



Financial Services Authority

FINAL NOTICE

To: Linda Julie Patterson

Of: 12 Maywood Close
Kenton
Newcastle-Upon-Tyne
NE3 3QT

FSA Reference: LJP01076

Dated: 26 February 2009

TAKE NOTICE: The Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS (the “FSA”) gives you final notice about a prohibition order against you.

1. THE ORDER

1.1. The FSA gave you, Linda Patterson, a Decision Notice on 16 January 2009 which notified you that the FSA has decided to:

- (1) withdraw its approval pursuant to section 63 of the Financial Services and Markets Act 2000 (the “Act”) for you to perform controlled functions; and
- (2) make an order pursuant to section 56 of the Act, prohibiting you from performing any function in relation to any regulated activity carried on by any authorised person or exempt person or exempt professional firm (the “Prohibition Order”).

- 1.2. You were informed of your statutory right to make a reference to the Financial Services and Markets Tribunal, but you have not referred the Decision Notice to the Tribunal within 28 days of the date on which the Decision Notice was given to you.
- 1.3. Accordingly, for the reasons set out below, the FSA hereby withdraws its approval for you to perform controlled functions, and hereby makes an order prohibiting you from performing any function in relation to any regulated activity carried on by any authorised person or exempt person or exempt professional firm. The Prohibition Order takes effect on 26 February 2009.

2. REASONS FOR THE ORDER

- 2.1. Between December 2003 and December 2005 you worked as an underwriter at the offices of Newcastle Home Loans Limited (“NHL”/ the “Firm”) for a mortgage lender to which NHL was tied (the “Lender”). In December you began working for NHL and in March 2006 you became approved to perform the role of CF1 (Director).
- 2.2. On the basis of the facts and matters below, you are not fit and proper to perform functions in relation to regulated activities carried on by an authorised person, exempt person or exempt professional firm. In particular, you have demonstrated that you lack honesty and integrity because:
 - (1) approximately one month before becoming an approved person for NHL, you knowingly submitted at least one mortgage application through NHL which contained false information. As a result, you obtained a mortgage which exceeded the sum that the Lender would have advanced had it known the true facts. At least £74,913 was obtained by you in this way; and
 - (2) you were involved in the submission of at least two mortgage applications to the Lender by a close relative which you knew contained false information. As a result, your close relative obtained mortgages which exceeded the sums that the Lender would have advanced had it known the true facts. At least £88,820 was obtained by your relative in this way.

Relevant Statutory and Regulatory Provisions

- 2.3. Under section 2(2) of the Act the protection of consumers and the reduction of financial crime are regulatory objectives for the FSA.
- 2.4. Section 63 of the Act provides that the FSA may withdraw an approval it has given if it considers that the person in respect of whom the approval was given is not a fit and proper person to perform the function to which the approval relates.
- 2.5. Section 56 of the Act states that the FSA may make an order prohibiting an individual from performing a specified function, any function falling within a specified description or any function where it appears to the FSA that the individual is not a fit and proper person to perform functions in relation to a regulated activity carried on by an authorised person.
- 2.6. In deciding to take the action proposed, the FSA has had regard to guidance published in the FSA Handbook, in particular to Chapter 9 of the FSA's Enforcement Guide

("EG"). Paragraph 9.8 states that the FSA will take into account all relevant circumstances. The following are most relevant:

- (1) a person's honesty and integrity with reference to Chapter 2.1 of the Fit and Proper Test for Approved Persons;
 - (2) where a person has been knowingly concerned in a contravention by the relevant firm of a requirement imposed on the firm under the Act;
 - (3) the relevance and materiality of any matters indicating unfitness;
 - (4) the length of time since the occurrence of any matters indicating unfitness;
 - (5) the particular controlled function the approved person is (or was) performing; and
 - (6) the severity of the risk which the individual poses to consumers and to confidence in the financial system.
- 2.7. As this matter relates to events prior to the introduction of the FSA's Decision Procedure and Penalties Manual ("DEPP") which came into effect on 28 August 2007, the FSA has also had regard to the relevant policies set out in the Enforcement Manual ("ENF") at ENF 8.5.
- 2.8. The part of the FSA handbook entitled The Fit and Proper Test for Approved Persons ("FIT") sets out guidance on how the FSA will assess the fitness and propriety of a person to perform a particular controlled function.
- 2.9. The purpose of FIT is to outline the main criteria for assessing the fitness and propriety of a candidate for a controlled function. FIT is also relevant in assessing the continuing fitness and propriety of an approved person.
- 2.10. FIT 1.3.1 G states that the FSA will have regard to a number of factors when assessing the fitness and propriety of a person and the most important considerations will be the person's honesty, integrity and reputation, competence and capability and financial soundness.

Facts and matters relied upon

Background

- 2.11. NHL was incorporated on 29 April 2003, and was set up and run by David Purdie, together with a relative. The Firm originally operated as a "branded lender", and as such, it could only arrange mortgage applications exclusively for the Lender.
- 2.12. On 31 October 2004, the FSA took regulatory responsibility for certain mortgage activities. NHL applied for authorisation on 31 May 2005 to conduct regulated mortgage activities. It became authorised on 7 October 2005 to conduct the following activities:

- (a) advising non-investment insurance contracts (except pension transfers/opt outs);
- (b) advising on regulated mortgage contracts;
- (c) agreeing to carry on a regulated activity;
- (d) arranging (bringing about) deals in non-investment insurance contracts;
- (e) arranging (bringing about) regulated mortgage contracts;
- (f) making arrangements for regulated mortgage contracts; and
- (g) making arrangements for non-investment insurance contracts

2.13. NHL arranged both regulated and unregulated mortgage contracts.

2.14. On 21 March 2006, you became approved to perform controlled functions 1 (“Director”), 8 (“Apportionment and Oversight”), and 11 (“Money Laundering Reporting”) on behalf of NHL. You are also one of only two formally appointed directors of the Firm. The other appointed director is Grace Purdie.

