MAN WITH A MISSION

Michael Bolton is back with the high profile launch of his new online mortgage business edeus. He has promised to transform the specialist mortgage market and is not shy about making some controversial observations about the competition. Anthony Thomson talks to him about his plans for edeus, his marketing strategy, and where the sub-prime mortgage market is heading.

What does marketing mean to you?
We specialise in mortgages and I can only really answer the question in the context of the mortgage business. We are in the service industry, no different to walking into a restaurant or a hotel. Our business is about offering superior service. So for me good marketing is about taking your expertise in a particular arena and delivering a superior service, it's as simple as that.

This sounds like a fairly narrow definition. What about identifying your core target market, developing and pricing products, creating awareness amongst the market or the intermediaries?
I think most of our competitors in the market would say that my team has an innate understanding of how the market works, of what's important for our business partners, i.e. the mortgage distributors and what's important to them. We are very good at putting ourselves in the shoes of our business partners and identifying what it is they are looking for and in turn what services they are offering to their customers. You don't get to the end customer unless you turn on the intermediary.

We work closely with our business partners, who have a high degree of influence in how we run and market our business and that is one of the major differences between us and our competitors.

In the UK market almost 80% of all mortgages are now originated via mortgage distributors. What you could define as the old fashioned retail sector of branch networks has fallen away considerably since mortgages became regulated in October 2004.

Do you think your previous success was because you and your team were exceptionally gifted marketers or because the mortgage industry itself is not particularly good at marketing?
I am happy to say both those things are true! There is no way I would describe myself as a classic marketeer, but I would absolutely describe of myself as 'knowing my market'. I suppose it depends on definitions.

Equally you only have to pick up the mortgage trade titles to realise that the lending industry is not inhabited by innovative marketeers. Virtually every ad will have

CV

Michael Bolton has 17 years experience in specialist mortgage sector. He joined BM Solutions in 2001 tasked with relaunching the mortgage division. He grew the origination market share to 25% of the specialist market, with distribution solely through intermediaries.

In October 2005 he resigned as overall Head of Specialist Lending for HBoS to set up edeus.

Now as Chief Executive Officer of edeus, Michael has brought together what he believes is the best specialist lending team in the market, and is ready to take the market by storm.

the product rate on it. Most lenders perceive marketing to be about price, nothing else. Most mortgage lenders have retail distribution and they would ideally want to distribute their product that way and not the B2B sector. They almost view the broker as being somebody who they have to do business with - not that they want to do business with.

You get an instant unconditional mortgage offer online, legally binding, that allows you to go and exchange on your property – which is very new in the UK mortgage market.

You were very successful in your previous role with BM Solutions what prompted you to set up this new business? Personal wealth?

No there are a number of elements. Let's start with the most obvious which is personal reward. When I joined BM in 2001 it made £55million. Last year it made close on £400million. Did my own personal reward package mirror that sort of growth? Of course it didn't, so for me it's not about greed it's about fairness.

First, they have a different attitude, which is that brands are bigger than any individual or group of individuals. Over time the market will determine the relative weighting of the importance of that approach.

We are going to deliver mortgages online because the entire sector is moving in that direction.

Secondly it was a clear change in strategy at HBoS away from the B2B sector, and, within the specialist lending sector, a move towards a more retail mainstream approach, which clearly is not my market. It was a very difficult strategy to reconcile given that the profit margins are considerably more in the B2B specialist sector than they are in the prime retail sector.

Clearly the strategy at HBoS is around sweating their assets and when you have so much more invested in the bricks and mortar of HBoS retail you have to be seen to be putting a lot of effort into making that work, so things like IT resource would disproportionally be levied in the direction of retail.

Is edeus simply going to be BM Solutions Mark 2?

To even get close to BM is no bad thing.

I was referring more to the model than the market size.

BM is regarded even today as having the brokers' most preferred online delivery. Saying we are going to copy that model is kind of saying, are we going to copy distributing mortgages online? Yes – we are, of course. We are going to deliver mortgages online because the entire sector is moving in that direction now, so I am not going to sit here and say we have devised a third means of delivering product to market.

