UK FINANCE

Consultation Response: FCA and PRA changes to mortgage reporting requirements

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UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

Background

UK Finance welcomes the opportunity to respond to the FCA-PRA joint consultation on changes to mortgage reporting requirements.

UK Finance members make up approximately 98% of the first charge mortgage lending market in the UK, and the vast majority are required to report Mortgage Product Sales Data (PSD001 and PSD007) and the Mortgage Lending and Administration Return (MLAR) to the FCA. Our response therefore represents the widest possible mortgage industry view.

Our response and comments below relate solely to the proposed changes affecting Product Sales Data. We have not identified any issues relating to the more modest changes proposed to MLAR.

General observations

We believe that the additional data that the FCA and PRA propose to collect within PSD001 and PSD007 have clear policy objectives and are intended to provide the regulators with information that would allow each to more effectively monitor and regulate activity relating to regulated mortgages.

We are therefore supportive of the proposals set out in this consultation. In general, we believe of the proposals are broadly appropriate. We have, however, made comments and technical recommendations which we believe would improve the reporting and remove potential for submission errors and/or misleading data.

Definition of a Product Transfer

Although Product Transfers (PTs) appear, at first glance, simple to define, it would be helpful for the FCA to set out any loan types which could be interpreted as falling within the definition of a PT but should not be reported as such. Examples of this are conversion of an existing customer's loan onto either a lifetime or retirement interest-only mortgage (RIOM). Whist these could be interpreted as internal Product Transfers they are entirely different loan types and we believe do not belong together with PTs as either the industry or regulator would view them.

If the FCA agrees, it should make it clear that these, and any other identified loan types, should not be reported as Product Transfers.

More generally, firms have asked that FCA provide clear and unambiguous definitions of both Product Transfers and Further Advances within the Rulebook text, Handbook and data definitions where appropriate.

Interaction between Product Transfers and Internal Remortgages

In many ways, PTs are synonymous with internal remortgages with no extra money withdrawn, which are already reported within PSD if they result in a new Regulated Mortgage Contract (RMC). However, there is no means currently within PSD to identify whether a remortgage is internal or external.

The FCA's objective, as referenced in the Mortgage Market Study Interim Report, is to have better data on internal switching in the mortgage market, however those switches are defined and reported.

Technical recommendation 1:
Therefore, to enable a complete picture of internal switching, we recommend that the FCA changes the coding on the existing PSD001 data item **Type of borrower**, replacing 'R' for Remortgage with 'E' for External remortgage and ''I' for Internal Remortgage.

Reporting of Product Transfers and Further Advances

Whilst there is broad industry support for collecting these data there is a range of views across our members as to the best way to achieve this. A number of firms have concerns that requiring this data within existing PSD001 returns introduces additional complexity to what is already a very complex report to compile and quality-assure.

For many lenders, the proposed additional data items relating to PTs will require a material element of system redesign. Specifically, where lenders do not treat PTs in the same way as new business (which is common practice across many lenders, given that these require no new affordability assessment and a far lower volume of data capture), these transactions will often sit within a different system to that used to extract and report existing PSD001.

Alongside this, the FCA recognises that some existing PSD001 data items are not required in arranging PTs or (to a lesser extent, Further Advances) and so would not routinely be collected. Under the current proposals, where this is the case, these items may be left blank.

A significant amount of development will be necessary to allow for reporting data items as nil, N/A or blank values **if and only if** the record is a PT or a Further Advance, but reported in other cases. This raises a risk of compromising the full reporting of other loan types that already exist in PSD.

For many smaller firms, PSD reporting involves a material element of manual work, particularly in the Quality Assurance stage when finalising the report. The substantial volume of Further Advances and PTs will therefore significantly increase the resource requirement at this stage of the process, and so is likely to be disproportionately onerous for these smaller firms and any others who have these manual processes.

The resource required to create a new, standalone PSD report solely for PTs and Further advances would potentially be lower (albeit still significant) than to modify existing PSD001.

However, this consultation also proposes other changes to PSD001 which are not related to either PTs or Further Advances, and which necessarily need to be subsumed within the existing report. This means firms would need to make non-trivial changes to PSD001, regardless of whether PTs and Further Advances were to be included within this.

