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## Will we see more packagers turning themselves into mortgage lenders?

Venturion expanding into lending shows the packaging sector is having to rethink its business model, say our experts

Venturion Capital's move to expand its presence from packaging into sub-prime lending is likely to be the start of a trend.

More and more sub-prime lenders are going direct to brokers and cutting out packagers. At the same time many packagers are feeling the squeeze since regulation.

The point lost on many packagers is that the world has changed and many of them thought they could carry on as they always had whereas in reality their distribution base has all but disappeared.

Networks have sought to strengthen their advice base by controlling who their advisers deal with. In the case of the packager community this is of particular concern as the adviser will invariably be using the packager for advice, but of course the packager is not regulated and therefore not responsible in the event of a complaint. With claims arising from complaints in this sector likely to be significantly higher than in the rest of the market it's no surprise networks and companies have sought to control or restrict the packagers their advisers deal with.

Some packagers sought refuge by becoming principals, attempting to keep hold of their distribution base by offering appointed representative facilities. But the take-up in the appointed representative sector has been woefully small. Two-thirds of the new principals have been forced to rethink their business plans because of lower than expected take-up. Some have moved towards becoming lenders by offering branded lending as a halfway house, though I fear this is only a short-term solution.

If packagers are to survive they must embrace regulation and have the courage of their convictions by putting their resource behind the services they offer the broker community.



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Was it coincidental that the news of Venturion setting up a sub-prime lender followed its shedding of

TMO's network, slimming down the packager's workforce and losing managing director Mark Charlesworth?

It is unlikely its current plan was contemplated when the business plan was originally submitted to the Financial Services Authority.

Distribution, based on a network of appointed representatives post-regulation, looks far less secure than it did a few months ago, particularly as the anticipated huge volume of ARs has not materialised.

On the other hand, given that some packagers have continued to develop branded lending activities it's unsurprising this new stratagem has evolved. But there are significant issues here, not least regulation and compliance.

Packagers choosing to do their own lending are entering a new business arena. As their offerings will inevitably be in the sub-prime and non-conforming markets they run the risk of losing association with lenders they currently work with. Will the market support them if their products are not innovative and leading and don't pay top dollar?

If nothing else, this diversification is innovative and recent announcements will serve to make lenders – particularly those who regularly denigrate the packaging business, – sit up and take note.

Packagers have to take some crucial decisions in the next few months and the Venturion situation has helped focus attention on the need to protect and preserve income streams with local control. For this reason alone, it would be a foolish packager who did not at least examine the possibility of coming to market as a lender in its own right or perhaps joining forces with others to ensure volume delivery that would whet the appetite of potential capital funders.

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