

Life after MMR: What next?

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After MMR: the consumer perspective

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Financial Services Consumer Panel

About the Panel

- Independent statutory body established in 1998
- Around 15 members recruited by open competition from a range of backgrounds
- Represent the interests of all consumers
- Main focus on conduct regulation
- Also engage with PRA, HM Treasury, DWP, trade bodies and financial services providers where this has the potential to improve outcomes for consumers

Consumers and the MMR

- There was genuine consumer detriment where people were taking out mortgages that they could not afford to repay
- Particular problems with:
 - Interest only mortgages with no principal repayment plan
 - Mortgages of more than 100% of the value of the property
 - Misuse of self-certification of income

But even after the crash many consumers were managing

- Not all interest only mortgages are unsuitable or unsustainable
- Consumers often give priority to paying their mortgages when they experience a drop in income or other change of circumstances
- They adjust other types of discretionary expenditure (eg cars, holidays, clothes, grooming)
- Lenders have been showing forbearance around repossessions, especially for people in negative equity

What the Panel wanted from the MMR: six key points

1. Regulation to protect consumers from irresponsible lending should not unnecessarily penalise responsible borrowers
2. Recognition that the market for mortgages is inextricably entwined with the wider market for homes. Intervention in one part of the market for homes has implications for other parts, including the rental market
3. Affordability should be assessed on an individual basis, not by blanket rules

Six key points ...

4. There should be transitional arrangements so that “mortgage prisoners” who have demonstrated their ability to meet their commitments are not unfairly penalised
5. The overall regulatory structure should recognise that prudential regulation also has significant impact on consumers
6. The polarisation of the debate as being a battle between vulnerable consumers and mortgage lenders had become unhelpful.

MMR Positives

- Consumers are less likely to end up with unsustainable debts
- Borrowers do need to provide evidence of income
- Affordability is being assessed on an individual basis
- The debate has become less polarised. It is recognised that the vast majority of mortgage borrowers are responsible and not vulnerable

MMR: reservations

- The regulatory environment still does not always recognise the connections between the wider market for housing and the market for mortgages
- Not clear that messages to consumers from prudential and conduct regulation are the same
- We are concerned about the incentives to abuse buy-to-let mortgages
- Some lenders' interpretations of "basic quality of living costs" appear to be very wide
- We have continuing concerns about mortgage prisoners

Mortgage Prisoners

- There are consumers who have demonstrated their ability to keep up payments even if they do not meet current affordability criteria but they are unable to get new mortgages
- Cannot get a better deal from a new provider (or sometimes from existing provider either)
- Cannot move house
- Cannot reduce payments by moving to a cheaper property or extending the mortgage term
- Numbers currently small but likely to grow

MMR anecdotes

- There have been a lot of anecdotes (even scare stories) in the media in the two months since the MMR came into force
- Most of the stories come from one or two sources
- Some of these will be the new system settling down, some will be unintended consequences
- There are obvious differences between lenders in terms of how they interpret their obligations

Stories that are likely to be true

- The whole process is taking longer – six weeks is commonly mentioned
- Self-employed people are having to provide evidence of their income
- Affordability checks are a learning process for lenders and brokers. What is essential spending and what is discretionary?
- There will inevitably be some irresponsible gaming of the system eg concealing pregnancy, suspending pension contributions. Lenders will need to adapt.

MMR is not the only game in town

- Both prudential regulation and macroeconomic policy are focusing on mortgages
- Interest rate increases increasingly likely
- Key message from the MMR to consumers should be borrow what you can realistically afford to repay, both now and in the future. This is still right.