MIPRU Simplification

Joint Response by the Council of Mortgage Lenders and the Intermediary Mortgage Lenders Association to the Financial Conduct Authority Consultation Paper CP14/28

Introduction

1. The CML is the representative trade body for the residential mortgage lender industry that includes banks, building societies and specialist lenders. Our 125 members currently hold around 95% of the assets of the UK mortgage market. In addition to lending for home-ownership, the CML members also lend to support the social housing and private rental markets. IMLA is the representative trade body for mortgage lenders who lend through intermediaries. Our members include banks, building societies and specialist lenders.

2. The CML and IMLA are grateful for the opportunity to respond to the Financial Conduct Authority consultation paper CP14/28. In preparing our response, we have consulted our members and have worked together to prepare this joint submission. We are happy for our response to be made public.

3. Overall, we are supportive of the desire to create a revised, stand-alone version of the relevant provisions relating to mortgage lending for non-bank lenders (NBLs). The previous approach of cross-referencing provisions within BIPRU to MIPRU made the process complicated and inaccessible to lenders. We believe a consolidated and stand-alone set of provisions is a significant step forward.

Specific answers to the questions raised in the consultation

Question 1: If we keep the opportunity to consider some part of exposures to residential BTL or investment properties in the UK as being secured, do you agree with our proposal not to include any reference to sufficiently low loss rates in the rules? If you disagree, why is that?

4. We welcome the confirmation that the FCA has exercised the “opt-out” available in the BIPRU with regard to Buy-to-Let (BTL) and the classification of risk weights for BTL. This is logical since the UK regulator has not previously considered they are necessary in the UK given the depth and ease of transactions in the UK housing market, and the historical low loss rate for lenders. None of that has changed in respect of lending fully secured against residential property. We are pleased that this will be confirmed in the simplified version of MIPRU 4.

5. This will maintain the level-playing field between NBLs and deposit taking institutions for exposures in the UK.

6. We would be reluctant to see any divergence of rules between firms regulated under MIPRU and those regulated under BIPRU when undertaking a similar business. We therefore have some concerns how the regulatory approach may differ if loss rates for this type of business change. This could lead to a scenario where lenders regulated by the PRA were disadvantaged versus lenders regulated by the FCA? We would like to see some provision whereby the regulation architecture ensures that there is no regulatory arbitrage between different regulatory systems.

address North West Wing Bush House Aldwych London WC2B 4PJ
telephone 0845 373 6771 fax 0845 373 6778 website www.cml.org.uk

Question 2: Do you agree that the proposed changes (set out in Table 2 of the consultation document) are justified and will have an immaterial impact on NBLs given their business model and lending profiles?

7. We agree that the proposed changes will have a limited impact on the business models of NBLs as currently operated. In respect of the requirement for periodic valuations for larger residential mortgages (2.12 (6)), in the interests of simplicity it might make more sense not to make this a requirement, but instead to apply a higher risk weight of 100% in line with commercial mortgages where a regular valuation is not undertaken?

8. As noted, currently UK NBLs have minimal overseas exposure. However, the proposed changes will limit the flexibility of NBLs to change their business models and expand overseas lending. In particular, re policy issue 5, credit risk mitigation - volatility adjustment for currency mismatches and policy issue 7, residential mortgages - overseas properties, both are potentially restrictive for NBLs.

9. In addition, while NBLs currently do not use funded credit risk mitigation (policy issue 9), we believe that the regulation should retain the flexibility for NBLs to use such mitigation. In the right circumstances, such risk mitigation can be highly effective in reducing the risk of portfolios and therefore such flexibility should be maintained within the mitigation options for NBLs.

Question 3: Is the application of a more risk sensitive capital requirements (than the flat rate of 1%), for exposures falling outside the exposure classes identified in MIPRU 4.2A. 6A R, an area appropriate for future consideration?

10. We would support the move to a more risk sensitive approach to capital calculations since we believe that this produces a more robust and consistent result. The flat 1% capital charge for other items seems overly blunt. We are however, conscious that by applying more risk sensitive capital calculations to various exposures that this will create an additional administrative burden for lenders. In light of the existing changes being proposed, we would suggest that any change in the capital calculation for other exposures be introduced over a longer time frame following a further consultation period, in order to spread the administrative cost to lenders.

Question 4: Is the use of differentiated risk weights, based on LTV and that would reduce capital requirements for exposures to loans secured on residential property, an area appropriate for future consideration?

11. Again, in principle, we would support such a discussion since we believe that a sophisticated risk based capital calculation is a key element in the regulatory architecture and a fundamental pillar in the support of a robust and stable financial system. We would however caution that any proposals made for NBLs under MIPRU would have to be consistent with the capital calculations under BIPRU for similar business models to ensure that regulatory arbitrage does not occur. For example, if this wasn't dealt with smaller bank lenders using the simplified approach under BIPRU would be advantaged.

Additional comments

12. We would also highlight the proposed changes in risk weights suggested in the recent Basel Committee on Banking Supervision (BCBS) consultation entitled "Revisions to the Standardised Approach for credit risk". The initial suggestion that BTL should be classified as specialised lending and therefore attract a considerably higher risk weight we would reject outright. Such a proposal would severely affect the BTL market and we believe is unjustifiable given the loss experience UK lenders have experienced. We will respond to the BCBS consultation in due course, but would welcome the PRA's views on this issue

13. This response has been prepared by the CML and IMLA in consultation with its members. If you have any comments or queries on this response, please contact the CML representative Jon Saunders, Senior Policy Adviser: jon.saunders@cml.org.uk +44 20 7438 8934 or the IMLA representative Peter Williams, Executive Director: consultpwilliams@btinternet.com.