

Financial Services Consumer
Panel response to:
HM Treasury Discussion
Paper on Mortgage
Regulation

October 11, 1999

Mortgage Regulation

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Summary

Introduction (Chapter 1)

1. This document sets out the response of the Financial Services Consumer Panel ('the Panel') to HM Treasury's Discussion Document Regulation of Mortgages. Our response draws on a range of evidence including in-depth qualitative research amongst 50 consumers who had taken out or were seeking a mortgage, and a seminar we held with a range of consumer, industry and enforcement experts.

The case for FSA regulation (Chapter 2)

2. We believe that mortgages should be regulated by the FSA because of:
 - consumer detriment arising from information asymmetry and poor quality advice (Chapter 3 sets out more fully our views on the nature of consumer detriment);
 - the difficulty of the FSA regulating the sale of investments (e.g. endowments) associated with mortgages effectively when only part of the mortgage sales process is regulated;
 - the gaps in consumer protection within the existing patchwork of voluntary and statutory regulation;
 - the benefits to consumers and the industry of a one-stop regulator, and of access to the Financial Services Ombudsman Scheme and the Single Compensation Scheme; and
 - the shortcomings of a regime based on voluntary regulation, which does not guarantee comprehensive industry coverage; does not provide an effective deterrent against non-compliance; and may tend to reflect the interests of industry rather than consumers when there is a conflict of interest.

Nature of consumer detriment (Chapter 3)

3. Recorded complaints about mortgages are high relative to complaints about other complex financial services already subject to statutory regulation, e.g. recorded complaints about mortgages as a proportion of mortgage lending were more than 50% higher than personal pension complaints relative to personal pension sales.

4. The context in which mortgages are taken out is one where the consumer's personal and emotional resources are stretched by the house buying process and the focus of their attention is on getting a home rather than taking out a mortgage. This makes them particularly vulnerable to mis-selling.
5. Actual consumer detriment may arise in the following areas:
 - the difficulty of making like-for-like price comparisons and substantial price differences between similar types of mortgage may result in consumers taking out mortgages that are poor value;
 - the cross-selling of products associated with mortgages, lack of transparency of costs and of whether or not associated products are compulsory may result in consumers taking out products that are poor value for money compared with the competition;
 - mortgage features such as redemption penalties and mortgage indemnity guarantees (MIGs) and the terms of Mortgage Payment Protection Insurance (MPPI) may not be transparent or understood by consumers and result in unpleasant surprises;
 - poor quality advice may result in consumers taking out mortgages that are unsuitable for their circumstances. This includes setting up interest-only mortgages and providing no advice on a repayment vehicle, leaving some consumers without any means of paying off their capital;
 - commission may result in biased advice and unsuitable sales of endowment, pension and non-status mortgages;
 - consumer confusion about the status of advisers (whether they are tied or independent for mortgage or investment advice) may result in consumers not being given the type of advice they thought they were getting; and
 - lack of clear information (e.g. unclear redemption penalties) may mislead consumers.

Impact of the Mortgage Code (Chapter 4)

6. We have assessed the Mortgage Code against three criteria:
 - adequacy – our research and analysis suggests that the Mortgage Code is not relevant to the way consumers take out mortgages and does not provide effective consumer protection;

- compliance – our research, and mystery shopping exercises by others, suggest that there is continuing non-compliance with the Mortgage Code’s provisions; and
- monitoring – the jury is still out on the adequacy of the arrangements. We welcome the IRB/MCRI’s mystery shopping exercise but are disappointed that it focuses solely on process.

What type of regulation? (Chapter 5)

7. We consider that effective mortgage regulation would have the following elements. It would:
 - be designed to ensure that consumers are sufficiently informed through clear information and appropriate advice (if they require it) to take out a mortgage suitable to their circumstances and that they understand the pertinent features of their mortgage;
 - cover all mortgages taken out by private consumers;
 - help to redress the information imbalance between consumers and providers through:
 - new advertising requirements that completely overhaul the Consumer Credit Act regulations,
 - a ‘key features’ document at the point of sale – available without a lengthy interview to aid shopping around and made available to all customers before they have to agree the final mortgage offer; and
 - clearer mortgage agreements;
 - ensure the provision of sound advice (where required) based on an adequate fact-find given by advisers who meet FSA prescribed training and competence requirements; and
 - involve initiatives such as ‘comparative information’ for mortgages and perhaps link this information to the ‘key features’ document so that customers can compare a particular mortgage against others.
8. We do not think the development of CAT-standard(s) for mortgages provides an alternative to the statutory regulation of the sales and marketing process. We have some concerns about the viability of CAT standards for mortgages.
9. During the transition period from voluntary to statutory regulation there is a real danger of a reduction in existing in standards and loss of

momentum in making improvements to the Mortgage Code regime. We welcome the CML's and MCRI's commitment to continue to enhance the voluntary regime if they get Government and FSA backing. This is a better alternative for consumers than transferring mortgage regulation to the FSA prematurely. We would be concerned if a premature transition resulted in the FSA simply translating the Mortgage Code with all its faults into FSA rules and grandfathering intermediaries into the FSA regime without conducting appropriate authorisation checks.

Chapter 1: Introduction

1.1 This document sets out the Financial Services Consumer Panel's ('the Panel') response to HM Treasury's Discussion Document on *Regulation of Mortgages*. The Financial Services Consumer Panel was established by the Financial Services Authority (FSA) to advise the FSA Board on the interests and concerns of consumers and to report on the FSA's effectiveness in meeting its consumer protection and public awareness statutory objectives. There are eleven members of the Panel representing a broad range of consumer interests. The Panel is independent of the FSA – it can raise its own concerns, initiate its own research and publish its own reports.

1.2 Changes in the mortgage market over the last 15 years have brought undoubted consumer benefits but also increased the need for regulation:

- the market has increased in complexity – there are now an estimated 4,000 different mortgage products;
- the number of borrowers has increased with the growth in home ownership, magnifying the economic significance of any problems they face: 1 in 13 households take out a mortgage or re-mortgage each year;
- consumers are increasingly exposed to risks that they are not fully aware of: the lack of protection for them provided by mortgage indemnity guarantees, inadequate protection offered by mortgage payment protection insurance, endowments that do not guarantee to pay off the loan and being tied to a mortgage by hefty redemption penalties are just some examples;
- the growth in mortgage intermediation, and attendant services, such as packagers, has brought problems of control and potential conflicts of interest; and
- the growth of telephone and Internet selling will give rise to new issues.

A fuller discussion of these changes is provided in Appendix 1.

1.3 Our response draws evidence from a range of sources including:

- qualitative research we commissioned which looked in depth at people's experiences of taking out a mortgage and their understanding of the mortgage they had taken out;

- a desk study we commissioned on the problems consumers face in the mortgage market; and
- a seminar we ran to discuss forms of regulation that might best address the problems consumers face, that involved: consumer representatives, industry representatives operating in the mortgage market, regulators, trading standards staff and those involved in the Ombudsman Schemes.

Copies of the research report and desk study are available on our website: www.fs-cp.org.uk.

NOP undertook 50 in depth interviews in May and June 1999. Forty interviews were undertaken with those who had taken out a mortgage in the three to six months prior to interview and 10 interviews were undertaken with consumers who were in the process of taking out a mortgage and who had been through at least one mortgage interview. All those interviewed had therefore taken out or sought a mortgage during a period when the Council of Mortgage Lenders' requirement was that the Mortgage Code was fully implemented by lenders and intermediaries. Interviews were conducted with a mix of first time buyers, re-mortgagers and those moving home. They had taken out a range of different mortgages arranged through a mix of lenders and intermediaries. Those who had completed their mortgage provided the researchers with their mortgage agreement for checking. Key aspects of the mortgage were recorded by the researchers to check against the respondent's understanding of their mortgage. All interviews were tape recorded and transcribed for analysis.

Chapter 2: The case for FSA regulation

2.1 We believe mortgages should be regulated by the FSA because of:

- the potential detriment to consumers;
- the difficulty of the FSA regulating the sale of investment vehicles (e.g. endowment policies) associated with mortgages effectively when only part of the mortgage sale is regulated;
- gaps in consumer protection;
- benefits to consumers of a single regulator covering significant financial transactions; and
- shortcomings of voluntary regulation.

Consumer detriment

2.2 Mortgage payments represent a substantial proportion of household income. Over the last 30 years (1969–1998) mortgage costs accounted for 12% of the household income of first-time buyers in 1969 rising to 26% in 1990 and currently accounts for 16% of household income. For former owner-occupiers, the range was 10% in 1969 to 25% in 1990 and currently stands at 15%¹. Taking out a mortgage is often the first major financial decision that many consumers face. Most of those with mortgages do not have experience of purchasing other complex financial products – only 14% have a personal pension and 9% have a PEP or unit trust². The financial risks associated with taking out unsuitable mortgages or associated products are high. Chapter 3 sets out our analysis of the nature of consumer detriment.

More effective regulation of investments associated with mortgages

2.3 There is widespread concern, supported by some evidence, that mortgage advisers may recommend interest-only mortgages with endowments or other investments when a repayment mortgage might be more suitable. An endowment sale is likely to generate more commission for the adviser than selling a repayment mortgage (see Chapter 3 paragraphs 3.21 to 3.22). The effective regulation by the PIA

¹ DETR Housing and Statistics Division

² NOP Financial Research Survey, 1997

of the sale of endowments and other investments taken out with mortgages has been hampered for the following reasons:

- the initial advice consumers receive regarding whether to take out a repayment or an interest-only mortgage is not subject to PIA regulation;
- regulatory checks on endowment sales have been hampered by the inadequacy of records kept by regulated firms which, in part, may result from the fact that only part of the process is regulated and different advisers may have been involved in the sale; and
- although the projection rates for endowment policies are regulated by the PIA, what is included in the repayment illustration is not. Thus, there is still flexibility for advisers to manipulate costs e.g. by including overly expensive life cover in a repayment quotation which can bias illustrations in favour of an interest-only mortgage with an endowment.

