FIGHTING SPIRIT - ARTICLE

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In all battles there are those who triumph, those who fall by the wayside and those who gain from others' suffering - and the mortgage market is no different.

Twelve months ago the final nail was being banged into the packager coffin, yet one year on the sector is not only surviving but starting to prosper.

The sector has suffered its fair share of casualties impacting both the broker and lender markets but the ones that are still standing have managed to battle their way through the trenches and come out the other side alive.

But the post-war landscape looks a lot different. Packagers no longer have an abundance of products on offer and lenders are rationing what funds they have. But as new lenders enter the sector, most recently Bank of China, they will look at distribution and how to access the broker market, which is where packagers will be able to reignite their role.

Bank of China UK recently signed a deal with four distributors to offer its mortgages in the UK. Solent Mortgage Services, Complete Mortgage & Loan Services, Connect Mortgage Group and Savills Lending Solutions have all signed up to offer the deals.

This is no mean feat when you consider that Bank of China is the world's third largest bank by market capitalisation and before now hasn't looked to the packager market to distribute its products.

Other lenders are also rumoured to be looking at a return to the market, most notably Kensington, and it seems the first doors they are knocking on are those of packagers.

Bank of China UK is offering prime mortgages for both the residential and buy-to-let sectors and the products offered via the four distributors are equivalent to lender direct deals for the broker market.

If the broker market is to combat dual pricing or at least be able to stand its own against it, brokers are going to need to access specialist products, and lenders and packagers could be their route to this.

"There are opportunities for packagers as a number of lenders are still lending through packagers and the foreign banks that are looking to launch into the UK mortgage market will not have the infrastructure to do so, so will need to work with packagers," says David Copland, managing director of Pink Home Loans.

Pink has maintained a presence in the packager market through its BDS brand and Copland says this is a sign there is still life in the sector.

"Lenders such as Platform, BM Solutions and Beacon are still lending through packagers," says Copland. "It may be low volumes, but they are still showing an appetite."

One sign that the sector is starting to pick up is the rebirth of the Association of Mortgage Intermediaries' Packager Taskforce. This has been relaunched to give packagers a voice in the Financial Services Authority's forthcoming Mortgage Market Review and one of the options on the table is for packagers to be regulated.

If packagers do fall under the scope of the review it will help reaffirm their position in the mortgage market and hold them in good stead for their second blitz on the sector.

Robert Sinclair, director of AMI, says he wants to ensure packagers have a place in the emerging market and is confident the sector still has a future, which is why he has reignited the debate.

"Our packager code of conduct that was worked on during 2008 gives us a basis for debate and we will be developing this in the coming months to ensure packagers have a solid base on which to operate," he says.

Vic Jannels, group chief execu-tive of All Types of Mortgages and a member of the Packager Taskforce, says the sector will play a prominent role in future and the taskforce will help establish where the packager community sits within any future regulatory changes.

"I've always thought packagers should be regulated and I am sure the sector will expand again," he says. "It won't be the same as before but lenders will always need distribution and they will come to packagers for it."

Before the credit crisis hit, FSA regulation was on the cards for packagers as they looked for a way to stamp their footprint in the sector. But just one year ago, the anti-packager propagandists were writing off the sector and lenders were hacking at their packager panels on what seemed to be a daily basis. Yet many packagers have managed to survive the downturn.

The demise of many in the packager market was spurred by the withdrawal of specialist lenders such as Kensington, Money Partners, Southern Pacific Mortgage Limited and Edeus. This also led to the death of well known names such as em-financial and Chase UK.

Terry Pritchard, a former director at Chase and now managing director of equity release firm Charterhouse Retirement Solutions, believes those packagers that have survived will prosper from lenders cutting back their budgets and staff numbers. "The packagers that have survived are those that have been able to diversify into areas such as debt management," he says. "From an equity release perspective we are using packagers to cut down on our marketing costs. We can use packagers to get our message across to a host of small brokers and IFAs. It saves us and lenders having to employ a lot of BDMs."

