

Financial Services Strategy: A Consultation Document

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Introduction

Housing Rights Service was established in 1964 and is the leading provider of independent specialist housing advice services in Northern Ireland. We believe everyone has the right to a decent safe affordable home. Our services include:

- Providing a housing advice line
- Undertaking advocacy and legal representation on behalf of people with housing problems
- Providing online advice through our award winning website www.housingadviceNI.org and an email advice service
- Providing a specialist housing advice service within the prisons
- Delivering a skills and knowledge based training programme
- Producing information resource materials
- Supporting (In partnership with Citizens Advice and AdviceNI) generalist advice agencies to deliver high quality housing in their local communities
- Providing client based commitment to influence the development of relevant public policy and legislation

Overall, we work to achieve positive change by protecting and promoting the rights of people who are in housing need in Northern Ireland. Our policy work is based on the experience of our clients and our work actively supports current government policy commitments in the broader areas of:

- Tackling Poverty and Promoting Social Inclusion
- Promoting Access to Social Justice
- Preventing Homelessness and Meeting Housing Need
- Promoting Equality and Better Relations
- Working in Partnership with the Voluntary Sector

Our core services are funded by the Housing Division of the Department of Social Development.

As a result of the current economic climate, Housing Rights Service has experienced a significant increase in the number of people seeking help from our advice service because of mortgage or secured loan arrears.¹ In response to the current difficulties faced by homeowners, Housing Rights Service has secured funding from mainly charitable sources to launch a project called the Preventing Possession Initiative. This initiative aims to prevent homelessness as a consequence of debt related possession action using a two pronged approach: by providing high quality advice, support and representation to those who are facing imminent threat of repossession; and through our policy agenda with social housing providers and lenders. This project was launched in February 2009.

Housing Rights Service welcomes the publication of this OFT Financial Services Strategy which is based around two main themes: fairness and responsibility in the relationship between the credit industry and customers; and to play a strong role as an advocate of choice and competition, both in the UK and internationally. It is on the first theme, around fairness and responsibility that most of our comments will be based.

General Comment

The Strategy makes a number of references throughout the document about working in partnership with a number of other bodies, including other regulators and government departments. In particular the Strategy makes specific reference to working in partnership with the Financial Services Authority (FSA). In our experience, there is a lack of consumer awareness about the respective roles of the FSA and the OFT. The Strategy also emphasises the importance of empowered consumers in section 4.5.

Housing Rights Service would recommend that as part of the OFT's future work plans, methods be explored to raise consumer awareness of the role of the OFT and the delineation between the roles and responsibilities of the FSA and the OFT. We believe that this would do much to contribute to consumer empowerment.

¹ <http://www.housingrights.org.uk/policy/tackling-housing-debt-and-affordability.html>

We agree with the OFT's principle, in section 4.5, that customers must be able to purchase goods and services without being subject to unfair practices and firms must behave responsibly in their approach. We would recommend that OFT would proactively monitor firms' practices towards customers, for example by conducting annual quality audits rather than reacting to customer complaints that they have been treated unfairly. We believe that this would lead to more effective regulation.

Specific Comments

Self Regulation

The consultation document sets out in section 1.2 that the OFT supports self regulation where it is demonstrated to be effective. We recommend that the OFT sets out in the Strategy how it will monitor the effectiveness of self regulation.

Credit Sector

We welcome the commitment by the OFT to launch a review of the unsecured credit sector set out in section 4.13 of this document. We welcome that the review will examine products offered by suppliers, the role of intermediaries and the behaviour of and decisions made by consumers. This review will be particularly important as we have concerns about the practices of some lenders and intermediaries misselling loans and credit where consumers cannot possibly repay.

Debt Recovery

We welcome OFT's commitment in section 4.21 to ensure that customers who fall into arrears or default on credit commitments will be treated fairly and that lenders do not use inappropriate methods of debt enforcement. This is particularly important with regards to second charge lending given the consequence of default, as we have found that second charge lenders are more aggressive in pursuing possession action than first charge lenders. We would like to highlight that Pre-Action Protocols currently in force in England and Wales cover second charge mortgages within their scope. The Northern Ireland Court Service has also recently concluded a consultation for a similar protocol.

Given the scale of the difficulties faced by homeowners in this current economic climate, Housing Rights Service would recommend that OFT's Financial Services Strategy should provide that the OFT will ensure that second charge lenders will exercise forbearance in the spirit of pre-action protocols to ensure struggling homeowners are treated fairly.

We welcome OFT's commitment to monitor the use of "charging orders" in light of the fact that it is arguable that the process of securing debt against the property can potentially lead to an increased risk of repossession. We recommend that OFT sets out the enforcement steps it will take if they find inappropriate practice has occurred.

Restructuring of the Financial Services Industry

The section on re-structuring of the financial services industry in section 4.38 to 4.40 mainly focuses on competition, for example mergers and acquisitions. We believe that the OFT could play a very important role in the restructuring of financial services. A case in point is the regulation of second charges which currently comes under the scope of the OFT. Given the lack of consumer awareness about the respective roles of regulatory bodies, which we believe is extremely complex, we would reiterate that second charges come under the regulatory scope of the FSA. We believe that such a step would help simplify the regulatory system and make it much easier for consumers to understand.

Conclusion

Housing Rights Service welcomes the publication of the OFT's Financial Services Strategy which is intended to feed into the OFT's final plan. Whilst we welcome the Strategy, we have offered some constructive suggestions as to how it can be improved or which areas may require further consideration. We welcome the opportunity to submit a response on this consultation and would be happy to discuss this further if required.

Summary of Recommendations

1. OFT should as part of its priorities raise consumer awareness about its role and the delineation of the roles and responsibilities of the OFT and FSA.
2. We would recommend that OFT, as part of its Financial Services Strategy, would proactively monitor firms' practices towards customers, for example by conducting annual quality audits rather than reacting to customer complaints that they have been treated unfairly.
3. We recommend that the OFT sets out in the Strategy how it will monitor the effectiveness of self regulation.
4. We welcome OFT's commitment to launch a review of the unsecured consumer credit sector.
5. We recommend that OFT's Financial Services Strategy includes that the OFT will ensure that second charge lenders will exercise forbearance in the spirit of pre- action protocols to ensure struggling homeowners are treated fairly.
6. With regards to the monitoring of charging orders, we recommend that OFT sets out the enforcement steps it will take if they find inappropriate practice has occurred.
7. We recommend that OFT look at the feasibility of bringing second charge lending under the scope of the FSA.

For further information contact:

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