Financial Conduct Authority

MMR Implementation – Are you ready?

On 26 April 2014, the final MMR rules go live. Having worked hard to ensure that these rules truly reflect the policy objectives we set ourselves, we issued our policy statement in October 2012 and, in many respects, the hard part for firms started – having to turn the MMR rules into a reality for consumers.

Help from the FCA

To help firms to get ready, we set up a dedicated MMR Implementation Team. Most firms will have already had some interaction with this team – either face to face, or via an online survey that we issued in May to track readiness.

Progress to date

- In January and February we ran a series of roadshows across the UK for lenders and intermediaries. These were both well attended and well received by the industry.
- We then published a webcast of the MMR roadshows, the frequently asked questions we received at the roadshows, planning tools to help lenders and intermediaries plan for the MMR and, more recently, a factsheet to assist those firms who may currently only operate a non-advised business model. This and other information is available on our MMR webpage.
- In May we asked around 5,400 firms to complete an online survey to help us to assess how ready firms were to implement the MMR. Firms did not have to respond but despite this we were very pleased with the overall response rate of 68%.
- To support the survey we have also visited 6 small niche lenders and carried out desk based reviews for the largest lenders and intermediaries, analysing their plans in more detail.

What are firms telling us?

- **Two thirds are on track; one third are not.**
- **The one third can get back on track by drawing up an action plan. We will help them do this.**
- **Firms liked the readiness survey – it was a useful educational tool.**

All firms who responded to the online survey think that they will implement the MMR on time and have started to plan for the majority of the changes needed. However, a third said they would not have full plans in place before September 2013 for all elements of the reforms. We believe these firms are behind the curve but, as they all indicated, implementation can still be successfully achieved if appropriate plans are drawn up. So overall we think the industry has made a good start.

Firms have told us that the survey has acted as an educational tool and prompted them to act. This was one of the aims of the readiness tracking survey and should help ensure that firms should make good progress focussing on the key areas of change between now and when we issue the next survey in December.

Our key message to firms is if you do not have a plan in place for all elements of the changes required under the MMR reforms, you should put one in place immediately. Our planning tools can help firms do this. The plans should set out:

1. key actions required;
2. specify who is responsible for the actions;
3. record key dates including a target completion date; and
4. how any implementation risks will be mitigated.

Detailed findings

- **Lenders are less prepared than intermediaries. Though we recognise they have more to do due to their size and complexity.**
- **Though lenders are advanced with their planning for implementation of affordability assessments.**
- **Firms that plan to conduct execution-only business are behind with their preparation.**
- **Only a handful of lenders requested further communications.**
- **Intermediaries sought further information on disclosure, execution-only and evidencing suitability.**
- **A high % of non-banks confirmed they needed help from us to understand the new prudential rules. We plan to make further comment on our approach to this soon.**
- **Niche firms are the ones (by %) asking for the most help.**
- **Firms' biggest stated risk to implementation was understanding the rules. Our focused communication plan is designed to help firms.**

The survey gave us data in three key areas:

Firstly, readiness – firms stated whether they thought they could implement on time and whether they had an implementation plan for each of the key reforms that impact them. If they did not have a plan we asked whether they would have a plan in 3 or 6 months.

Secondly, communications – firms stated which of the key reforms they would like further information from the FCA.

Thirdly, 356 firms stated (in free text) what they viewed as their biggest risk to delivery.

Readiness

- Overall, we found lenders are less prepared than intermediaries. Though we recognise they have more to do due to their size and complexity. Our desk based review work with the largest lenders has reassured us that they now have suitable plans in place. Though risks such as changes to IT systems need to be carefully monitored to avoid overrun.
- Lenders are least prepared to implement the changes required for niche lending (high net worth (HNW), business and bridging lending). This was confirmed by our specialist lender visits.
- Lenders are advanced with their planning for implementation of affordability assessments. The larger lenders have more complex system changes to make, so it is positive that planning is well underway here.
- For firms that arrange mainstream mortgages, transacting execution-only sales is where they are least prepared (for those that plan to conduct such business).
- Intermediaries were better prepared for the implementation of the mainstream distribution and disclosure reforms than lenders, possibly due to less significant changes required to their business models.

Communications

- Only a small number of lenders requested further information. The majority were small/niche lenders (e.g. bridging/HNW). These lenders showed most interest in distribution and disclosure, prudential requirements, payment shortfall and equity release.
- The larger number of intermediaries [though similar to lenders by % of population] requesting additional information gives us a clear steer on their areas of interest. These areas are disclosure (including direct deals), execution-only, evidencing suitability and dealing with contract variations.
- We recognised in the MMR policy statement that the enhanced prudential requirements might be difficult for some non-deposit taking lenders to understand. We had a high % of non-deposit taking lenders confirming they needed help from us to understand the rules and we plan to make further comment on our approach to this soon.

