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Our ref: Consultations

23 June 2006

Dear Keith

HMT Consultation – Secondary legislation for the regulation of home reversions and home purchase plans

The Panel is pleased to have this opportunity to respond to the above consultation. The Panel welcomed the Government's announcement to regulate home reversions and Islamic home purchase plans and sees this as an important bridge for what is a significant regulatory gap.

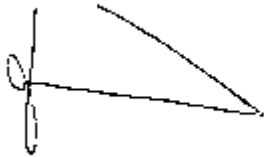
The Panel does not feel it appropriate to make detailed comments about the drafting of the secondary legislation; however there are two aspects of the proposals which create some concern. The proposals for home reversions include a provision for qualifying termination events upon which the consumer's entitlement to occupy the property will end. One of these terminating events is the end of a specified period of at least 20 years. This provision is understood to have been included so as to ensure that some mortgage to rent schemes are not brought within the scope of the new regulatory regime. Whilst the Panel understands the need to ensure the regime captures only home reversions and home purchase plans, it urges the Treasury to utilise another means of keeping other schemes out of scope. The Panel is concerned that to have a terminating event of a period of years will allow for a loophole which could disadvantage home reversion consumers who may quite realistically expect to live for longer than this minimum period. For example, a consumer entering into a scheme at age 70 or 75 could be faced with losing the right to occupy the property at age 90 or 95.

The Panel expressed concern over the FSA's treatment of interim authorised firms during the implementation of both the mortgage and general insurance regimes. The Panel notes that the Treasury intends to allow the FSA discretion over how to treat firms during the implementation period for this new regime insofar as the Financial Services Compensation Scheme is concerned. The Panel understands the FSA will not extend the protections offered by this scheme to consumers who use interim authorised firms, unless the firm in question has applied for a variation of permission. The FSA suggests in CP 06.8** (Regulation of Home Reversions and Home

Purchase Plans) that it is not fair to expect regulated firms to contribute towards funding compensation payments made in respect of unauthorised firms whose compliance with threshold conditions has not been assessed. The principle of interim authorisation benefits the industry as those firms whose application for authorisation has not been determined may continue in business. Unfortunately the risk of adopting this approach is placed entirely with consumers. Whilst there will be rules in place requiring firms to point out the impact of interim authorisation, the Panel would urge the Treasury to require all firms operating in the home reversion and home purchase plan market to be covered by the FSCS.

The Panel will be responding to the FSA consultation in due course.

Yours sincerely

A handwritten signature in black ink, consisting of a vertical line on the left, a horizontal line extending to the right, and a diagonal line crossing the horizontal one from the top right towards the middle.

John Howard
Chairman
Financial Services Consumer Panel