

The day of the packager is not over

The continued strength of packagers has surprised many in the mortgage industry. The UK market is mature, competitive and diverse. So, is there room for packagers to continue to survive and grow?

The need to deliver shareholder returns has been a significant influence in shaping the mortgage market. The strong housing market, resulting in a 160 per cent plus increase in average house prices since 1997, and competitive environment with over 150 lenders, have resulted in a high demand for mortgages, but also eroded margins on conventional mortgages. Lenders have consequently focused on volumes.

This has generated opportunities for packagers who are able to identify shifts in market demand and help lenders structure new products accordingly. Lenders have focused on the mainstream, but have been happy to underwrite the debt when presented with the product, and defined usage. Packagers have, in effect, acted like an outsourced product

development team, spotting opportunities and taking them to lenders.

A major, and continuing, unique service proposition for lenders is the packagers' ability to filter a case from basic information, enabling the right lender to be chosen first time. This has, and continues to result in much higher application to offer to completion benefits for lenders. Packager submissions result in up to 85 per cent application to offer ratios while direct submissions to lenders often result in less than 50 per cent hit rates.

However, the market is changing; decreasing housing affordability and fewer potential buyers; a softening labour market; heightened yet stagnating property prices, and a high price to disposable income ratio. Margins, not volume, are now the watchwords, as lenders look to preserve profit. The light end of the non-conforming market, traditionally the preserve of packagers, is now inhabited by mainstream lenders.

With margin-hungry lenders already encroaching on the packagers' territory, using advances in front-end processing technology to directly market (even specialised products) to brokers, can packagers survive?

The packagers' opportunity is created by these changing environmental and market conditions. Packagers, with their immediate proximity to the market, have a proven capability to identify and service changing needs.

A key driver behind these changes is the rising level of household debt. By February 2006, the total UK personal debt was £1,174bn, up 10.3 per cent on the previous 12 months; the average household has around £8,000 of non-mortgage debt. Student debt is also rising, and now averages £12,000. In 2005 there has also been, for the first time since 1991, an increase in CCJ's to 573,321. This, coupled with changes in the bankruptcy laws, means we are likely to see an increasing level of personal bankruptcies, even

greater than the 67,580 of 2005. Also, the FSA has reported that two million families are 'constantly struggling', though not yet in arrears.

High levels of debt sit alongside changing social patterns; greater flexibility and instability in working and falling household sizes. This ever-changing socio-economic scenario gives the nimble packager an ongoing opportunity to create innovative and market leading products. The ball is now in the packagers' court to respond to these market challenges. Those who are in a position to respond and also embrace technology changes will survive, and there may be more than some commentators seem to think. The day of the packager is not over. They will continue to have an influential role in the future of the intermediary mortgage market.



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