

REGULATORY IMPACT ASESMENT

Regulating mortgages

Issue

Following a consultation in the second half of 1999, the Economic Secretary to the Treasury, Melanie Johnson, announced in January 2000 that the FSA would be given responsibility for regulating mortgage lending and administration. All mortgage lenders would need to be authorised to lend on a mortgage. In addition, the EST announced that the FSA would regulate all mortgage advertising and require that all mortgage lending activities included specific disclosure of the main features of the loan¹. However, it was decided not to regulate the activities of mortgage advice and arranging, meaning that most mortgage brokers would be outside FSA regulation. The Government legislated² to implement the decision.

However this decision was reviewed following the Julius Group Report³ (paragraph 3.17) which recommended that only a statutory regime covering mortgage advice (including that given by intermediaries), offered sufficient protection to consumers when it came to taking out a mortgage, which for many people is the most significant financial transaction of their lives. Consumer groups and the bulk of the industry, including the Council of Mortgage Lenders, also called for statutory regulation of mortgage advice and arranging.

As a result of the representations, the Financial Secretary to the Treasury, Ruth Kelly, announced in December 2001 that mortgage advice and arranging would also be regulated by the FSA. Commencement of the original decision was subsequently delayed⁴ in order that mortgage lending, administration, arranging and advice could be implemented at the same time.

This RIA analyses the costs and benefits of giving the FSA responsibility for regulating mortgage lending, administration, arranging and advising. The Government consulted on this in February 2002⁵ and published a summary of the responses in August 2002⁶.

¹ 27 January 2000 – Written Answers 263 – 264W

² The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. (SI 2001/544, articles 61 – 63)

³ Cracking the Codes for Customers, Banking Services Consumer Codes Review Group May 2001

⁴ The Financial Services and Markets Act 2000 (Commencement of Mortgage Regulation) (Amendment) Order 2002 – SI/2002/1777

⁵ Regulating Mortgages – HM Treasury, February 2002

⁶ Regulating Mortgages results of the February 2002 consultation exercise – HM Treasury August 2002

The Government is also giving the FSA responsibility for regulating general insurance mediation. Many of the firms selling mortgages also sell general insurance. There is a separate regulatory impact assessment for general insurance mediation. This assessment deals purely with mortgage business, but there are references to general insurance where there is a read-across.

The market

The FSA has estimated⁷ that there are some 518 mortgage lenders and administrators - 158 mainstream lenders (of which 123 are already FSA authorised for other activities), 300 small or medium-sized banks, 50 small or medium-sized unauthorised lenders and 10 mortgage administrators. There are also some 13,725 mortgage intermediary firms covering 38,300 mortgage advisers. Total gross advances in respect of loans for house purchases, re-mortgages, top-up loans and others amounted to just under £219 billion in 2002. In 2002, the average loan was some £85,000 (£80,016 for first time buyers and £89,109 for former owner occupiers)⁸. There are around 4,500 mortgage products in the market place.

Purpose and intended effect of the measure

i) the objective

The objective is to provide safeguards and minimum standards of mortgage advice in order to benefit consumers. The proposals will also simplify the regulatory landscape by ensuring that there is a single regulator for mortgage advice, general insurance and retail investment business such as pensions.

Financial services regulation applies to the whole of the UK.

ii) the background

In December 2001, the then Economic Secretary to the Treasury announced that the Financial Services Authority (FSA) would have responsibility for regulating mortgage business, including advice, whether carried out by intermediaries or lenders. The Government consulted on these proposals in February 2002 and a draft regulatory impact assessment was annexed to that document. This assessment takes account of comments received on the consultation as well as later information about regulatory costs published by the FSA.

