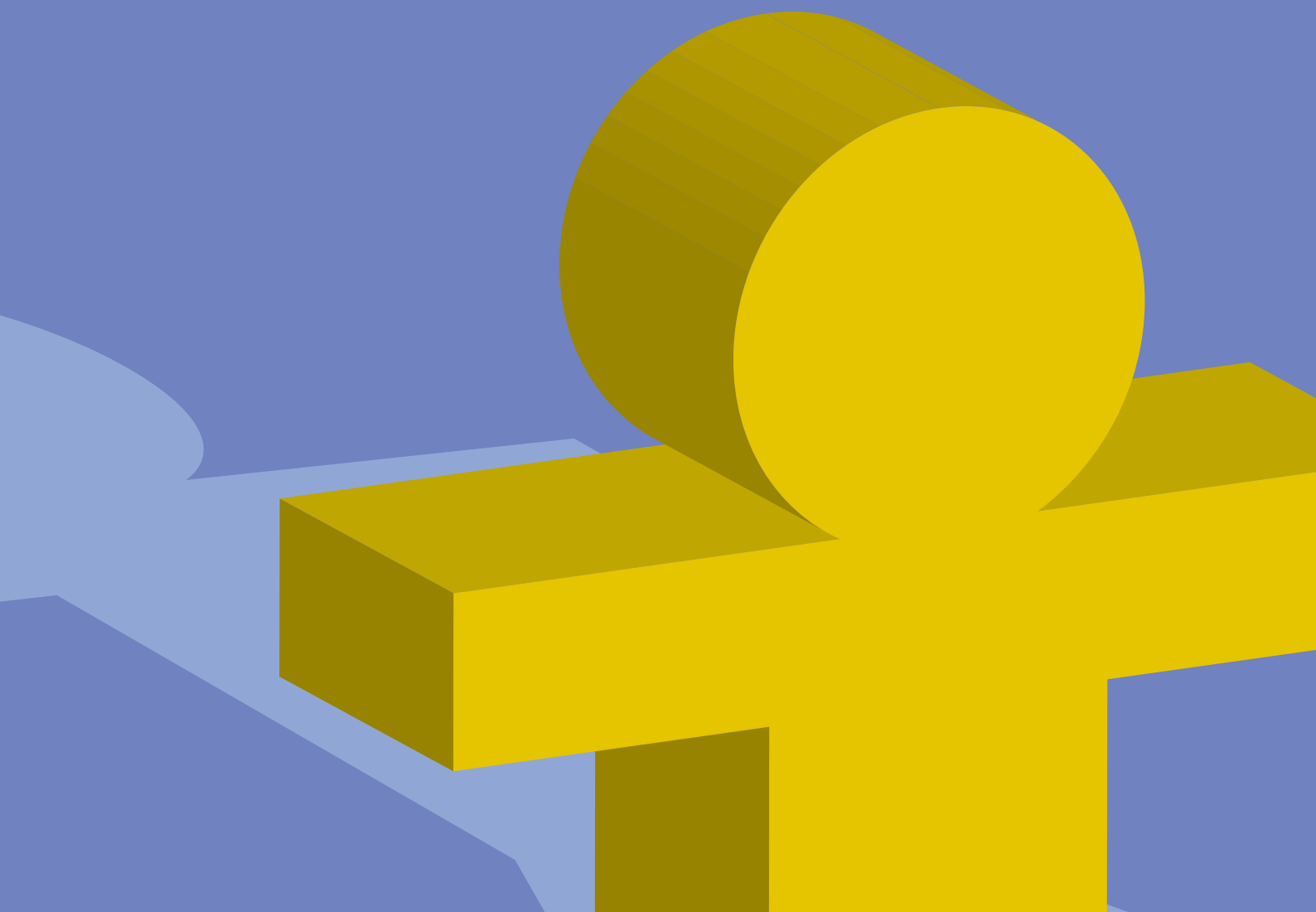


Marketing in a Regulated Market

A Guide for Mortgage Intermediaries

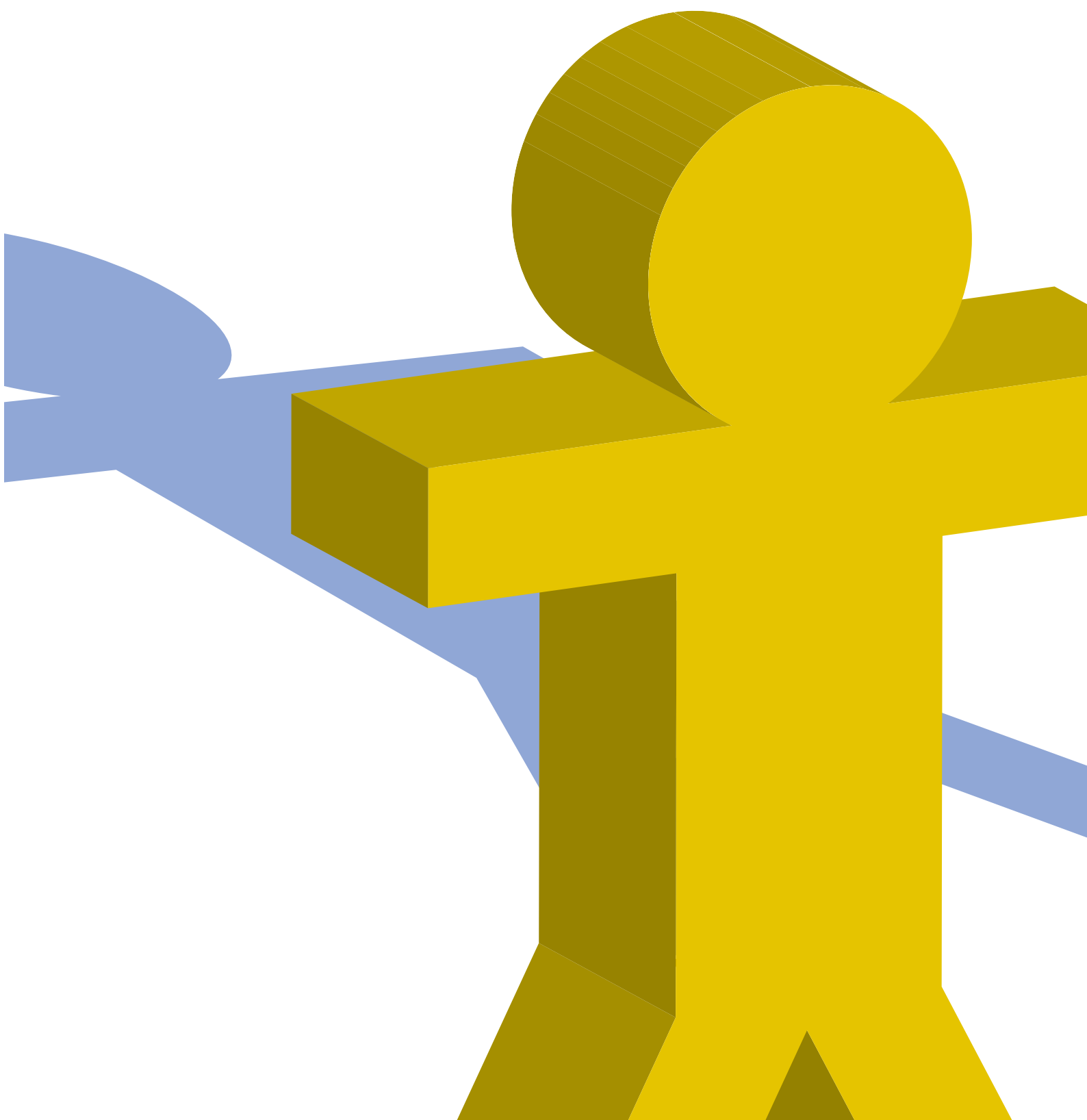
