

The changing face of mortgage regulation

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Agenda

- National and international regulatory frameworks changing in response to the crisis
- Changes in UK approach to mortgage regulation
 - Lessons learned from the crisis
 - Future focus on 'smarter' regulatory interventions
- Where is mortgage regulation heading in the future?

Changing national and international regulatory frameworks

- Financial crisis has seen countries alter their model for regulating financial services
- Increased focus on intervention in mortgage markets at international level

Tensions for firms and regulators to manage

- International versus national approaches to regulation
- Prudential concerns versus consumer protection concerns

Wider economic context still influencing regulatory environment significantly

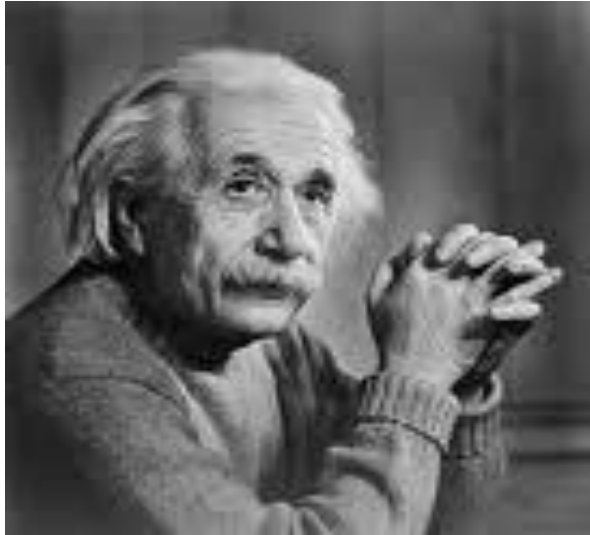
- Policies focused on:
 - driving economic growth; and
 - encouraging home ownership
- Mortgage lending often seen as key to this

How has UK mortgage regulation changed in recent years?

- Mortgage Market Review (MMR)
 - Fundamental review of conduct regulation in the UK mortgage market
 - Looked at underwriting, distribution, arrears management, prudential requirements for non-bank lenders
 - Final rules published in late 2012 and set for implementation in April 2014

Our pre-crisis regime

- Consumers are rational market participants who use disclosure as a basis for any purchasing decision
- Firms have a prudential self interest to manage credit risk responsibly and so prescriptive conduct risk measures are unnecessary



Insanity is “doing the same thing over and over again and expecting different results.”

MMR key findings

- Our analysis demonstrated the importance of focusing on individual assessment of affordability of loan to prevent irresponsible lending
 - Firm must look at consumer's income and expenditure and only lend where they assess the consumer can afford it
 - Must verify income
 - Affordability must be stress-tested
 - Lender cannot rely on increases in house prices to repay the loan
- In our view loan to value, debt to income and loan to income ratios are too blunt an instrument for consumer protection

FCA – A new regulator, new approach

- More interventionist approach
- Looking to what we can learn from behavioural economics
- Increased focus on facilitating competition in the market

Where is regulation going next?

Implementation of:

- Mortgage Credit Directive
- FSB Principles
- EBA Opinions on Good Practice

On-going need to collaborate and learn from each other's experiences