

Embedding the mortgage market review

Financial Conduct Authority (FCA)

RPC rating: validated

Description of the measure

In May 2016, the FCA published a thematic review assessing how firms had, following the Mortgage Market Review in 2014, embedded responsible lending rules. The thematic review considered whether lenders had implemented key aspects of the new rules, including the use of affordability assessments and the treatment of existing borrowers looking to re-finance.

Impacts of the measure

The assessment explains that the review covered all authorised mortgage lenders, equivalent to approximately 250 firms. An experienced member of compliance staff from each of these businesses is assumed to have read the review; based on a wage rate of £48 an hour (estimated using 2016 Robert Half salary guidelines) and a document length of around 9,000 words, the assessment calculates a one-off familiarisation cost of £18,000. In addition, mortgage lenders are also estimated to have carried out gap analysis to determine whether their current practices met existing regulatory requirements in this area. Based on the FCA's supervisory knowledge and conversations with firms about their procedures, the total cost of this analysis, across 22 areas of compliance, is estimated to be £0.7 million.

The assessment also states that the review may have generated benefits for compliant firms through improvements to internal processes, such as reducing duplication and repetition, resulting in better customer service through fewer complaints, and better customer retention. As, however, no evidence around the scale of these benefits was collected by the FCA at the time of the review, quantifying this impact would require additional data collection from firms, which the FCA considered to be disproportionate in this case.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of £0.1 million. This is a qualifying regulatory provision that will score under the Business Impact Target.

Quality of submission

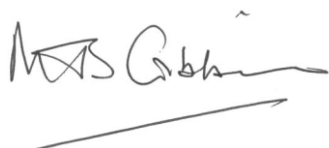
The regulator has provided a sufficient level of evidence for the RPC to be able to validate. The assessment correctly recognises that, as the review reminded firms of existing regulatory requirements, costs incurred by businesses in ensuring compliance with those requirements should not be included in the EANDCB. Although reference has been made to potential benefits to customers, the assessment would have been strengthened by a discussion of any wider impacts of the measure.

Regulator assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£0.1 million
Business net present value	-£0.76 million

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANDCB – RPC validated ¹	£0.1 million
Business Impact Target (BIT) Score ¹	£0.5 million



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.