

Association of Mortgage Intermediaries

Response to the HM Treasury consultation on secondary legislation for the regulation of Home Reversion and Home Purchase Plans

Q1: Do you think the definition of a Home Reversion Plan is accurate and will it capture all available Home Reversion products whilst capturing other products with similar features?

No comment

Q2: Do you agree with the definition and use of 'plan provider'?

Yes. It is essential that third parties to whom the rights or obligations under a home reversion plan or the interest in land are transferred are included in the definition, to ensure that the interests of the consumer are protected throughout the term of the plan, regardless of whether the provider of the plan changes.

Q3: Do you agree with our approach to administering activities relating to Home Reversion Plans?

Yes. We agree with the definition of administering, in particular the inclusion of the activity of making payments to the reversion seller. Those persons captured by the definition will be subject to FSA rules including capital adequacy requirements. These are necessary to ensure that consumer's interests are adequately protected where payments for the reversion are made in stages. For the same reasons, we also support the requirement for those administering home reversion plans to be authorised regardless of whether or not the plan is entered into by way of business.

Q4: Do you agree with our approach to the regulation of intermediaries?

We agree that advising individuals or small companies to enter into or vary the terms of a reversion plan as a provider should be regulated activities. However, we do have some concerns over the use of this method to achieve adequate protection for the reversion occupier where the plan provider is not an authorised person. In particular, the scope of responsibility which will be placed on intermediaries through the proposed FSA rules in relation to these activities.

In the circumstances where an intermediary firm advises its client to enter into a home reversion plan as a provider, it is reasonable that the intermediary firm should be responsible for the advice provided to the potential plan provider. However, requiring the intermediary to also be responsible for the protection of the reversion occupier's interests will give rise to a conflict of interest between the intermediary and its client – the potential reversion plan provider. We would have concerns over any regulation which creates a conflict of interest between an intermediary firm and its client. We strongly believe that the interests of a reversion occupier can only be adequately protected in

these circumstances by receiving independent advice on the transaction from a source independent from the intermediary firm.

Ultimately, these matters will be dealt with through the Financial Services Authority consultation on the conduct of business rules for regulated activities relating to Home Reversion Plans. As such we will provide our detailed thoughts on these issues in our response to FSA on this consultation. It is important however that these issues are considered by HMT in the context of its overall policy position in this area.

Q5: Do you think the definition of a Home Purchase Plan is accurate?

No comment

Q6: Do you agree with our approach to the regulation of Home Purchase Plans (and therefore Ijara and Diminishing Musharaka home financing products?)

Yes. We agree that the approach should be consistent with that of Regulated Mortgage Contracts for Home Purchase Plans.

Q7: Do you agree with our approach to activities to be excluded from the Home Reversion and Home Purchase Plan regulatory regime?

Yes. We agree that the approach should be consistent with that of Regulated Mortgage Contracts.

Q8: Do you agree with our approach to the consequential amendments relating to the Home Reversion and Home Purchase Plan regulatory regime?

Yes. We agree that regulated Home Reversion Plans and Home Purchase Plans should be exempt agreements under the Consumer Credit Act.

Q9: Do you agree with the partial regulatory impact assessment at Annex C?

We are concerned that the regulatory impact assessment does not consider the additional costs which will have to be borne by intermediaries who engage in the specified regulated activities which differ from those for regulated mortgage contracts. That is advising, or arranging for, potential plan providers to enter into or vary the terms of a home reversion plan or home purchase plan. Such costs can only be estimated by analysing the requirements and responsibilities proposed under the FSA's consultation on the regulation of home reversion and home purchase plans. We will respond in detail to the cost benefit analysis included in this consultation.