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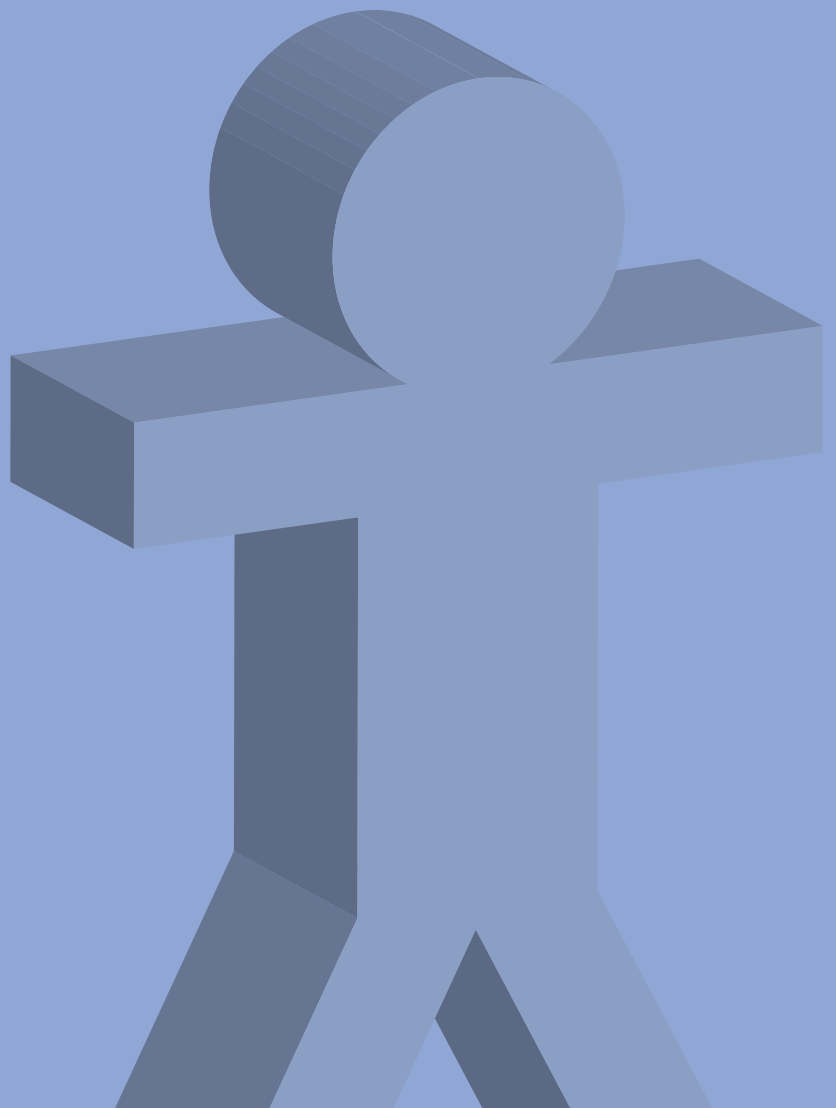
A Guide for Mortgage Intermediaries