2.15. Prior to becoming an approved person for NHL, you were employed as an underwriter for the Lender but were based in the offices of NHL. You started working for the Lender in December 2003 and in December 2005 you took employment at NHL as its office manager.

2.16. In December 2005, the Lender began to review applications for both regulated and unregulated mortgage contracts submitted by NHL. By this date, a total of 1,700 applications had originated from NHL since December 2003. The Lender’s initial findings raised concerns over the accuracy of property valuations. It also established differences between statements made on mortgage application forms and information held at the Land Registry. Its subsequent wider review found that mortgage applications were being presented as remortgages when they were actually purchases. The actual purchase price paid for some properties had been concealed from the Lender, and in some cases, the actual purchase price paid was significantly lower than the valuation that had been provided. On 17 May 2006, the Lender removed NHL from its panel of firms.

2.17. The Lender referred 157 cases to the FSA. Of these 157 cases, the FSA identified:

- (1) eight applications for regulated mortgage contracts which contained false information;
- (2) three unregulated mortgage applications detailed below which you submitted in your own name and in the name of a close relative which contained false information; and
- (3) seventeen further unregulated mortgage applications which contained false information, including five submitted by Grace Purdie.

- 2.18. The practice of providing false information in relation to both regulated and unregulated mortgage contracts was routine at the Firm and was not limited to the applications reviewed in the course of the FSA's investigation or to those applications detailed above. You were aware of this practice.

Dishonesty in submitting mortgage application forms

- 2.19. In February 2006, you submitted a mortgage application in your own name which you knew contained false information. You completed the application form yourself and signed it on 8 February 2006. The form stated that you were applying for a mortgage of £242,250 to 'remortgage' a property you had purchased one month before, in January 2006. You also stated that you had used a bank loan of £199,500 to fund this purchase. This information was false.
- 2.20. In fact, you did not purchase the property until 17 March 2006 and used the funds from the Lender to cover the entire purchase. However, the structure was set up so as to appear to be a genuine remortgage:
- (1) your mortgage of £242,500 was received from the Lender on 17 March 2006;
 - (2) three days later, on the 20 March 2006, you received a private loan of £203,144.22 from a business owned by Grace Purdie and Michael Foster, a former director of NHL;
 - (3) later on 20 March 2006, the purchase price of £200,000 was paid to the vendor's solicitors; and
 - (4) the private loan amount was immediately repaid. The purpose of the private loan was to give the illusion that the transaction was a genuine 'remortgage' and that the Lender's funds had not been used to finance the purchase.
- 2.21. On 21 March 2006 the balance of the mortgage, £38,759.15, was paid to you. Because of the false information on your application form, the Lender unknowingly advanced 122% of the purchase price, when its policy was to lend 85%. It therefore lent £72,250 in excess of the amount it would have advanced had the true facts been known to it.
- 2.22. You were also knowingly involved in the preparation of two mortgage applications submitted by a close relative in February 2006. They contained false information in that they:
- (1) mis-stated the purpose of the loan. The mortgage application forms stated that the loan was required to 'remortgage' the properties when your relative was purchasing the properties for the first time;
 - (2) mis-stated that your relative already owned the properties to become subject to the mortgage when he did not;
 - (3) mis-stated that your relative had used a loan from a trust company to originally purchase the properties when he had not; and

- (4) contained fictional original purchase price information. This amount exceeded the price your relative eventually paid for each property.
- 2.23. The false information in one of these applications resulted in the Lender unknowingly advancing your relative 126% of the purchase price of the property. It lent a total of £88,820 in excess of the amount it would have advanced in respect of the two properties had the true facts been known to it.

Representations

- 2.24. You made no representations in respect of the Warning Notice.

Conclusion

- 2.25. You knowingly submitted a mortgage application on your own behalf through NHL which contained false information. You also arranged mortgages for your relative using NHL on the basis of applications which you knew contained false information. You were also aware that the submission of mortgage applications containing false information was routine within the firm and you participated in this practice to your own pecuniary advantage. As a result, the FSA has concluded that you lack honesty and integrity.
- 2.26. Your lack of honesty and integrity is serious and your actions in underwriting and submitting mortgage applications which contained false information may have resulted in financial crime. You are therefore not fit and proper to perform any function in relation to regulated activities carried on by an authorised person, exempt person or exempt professional firm.
- 2.27. You pose a risk to the FSA's regulatory statutory objectives of reducing financial crime, maintaining confidence in the financial system and protecting consumers. A prohibition order is appropriate for the FSA to achieve its regulatory objectives by ensuring that you are not permitted to perform any functions related to regulated activities.
- 2.28. The FSA is not aware that there were any genuine customers who suffered loss as result of your failings. The concerns raised in this notice as regards loss caused by the submission of false mortgage applications relate to that suffered by the Lender.

3. DECISION MAKER

- 3.1. The decision which gave rise to the obligation to give this notice was made by the Regulatory Decisions Committee.

4. IMPORTANT

- 4.1. This Final Notice is given to you in accordance with section 390 of the Act.

Publicity

- 4.2. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the FSA must

publish such information about the matter to which this notice relates as the FSA considers appropriate. The information may be published in such manner as the FSA considers appropriate. However, the FSA may not publish information if such publication would, in the opinion of the FSA, be unfair to you or prejudicial to the interests of consumers.

- 4.3. The FSA intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

FSA contacts

- 4.4. For more information concerning this matter generally, you should contact Bill Sillett (direct line: 020 7066 5880) of the Enforcement Division of the FSA.

**William Amos
Head of Department
Enforcement Division**