Title: **Financial Services Authority regulation of the second charge mortgage market**	Impact Assessment (IA)
Lead department or agency: HM Treasury	**IA No:**
Other departments or agencies:	**Date:** 21/12/2010
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Secondary legislation
	Contact for enquiries: public.enquiries@hmtreasury.gsi.gov.uk

Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

Second-charge mortgages are secured on the borrower's home when the home is already acting as security for a mortgage. They are often used for debt consolidation or as a cheaper alternative to unsecured credit. Second charge mortgages are currently regulated by the Office of Fair Trading (OFT), while first charge residential mortgages are regulated by the Financial Services Authority (FSA).

The transfer of regulation would establish a single regulator for all residential mortgage lending with consistent standards of consumer protection, and ensure second-charge lenders meet the FSA's prudential standards.

What are the policy objectives and the intended effects?

The Government has commited to the reform of financial services regulation to curb unsustainable lending and to strengthen consumer protections, particularly for the most vulnerable.
There are three key reasons for the proposal to move second charge regulation to the FSA:
- to ensure consistent standards of consumer protection, for all mortgage lending;
- to simplify the regulatory environment for lenders and borrowers; and
- to allow prudential regulation, to limit insecurity for borrowers and wider market disruption that a rapid withdrawal of products and lenders can have, as seen between 2007 and 2009.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

The Government has considered the following options:
- Option 0 – maintain the existing framework; and
- Option 1 – transfer the regulation of new and existing second charge mortgages to the FSA.

The Government intends to proceed with Option 1 and transfer the regulation of new and existing second charge mortgages to the FSA. The costs and benefits of both options are set out in the relevant sections below.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It will be reviewed 11/2015
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Yes

SELECT SIGNATORY Sign-off For final proposal stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister: Date: 15/12/2010

Summary: Analysis and Evidence

Policy Option 1

Description:

Option 2 – transfer the regulation of new and existing second charge mortgages to the FSA.

Price Base Year 2010	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: -£130.7m

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	1	Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	£29.0m		£11.75m	**£135m**

Description and scale of key monetised costs by 'main affected groups'

The best estimate of total costs is £135 million net present value over 10 years. A market of 25 active lenders (where 20 are already FSA authorised) and 1,000 intermediaries produces one-off costs of £15.8 million for lenders and £4.4 million for intermediaries, and annual costs of £5.4 million for lenders and £3.5 million for intermediaries. The one-off costs for inactive lenders are £6.3m. The costs to the FSA are £2.5 million one-off, £0.75 million annually.

Other key non-monetised costs by 'main affected groups'

N/A

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	N/A		£500,000	**£4.3m**

Description and scale of key monetised benefits by 'main affected groups'

There is a cost saving to lenders from not having to be CCA licensed. We estimate that 15 lenders of the current market of 25 lenders will choose to offer only FSA regulated products, saving £820 per CCA licence fee renewal. This equates to a cost saving of £21,000 NPV over 10 years. There is an annual cost saving to the OFT of £500,000, which equates to a saving of £4.3m NPV over 10 years.

Other key non-monetised benefits by 'main affected groups'

The main beneficiaries will be second charge mortgage holders. They will benefit from the simplification of mortgage regulation under one regulator, increased coordination between first and second charge lenders, and increased protection for those in arrears or facing repossession on both first and second charge mortgages. It simplifies the regulatory environment for lenders. Finally, it allows prudential regulation, reducing the risk of wider market disruption.

Key assumptions/sensitivities/risks — **Discount rate (%)**

The costs represent an upper bound of the costs expected for firms who are already FSA authorised and regulated. The actual costs are expected to be significantly lower. The costs presented provide a best estimate based on NERA research undertaken in 2003, prior to the transfer of first charge mortgages to the FSA, although these have been updated in line with inflation.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB:	AB savings:	Net:	Policy cost savings:	No

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	United Kingdom				
From what date will the policy be implemented?	01/12/2012				
Which organisation(s) will enforce the policy?	FSA				
What is the annual change in enforcement cost (£m)?	£0.75m				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	No				
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)	**Traded:** N/A	**Non-traded:** N/A			
Does the proposal have an impact on competition?	Yes				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	**Costs:** N/A	**Benefits:** N/A			
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	**Micro** 0.0035	**< 20** 0.0035	**Small** 0.0035	**Medium** 0.2100	**Large** 0.2100
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on…?	Impact	Page ref within IA
Statutory equality duties[1] Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	9
Small firms Small Firms Impact Test guidance	Yes	9
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	N/A

[1] Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	Mortgage Regulation: a consultation, *HM Treasury,* November 2009
2	Mortgage regulation: summary of responses, *HM Treasury,* March 2010
3	
4	

