for example between a PCW and a broker.

4.53 Relationships within the mortgage supply chain are not rigidly defined, and part of the complexity stems from the fact that firms play different roles depending on the given consumer journey. For example, if a PCW refers consumers to a broker who then advises and executes the sale, any agreement between the PCW and the broker constitutes a vertical relationship. If, however, the consumer uses both firms purely as an information gathering tool, a relationship between them would be horizontal.

4.54 In addition, many lenders, brokers and PCWs have relationships with providers of ancillary services required for the purchase of a property, such as valuation firms or estate agents.

4.55 Some of these relationships, whether of a horizontal, vertical or ancillary nature, may provide benefits to consumers. For example, if mortgage providers without the necessary scale to run their own back office functions can outsource these activities to third party administrators, and therefore compete more effectively with larger players, consumers may benefit from the resulting increase in competition. However, certain types of agreements and relationships may limit the choices available to consumers, give rise to misaligned incentives, or enable firms to leverage their market power in one market in another market.

Relationships between firms leading to constraints on firm behaviour

4.56 Relationships between firms in the mortgage sector may make it difficult for competitors to gain access to products or to consumers. For example, if a lender has agreements with brokers to

43 Many behaviours associated with coordinated behaviour (or similarly timed price movements and/or product launches) are similar to those associated with fierce competition. As such, the identification of coordinated behaviour does not rely solely on identification of those behaviours, but needs to be complemented by detailed economic analysis.

44 These can be summarised as follows: firms need to be able to reach an understanding and monitor each other's actions; it must be in firms' interest to coordinate rather than compete; and the coordinating firms must not be at threat of being undermined by other competitors or new entrants. See Office of Fair Trading's (OFT) guidance on firm behaviour, 'Market investigation references': www.gov.uk/government/uploads/system/uploads/attachment_data/file/284399/oft511.pdf.

45 'Vertical relationship' refers to vertical integration in an ownership sense, but also to other types of vertical arrangements.

preferentially distribute the lender's products, it can hinder other lenders getting their products to market. Also, if lenders and brokers have agreements in place that prevent lenders from making their products available more cheaply on their own distribution channels, that could ultimately push up the price of mortgage deals overall.

Ownership structure and/or relationships between firms potentially leading to conflicts of interest, or misaligned incentives

4.57 By 'conflict of interest' we mean a situation in which a firm has more than one interest in the sector, and where one of those interests affects another. These interests may be within the mortgage supply chain or with businesses in (related) property purchase activities.[46] For example, if a mortgage broker has a stake in, or a relationship with, a valuation agency, the broker may have an incentive to promote products from those lenders using this valuation agency.

Feedback request

4.58 We welcome stakeholders' view on how firms' behaviours may affect competition. More specifically, we would welcome evidence on:

Q8: Lenders' business strategies, from sourcing funding to offering of mortgages. In particular:

a. The extent to which firms reflect consumer behaviours and biases in the design of their products and deals, and whether this has increased product complexity over time;

b. The degree to which firms' ability to compete in all or parts of the mortgage sector relies on their portfolio of mortgage products and customers (including back book of customers); and

c. The extent to which lenders' ability to compete in all or parts of the mortgage sector relies on their presence in other financial services activities, including in retail lending and/or banking.

Q9: Lenders' monitoring and reactions to changes in offers by competitors, and whether there is evidence of patterns in pricing movements.

Q10: The range and nature of relationships between different players in the mortgages supply chain[47] or related activities, and within that:

a. The scope for potential conflicts of interest and whether and how these are mitigated;

b. The impact of relationships with others outside the mortgage supply chain on the ability of brokers and lenders to compete;[48] and

46 Interests are not necessarily related to ownership. Wider provisions or conflicts of interest may also be relevant.
47 The mortgage supply chain includes lenders, brokers, PCWs, and those providing inputs (such as data on mortgage products) to them.
48 This includes, for instance, through the provision of leads on potential customers.

c. **Whether lenders, including new entrants, have found it difficult to distribute through certain brokers/distributors, or whether brokers have not been able to supply products from certain lenders.**

Q11: The business models of brokers, price comparison websites, and mortgage sourcing systems, and how they interact with others in the mortgage sector and might impact their ability to compete.

Market features

In addition to features relating to consumer or firm behaviour, we are also interested in any other market features that that might restrict, prevent or distort competition, either in isolation or if they compound the potential impact of any other concerns.

Features of particular interest to us include the impact of the regulatory regime on competition, and any barriers to entry and expansion, and to innovation.

