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Welcome!

...to the latest edition of Mutual Interests

2009 was a challenging year for many lenders. Already in 2010 there seems renewed enthusiasm that there is to be an upturn in the mortgage market and consequently in this issue we have some topical features for lenders:

Regulation of the lending market continues apace, so on page two we have a **short summary of the FSA Consultation Paper, CP10/03**. CP10/03 was issued last month and is likely to be the first of a series of such papers this year following the Mortgage Market Review published in October 2009.

Stress testing of mortgages is also high on Firms' and Regulators' agendas and on page three we highlight some of the good practice in risk management techniques being used.

As repossession rates rise, then title on which the mortgage is secured becomes ever more important. We highlight ways in which you can satisfy yourself that there are no defective titles on your mortgage lending.

Finally, the importance of customer relationships should never be underestimated; read on page six how some lenders are making best use of solutions available.

In summary there are many requirements for those operating in the mortgage market which are being regularly re-assessed and considered by Firms and Regulators alike. These include some specific to particular lenders, for example for Building Societies there is a proposed Mutual One MIG Collective in response to Consultation Paper 09/17 requirements. Other regulatory requirements, such as treating customers fairly principles, apply more widely to all mortgage lenders.

In such a fast changing mortgage marketplace never has there been a time to stay close to all the developments. Consequently in addition to this e-zine, Mutual One has arranged a **Lenders Forum for Wednesday 17 March 2010** at a Midlands location.

Our previous Lenders' Forum proved very popular, so if you are a Senior Manager with lending related responsibilities in your Firm you may find it beneficial to come along and hear from several speakers on topical lending related matters and network with peers.

The **Keynote Speaker, Paul Broadhead, Head of Mortgage Policy at the Building Societies Association**, is to give an update on developments in the mortgage market, including more details on the FSA Mortgage Market Review.

Due to the popularity of this event first time round, places are limited and bookings will be taken on a first-come first-served basis. To reserve your place, please complete the booking form available on our website, www.mutual-one.co.uk.

I hope you and your colleagues find this edition of Mutual Interests informative and of real benefit and, as ever, if there is anything you want to talk to me about personally, please do not hesitate to get in touch - my contact details are shown below.

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Mortgage Market Review

In October 2009 the Financial Services Authority (FSA) published a Discussion Paper (DP09/3) entitled 'Mortgage Market Review'. The paper was aimed at everyone involved in the mortgage market, building societies, lenders, mortgage intermediaries and third party mortgage administrators.

DP09/13 had two broad aims, firstly to have a mortgage market which is sustainable for all participants and secondly to have a flexible market that works better for consumers.

In response to the feedback received, the FSA has recently published the first MMR related Consultation Paper, CP10/02 Mortgage Market Review – Arrears and Approved Persons. The FSA found there continues to be significant weakness in the way mortgage arrears and repossessions are handled, in that consumers are not treated fairly when experiencing payment difficulties. This has led the FSA to address these issues by clarifying the existing requirement and introducing new measures, the main proposals in CP10/02 include

- Clarification of the existing requirements when
 - o applying monthly arrears charges when a customer has entered into an 'agreement to pay';
 - o charging Early Repayment Charges when dealing with a repossession; and
 - o payments from customers are allocated to clearing missed monthly payments leaving charges to be paid at a later date.
- MCOB13 (Arrears and repossessions: regulated mortgage contracts and home purchase plans) is currently guidance but this will be converted to rules and refer to a number of government schemes to assist borrowers when in difficulty.
- The addition of new rules to require telephone calls to form part of the arrears records retained by Firms as well as extending the overall record keeping period from one year to three years

The original discussion paper (DP09/3) also set out concerns regarding the increasing level of mortgage fraud and the amount of unsuitable advice provided to consumers.

In order to reduce the risk of unsuitable individuals operating in the mortgage industry and make those who do responsible and accountable for their actions, the FSA propose to extend the Approved Person regime by creating a new category of Controlled Function (CF31, Customer Function (Home Finance Business)). This will also enable the FSA, as well as the Firms to carry out appropriate checks and check against any spent criminal convictions on those working in the mortgage industry.

This will apply to individuals who advise on or arrange non-advised mortgage sales in relation to regulated contracts, regulated sale and rent back agreements, home purchase plans and home reversion plans.

