MORTGAGE MARKET REVIEW (MMR)

DESCRIPTION

The Mortgage Market Review (MMR) was a comprehensive review of the mortgage market, with an aim to ensure it works better for consumers. Following on from this review a set of rules governing the mortgage market and in particular the application process came into force fully on 26thApril 2014.

BRIEF HISTORY

By the height of the market in 2007 it became apparent that while the market had worked well for many people it caused severe hardship for others. The regulations at the time were not effective in controlling high-risk lending and borrowing.

AIMS

The MMR reform is aimed at ensuring continued access to mortgages for the majority of customers who can afford it, while preventing a return to the poor practices that we saw in the past. It is designed to **protect consumers** from the kind of reckless mortgage lending that would leave them unable to make repayments.

CHANGES

The onus will no longer be on the mortgage broker to ensure affordability, but solely on the lender:

At the heart of the new rules is a new **affordability check**. Previously, many mortgage offers were based on a multiple of the buyer's income. Now, there will be more consideration given to the household budget and how much spare money is available to them. The lender will be interested in how much money is spare in a borrower's personal budget. Any regular payments could be asked about in the application process. This could range from the cost of regular haircuts, subscriptions, holidays, travel season tickets and childcare to the cost of energy bills, food and any loans and credit commitments.

Borrowers will be expected to say if their financial position is expected to change. This could include any predicted changes in working hours, but may also include any plans to have children in the near future. Lenders may also 'stress test' an applicant's ability to repay if interest rates increased over a 5 year period.

It is important that potential homebuyers have a household budget clearly worked out before starting the application process. Lenders are likely to ask for any number of documents that prove income and outgoing figures such as payslips and bank statements. It will beneficial for the client to 'clean up' the household budget. So something as simple as cancelling an unused gym subscription could be beneficial.

Most interactive sales (for example face to face and telephone) must be advised:

In order to obtain a mortgage a potential homebuyer must speak to a **qualified** mortgage broker or a lender's own **qualified** financial advice team.

Experts have predicted that the application process direct with a lender as a result will be lengthy - and will now take **three to four hours** at initial conversation stage with a qualified adviser employed by the bank or building society. The result is a potential wait for appointments with in-branch advisers of up to **four or five weeks**.

To take the other route, dubbed 'execution only', the client will need to tell the lender exactly what mortgage, rate and term is required no questions asked. To all intents and purposes the only way of doing this will be an online-only application.