



Association of Finance Brokers

February 2007

## **Response from the Association of Finance Brokers (AFB) to the Mortgage Funding Expert Group and Consumer Industry Dialogue Group Final Reports.**

This response is submitted by the Association of Finance Brokers (AFB). AFB is the trade association for intermediaries who are active in the UK second charge loan market.

In the UK secured loans market, intermediaries are by far the largest distribution channel – in 2004, intermediaries were responsible for approximately £3 billion of the £4.6 billion advanced. As such they represent a dominant force in the maintenance of a competitive and dynamic mortgage market.

### **Introduction**

We welcome the opportunity to comment on the final reports of the mortgage funding expert group and the consumer industry dialogue group. We also welcome Commissioner McCreevy's commitment to the principles of better regulation, and we hope to see the Commission continue to pursue a constructive, analytical, and thorough approach to examining ways of further integrating the European mortgage market. Intervention by the Commission should only take place where it has clearly been demonstrated that the market is unable to deliver change through a non-legislative, industry-led process. AFB is firmly of the belief that any specific proposals must be made alongside full cost benefit analysis.

### **Barriers to integration**

We do not believe that, in general, consumers currently have an appetite to shop cross-border to meet their mortgage needs. It is more likely that integration will begin where lenders decide to enter markets at a national level in other member states. Intermediaries can greatly assist in this by providing an established distribution channel for mortgage products, both within each member state and cross-border.

In our view, the true barriers to integration of the mortgage market are those which prevent lenders from entering into mortgage contracts with individual consumers in another member state:

- land registration procedures which make it difficult for lenders to make use of the secondary mortgage market,
- difficulties in accessing accurate land registration data for foreign lenders,
- the lack of a common approach to property valuation,
- lack of efficient foreclosure procedures in some member states, and
- the existence of product restrictions in certain member states, such as caps on interest rates or early repayment charges. Such restrictions can stifle product innovation, and therefore consumer choice.

The removal of such barriers would increase the ability of lenders to enter national markets in other member states, therefore providing greater product choice and a more competitive mortgage market for consumers.

The Commission should consider working with the industry to find ways of removing these barriers without the need for regulatory intervention.

### **Consumer protection**

We would refer to our earlier comments regarding consumer appetite to shop cross-border. There is no evidence to suggest that any particular issue of consumer detriment in the mortgage market is widespread across Europe. At the current time, it is our belief that the diversity between the national markets of each member state means that the harmonisation of consumer protection rules would not deliver greater integration of the mortgage market. We do not believe there is sufficient evidence of consumer detriment to justify the risks of regulatory intervention beyond that at a national level. We also have concerns that regulatory intervention by the Commission would lead to restrict competition and product innovation in national markets.

We are supportive of the principles behind the existing Code of Conduct, however we believe that the Code should remain on a voluntary basis, to allow each member state the flexibility to address any identified consumer detriment in a manner which is appropriate to its national market. This would provide member states with the ability to address identified failures in a way which reduces the risk of restricting product innovation and consumer choice.

### **Credit Intermediary Study**

We welcome the Commission's intention to further explore the intermediary market. We feel it would be useful at this point to provide a short overview of the secured loan intermediary market in the UK.

## **Intermediaries in the UK secured loan market**

UK secured loan intermediaries act as the agent of the consumer rather than the lender, researching the market to select a suitable product which meets the needs of the individual consumer. Most intermediaries will offer a full advice service to their customers: analysing their individual circumstances, needs, and preferences; carrying out research across the market, and recommending a secured loan which best meets the customer's needs.

## **The role of secured loan intermediaries in creating a more competitive market for consumers**

We welcome the comments of the mortgage funding expert group which recognises the essential role of intermediaries in delivering increased competition and promoting innovation within the mortgage credit market. The experience of the UK market demonstrates that the existence of intermediaries has led to a more competitive market with greater product choice for consumers. The bargaining power of secured loan intermediaries gives them the ability to influence product design and negotiate specific terms for individual consumers.

The existence of a well-developed and robust intermediary distribution channel in the UK has enabled non-deposit taking institutions to enter the market as secured loan lenders without bearing the costs of direct distribution, such as investment in a network of branch offices, staff costs, and the costs of marketing directly to consumers. There is little financial risk for these lenders in making use of intermediary distribution as intermediaries are remunerated predominantly via commission. This commission is only payable once a secured loan transaction completes. Lenders who reach consumers through intermediaries also gain additional benefits:

- Low initial investment – instead of investing in a direct distribution channel, lenders can re-direct investment into product design and innovation – leading to more competitive mortgage credit products for consumers.
- Regulatory risk mitigation – the intermediary takes regulatory responsibility for the advice it provides to its customers – the lender does not bear the risks of redress in the event that the consumer receives unsuitable advice.
- Market knowledge – intermediaries have extensive knowledge of the market place and of consumer buying behaviour. Lenders can make use of this knowledge during the product design process, delivering mortgage schemes which better meet the needs of consumers. In this way, the UK secured loans market is customer-focused and driven by the needs of consumers.
- National presence, local service – the UK intermediary community is diverse: it ranges from large national firms serving the whole of the UK, to small firms which service consumers in their local area. Many secured loan intermediaries offer their customers a choice of face-to-face advice or advice over the telephone. By distributing through

intermediaries, lenders are able to reach consumers on a national level and consumers are able to choose to make use of a national intermediary with a recognised brand, or make use of a trusted local or regionally-based intermediary.

We would be pleased to work with the Commission to help develop the terms of reference for the study of credit intermediaries and to share the UK's experience of a thriving intermediary distribution channel for secured loans.