On balance, therefore, we believe the best route to collect data on PTs and Further Advances is to expand existing PSD001 to include these transactions, at the same time as implementing the other proposed changes to the same report.

However, we are aware that, when the previous significant expansion of PSD was undertaken in 2015, there were material reporting issues experienced in the first reporting periods. We are keen to help the FCA and the industry avoid such issues. To that end we would make the following recommendations:

Technical recommendation 2:
We strongly recommend the FCA undertake rigorous testing of the specification of the new requirements and XML schema before issuing this as final requirements, in particular to ensure there are no inconsistent sets of validations that may lead to confusing or erroneous reporting. UK Finance would be keen to help review data definitions and validation rules before they are issued, if this would be helpful.

Technical recommendation 3:
Where the FCA proposes to allow existing PSD001 data fields not to be populated if the transaction is a either a PT or Further Advance, we strongly recommend that in these cases, the requirement is to report specific values - for example, N/A or 0 as relevant - instead of allowing fields to be left blank. In our experience allowing reporting of blanks leads to data inconsistencies and misreporting.

Test facilities

Due to the additional complexity these changes would introduce into PSD001, we ask the FCA to make a test facility available before reporting goes live, so firms can refine and correct and errors ahead of implementation.

UK Finance would also plan to make a test facility available and would be keen to engage with the FCA throughout a testing period to help iron out any issues that may arise.

Implementation timelines

The proposed additions to PSD are material and members have advised that even a full twelve months implementation will be challenging. For this reason, we would strongly urge the FCA to issue all technical documents at the same time as the policy statement that formalises the final requirements as, until firms have these, they cannot begin then necessary development work.

Mortgages Market Study: Final report

In the same vein, the FCA is shortly due to publish its final report for the Mortgages Market Study. Part of the focus of the MMS relates to firms' existing borrowers and if and how they move onto different products, whether within the same firm or elsewhere.

If the final report contains or consults on any rule changes in this area, it is quite possible that this would impact the same systems as those required to extract and report PTs and any internal remortgages already reported within PSD.

We would urge the FCA to be sensitive to this when considering the timing of any changes which would either directly or indirectly impact on reporting systems in ways not already contained within this consultation. It is possible that, if there were either tensions or crossover between the two, this could potentially cause material detriment to firms' ability to achieve either.

Given that we know a twelve month implementation period will already be challenging for firms, if there are set to be any such additional related system changes required, we would urge the FCA to extend the implementation period to allow firms to implement both successfully.

Frequently Asked Questions and data definitions

Although the FCA does provide some FAQs for mortgage PSD on its website, what is currently available is limited, out of date and difficult to find. As these current proposals would represent a material expansion of PSD, we ask the FCA to revisit, update and promote these FAQs when it issues its final requirements. We would further ask that these are kept up to date through the implementation period and beyond as new questions and issues arise.

Additionally, given these proposals include a number of new areas of reporting, clear and unambiguous definitions in the technical documents will be vital. Areas where this will be particularly important include what is and is not a Product Transfer, and how to define the owner of a mortgage in the case books acquired by third parties, whether these are SPVs or other unregulated firms.

Answers to consultation questions

Q1: Do you agree with the FCA proposal to require mortgage administrators to submit PSD performance reports on mortgages owned by entities which are not authorised home finance lenders? If not, what amendments would you suggest?

UK Finance does not represent the unauthorised owners of mortgage books, so we are unaware of their views. However, many of the third party mortgage administrators these entities use are in membership.

We are supportive of the FCA having insight into the ownership of these books and the loans that sit within them. This will give the FCA a more comprehensive view of all mortgages which it regulates, regardless of which entity owns the beneficial or legal title.

Technical recommendation 4:
We suggest that this requirement is structured such that, where a Third Party Administrator (TPA) reports PSD007 for unregulated entities, it submits one consolidated PSD007 return for all such books which they administer.