Roger Morris, BDM at bridging lender Affirmative, believes the market is no longer about volume as it once was, but about lenders having control over their funds.

"When the credit crunch hit in September 2007, at em-financial we were doing around £130m worth of business a month and we just couldn't survive when lenders pulled out of the market, we could not downsize enough," he says.

"The packagers left have done incredibly well to steer their ships through the downturn and all credit should be given to them and the lenders that stood by the packager market. It would have been easy for lenders to dismiss packagers and say they no longer wanted to do business with them, but this was not the case."

He adds that after speaking to packagers recently he feels they are more upbeat about the mortgage sector and many firms are starting to come into profit once again.

Ian Balfour, chief executive at Solent Mortgage Services, says packagers will need to offer something different to survive in a new market. "Packagers are moving back to basics and cannot offer what they used to," says Balfour. "They need to show that they can offer value for money. It's a different world to the one it was two or three years ago."

A recent Mortgage Strategy straw poll asked the question - have you used a packager in the past eight months? And for a market that was being written off 12 months ago, the results are surprising, with over a third - 37% - saying yes.

But as lenders cut back their staff and brokers find it harder to access good mortgage deals, the services of packagers is being called on once again.

One lender that has stuck with the packager market is Blemain Group and it says it will continue to do so, as this allows it to control how much business it has coming in and also the quality of applications.

"We intend to continue investing in the packager model for two important and practical reasons," says Gary Bailey, director of Blemain Group. "First, working with packagers provides us with greater potential for volume distribution. Second, we have focussed considerable effort on ensuring that the applications we receive are correctly packaged and contain all the necessary documentation.

"This has obvious benefits in that it allows us to process cases more quickly and reduces the likelihood of unnecessary referrals, thereby helping us to provide a better service for our brokers and their clients."

As lenders start to cut down on their back-office systems they will need to find a viable solution and a company to outsource the workload to.

"Working with packagers simplifies the process of training and communicating with the staff responsible for submitting cases and makes it easier to ensure that the quality we require is consistently present in the packs that we receive," Bailey adds.

"These advantages mean packagers are likely to remain an important element of our distribution model for the foreseeable future."

But for the packagers left in the market there is still a struggle for survival and with lender agencies in short supply, remaining packagers are having to make sure they are at the top of their game.

"Naturally, the withdrawal of so many lenders from the market has made conditions tough for the packaging sector and there has been growing competition both for members and lender agencies," Bailey adds.

"We have seen a degree of consolidation in the packaging sector and it is unfortunate that several firms have been forced to close their doors, although those that remain have shown considerable resilience in a tough market and have continued to provide mortgage and finance brokers with the whole-of-market coverage that they require. The ongoing success of these organisations is a testament to the quality of the service that they provide."

Packagers are also unable to rely on old income streams solely from mortgages.

"We've seen a number of packagers seeking to establish new revenue streams by moving into protection products or by expanding the range of mortgages they offer to include prime high street products," he says. "Another popular strategy has been to link with established mortgage networks, thereby giving networks' ARs access to a broader range of products."

It is not just packager firms that have been forced to close. Packager associations have seen their membership dwindle since packagers started to throw in the towel.

The Regulatory Association of Mortgage Packagers and the Professional Mortgage Packagers Alliance both fell victim to the credit crunch, but the Association of Mortgage Packagers and Distributors has been able to continue.

Its director Liza Campion says the future for packagers will be about them proving their worth and forming new alliances with lenders looking to enter the market.

"Packagers in particular have been left to feel the brunt and have had to manage brokers' and customers' expectations alike," she says. "Many packagers have been forced to either leave the industry or diversify into alternative income streams that complement the packaging element of their business to ensure their survival."

The domino effect has been felt across the industry with lenders, brokers and packagers failing to stay afloat.

