Cover feature: Brokers call for fair warning

Frustrated brokers are taking a stand against late-notice product withdrawals, says Natalie Thomas. They are calling for a new '24-hour pledge' — but why aren't many lenders signing up?

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What do we want? Twenty-four hours' notice for product withdrawals. When do we want it? Now!

The message from the broker community is loud and clear when it comes to lenders' last-minute product pulls. Although 11th hour withdrawals are nothing new, the current swap rate volatility has seen the frequency and intensity of such occurrences increase.

Brokers' frustration has reached a crescendo these past few months, exacerbated by longer working hours and the uncertainty for clients that late-notice withdrawals are causing.

> "The 24-hour pledge is not a contractual obligation. It's a chance to initiate dialogues"

The Association of Mortgage Intermediaries (Ami) has called for a 24-hour notice deadline, to fall between 9am and 5pm from Monday to Friday. Meanwhile, the Intermediary Mortgage Lenders Association has reassured brokers its members are doing their best to give as much notice as is "reasonably possible".

Such is broker discontent, however, that a cohort of them has formed a new body, the Broker Collective, whose inaugural aim is to seek a 24-hour commitment from lenders.

Thus far, aside from Coventry Building Society — which pledged to offer a 48-hour notice period some years ago — lenders willing to stick their head above the parapet have been rare. Market Harborough Building Society has been the only one to make a 24-hour pledge — suggesting a commitment from all lenders may not be feasible.

Much of the focus from lenders so far has been on helping borrowers who are at risk of falling behind with their payments due to rising rates. For example, the recently unveiled Mortgage Charter stipulates lenders must provide "well timed" information about the ending of a borrower's existing deal, and the chance to lock in to a new rate six months early. However, the charter does not go as far as to bind lenders to a notice period for their current live products.

> "Thought should be given to the timing of the withdrawals. An extension until midnight creates work late at night"

With no guarantee that the turbulence in the markets will ease, the question remains: how can brokers and lenders come together to find a solution that satisfies both sides?

What brokers want

Although a longer notice period is at the top of brokers' wishlist, the circumstances surrounding the product withdrawals are also a source of discontent.

As well as seeking a 24-hour notice period, Ami would like lenders to offer guidance on what documents need to be submitted in order to meet the deadline, alongside a clear explanation of why the rate is being pulled.

"If brokers know what it is about a lender's funding model that means it has to withdraw the product, it will help them explain to the customer why it is happening and why they are going to another lender," says Ami chief executive Robert Sinclair.

> "The way lenders are behaving won't pass muster with the Consumer Duty"

"There also needs to be consideration given to the timing of the withdrawals. One lender gave a two-hour extension for a rate, from 10pm until midnight. That meant we had brokers working until midnight to try and get cases across the line. Is that a fair way to treat your customers? I'm not sure it is."

Riz Malik, director of R3 Mortgages and a founding member of the Broker Collective, says the new body has received overwhelming support from brokers for its campaign. However, at the time of writing, discussions with larger lenders are still pending.

"Our intention is not to criticise our lending partners but to advocate for greater transparency and enhanced communication," explains Malik.

> "Lenders know how much grief it causes and are not blind to the problem"

"The 24-hour pledge is just that, a pledge — not a contractual obligation. We acknowledge that there may be infrequent instances where lenders, due to exceptional circumstances, are unable to abide by it. Nevertheless, we see this pledge as an opportunity to initiate dialogues with lenders about product offerings, pricing models and the need for greater transparency."

Obstacles for lenders

The complexities around how different lenders are funded is generally of little consequence to the day-to-day job of a broker — until situations such as product withdrawals arise.

Sinclair says some mutuals may be prepared to take more of a risk around product withdrawals, compared to other entities such as banks, which are reliant on wholesale funding.

> **"Ultimately, lenders aren't to blame; it's the government and the Bank of England that can't seem to control inflation and borrowing rates"**

"Such a bank may have no choice other than to pull the product straight away. You will not get a 24-hour commitment from them," he says.

Sesame Bankhall Group group director of mortgages and protection Alex Beavis explains the conundrum lenders face.

"Recent short-notice withdrawals have largely been triggered by a sudden and significant increase in swap rates, which in turn causes issues with lender hedging," he says.