Further, where a firm acts both as an administrator on its own behalf, but also as an administrator for unauthorised firms, we would ask that the FCA clarifies whether it expects the firm to report one consolidated report of all loans, or allow for the possibility for firms to submit separate PSD007 reports, one for its own book and one for the unauthorised books for which it acts as administrator. We believe that this second option is likely to reduce complexity for firms.

Technical recommendation 5:
We suggest that the reporting fields are structured such that one field within the report header identifies the TPA as reporting/submitting firm and a second, transaction-level, field identifies the firm that owns the mortgage beneficial or legal title. This will avoid the potential for misreporting, which we believe is likely to be substantial if this is not properly structured and defined.

Technical recommendation 6:
With respect to the existing PSD007, the technical validations allow for certain data items – specifically those required to match PSD007 back to PSD001 - to not be reported if the loan is part of an acquired book. We recognise that this is to allow for the possibility that, for historic book purchases, some PSD items may not be available within the data that were provided to the purchaser and/or its administrator when the book was acquired.

However, for more recent book purchases we believe that this information will normally be available. We understand that the FCA wishes to match PSD007 back to PSD001 for these acquired books where possible. For this reason, we strongly recommend the FCA makes clear that these data items **must be provided where available**, to avoid misinterpretation of the "conditional mandatory" nature of these fields.

Q2: Do you agree with the FCA proposal to amend SUP 16.11.1R as per paragraph 2.7? If you do not agree with the proposal, what other amendments would you suggest?

We are supportive of this proposal.

Our understanding is that this proposed requirement applies to firms acting as *principal administrator* for an unauthorised firm and **not** in those circumstances where a firm is acting as *other administrator*, defined in MLAR guidance as:

"Other administrator"*: this is where your firm (although authorised to undertake a mortgage administrator's activity) is undertaking loan administration for either a lender or other firm which itself is also authorised to undertake a mortgage administrator's activity. In this situation, your firm is not regarded as the 'principal administrator', and you are merely acting on behalf of an authorised mortgage administrator*

We ask the FCA to confirm that, as is the case with existing MLAR requirements, this PSD007 reporting requirement **will apply only to firms acting as principal administrators**, and there are no circumstances where firm is a required to report these data where it is acting as "*other administrator*" as defined in MLAR above.

Q3: Do you agree with the FCA proposal to add these fields to the PSD performance report? If not, what amendments would you suggest?

We are supportive of this proposal.

Some firms who neither buy nor acquire mortgage books, but only originate and hold on book have advised that, to avoid unnecessary development costs to such firms, it would be helpful for these data items should be structured in such a way that they may leave them blank rather than report negatively.

Q4: Do you agree with the FCA proposal that mortgage administrators submit nil returns where they do not administer any relevant mortgages? If not, what amendments would you suggest?

We are supportive of this proposal.

Q5: Do you agree with the FCA proposal to require mortgage lenders to submit PSD sales reports on internal product transfers? If not, what amendments would you suggest?

We are supportive of this proposal. We agree that it is important for the regulator to have insight into this significant element of the mortgage landscape, given that PT business volumes are currently around twice the levels of reported remortgaging.

Q6: Do you agree with the FCA proposals to add fields, drop-down options and guidance to the sales report to adapt for internal product transfer reporting? If not, what amendments would you suggest?

Whilst there is broad support for collecting the data there is a range of views across our members as to the best way to achieve this. A number of firms have concerns that requiring this data within existing PSD001 returns introduces complexity to what is already a very complex report to compile.

On balance we believe the best route to collect data on PTs ***is*** to expand existing PSD001. We are therefore supportive of this proposal, subject our comments and technical suggestions in section **Reporting for Product Transfers and Further Advances** above.

Q7: Do you agree with the PRA proposal to require PRA-authorised mortgage lenders to submit sales reports on further advances? If not, what amendments would you suggest?

We are supportive of this proposal.

Q8: Do you agree with the FCA proposal to require PRA-authorised firms that will be subject to the PRA requirement to submit sales reports on further advances, to do so via PSD? If not, what amendments would you suggest?

We are supportive of this proposal, as it will provide an effective mechanism for both the FCA and PRA to incorporate further advances in its analysis of all firms' lending and underwriting within the same existing report, without creating additional resource requirement from a new report.