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A Guide for Mortgage Intermediaries

1. Introduction

Welcome to Mortgages plc's 'Marketing in a Regulated Market – a Guide for Mortgage Intermediaries'.

Financial Promotions form part of the Financial Services Authority's (FSA) Treating Customers Fairly regime, which is one of their main areas of focus in 2005. This guide focuses on Qualifying Credit Promotions, which are covered in full in Section 2 of this guide ('Qualifying Credit Promotions Explained').

The financial penalties for issuing marketing promotions that break the rules can be very severe, with recent fines ranging from £35,000 to £165,000. This guide aims to help you understand how and when to apply the FSA rules. We know how busy mortgage intermediaries are, so we have tried to make the guide as concise as possible.

Qualifying Credit Promotions is a subject which Mortgages plc has developed an understanding of since FSA mortgage regulation came into force at the end of October 2004. We have sought to give guidance on this subject through presentations and seminars and believe we can explain Qualifying Credit Promotions in an interesting way and also give you some helpful tips. We have also put together a useful matrix for quick reference, see Section 8 ('Prescribed Wording').

Important Information – ensure you read this:

This guide is intended to assist you in understanding the FSA's requirements. Please be aware it is not intended to replace, amend or supplement the FSA's rules on Qualifying Credit Promotions. It is vital that when you are planning and implementing your own marketing and promotional activity you follow the rules and guidance as laid out in the FSA Handbook or take your own legal advice about the requirements. Mortgages plc is not responsible and shall not be liable for any promotional activity you engage in.

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2. Qualifying Credit Promotions Explained

The FSA's Financial Promotions rules, as laid out in the various sections within their Handbook, came into force for Qualifying Credit Promotions with the rest of the FSA mortgage regulations on 31st October 2004. Firms were allowed a further 3 months to update promotions. This period of grace ended on 31st January 2005, so any promotions running now should be compliant with the new regulations. The only exceptions are directory entries which must be updated by 31st October 2005.

Included within this guide are some example adverts, which we believe demonstrate good practice in the new regime. All firms are subject to the same Qualifying Credit Promotion rules, creating a level playing field for all mortgage and credit promotions.

a) Definition

A Qualifying Credit Promotion can be either a financial promotion for a regulated mortgage contract, or a promotion for 'qualifying credit' which covers all secured lending. The FSA's Mortgage Conduct of Business sourcebook (MCOB) rules also apply to a promotion which combines both unsecured and secured lending. A Qualifying Credit Promotion is, broadly:

Any promotion, which invites or induces a person to enter an agreement for the provision of credit secured on land (whether by first or second charge) by an authorised firm, or relates to the advising on or arranging of such credit.

Clearly the scope of this (non-statutory) definition extends to the vast majority of promotional activities a mortgage intermediary is likely to undertake.

b) Types of Qualifying Credit Promotion

Promotions can be real time or non-real time.

Real Time Promotion

- Generally refers to direct, personal contact (ie. sales visit, phone call, interactive dialogue)

Non-Real Time Promotion

- Includes mass promotions such as adverts, mailshots, emails, websites and TV/radio adverts

c) Exemptions

There are some adverts that are considered exempt under the Financial Promotions rules:

- If you only include the name of your company, your logo, the fact you deal in mortgages, and a point of contact, then your advert is exempt. The advert in [Figure 1](#) (see next page) is exempt.
- If your advert is not aimed at the general public it is exempt, so promotions to mortgage intermediaries are not covered by the rules. All adverts must still comply with the clear, fair and not misleading principle.

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Figure 1 – Exempt Promotion



Figure 2 – Qualifying Credit Promotion

The advert in Figure 2 is not exempt and is a Qualifying Credit Promotion. Although it appears to be a simple promotion, any advert which promotes non-conforming mortgages must quote a representative APR (Annual Percentage Rate). This applies even if you do not mention a specific product or interest rate.