"No-one has been unaffected and we have seen the closure of many firms and long established lenders including Bristol & West, Mortgage Express, SPML and Future Mortgages to name but a few, and watched as other lenders have been forced to merge or be taken over in a bid to survive," says Campion.

"As a result of this change in the mortgage landscape, additional distribution channels and originating lending volume is low on many lenders' priority lists."

She is confident though that new entrants and lenders wishing to re-enter the market will not wish to initially finance a large infrastructure while they become familiar with a new market landscape.

"This is where packagers demonstrate their true value in the distribution of mortgages and secured lending," she says. "Packagers have expertise in marketing to their varied distribution channels as well as processing all aspects of lending, including prime and complex mortgage applications. This expertise allows them to handle volume mortgage enquiries as well as pre-underwrite the applications, ensuring lenders receive the right quality of applications." She says the AMPD can ensure that new entrants originate the right business mix as well as the volume they require.

"As lenders have found in recent months, this is invaluable as it allows them to not only originate business in a safe environment with manageable volumes but test products with valuable feedback as they look to refine their ranges," she adds.

Some sceptics in the mortgage industry will still see the packager market as closed for business and in many ways the old style packager is. Those left are no longer chasing sub-prime heavy business but have adapted and are offering debt solutions, bridging facilities, legal services and commercial mortgages. And the distribution model that was responsible for their demise during the downturn will now help them spring to life in the upturn.

New lender entrants will look to limit their distribution and make sure they are only receiving quality applications. They will not have the resources to visit every broker in the country, so they will rest this responsibility on the shoulder of packagers.

This doesn't mean we are about to see an influx of new packager firms launching but it does mean the ones that are fighting to survive have enough ammunition to hold their ground.

Packagers were some of the first in the mortgage market to be hit by the downturn, so hopefully their recovery will herald the beginnings of an upturn for the rest of the sector.

Specialist distributors have a role

Rob Jupp - Packager business fell off a cliff in late 2007 when the securitisation market closed down overnight. It wasn't just high LTV sub-prime lending that vanished, but pretty much the whole specialist spectrum from buy-to-let, self-cert and anything that wasn't classed as vanilla.

What happened in the wake of that was regrettable for the scores of people who had forged fruitful relationships and had generated large profits during the boom years. The tsunami of decline was felt across the whole sector and many businesses that had worked closely with packagers also failed as a knock-on effect.

A packager myself, I was one such casualty and so I write with accuracy and honesty but also with humility, having learnt some painful lessons.

So with the odds seemingly stacked against the packaging sector, one has to ponder how some packagers managed to survive the nuclear winter. If I'm honest, I don't think they did, not in their original guise anyway.

So what of packagers today? What is their function and how do they secure longevity? I actually don't like the term packager. I do not run a packager, I run a specialist distributor. Every day we take calls from brokers who believe they have exercised every opportunity to assist clients and although many of them are right in this, we have a significant minority that we provide solutions for.

Specialist distributors have no secret formula for survival, the answer is the same for all of us. We must ensure our cost basis is brutally low while income remains in positive territory. We have let ourselves down in the past by being perhaps a little too cavalier. In this age of austerity, our conduct and behaviour should remain appropriate to this new environment.

The loss of the specialist market has hit the broker community more than dual pricing. Brokers were always under attack from an expensive and often inefficient branch-based business but were able to prove their worth by demonstrating that they would find solutions that clients wouldn't find by walking down the high street.

Well, the good news is that specialist lending constitutes the best environment for lenders for a generation and those without the added legacy issues of loan delinquencies have a double bonanza. The environment is getting better but it may be a while before the sector is able to say it's once again open for business.

A good specialist distributor will be able to deliver a stream of clients who have a pent-up demand for products. They will be able to keep funders' cost of acquisition low through efficient processing. But I don't see this as a mass market opportunity and although this might change with the scale of lending required, I see the short to medium future of the specialist distributor being in the hands of 10 and 15 firms.

Whatever the argument for and against packaging it was born in the recovery from the last recession where many of the market conditions were the same as this one.