⁷ Prudential and other requirements for mortgage firms and intermediaries – CP 174 – March 2003

⁸ Source Council of Mortgage Lenders

iii) overall risk assessment

The risks of not subjecting mortgage advice and arranging to FSA regulation are that:

- consumers may either pay more than they would have done if there had been adequate straightforward, clear advice and effective competition;
- they may be more likely to buy products they subsequently find they cannot afford or easily switch from;
- lenders may choose the least onerous self-regulatory system (or avoid regulation altogether); and
- that people may be more likely to lose their homes through lenders pressing for repossession without giving consumers adequate opportunities for dealing with the situation.

Options

Option 1 - do not subject mortgage lending, administration, arranging or advice to FSA regulation.

Option 2 - the regime already approved by Parliament, to give the FSA responsibility for regulating mortgage lending and administration.

Option 3 - to give the FSA responsibility for regulating mortgage lending, administration, arranging and advising.

Risks of each option

Option 1 - the main risks are:

- a combination of multiple regulators and regulatory gaps, that causes confusion to consumers. Currently the Office of Fair Trading (OFT) regulates advertisements and many extortionate credit bargains. The FSA regulates the investment vehicles of interest-only mortgages and there are different voluntary self-regulatory codes for the sale of insurance products, and mortgage activities. Firms are not obliged to sign up to these voluntary self-regulatory codes which can lead to gaps in regulation;
- the Government consulted in 1999⁹ to seek evidence of consumer detriment in the mortgage market. Since the Government indicated that it would give the FSA responsibility for regulating mortgages and set CAT Standards for

⁹ Regulation of Mortgages - A discussion document – HM Treasury July 1999.

mortgages, industry self-regulation has improved and some of the practices discovered have become less prevalent. Without regulation, some unacceptable practices – see below - could become prevalent again with little or no redress for consumers;

- the consultation found evidence of consumer detriment in a number of areas:

- poor or misleading information in advertising literature and a lack of transparency in fees charged;
- product features, requirements, and lenders systems, which disadvantage consumers. Examples of such product features and requirements include: compulsory purchase of associated insurance products, prohibitive early repayment charges, and punitive interest rates for minor repayment breaches such as late payment.

- the self-regulatory body that covers much of the market for mortgage selling is the Mortgage Code Compliance Board (MCCB). The MCCB covers about 98% of the mortgage market. The Council of Mortgage Lenders (CML), the main lenders' trade body, has indicated it would support the MCCB and Mortgage Code until the implementation of mortgage regulation. There is a risk that if the Government was not to regulate, some lenders and intermediaries may withdraw from the Code, and at worst the MCCB and Code would collapse leaving no protection and redress for consumers;

- one of the main areas of consumer detriment found in 1999 was in respect of some mortgage lenders which specialised in the sub-prime or non-status market – that is, lending to people who may find it difficult to borrow from main stream lenders such as those with a difficult borrowing history (former bankrupts, those who have county court judgements against them, and self-employed people with less than three years annual accounts). These persons are vulnerable to exploitation and in any case, because of the higher risks of default, they tend to have to pay higher interest rates. Some lenders and advisers in this field are outside any regulatory regime and the risk is that they could take advantage of an unregulated market to exploit vulnerable borrowers.

Option 2 - under this option, mortgage lending and administration would be regulated, but not mortgage arranging and advice. The main risks here are:

- without regulation and rules covering suitability of advice, and the training and competence of the adviser, consumers may pay more than they would have

done if there had been suitable advice or they may be more likely to buy products they subsequently find they cannot afford or switch from;

- under this option, there would be different regulators and therefore separate protections and redress arrangements for different aspects of the selling process. The FSA would regulate mortgage lending and administration and the MCCB would regulate the conduct of business for mortgage advice and arranging – although there is no guarantee that the MCCB would remain in business.

Option 3 - the main risks here are:

- that regulation could reduce competition through a reduction of firms selling mortgages because the costs of regulatory requirements could encourage some smaller firms to exit the market and create a barrier to entry for new firms to come into the market.