These problems could be tackled if mortgage regulation was within FSA's remit.

Gaps in consumer protection

- 2.4 A patchwork of voluntary and statutory regulation for mortgages cannot provide seamless protection for consumers. The lack of a statutory information gateway from the FSA to voluntary regulators means that the FSA cannot pass information about compliance problems to the Mortgage Code Compliance Board (MCCB).

Benefits of a single regulator

- 2.5 A key benefit of the FSA regulating mortgages would be that as a result of FSA activities consumers would know that the person they are dealing with is trained and competent to advise them; and that if things go wrong the Financial Services Ombudsman will provide an effective, independent redress mechanism, and in the event of a firm becoming insolvent, restitution will be available from the Single Compensation Scheme. As public awareness of the FSA grows, there will be a growing public expectation that mortgages are regulated by the FSA. Already a relatively high proportion of telephone calls to FSA's public enquiries office relate to mortgages. Consumers will not realise, nor find it acceptable, that the protections they are afforded on mortgages, one of their largest financial transactions, are lower than for other financial services.

- 2.6 Regulation by the FSA will also avoid the inherent duplication of the MCCB, trading standards departments and the FSA carrying out separate monitoring exercises. The FSA already supervises many of the firms involved in the sale of mortgages and examines their mortgage records for investment business regulation.

Shortcomings of voluntary regulation

- 2.7 Voluntary regulation under the Mortgage Code has three major drawbacks:

- whilst the CML has almost achieved comprehensive coverage across the industry, this is not guaranteed (e.g. a major lender could drop out and at least two lenders, Virgin and Direct Line, are not CML members);
- we think it is highly improbable that effective sanctions could or would be brought against a major lender in a voluntary regime. In addition, if an individual lender has evidence that an intermediary is non-compliant there is no guarantee that they will cease to do business with them or report it to the Mortgage Code Compliance Board, because of the loss of sales from that intermediary that would result. Mystery shopping exercises and findings from our own research provide evidence of non-compliance with the Mortgage Code (see Chapter 4). Even within the industry there is the widespread view that statutory regulation will result in better compliance and improvements to the quality of advice given to consumers; and
- where there is a conflict of interest between the needs of consumers and the industry, or between one sector of the industry and another, there is a danger that the Code and its implementation may reflect the interests of the most powerful groups. For example, in spite of the continuing public concern over the extent of redemption penalties, divisions in the industry mean that the CML has still not come up with any way of controlling abuse of penalty 'overhangs' (that is, penalties that exceed the duration of any special interest rate period). The CML decided not to take any action under the Mortgage Code in July 1998, instead undertaking to consider how the Code might be developed further to enhance the clarity of mortgage features. Yet no proposals even to improve the clarity of redemption penalties have been implemented. The only step forward has been agreement to waiver penalties on the death of a joint borrower (cf CML press releases of 23 July 1998 and 9 January 1999).

Chapter 3: Nature of consumer detriment

3.1 This chapter sets out the potential for, and evidence of, consumer detriment in the sale and marketing of mortgages. Detriment may take the following forms:

- consumers taking a mortgage or associated product that is not suitable to their needs;
- consumers not getting a good value mortgage;
- consumers being tied into taking out a bundled product with a mortgage which is more expensive than competing products; and
- consumers taking out a mortgage or associated product which is not of the quality they assumed and facing unexpected surprises as a result.

3.2 Our analysis is organised under the following headings:

- consumer complaints;
- prices, information and ineffective competition;
- product features;
- nature of the transaction;
- problems with the quality of advice;
- problems with the objectivity of advice; and
- clarity of information.

Consumer complaints

3.3 Recorded complaints are one indicator of consumer problems. But they only represent the tip of the iceberg as many problems go unrecorded for three reasons which might be worth distinguishing: (a) because the consumer was unaware of the problem e.g. failing to understand that the product was unsuitable; (b) because the consumer recognised the problem but decided not to complain; and (c) because if one is looking at Ombudsman and trading standards figures, the complaint is resolved at an earlier stage (i.e. by the firm involved). It is also difficult to get a consistent picture of what complaints there are because of the lack of a single body dealing with complaints concerning lenders and intermediaries. Despite this, recorded complaints about mortgages are

relatively high compared with complaints about other financial services that are already subject to FSA regulation (see Appendix 2). For example, mortgage complaints to the Ombudsman Schemes and trading standards departments as a proportion of mortgage lending are more than 50%³ higher than personal pension complaints relative to personal pension sales. There were over 8,000 mortgage complaints to the various Ombudsman and trading standards departments in 1997-8⁴, which is around 0.75% of mortgages sold in 1997.

- 3.4 OFT's 1996 research into causes of consumer dissatisfaction shows higher levels of consumer dissatisfaction with mortgages compared to other goods and services. Of those who arranged a mortgage in the previous year 8.5% had a cause for complaint. This is a higher percentage than those who were unhappy about second-hand cars and almost as many as were unhappy about building work⁵.

Prices, information and ineffective competition

Mortgage loan

- 3.5 Mortgage prices are difficult for consumers to compare. For example:
- some mortgages that are promoted as having a lower interest rate end up costing consumers more than mortgages with a higher interest rate. This is because they might require specific insurance and other products to be taken out that cost more than the competition;
 - there are various 'hidden' costs such as redemption penalties that may not be transparent;
 - fees and other costs, such as mortgage indemnity guarantees (MIGs), need to be taken into account and the amount paid by consumers will vary depending on whether they are paid separately or added to the loan and according to the unknown eventual life of the loan;
 - differences in the way interest is calculated (annually, monthly or daily) affect the total costs to the consumer and are not always transparent; and

³ See Appendix 2 for details

⁴ Note: data covers different periods

⁵ Customer dissatisfaction, OFT, 1996

- mortgage lenders do not provide information on a comparable basis (apart from APR calculations that may mislead because of cashbacks, low initial charges and other promotions) making it difficult for consumers to make valid comparisons between products.

3.6 The fact that mortgage prices are difficult to compare would not be particularly significant if they were within a narrow band. However, if prices are substantially different for similar types of mortgage, this increases the scale of detriment as consumers may unwittingly take out a more expensive mortgage. For example, research by Consumers' Association comparing mortgages without redemption penalties offered by the major banks and building societies found a £3,750 difference in the payments that would be made over 5 years between the best buy mortgage and the most expensive deal for a £60,000 mortgage (Appendix 3)⁶. Moneyfacts' six monthly survey of mortgage interest rates charged by the top 30 lenders over the last three years shows that standard variable rates differed considerably. The survey shows a £1,440 difference in interest payable between lenders on a £50,000 loan over a three-year period (Appendix 3). If these differences continued over the average life of a mortgage (7 years), consumers would end up paying substantially more.

3.7 Our research found that where consumers were making cost comparisons they were relatively unsophisticated. We can see the classic signs of an anti-competitive market resulting in high scope for consumer detriment – a relatively unsophisticated customer base operating in a market where price comparisons are difficult to make with the result that mortgage providers are under no great pressure to compete on price.

3.8 The difficulty of making price comparisons affects existing mortgage holders too. Despite the fact that cheaper mortgages may be available, often from the same lender, consumers are not well placed to assess how much cheaper. Re-mortgaging is a real hassle – consumer face known costs and probable inconvenience for uncertain benefit. This coupled with consumer inertia, means that consumers can end up paying more than the market price for many years. For example, a survey by NOP and the Mortgage Guild found that nearly half of UK homeowners are paying a Standard Variable Rate or a higher mortgage rate despite lower rates being available; the same portion

⁶ One stop flop in Which?, September 1999

were unwilling to switch mortgage because they believed they would have to start an endowment policy all over again⁷.

- 3.9 Some lenders also take longer to pass on base rate changes to existing borrowers compared to new borrowers. This is another 'hidden' cost to consumers that is difficult to assess at point of sale. Table 1 shows the time difference taken to pass on base rate changes by smaller building societies.

Table 1: Time taken to pass on base rate cuts to existing borrowers compared to new borrowers

<i>Lender</i>	<i>Difference in days for base rate to be passed on to existing borrowers compared to new borrowers</i>
Dudley BS	68
Holmesdale	55
Monmouthshire	51
Bath	48
Chorley & District	42
Scottish	34
Barnsley	31
Bristol & West	29
Stafford Railway	21

Source: The Research Department, based on rate change on 4.2.99 when the rate fell to 5.5% from 5.75% quoted in the Daily Mail on 26 June 1999 "How the small lenders are big offenders".

Tied insurance

- 3.10 The sale of insurance products bundled with mortgage loans can give rise to detriment if the insurance is poor value for money compared with other products on the market. Independent research carried out for Direct Line found that around 8 out of 10 people who arranged their home insurance through their mortgage intermediary could save money instead by purchasing it from Direct Line. Once tied insurance is taken out, lenders may deter consumers from shopping around when insurance is due for renewal by imposing administrative charges for checking that any new policy meets their criteria. Direct Line found that two-thirds of the top 30 lenders still charge a £25 administrative fee to check new policies⁸.