+ Add another row

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y_0	Y_1	Y_2	Y_3	Y_4	Y_5	Y_6	Y_7	Y_8	Y_9
Transition costs	29.0									
Annual recurring cost	11.75	11.25	10.8	10.4	10.0	9.6	9.6	9.6	9.6	9.6
Total annual costs	40.75	11.25	10.8	10.4	10.0	9.6	9.6	9.6	9.6	9.6
Transition benefits										
Annual recurring benefits	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Total annual benefits	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5

* For non-monetised benefits please see summary pages and main evidence base section

Evidence Base (for summary sheets)

Introduction

Second charge residential mortgages are loans secured on a borrower's property when that property is already acting as security for a first charge mortgage. They are often used for debt consolidation or as a cheaper alternative to unsecured credit.

There are approximately 450,000 existing second charge mortgage accounts in the UK. The number of second charge mortgage holders is unclear, as borrowers may have multiple loans secured on a property (this Impact Assessment follows the convention of referring to all second and subsequent charge mortgages as "second charge mortgages").

The second charge mortgage market grew rapidly in the decade prior to 2007, representing around two per cent of the total mortgage market in that year. In 2009 it had dropped to around one quarter of one percent of gross mortgage lending, or around 18,000 new second charge mortgages.[2] This reduction was caused by a reduction in demand as consumers chose to reduce their debt exposure, and a significant reduction in supply as second charge lenders struggled to secure funding in the wholesale markets.

Arrears and repossessions have been considerably lower than expected since 2007 in both the first and second charge mortgage markets. This is due in part to lender forbearance, but also reflects the current low interest rate environment. A rise in interest rates could result in more consumers struggling to repay their mortgages, both first and second charge.

Second charge lenders do not have the same forbearance options available to them as first charge lenders when a homeowner is struggling with their mortgage payment obligations, and are not bound by the same requirement to treat repossession as a last resort. Furthermore, there is a lack of coordination between first and second charge lenders when repossession proceedings are commenced by one or the other lender, which can result in serious consumer detriment.

Mortgage regulation

In 2004, the scope of the Financial Services Authority (FSA) was extended to include the regulation of first charge residential mortgages.

The regulation of second charge mortgages is set out in consumer credit legislation and is overseen and enforced by the Office of Fair Trading (OFT).

Wider regulatory reform

The Government has commited to the reform of financial services regulation to curb unsustainable lending and to strengthen consumer protections, particularly for the most vulnerable.

The Government has announced plans to reform the UK's financial regulatory framework. The FSA will cease to exist in its current form from 2012 and the Government has announced that it will create: a Financial Policy Committee in the Bank of England; a Prudential Regulation Authority as a subsidiary of the Bank of England; and a strong independent Consumer Protection and Markets Authority (CPMA). Responsibility for the regulation of financial institutions will then be passed to the new regulatory authorities from 2012.

The Government has also announced that it is minded to merge the competition functions of the OFT with the Competition Commission, and to reallocate its consumer and enforcement functions.

The Government is considering whether the split in responsibility for consumer finance between the OFT and the FSA causes a fundamental weakness in regulation and consumer protection. It is therefore consulting on the merits of transferring all unsecured consumer credit regulation to the new CPMA.

Policy options

There are three key reasons for the proposal to move second charge mortgage regulation to the FSA:

- to ensure consistent standards of consumer protection for all mortgage lending;
- to simplify the regulatory environment for lenders and borrowers; and
- to allow prudential regulation, to limit insecurity for borrowers and wider market disruption that a rapid withdrawal of products and lenders can have, as seen between 2007 and 2009.

The Government considered two policy options:

[2] Information provide by the Finance and Leasing Association.

- Option 0 – maintain the existing framework; and
- Option 1 – transfer the regulation of new and existing second charge mortgages to the FSA.

Option 0 is not possible in the medium term given the proposed abolition of the OFT.

An alternative option could be to transfer the regulation of new second charge mortgages to the FSA and leave existing second charge mortgages subject to CCA regulation, overseen by the successor to the OFT. The Government believes that this would create significant costs for businesses without delivering the required benefits to existing second charge mortgage holders.

Option 1, transferring the regulation of new and existing second charge mortgage lending from the OFT to the FSA, would provide a consistent regulatory framework for all mortgage lending. This would ensure that existing second charge mortgage borrowers who fall into arrears or face repossession on both first and second charge mortgages benefit from being regulated by a single organisation, maximising consumer protection and ensuring a more coordinated approach between lenders in repossession proceedings. It would also simplify the regulatory environment and minimise the costs of dual regulation for second charge mortgage lenders.

