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# The FairLife Foundation



## FairLife Repayment Mortgage Mark

### Executive summary

Mortgages are generally well run by the financial services industry. Complaints are currently low and have been historically with a few exceptions[1]. FairLife are launching a Repayment Mortgage Mark to help guide the public, further improve these products and offer some protection for those who fall into financial hardship.

The charity is leading with a mark for repayment mortgages as customers have the peace of mind of knowing that they will be debt free and will own their home at the end of the mortgage term.

### Criteria for the FairLife Repayment Mortgage Mark

The Mark will be awarded based on a provider's upfront declarations and will be retained based on adherence to the following criteria.

1. The first criterion is a maximum loan to value of [95%}[2].
2. The second criterion is that customers may only be charged under prescribed headings.
   - The second criterion requires that licensees use standardised terms when charging customers to help make FairLife mortgages easier to understand and compare. This criterion will come into force once a set of standardised terms are agreed by the industry.

3. The third criterion is that the mortgage lender must provide a total cost of holding the mortgage until the end of the first offer period.
   - A FairLife Repayment Mortgage provider must provide the information necessary to calculate the total cost of holding the mortgage until the end of the first offer period. It should also encourage any third parties highlighting the mortgage to calculate the APR for the customer based on these costs[3]. *Input to criteria 3 awaited from price comparison groups.*

4. The fourth criterion is fair treatment of financial hardship.
   - Where customers' behaviour indicates possible financial difficulties, the providers' correspondence should:

[1] PPI policies, miss-sold endowment mortgages and excessive standard variable rates have affected the market historically.
[2] Unless the mortgage is for a customer who has suffered from property price depreciation and is not increasing the loan value.
[3] Where the mortgage has a variable rate component, the current variable rate should be used in the calculation with a note to clarify the estimation.


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- include that the customer has a FairLife mortgage
- recommend that the customer contact either the lender themselves or a provider of free debt advice (such as a FairLife debt advisor) if they are having difficulty meeting payments.

- Before steps are taken to repossess a property the provider must have given a grace period of at least 3 months and evidenced that the provider has tried to contact the customer to agree an affordable repayment plan.
- Documents sent to the customer in connection with arrears or repossession must display the FairLife mark or state that the mortgage is a FairLife Repayment Mortgage.
  *Input to criteria 4 awaited from charity Shelter.*

5. The fifth criterion is display of the FairLife Mark.
   - The fifth criterion requires that the licensee places the FairLife Repayment Mortgage Mark on either the mortgage offer letter and/or mortgage contract for qualifying products which will be sold as FairLife Repayment Mortgages.

The mark is awarded based on the provider's own declarations and is retained by the submission of a yearly continuing compliance statement. The marks are public facing and FairLife Ltd will investigate if significant evidence emerges that a licence agreement is being breached.

## Criteria detail and examples

### The first criterion is a cap on the loan to value.

FairLife promotes the responsible use of debt. As economic conditions improve such a cap prevents a return to reckless borrowing. Prior to the recession products offering LTVs of 100% and more encouraged some consumers to take up loans which could become unaffordable in the longer term.

Criteria one is not designed to disadvantage customers who have suffered property price depreciation. Where a customer is remortgaging or porting their mortgage without increasing the loan size criteria one need not apply. Exceptions may also be allowed from time to time to accommodate initiatives such as Government-backed help-to-buy schemes.

### The second criterion is that the customer may only be charged under prescribed headings

A recent survey by the Consumer Association 'Which?' highlighted that in aggregate UK mortgage providers use in excess of 40 different terms for charges[4]. Which? has launched a campaign called Stop Sneaky Fees and Charges and has called on the Government to act.

FairLife marked products and services are designed where possible to assist customers who are not financially aware. To this end the charity is working with stakeholders within the industry to draw up a prescribed set of terms for use with its mortgages.

### The third criterion is that the mortgage lender must calculate a [Total Cost Percentage Rate] when providing mortgage quotes.

A FairLife Repayment Mortgage provider must offer a clear illustration of the total cost of the mortgage over the first offer period. The [Total Cost Percentage Rate] combines the interest rate payable on the mortgage with all fees and charges.