⁷ Owners miss the best rates in Financial Adviser, 4 June 1998

⁸ A consumer scandal still unresolved! A review of the UK home insurance market place by Direct Line Insurance, June 1999.

- 3.11 The Mortgage Code requires advisers to make clear whether it is a condition of a mortgage that certain insurance has to be taken out, whether it has to be arranged through them and any associated premiums. Our research suggests that some advisers did not always follow the Code (see research findings below).

Research findings: problems with tied insurance

Some consumers found out very late in the mortgage application process that tied insurance was compulsory. This supports quantitative research conducted for the OFT which found that only 25% of those who had taken out a mortgage with tied products were told about tying in before making their mortgage application.

The premiums for insurance were not always made clear (see Case Study 1 below) Again this is corroborated by earlier OFT research which found that only 32% of those who had taken out a mortgage with tied products said that they received information on the cost of the tied services before making their mortgage application.

Some consumers were unclear whether the insurance policies they had bought with their mortgage were compulsory or not.

Sources: Consumer Panel research (NOP, 1999) and OFT "Packaged Mortgages: Results of Consumer Surveys", June 1999.

Case Study 1: expensive home insurance premiums not explained

Mrs and Mrs A had been pressurised into taking out household insurance with their lender without being told the costs in order to secure a particular mortgage that they were told was only available until close of business that day. They had no time to gather alternative quotations from competitors. They later found out the policy was much more expensive than that available from competitors. After complaining the policy was cancelled and their money refunded.

Source: Consumer Panel research - interview 2 (NOP, 1999)

Product features

- 3.12 There are a number of features of mortgages that can give rise to detriment if consumers are not fully aware of them:
- Redemption penalties – most fixed rate, capped rate and discounted mortgages contain redemption penalties during the period of any special deal and many extend beyond the special deal period. There is nothing to stop the lender increasing the standard variable rate to above average rates after the special deal, while high redemption penalties can prevent the borrower from re-mortgaging at a lower rate. Some lenders also impose penalties whenever the mortgage is redeemed before the end of its term. Complaints about redemption penalties to the Building Societies Ombudsman Scheme increased by 54% in 1997-8, despite a reduction in the number of borrowers covered by the Scheme. The

Banking Ombudsman also reported an increase in such cases⁹. Partly, this might have been stimulated by the fall in interest rates, but it might also reflect borrowers not being adequately informed about redemption penalties in the first place.

- Mortgage indemnity guarantees (MIGs) – these provide protection for the lender rather than the borrower. They could give rise to detriment if the borrower believed a MIG provided protection for them. Our research found that most borrowers with MIGs understood their purpose although there were a few worrying exceptions where respondents thought MIGs provided protection for themselves (see research findings below). The design of MIGs might also cause confusion for consumers in that often no MIG premium is payable until the loan reaches say 90% of the property value but the MIG is then charged on the excess over, say, 75% of the loan to property value.

Research findings: misunderstanding MIGs

The following discussion illustrates the respondent's misunderstanding of MIGs:

Moderator: What do you think mortgage indemnity guarantees are for?

I bet they're for covering your repayments if you are out of work or you are unemployed.

Moderator: Have you heard of mortgage payment protection before this?

Yes. I think that's what I meant by mortgage indemnity guarantee.

Source: Consumer Panel research- interview 29 (NOP,1999)

- Mortgage payment protection insurance (MPPI) is often sold in conjunction with a mortgage. Some policies have been sold to those who would not be covered because of the extensive exemptions. The Insurance Ombudsman received 64 complaints about mortgage payment protection insurance in 1998¹⁰. Progress has been made to improve the quality of policies through the introduction of a minimum standard by the CML and ABI to provide a basic level of cover, but there still remains the problem of ensuring the terms are clear as some borrowers will still be excluded under the new minimum standards. In 1997 around 30% of MPPI claims were rejected¹¹. Common reasons for rejection

⁹ *Ombudsman reports rising overhang complaint rates* in Financial Adviser, 10 December 1998

¹⁰ Annual Report 1998, The Insurance Ombudsman Bureau

¹¹ The effectiveness of mortgage payment safety nets – research by Elaine Kempson, Janet Ford and Deborah Quilgars in Joseph Rowntree Foundation Findings, April 1999

included mortgagors being sacked or leaving work voluntarily, the ending of temporary or fixed term contracts and pre-existing medical conditions. Qualitative research amongst mortgagors who had their claims rejected found that some said that they had provided information about their circumstances at the time they were sold the policy and therefore believed they were covered.¹² Many MPPI policies are poor value for money. Some lenders offer free MPPI for the first six months or a year. When the offer expires the lender may send a renewal notice so that cover automatically continues without the customer considering whether they need the cover and whether it is suitable.

Case study 2: problems with exemptions from mortgage payment protection insurance

Mrs F decided not to take out MPPI with her new mortgage because she had been unable to claim when her husband had been unemployed in the past:

“When my husband worked in the Middle East, we had it [MPPI] and we paid forty pounds a month and our mortgage was only forty thousand or something. It was one of these – some of them are income protection but you can actually, it can give you mortgage plus your bills plus your council tax plus a certain amount you know, and we had it and my husband worked in the Middle East and because of the war in the Gulf, he had to come home, and he was home for six months and we didn’t get a penny. So they didn’t pay out. There’s a lot of clauses. Plus, in my job, it’s the job centre that I work in, so I see people every day that have got all these things [MPPI] and they can’t get it [payments].”

Source: Consumer Panel research – interview 17 (NOP, 1999)

Nature of the transaction

3.13 Our research also found that the particular nature of mortgage transactions increases the risk of consumers taking out an unsuitable or more expensive mortgage. The main focus for consumers taking out a mortgage is on the house-buying process with the mortgage being seen as a means to an end of owning a home. As such consumers may not focus on the details of the mortgage (e.g. redemption penalties) or shop around for a mortgage (see research findings below).

¹² The effectiveness of mortgage payment safety nets – research by Elaine Kempson, Janet Ford and Deborah Quilgars in Joseph Rowntree Foundation Findings ,April 1999

Research findings: nature of the mortgage transaction

The primary concern of consumers was to own a home, with a mortgage simply featuring as a passport to home ownership. As such consumers focussed on the house buying process and house move rather than the mortgage itself. This makes consumers particularly reliant on advisers and susceptible to poor advice.

Many regarded the mortgage transaction as a hurdle to getting a home and as a process of seeking a permission to get a loan. Obtaining a mortgage involves testing consumers' personal and property eligibility. Many consumers want to limit their exposure to this and as a result are less likely to shop around. Those consumers who perceive that they are going to have difficulty getting a mortgage (e.g. those who want 100% loans or the self-employed without 3 years of accounts) and those who have experienced difficulties in the past feel least able to shop around and more dependent on advisers. Some of these end up with non-status lenders who charge higher than average rates even though a standard loan might have been available to them (see paragraph 3.23).

As well as being one of the biggest financial decisions that people make, house purchase is almost always one of the first. Our research found that first-timer buyers tended to find the whole house buying and mortgage process daunting and tended to be dependent on advisers.

Time pressures associated with house buying make it less likely that consumers will shop around and/or withdraw from a mortgage application at a late stage. For example, research conducted by the General Consumer Council for Northern Ireland found that 46% of house buyers in Northern Ireland did not even get two quotes. This places borrowers at a disadvantage. Our research found that some consumers found out about additional costs of the mortgage at a very late stage in the process (see Case Study 3 below).

Sources: Consumer Panel research (NOP,1999) and 'Homing in on buying a home' The General Consumer Council for Northern Ireland, 1999.

Problems with the quality of advice

3.14 The complexity of mortgages and the nature of the transaction make consumers heavily dependent on the adviser and therefore at risk of poor advice. Our research found that:

- few consumers shopped around themselves;
- advice was often taken at face value;
- many consumers rely on intermediaries to guide them through the mortgage decision making and application process; and
- some accepted that as a result they would be conned or 'sold to'.

3.15 The Mortgage Code sets out details of what information advisers should give to consumers when choosing a mortgage. Where the advice and recommendation service is given, the Mortgage Code requires advisers to assess the consumer's needs. Failure to assess a

customer's needs adequately may result in a less than best or even an unsuitable mortgage being taken out. Mystery shopping exercises by local authority trading standards officers¹³, Consumers' Association¹⁴, Suffolk County Council Trading Standards Department¹⁵ and Market Audit Research¹⁶ all found cases where advisers failed to assess the shoppers' needs or recommend appropriate products.

- 3.16 Worryingly, if lenders discover that an intermediary that is not their agent has given poor advice, there is no obligation on the lender to alert the borrower or the regulator. For example, paragraph 23 of the CML's guide for subscribers to the Mortgage Code states that *"there is no requirement on lenders to re-open the basis of any advice given by a registered mortgage intermediary – it would not be customer friendly as it might cause a delay, and would potentially undermine the relationship between the lender and the particular mortgage intermediary"*.
- 3.17 In general our research found that most consumers recalled that most of the topics in the Mortgage Code were covered in the course of their interview and some who used intermediaries recalled that commission was disclosed. But there were many examples in the 50 interviews where consumers did not recall getting important information; where the adviser did not appear fully to assess the customer's circumstances and needs; where things were not clearly explained; where it seemed information was given at too late a stage in the process, and where poor advice was given. Moreover, many consumers were confused about features of their mortgage suggesting that information was not effectively disclosed or explained (see research findings and case studies 3-5 below).