In order to minimise the transfer costs for businesses, the Government proposes that responsibility for the regulation of second charge mortgages should be passed to the CPMA on the day that it takes responsibility for first charge mortgage lending.

The Government intends to proceed with Option 1 and transfer the regulation of new and existing second charge mortgages to the FSA. This Impact Assessment presents the Government's estimates of the incremental costs and benefits of Option 1.

Costs

This section of the Impact Assessment considers the incremental costs and benefits of transferring regulation of second charge mortgages from the OFT to the FSA.

In order to determine incremental costs, it is necessary to establish a counterfactual scenario. This may be considered the scenario that would hold if the Government decided that Option 0 were more appropriate and maintained the existing framework.

As set out above, second charge mortgage lending activity has fallen since 2008 and the future levels of activity in this market are unclear. This Impact Assessment therefore makes several assumptions about second charge lending, which are set out below.

HM Treasury made an estimate of the cost and benefits of the transfer of the regulation of new and existing second charge mortgages from the OFT to the FSA in *Mortgage regulation: summary of responses*, March 2010. This Impact Assessment uses the same methodology but has significantly refined that analysis based on updated information on both the size and activity of the market.

Extending FSA regulation to the second charge mortgage market would impose direct costs on the FSA as regulator and compliance costs on firms, both lenders and intermediaries.

<u>Costs to FSA</u>

In regulating a new market, the FSA would be likely to require extra resources in terms of designing, monitoring and enforcing regulations. These costs would likely include staff, training, systems and IT costs.

FSA regulation of the first charge residential mortgage market may provide some guide to the costs that the regulator would incur if it also regulated the second-charge mortgage market. The one-off costs to the FSA of introducing regulation of first charge residential mortgages were estimated at £5 million, and the annual ongoing costs estimated at £7.6 million.[3]

Some of the costs of taking on the regulation of second charge mortgages, including systems change costs, are fixed costs. These costs are estimated to be around £2 million.

There would also be one-off costs to the FSA from developing regulatory policy and rules applicable to second charge mortgage lenders.

It is likely that both the one-off costs and annual ongoing costs of regulating second charge mortgages would be significantly smaller than those for the first charge mortgage market, because economies

[3] Figures taken from the FSA's impact assessment for its first-charge residential mortgage regime. Available at: http://www.fsa.gov.uk/pubs/cp/cp186_vol1.pdf.

would be derived from using the existing regulatory framework for mortgages. In addition, many lenders and intermediaries in the second-charge mortgage market are already authorised by the FSA and so will impose lower incremental costs on the regulator in terms of supervision and enforcement.

The best estimate of the cost to the FSA of regulating the second-charge mortgage market is £2.5 million (one-off) and £0.75 million annually.

Costs to second charge mortgage lenders

The costs to be incurred by firms are likely to be similar in type to those incurred by firms when the FSA introduced regulation of first charge residential mortgages. These would include staff, training, systems and IT costs, and the ongoing costs of meeting specific prudential requirements and conduct of business rules.

According to market analysis, there are currently around 25 lenders active in the second charge market, of which about 20 already hold FSA authorisation (because they also engage in FSA-regulated activities). This means that there are around five active second charge mortgage lenders who are not FSA authorised.

It is extremely difficult to establish the proportional transitional cost faced by second charge lenders that are already regulated by the FSA for their first charge mortgage lending. As a result, this Impact Assessment estimates costs on the basis that all 25 lenders will face the full cost burden. The best estimate provided by this Impact Assessment is therefore an upper limit, and the Government does not expect the costs to be this high.

The Government will require firms to comply with FSA regulation in their administration of existing as well as new second charge loans. This may lead to some firms making changes to their existing practices that result in costs to the firm. Given that the upper limit of the cost burden has been used, this Impact Assessment assumes that this cost will also cover the cost of transition for the existing second charge mortgage book also.

In order to estimate the incremental compliance costs which would be incurred by firms, this Impact Assessment uses the estimated incremental compliance costs of FSA regulation of first charge residential mortgage produced for the FSA by National Economic Research Associates (NERA) prior to the introduction of the FSA's regime. The costs for the lifetime mortgage regime are subtracted and also adjustment made for inflation since the NERA research.

On the basis of 25 lenders, the Impact Assessment estimates the one-off costs for lenders as £15.8 million, with annual costs of £5.4 million per year. This equates to just over £630,000 in one-off costs per firm, with annual costs of just under £210,000 per year.

This figure represents an upper bound. Given current volumes of second charge mortgage lending, and the high proportion of second charge lenders that are already FSA regulated, the Government does not expect this figure to reflect the true costs to firms in most cases.