The new regulations mean a lot of additional **prominent** information may be required on promotions that are not classed as exempt. This focus on prominence means that, in reality, there is no such thing as 'small print' on mortgage adverts under the new regime. All relevant text must be within the main body of the advert.

Firms cannot get around the rules by cramming all the required compliance wording into their adverts by making the text very small, as this is unlikely to meet the FSA requirement for such information to be shown prominently and therefore would not be regarded as 'clear, fair and not misleading'.

It appears many firms have opted to produce 'exempt' adverts. This is a development which has led to the simplification of many small adverts appearing in the consumer press. This approach ensures there are fewer compliance requirements of these adverts due to the limited information which is contained in them. Firms advertising in this way have restricted the content of their adverts to give a brief factual statement of their occupation, only referring to their activities in general terms in order to ensure their adverts are exempt. Figure 3 is an example of an exempt advert:



Figure 3

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d) Buy to Let Promotions

Not all forms of Buy to Let mortgage are regulated, but it is important to note the rules about promoting them. Buy to Let mortgage promotions are **not** exempt, even if they are for mortgages which are not regulated by the FSA.

e) Approval of Promotions

- All Qualifying Credit Promotions, both 'real' and 'non-real' time, must be approved by an authorised firm.
- If you are not directly authorised, then someone who is (i.e. your network principal if you are an appointed representative) will need to approve your promotions.
- If someone who is not authorised approves a Qualifying Credit Promotion then this will be considered a breach of FSA rules.

f) Record Keeping

It is very important that you can demonstrate you have complied with the FSA rules. You should keep the following documentation easily accessible and be prepared to provide it, if required:

- A copy of each draft of the promotion, to ensure a full audit trail is available, and a record of its approval (if applicable) on file. You should note who approved the promotion, on what date, and for how long. (When the approval expires the promotion must be withdrawn.)
- Details of the promotion's circulation numbers, where it will be published and for how long and/or target audience should also be kept.
- Evidence to substantiate any claims made in your promotions i.e. if you have said you offer the best rates in the market, you need to be able to prove this.
- A record of how you calculated the representative APR on a particular promotion, if applicable. See Section 5 ('APRs') for further details.
- Copies of the final versions of any promotions you issue. These have to be held on record for 12 months *after* they are withdrawn.

This list covers the key requirements but is not exhaustive. You should refer to the FSA Handbook for full guidance.

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3. Clear, Fair and Not Misleading

All Qualifying Credit Promotions must be 'clear, fair, and not misleading'. This is the key requirement of the FSA. It should not be assumed that the reader of a promotion has any prior knowledge of the fundamentals of mortgages or qualifying credit. There are many things to consider when ensuring a promotion is clear, fair and not misleading. Reading this guide will hopefully help you to gain a better understanding of the FSA's requirements.

The FSA stipulates that a Qualifying Credit Promotion is not to be disguised or misrepresented. This can be achieved by following the rules and guidance within Chapter 3 of the FSA Mortgage Conduct of Business sourcebook (MCOB 3).

a) Due Prominence

One key aspect to consider is that of 'Due Prominence', which can play a major role in ensuring a promotion is clear, fair and not misleading. Relevant risk warnings, APRs and regulatory statements must be given due prominence within a promotion. The context of the promotion as a whole should be considered, and use can be made of the position of text, background, text colour and text size to ensure important information meets the requirements of the FSA.

b) Using the FSA's Name & Logo

- If you want to name the FSA and use its logo, then this is acceptable, but it cannot be used to endorse products, services or communications.
- If you do choose to name the FSA, any disclosure must be made within the terms of the General Licence provided to authorised firms by the FSA and found within the Authorisation Sourcebook in the FSA Handbook.
- You should always write 'Financial Services Authority' in full the first time the FSA is mentioned. Once it has been mentioned once, it is acceptable to use the 'FSA' abbreviation.
- You are permitted to use the FSA logo on your letterhead and email equivalent, but it cannot be used in any paper based promotions or on your website
 - > Note that if you have a website then you must clearly name the FSA as well as publish your FSA number on the site. See section 4 ('Qualifying Credit Promotions on the Internet') for further details.

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4. Qualifying Credit Promotions on the Internet

There are some differences between the regulations for online and offline promotions. As well as meeting the requirements for MCOB 3, there are further rules within the FSA Handbook which impact on websites and online promotions.

To help meet the clear, fair and not misleading principle, you should ensure that, when a consumer is looking at promotional material on the internet, all the relevant information is viewable on the same page, i.e. relevant disclosures and warnings should be within the main body, and not in a position where the user has to scroll down or click on a link to view it.

a) Websites

i) Regulatory Statement

An extended regulatory statement is required for websites which promote qualifying credit, as follows:

[Company name] is authorised and regulated by the Financial Services Authority, and is entered on the FSA register (www.fsa.gov.uk/register) under reference XXXXXX.