¹³ Getting the right advice: a local authority investigation into broker compliance with the Mortgage Code, LACOTS and ITSA, 1999. This involved 166 mystery shopping visits to intermediaries.

¹⁴ Where to go for mortgage advice in Which? October 1998 involved visits to 66 branches of lenders and 20 intermediaries.

¹⁵ Mortgage Code of Practice compliance by financial intermediaries, Suffolk County Council Trading Standards Department involved visits to 31 intermediaries.

¹⁶ Lending industry report on compliance standards to the Code of Mortgage Lending Practice, Market Audit Research, March 1999. This involved a telephone enquiry seeking advice and information from lenders at 102 locations that resulted in a written response.

Research findings: Quality of advice and respondent's understanding of their mortgage

Respondents were asked in detail about their mortgage interview and whether their adviser covered the information in the Mortgage Code. The following problems were found:

- Assessment of the consumers' circumstances, objectives, requirements and future plans – the Mortgage Code only requires this where an advice and recommendation service is offered. However, most respondents were not aware of what level of service they were getting and most perceived they were getting advice. Respondents tended to recall that their objectives and future plans were only dealt with in a cursory manner e.g. *"He asked us about income, but didn't really ask anything else, what we are going to be doing in the future"* (First time buyer using an intermediary (estate agent)). Lack of assessment of future plans could result in consumers taking out unsuitable mortgages – for example, with redemption penalties when ownership was likely to be short-term. Some respondents said that their advisers had not assessed their attitudes to risk despite the fact that they were taking out an interest-only mortgage and associated investment vehicle, although other respondents reported that advisers had thoroughly assessed their attitudes to risk in connection with the sale of endowments.
- Repayment methods – in some cases respondents said that the adviser had not explained the strengths and weaknesses of different repayment methods (although in some cases this was due to the fact that respondents did not require an explanation). A few respondents who had taken out endowment mortgages had a poor appreciation of how they worked and some thought that they had received 'guarantees' from their advisers that the endowment would pay off the loan at the end of its term.
- Interest rates and an explanation and an illustration of potential repayments at the end of any special interest rate – a few thought their mortgage interest rate was fixed or discounted; yet it proved to be at the standard variable rate. This could be problematic if interest rates rose and the respondents were expecting their payments to be fixed. Some were completely confused about the distinction between a fixed and variable rate: *"I think I've got to stay on a variable for two years...I think. I'm not entirely sure, by this time [I] was starting to get a bit lost"* (interview 44 first time buyer seeking a mortgage). Most were not told explicitly, nor given illustrations, about what would happen at the end of any fixed rate period, rather they assumed that they would revert to the variable rate.
- Consequences of early repayment and redemption penalties – in some cases advisers were not explicit about redemption penalties and consumers had to ask questions of the adviser to elicit redemption penalty information: *"I had to weedle it out of her, I had to ask a lot of questions to get to that point"* (interview 48). *"Well it was really, well it was a passing thing [discussion of redemption penalties], as we were deciding on the XXX [I said] 'oh, by the way, if we do stop, how much does that cost us' so it was very much the last thought"* (interview 32). And in some cases advisers did not even mention redemption penalties to customers who had taken out mortgages with penalties: *"They [the adviser] didn't mention any, but there's nothing in here unless it's somewhere in the small print that I haven't read"* (interview 30 - the mortgage involved a redemption penalty which the consumer was unaware of). Whilst most respondents were aware if their mortgage involved redemption penalties, virtually none was aware of the amounts involved. In some cases, charges associated with early repayment were not discussed.
- Whether tied insurance is a condition of the mortgage – as already discussed, some respondents who had taken out tied insurance products were not aware that they were a condition of their mortgage.
- Costs of insurance – in some cases the costs of insurance were not explained. Case study 1 shows that this could result in consumers purchasing products that are relatively expensive.
- Mortgage payment protection insurance – some respondents who had taken this out were not able to state the level of cover their policy provided: *"In the event of an injury or anything like that.....they either, I don't know, pay a percentage....you don't have to pay as much or it*

gets paid for us” (interview 26). And some thought that they had taken out MPPI and recollected talking about it with their adviser but on probing were unclear whether they had actually taken it out (interview 23).

Source: Consumer Panel research (NOP, 1999)

3.18 Because our research was conducted soon after consumers took out a mortgage it was not designed to detect problems that may arise in the life of a mortgage. Despite this our research uncovered cases of poor advice that had already resulted in problems, unsuitable mortgages being taken out or consumers’ objectives not being met as the following case studies illustrate.

Case study 3: Remortgagers: incomplete and inaccurate advice about additional costs and the option of increasing their endowment

Mr and Mrs B had a £40,000 interest-only mortgage with an endowment policy and had decided to re-mortgage after five years. Their motivation for re-mortgaging was to get a better deal. They were particularly interested in getting a cashback. They consulted a mortgage adviser whom they perceived to be “independent” because he could compare mortgages of several different building societies although he was tied for sales of associated investment policies. As a result of re-mortgaging they obtained a cashback of just under £2,000. However, they also incurred £800-£900 additional costs on their original mortgage, which included a mortgage indemnity guarantee and arrangement fee. They weren’t initially made aware of these additional charges. Their initial endowment was insufficient to cover the additional cost of the loan. The adviser told them that their original endowment company would allow them to increase the size of their endowment by up to 25%. But when Mr and Mrs B contacted the company with whom they had their endowment they were told it was not possible to increase their endowment. The adviser did not explore the option of paying this additional amount on a repayment basis, but instead sold them another endowment policy for what he told them was the minimum amount, with a projected maturity value of £20,000.

Source: Consumer Panel research – interview 7 (NOP, 1999)

Case Study 4: Interest only mortgage without an investment vehicle

Mrs C arranged a £150,000 interest-only mortgage through a financial adviser. The adviser did not discuss different repayment options with her only the interest-only option, nor he did discuss what investment vehicle could be used to pay off the capital:

“...I think what he might have said, for a two second passing comment, was we’ll discuss how you’re going to repay it later, or something quite throwaway”.

Although she has other investments (PEPs, endowment etc) she is not sure whether she will use these to cover the loan. Since taking out the mortgage four months ago the adviser has not been in contact to discuss how she should pay off the capital.

In 1997-8 the Banking Ombudsman received 200 complaints about missing endowment policies or repayment vehicles.

Sources: Consumer Panel research – interview 24 (NOP, 1999) and Annual Report of the Banking Ombudsman Scheme 1997-1998.

Case Study 5: Failure to assess long-term needs

Mrs D was recently divorced. She had encountered difficulty getting a new mortgage because she was unemployed and had a poor credit history after she had been left with a mortgage in her ex-husband's name that was 6 months in arrears. She was unable to get a mortgage from the high street lenders and had to take out a mortgage at well above average interest rates from a non-status lender. Because she was unemployed, the mortgage broker arranged the mortgage in Mrs D's son's name. Mrs D's son holds the property in trust, and Mrs D makes the mortgage payments.

Five months after Mrs D's mortgage was completed, Mrs D's son envisaged wanting a mortgage of his own but was worried he would be unable to get one because he already had a mortgage in his name. Mrs D has no intention of returning to work.

Source: Consumer Panel research – interview 12 (NOP, 1999)

Problems with the objectivity of advice

- 3.19 Commission rates are higher if an investment is sold with an interest-only mortgage compared to commission from the sale of a repayment mortgage. This may result in biased advice and unsuitable sales. Although the sale of the investment element is subject to PIA regulation, as we have noted at paragraph 2.3, such regulation is unlikely to be fully effective whilst part of the mortgage sale remains unregulated.

Confusion about the status of advisers

- 3.20 Our research found that many of the respondents who had dealt with intermediaries had used what they referred to as "independent" financial advisers. The main reason given for using such advisers was that they were unbiased and could shop around for the best deal on the customer's behalf. In fact on probing it was apparent that some of the respondents had used advisers who were independent for the mortgage loan but tied for the sale of any associated investments. Most respondents recognised this albeit with hindsight (although some were clearly confused), and some felt that with hindsight they would have preferred to have had truly independent advice on the investment element as well (see research findings below).

Research findings: status of advisers

Some respondents did not appear to realise that the advisers they were using were tied for investment products:

“He said he could offer me any one of a thousands of products in terms of mortgages and he would endeavour to seek out the best one for me...Then we had to go back again to discuss the endowment side of it..... That’s the only product he offered me on the endowment side of it, XXXX, he didn’t offer me a range of stuff” (interview 39).

“I’m a bit confused about that but he didn’t really give me any other options on my endowment, it was just this is what we do”.

In the following case the tied adviser working in an estate agents was explicit about her status but the respondent was confused by this and ended up using another adviser:

“It was halfway through the initial conversation [an hour long interview] with this woman that she said ‘I can only sell you XXXX products’. Now call us stupid, but we weren’t aware of that, you know, independent to me means independent” (interview 38).

Source: Consumer Panel research (NOP, 1999)

Unsuitable endowment mortgages

3.21 Thirty-two per cent of mortgage loans advanced in the first quarter of 1999 were on an endowment basis¹⁷. Whilst endowment mortgages may have been a reasonable choice in the past, nowadays they are less attractive because of tax changes and lower bonus rates. There have been allegations that endowments are favoured by advisers because of commission. Mystery shopping exercises by Consumers’ Association (CA)¹⁸, local authority trading standards departments¹⁹ and Suffolk County Council²⁰ all found evidence of advice being biased. CA found that of 56 advisers who discussed the pros and cons of repayment and endowment mortgages, 33 gave a misleading picture. Out of 49 recommendations, 28 advisers suggested endowment mortgages. CA did not consider endowment mortgages to be suitable for any of the scenarios presented by their mystery shoppers. Local authority trading standards departments found that in 67 out of 166 mystery shopping visits, mortgage brokers failed to provide balanced and unbiased information, mainly in terms of the description between repayment and interest-only mortgages available.