The proposals in CP10/02 also plan to extend the remit of Compliance Oversight (CF10) to include Home Finance activities. Firms will be required to name an individual, either a Director or Senior Manager who will be responsible for the compliance and compliance oversight of the Firms' regulated mortgage activity.

Consultation ends on 30 April 2010 with the Policy Statement relating to these proposals and setting out final rules due to be published by the FSA in June 2010.

How Mutual One can help your firm with the MMR

- Matt Smith, Senior Policy Adviser at the Council of Mortgage Lenders will be speaking at the Compliance Officer Forum on 24 March to give delegates an update on current MMR related issues;
- We can visit your firm and undertake a gap analysis to ensure compliance with new regulations by the implementation date;
- The Mortgage Conduct of Business template manual is regularly updated for all MMR developments;
- The Residential Mortgage Terms and Conditions will be reviewed and updated by a legal expert for all MMR requirements; and
- We will hold informal discussion groups to discuss common themes and issues amongst like-minded groups/firms with similar MMR and other related challenges.

For more information on how Mutual One can help your Firm with this or any other compliance related issue, please contact Mutual One's Compliance Services Manager, Lesley Thacker, on 0116 289 4090 or email lesley.thacker@mutual-one.co.uk

Moving Forward with Good Risk Management

The Drive for Improvement

The landscape of the mortgage sector has changed dramatically over the past two years, after an extended period of stability and calm. As lenders find their footing and begin to take their first tentative steps in this brave new world, many are looking to learn and grow from the experiences of the past. As tools, processes, systems and operations come under scrutiny from both within and without, there is no better time to focus on improving and enhancing credit risk capability.

Lenders with a legacy of non-standard lending on their books may find the subject of risk management particularly pressing. With rising arrears and constraints on capital, it is more important than ever to ensure the correct tools are in place to manage these risks. A good risk management infrastructure will provide the flexibility to respond quickly and efficiently to deteriorations in the book. Appropriate collections processes, customer management and recoveries strategies all play a vital role in ensuring these problems do not become a crisis.



Benefits of Good Risk Management

- ✓ Regulatory compliance
- ✓ Management control
- ✓ Portfolio insight
- ✓ Investor confidence
- ✓ Improved decisioning
- ✓ Loss mitigation
- ✓ Value generation
- ✓ Business stability

Lenders unburdened by deteriorating high-risk accounts may well have found the recent times to be rather fruitful. With their competitors leaving the market and the reduction in redemptions, many have seen strong margins and only mild increases in arrears. However, as competition returns, this situation will change and lenders must be prepared. Those who rest on their laurels may find themselves left behind or vulnerable as the market unfreezes; those who establish a strong risk infrastructure will be well placed to excel and grow in a careful, controlled way.

An internal drive to develop and strengthen the business should be incentive enough to invest in risk management capability. But if this is not sufficient, then there is the ever-present spectre of increasing regulation. As regulators put mortgage lenders under a microscope and compliance criteria become more stringent, those with a robust risk framework will be far better placed to meet the requirements. The FSA is keen to reward and encourage good risk management practice, and exercises such as reverse stress-testing will be significantly easier with a strong suite of analytical risk management tools.

Risk Management Components

So what constitutes a sensible toolset for risk management? Most lenders can improve at least some aspects of their infrastructure, but the following components form a solid backbone to achieve good capability:

Data Infrastructure – Data is fundamental for any analytics-based risk tool development or deployment. The requirement here is not necessarily for masses of data; rather that the data that is available is well-structured, consistently captured and accurate. For some, a data review or the introduction of a data warehouse is the key first step towards more consolidated risk management processes.

Monitoring and MI – The first step in managing risk is to recognise that risk. Lenders with sub-standard MI may fail to understand what is happening in their portfolio until the damage is done. Simply having the reports available to present portfolio trends from a risk management perspective can give great insight and clarity and enable timely and targeted actions.

Risk Modelling – Once the data infrastructure is in place, it becomes possible to leverage the power of analytical tools such as scoring models. Scorecards to measure application or behavioural risk are the most common, but other outcomes such as redemption and arrears recoveries are also possible. The key here is to develop the models that the business really needs and to implement them in a sensible, coherent way to deliver value. Used correctly, these tools are invaluable aids to decision-making and portfolio tracking.

