

Response to FCA Mortgages Market Study - Terms of Reference

LendInvest

LendInvest launched in May 2013 as an online business for short-term mortgage loans to professional UK property borrowers and was incubated out of an existing property finance firm, Montello Bridging Finance (now named LendInvest Capital), which has operated since 2008.

It is LendInvest's view that, as a consequence of a lack of innovation and technology development in the mortgage market, the process of obtaining and managing property finance remains one of the worst customer experiences in financial services. Since LendInvest was launched, we have made it our mission to improve mortgage finance for borrowers, whether that's supplying underserved creditworthy property professionals with much needed finance; making it simpler and swifter to complete mortgage applications; or opening up mortgages as an accessible investment asset class. In the last three years, our investors have invested over £820m in loans to help property investors and developers to buy, build or renovate 2,700 properties worth over £1.45bn.

LendInvest does not currently offer residential mortgage products but sees an opportunity for this mortgage market study to introduce comprehensive market standards to encourage more investment and development of better technological solutions that improve the borrower experience.

Market standards for use of technology

In Section 1.8 of the Terms of Reference document the FCA outlines its objective to "consider how digital processes affect, or could affect, consumers and how the gains from any potential increased convenience, flexibility and accessibility compare with any risks they may entail".

We anticipate that throughout the course of the market study, the FCA will find that innovative practices are being developed across the supply chain, but impact on consumers may be limited by the lack of collective standards by market participants.

Where technology and fixed messaging standards exist in other sectors, there are limited current standards applied to mortgage market transactions. Guidance on financial promotions on social media is set out in FG15/4 - Social media and customer communications: The FCA's supervisory approach to financial promotions in social media. A potential area of focus for the FCA may be in issuing similar guidance to the mortgage market. The introduction of common technology standards in the mortgage market could improve consumer outcomes, particularly in areas such as data sharing in order to simplify decision-making, and enhance ease of switching and transparency of pricing.

If, for example, Customer Due Diligence (CDD) common standards were introduced to the customer affordability and credit assessment processes across the mortgage market, a borrower moving along the customer mortgage buying journey (illustrated in Figure 5, Section 3.7) would benefit from the recognition of CDD accreditation by one organisation across other organisations they encounter later in the process, improving the speed of decision-making processes. These standards already apply in relation to financial crime, where regulated entities are able to recognise KYC across the market.

As LendInvest and other businesses in the 'PropTech' sector continues to offer new products, services and innovations in the mortgage market, the FCA may find it useful to rely on the expertise of businesses in this space to develop standards and incentivise innovation in the wider market.

Improving competition

In Section 1.7, the FCA describes its objective to “understand whether consumers are empowered to choose on an informed basis between products and services”. Competition in the mortgage market is supported by the development and adoption of technology to enhance lender and third party processes. By exploring “useful innovation” (Section 2.4), the customer experience may be improved in the following ways:

- **Flexibility in switching between mortgage providers:** As mortgage providers respond to consumer demand for shorter and longer term mortgages, and offer remortgage opportunities to borrowers, the need for simple and harmonious switching of providers must be prioritised. By introducing common standards for processing and communication in mortgage switches, as has been done with current accounts, lenders will ensure consumers achieve the best outcomes in both outgoing and incoming custom.

It is essential that the appropriate rules and controls are applied to the market to support switching, too. Proposals in 2016 by government to introduce seven day switching for mortgage customers raised questions around the ability of lenders to do the appropriate due diligence within these time constraints. The focus of government on the consumer experience in the mortgage market shone a spotlight on the need for innovation in the sector, but the development of the switching policy showed that it was not enough to apply rules for other financial services account providers to mortgage providers.

- **Transparency and ease of accessibility in pricing:** By introducing market standards for ‘tools’ (as described in Section 1.5) lenders will create a common framework for understanding prices and fees attached to mortgage products. As the market develops, we find that consumers value transparency on the part of lenders and the fees they charge above most other factors.
- **Technology supporting due diligence processes:** When customers apply for mortgages, their journey can be negatively impacted by the technology used by providers and third parties that can influence the overall speed and decision making for their case. Due diligence processes in affordability checks, such as the processing of customers’ income and outgoings, is an area where technology has the potential to speed up the customer journey and help lenders to make accurate and appropriate judgments about the borrower’s financial viability. Interrogation tools, such as DirectID, demonstrates the potential of data in assessing the longer term sustainability of a particular product and enhances stress testing.

As the FCA considers the role of technology in supporting customers to make decisions, a potential area of exploration could be the development of technology to enhance provider processes.

- **Marketing the Regulatory Sandbox to mortgage innovators:** As the FCA explores how to ensure that competition in the sector works effectively, the regulator could open applications to a third cohort of businesses, marketing mortgage innovation as a particular area of interest. The previous cohort of participants included a large number of banking corporates. We would like to see new cohorts opened up to new entrants in the market to test their ideas.

LendInvest welcomes the opportunity to discuss the content of this submission with the FCA as it progresses the market study.

This submission has been prepared by John Gusman, LendInvest

Contact: john.g@lendinvest.com | 0203 846 6805