If you are not directly authorised by the FSA you should check with your network principal (or whoever handles your compliance) to confirm the wording you need to use on your website.

Your Company VAT number should be shown, if applicable. Also, to make it clear that the contents of the site are intended for consumers within the UK, the following should be shown:

The guidance and/or advice contained within this website is subject to the UK regulatory regime and is therefore targeted at consumers based in the UK.

b) Online Advertising

Hyperlinks and banner adverts can fall within the scope of the Financial Promotions rules, and you should put them through the same formal approval process as your other promotions to ensure you can document the fact they have been approved.

i) Links to your Website

If banners or hyperlinks are appearing on other websites and direct the user to your site, you should be careful to ensure the page they click through to meets the website compliance requirements, as set out above.

ii) Links from your Website

If you have banners or hyperlinks on your own site linking to other websites, you should ensure these open in another window and warning text appears to inform the user they are departing from your website and you are not responsible for the content of the site they are about to view.

c) Take a Zero Click Approach to Online Compliance

Designing an effective website is a challenge in its own right, but you need to ensure your site adheres to the FSA regulations. Our tip is to take a 'zero click' approach to your online compliance and, wherever possible, ensure all relevant information appears on the same page.

Remember the all-encompassing requirement of the Financial Promotions rules – everything must be 'clear, fair, and not misleading'.

d) Record Keeping for Electronic Media

This follows the same principles which apply offline. As with all promotions, you need to keep records of approvals, and evidence of any supporting statements. Keeping electronic records is acceptable provided you can reproduce them in a durable medium and you can show previous versions.

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5. APRs

a) Quoting APRs

- Any Qualifying Credit Promotion which includes 'price information' (such as product interest rates, payment of fees or charges, or references to the frequency or amount of repayments) must quote an APR. If you are promoting a range of products rather than a specific one then you need to quote a 'representative APR'.
- Any promotion making reference to the availability of credit to groups of individuals who may otherwise consider such access restricted e.g. CCJs, IVAs, the self-employed, council tenants, bankrupts etc, must also quote an APR for the product or range of products in question. If no product is mentioned or if it is for a range of products then a representative APR should be shown.

The APR(s) for a specific product can be obtained via mortgage sourcing systems or by asking the product provider. They are also shown on Key Facts Illustrations (KFIs) and regulated mortgage offer illustrations.

The calculation of a representative APR for a product range is covered in more detail below.

Note: Wherever an APR is quoted it should be shown to one decimal place (i.e. X.X% APR)

b) Representative APRs

When promoting specialist mortgages as detailed above, a representative APR must be quoted even if you do not mention interest rates anywhere in the promotion. This must be equal to or lower than the APR which 66% of people responding to your promotion would expect to pay, if they entered into the mortgage contract which is the subject of the promotion.

When determining the representative APR, account should be taken of the business which has arisen from similar promotions made by the firm in the previous 12 months. Where the promotion is for a new product, reference should be made to relevant business plans.

Below we have given an example of a method of calculating a representative APR. **(N.B. Please note the FSA does not give specific guidance on how this should**

be calculated, and this is therefore only a suggestion. If you are an appointed representative you should check with your network principal in case they have a prescribed approach they require you to follow.)

c) How to Establish a Representative APR

The table in Figure 4 below shows a list of hypothetical APRs which are assumed to have been generated over a twelve-month period, placed in order from lowest to highest.

Product	Rate	No. Sold
1	6.0%	2
2	6.5%	3
3	6.6%	2
4	6.7%	1
5	8.2%	1
6	8.5%	2
7	9.6%	1
8	9.7%	2
9	9.8%	1
10	10.2%	1

Figure 4 – Table to calculate representative APR

This example results in a spread of APRs. Figure 4 highlights the sixth APR in the list. This illustrates that 66% of the APRs payable were at or below 8.5%. This method avoids the APR being distorted by any particularly high or low APRs being applicable in exceptional cases.

Representative APRs should be updated regularly (ideally monthly) and should be calculated over a 12 month period. If you are advertising specialist mortgages and have not previously operated in the market, then it will be acceptable for you to make a prediction of your representative APR based on anticipated business volumes. You will need to update this once you have actual data upon which to base it.

You should always keep a record of how you have calculated your representative APR for particular promotions.

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6. Mortgages plc's Research Findings

Mortgages plc has reviewed over 250 mortgage adverts which were published in the April and May 2005 editions of some of the best known and most widely available consumer mortgage magazines. Our findings, in our opinion, demonstrate that many firms in the industry may not yet be fully up to speed on the requirements for producing Qualifying Credit Promotions.

a) Main Findings of Results

The top 5 common errors we found were:

- Using old risk warning 'Your home is at risk...'
- No risk warning at all.
- No APR when one is required.
- No adverse credit risk warnings (See Section 8 'Prescribed Wording')
- Incorrect wording when referring to the FSA.