However the BM technology is now getting old and with no further investment there are parts of the market that have moved on over the last three years. The technology at lenders like BM delivers point of sale credit decision or POS D as it is known in our market. We have launched with POS O, which is point of sale offer, which is taking the process that next step.

Yes you get a credit desision online. But you also get an instant unconditional mortgage offer online, legally binding, that allows you to go and exchange on your property – which at the moment is very new in the UK mortgage market.

To quantify what that means for a client, in the case of a remortgage, we will be able to despatch the mortgage deed the day after the client sits down with the broker. So on day one the client will be able to do everything online with his broker, allowing us to instruct the despatch of the mortgage deed the following day.

We will be releasing remortgage funds within five working days start to finish, not just the offer but the actual monies. That is unheard of in the UK. Going back to the point I made earlier about service, I can sit down and make that process even quicker.

For example, for a premium, what's to stop me getting a courier to bike the mortgage deed to wherever the client is at home or at the office, stay there whilst the client signs the mortgage deed and bring it back on the bike? And as soon as we get that mortgage deed we can then release funds. So in actual fact there is nothing to stop us from being able to do the remortgage in three days start to finish.

Is it technology that is giving you this current competitive advantage?

You can't do it without technology but I still believe you have to have an appreciation of what excellent service means in your own market.

Any new entrant to the marketplace with today's technology will have a short-term advantage over the marketplace, but I understand there will be a number of new entrants coming into the

marketplace after you. Is it a concern to you that this point of differentiation through technology may be short lived?
Absolutely not. First, BM was one of the first lenders four years ago to launch online mortgages. How many lenders are in that space today? No more than six or seven. We all get carried away about what is best in the marketplace but let us put that in perspective. The UK mortgage market is in the hands of a few large dominant players because so much of the market still hasn't caught up with them. Yes, technology is important but the second point to add is that sitting behind the technology, you've got elements like credit scorecards.

A very high level of expertise is required to build scorecards. There are only two groups of people that I know in this market with that degree of excellence around specialist lending. One is the former HBoS team at Birmingham Midshires who have moved to edeus and second is probably GMAC,

If you add up the number of years that my team has within the sector its over two hundred years, that's more than HBoS has currently got. Any new entrant coming into the market can look at the concept, but will lack the expertise and experience.

You need crucially the credit management expertise, both in the development and design of your scorecards and in the underlying product criteria. You can't buy any of these systems off the shelf.

The final crucial part of the equation is that you can't buy your business partner relationships off the shelf. At launch of edeus we will be on the panel of all 20 top UK mortgage distributors.

For example take the UK's largest, Premier Mortgage Services. The Managing Director John Malone and I go back 15 years and between us we trust each other's ability to deliver on what we said we will do. There is no substitute for experience.

It would appear that there is a move towards retention pricing in the marketplace, is this going to have an adverse effect on you?
This is the start of an interesting debate. If you take what has actually been announced so far in our market is this actually delivering what the players offering retention strategy intended?

What do I mean by this? Well first, under MCOB, a broker is in a position where, when a client comes back to him at the end of, say, a two-year deal, he is obliged by statutory regulation to search the market for the best deal for that client at that time. So there is a question mark around our lenders trying to encourage the broker to be in breach of MCOB.

Secondly, and arguably even more important in the debate, I do wonder where it sits with the FSA's views on TCF. Are lenders cherry picking clients more inclined to be 'rate tarts' to offer them specific retention pricing

which is still effectively being subsidised by other existing customers? Now that clearly does not comply with TCF.

I am not in the slightest bit concerned because if you look at when people change their mortgages, which is every two to three years, there is something else happening at the same time. They want capital raised

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for a house extension, to help fund university education, so there is normally something else happening at the same time which would require the broker to source the market. No retention deal is ever going to be as attractive as a new business deal

Why are intermediaries supporting you, and not one of the other new players?
To compare edeus with other new entrants is pretty straightforward. Most of the other new entrants are not in our space. New entrants like DB Mortgages, Morgan

Some of the larger lenders, particularly those who have come out with their retention strategies, are clearly not the broker's best friend.

