

# Embracing change

**Dale Jannels** explains the importance of packagers in the mortgage market and argues that greater consolidation and evolution can only enhance the value of the packaging sector

**T**he role of packagers within the mortgage industry is often debated, occasionally by those who have never really understood the concept, and our role going forward considered. It is certainly true that the market from which we emerged some 15 years ago was very different to the market as it is today.

The need to deliver shareholder returns has been a significant influence in shaping the mortgage market. The strong housing market, resulting in a 160 per cent plus increase in average house prices since 1997, and a competitive environment with over 150 lenders, have resulted in a high demand for mortgages, but also eroded margins on conventional mortgages. Lenders have consequently focused firmly on volumes.

## Market shifts

This has generated opportunities for packagers who are able to identify shifts in market demand and help lenders structure new products and strategies. Lenders have focused on the mainstream, but have been happy to underwrite the debt when presented with the product, and defined usage. Packagers have, in effect, acted like an outsourced product development and distribution team, spotting opportunities and taking them to lenders with advanced rationale.

A major, and continuing, unique service proposition for lenders is the packagers' ability to filter a case from basic information, enabling the right lender to be chosen first time. This has, and continues to result in much higher application to offer to completion benefits for lenders. Packager submissions result in more than 85 per cent application-to-offer ratios while direct submissions to lenders often result in less than 50 per cent hit rates.

However, the market is changing; with decreasing housing affordability and fewer potential buyers, a softening labour market, heightened yet stagnating property prices, and a high price-to-disposable income ratio. Margins, not volume, is now the watchword, as

lenders look to preserve profits. The light end of the non-conforming market, traditionally the preserve of packagers, is a territory now inhabited by mainstream lenders.

## Packager role

With margin hungry lenders already encroaching on the packagers' territory, using advances in front-end processing technology to directly market (even specialised products) to brokers, what is the role for packagers?

The packagers' opportunity is created by these changing environmental and market conditions. Packagers, with their immediate proximity to the market, have a proven capability to identify and service changing needs.

Furthermore, their size and focus enables them to deliver an enhanced service to brokers, including:

- same day response for web applications received by 3pm.
- 48-hour response for other applications.
- 48-hour decision with full lender credit search where available, unless referred.
- 48-hour valuation instruction providing satisfied criteria and cleared fee.
- 15 working days turnaround from receipt to submission for offer.
- proc fees paid by BACS within 48 hours of completion confirmation.

A key driver behind these changes is the rising level of household debt. By February 2006 the total UK personal debt was £1,174bn, up 10.3 per cent on the previous 12 months, and the average household has around £8,000 of non-mortgage debt. Student debt is also rising, and now averages £12,000. In 2005 there has also been, for the first time since 1991, an increase in CCJ's to 573,321. This, coupled with changes in the bankruptcy laws, means we are likely to see an increasing level of personal bankruptcies, even greater than the 67,580 of 2005. Also, the Financial Services Authority (FSA) has reported that two million families are 'constantly struggling', though not yet in arrears.



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## Consolidation

Recent research shows that 90 per cent of brokers use packagers for non-conforming cases and 50 per cent use their services for prime case submission. Indeed, it is estimated around £25 billion's worth of business is transacted via packagers annually.

Even with new lenders entering this arena, we see a continued role for packagers as high levels of debt sit alongside changing social patterns; greater flexibility and instability in working and falling household sizes. This ever-changing socio-economic scenario gives the nimble packager an ongoing opportunity to create innovative and market-leading products.

That said, there is a continued need for packagers to consolidate and evolve. The highly fragmented nature of the market a few years back resulted, in July 2000, in the formation of the Professional Mortgage Packagers Alliance (PMPA), of which AToM was a founding member. It is now the leading packager co-operative, with 16 members and a total mortgage distribution approaching £8 billion.

The creation of other similar bodies reflects an industry-wide acceptance of the benefits of working as a group. However, we run the risk of emulating the Monty Python sketch from the *Life of Brian*. Where they have the Judean People's Front, the People's Front of Judea or the Judean Popular People's Front, we are now in danger of becoming the PMPA, Regulatory Alliance of Mortgage Packagers (RAMP), the Alliance of Mortgage Packagers and Distributors (AMPD), United Packagers Association (UPA) or Freedom. If you look at other sectors within the financial services arena, most will have two leading industry bodies and, consequently, I anticipate some consolidation.

The packaging industry cannot afford to stand still. Those who embrace change, and recognise that the only way to survive is to work together, will continue to add value to both brokers and lenders. Those who believe in 'business as usual' will surely be left behind. ■