The firms running non-compliant promotions included lenders, distributors, directly authorised brokers, appointed representatives and introducers.

b) Categories of Firms

Following our research, we have concluded firms can be categorised in relation to Qualifying Credit Promotions as follows:

1. Firms who have recognised the new rules and followed them
2. Firms who have recognised the new rules but applied them incorrectly
3. Firms who have recognised the rules in their recently issued promotions, but have not updated long-running adverts
4. Firms who have totally ignored the new rules

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7. Issues Highlighted by the FSA

a) FSA Concerns

The FSA's main concern is that a Financial Promotion should clearly indicate what a product and/or service actually is. This should not be described in technical terms, but in a way which is relevant and clearly understandable to the intended customers. It should not be assumed the general public have any prior knowledge of such products or services.

Other key areas of concern are:

i) Risk Warnings

- Must be included in Qualifying Credit Promotions in a prominent way. As well as the standard wealth warning ('Your home may be repossessed if you do not keep up repayments on your mortgage') there are further required warnings such as where the promotion relates to lifetime mortgages, debt consolidation, adverse credit or foreign currency mortgages.

ii) Incorrect Authorisation Status Disclosure

- Firms using a non-compliant description of their authorisation status in a promotion (the correct disclosure statements are prescribed in the FSA rules).

iii) APR Errors

- Not including a representative APR when one is required.
- Not stating the APR using the correct wording as prescribed in the rules ('The overall cost for comparison is X.X% APR').
- Not making the APR prominent enough.

iv) Poor Audit Trails

- No record of how Financial Promotions are approved, including:
 - > Who approved the promotion.
 - > When it was approved.
 - > What corrections were to be made (and whether they were ever made).
 - > Little or no provision of evidence supporting the statements or data used in promotions.

v) Procedural Issues

- No robust procedures in place outlining how a firm ensures their Financial Promotions are compliant with FSA requirements.
- Procedures are in place but are not being followed.

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b) Example Promotions

Our recent research also highlighted several of the issues listed above as areas where firms are not acting compliantly. Figure 5 shows a non-compliant advert found in a consumer mortgage magazine, which demonstrates a number of the areas of concern highlighted by the FSA above, whereas Figure 6 is an example of a compliant promotion.

Broker-X

**Specialist in Mortgages, Re-mortgages,
Full Status, Non-status, Self employed
CCJ, IVA, Self Cert, Buy to Let, etc
More Lenders more Choice.
You only need one call...**

WE say YES

Tel : 01234 567 890
Email: info@broker-x.co.uk
Web: www.broker-x.co.uk

Broker-x is a Licensed credit broker and IFA.
Your home is at risk if you do not keep up
repayments on a mortgage or other loans
secured on it. Subject to status.

Figure 5

Figure 5 – Non-compliant issues identified in this promotion

- 'Your home may be repossessed...' risk warning not included
- No adverse credit warnings included
- No representative APR included
- 'We say yes' statement implies a mortgage can definitely be obtained from this firm. This statement will need to be backed up with documented evidence. It is unlikely this example will be possible for any firm to prove.

Mortgage Problems?

Lender-X may be able to give you the green light!

- Adverse credit cases sympathetically catered for
- Self employed with or without accounts
- CCJ's, defaults, bankruptcy, iva's, mortgage or rent arrears
- Council R.T.B. – plus additional cash
- Capital raising/debt consolidation
- Rep service throughout the UK

Adding existing debts to your mortgage will both extend the repayment term and increase the overall cost of the debt. In many cases we do not charge fees. Our fee will depend on your circumstances, an indication is £495. Early repayment charges may apply. They will vary depending on the mortgage you choose.

The overall cost for comparison is **6.5% APR**. The actual rate available will depend upon your circumstances. Ask for an illustration. APR variable and based on a usual case.

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

Web: www.lender-x.co.uk
Email: info@lender-x.co.uk

For an immediate decision call Lender-X FREE on:
0800 123 4567

Figure 6

Figure 6 – Compliant promotion

- Prominently includes appropriate FSA prescribed wording/warnings
- Includes representative APR and appropriate wording

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8. Prescribed Wording

Mortgages plc has developed the following matrix to help you check if you are using the correct prescribed wording for your promotions.