At the height of the market, there were around 50 second charge mortgage lenders. This means that there are now around 25 lenders who are no longer active in the second charge mortgage market, but have a back book of existing second charge mortgages.

Some of these inactive lenders may already have sold their back book to another firm or lender. Others may already be FSA authorised to 'administer' a mortgage contract, and so will face only negligible costs from this change in regulation. Those remaining could either employ an FSA authorised third party administrator (TPA) to manage the mortgage book, or could seek FSA authorisation to 'administer' a mortgage book.

The cost to an inactive lender of contracting a TPA would about the same as the cost to the lender of administering the book itself. The TPA would seek to make money from the appointment, but this should be countered by their specialist knowledge and economies of scale.

To estimate the potential incremental annual costs for those inactive lenders who seek authorisation to 'administer' a mortgage book, this Impact Assessment uses the total cost of FSA authorisation and regulation for ten active second charge lenders as a proxy for the upper bound of the cumulative cost to inactive lenders.

This amounts to £6.3 million in one-off costs, which represents an upper bound.

This Impact Assessment assumes that the average term of a second charge loan is approximately five years, based on information from the FLA. Therefore the ongoing annual cumulative costs taking 10

lenders as a proxy will be £2.1 million in year 1, £1.6 million in year 2, £1.2 million in year 3, £0.8 million in year 4, £0.4 million in year 5 and negligible in future years. These costs represent an upper bound.

Costs to second charge mortgage intermediaries

The second charge mortgage market is characterised by a high level of intermediary activity. There are currently roughly 10,000 intermediaries who are both Consumer Credit Act (CCA) licensed and FSA authorised, of which around 1,000 offer second charge mortgage products. A small number of intermediaries offering second charge mortgages are only CCA licensed.

Second charge mortgage intermediaries are involved only with new loans, not the ongoing administration of loans.

This Impact Assessment assumes the one off costs for 1,000 intermediaries to be £4.4 million, with annual ongoing costs of £3.5 million per year. This equates to around £4,000 in one-off costs per firm, with annual costs of around £3,500 per intermediary per year.

This figure represents an upper bound. Given current volumes of second charge mortgage lending, and the high proportion of second charge mortgage intermediaries that are already FSA regulated, the Government does not expect this figure to reflect the true costs to firms in most cases.

Costs Summary

This Impact Assessment therefore assumes a total one-off cost of £29 million, annual costs of £11.75 million in year 1, and a total of £135 million net present value (NPV) over 10 years.

	Average lender	Total Lenders	Inactive Lenders	Average Intermediary	Total Intermediary	Total FSA	Total
One-off	£630,000	£15.8m	£6.3m	£4,000	£4.4m	£2.5m	£29.0m
Annual average	£210,000	£5.4m	£0.6m	£3,500	£3.5m	£0.75m	£11.75m
						Total costs NPV over 10 years	**£135.0m**

Benefits

Firms will benefit from the simplified regulatory landscape. They will benefit from a cost saving as a result of no longer having to hold a CCA licence. The OFT charges partnerships, companies and other organisations an application fee of £820. Based on the current market of 25 CCA licensed second charge lenders, this Impact Assessment assumes that 15 second charge lenders will no longer apply for a CCA licensed as they will not engage in unsecured business. This results in a cost saving of £21,000 NPV over 10 years.

A transfer of regulation for second-charge mortgages from the OFT to the FSA would free up resources in the OFT which are currently deployed on regulating second charge mortgages. The annual cost of these resources is estimated to be around £500,000, which equates to a saving of £4.3m NPV over 10 years[4].

The benefits to consumers will be consistent standards of consumer protection for all mortgage lending. Transferring the regulation of all new second charge mortgage lending from the OFT to the FSA will reduce the potential for future problems to occur as a result of the different regulatory frameworks currently applying to first and second charge mortgages. This will ensure borrowers who fall into arrears or face repossession on both first and second charge mortgages benefit from being regulated by a single organisation.

This impact assessment does not seek to monetise the significant wider benefits of improved consumer protections and better outcomes for mortgage holders.

These benefits are greatest in minimising consumer detriment when things go wrong. This can be in ensuring fair treatment when a mortgage holder is struggling with their payment obligations, and most obviously by ensuring that repossession is always a last resort.

[4] Information supplied by the Office of Fair Trading.

The benefits for a mortgage holder of being able to remain in their own home, when it is financially viable to do so, rather than being repossessed, are significant. There are emotional benefits in avoiding the misery and stress of repossession, such as relocating a family. There are also financial benefits, as repossession imposes significant costs on a mortgage holder, including court costs, home-moving costs, and fees and charges levied by their mortgage lender.