Stanley Advantage, are pitching their proposition at the supply and packaging market which is in effect a niche within a niche within a niche.

You have then got other new players like ING who if history is anything to go by, will target the prime market, where they have been hugely successful with savings products in the UK over the last few years. Amongst other new entrants there is nobody else who through use of technology, through the product proposition, or indeed through the distribution strategy, can compare with edeus.

You mentioned edeus' objectives. What are your objectives in the marketplace?
Well we have a business plan in terms of market share which is deliberately conservative and which allows us plenty of time to establish ourselves in the market. But at the end of the day I can't sit here and pretend to say anything other than our objective is to write a substantial amount of the UK mortgage market business.

Can you quantify that?
I would rather not but if I am pushed then look at the largest non-balance sheet lender in the UK operating predominately in the specialist mortgage market that's GMAC. If you are going to benchmark it would be GMAC.

So you would be happy to be second in the marketplace to GMAC?
I would prefer the word comparable to second.

So you would be looking for that kind of scale of business?
Absolutely.

What do you think is going to happen to the intermediary mortgage market looking out three to five years?
First and foremost it's a great market to be active in today and looking forward I think it has a pretty secure future. Some of the larger lenders, particularly those who have come out with their retention strategies, are clearly not the broker's best friend. I think it is slowly but surely dawning on the market that the lenders with retention strategies are out to kill off the remortgage market and drive brokers out of business.

You have to be absolutely blunt and direct on this. I am not going to name those lenders who operate these retention strategies as I think they are obvious to see. But they are clearly designed to take the broker out of the equation. Going forward brokers will seriously begin to question the sort of lenders he puts his clients with. Ultimately the battleground is going to be who owns the client.

In my view the answer is pretty clear, it is the intermediary, whether he be an IFA, a mortgage broker, an appointed rep or DA. This is not what HBoS believes. They have clearly stated that the client relationship is theirs, as has Nationwide. You have an obvious area of disagreement which frankly can never be reconciled

What impact is the FSA likely to have on the IFA?
The FSA has made the odd comment over the last year about lenders taking responsibility for the sales advice of the broker. As things currently stand MCOB is completely clear, the intermediary is responsible for that regulatory advice not the product provider. Of course product providers have a TCF requirement so I am not suggesting that there aren't rules by which the product provider has to play. Given that the statutory regime has only been around for a couple of years in our industry, it is far too early to crystal ball gaze in even a five-year context. I think the same things that broadly apply in business are still true, that is, those with the lowest cost base will ultimately be the guys that are still there come the end of the musical chairs.

The FSA is undertaking a review of predatory pricing in the sub-prime market. Their initial target is the doorstep lending companies, but it must have an impact or a potential impact on the sub-prime mortgage market.
I welcome this review. Indeed, I have been suggesting there has been a need for this review over the last two or three years. If you recall it was BM itself that broke the mould in this particular sector five years ago. Without getting into detail, five years ago sub-prime mortgages were sold with roughly 3% commission to the introducer at the expense of the rate the client was paying.

I was able to put out product pricing which moved the fee to the originator down from 3% to 1%. I didn't pocket that difference. We put that straight back into the product price. What we said five years ago to the broker was 'deal directly with us and we will help you fit the client to the right product. At the same time we are going to offer a far better rate to your client which in turn will help you generate more referrals'.

Unfortunately this market is littered with clients being ripped off and not knowing to whom to turn in terms of a broker they can trust. I think I hit the headlines in the trade press recently by saying there were backhander fees still being paid in the sector. I stand by those words. There isn't the sort of transparency in fee disclosure which MCOB has the teeth to expose and I welcome any enquiry into bringing greater transparency and a fairer deal to the borrower.

