

Searches: FSA General Insurance and Mortgage regulation, CCA White paper and OFT guidance.

The Financial Service Authority (FSA)'s Policy Statement 186 states "When the consumer is shopping around, firms should undertake a credit enquiry rather than a credit application search and so not leave a 'footprint' that other credit providers may subsequently score negatively. Firms should only register a credit application once the consumer commits to making an application."

The Issue

The FSA's mortgage rules are designed to encourage consumers to shop around for the most suitable mortgage deal. The format of lenders' disclosure documents is now prescribed to facilitate this. In the course of shopping around, some consumers may find that multiple searches are being made on their credit records. Comments have been made in some quarters that large numbers of credit searches in a short period may have an impact on consumers' ability to obtain credit. This note explains why multiple searches may be being made in some circumstances, the types of search which are undertaken, and the advice which should be given to consumers.

What are searches?

All credit reference agencies (CRAs) are capable of logging several different types of search "footprint". It is a Data Protection requirement that when a consumer's credit file is accessed an audit trail is created. In general, searches are conducted with the consent of the data subject¹ and for a particular defined purpose or purposes.

The credit type search is shared with other lenders and has consistently proved to be a predictive characteristic in scoring and decision systems. The reason is that large numbers of credit application searches, within a short period of time, generally indicate that the data subject is "credit hungry" and/or having difficulty in getting access to credit, making repeated applications because they are being declined.

If a consumer is judged to be a borderline case for other reasons, it is possible that the existence of numerous credit searches might be sufficient to tip them over the edge but, in practice, this actually happens very rarely. Consumers should still however be advised that making too many unnecessary credit applications, within a short period of time, may impact on their ability to obtain credit in the future. It is generally not advisable to apply for, and get access to, credit which they do not intend to use.

What is "shopping around"?

Shopping around is looking for the best rate and product for that consumer's needs. This is **not** the same as making multiple applications until the consumer finds a lender or lenders who will agree to provide the funds.

¹ The 1998 Data Protection Act has a number of conditions within Schedule 2 that enable data processing but the simplest and most common is that of full consent.

The Government has for some time been advising consumers to shop around for the best deal for their needs and this has, in some cases, resulted in some consumers making multiple applications and thus having multiple application searches registered against their credit records. This practice has grown with the increasing availability of web based application systems.

However, most lenders do not need to search at a credit reference agency to give a consumer a price quotation. This is because a quotation is about the possible cost of the loan or mortgage, rather than whether the organisation would be prepared to give that facility.

Agreement with Information Commission to create quotation searches

In the case of a quotation, there is no commitment on the part of the lender to give the loan or mortgage. Indeed, sometimes consumers may only need very high level advice on lending policy, and not even be looking for an indication of price at that stage. However, some lenders – still a minority, but a growing minority, offer mortgage products which are “priced for risk”. This means that they need to carry out a credit search on a consumer before they can indicate whether that product would in fact be available to the consumer and at what cost.

The Information Commission raised this issue in 2001 as they were concerned about the potential impact on consumers shopping around for price quotations for priced for risk products. As a result, an agreement was reached to cover those lenders that require access to credit reference agency data in order to give a quotation in respect of such products. That enabled credit reference agencies to create a new type of quotation search, specifically for this situation. It was also agreed that such searches could be shared with other lenders, and could also be used in scoring systems provided that they were differentiated from standard credit application searches. The agencies then commenced work on their systems to ensure such a search type would be available to their clients. It is also necessary for clients to amend their own systems and/or processes to ensure that the correct search type occurs at the correct point in the process.

Brokers, Introducers and Intermediaries

The use of brokers, introducers or intermediaries by consumers seeking credit can add another layer of complexity to the process. Typically, a broker will have a shortened process to send propositions to a range of lenders to establish whether the applicant would be acceptable to one or all of those lenders. This process is sometimes called an “agreement in principle” or “decision in principle” – but as the broker is seeking a firm **commitment** from the lender it must be treated as a credit **application**. As such, it will leave an application search against the bureau for each lender that the broker approaches. The same is true if the consumer uses a web-based broker service.

Many brokers seek to establish a consumer’s suitability before submitting a full application to one or more of the panel of lenders on their books. However, brokers are not members of the shared credit database and are not permitted to use the shared data for this purpose, either in their

own right, or as agents for one of the lenders on their panel. There are therefore only two ways in which brokers can establish suitability before submitting a full application:

- by asking certain questions to establish whether they need to go to mainstream lender or to a near- or sub-prime lender
- by performing a search to access public data, to “get a feel” for whether the consumer has any public adverse data.

A public data search will **not** leave a credit application search (a “hard” footprint) visible to other lenders. It will leave an enquiry (a “soft” footprint) type search that may only be seen by the consumer if they send for their own credit report.

Quotation or application?

The difficulty is of course, that many consumers do not actually specify whether they are seeking a quotation or making an application. However, there is a reasonableness test here and brokers and lenders need to include in their front-end process a question asking whether consumers are seeking a cost quotation or actually applying for a mortgage. In other words **are they asking how much the loan will cost (quotation) or whether they can have the money (application)?**

To recap, a quotation search should only be carried out if the mortgage product is priced for risk. For all other mortgage products, no credit search is necessary in order to provide a quotation. A lender should not make or communicate a decision to the consumer based on a quotation or enquiry type search.

The process

In the mortgage market, it is quite common for consumers to seek confirmation that they have a mortgage agreed when they are searching for a suitable property. The credit reference agencies consider this to be an application, because it indicates a commitment to lend.

Lenders and brokers³ should make consumers aware as to how many actual applications they are making and the possible consequences.

The difficulty is, of course, that most broker AIP or DIP processes actually seek a commitment to lend, and this has to be considered to be an application for credit. As a result, there are some implications here for brokers who initiate multiple AIP or DIP applications and, in particular, mortgage and motor finance lenders need to take note.

Multiple Searches

³ It can be argued that in many cases brokers merely replicate the actions of a consumer going up and down the high street seeking quotes or making applications.

Depending on the process, the elapsed time and the particular lending product, lenders may need to undertake more than one search at the CRAs in order to ensure that they are making their decision on the most up-to-date information. Only **one** search footprint of each type should be registered at the CRA for any one transaction irrespective of the number of times the transaction is reprocessed. Likewise, in the case of a transaction proceeding swiftly from quotation to application, a lender may not feel the need to refresh the data but must leave a footprint of each type at the agency. Each CRA may have a different method of handling such transactions but the outcome should be the same in terms of shared searches with other organisations.

Conclusion

The Financial Services Authority is anxious to make sure that consumers are not disadvantaged by large numbers of credit searches being run on their files and that they are fully informed of the implications of other lenders having access to such information. This is a particular issue now, as government advises consumers to shop around to find the best financial services products. Consumers need to understand that “shopping around” is about finding the best product and price, not about who will lend. If they want a commitment to lend, they will need to make an application for the credit.

At the same time, in order to preserve the power of the search footprint as a predictive characteristic lenders need to ensure that application searches are only registered when there is a genuine application. This will necessitate an examination of the processes and systems in order to be confident that searches of the correct type are conducted at the correct point in the process.

