MortgageBrain

Happy Anniversary MDay

It is almost ten years since MDay, or Mortgage Day. On 31st October 2004 the FSA introduced massive regulatory change and the way mortgages were sold would never be the same again.

As the tenth anniversary approaches, Mark Lofthouse, CEO of market leading mortgage technology solutions provider, Mortgage Brain, takes a look back at MDay. What happened, why it happened and its legacy ten years on.

2004. Facebook was launched, 'Friends' finally came to an end and Britney Spears got married; twice.

Overshadowing all those iconic events, however, was MDay, the biggest introduction of regulation in the history of the mortgage industry.

So much has changed since then, not least the whole financial landscape after the crash of 2007. Even the FSA, the body that brought in MDay, has been replaced by the FCA.

It is hard to overstate the importance of MDay to the mortgage industry. It was, quite simply, the most important and far reaching regulatory clamp down that had ever happened. So many things, not least the recent introduction of MMR, could not have happened without it.

MDay was long overdue. Looking back, it seems faintly extraordinary that some of the ideas had not been introduced before. Back then, the fact that brokers could, up until MDay, advise on and sell mortgages without being regulated and authorised by the FSA simply looks archaic.

The other big change heralded by MDay concerned documentation and processes. From October 31st (it has always amused me that regulation was introduced on Halloween) initial disclosure documents were essential and KFIs were not only a must but they had to come from a reliable source and be within the FSA tolerance levels. Providing a customer with a Terms of Business was also a compulsory part of the process as well as all the other documentation to which we’ve now become accustomed.

Again, with the benefit of hindsight, paperwork like this being made compulsory seems breathtakingly obvious.

Customers have benefited hugely from the extra information, giving them extra faith and confidence in the process and I believe that in the long run the MDay rules have gained the industry more trust and more business.

But that doesn't mean it was universally welcomed. MDay forced some brokers to radically alter the habits of a lifetime and learn new technology that they had hitherto resisted. To some, the new requirements seemed both onerous and expensive.

As a result, there were some introducers that were nowhere near MDay compliant just a few days before its launch. On 14th October 2004 I wrote in a press statement that "It appears there are some introducers left out there believing they can suspend time … and can delay preparations for compliance even until now. Indeed, for some introducers I've spoken to, it could be necessary for time to stand still … in order to get the various processes in place in order to work past Mortgage Day."

That isn't to take the changes lightly. MDay did require investment on the part of brokers, and make substantial changes to the way they worked, and for some the answer was to become part of a network.

Introducers had to choose one of three routes - become Directly Authorised (DA) by the FSA, become an AR (Appointed Representative) or leave the industry. The DA route was considered the more difficult and expensive route for smaller brokers as they had to have their house totally in order and in line with the regulations. Becoming an AR meant joining a network or a corporate and following their rules and regulations.

Either way required change - and much of that change required technology. Not just to meet the new customer facing requirements, but also to prove to the FSA that brokers were properly compliant.

Many of the requirements set out by the various compliance documents provided brokers with opportunities to further improve the quality of service and information provided to clients and potential clients by using the available systems efficiently.

And improving the quality of the service also made the broker's job much easier when the FSA came calling. Again, shortly before MDay I wrote that "There is little doubt that technology will need to take a major role in supporting (brokers) in providing compliant electronic procedures to ensure (they) can store all the customer information required in an acceptable format and offer an efficient compliance trail to meet CP186, as well as the requisite monitoring systems."

Given that premise, it wasn't only the brokers who had to look to their laurels. Companies such as Mortgage Brain had to introduce new and improved software systems that were both fast and accurate, and met the needs of the new FSA rules.

Accuracy had to be 'proved' and the range of information enhanced. MDay was as much a challenge for mortgage software developers like ourselves as it was for any introducer.

Some even predicted that MDay would be too great a challenge for mortgage technology and herald its demise.

One of the major areas of concern was whether brokers could rely on the accuracy of KFIs supplied by sourcing systems. Given that if things went wrong the FSA would lay the blame wholly at the feet of the broker and the tolerance levels allowed were only 1 per cent, you can understand their worries. Fortunately, the sector rose to the challenge.

Now, ten years on, I still regard MDay as being the point at which mortgages grew up. The industry is indisputably in a far, far better place than it was before MDay and the changes that were made have been enormously beneficial to brokers and consumers alike.

It is interesting to compare and contrast the run up to MDay with the run up to the launch of MMR some five months ago. MMR was the biggest single change to the mortgage process in the last ten years and would not have been possible without the events of October 31st 2004.

As with MDay, the industry was required to make substantial changes to the way it ran its business. These included making lenders, rather than intermediaries, responsible for ensuring that applicants could afford the loan. The rules on interest-only mortgages were also toughened up and borrowers had to show they had a proper plan in place to repay the capital before they could be accepted.

The MMR introduction saw one important difference, however. The relatively small amount of worry shown by the industry. At least in public. This may have been in part due to the fact that after the 2007 crash MMR was, self-evidently, a good idea, or that the reputation of the 'finance industry' was so poor that any grumbling would have been given very short shrift.

There was also one other important factor: MDay. Those who had been in the industry for a long time had been through one seismic upheaval and knew they could cope. And, more crucially, the technology to help make the change was already in place. Yes it needed altering to meet the new requirements, but the fundamentals were there.

The industry had used it for ten years, knew it worked and thus wasn't scared of it.

Back in 2004 I wrote "MDay could prove to be far more beneficial than most care to admit." Ten years on, I believe that more strongly than ever.

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