You have said some pretty damning things about packagers in the past yet you are featuring a number of the packagers in your current portfolio of intermediaries. Why the turn around?

There is no turn around. At BM when I joined the business back in 2001 we dealt with about 300 packagers. Within a few months I had taken the 300 down to around 25. That's where my reputation has come from in terms of this concept of being anti packager. I am not anti packager. I am anti bad packager which, unfortunately, happens to be the majority of them. The guys we have been comfortably dealing with at BM for the last three or four years are exactly the same guys that edeus are distributing through.

What value do you think packagers add?

The good ones, and there aren't many of them, tend not to bank all the fees themselves. They do tend to work off a low cost base. Pink Home Loans is a good example of this. They will reinvest part of their commission back into the product. There are some packagers who will continue to drive better value to the customer.

Do you think they justify their large fees?

I think this is an area in which the FSA will take particular interest. Quite a few of the sub-prime lenders that deal through packagers do offer automated onsite credit decisions. It is difficult if some lenders justify these large fees as not being procuration fees but as an outsourcing of a service. If I were the FSA I would be questioning what is it as a packager that you have to do to earn your 2% alleged packaging fee, when in actual fact you have not got the technology to do instant credit decisions?

How on earth can you justify them claiming this 2% fee as outsourcing of a service? To me it looks like the 2% to the packager is an additional procuration fee, therefore all of that fee should be disclosed on the KFI because effectively a sub-prime lender originating via a packager is prepared to pay a 3% procuration fee.

Lets not beat around the bush, that 3% is a highly influential figure in the equation of where some brokers, not all, will place that client. At the end of the day you do open yourself up to accusations of mis-selling by having that sort of fee structure attached to your product. If you were to ask me what sort of percentage of customers are probably still getting ripped off I still probably say its at least 50% of the UK supply market.

The only franchise I am interested in is what the broker thinks of edeus. At the end of the day, I don't own the customer relationship.

Who do you think the winners and losers are going to be in the UK mortgage market?
If you start at the top tier, who is going to win between retail and B2B distribution – I would say it because I have got a vested interest – I think that B2B will continue to thrive at the expense of retail.

Since M-Day retail has been overlaid with tier after tier of oversight and compliance by the lender. Because they are responsible for the sales advice they are paranoid. They have really stifled their own mortgage advisers and branch networks. I don't think that will ease.

The proportion of mortgages sold over the phone on the retail side has dropped over the edge of a cliff because, quite rightly, your average customer is not prepared to spend two hours on the phone because of all the regulatory stuff that you have to go through.