¹⁷ Housing Finance, CML, No 42 May 1999

¹⁸ Ibid paragraph 3.15

¹⁹ Ibid paragraph 3.15

²⁰ Ibid paragraph 3.15

Research findings: sale of endowment policies with mortgages

Most advisers had explained that there was a risk of endowment policies not providing sufficient funds to repay the mortgage but often the risk was portrayed as very low: "...and they give you statistics basically like 98% of people can always pay off their mortgages within the twenty-five years".

Many respondents reported that advisers highlighted the potential with an endowment policy to end up with a lump sum over and above the cost of the mortgage which they found attractive. "With an endowment you borrow thirty thousand, you still owe that thirty thousand because all you're paying off is interest. But then your endowment hopefully will make forty thousand so that will pay off the thirty thousand mortgage and then you have a lump sum of ten thousand". (interview 28).

One respondent had taken had just taken out a new endowment policy to cover his substantially increased mortgage even though his existing endowment company had written to him twice warning that there might be a shortfall with his existing endowment: "I mean there's rumours anyway but I've never actually heard of a case where the amount you're paying to the insurance company is insufficient to pay the mortgage off at the end of deal, I don't even know if that's actually happened, right, but I've had letters from my old endowment. XXXX actually sent me a letter at least twice saying that it might be the case, but it doesn't appear as though it will be the case yet. So, you know, I think they are just covering their proverbial" (interview 39).

Source: Consumer Panel research (NOP, 1999)

Case Study 6: endowment mortgage

Mr and Mrs E took out an endowment mortgage ten years ago. They were both actors without steady incomes. Because of income fluctuations they lapsed their endowment and had to convert their mortgage to a repayment. Endowments are designed to run for the full term, they are low value in the early years because of front loading of charges, making them inflexible for those with unsteady incomes.

Source: Consumer Panel research – interview 50 (NOP, 1999)

Case study 7: endowment mortgage documentation

Mr and Mrs F live in Scotland. They had been in arrears with their previous mortgage, which they had cleared. They had also run up credit card debts. They decided to sell their house to release capital from their existing property to clear their debts. They signed a missive on their new property but had their mortgage application rejected by several high street lenders. They went to a mortgage broker who arranged a mortgage for them through a non-status lender. The interest rate was fixed at 8.99% for a year. After that it would rise to 4% above the base rate (the average basic mortgage rate when the mortgage was taken out in January 1999 was 7.39% for building societies and 7.69% for banks: Housing Finance, No 43, August 1999). Mrs F felt that the broker had pushed the endowment policy. She wasn't aware of the commission he got paid on it until just before the mortgage was completed. Given the difficulty she had encountered in getting a mortgage and the fact that she had been living with relatives for several months she was unlikely to cancel at that stage:

"The only time we got that [the paperwork on charges and projections] was just a couple of days before we actually completed and he sent us a brochure and it was only at that stage, right at the back at the very bottom line, there was something about he would receive a payment of three thousand five hundred or something plus so much on every anniversary".

Source: Consumer Panel research – interview 17 (NOP, 1999)

Case Study 8: endowment matures after retirement

Mrs G is a retired teacher aged 61. She has income from her teacher's pension which she supplements with a small amount of supply teaching which she plans to give up in a year's time. The bulk of her mortgage is on an interest-only basis covered by three endowment policies which mature in 2003 and 2009. One of these endowments is a new policy which she was advised to take out recently by her endowment company because of a shortfall on her existing policy.

Source: Consumer Panel research (NOP, 1999)

Case Study 9: wrong mortgage set up

Mrs H wanted to take out a repayment mortgage on the property she and her husband were buying. She felt that the adviser would have preferred them to select an endowment mortgage because of the commission. The adviser recommended transferring their old endowment and taking out a new policy, which Mrs H did not want to do. The adviser said that he would sort out the details later. However, when Mrs H made her first mortgage payment it was for substantially less than she had expected, and she fortunately noticed from the paperwork that it had been set up as an interest-only mortgage. On contacting her bank Mrs H was advised that she would have to pay to change to a repayment mortgage. After she complained the bank waived the charge: *"...then when I said no, I want a repayment, it was something like 'oh well, we can finalise the details when it's 'gone to print' sort of thing, which is how the mistake happened when it came back saying interest only payment. So our first mortgage payment we thought oh, this is great, this little amount of money and then when we saw interest only and I phoned the bank [mortgage lender] and said that's wrong and then they wrote back to me and said well we normally charge £150 to change the mortgage."*

If Mrs H had not spotted this and if the bank took no action she could have ended up without arrangements to repay the capital. The Building Societies Ombudsman has dealt with similar cases – his 1997-8 Annual Report states *"I have again dealt with a number of complaints during the year to the effect that, for one reason or another, a mortgage account has been run on an interest-only basis when it should have been conducted on a capital repayment basis"*.

Sources: Consumer Panel research – interview 8 (NOP, 1999), Annual Report 1987-8, Building Societies Ombudsman

Unsuitable pension mortgages

- 3.22 Commission bias can also exist with the sale of pension mortgages. The PIA Ombudsman, Tony Holland, has pointed to a number of complaints received at his office about unsuitable pension mortgages being sold. The Ombudsman has been quoted as saying: *"Customers are taking out 25-year interest-only mortgages and using a personal pension as an investment vehicle to pay it off. However, these people may not be ready to retire at, say, the age of 55 and may have to find some other way of paying off the capital. The personal pension premiums will have been set at a rate necessary to pay off the capital, but if the individual then transfers to an occupational pension he may not be contributing enough"*²¹.

Mis-selling non-status loans

- 3.23 Non-status loans are marketed to people with an adverse credit record (e.g. county court judgements or bankruptcy). However, some standard

²¹ Mortgage scandal in the making in Financial Adviser, 21 January 1999

lenders will accept this business particularly if borrowers can demonstrate that the credit difficulties were associated with a particular event in their lives that has now passed. It has been claimed that some mortgage advisers are placing business with non-status lenders when the customer would be eligible for a loan from a traditional lender. In such cases the borrower will invariably suffer detriment by paying higher fees and higher interest (around 3-3.5% higher than standard Standard Variable Rates in January 1999) for non-status lenders' products²². This is the result of non-status lenders offering exceptionally high commission to intermediaries – e.g. up to 2.75% of the loan. A typical average commission would be £750, compared with around £200 for a standard high street loan.

Clarity of information

- 3.24 Despite the fact that a key commitment of the Mortgage Code is to provide information in plain language and to help customers with any aspect they do not understand, information on mortgages continues to be unclear and impenetrable to many customers. As mortgages grow in complexity the lack of clear information increases the risk that customers might take out mortgages not suited to their needs.
- 3.25 Our research found that the explanations of redemption penalties in mortgage documentation were too complex for respondents to grasp. They are expressed in a way that is hard to calculate and comprehend rather than in monetary sums. Most respondents who had taken out a mortgage with a redemption penalty were aware of the existence of the penalty. However, virtually all were unclear about how it worked or how much it would cost them. This can give rise to problems if consumers want to redeem their mortgage for whatever reason and face a hefty penalty, which they did not anticipate (see research findings below).
- 3.26 Despite the Mortgage Code's requirement to ensure that advertising and promotional material is fair, clear and not misleading, the Banking Ombudsman²³ has noted that the publicity material used by some lenders quotes the benefits of fixed interest rates up-front in large print, and the disadvantages of redemption penalties in small print. Mortgage offer documents are also unclear. The Building Societies Ombudsman has said: *"it is surprising to see that some societies continue to issue offers which are far from clear to the many recipients who are unfamiliar with the technicalities of these documents. The result is that*

²² Non-status lenders agree on capping in Financial Adviser 21 January 1999; Lenders in fear of non-status fall-out in Financial Adviser, 21 January 1999.

²³ 1997-98 Annual Report, The Banking Ombudsman Scheme

mortgage offers are frequently accepted without the borrowers fully understanding the extent of their commitments”²⁴.

Research findings: unclear redemption penalties

Some respondents had been caught out by redemption penalties on previous mortgages that they were unaware of because the penalties were not explained by their advisers and because they were hidden in small print in their mortgage documents:

“Nobody explained it [the redemption penalties] to us because when we went for the interview, I specifically said what happens when the – I can’t remember whether we were on two or three years fixed rate, or whatever – I actually asked the financial adviser there, what happens after the fixed rate period? No problem, just come back to us, and we’ll put you on another fixed rate. Not a mention or a word to say you had to go on a variable rate for two years”. This respondent went on to say: “They [the lender] said it [the redemption penalty] was all written in your clause but I said well, I found it in there and it was very, very small at the bottom of – I mean I needed a magnifying glass to actually read the print at the bottom.” (interview 28)

Another respondent complained about the small print and the fact that she had not been warned about the redemption penalty on her previous mortgage: *“it’s my fault and it’s quite black and white on paper if you redeem it, but I hadn’t taken it in. You don’t read all the small print do you? And as I say it had not been pointed out” (interview 24).*

Source: Consumer Panel research (NOP, 1999)

²⁴ Annual Report 1997-8, Building Societies Ombudsman

Chapter 4: Impact of the Mortgage Code

4.1 In this Chapter we assess the impact of the Mortgage Code against the following criteria:

- Is the Code itself adequate?
- Do businesses comply?
- Is the Code monitored adequately?