Technical recommendation 7:
Where a borrower refinances and takes out additional money at the same time, it is common practice across many lenders to treat this as either a PT or Remortgage for the existing loan amount, and then a Further Advance for the additional money. In such cases our assumption is that the FCA would like this to be reported as two separate PSD records. We would agree with this approach but recommend this is made explicit in the reporting guidance and/or FAQs.

Q9: Do you agree with the FCA proposal to require FCA-authorised mortgage lenders to submit PSD sales reports on further advances

We are supportive of this proposal, as it will provide an effective mechanism for both the FCA and PRA to incorporate further advances in its analysis of all firms' lending and underwriting within the same existing report, rather than requiring additional resource for a new report.

Q10: Do you agree with the FCA proposals to amend drop-down options and guidance to the sales report to adapt for further advance reporting? If not, what amendments would you suggest?

Whilst there is broad support for collecting the data there is a range of views across our members as to the best way to achieve this. A number of firms have concerns that requiring this data within existing PSD001 returns introduces complexity to what is already a very complex report to compile.

On balance we believe the best route to collect data on Further Advances ***is*** to expand existing PSD001. We are therefore supportive of this proposal, subject our comments and technical suggestions in section **Reporting for Product Transfers and Further Advances** above.

Q11: Do you agree with the PRA proposal to require PRA-authorised home finance lenders to submit the 3 additional fields outlined above? If not, what amendments would you suggest?

We are supportive of this proposal.

However, we have a specific concern that, for some products, reporting reversion rate as structured may risk the regulators arriving at an incorrect view of the loan's affordability assessment.

For example, consider a stepped rate product where the rate is fixed for two years, followed by one or more discounted variable rates before finally moving onto SVR after five years. There are no existing data fields within PSD to indicate stepped products that would allow the FCA to take account of this.

Because the reversion rate reported would be the final SVR, this would not then take into account the fact that between two and five years the borrower would be paying a rate lower than SVR, and that the loan would have been underwritten on that basis.

In these cases, it is quite possible that that, with the data that would flow from the current proposals, firms would be judged to have looser underwriting standards than is actually the case.

It is also possible that, due to compliance risk arising from this potential interpretation of the data, firms will not develop or offer such products, thus hindering innovation and consumer choice in the market.

Technical recommendation 8:
Therefore, to avoid this this we recommend the FCA consider adding a Y/N field within PSD "Is this loan a stepped rate product (i.e. two or more incentivised rates before moving onto a final reversion rate)?"

Q12: Do you agree with the FCA proposal to require PRA-authorised mortgage lenders to submit the information required by the PRA in PSD sales reports? If not, what amendments would you suggest?

We agree with this proposal, subject to the specific concerns and recommendation as set out in our response to Q11 above.

Q13: Do you agree with the FCA proposal to require FCA-authorised lenders to submit 3 more data fields in PSD sales reports? If not, what amendments would you suggest?

We agree with this proposal, subject to the specific concerns and suggestions set out in our response to Q11.

Q14: Do you agree with the FCA proposal to require second charge administrators to report on the number and value of loans they administer? If not, what amendments would you suggest?

We have no comments on this proposal.

Q15: Do you agree with the FCA proposal to change the category labels on MLA-G and MLA-G1 in SUP 16 Annex 19AR and 19AAR? If not, what amendments do you suggest?

We have no comments on this proposal.

Q16: Do you agree with the PRA proposal to change the category labels on the MLA-G and MLA-G1 templates and add a footnote clarifying that the templates refer to FCA glossary definitions? If not, what amendments do you suggest?

We have no comments on this proposal.

Q17: Do you agree with the FCA proposal to amend the guidance in SUP 16 Annex 19B G to make clear how firms with the administering permission should complete MLAR? If not, what amendments would you suggest?

We have no comments on this proposal.

Q18: Do you agree with the PRA proposal to amend its 'Notes for the completion of the Mortgage Lenders and Administrators Return ('MLAR')' as set out in Appendix 3? If not, what amendments would you suggest?

We have no comments on this proposal.

If you have any questions relating to this response, please contact James Tatch, Principal, Analytics (james.tatch@ukfinance.org.uk)

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