Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: Embedding the Mortgage Market Review: Responsible Lending Review (TR16/4)

Lead regulator: FCA

Date of assessment: 14 March 2017

Commencement date: Thematic review commenced April 2015 with publication of our findings in May 2016.

Origin: Domestic: The Mortgage Market Review (MMR) was domestic, but developed with an eye to the expected form of the Mortgage Credit Directive (MCD). The MMR requirements did not originally come from the EU, although many of our Handbook rules as they now stand implement MCD requirements.

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? Whole of UK

Brief outline of proposed new or amended regulatory activity

Changes to the FCA's Mortgage Conduct of Business rules (MCOB) came into force on 26 April 2014 following the Mortgage Market Review (MMR). Our rules aim to deliver a mortgage market which works well for consumers and is suitable for all participants. This review was to assess how firms had embedded the MMR responsible lending rules.

The thematic report considers how lenders had implemented key aspects of the responsible lending rules including affordability assessments, treatment of existing borrowers looking to refinance and interest only borrowers. We reported our findings based on our observations from desk based reviews of firms' responsible lending policies, reviews of lending decisions, responses to case studies and firm visits.

The review found that:

- firms have recognised and positively engaged with the aim of our responsible lending rules
- there was no evidence of previous poor practices like self-certification of income or interest-only lending without a credible repayment strategy
- where lending is affordable, we did not see evidence that the rules had prevented firms lending responsibly across particular groups, for example older borrowers and the self-employed. Potential issues relating to lending to older borrowers will be included in our wider strategy work on the ageing population following our recent discussion paper
- improvements can be made to some aspects of firms' affordability assessment process, monitoring and record keeping

- most lenders are using the flexibility afforded by our rules when dealing with their own existing mortgage customers. However, some firms could be more proactive and consistent when making use of exceptions.

- market data has shown that the responsible lending rules do not appear to have had a material impact on lending volumes. However, it is anticipated that the rules will have a greater impact as interest rates rise and affordability is stretched.

Which type of business will be affected? How many are estimated to be affected?

Any authorised mortgage lenders. This is approximately 250 firms.

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2016	May 2016	10	-0.76	0.1	0.5

Please set out the impact to business clearly with a breakdown of costs and benefits

The findings from the responsible lending review relate to rules and obligations that were already in place and the expectations of firms set out in the report do not put any new obligations on firms.

Note – for all cost estimates below we have assumed the changes will be applied by experienced compliance staff at an estimated rate of £48/hour. The 2016 Robert Half salary guide estimates that a compliance manager in the risk and compliance function of a financial services company based in London earns between £70,000 and £104,000 per annum. Based on working 8 hours per day for 260 days each year our rate equates to £100,000 per annum and is therefore considered a suitably prudent figure for the purposes of our estimates.

Familiarisation costs

We expect all mortgage lenders to read the report and undertake a gap analysis to determine if they are compliant with regulatory requirements set out in the thematic report.

We estimate that it will take hours[1] at a reading rate of 100 words per minute at an estimated rate of £48/hour to read the report for each of 250 mortgage lenders £18,000.

Based on the findings in TR 16/4 we estimate that there are 22 areas that mortgage lenders need to assess whether they are compliant. We estimate half an hour to assess compliance for each area and to summarise the controls in place or the proposed control if no control exists[2].

We estimate that the 250 firms will take 62 hours at a cost of £48 per hour. Therefore we have estimated a cost to sector of £744,000 for the gap analysis.

Please see the table below for a precise breakdown of the gap analysis:

	QRP	Gap analysis (hours)

[1] Based on approximately 9418 words. The speed of reading technical text is 50-100 words per minute is based on EFTEC (2013), "Evaluating the cost savings to business revised EA guidance – method paper".

[2] We arrived at this estimate based on our broader supervisory knowledge of how firms respond to our thematic reports and also on supervisory conversations with firms about their procedures relating to this specific issues. There was additional input from an experienced individual who had worked in compliance in both small and large mortgage providers.

1	1.6:improvements to affordability assessment process monitoring and record keeping (incorporated into other QRPs)	0
2	1.8:improve decision making	2
3	1.8; 1.14; 5.48:being more proactive and consistent using exceptions	4.5
4	1.14; 5.7; 5.34:recording keeping needs to improve	2
6	1.14; 5.47:improving accuracy of online calculators	10
7	2.1:lender/ home finance providers should read this report (captured in familiarisation cost)	0
9	5.14:some firms struggled to assess income in line with their policy	4
10	5.17:bad practice of only using one payslip to estimate income	2.5
11	5.28:continue to ensure realistic assumptions used with expenditure data	5.5
12	5.29:ensure rationale for rate used in stress tests is credible	2
13	5.30:lenders must consider likely future interest rates	1
15	5.35:firms need to be able to demonstrate how lending decisions were made	3
16	5.38:management information not always accurate, sometimes key details missing	5
19	5.55:retention strategies and easy switching for consumers	0.5
20	7.2:improving process for customer experience (e.g. shortening appeals)	2
21	7.3:firms reviewing themselves against Annex 2	12.5
22	7.3/4:consider fair treatment when customers want to change their mortgage	5.5
	Total of average hours across industry	62
	Total hours x 48 x 250	**£ 744,000.00**

Likely benefits to firms

The review could have led to benefits for previously compliant firms. Clarity for firms may allow them to improve process efficiencies, for example, by reducing duplication and repetition. This may result in a better experience for the customer and subsequently fewer complaints, better customer retention and potential savings on costs/loss of business.

- In addition, improved process may also free lenders' resources to help more customers with potential for positive cost savings and/or increased business for firms.
- Some firms had already identified issues and were still embedding and improving new processes. Therefore, publishing our findings is likely to assist firms in this process.
- Improvement in areas where they were not meeting standards avoids potential regulatory action or reputational damage.

We have not attempted to quantify these potential benefits as it would not be practicable to do so.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.

TR16/4 available here.

DP16/1 available here.