APR	<p>If you need to quote an APR you must prominently state the following wording:</p> <p>The overall cost for comparison is X.X% APR</p> <p>See 'Specialist mortgages' below for extended wording where APR is shown for adverse credit promotions</p>
Buy to Let	<p>If you are solely promoting Buy to Let mortgages then there is no requirement to specifically mention the FSA, although if you wish you may do so as long as you make it clear that not all Buy to Let mortgages are regulated by the FSA.</p> <p>If you are promoting various types of regulated mortgages and also Buy to Let, then you should make it clear that not all Buy to Let mortgages are regulated by the FSA.</p> <p>Examples of how you can word this include:</p> <p>Buy to Let products (where the resident is not related to the borrower) are not regulated by the Financial Services Authority.</p> <p>OR</p> <p>Not all forms of mortgage are regulated by the Financial Services Authority.</p> <p>Either of the above are acceptable, but remember the due prominence rule. The approach which suits your firm best will depend upon your regulatory status and the nature of your advertisement.</p>
Debt consolidation	<p>If a promotion relates to any potential reduction in regular payments following the consolidation of debt, it must also clearly indicate there may be an extension to the repayment period for the customer.</p> <p>For example, in these instances you could include the following text:</p> <p>If consolidating debt, initial savings may be achieved by re-arrangement of existing loans, which may result in extending the term of the loan and in turn increase the total cost in some circumstances</p> <p>You must also include the following extended FSA prescribed risk warning, prominently, where debt consolidation is mentioned:</p> <p>Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.</p>

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Foreign Currency Mortgages	<p>Where the mortgage monies are in a currency other than £ sterling, the following prominent warning should be shown:</p> <p>Changes in the exchange rate may increase the sterling equivalent of your debt.</p> <p>This warning, if required, must be shown AFTER any other required risk warnings.</p>
Lifetime Mortgages	<p>For Lifetime Mortgages, the following warning should be shown, prominently:</p> <p>This is a lifetime mortgage. To understand the features and risks, ask for a personalised illustration.</p>
Risk Warning	<p>You should always include this text, prominently, in any Qualifying Credit Promotion (except where the debt consolidation or lifetime mortgage warning is given) unless it is exempt:</p> <p>Your home may be repossessed if you do not keep up repayments on your mortgage.</p>
Specialist Mortgages Including: adverse credit, self certification, self build, shared ownership, Right to Buy	<p>You must include the following text, prominently:</p> <p>The overall cost for comparison is X.X% APR < use a representative APR here if not promoting a specific product>. The actual rate available will depend upon your circumstances. Ask for a personalised illustration.</p>

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9. How the FSA monitors Financial Promotions

a) Monitoring

In addition to compliance visits to authorised firms, during which the FSA will assess a firm's systems and controls, it regularly reviews the press, industry publications, television promotions and websites. It also investigates complaints made concerning promotional materials.

b) Whistle Blowing

The FSA actively encourages members of the public and mortgage firms to inform them of any promotions which are not considered to be clear, fair and not misleading. This is commonly referred to as 'whistle blowing'.

Historically, firms have been reluctant to engage in whistle blowing, but there is a real possibility it will become common practice in the industry. This is particularly likely if firms acting compliantly are suffering (i.e. receiving lower response rates to their adverts) as a result of other firms issuing non-compliant promotions. There has already been a high profile example of this taking place in the market.

c) Taking Action

The FSA will take appropriate action against firms who do not comply with their rules, either with regard to content of promotions or their internal systems and controls.

If the FSA decides to pursue what it considers to be a 'non-compliant' promotion, the first thing it will do is contact the firm in question to inform them why it considers there has been a breach of the rules. The FSA will then do one or more of the following:

- Accept the firm's position on why it believes the promotion is compliant.
- Ask the firm not to issue the promotion again.
- Ask the firm to amend the promotion, or withdraw it.
 - If a firm does not agree to withdraw the promotion, the FSA can vary the firm's permission or seek an injunction to require it to withdraw the promotion.
- Ask the firm to offer a full refund and/or compensation to consumers who responded to the promotion.
- Refer the case to the Enforcement Division to issue a 'private warning' or for further investigation and possible disciplinary action – which could result in a number of outcomes, including public censure or a financial penalty.

If a promotion is not within the FSA's remit, it will pass it to the relevant regulators, such as the Advertising Standards Authority or the Office of Fair Trading.

d) Challenging the FSA

Not everything is black and white when it comes to Financial Promotions, and many of the rules are open to interpretation. If you are unsure about how your promotional activity fits in with the rules, you can call the FSA's Financial Promotions Hotline on 08457 300 168.

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10. Summary

The FSA has widely publicised it will be stepping up its focus on Financial Promotions and it has already hired a specialist team to deal specifically with this area of the mortgage rules. It expects firms to pay due regard to its Treating Customers Fairly requirements. Therefore, when considering whether your promotions meet this criteria, the following should be contemplated:

- Are the products and services designed for a particular market?
- Does the communication match what the products/services deliver?
- Will the target customer understand what is being marketed?
- Are the right people involved in the development and sign-off of Qualifying Credit Promotions?
- Are appropriate monitoring procedures in place for the above?
- Is the promotion clear, fair and not misleading?

The results of Mortgages plc's own research merely confirm that the mortgage industry desperately needs to turn its attention to this key area of the FSA regulations. M-Day and the end of the 'period of grace' for Qualifying Credit Promotions are dates which have long since passed, yet many firms have still not updated their adverts accordingly.