Analysing the benefits

Option 1

The benefits of doing nothing are that:

- the industry will not need to spend the additional costs of option 2 (between £58m and £68m one off and around £45m recurring – see Annex A for more details) and the further incremental costs of option 3 (between £65 million and £66m one-off and between £39m and £110m recurring – see Annex B) on gearing up to FSA regulation. And these would not need to be passed on to consumers by the industry.

Option 2

The benefits of regulation of lenders and administrators are:

- that many of the areas of consumer detriment discovered in the July 1999 consultation would be prevented through FSA rules and remedies;
- that consumers would find it easier to shop around because of the standardised disclosure regimes proposed by the FSA;
- that all lenders will be regulated. They will not be able to pick and choose the least onerous regulatory system, or avoid regulation altogether;

- regulation may improve consumer confidence in the mortgage market.

Option 3

In addition to the benefits identified in option 2, the benefits of regulating mortgage arranging and advising as well as mortgage lending and administration are:

- a single regulator's compliance and redress arrangements may provide some efficiencies in lenders' and intermediaries' systems and procedures. There would also be some savings to offset some of the FSA costs. The MCCB would not continue and its annual cost to the industry of £5.1 million¹⁰ would be saved. Also, the Mortgage Code Arbitration Scheme (MCAS) would no longer be required. The current MCAS case fee is £882, whereas the Financial Ombudsman Service' (FOS) case fee is £360 - though the FOS figure excludes the costs of an annual levy that is yet to be determined;
- a single regulator would avoid the complexities of dual regulation;
- bringing everything into statutory regulation would mean that all firms would be subject to the same rules thus reducing the opportunity of some firms seeking a less onerous self-regulatory regime;
- an increase in the quality of the intermediary market as a result of FSA authorisation and related high-level requirements for firms and individuals. For example, firms would have to meet FSA requirements on fitness and properness, approved persons, financial promotions as well as disclosing key information to consumers; and
- more suitable advice for consumers.

Calculating the costs

The FSA has published three cost benefit analyses. The first one was dated June 2001 and covered the Government's original decision to regulate mortgage lending and administration¹¹.

¹⁰ £5.1 million is MCCB membership fees – split roughly £2 million from the 158 lenders and £3 million from the 13,725 intermediaries.

¹¹ Annex D to CP 98 – The Draft Mortgage Sourcebook, including Policy Statement on CP 70 - FSA June 2001. Available from the FSA website at www.fsa.gov.uk.

The second one covered the authorisation costs to mortgages and general insurance firms set out in Annex 1 to its consultation paper CP 174¹². This summarised the results of the work of 'Europe Economics', an independent firm of economic consultants who carried out a survey of mortgage and general insurance firms to produce estimates of the costs and benefits of regulation and to gather information on firms' likely response. Europe Economics identified a representative sample of the potential regulated population, stratified by firm size and current regulatory status. Written questionnaires and where possible, face-to-face interviews were held. Seven mortgage lenders and administrators and 12 intermediaries took part in the work.

The third cost benefit analysis covered the costs of the FSA's proposed conduct of business rules in Annex 5 to CP 186¹³. This summarised the work of National Economic Research Associates (NERA), an independent firm of economic consultants who carried out the work. NERA's approach was to conduct a series of face-to-face interviews with firms, preceded by written questionnaires. In total NERA conducted 25 interviews and received 23 questionnaire responses from mortgage lenders and intermediaries. NERA also conducted interviews with the MCCB, two industry associations and two mortgage sourcing systems providers.

We assume that option 1 would not increase costs to the industry. A summary calculation of the costs of options 2 and 3, together with some working assumptions, are contained in annexes A and B to this document. The costs of option 2 relate specifically to the regulation of mortgage lenders and administrators. The costs of option 3 are the additional costs of regulating mortgage arranging and advice. In summary, the costs are as follows:

Option 2 - Between £66m and £76m one-off and around £45m recurring.

Option 3 - Additional costs of between £73m and £74m one-off and between £39m and £110m recurring. The total costs of FSA regulation of mortgage lending, administration, arranging and advice, is therefore, estimated to be between **£139m** and **£150m** one-off and between **£84m** and **£155m** recurring.

The wide variation in recurring costs in option 3 follows the FSA assumptions in Annex 1 to CP 174¹⁴. The lower level assumes that there will be no changes to

¹² Financial Services Authority prudential and other requirements for mortgage firms and insurance intermediaries. FSA – March 2003. Available from the FSA website at www.fsa.gov.uk.

¹³ Annex 5 to CP 186 – Mortgage regulation – Draft Conduct of Business Rules and Feedback on CP 146 – FSA May 2003. Available from the FSA website at www.fsa.gov.uk.

¹⁴ Prudential and other requirements for mortgage firms and insurance intermediaries – CP 174

current levels of PII rates – currently an average of 1.3% of turnover for mortgage intermediaries. The higher figure assumes that PII for mortgage intermediaries will on average be the same as an Independent Financial Advisor at 3.5% of turnover. But these estimates have to be seen in the context of a business that made total gross advances in 2002 of some £219 billion.

The FSA has estimated that their costs for the development and implementation of the new regimes from policy making to the design and roll-out of the authorisation and post-mortgage and general insurance supervision process is some £33 million. The FSA is now consulting on how they intend to recoup these costs from the new population of regulated firms.¹⁵ These costs have been allocated as £8 million for mortgages and £25 million for general insurance. These figures are included in both options as it is not possible accurately to separate the costs between each option.

Small firms impact test

The MCCB has some 13,725 mortgage intermediary firms registered with them – that is those that comply with the Mortgage Code. Of these, 13,000 are considered to be small – those that have between 1 and 5 advisors¹⁶. Although there are other ways of categorising a small firm, for example, the Small Business Unit uses 49 employees, a turnover of €7 million or a balance sheet of up to €5 million, the MCCB definition of small (1-5 advisors) is consistent with previous FSA consultation papers (CP's 70, 98, and 146¹⁷). Also a very high percentage of mortgage and general insurance firms have 1 to 5 sales staff, with the great majority having 1.

Competition assessment

The proposals would impact on the provision of mortgage products and services by mortgage lenders and mortgage intermediaries.

In the UK, there are three main distribution channels for mortgage lenders: the branch network, direct channels (telephone, post and internet) and intermediaries. Reliance on a specific channel depends upon the type of lender. Typically, the branch network provides the largest proportion of mortgage business for banks and building societies due to their strong high street presence, whilst specialist lenders without branch networks are more reliant on direct channels and intermediaries. Reflecting this variety of channels, mortgage lenders tend to

¹⁵Chapter 5 of CP 180 - Fees for mortgage firms and insurance intermediaries – FSA April 2003

¹⁶ Figures drawn from the MCCB 2002 Annual Report.

¹⁷ Available from the FSA website - www.fsa.gov.uk

pursue a multi-distribution strategy¹⁸. Whilst in the region of 55% of borrowers still deal directly with their chosen lender, the role of the intermediary channel has been particularly important for those mortgage providers that do not operate through a branch network or which are keen to reduce the costs associated with extending their existing branch network¹⁹. The intermediary channel consists of a wide variety of firms including estate agents, life assurance companies, financial advisors, mortgage brokers, accountants and solicitors.

There is a considerable degree of concentration in the mortgage lending market with the top-three mortgage lenders together accounting for 44% of the market and the top six firms accounting for two thirds of the market²⁰. Therefore, we do not expect that the proposals would be likely to have a significant impact on the market structure for mortgage lending. Mortgage lenders are unlikely to exit the market as many of them are already authorised by the FSA for other activities or meet MCCB's membership requirements.

As far as intermediaries are concerned, there will be costs associated with full FSA regulation and cultural changes associated with the FSA regime. However, the MCCB regime has some similarities with the FSA regime, therefore regulation is likely to prove less of a culture shock. We expect that some intermediary firms may exit the market, but conclude that the impact on competition will not be significant.

Enforcement, sanctions, monitoring and review

It will be for the FSA to enforce and monitor compliance. The FSA will have a number of sanctions available if insurers and intermediaries fail to comply including fines, and ultimately withdrawal of permission to carry on the business. But firms have the safeguard of the right of appeal to an independent tribunal against FSA decisions.

Consultation

The Government received around 90 responses to the February 2002 consultation. Whilst many had comments on technical details, some of which are reflected in the revised Orders that are being presented to Parliament, nobody objected to the extension of regulation to include arranging and advising on mortgages.

¹⁸ Source: Council of Mortgage Lenders Research Paper 'The Changing Structure of the UK Mortgage Lending Market', April 2002]

¹⁹ Source: Mintel, 'Mortgages' April 2003.

²⁰ Source: CML – Largest Mortgage Lenders 2001

Summary

Option 1

The benefits are that the industry would not need to spend further time and money on implementing FSA regulation.

The risks are that the practices previously prevalent in the mortgage industry would recur leaving many consumers vulnerable to exploitation with few means of protection or redress.

Option 2

Under these arrangements, lenders and administrators would be regulated. This would provide some protection giving consumers access to complaints and redress systems in the event that things go wrong in the mortgage lending and administration process.

But the advice consumers receive would not be subject to statutory rules governing either the competence of the advisor or the suitability of the advice he or she gives. Without regulation covering disclosure and suitability of advice, consumers may pay more than they would have done if there had been adequate, clear advice or buy products they subsequently find they cannot afford or switch from. Moreover there are costs to the industry and confusion to consumers in having a regulatory system that covers lenders and administrators, but not advisors.

Option 3

The benefits are that with a single regulator, there would be efficiencies in lenders' and intermediaries' systems and processes. It would avoid other issues of dual regulation – lenders and intermediaries skewing particular products in order to comply with the least onerous regime, or consumers falling in any gaps between the regimes. There may also be a reduced likelihood of market disruption or consumer detriment achieved through the introduction of financial safeguards.

The risks are that regulation could reduce competition through firms exiting the market because of the regulatory requirements that could create a barrier to entry for potential new entrants.

Recommendation

On balance, the benefits to consumers and the industry of a one-stop regulatory system covering mortgage lenders, administrators, advisers and arrangers outweigh the additional costs of so doing.

Declaration

I have read the Regulatory Impact Assessment and am satisfied that the benefits justify the costs.

[Signed]

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Option 2 - costs of regulating mortgage lenders and administrators

Compliance costs	Total one off - £m	Total ongoing - £m
Authorisation		
Authorisation pack	0.05	0
Variation of permission	0.12	0
Approved persons	0.05	0
Approved persons – higher risk	0.75 – 1.51	0.15 – 0.3
Application fees	4.0 – 13.0	0
PII application	0	0
PII requirements	0	0
FOS	0	0
FSCS	0	0
Capital Requirements	0	0
Total	4.97 – 14.73	0.15 – 0.3
Conduct of business	53.0	45.0
FSA policy/development	8.0	-
Grand total	65.97 – 75.73	45.15 – 45.3

Assumptions

1. Assumptions on authorisation costs are based on the cost benefit analysis published by the FSA as Annex 1 to CP 174 (note 12).
2. The conduct of business estimate is based on the FSA CBA in Annex D to CP 98 of June 2001 (note 11). This CBA was calculated on the premise that the Government's original proposals to regulate mortgage lenders and administrators would be implemented. The FSA estimated that the costs to the industry would be £53m one-off and £45m recurring. We have not provided a further breakdown in this estimate.
3. The FSA estimated in CP 174 that the number of mortgage lenders and administrators is 518, comprising: 158 mainstream lenders (of which 123 are already authorised by the FSA for other activities); 300 small or medium-sized

banks; 50 small or medium-sized unauthorised lenders; and 10 mortgage administrators.

4. The cost of completing the authorisation pack for the first time is estimated to be about £0.05m in total. It is not possible to estimate the number of new firms that are likely to seek authorisation each year, and nor therefore the cost.

5. The FSA has estimated that the total costs of completing an application to vary permission would be about £0.12m in total. As with new firms, it is not possible to estimate the numbers of firms, if any, that may seek to vary its permission to carry on mortgage business.

6. FSA estimate that the one-off cost per firm of approved person status for senior managers and directors is about £0.05m in total.

7. The FSA estimate that the one-off costs of seeking approved persons status for those advising on higher risk products is between £0.75 and £1.51m one-off and £0.15 and £0.3m recurring.

8. The FSA is now consulting on a range of application fees depending on the size of the firm²¹. For mortgage lenders and administrators, the range is between £7,750 and £25,000 depending on the value of gross advances and whether they apply early, late, electronically, or on paper. Also, the cost of varying a firm's permission is roughly half of a new authorisation. For the purposes of this assessment, we have calculated two extremes of a range. On the one hand, if all firms were small new authorisations the overall cost of application fees to the industry would be £4 million. If all lenders were large new authorisations, the costs would be £13 million. In practice, costs will fall within this range. The FSA will be consulting in due course about its periodic fees and we have made no provision for those costs here.

9. Mortgage lenders will not face additional costs to meet FSA PII requirements as the vast majority have net tangible assets of £1 million, and this exempts them from the FSA requirement.

10. Those mortgage lenders currently authorised by the FSA are already part of the Compulsory Jurisdiction of the Financial Ombudsman Scheme (FOS), so we have assumed that no additional costs will be incurred as a result of these proposals. As to the Financial Services Compensation Scheme (FSCS), as explained in Annex 5 to CP 186 the base costs for the financial year 2003-04 are some £2.6 million. These costs will be distributed between existing firms

²¹ CP 180: Fees for mortgage firms and insurance intermediaries

contributing to the FSCS (about 10,000 firms), general insurance intermediaries (about 40,850 firms) and 13,725 mortgage intermediaries. So the costs for mortgage lenders and administrators would be minimal.

11. No additional capital requirements are proposed for banks and building societies, so there will be no additional costs.

12. The FSA has estimated that their cost for the development and implementation of the new regimes is some £33 million. These have been allocated as £8 million for mortgages and £25 million for general insurance. These figures are included in both options as it is not possible accurately to separate the costs between each option.

ANNEX B

Option 3 - additional costs of regulating mortgage arranging and advice

Compliance costs	Total one-off - £m	Total ongoing - £m
Authorisation		
Authorisation pack	4.0	Minimal
Variation of permission	1.1	Minimal
Approved persons	1.6	0
Approved persons – higher risk	1.3 – 2.62	0.3 – 0.5
Application fees	8.2	0.8
PII	0.2	1.0 – 72.0
FOS	Nil	Minimal
FSCS	Minimal	Minimal
Capital Requirements	2.5	0.7
Total	18.9 – 20.22	2.8 – 74.0
Conduct of business		
IT systems	4.8	0
Training and competence	22.1	0
Management and Supervision time	23.9	27.1
Initial disclosure	0	2.6
Advise and selling standards	0	3.5
Pre-sale disclosure	0	6.7
Redress	0	1.4
Total	50.8	41.3
FSA policy/development	8	-
Grand Total	77.7 – 79.02	44.1 – 115.3
Savings – MCCB	(5.1)	(5.1)
Net total	72.6 – 73.92	39.0 – 110.2

Assumptions

1. The authorisation costs are based on the cost benefit analysis set out in Annex 1 to the FSA's CP 174 (note 12).
2. Assumptions on conduct of business costs are based on the cost benefit analysis published by the FSA as Annex 5 to CP 186 (note 13). We have not included the costs for lenders and administrators in this estimate save for one

aspect – note 17 below – because it is not possible to separate the costs of regulating advice from other aspects of the regime.

3. The calculations are maximum numbers because we have assumed that all 13,725 intermediary firms will seek authorisation. An as yet unknown number could decide to become appointed representatives or exit from the market altogether.

4. The FSA has assumed that 8,450 small, 450 medium and 16 large intermediary firms will require authorisation for the first time. The costs to intermediaries of completing the authorisation pack for the first time is estimated to be £4m one-off and the recurring costs will be of minimal significance.

5. The FSA estimate that 4,550 small, 250 medium and 9 large intermediary firms will need to vary their permission. The FSA has estimated that the costs to intermediaries of completing an application to vary permission would be £1.1m one-off and recurring costs would again be of minimal significance.

6. FSA estimate that the one-off cost of approved person status for senior managers and directors is £1.6m. This relates only to those firms seeking authorisation for the first time – 8,450 small, 450 medium and 16 large intermediary firms.

7. The FSA estimate that the one-off costs of seeking approved persons status for those advising on higher risk products is between £1.3m and £2.62m one-off and between £0.3m and £0.5m recurring.

8. The FSA is now consulting on a range of application fees²². The range is between £500 and £1,200 depending on the size of the firm, whether it puts in its application early or late, or electronically or on paper. We have assumed that mortgage intermediaries will be required to pay the fee for responding on time and on paper - £600. Therefore the costs would be £8.2m (13,725 x £600 = £8,235,000). In line with the FSA assumption of a 10% annual turnover of firms, we have estimated that the recurring costs will be £0.8m.

9. All mortgage intermediaries have to meet certain PII requirements as a result of MCCB membership. However, it is not clear whether the PII premiums will remain at the same level following regulation. A wide variation in recurring costs shown in the estimate follows the FSA assumptions in Annex 1 to CP 174 (note 12). The lower level assumes that there will be no changes to current levels of PII rates – currently an average of 1.3% of turnover for mortgage

²² CP 180: Fees for mortgage firms and insurance intermediaries – FSA April 2003

intermediaries. The higher figure assumes that PII for mortgage intermediaries will on average be the same as an Independent Financial Advisor at 3.5% of turnover.

10. The Mortgage Code Arbitration Scheme (MCAS) case fee is £882 compared with £360 for the FOS (excluding annual levy). We have assumed no additional costs for intermediaries.

11. The FSA has said that costs of the FSCS are of minimal significance (Annex 5 to CP 186 for mortgage intermediaries). The base costs for the 2003-04 year are £2.6 million distributed between 10,000 existing regulated firms, 40,850 general insurance intermediaries and 13,725 mortgage intermediaries. No figures are therefore included in the table.

12. FSA estimate that the ongoing costs of meeting their capital requirements is some £2.5m one-off and £0.7m recurring – Annex 1 to CP 174.

13. FSA estimate that the costs of setting up IT systems are some £4.8 million one-off for intermediaries.

14. FSA estimate that the cost to intermediaries of training and competence is some £22.1 million one-off. No estimate has been carried out on recurring costs.

15. FSA estimate that the cost to intermediary firms in terms of management and supervision would be £23.9 million one-off and £27.1m recurring.

16. FSA estimate that the recurring costs for the new initial and pre-sale disclosure regime are some £2.6m and £6.7m respectively.

17. FSA estimate that the costs for firms in implementing the new advice and selling standards required by the FSA is some £3.9m. This is made up of £1.3m for lenders and administrators and £2.6m for intermediaries.

18. The FSA estimate that, as result of becoming part of the FOS, intermediaries are likely to pay out some £1.4m in redress to consumers.

19. The FSA has estimated that their cost for the development and implementation of the new regimes for mortgages and general insurance is some £33 million. The FSA is now consulting on how they intend to recoup these costs from the new population of regulated firms.²³ These costs have been allocated as £8 million for mortgages and £25 million for general insurance. These figures are

²³Chapter 5 of CP 180 - Fees for mortgage firms and insurance intermediaries – FSA April 2003

included in both options as it is not possible accurately to separate the costs between each option.