Is the Mortgage Code adequate?

4.2 The Mortgage Code itself is not effective and relevant to the way consumers take out mortgages and does not provide adequate protection for the following reasons:

- First, consumers in our research found it hard to understand the three levels of service described in the Code; rarely recalled being offered the three levels of service; and were often confused about the service they were getting. There is a risk, as our research showed, that consumers might fail to appreciate the limitations of the information they received. This is compounded by the fact that there are often repeated contacts with lenders and intermediaries (each of whom may be acting in a different capacity) rather than a single formal interview and consumers often received information in an apparently random sequence rather than an orderly list set out in the Mortgage Code. The LACOTS/ITSA report contained a similar finding: *“In practice any structure which brokers imposed on the interview had little reference to the clear communication of the Mortgage Code requirements. This could mean consumers having to spot more than half a dozen key statements or actions during the course of an interview. Viewed in this light it is questionable whether even full compliance with the Code leaves consumers adequately informed”*²⁵.
- Second, there are major flaws in the marketplace which the Mortgage Code does not address: for example, the continued existence of redemption penalties that last beyond the period of any special offer and the continued availability of poor value products. The Code merely reinforces the status quo, by placing the emphasis on explanation rather than improvement. It is arguable that a voluntary code can never achieve such improvement, as

²⁵ Ibid paragraph 3.15

indeed the failure of the CML to find a solution to the problem of redemption penalties demonstrates (see paragraph 2.7).

- Third, our research found that the Code itself is having little direct impact on empowering customers to be aware of their rights and the information they should be receiving.
- Fourth, as discussed at paragraph 2.7, voluntary regulation has a number of shortcomings.

Research findings: levels of service are unclear

In nearly all cases respondents reported that mortgage advisers only showed them a shortlist of two or three mortgages. Respondents were usually left to make their own decisions about the choice of a mortgage, with advisers suggesting sometimes, albeit indirectly, that one might be more appropriate than others without making a recommendation. Although in terms of the Mortgage Code this does not constitute 'advice and recommendation', respondents tended to perceive that they were receiving advice rather than just getting information.

Source: Consumer Panel research (NOP, 1999)

Research findings: impact of the Mortgage Code on consumers

Most respondents had no awareness of the Mortgage Code. Hardly any of the 50 respondents interviewed recalled being told about the Mortgage Code and only a few recalled it after they were shown a copy of the Code and Code leaflet.

Although those interviewed had all sought a mortgage prior to 30 April 1999 after which it became mandatory for advisers to provide a copy of the Code leaflet to consumers, our research suggests that this is likely to have little impact on consumers. Despite some respondents' inability to recall the Mortgage Code, this did not imply that the Code had not been handed out as several respondents unwittingly found copies of the Mortgage Code in their mortgage papers during the research. Furthermore having seen the Code and what it contained, some said that if they had received it they might have glanced at it but most said that they would just file it away with the rest of the paperwork. Our research suggests that the Mortgage Code document is likely to have little impact on customers for the following reasons:

- advisers are not explaining the importance of the Mortgage Code. One respondent said: *"[He] quickly said, 'This what it's all about, don't feel you've got to read all twenty pages or whatever'"* (interview 32) Another said: *"We had all sorts of papers and it was just, I assume, piled on to a pile for us, it was with print-outs and interest rates. It was just done like that, here's a leaflet on the Mortgage Code. Not really explained"* (interview 13). Other respondents who recalled receiving the Code recalled it being introduced to cover the adviser against complaints.
- it is likely to be handed over at a time when the consumer is overwhelmed by paper;
- the layout and design is low key when positioned against lenders' literature; and
- it is perceived as lacking authority and clout –many saw it as just another customer charter.

Source: Consumer Panel research (NOP, 1999)

Do businesses comply with the Mortgage Code?

4.3 Compliance with the Mortgage Code can be assessed in two broad ways:

- whether lenders and intermediaries are following the processes set out in the Mortgage Code (e.g. handing the Code out, explaining levels of service and so on); and
- whether the lenders and intermediaries are recommending suitable mortgages and meeting the Code's commitment to help consumers understand their mortgages.

Providing a copy of the Code and explaining levels of service

4.4 The mystery shopping exercises by Consumers' Association (CA)²⁶, Suffolk County Council²⁷, trading standards officers²⁸ and Market Audit Research²⁹ all found clear evidence that lenders and intermediaries were failing to mention the Code and provide consumers with a copy of the Code leaflet.

4.5 Our research asked consumers if they recalled being told about the different levels of service on offer and then prompted them by describing the three levels of service available. Out of fifty interviews hardly any respondents could recall being introduced to the different levels of service; the rest were unable to recall any mention of levels of service. This finding is backed up by several mystery shopping exercises mentioned above.

Quality of information and advice and suitability of the recommendation

4.6 The case study illustrations and findings from our research in Chapter 3 highlight clear problems with the information and advice given and where advisers appeared not to be meeting the standards set out in the Code. The mystery shopping exercise by trading standards officers found that 40% of mortgage brokers offered inadequate advice and information.

²⁶ Ibid paragraph 3.15

²⁷ Ibid paragraph 3.15

²⁸ Ibid paragraph 3.15

²⁹ Ibid paragraph 3.15.

Is the Mortgage Code monitored adequately?

- 4.7 The jury is still out on this. We note that the Independent Review Body and the Mortgage Code Register of Intermediaries has undertaken a mystery shopping exercise to test compliance with the Mortgage Code. We welcome this in principle, but think the results should be treated with caution because:
- it is entirely focussed on the process, not on the outputs (the quality of advice and information given). Ultimately it is the outputs that matter to consumers. Advisers may be disclosing all the information required under the Code, but may recommend an unsuitable or less than best mortgage; and
 - the extensive publicity surrounding this exercise has meant that lenders and intermediaries in effect had prior warning of it.
- 4.8 As noted in Chapter 2 there are problems with the FSA sharing information with voluntary regulators which hinders effective compliance monitoring.

Chapter 5: Statutory regulation

- 5.1 In this Chapter we set out how regulation could most effectively address the problems we have identified. Neither the existing PIA rules for the sale of investment products, nor the regime established under the Mortgage Code, should be taken as the blueprint for effective statutory regulation of mortgages.

Aim of regulation

- 5.2 The primary objective of mortgage regulation must be to ensure that consumers are sufficiently informed through clear information and appropriate advice (if they require it), to take out a mortgage suitable to their circumstances and to ensure that they understand the pertinent features of the mortgage they have taken out. We fully appreciate that regulation cannot ensure that every consumer gets the best deal nor can it protect consumers from mortgage problems arising from totally unforeseen changes in their personal circumstances.

Scope of regulation

- 5.3 We do not support the option of regulating only certain types of mortgage, such as equity release or foreign currency mortgages. With new products coming on to the market all the time, any definition is bound to create problems at the edge and may result in providers structuring products to avoid regulation. Statutory regulation of some types of mortgage but not others will create consumer confusion about where the boundary lies. For the same reason will think loans secured on property of £25,000 or less should be subject to the same regulatory protections by removing mortgages from certain provisions of the Consumer Credit Act. Regulatory protection should focus on those most at risk – private consumers. However, it is not clear whether it is sufficient to restrict regulation to loans secured on people's homes. This would exclude buy-to-let mortgages that are often taken out by private consumers who face exactly the same information asymmetry problems as when they are taking out a mortgage on their own home.

Information

- 5.4 Many of the problems consumers face can be addressed by clearer and more relevant information throughout the process of taking out a mortgage. The existing advertising regulations under the Consumer Credit Act require an urgent overhaul. They prohibit the inclusion of information that might be helpful to consumers (e.g. fair comparisons between mortgages) and do not deal with key problems (e.g.

redemption penalties in small print). Urgent action is also needed to tackle misleading APR calculations.

5.5 It is vital that consumers receive clear information at the point of sale setting out the 'key features' of their mortgage. We welcome the CML's plans to progress this and hope that this will be done in full consultation with consumer organisations and be based on rigorous consumer research. What has been learnt about 'key features' documents for investment products is that many consumers do not read or retain them, because the sheer volume of paper at the point of sale puts them off (a problem we have already noted in relation to the Mortgage Code). However, when consumers were asked to look at 'key features' documents in research focus groups, they found they contained useful information³⁰.

5.6 Key features documents for mortgages need to:

- be clear and simple, with the minimum of information so that consumers are not overwhelmed by paperwork;
- be accompanied by a requirement for advisers to take consumers through the document to help them understand it;
- use standard language (e.g. a single agreed term for MIGs/high lending fees);
- include key questions for consumers;
- be provided to consumers well before the final mortgage offer;
- allow like for like comparisons with mortgages from other lenders; and
- be capable of easy comparison with the mortgage offer.

5.7 They also need to be flexible enough to be made available at an early stage and without a lengthy interview for consumers who want to shop around. Also, a requirement to provide a 'key features' document before a final offer must not slow down the receipt of a formal offer as this could disadvantage consumers in a property contract race.