Moving Forward with Good Risk Management

Forecasting – It is easier to make the right risk management decisions now when you have an accurate picture of what the future will bring. Account and portfolio forecasting tools help deliver that picture, and are useful not only in risk management, but in the wider areas of budgeting, valuation and funding.

Stress Testing – A hot topic with regulators! It is far easier to conduct stress testing and reverse stress testing within a sound analytical risk management infrastructure. A natural extension from risk modelling and forecasting, stress testing provides the 'what if' considerations that can help protect the business from the vagaries of the market and the economy.

Governance in Decision Making – It is vital to support any risk management enhancements with a well thought through governance structure. A good risk management framework will provide the insight and opportunities to make the right decisions at the right time, but a disciplined governance process is required to ensure the full support of the business and that everyone is pulling in the same direction.

Value Management – The ultimate aim of risk management is to optimise value. The insight, transparency and control afforded by a good risk infrastructure allow decisions to be made to maximise the value of the business. The clarity provided by understanding the portfolio and its future performance, combined with the levers available to shape and steer the book, give the management team unrivalled control over the business and a real view of where the value lies.

Moving Forward

With pressure from regulators, investors, shareholders and members, and with changeable and challenging economic and market conditions, there is more incentive than ever to develop a strong risk infrastructure. The attention focused on the mortgage market is intense, with everyone seeking to regain the confidence that has been sorely lacking recently.

But despite these external pressures, the real drive for better risk management capability should come from within. The ability to move forward decisively, exploit every opportunity, strengthen the business and generate real value – these are the tangible benefits that should put improved risk management at the top of your agenda.

For further information please contact Martin Rowe at Euristix, telephone 020 7043 4734 or email martin.rowe@euristix.com

Lender Support Services

The lending industry is a responsible body which has served its borrowers well, although in the recent past, certain lenders have been shown to have perhaps been too enthusiastic to increase volume to the occasional detriment of the quality of their underwriting.

Since the cool down of the market in the last couple of years, lenders have rightly taken stock of their mortgage books. As a result, some have taken the opportunity to either, take back administration of their post origination processes or, at the very least, review the quality of their mortgage book and take steps to improve processes and their security of their title for the mortgage business.

Defective titles can crop up in a variety of different ways; from charges not having been registered properly; panel legal firms having overlooked adverse search information; failure to investigate and resolve landlocked properties; to failure to spot local occupancy conditions in planning consents. These are just a few post origination issues that raise themselves at the wrong time, when it is important to enforce the security.

At this time a number of lenders have decided that an independent review of their securities is a sensible precaution – particularly if that review (as it has done for many) improves security and ring fences asset value.

Help available, and already used by a number of lenders, does just that and even more, including:

- ring fencing £ millions of assets by rectifying company borrowers defective charges and other title defects;
- customised staff training to help identify key legal issues which may need to be resolved and to help post origination staff to deal with legal matters;
- a free advice help line with access to our specialist team on matters of security concern; and
- providing an independent remote audit of a sample of your book and advising you of any steps you should take.

For further information on lender support services available, telephone Edward Goldsmith on: 0845 373 6200 or alternatively you can email him on egoldsmith@goldsmithwilliams.co.uk

Stop Press

Secured Lender Signs Up to “Monitor” Customers

Mortgage lender Bradford & Bingley has become the latest of a growing number of lenders who have signed up to monitor the financial health of their customers using Callcredit Information Group’s CallMonitor service.

CallMonitor is used to notify of any warning signs of deterioration in the financial circumstances of existing customers. In addition, CallMonitor flags up signs of financial improvement in customers either already in arrears or where repossession has taken place but a shortfall remains to be collected.

Speaking of this latest recruit to the service, Alan Golob, Head of Collections and Recoveries at Callcredit, commented;

“CallMonitor is an ideal tool for secured lenders which fulfils a number of operational requirements whilst helping lenders ‘treat customers fairly’. The service provides an early warning system of impending default, allowing lenders to tailor appropriate strategies to the individual customer, supporting the relationship between them. It is normally the case that a home owner will already be in financial difficulty with other creditors before they default on their mortgage payments.

A recent report by the Chartered Institute of Housing’s consultancy division suggests that many households have not accessed advice before court hearings on repossession. It identified waiting times for professional advice of 3-4 weeks. This delay in advice provision could mean opportunities to find solutions are often being lost.

Conversely, research by the Building Societies Association has shown that the sooner a borrower benefits from appropriate advice or speaks to their lender, the greater the chances of avoiding repossession.