Repossession has a negative impact on wider communities. At least in the short-term, repossession creates vacant properties, which drags down house prices and can attract crime. In the longer term it results in a lack of stability in the community, with an accompanying decrease in community cohesion.

Repossession also creates significant direct costs for Government. Over a third of those who lose their homes will go on to need support from Government, for example social housing or housing benefits.

A recent report by the Centre for Housing Policy, on behalf of the Department for Communities and Local Government, said "It is appropriate to discuss wider social costs of home repossession ... because the narrower financial /resource cost assessments do not provide an unambiguous picture of net value-for-money. ... the available evidence would probably not provide a basis for quantification of either the incidence or severity of relevant social consequences, and that it was highly unlikely that we would be able to 'monetise' these effects.

The transfer of regulation to the FSA will also allow for prudential regulation, to limit insecurity for borrowers and wider market disruption that a rapid withdrawal of products and lenders can have, as seen between 2007 and 2009. Due to the difficulty of estimating and costing these risks, this Impact Assessment notes these as a major non-monetised benefit of transferring regulation of second-charge mortgages from the OFT to the FSA.

Market impacts

Firms are likely to pass on some portion of their compliance costs to consumers, which may result in higher costs of second charge mortgages. This might deter some consumers from taking out a second charge mortgage, and the total number of second charge mortgages advanced may fall.

Given the size of incremental compliance costs, it is likely that any increase in price is small relative to the size of payments made by the borrower over the duration of the mortgage. Therefore it is not likely that this would have a significant impact on the total number of second charge mortgages advanced.

Some firms might choose to exit the market rather than meet the increased compliance costs. As the majority of firms are already subject to FSA prudential regulations it is not expected that large numbers of firms would choose to do so, or that it would lead to consumer detriment.

The exit of firms from the market would increase market concentration, but would not necessarily mean a reduction in competition. The exit of some firms would result in other firms growing their market share. This could result in an increase or decrease in competition, depending on which firms were affected.

It is possible that changes in the regulatory framework in the second charge mortgage market would have impacts in markets for substitute products (for example, the first charge mortgage market or the unsecured credit markets). This Impact Assessment does not attempt to quantify these potential impacts.

As noted previously, the second charge mortgage market is currently in a contracted state, caused by a reduction in demand as consumers choose to reduce their debt exposure, and a significant reduction in supply as second charge lenders struggled to secure funding in the wholesale markets. It is therefore difficult to assess the full impact of regulation on the market in the future.

Specific Impact Tests for Option 1

Option 2 – FSA regulation would involve significant Government intervention, and so Specific Impact Tests have been performed for this option.

Small Firms Impact Test

The majority of intermediaries active in the second-charge mortgage market are already subject to FSA regulation, and as a result the incremental cost to these intermediaries is likely to be negligible. The experience of the introduction of FSA regulation of first charge residential mortgages would suggest that the number of small firms exiting the market would not be significant.

It is likely that there would be some restructuring and consolidation of the market in response to regulation. Some firms may merge, or in the case of independent intermediaries, join with a larger firm.

The costs section of this Impact Assessment includes the costs to be faced by firms.

Competition Assessment

The transfer of regulation to the FSA could directly limit the number of suppliers in the market, by requiring firms to obtain FSA authorisation before engaging in regulated activities. The impact of FSA regulation on the ability of suppliers to compete, and their incentives to do so, would depend on the number of exits and any subsequent effects on market share growth.

In light of the experience of the introduction of FSA regulation of the first charge residential mortgage market, which had little detrimental effect on competition in that market, the Government does not anticipate that FSA regulation would significantly reduce competition in the second charge mortgage market.

Gender Equality Impact Test

It is not thought that there will be any risk of exclusion on the basis of gender. This was not raised by respondents during consultation.

Disability Equality Impact Test

It is not thought that there will be any risk of exclusion on the basis of disability. This was not raised by respondents during consultation.

Race Equality Impact Test

It is not thought that there will be any risk of exclusion on the basis of race. This was not raised by respondents during consultation.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review]; The Government keeps all legislation under review, and in line with good practice would expect to review the policy within three years.
Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?] The objective of the review is to undertaken a proportionate check that regulation is operating as expected to tackle the problem of concern.
Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach] The review approach will be to evaluate monitoring data collected by FSA as market regulator.
Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured] The baseline position will be the current regulatory position and second charge market conditions.
Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives] The second charge market will work well for consumers under the FSA's regulation.
Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review] The FSA would be expected to provide a systematic collection of monitoring information as part of their regulation of the mortgage market.
Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here] N/A

Add annexes here.