³⁰ Disclosure: protecting consumers?, Consumers' Association Policy Paper, February 1998

Advice process

- 5.8 Regulation should ensure that, for those consumers who require advice, an adequate fact-find is conducted by advisers that meet FSA prescribed training and competence requirements. The fact-find should ensure that a suitable and affordable mortgage is recommended. The quality of advice needs to be monitored through output based monitoring including mystery shopping.
- 5.9 Some consumers are confused about the status of some mortgage advisers, and the confusion may be compounded where the adviser is tied for mortgage advice but independent for investment advice. Consumers should be made aware if independent mortgage advisers are dealing with a limited panel of lenders. Although the Mortgage Code requires this to be disclosed, the mystery shopping exercise by trading standards officers found that nearly a quarter failed to do so³¹. We anticipate that a statutory requirement would in due course produce higher levels of compliance.
- 5.10 We think there is a case for extending the statutory regulation of mortgages beyond the point of sale for the following reasons:
- the Mortgage Code already includes provisions that extend beyond the point of sale; and
 - if the PIA's powers extended beyond the sale for endowment policies it could have required firms to notify customers of shortfalls on mortgage endowments directly rather than having to broker voluntary arrangements with the ABI.

Consumer education

- 5.11 The FSA will have an important role to play in educating consumers about mortgages. Consumer education might play a role in overcoming consumer inertia to re-mortgage. The 'comparative information' initiative could also extend to mortgages to assist consumers to shop around.

CAT standards for mortgages

- 5.12 There has been much speculation that the Government may introduce CAT standards for mortgages. Proposals to develop CAT standards for

³¹ Ibid paragraph 3.15

mortgages must not be seen as an alternative to statutory regulation. We await Government proposals but note the following concerns:

- CAT standards for ISAs are still largely untested, but press comments suggest that consumer awareness is low. The Government should be cautious in devising further CAT standards without first assessing the consumer impact of the existing CAT standard for ISAs;
- the halo effect of a Government CAT standard could result in consumers taking out a CAT mortgage that is unsuitable. This is probably more likely in the mortgage market given the heterogeneity of mortgages; and
- given the heterogeneity of mortgages, the development of a CAT standard that did not result in some product standardisation would be difficult.

Transition from voluntary to statutory regulation

5.13 During the transition period from voluntary to statutory regulation, there is a real danger of a reduction in existing standards and loss of momentum in making improvements to the Mortgage Code regime. There seem to be two options for reducing this problem.

5.14 The first option is for the FSA to take over regulation of mortgages as soon as the Financial Services and Markets Bill comes into force. The likelihood is that this would involve the Mortgage Code being translated into FSA rules and intermediaries who are not already authorised being grandfathered into the new regime *pro tem*. This has the following drawbacks:

- consumers would be dealing with firms that had not met FSA's authorisation requirements, including the fitness and properness requirement, but that had the halo of FSA authorisation;
- it is possible that some mortgage brokers may be less-reputable firms which have moved into mortgage broking from life and pensions business because they were not prepared to meet the higher standards of statutory regulation; and
- incorporating the Mortgage Code into FSA's rules would miss the opportunity to take a fundamental look at how best to regulate mortgages effectively and efficiently, to ensure that the regulatory regime is appropriate to address the risks to consumers.

5.15 The second option, which we favour, is for the CML and MCCB to continue to enhance the voluntary regime until the FSA takes on

mortgage regulation. We welcome both organisations' commitment to do this with Government and FSA backing. This will enhance consumer protection and make for a smooth transition to statutory regulation. For example, the work the MCRI has already done in checking whether intermediaries have a consumer credit licence and the work it has in hand on fit and proper requirements for intermediaries should ease the transition to FSA authorisation. Arrangements might also be considered for an interchange of staff between the FSA and MCCB to facilitate understanding of current and potential future approaches.

Appendix 1: Market changes and their effect on borrowers since the early 1980s

This Appendix summarises key changes in the mortgage market over the last 15 years to put the need for regulation in context.

Market changes

In the early 1980s there were around 200 lenders all selling similar mortgages. There are now around 140 mainstream lenders and 40,000 intermediaries selling an estimated 4,000 mortgage products. The Banking and Building Societies Ombudsman Schemes did not come into existence until 1986/7, now they have 13 years of valuable data. In the early 1980s mortgages received full tax relief, plus life assurance premium relief (LAPR) on endowment premiums, and income support on mortgage interest (ISMI) if the borrower was entitled to claim the benefit. Now LAPR no longer exists, ISMI is much more restricted and mortgage interest relief at source (MIRAS) is dwindling and about to cease.

Wider range of borrowers

Borrowers have also changed. Right-to-buy sales accounted for about 40% of the increase in home ownership between 1989-1997. Now about 1 in 13 households takes out a mortgage or re-mortgages every year. The continued growth in home ownership magnifies the economic significance of any mortgage problem home-owners face. Mortgages may be more affordable than in previous years, but some borrowers are on a financial knife-edge making them vulnerable to arrears: 23% of borrowers have annual household incomes of less than £15,000.

Socio-demographic changes are also having an impact:

- Working lives are becoming shorter, as more people stay on in education (and may leave with student debts to clear) and others retire earlier. Many more people may be retiring with a mortgage. Many more may want to borrow in retirement and use the equity in their homes.
- Relationships are less stable. Couples have experienced problems splitting joint life assurance and endowment policies on separation.
- Changes in employment with shorter-term contracts and variable income patterns do not fit well with mortgages designed for regular monthly repayments. Borrowers with variable incomes have also experienced problems with mortgage payment protection insurance (MPPI) not paying out when expected; and with keeping up regular payments on endowment premiums.

From rationing to re-mortgaging

It used to take perseverance and the loyalty of saving with a lender for a number of years to get a mortgage. Then within the space of 10 years mortgage indemnity guarantees became more widespread, the maximum loan available rose from 2.5 times the main income to 3.5 times, and the maximum loan to value ratio (LTV) moved from 80% to 100%. Then house prices slumped and 1.5 million households had negative equity by the end of 1992 while 352,050 borrowers were six months or more in arrears.

Now some stability has returned, but as competition for new borrowers has increased there has been a widening of the margins for existing business compared to new business. As lenders sought to protect themselves against the possible cost of their incentive payments to new borrowers, redemption penalties were re-born and extended into overhang periods. As there are fewer new borrowers, re-mortgaging has become increasingly important, accounting for around 1 in 4 loans. With this comes the increased risk of churning for associated products (e.g. endowments).

Changes in repayment methods

Endowment borrowers were originally charged a higher interest rate than those buying on a repayment basis, but lenders quickly realised the attractions of endowment mortgages in terms of commission income, resulting in a major shift in the relationship between lenders and insurers. Although sales of endowment mortgages have fallen from their peak of 61% in 1993 to 34% in the third quarter of 1998 (45% for re-mortgages), 19% of new loans are classed as interest-only, and may therefore include some endowment mortgages.

Prices

Prices and products have become increasingly dispersed and varied. With increased competition for borrowers the differential in prices paid by new and existing borrowers has increased. Inappropriate selling of low start mortgages and the introduction of fixed rate mortgages coincided with rising interest rates resulting in payment shock for some borrowers. Fixed rate loans grew from 22% of new loans in 1992, to 60% in 1994 and now stand at 40%. They make the judgement (or gamble) required in taking out a mortgage all the more difficult and are also storing up potential payment shock. The growth in securitisation brings benefits, but also possible risks that consumers do not know about.

Changes in selling methods

There has been a shift from mortgages being almost always a face-to-face purchase direct from the provider with an interview to ensure that you were worthy, to a commodity increasingly purchased through third parties, or by telephone or even over the internet. Despite the growth in mortgage intermediation, there has not been a strong trade association for mortgage brokers, probably because to many firms selling mortgages is a secondary activity.

The Financial Services Act is also likely to have had an effect - as standards have been raised in investment business those unable to meet them may have turned to mortgage sales. Until recently there have been few barriers to entry to set up as a mortgage broker – a consumer credit licence was easy to obtain and initial membership of MCRI was cheap. The growth of intermediation has resulted in a growth of attendant services, such as packagers, all of which bring extra charges and potential conflicts of interest.

Based on a presentation given by Jane Vass – member of the Financial Services Consumer Panel.

Appendix 2: Complaint statistics

The data in these tables are not directly comparable because of different ways of defining complaints, enquiries and cases between the organisations concerned. Nevertheless they do give an indication of the level of consumer dissatisfaction.

Mortgages			
Source	Definition	Period	Number of complaints/cases
Banking Ombudsman Scheme(1)	House mortgages	1997-8	2,119
Building Societies Ombudsman(2)	Mortgages – initial complaints received	1997-8	4,306
Insurance Ombudsman Bureau(3)	Loan protection –personal accident and sickness and loan protection (unemployment)	1998	64
PIA Ombudsman Bureau(4)	Low cost endowment for mortgages –cases received	1998-9 (A)	209
Trading Standards Departments(5)	Complaints about credit secured by a first mortgage	1998	1,515
Total complaints/cases			8,213
Number of new loans(6)		1997	1.1m
% of complaints to mortgage lending			0.75%

Notes:

- (A) Cases about endowments associated with mortgages were not recorded separately in 1997-8. The sale of endowments to pay off a mortgage is already subject to regulation by the Personal Investment Authority (PIA).