"Many lenders pre-hedge fixed-rate mortgage products. Hedging is purchased at a set swap rate to pre-fund a fixed amount of lending. This hedge then protects the lender against interest rate risk by locking in its returns."

> **"I'm not sure what the regulator could either do or say"**

When allocated hedging runs out, lenders have two options, explains Beavis.

"They can choose not to re-hedge, and run the risk of higher interest rates eroding their margins; or buy new hedging at a higher rate, which also chips away at margins. This isn't necessarily a problem when new hedging is only slightly more expensive. However, swap rates have soared in a short space of time recently."

The knock-on effect for lenders is that on-sale products can quickly become unprofitable.

"The question of when to take products off sale leaves them with two unfortunate choices," says Beavis.

> **"When there is huge demand, it can prevent the system from working and allowing brokers to submit cases"**

Lenders can either give plenty of notice, and risk seeing a week's worth of lending come in over 24 hours, or give little to no notice.

"There's no easy solution but, clearly, the longer the notice given, the better the outcome for the customer," he adds.

Middle ground

Could there be a middle ground, though, or other measures taken by lenders to improve the situation?

Malik says the Broker Collective is open to different proposals if the 24-hour pledge does not materialise.

> **"Lenders' pipelines need careful management and I ask all lenders to look at whether they are adequately resourced to do this"**

"Some brokers suggest that, instead of a 24-hour notice period, lenders notify us by 9am if they plan to withdraw rates by the end of the day. Others have proposed the tranche system, releasing a set amount of funds each day, which might be challenging for lenders to implement.

"Recent experiences have shown us that some lenders' IT systems struggle with short notice periods, so we're exploring options that would be easiest to put into practice."

Indeed, Magni Finance director Ashley Thomas believes better systems, which allow brokers to submit cases when there is overwhelming demand, can help significantly.

"When there is huge demand, it can prevent the system from working and allowing brokers to submit cases," he explains.

If lenders continue to implement late-night deadlines, Malik would like their staff to work late too.

> **"Many lenders pre-hedge fixed-rate mortgage products"**

"Most lenders do not offer support during these extended hours. Consequently, brokers facing challenges while submitting an application are left without any assistance. If lenders intend to continue with this practice, we urge them to ensure they can provide support until the deadline," he requests.

Sinclair has another suggestion.

"Lenders' pipelines need careful management and I ask all lenders to look at whether they are adequately resourced to do this," he says.

"Perhaps they look at pipeline business on a periodic basis only, for example. In times of real flux, like now, these meetings have to be more regular and managed more tightly."

> “Recent short-notice withdrawals have largely been triggered by a sudden and significant increase in swap rates”

Sinclair also points out that, if brokers want longer notice periods, this may need to be offset by products being withdrawn earlier than normal.

“If you are a lender and know you have a tranche of money available at a certain price because you have pre-bought the swap, if you have to give 24 hours’ notice you will need to withdraw it sooner because you can see the pipeline filling up,” he suggests.

“It is not going to be a one-way street.”

Regulatory involvement

The current state of the market risks product withdrawals becoming a recurring theme, with lenders reluctant to give more notice. But could this change under the Consumer Duty?

> “Some banks may have no choice other than to pull the product straight away. You will not get a 24-hour commitment from them”

“With the financial community looking down the barrel of the Financial Conduct Authority’s Consumer Duty, surely the way lenders are behaving won’t pass muster when the new rules come in,” suggests MortgageShop.com managing director Gary Bush.

Sinclair makes a similar observation.

“We are in a pre-Consumer Duty world and it will be interesting to see if anything changes as we get deeper into that. I don’t know the answer,” he admits.

“But I’m not sure what the regulator could either do or say. Ultimately, lenders aren’t to blame; it’s the government and the Bank of England that can’t seem to control inflation and borrowing rates.”

> “Our intention is not to criticise our lending partners but to advocate for greater transparency and enhanced communication”

Indeed, inflation and rising interest rates are the crux of the problem. Until these stabilise, the unfortunate reality is that some lenders may be forced to continue with last-minute withdrawals.

There is no quick fix but, as broker pressure mounts and the conversation continues, it is hoped at least small steps can be taken to improve things.

“Lenders know how much grief it causes and are not blind to the problem,” says Sinclair. “The challenge we all have is how to live with it.”

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