Regulatory framework

4.59 Regulation plays an important role in ensuring that markets function properly and that policy objectives, including the promotion of competition, are achieved. But regulation can also have a dampening effect on competition. For instance, a sector's regulatory framework can, and is often designed to, affect the ability of firms to enter a market, the kind of products they offer, and how they conduct their business. Financial regulation is no exception[49] – as such, the impact of the regulatory framework on the mortgage sector is of key interest to our work.[50]

4.60 The regulatory framework of the mortgage sector separates prudential responsibilities and conduct supervision into two financial sector regulators, the Prudential Regulation Authority (PRA) and the FCA.

49 Our review of competition issues in the market will take into account relevant work, including previous FCA work or any undertaken by other organisations. For instance, our analysis will be informed by the review of requirements for firms entering, or expanding in, the banking sector undertaken by the FCA's predecessor, the Financial Services Authority: www.fca.org.uk/your-fca/documents/barriers-to-entry, March 2013. It will also take into consideration the ongoing Competition and Markets Authority's work on competition in retail banking (focused on personal current accounts and SME banking).

50 As mentioned earlier, the scope of our competition review of the mortgage sector is not defined by the regulatory perimeter. The discussion in this sector focuses on the impact of financial services regulation, but we are also interested in the extent to which the regulatory perimeter affects the ability of firms within or outside the regulatory perimeter to compete.

4.61 The PRA supervises deposit-taking institutions from a prudential perspective, and decides on the level of capital and liquidity that lenders need to hold to offset their lending risks. In addition, the Financial Policy Committee (FPC) affects, through its requirements in relation to Loan-to-Value (LTV) and Debt-to-Income (DTI) ratios, the lending strategies of firms.[51] While these requirements can be a barrier to firms entering or expanding in the market or to the type of products offered, they also play an important role in ensuring the stability of the financial system.

4.62 The FCA and the PRA are responsible for authorising different types of firms to operate in the market, and for the conduct and the prudential supervision of those firms.[52] A recent example of changes to conduct regulation is the strengthening of the responsible lending rules that was introduced after the MMR, aimed at changing some of the poor market practices seen in the past.

4.63 We are interested in ascertaining the impact of financial regulation on competition in the mortgage sector and whether the same policy objectives could be achieved in a more pro-competitive manner.[53]

4.64 Given the differences in the financial regulatory frameworks for different segments and different players of the mortgage sector, we are keen to hear from the range of incumbents and (previous and potential future) entrants. This includes those who might think that their ability to compete in any segment of the market may be hindered by regulation.

Barriers to entry and expansion

4.65 For competition to work well, it is crucial that firms are able to enter the market and grow their customer base. Barriers to entry and expansion can come in a variety of forms, and may affect different sub-sectors differently. We outline below some barriers to entry and expansion that may affect different players in the supply chain, such as lenders, brokers and PCWs.

Structural barriers to entry and expansion, affecting lenders and intermediary businesses

4.66 Entry into a sector naturally has costs associated with it. Entry costs are more likely to become a barrier to entry if they are not recoverable should the firm decide to exit. Barriers to entry arise not only in relation to tangible assets, such as infrastructure, but also regarding capability building and training.

4.67 Barriers to entry are also more likely to arise if there are economies of scale or scope[54], as the firm needs to expand before it can operate efficiently. So, if there are large fixed costs associated with building the back-office functions required for lending or underwriting, a new entrant needs a certain size of customer base to compete effectively with larger lenders. For lenders, using branch networks is associated with both economies of scale and scope; for brokers, providing other financial services may lead to economies of scope.

Access to consumers as a barrier to entry and expansion, affecting lending and

51 The FPC currently has Powers of Direction with respect to LTV and DTI for owner-occupier mortgages. HMT is expected to consult on whether to give the FPC similar powers over Buy to Let mortgages.

52 In addition to the FCA's high-level standards that apply to regulated firms, the FCA Handbook contains detailed rules for the advising, arranging, entering into and administration of mortgages. The Mortgages and Home Finance: Conduct of Business (MCOB) sourcebook establishes standards across a number of areas, including financial promotions, advising and selling standards, disclosure, responsible lending, charges and arrears and repossessions. The FCA is also the prudential regulator for firms not prudentially supervised by the PRA.

53 We are mindful that some of these regulations are (i) outside the regulatory perimeter and remit of the FCA or (ii) the result of implementation of European Directives.

54 When economies of scale exist, the average cost of producing something falls as the volume of business increases. When economies of scope exist, it is cheaper to produce a line of products together than it would be to produce them separately; for example, if a business can use centralised back office functions across all its product lines.

intermediary businesses

4.68 Access to consumers is key for entering or expanding in a market. In the mortgage sector, lenders and brokers rely on a variety of means to identify and have access to consumers. While some of these means arise as a result of other activities undertaken within the same firm, others rely on other businesses. Lack of, or limited access to, any of these can be a barrier to entry or expansion. For instance, entry will be hindered if new entrants were not represented on PCWs or intermediary networks on the same basis as incumbents.[55]

4.69 Gaining a customer base is more difficult in markets with high switching costs or otherwise sticky consumers.[56] Switching costs can and do exist naturally - for example, switching a mortgage can be time-intensive, especially if it requires valuations or income assessments. However, incumbent providers can also strategically increase switching costs to preserve market share. For example, if early redemption were very costly, this could lead to consumers being 'locked into' mortgages.