- Although a small population, by firm type, niche firms such as home purchase plan, sale and rent back and bridging firms are the ones (by %) asking for the most help.

Top 5 risks to successful implementation

The top 5 stated risks to successful implementation were:

- Understanding the rules.
- Late changes to the rules - the MMR rules are final and our June 2013 QCP aims to provide further clarity on some of the rules.
- Changes to IT systems.
- Understanding how to implement execution-only and whether firms are obliged to offer it - many intermediaries were concerned that they had to offer an execution-only service, for example, if their advice was rejected. It is not compulsory to offer this option, they may simply choose not to proceed with the sale.
- Making changes to sales processes and T&C schemes.

We believe our focused communication plan will help address a number of these areas but firms should also think about how they can mitigate these risks themselves, for example, larger firms may consider manual workaround options for late IT changes.

What next?

- **We are using the readiness tracking results to design our second round of communications.**
- **We will be conducting a series of regional half-day workshops in October and November 2013.**
- **There will be further support in the form of factsheets and possibly a webcast.**
- **We also plan to offer firms face to face meetings with the Implementation Team in February 2014.**

Increased firm engagement

We are using the readiness tracking results to design our next round of communications and will focus on the areas highlighted above where firms need help.

The aim of this work is to build on the phase 1 communications which were very well received with firms and ensure that all external stakeholders are educated and engaged in the MMR requirements right up to implementation; to address some myths and preconceptions that firms may have about some of the reforms; and to ensure that we are identifying risks through continued firm engagement which could result in the unsuccessful implementation of the MMR.

So we will be conducting a series of regional half-day workshops which will specifically focus on areas where implementation plans were less progressed and where firms have said they need more help within the readiness tracking. We will be running lender workshops in October and intermediary workshops in November. Firms will be invited by email to book their place at these events later this week and more information will be available on our FCA events page about the workshops in due course [there will be a charge of £35].

Our readiness tracking analysis and on-going conversations with industry trade bodies have indicated a need for further engagement with firms on the areas of the mortgage sales process where there have been changes for both the lenders and the intermediaries such as setting up processes for execution-only sales, contract variations and disclosure. Therefore this is the focus of our phase 2 firm engagement programme.

The workshops have been designed to be interactive with exercises and scenarios to bring the mortgage sales process to life. This will provide firms with the opportunity to understand what we expect of them, to ask us any questions they may still have in relation to their MMR planning and to also share ideas with their peers.

In addition to the workshops, there will be further help and support in the form of factsheets focusing on the reforms where firms want the most support, for example niche markets. We may also issue an updated webcast at a later date.

Finally, we also plan to offer firms face to face meetings with the Implementation Team in February 2014. We recognise that this close to implementation the queries raised are likely to be bespoke to firms. Therefore surgeries will allow firms to have one-to-one time with the FCA prior to the implementation date. We will provide further information early next year and let firms know how to book one of the limited spaces.

Conclusion

- **Overall we are pleased with the industry's progress to date.**
- **However, some firms need to complete their planning and should do this straight away.**
- **We have used the survey to listen to the industry and will produce further communications tailored to firm's needs.**

Overall we are pleased with the industry's progress to date. The majority of firms that responded to the survey had a plan and all thought they will implement on time. However, further work is needed to ensure an MMR compliant industry by 26 April 2014.

Firms who do not have plans in place for all elements of the MMR must draw them up immediately to ensure they understand the work required to be MMR compliant.

We are committed to help firms get where they need to be. So please continue to keep an eye on our MMR pages for up to date information that may be useful before and after the implementation date.

Useful links

FCA MMR webpage:

http://www.fca.org.uk/firms/firm-types/mortgage-brokers-and-home-finance-lenders/mortgage-market-review

Including:

- Policy statement PS12/16 (including the rules)
- MMR planning tools
- MMR webcast
- Non-advised fact sheet (for firms without the advising permission)
- Roadshow FAQs

June 2013 QCP (CP13/3):

http://www.fca.org.uk/static/documents/consultation-papers/cp13-03.pdf

MMR related items:

- Amend the Perimeter Guidance Manual on mortgage advice.
- The professional standards requirements.
- A new provision for pipeline applications.

Events page:

http://www.fca.org.uk/events