Making your promotions compliant is not actually that difficult, but it can seem complex if you have not been able to study this section of the rules in detail. We hope the hints and tips in this guide have helped make things easier.

We recommend you regularly check the FSA website and monitor the mortgage press for future developments in this key area of mortgage regulation.

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11. Useful Sources of Information

- FSA website: www.fsa.gov.uk
- MCOB Chapter 3 (available on the FSA website www.fsa.gov.uk/pages/handbook)
- Financial Promotions - Taking stock and moving forward (February 2005 – www.fsa.gov.uk/pubs/other/promo_forward.pdf)
- FSA Financial Promotions Hotline (08457 300 168)
- Other articles by Mortgages plc about Financial Promotions: www.mortgageintroducer.com/marketing
- Association of Mortgage Intermediaries website: www.a-m-i.org.uk

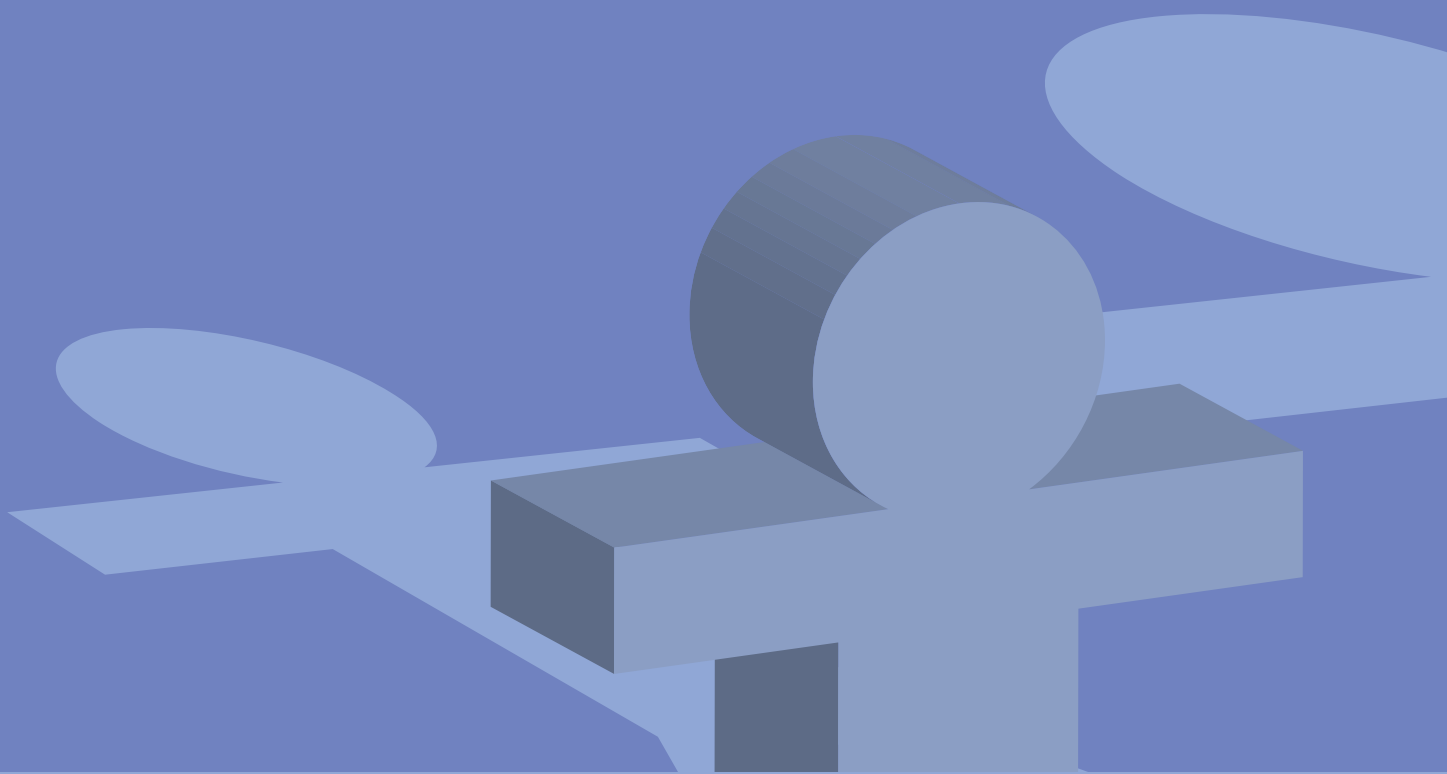
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We hope you have found this guide useful and informative. We welcome your feedback via email at marketing@mortgagesplc.com.

If you would like to find out more about our mortgage products and other services we offer then please call us on 0845 60 50 40 2 or email iss@mortgagesplc.com

You can also find out more about Mortgages plc and download copies of our marketing material by visiting our website at www.mortgagesplc.com





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Not all forms of mortgage are regulated by the FSA.

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YOUR HOME MAY BE REPOSSESSED IF YOU DO
NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

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