Access to mortgage funding as a barrier to entry and expansion, affecting lending businesses

4.70 Where funding for mortgage lending is either more difficult or more expensive for new entrants or smaller players to obtain, their ability to compete (on price) with incumbents and/or bigger players can be impaired. For example, if retail deposits are the most cost-effective source of funding, those lenders with little or no deposit-taking activity will be hindered in their ability to compete, especially as building up the capability to take retail deposits at scale may be costly and slow.

4.71 We are interested in finding out more about how access to funding for mortgage lending affects entry and expansion. We are keen to understand how it constrains firms' strategies and/or range of products, and whether its impact is different for firms of different sizes and/or with different models or structures. We have a particular interest in the scope for newer types of funding models, such as peer-to-peer lending or crowdfunding, to overcome the constraints potentially imposed by other (more traditional) funding models.

Access to mortgage products as a barrier to entry and expansion, affecting advice and/or intermediation businesses

4.72 For firms providing mortgage advice or intermediation, access to mortgage product information is particularly important, as is access to mortgage products themselves. If an intermediary were unable to offer certain kinds of products, this could have implications for the viability of their business model. Given this, we are interested in the impact of mortgage sourcing systems on the ability of firms to enter and expand in the sector.

Barriers to innovation

4.73 By 'innovation' we do not simply mean that firms find new ways of lending to consumers who previously were not able to access a (certain type of) mortgage. We are interested in any kind of innovation that may result in better outcomes for consumers. This includes innovation in products, such as mortgages with simpler pricing structures, or processes, such as technological advances making parts of the mortgage application process more customer friendly.

4.74 Although low levels of innovation can be the result of existing products and services meeting consumers' needs, they can also be a result of market features preventing firms from offering innovative products or services for which there would otherwise be demand.

55 This could arise because of explicit agreements with incumbents to do so, or because of commercial incentives to sell some products above others.

56 'Sticky consumers' are those reluctant or unable to shop around and get a better deal.

4.75 As discussed above, regulation can create barriers to innovation. For instance, capital requirements can affect firms' ability or willingness to offer long-term fixed mortgage products.

4.76 Barriers to innovation can also arise because of, or be compounded by, business conduct and/or consumer behaviour. For instance, firms may have an entrenched funding culture that leads to limited scope for offering different products, or the internal approval for new products may be overly onerous. Consumers may also over-focus on products that are familiar to them, meaning innovative products that might be more appropriate for some are not taken up. The different underlying reasons can be interconnected and mutually reinforcing.

Feedback request

4.77 We are interested in any other market features that might restrict, prevent or distort competition, either in isolation or compounding other concerns. In particular, we welcome views on:

Q12: The impact of regulation on barriers to entry and expansion, where possible highlighting specific pieces of regulation and/or the types of businesses or products that are affected.

Q13: The main elements of the regulatory framework and wider government policy impacting on firms' ability to compete and/or innovate in the mortgage sector.

Q14: Experiences of current or recent plans for entry, both successful and unsuccessful, whether into the regulated or non-regulated mortgage sub-sectors, and the main factors impacting on the success of entry plans.

Q15: The importance, and challenges, of having access to different types of funding for lenders' ability to enter and/or expand.

Q16: The extent to which economies of scale and scope for different activities (e.g. lending, advice, intermediation, provision of information) have made entry or expansion more difficult, or may have prevented it.

Q17: For lenders, brokers and price comparison websites, the main challenges in gaining access to consumers, mortgage products, and/or information about mortgage products (in particular those challenges not related to lenders offering direct-only deals).

Q18: The extent, nature and relevance of different barriers to product and process innovation.

Q19: The extent to which specific consumer needs might currently be unaddressed and the reasons for this.

5.
How to respond to the Call for Inputs

5.1 We want to gain a better understanding of how well competition is working in the mortgage sector. We are interested in whether any features of the sector may restrict, distort or impact on competition, and how this may affect consumers. We have set out specific areas that we would like your feedback on throughout the document. However, please also let us know if there are any other areas that you would like to call to our attention.

5.2 Please send us your responses, along with any evidence to support your views, by 18 December 2015.

We are asking for comments on this Call for Inputs by 18 December 2015.

You can contact us by email (MortgagesCallForInputs@fca.org.uk) or by post:

Mortgages Call for Inputs
Strategy & Competition Division
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Email: MortgagesCallForInputs@fca.org.uk

We propose to make all responses to this Call for Inputs available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

You can download this Call for Inputs from our website: www.fca.org.uk. All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 706 0790 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.