The [Total Cost Percentage Rate] is designed to help make the overall cost of the mortgage clearer. A standardised metric for comparing mortgage deals at different providers would improve consumer choice, giving individuals the ability to shop around and select accurately the best deal for them. Where a mortgage has a variable rate component the [Estimated Cost Percentage Rate] would take the current interest rate as the basis for the calculation.

### The fourth criterion is fair treatment of financial hardship

A FairLife Repayment Mortgage provider must make reasonable efforts to ensure that the mortgagor does not lose their home should they face temporary difficulties in meeting their monthly mortgage payments. This should include giving a grace period of at least [3] months and seeking to agree an affordable repayment plan[5].

In addition, providers are required where practical to display the FairLife mark on all correspondence relating to arrears and repossessions (or state that the mortgage is a FairLife Repayment Mortgage). Consumers struggling with debt often have multiple creditors and the experience of their debts being pursued can be very harrowing, especially for the vulnerable. It is hoped that consumers will be reassured when a majority of the companies they deal with display the FairLife Mark.

Finally, where financial difficulties are suspected, the provider should recommend that the customer contact either the lender themselves or a provider of free debt advice (such as a FairLife debt advisor). If the customer is having payment difficulties they will likely be receiving this advice from other sources such as FairLife personal loan providers, credit cards, higher-purchase agreements etc. The consistent FairLife charity branding should help to prevent the paralysis that can be caused by this stressful situation and encourage the customer to discuss their circumstances at an early stage.

[4] Which? calls on the Chancellor to end mortgage confusion, Nov 2014
[5] These points are already covered by the pre-action protocol for principle private properties.

The fifth criterion is display of the FairLife Mark.

A key benefit of the FairLife charity is the brand awareness that will be achieved by having a consistent Mark spanning all areas of finance. It will give comfort to people ranging from vulnerable clients in debt to the elderly sorting out their pensions. This will be achieved by licensees putting the FairLife Mark on to their clients' quotes and contracts in a similar manner to the way manufacturers put a fair trade mark onto their goods.

Only contracts displaying the FairLife Mark are part of the FairLife initiative. If a licensee with multiple Mortgage products puts a FairLife Mark on two of them, that firm will be deemed to have two FairLife Repayment Mortgage products. In this way FairLife offers a route by which customers can see very clearly whether they have a FairLife product and providers can evolve their mortgage product range to become more consumer-centric.

**Appendix 1**

## The FairLife Foundation (background)

The FairLife Charity is a fair trading initiative designed to benefit everyone in the UK by improving everyday financial products and educating the public.

The charity is applying the principle of fair trading to the banks and finance institutions of the British economy; awarding its trademark logo, the FairLife Mark, to products and services that meet defined criteria. The FairLife Mark is a mark of integrity. Providers self certify and agree to follow the spirit as well as the letter of the rules.

The mark will span all areas of finance, eventually forming an umbrella of trust known as the FairLife Family, and will ultimately help to highlight minimum standards of sound practice. The Mark will act as a beacon, helping to guide consumers, whilst allowing competition and customer choice to flourish.

Together with raising standards, the FairLife Charity is encouraging companies, including those outside financial services, to make commitments in areas such as pension funding, adult education and the treatment of vulnerable customers. The criteria of these different marks can be interlinked to deliver outcomes for the public that are otherwise hard to achieve.

There are three types of FairLife Mark:

- Product and Service Marks highlight where companies have signed up to help establish fair trading in finance at the product level.
- Commitment Marks highlight where companies have made an organisational-level commitment to improve peoples' lives financially.
- Guidance & Education Marks are awarded in recognition of educating or directing the public in the responsible management of their financial affairs.

## FairLife's Product and Service marks

The FairLife Mark is about putting the customer first and rebuilding the good reputation of the country's finance industry. The mark highlights firms willing to accept The FairLife Foundation as a body that will ultimately help to define minimum standards of sound practise for the finance industry. The Foundation is being gifted to the nation with a remit to represent the best interests of the public and to help grow a strong and profitable finance industry.

The criteria may be strengthened over time thereby increasing the scope and effectiveness of the mark. Firms adopting these early marks are demonstrating, in a highly visible manner, their commitment to putting the wellbeing of the public at the heart of their business.

More information is available on the charity's website at www.fairlife.org.uk