

Mortgages

As many struggle to secure a mortgage, could a return to packagers be the answer? Paul Thomas reports.

Package comeback

With strict credit-scoring criteria making it difficult for borrowers to obtain a mortgage, All Types of Mortgages believes there could be the opportunity for packagers to make a comeback.

In a recent article for Money Marketing, ATOM sales and marketing director Dale Jannels said the return of mortgage packagers would bring benefits for borrowers, lenders and brokers.

The traditional role of a mortgage packager was to place mortgages, instruct valuations and build up exclusive ties with certain lenders. Another function was that because of their relationships with lenders, they would have a good sense of whether a client's application would be accepted before it is placed with a lender, in order to avoid unnecessary declines showing up on a borrower's credit record.

Jannels says packagers are again ideally placed to help those who have been rejected by mainstream lenders because of their "tick-box" credit-scoring system and they can also help by following the case through to completion.

He says: "As a packager, we have access to a lot of lenders and we can guess from day one where the right place is for that case to go. When you go down the high street, you get this tick-box mentality but the specialist lenders are a little bit more relaxed and will have a look at the whole application."

"An intermediary will phone us up and we have a range of lenders on our panel, so we will have a good understanding of where that case can go from day one. Then we will package it, get the valuation instructed and push it through to completion."

The Alliance of Mortgage Packagers and Distributors director Tony Crossley agrees with Jannels, saying the specialist lenders which packagers deal with offer a more human approach to underwriting.

He says: "Many packagers

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are also becoming more and more involved in complex or intricate prime cases. There is a significant marketplace of cases where clients do not fit automated credit-scoring systems. Luckily, some lenders have taken the decision to provide underwriters who can physically look at the merits of an individual case rather than simply pass or fail it.

"This does not in any way advocate risky lending but if a client can put across a reason why a lender should consider them, you can reason with a human being and not with a computer."

But Mortgage Brain chief executive Mark Lofthouse says the number of packagers will depend entirely on the number of adverse mortgage products in the market. At the moment, he does not believe there are enough to warrant an increase in the number of packagers.

Lofthouse says the total number of adverse products available has risen from 315 to 450 in the past year. He says: "There is a need for more specialist mortgages in the market, but at the moment there are not very many. But if there is an increase in adverse mortgages, that is potentially when packagers could be needed more."

Precise Mortgages managing director Alan Cleary says that in today's regulatory environment, most lenders are not willing to use packagers for their traditional role of packaging mortgage cases. He says if packagers make any kind of comeback, they are likely to do so as a kind of mortgage club.

He says: "If they are called 'packagers', then they should never come back. Traditional packagers were instructing valuation, getting the case ready to offer. That is not going to come back for as long as I care to even think about. No lender is going to, in this regulatory environment, trust another entity to do that work for them - they will do it in house."

Cleary suggests the only way packagers might make a comeback is if lenders want to use their distribution ties.

He says: "The reason why packagers may well become interesting is not because they are packaging, it is because they have some kind of access to distribution and they act as a marketing outlet for the lender. Other than that, packagers have not really got a lot of value to lenders at this moment in time."

But Crossley says packagers have had to adapt and develop their distribution skills to work alongside their traditional packaging duties.

He says: "The packagers who remain in the market have had to evolve and add value to lenders through their market knowledge and also their ability not only to package but also distribute products. Our distribution skills can be useful both to existing lenders and new entrants who may not want to invest heavily in their own sales distribution."

"From a lender's point of view, we are offering quick distribution and an outsourcing of administration. From an intermediary's point of view, we are providing a human sourcing function, speeding up the process of their client finding a mortgage."

Bob Hunt
Mortgage
View



Learning lessons

It is hard to believe but we are now almost three years down the road since the beginning of the credit crunch. Northern Rock has its own unique place in the history of this period - one that it will undoubtedly prefer not to have - but the news that the "bad" part of the operation, Northern Rock Asset Management, has returned a profit for the first six months of the year does seem to indicate that it can emerge renewed from undoubtedly one of the worst financial periods in history.

Over those three years, all who have been involved in financial services have had to look hard for the positive.

No one is suggesting that everything in the garden is rosy but three years on, we are perhaps able to look forward rather than back. It is clear that tighter regulation of certain sectors and markets is necessary but particularly for those of us active in the lending arena it was pleasing to see a number of concessions in a provisional ruling from BIS (Basel-based Bank for International Settlements) that suggests the new regime on capital, leverage and liquidity may be significantly less onerous than originally feared. Of course, what is coming is the toughest banking regime that has ever been put in place and Basel III will create significant challenges but given the need to ensure an environment for open and active lending, any lessening of requirements regarding the tightening of liquid funding requirements and the delay of the so-called net stable funding ratio should be welcomed.

If anticipated capital rules are eased, banks will be able to lend more for every pound of capital - something which will be welcomed by the mortgage and loans community which is looking for an ongoing boost to lending levels, particularly for SMEs as many are suffering from the curbs the banks have placed on their ability to access loans.

This, combined with recent results announcing better than anticipated profit levels, has boosted bank share prices, particularly those that are state-funded, with the Government clearly relieved to see value in the stakes it holds rise.

Add to this a somewhat more stable political environment provided by the coalition Government and there does seem cause for a more optimistic view. This does not mean I believe we are about to see a massive overnight increase in the amount of money being lent in the mortgage market. Mortgage brokers have been as hard hit as any sector and there is no denying that many firms are only just pulling themselves off the bottom.

However, as Benjamin Franklin said: "Things that hurt, instruct." With lessons learned, perhaps now is the time to embrace, plan and prepare for the future. If lending is to increase, is your business in a position to advise and retain those clients looking for loans and associated services? How can you best market your advisory proposition?

There may still be trouble ahead but this should not detract from the potential opportunities that do exist.

Businesses that can position themselves to take advantage of a more positive environment are the ones that ultimately will be the market leaders in the months and years to come.

Bob Hunt is chief executive of Paradigm Mortgage Services