Sources:

- (1) The Banking Ombudsman Scheme, 1997-8 Annual Report
- (2) Building Societies Ombudsman Annual Report, 1997-8
- (3) Insurance Ombudsman Bureau Annual Report 1998
- (4) Annual Report of the Personal Investment Authority Ombudsman, 1998-9
- (5) Office of Fair Trading
- (6) Housing Finance, No 43, August 1999, Council of Mortgage Lenders

Personal pensions

Source	Definition	Period	Number of complaints/cases
PIA Ombudsman(1)	Personal pension plans and FSAVCs – cases received	1998-9	4,109
Trading Standards Departments			Data not disaggregated
Individual personal pensions sold (2)		1998	1.4m
% of complaints to pension sales			0.3%

Sources:

- (1) Annual Report of the Personal Investment Authority Ombudsman, 1998-9
- (2) ABI Insurance Trends

Unit trusts/PEPs

Source	Definition	Period	Number of complaints/cases
PIA Ombudsman(1)	Unit trusts and PEPs- cases received	1998-9	397
Trading Standards Departments			Data not disaggregated
Number of accounts sold(2)		1998	1.7m
% of complaints to Unit trust/PEP sales			0.02%

Sources:

- (1) Annual Report of the Personal Investment Authority Ombudsman, 1998-9
- (2) Association of Unit Trusts and Investment Funds press release, 26 April 1999

Appendix 3: Price differences

Five year fixed rate mortgages

	Cost over five years
Halifax	£16,750
Natwest	£17,396
Lloyds TSB	£17,569
Abbey National	£17,820
HSBC	£17,845
Royal Bank of Scotland	£18,700
Barclays	£18,843
First Direct	£18,865

Based on a comparison of mortgages that do not charge redemption penalties after the end of the five-year fixed rate period, and do not force borrowers to buy insurance from the lender. Based on a £60,000 interest only loan at 90% LTV.

Figures correct as at June 1999

Source: Which? September 1999

Penalty free mortgages

	Cost over five years
Derbyshire Building Society	£16,950
Nationwide Building Society	£17,550
Royal Bank of Scotland	£18,300
First Direct	£19,200
HSBC	£20,250
Barclays	£20,550
Lloyds TSB	£20,550
Natwest	£20,670
Abbey National	£20,700

Based on a £60,000 interest-only loan at 75% LTV.

Figures correct as at June 1999

Source: Which? September 1999

Top 30 mortgage lenders

Interest repayments for the last 3 years

Total annual interest repayment on a £50,000 standard variable rate mortgage

	July 1998 to June 1999	July 1997 to June 1998	July 1996 to June 1997	3 Year Total
Coventry BS (borrowers of 61 months or more)	£3,619.11	£3,880.14	n/a	-
Direct Line	£3,664.67	£3,846.96	£3,156.39	£10,668.02
Nationwide BS	£3,712.48	£4,007.53	£3,406.29	£11,126.30
Yorkshire BS	£3,755.82	£3,981.64	£3,398.15	£11,135.61
Bradford & Bingley BS	£3,832.25	£4,031.54	£3,466.11	£11,329.90
Norwich & Peterborough BS	£3,834.87	£4,058.90	£3,469.03	£11,362.80
Derbyshire BS	£3,841.78	£4,075.75	£3,447.95	£11,365.48
Leeds & Holbeck BS	£3,844.70	£4,108.34	£3,595.06	£11,548.10
Principality BS	£3,860.75	£4,077.05	£3,405.00	£11,342.80
Northern Rock (borrowers of 7 years or more)	£3,876.29	£4,126.44	n/a	-
West Bromwich BS	£3,883.23	£4,161.30	£3,575.82	£11,620.35
Portman BS	£3,904.91	£4,153.85	£3,577.75	£11,636.51
Chelsea BS	£3,905.05	£4,200.48	£3,582.59	£11,688.12
Cheshire BS	£3,910.41	£4,160.21	£3,497.28	£11,567.90
Britannia BS	£3,926.98	£4,164.44	£3,563.65	£11,655.07
Midland Bank	£3,941.72	£4,204.86	£3,569.86	£11,716.44
Skipton BS	£3,944.49	£4,122.92	£3,505.53	£11,572.94
Bank of Scotland	£3,965.20	£4,275.48	£3,584.77	£11,825.45
Clydesdale Bank	£3,978.77	£4,284.93	£3,596.63	£11,860.33
Barclays Bank	£3,979.65	£4,265.75	£3,575.10	£11,820.50
Halifax	£3,979.65	£4,255.14	£3,575.10	£11,809.89
NatWest Mortgage Services	£3,986.34	£4,265.75	£3,575.10	£11,827.19
Woolwich	£3,986.34	£4,273.63	£3,594.84	£11,854.81
Abbey National	£3,988.69	£4,265.75	£3,610.87	£11,865.31
Birmingham Midshires	£3,989.50	£4,277.05	£3,652.11	£11,918.66
Coventry BS (borrowers with Society under 61 months)	£3,990.00	£4,255.14	£3,575.10	£11,820.24

	July 1998 to June 1999	July 1997 to June 1998	July 1996 to June 1997	3 Year Total
Bristol & West	£4,001.03	£4,263.01	£3,575.82	£11,839.86
Northern Rock (borrowers with lender under 7 years)	£4,001.30	£4,251.44	£3,610.38	£11,863.12
Cheltenham & Gloucester	£4,002.17	£4,262.84	£3,520.97	£11,785.98
Royal Bank of Scotland	£4,002.24	£4,264.73	£3,585.98	£11,852.95
Alliance & Leicester	£4,029.18	£4,262.33	£3,607.12	£11,898.63
Bank of Ireland Mortgages	£4,074.66	£4,335.32	£3,698.36	£12,108.34

Source: Moneyfacts: compiled 14 July 1999

About the Financial Services Consumer Panel

The Financial Services Consumer Panel was established by the Financial Services Authority (FSA) to advise the FSA Board on the interests and concerns of consumers and to report on the FSA's effectiveness in meeting its consumer protection and public awareness statutory objectives. There are eleven members of the Panel representing a broad range of consumer interests. The Panel is independent of the FSA – it can raise its own concerns, initiate its own research and publish its own reports.

Who is on the Panel?

Barbara Saunders (Chairman)

Barbara is a public interest member of the PIA Board. She is an independent consumer consultant and past Chairman of the Council of the Insurance Ombudsman Bureau. Among other public and professional appointments she is a Non-Executive Director of the St Albans and Hemel Hempstead NHS Trust and a member of the Architects Registration Board.

Colin Brown (Vice Chairman)

Colin is an independent consultant specialising in consumer affairs. Previously Deputy Director of Research at Consumers' Association and Senior Fellow at the Policy Studies Institute, he has over 20 years' experience of social and consumer research.

Jean Gaffin

Jean is Chairman of the Advisory Committee on Telecommunications for Disabled and Elderly People that provides advice to the telecommunications regulator, OFTEL, and a Non-Executive Director of Harrow & Hillingdon Healthcare NHS Trust. She has extensive experience of working on behalf of vulnerable consumers. Previous positions include: the Executive Director of the National Council for Hospice and Palliative Care Services and Chief Executive of Arthritis Care.

Yvonne Gallacher

Yvonne is Chief Executive of Money Advice Scotland, which was set up by the Scottish Consumer Council. She has over 10 years experience of consumer credit/money advice issues and of working with vulnerable consumers in a variety of roles, including debt counsellor, trainer and manager. She is Co-Director and Secretary of the Government funded Lead Body for Advice, Guidance, Counselling & Psychotherapy (CAMPAG). Yvonne is a member of the Scottish Consumer Council.

Joan Harbison

Joan is Chief Commissioner of the Equality Commission for Northern Ireland. She has been Chair of the Commission for Racial Equality for Northern Ireland since its inception in 1997 and is a former Chairman and member of the Executive Committee of the Northern Ireland Association of Citizens' Advice Bureaux. She has held a number of public appointments including being Vice Chairman of the Eastern Health and Social Services Board and the Northern Ireland Standing Advisory Commission on Human Rights and former member of the Human Fertilisation and Embryology Authority.

Noel Hunter

Noel is County Trading Standards Officer for Warwickshire. A National Council member of the National Consumer Council, he also chairs the Management Board of the Institute of Trading Standards Administration and is an adviser to the Local Government Association.

Gerald Lanchin

Gerry is a Vice President of the National Federation of Consumer Groups. He is a former Under Secretary of the Consumer Affairs Division of the Department of Trade and Industry and author of "Government and the Consumer". His involvement in consumer protection includes being a former Council Member of Consumers' Association and of Consumer Congress Committee. He was the first chairman of the Direct Mail Services Standards Board and a member of the Data Protection Tribunal for 10 years.

Nick Pearson

Nick is the National Money Advice Co-ordinator for the Federation of Independent Advice Centres. With a career spent in advice organisations including the National Association of Citizens' Advice Bureaux where he was manager of the Money Advice Support Unit, he has particular experience of credit, debt and personal finance issues and of working with vulnerable consumers.

Richard Smethurst

Richard is Provost of Worcester College, Oxford University; he chairs the Training Standards Panel of IMRO, of which he is a non-executive Director. He has served as an economic adviser in Whitehall, and the Monopolies and Mergers Commission, where he was Deputy Chairman. Richard lectures widely on financial and economic topics to businessmen and adult education groups. He is President of the National Institute of Adult Continuing Education.

Jane Vass

Jane is an independent consumer researcher specialising in financial services. She was previously Head of the Financial and Economic Research Group at Consumers' Association and is still author and editor of a number of Consumers' Association publications in addition to other research, including work for the National Consumer Council. Her current committee memberships include: Council of the Ombudsman for Estate Agents, the Inland Revenue Tax Law Rewrite Project Consultative Committee, the PIA Training Advisory Group and the FSA Training Advisory Panel.

Dave Watts

Dave is a partner in a media business which is involved in publishing, editing and journalism - personal finance plays a large part in this. He is a former editor of "Which?" and "Money Which?" and former Assistant Director of Consumers' Association. He was also a policyholder representative on the Insurance Brokers Registration Council for nine years.

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