5.3 We will consider all feedback, together with other relevant evidence, and aim to publish our findings in a Feedback Statement in the first quarter of 2016. This will summarise our thinking in relation to the main factors affecting competition in the sector and outline any associated next steps.

Annex 1
Overview of Feedback Questions

1. We invite stakeholders to provide views and evidence on any of the behaviours or features that might affect competition in the mortgage sector, including (but not limited to) the specific questions we have set out. We also welcome comments on the extent to which these concerns might be impacted by the future economic environment and/or changes to the regulatory framework, and on how this should inform the scope and timing of a market study or any further FCA work.

2. We are particularly interested in:

Demand side topics

Q1: **The main factors considered by consumers when choosing a mortgage product, how this varies across different types of borrowers and product type, and the elements of the mortgage decision that consumers find most difficult.**

Q2: **The extent to which consumers choose mortgages that are less suitable than other products available to them, and whether certain mistakes are more prevalent amongst some consumer groups.**

Q3: **The different providers of information and advice typically considered by (different types of) consumers, and how they are used.**

Q4: **Whether existing information and advice channels cater for the needs of different types of consumers. If not, which types of consumers face particular challenges.**

Q5: **Re-mortgaging patterns, in particular:**

a. **The main prompts for re-mortgaging;**

b. **The main factors that consumers consider in deciding whether and when to re-mortgage and whether to do so with their current lender; and**

c. **The nature and relevance of different barriers to re-mortgaging. The extent to which the (perceived or real) costs of switching prevent consumers from accessing better deals.**

Q6: **The relevance of different behavioural biases as a barrier to the effective assessment of information, and the extent to which advice or additional information mitigate these.**

Q7: **The extent to which some types of consumers may be unable to access more appropriate (types of) mortgage products and may be unduly trapped.**

Supply side topics

Q8: **Lenders' business strategies, from sourcing funding to offering of mortgages. In particular:**

a. The extent to which firms reflect consumer behaviours and biases in the design of their products and deals, and whether this has increased product complexity over time;

b. The degree to which firms' ability to compete in all or parts of the mortgage sector relies on their portfolio of mortgage products and customers (including back book of customers); and

c. The extent to which lenders' ability to compete in all or parts of the mortgage sector relies on their presence in other financial services activities, including in retail lending and/or banking.

Q9: **Lenders' monitoring and reactions to changes in offers by competitors, and whether there is evidence of patterns in pricing movements.**

Q10: **The range and nature of relationships between different players in the mortgages supply chain[57] or related activities, and within that:**

a. The scope for potential conflicts of interest and whether and how these are mitigated;

b. The impact of relationships with others outside the mortgage supply chain on the ability of brokers and lenders to compete;[58] and

c. Whether lenders, including new entrants, have found it difficult to distribute through certain brokers/distributors, or whether brokers have not been able to supply products from certain lenders.

57 The mortgage supply chain includes lenders, brokers, PCWs, and those providing inputs (such as data on mortgage products) to them.
58 This includes, for instance, through the provision of leads on potential customers.

Q11: **The business models of brokers, price comparison websites, and mortgage sourcing systems, and how they interact with others in the mortgage sector and might impact their ability to compete.**

Topics regarding market features

Q12: **The impact of regulation on barriers to entry and expansion, where possible highlighting specific pieces of regulation and/or the types of businesses or products that are affected.**

Q13: **The main elements of the regulatory framework and wider government policy impacting on firms' ability to compete and/or innovate in the mortgage sector.**

Q14: **Experiences of current or recent plans for entry, both successful and unsuccessful, whether into the regulated or non-regulated mortgage sub-sectors, and the main factors impacting on the success of entry plans.**

Q15: **The importance, and challenges, of having access to different types of funding for lenders' ability to enter and/or expand.**

Q16: **The extent to which economies of scale and scope for different activities (e.g. lending, advice, intermediation, provision of information) have made entry or expansion more difficult, or may have prevented it.**

Q17: **For lenders, brokers and price comparison websites, the main challenges in gaining access to consumers, mortgage products, and/or information about mortgage products (in particular those challenges not related to lenders offering direct-only deals).**

Q18: **The extent, nature and relevance of different barriers to product and process innovation.**

Q19: **The extent to which specific consumer needs might currently be unaddressed and the reasons for this.**

Annex 2
Bibliography

The following sources have been used to inform our initial thinking and analysis.

We welcome suggestions as to any further, publicly available, information which would be useful for our review. We would also welcome any information or privately commissioned work that respondents may be willing to share on a confidential basis.

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Financial Conduct Authority

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25 The North Colonnade Canary Wharf
London E14 5HS
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk