

The credit crunch is seen as a failure by the financial services industry (and its regulators) to appreciate the dangers of a market trading tarted-up, second-hand mortgages like disreputable car dealers. Unless this is expressly addressed – and seen to be addressed – by new provisions these will fail to restore confidence. Something far more specific than reference to ‘threshold conditions’ is required.

The government should make it clear that it intends to lead the world in creating a framework for controlling mortgage trading.

Regulated financial institutions should be clearly prohibited from holding more than a certain proportion of investments in traded mortgages unless these meet appropriate safeguards. Initially these should be set nationally by a regulator having regard to the interests of all stakeholders (new and old lenders, borrowers and investors in lenders etc) but attempts to promote international standards for adoption by the UK should be encouraged.