

Dog's breakfast

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I doubt many observers thought the FSA would not use the RDR as a vehicle to introduce further extensive reforms, although perhaps the full extent of the heated debate was not anticipated by the FSA. Described as a “dog’s breakfast” and likened to NASA engineers spending millions of dollars designing a pen that works in space, when the Russians just took a pencil, the RDR and the FSA’s interpretation of the issues, are testing the confidence of many intermediaries.

On top of this, the FSA recently published damning evidence of poor practice by both intermediaries and lenders within the sub-prime market. The FSA’s latest thematic review found weaknesses in responsible lending practices of lenders and in firms’ assessments of a consumers’ ability to afford a mortgage and as a result the regulator has started enforcement action against 5 intermediary firms. The FSA claims that from reviewing 34 intermediary firms and covering 485 customer files, in almost half of the files there was an inadequate assessment of customers’ suitability for the mortgage. The FSA states that this thematic review also examined 11 lenders representing more than 50% of the sub-prime market by volume of sales and none of the lenders adequately covered all relevant responsible lending considerations in their policies. However, it would appear that the FSA has no plans to take enforcement action against any of these lenders.

Bearing in mind such a small sample of the intermediary sector reviewed, one cannot help wondering how equitable it is for the regulator to make an example of a tiny number of intermediary firms. If they have got it wrong, enforcement may be justified but the adverse publicity and shaming, the penalties imposed and the experience of these firms being near enough singled out will lead others in the sector to possibly sympathise with their peers’ predicament.

But if the problems are widespread and have been continuing for some time, surely the FSA also needs to review the effectiveness of its supervision and monitoring?

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