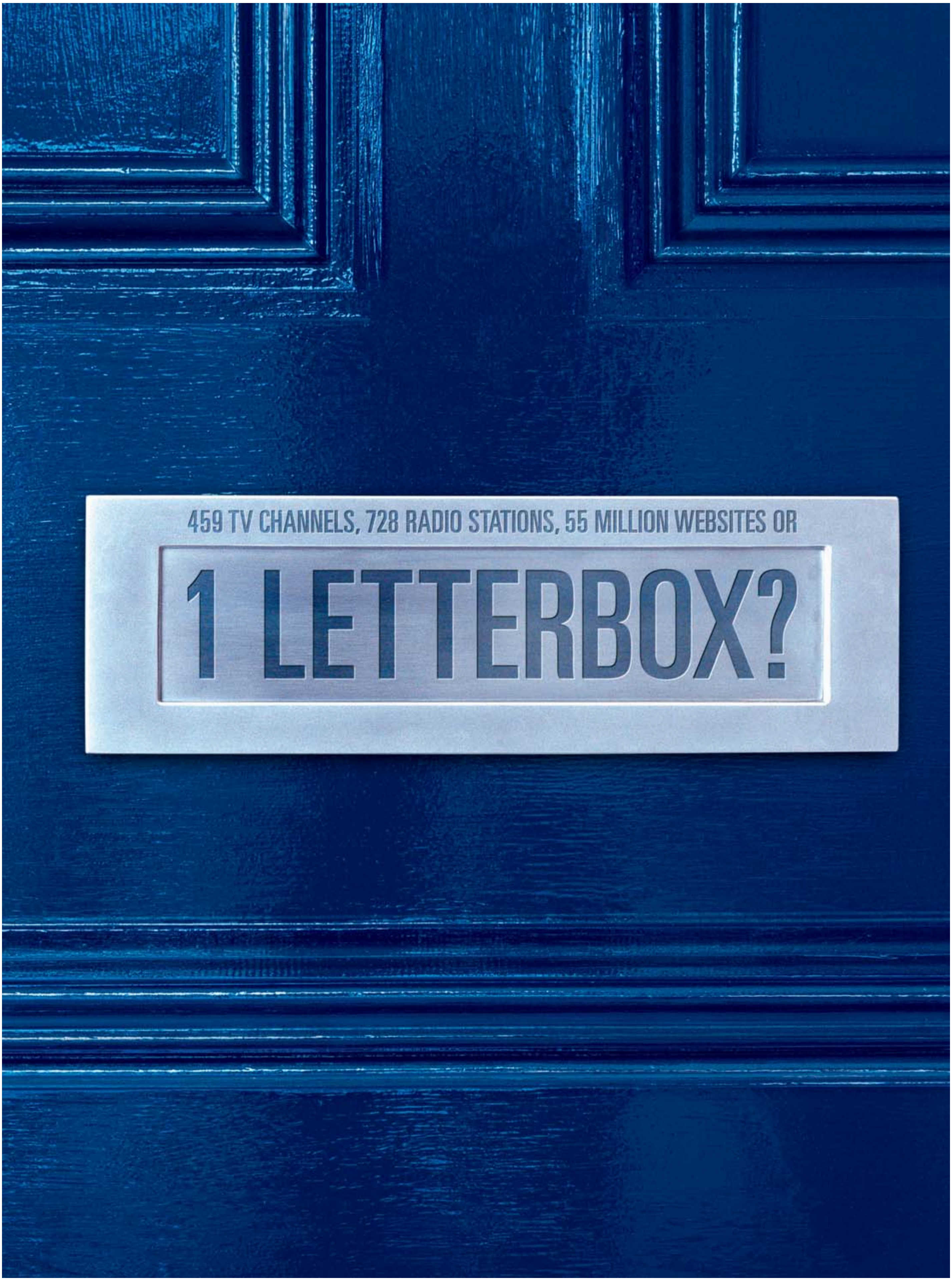
I think the B2B sector will continue to thrive at the expense of retail. The growth of the specialist lender sector which last year was around £75 billion out of a total UK market of £293 billion, will continue to thrive because several markets, such as sub-prime, are still reasonably immature.

You then throw into the mix the demographic changes within society such as the growth of the single parent family which requires more housing, and the growth of the rental sector which supports the buy to let sector. Within the overall total I think specialist lending will continue to grow at the expense of prime lending.

edeus has no customer brand or consumer franchise. Do you think that in the longer term this will disadvantage you?
Absolutely not! The only franchise I am interested in is what the broker thinks of edeus. At the end of the day, as I have already said, I don't own the customer relationship. He just happens to have a relationship with me by paying a monthly direct debit. But that is entirely down to my business partner – my customer viewing me as the appropriate place to put his client

What do you do when you are not working?
Well it feels like I have actually done nothing but work for the last five years. Clearly there isn't much time for a social life at the moment. Fortunately a lot of my social life is within the market. I am lucky to work in a very sociable market particularly if you forge long lasting and interesting relationships. I mentioned John Malone earlier. I have known John for 15 years and I have to say I have never had a dull moment with John, whether it's talking about the industry or Celtic FC.

It is rumoured that you have political ambitions…
I think I probably would have too many skeletons in my cupboard to ever go into politics. I think politics is in a vacuum at the moment and arguably has been for the last ten years. I am opinionated and if you are opinionated politics is an obvious place to head towards. If, in ten years' time I can lend a hand within the political environment I would love to do so. ◻



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