It is clear that being able to identify those in difficulty at the earliest possible stage offers the very best opportunity to find a resolution to suit the needs of the borrower and the lender alike.

In cases where difficulty is already known, CallMonitor will alert a lender to positive changes in a customer’s financial circumstances and this can lead to the collection of arrears at the most appropriate time, when signs of recovery are in evidence.”

Using CallMonitor also means that secured lenders can ‘rest’ defaulted customers safe in the knowledge that they will be alerted to any changes in that customers financial circumstances. Within 24 hours of data upload, clients are sent daily alert flags empowering lenders to act speedily and with confidence.

The CallMonitor service provides in excess of 200 alert notices covering a very wide spectrum of financial information. Callcredit’s consultancy team works with each client to identify which are the most appropriate and predictive alerts for their needs. Training is given to staff on how to interpret the alerts that are received and advice is offered regarding appropriate strategies.

CallMonitor is accessible to all lenders, irrespective of the size of their portfolio.

Commenting on their decision to adopt CallMonitor, Robert Thackray, Head of Collections and Recoveries Operations at Bradford & Bingley, added;

“To further improve our mortgage arrears performance we were keen to look for opportunities ‘over and above’ our core strategy. In just the first 3 months of using CallMonitor we could instantly see the benefit with contacts and conversion to cash or arrangement both running above Business As Usual levels. Having completed a successful 3 month pilot CallMonitor is now embedded within our day-to-day process.

As we all know, effective collections is not about a one size fits all approach and CallMonitor provides us with the opportunity to have the right conversations with the right customers at the right moment in time.”



For further information, please contact Alan Golob, Head of Collections & Recoveries on: 0770 225 9648 or email: alan.golob@callcreditgroup.com

It Pays to Engage with Members at a Deeper Level

Mutual organisations are in the interesting position of being owned by the very customers they serve—but they compete directly with shareholder-owned banks and insurance companies, where profit, rather than the person, comes first.

This means that they have both a responsibility and a desire to engage individually and intelligently with members. With thousands of members, however, many of whom only get in touch by phone or come into a branch once a year, this may be easier said than done. How can an organisation get to know each member as an individual, and then use those rare moments of contact in a way which is beneficial both to the customer and the business?



Historically, financial institutions have relied on mass marketing (such as mailshots and advertising) to talk to existing and potential customers. In a tough economic climate, however, and with increasingly savvy consumers, this can be both expensive and relatively inefficient. Alternatively, banks and building societies use any moments they do spend with the customer to 'sell' the latest product or campaign. But how can we ensure that the campaign is relevant to a customer—and how can we avoid customers being asked the same question over and over, or hearing it being asked repeatedly in the queue ahead of them?

There is a new solution—and it's already proving a very big hit with the two mutuals which have started using it. In 2009, both the Nottingham and Skipton Building Societies installed Podium, a software product from Harrogate-based developers Foretel Ltd. Podium is a highly sophisticated yet easy-to-use real-time decision support tool which can achieve dramatic increases in lead generation, both from within the existing customer base and from outgoing calling campaigns.

As soon as a customer contact is initiated (by phone, in person, by email or via the web), Podium can tap into your own customer data (however that may be stored), read about the customer's likely profile from credit-scoring services and external social-demographic data (such as Cameo), and check through the list of campaigns you may currently be running. It then helps the advisor, according to their level of expertise, to choose the most relevant campaign to offer the member.

While Podium can transform your existing customer interactions into finely tuned lead-generating activities, your customers will only notice that you're easier to talk to, you understand them better, and you offer them products and services they're interested in. And despite its level of sophistication and intelligence, Podium is remarkably easy to integrate into your existing operations.

David Marlow, Retail Director at The Nottingham, commented that: "What we found in Podium was a system which helps us to focus our efforts on building stronger relationships with our customers. By tailoring our offers to each individual's specific needs and circumstances we enable our customer facing staff to improve their effectiveness, whilst deepening our relationship with our members. This is evidenced through higher customer satisfaction and increased average product holdings per customer."

Right now is the right time for building societies to take advantage of our mutuality by proving our commitment to the individual—and Podium helps us do that."



Interested readers should contact Bill Holt, MD, Foretel Ltd on: 01423 538800; email: billholt@foretel.co.uk or visit www.foretel.co.uk for further information